

Company Registration No: 03581263

LOMBARD NETWORK SERVICES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2007



**Group Secretariat
The Royal Bank of Scotland Group plc
3 Princess Way
Redhill
Surrey
RH1 1NP**

LOMBARD NETWORK SERVICES LIMITED

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LOMBARD NETWORK SERVICES LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

**N T J Clibbens
P A Lynam
I C McVicar**

SECRETARY:

G Wraith-Carter

REGISTERED OFFICE:

**3 Princess Way
Redhill
Surrey
RH1 1NP**

AUDITORS.

**Deloitte & Touche LLP
St. Albans**

Registered in England and Wales.

LOMBARD NETWORK SERVICES LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2007

ACTIVITIES AND BUSINESS REVIEW

This directors' report has been prepared in accordance with the special provisions relating to small companies under section 246(4)(a) of the Companies Act 1985

Activity

The principal activity of the Company continues to be the business of leasing technology equipment and taking residual risk in that equipment

Review of the year

The profit for the year was £9,000 (2006 result of £Nil) and this was transferred to reserves. No dividend was paid during the year (2006 £Nil)

The directors do not anticipate any material change in either the type or level of activities of the Company

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year are listed on page 1

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Acts 1985 and 2006 to prepare a directors' report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing financial statements that present fairly the financial position, financial performance, and cash flows of the Company. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

LOMBARD NETWORK SERVICES LIMITED

DIRECTORS' REPORT (Continued)

DIRECTORS' RESPONSIBILITIES (continued)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Acts 1985 and 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

USE OF FINANCIAL INSTRUMENTS

The Company's financial risk management policies and exposure in relation to the respective risks are detailed in note 18 of the financial statements.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the directors at the date of approval of this report confirms that

- (1) so far as he is aware, there is no relevant audit information of which the Company's Auditors are unaware, and
- (2) the director has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

DIRECTORS' INDEMNITIES

In terms of Section 236 of the Companies Act 2006, Mr P A Lynam and Mr I C McVicar had been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors.

Approved by the Board of Directors
and signed on behalf of the Board



N T J Clibbens
Director

26 June 2008

LOMBARD NETWORK SERVICES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LOMBARD NETWORK SERVICES LIMITED

We have audited the financial statements of Lombard Network Services Limited ('the Company') for the year ended 31 December 2007 which comprise the income statement, the statement of changes in equity, the balance sheet, the cash flow statement and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in the auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the directors' report, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report for the above year and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the directors' report.

LOMBARD NETWORK SERVICES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LOMBARD NETWORK SERVICES LIMITED (Continued)

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Director's Report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
St. Albans
United Kingdom

27 June 2008

LOMBARD NETWORK SERVICES LIMITED

INCOME STATEMENT

for the year ended 31 December 2007

	Note	2007 <u>£'000</u>	2006 <u>£'000</u>
Continuing operations			
Revenue	4	39	36
Depreciation on property, plant and equipment	12	(25)	(32)
Other operating charges		<u>-</u>	<u>(1)</u>
Operating profit		14	3
Finance costs	7	(1)	(3)
Profit before tax		<u>13</u>	<u>-</u>
Tax	8	(4)	-
Profit for the year attributable to the equity holders of the Company	9	<u>9</u>	<u>-</u>

The notes on pages 10 to 22 form a part of these financial statements

LOMBARD NETWORK SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2007

	Share capital <u>£'000</u>	Retained earnings <u>£'000</u>	Total Equity <u>£'000</u>
At 1 January 2006 and 31 December 2006	-	18	18
At 1 January 2007	-	18	18
Profit for the year	-	9	9
At 31 December 2007	-	27	27

The notes on pages 10 to 22 form a part of these financial statements

LOMBARD NETWORK SERVICES LIMITED

BALANCE SHEET as at 31 December 2007

	Note	2007 £'000	2006 £'000
Non-current assets			
Finance lease receivables	10	26	12
Property, plant and equipment	12	21	46
Deferred tax asset	13	2	-
		<u>49</u>	<u>58</u>
Current assets			
Finance lease receivables	10	12	5
		<u>12</u>	<u>5</u>
Total Assets		61	63
Current liabilities			
Amounts owed to group undertakings	14	(17)	(33)
Trade and other payables	15	(8)	(7)
Tax payable		(9)	(5)
		<u>(34)</u>	<u>(45)</u>
Total liabilities		(34)	(45)
Net assets		<u>27</u>	<u>18</u>
Equity			
Share capital	16	-	-
Reserves	17	27	18
		<u>27</u>	<u>18</u>
Total equity		<u>27</u>	<u>18</u>

The financial statements were approved by the board of directors and authorised for issue on 26 June 2008 and were signed on its behalf by



N T J Clibbens
Director

The notes on pages 10 to 22 form a part of these financial statements

LOMBARD NETWORK SERVICES LIMITED

CASH FLOW STATEMENT for the year ended 31 December 2007

	2007 <u>£'000</u>	2006 <u>£'000</u>
Operating activities		
Profit before tax	13	-
Adjustments for		
Depreciation	25	32
Profit on disposal of property, plant and equipment	<u>(1)</u>	<u>-</u>
Operating profit before changes in working capital and provisions	38	32
Increase in finance lease receivables	(20)	(17)
Increase in trade and other payables	<u>(15)</u>	<u>(15)</u>
Net cash generated from operations	<u>2</u>	<u>-</u>
 Tax paid	 <u>(2)</u>	 <u>-</u>
Net cash from operating activities	<u>-</u>	<u>-</u>
 Net increase in cash and cash equivalents	 -	 -
Cash and cash equivalents at 1 January	<u>-</u>	<u>-</u>
Cash and cash equivalents at 31 December	<u>-</u>	<u>-</u>

The notes on pages 10 to 22 form a part of these financial statements

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. General Information

Lombard Network Services Limited is a company incorporated in Great Britain under the Companies Act 1985. The address of the registered office is on page 1. The nature of the Company's principal activities is set out in the Directors' Report.

2. Adoption of new and revised Standards

In the current year the Company has adopted IFRS 7 *Financial Instrument Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007 and the related amendment to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and the management of capital.

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*, IFRIC 8 *Scope of IFRS 2*, IFRIC 9 *Reassessment of Embedded Derivatives*, and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these has not led to any changes in the Company's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective: IFRS 8 *Operating Segments*, IFRIC 11 *IFRS 2 - Group and Treasury Share Transactions*, IFRIC 12 *Service Concession Arrangements*, IFRIC 13 *Customer loyalty programmes* and IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The directors anticipate that the adoption of these standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

3. Accounting policies

a. Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together IFRS) as adopted by the European Union.

The financial statements have been prepared upon the basis of historical cost and are presented in accordance with applicable United Kingdom Law.

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

3. Accounting policies (continued)

b. Revenue recognition

Revenue from operating leases and finance leases is recognised in accordance with the Company's policies on leases (see below)

c. Leases

Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer. Other contracts to lease assets are classified as operating leases.

Interest on finance lease agreements is credited to the income statement in proportion to the balances outstanding.

Finance lease receivables and any unguaranteed residual values are stated in the balance sheet at the net investment in the contract and net of provisions for bad and doubtful debt.

Rental income from operating leases is credited to the income statement on a receivable basis over the term of the lease.

Operating lease assets are included within plant and equipment and depreciated over their useful lives (see note d below).

Unguaranteed residual values are subject to regular review to identify potential impairment. If there has been a reduction in the estimated unguaranteed residual value, the income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Initial direct costs incurred in the negotiation or arrangement of lease contracts are amortised over the term of those contracts.

Income arising subsequent to the initial term of the lease is recognised as it falls due, net of the associated element of any residual value.

d. Property, plant and equipment

Items of plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is charged to the income statement on a straight-line basis so as to write them down to their estimated residual value over their estimated useful lives, as follows:

Assets held for operating lease	Over the term of the lease
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LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **For the year ended 31 December 2007**

3. Accounting policies (continued)

e Impairment of property, plant and equipment

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised as an expense immediately

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately

f. Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered

g. Amounts owed to group undertakings

Amounts owed to group undertakings are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method

Finance costs incurred on borrowings from group undertakings are recognized in the income statement in the period in which they are incurred

h. Trade and other payables

Trade and other payables are measured at fair value

i. Other operating income

Other operating income is accounted for on an accruals basis

j. Other operating charges

Other operating charges include provisions for bad and doubtful debts and other operating charges. Individually assessed provisions are made against advances for which recovery is considered to be doubtful. Collectively assessed provision is made in respect of losses which, although not separately identified, are from experience known to be present in any portfolio of financial assets

Other operating charges, including management charges payable, are accounted for on an accruals basis

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2007

3. Accounting policies (continued)

k. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements

Provisions for bad and doubtful debt
Impairment of unguaranteed residual values

The Company's policy for provisions and impairment of unguaranteed residual values is noted above

4. Revenue

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Operating lease income	36	36
Finance lease income	3	-
	<u>39</u>	<u>36</u>

5. Other operating charges

The Company had no employees in the current year (2006 none)

6. Directors' emoluments

No emoluments were paid to any director by the Company during the year (2006 £nil)

7. Finance costs

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
On loans and payables		
To group undertakings	<u>1</u>	<u>3</u>

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2007

8. Tax charge on profit on ordinary activities

A) Analysis of charge for the year

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Current taxation		
Current tax charge for the year	6	3
Deferred taxation		
(Credit) for the year	(2)	(3)
Tax charge for the year	<u>4</u>	<u>-</u>

B) Factors affecting the tax charge/ credit for the year

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 30% (2006 30%) as follows

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Expected tax charge	4	-
Non-deductible items	-	-
Actual tax charge	<u>4</u>	<u>-</u>

9. Profit for the year

	<u>2007</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
Profit on disposal of property, plant and equipment	<u>1</u>	<u>-</u>

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are £5,000 (2006 £5,000). There was no charge in either the current or prior year's financial statements for auditors' remuneration as the fees were charged in the financial statements of a related undertaking Lombard Technology Services Limited.

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **For the year ended 31 December 2007**

10. Finance lease receivables

	Year in which receipt is expected		
	Within 1 year	After 1 year but within 5 years	Total
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
2007			
Future minimum lease payments	17	38	55
Unguaranteed residual values	-	2	2
Unearned finance income	(5)	(14)	(19)
Present value	<u>12</u>	<u>26</u>	<u>38</u>
2006	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Future minimum lease payments	7	20	27
Unguaranteed residual values	-	1	1
Unearned finance income	(2)	(9)	(11)
Present value	<u>5</u>	<u>12</u>	<u>17</u>

The Company entered into new finance lease agreements totalling £26,000 (2006 £17,000) during the year and the portfolio is due to mature fully with 3 years

The effective average interest rate in relation to finance lease agreements approximates to 13.3% (2006 17.5%)

The fair value of finance lease receivables is considered not to be materially different to the carrying amounts in the balance sheet

There were no contingent rentals recognised as income in the year

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

11. Operating lease receivables

	Year in which receipt is expected			Total £'000
	Within 1 year £'000	After 1 year but within 2 years £'000	After 2 years but within 5 years £'000	
Future minimum lease payments receivable under non-cancellable operating leases				
2007	31	10	-	41
2006	15	4	-	19
Unguaranteed residual values within operating leases				
2007	4	4	-	8
2006	7	4	-	11

All assets held for operating leases represent Information Technology Equipment

12. Property, plant and equipment

	Assets held for use in operating leases <u>2007</u> <u>£'000</u>	Assets held for use in operating leases <u>2006</u> <u>£'000</u>
Cost		
1 January	114	127
Disposals	(8)	(13)
31 December	<u>106</u>	<u>114</u>
Depreciation and impairment		
1 January	68	49
Depreciation charge for the year	25	32
Disposals	(8)	(13)
31 December	<u>85</u>	<u>68</u>
Net book value at 31 December	<u>21</u>	<u>46</u>

No property, plant and equipment has been pledged as security for liabilities of the Company

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **for the year ended 31 December 2007**

13. Deferred taxation

Provision for deferred taxation has been made as follows

	Accelerated capital allowances £'000
At 1 January 2006	(3)
Credit to income statement	3
At 31 December 2006	<u>-</u>
At 1 January 2007	-
Credit to income statement	2
At 31 December 2007	<u><u>2</u></u>

14. Amounts owed to group undertakings

	2007 £'000	2006 £'000
Current liabilities		
Amounts due on demand	<u>17</u>	<u>33</u>

The average effective interest rate over this loan is 5.5% (2006: 5.0%)

The fair value of the amounts owed to group undertakings is considered not to be materially different from the carrying value in the balance sheet

15. Trade and other payables

	2007 £'000	2006 £'000
Current liabilities		
Accruals and deferred income	<u>8</u>	<u>7</u>

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

16. Share capital

	2007 £	2006 £
Authorised:		
100 (2006 100) ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid:		
2 (2006 2) ordinary shares of £1 each	<u>2</u>	<u>2</u>

17. Reserves

	Retained earnings £'000
At 1 January 2006 and 31 December 2006	<u>18</u>
At 1 January 2007	18
Profit for the year	<u>9</u>
At 31 December 2007	<u>27</u>

18. Financial instruments and risk management

Capital risk management

The Company considers its capital to consist of equity attributable to the equity holders of the Company, comprising issued share capital and retained earnings as disclosed in notes 16 and 17. The Company is a member of the Royal Bank of Scotland group of companies which has regulatory disciplines over the use of its capital. The Company operates controls and policies put in place by the group to ensure that the Company can continue as a going concern and to ensure that the group complies with these regulatory disciplines.

Accounting Policies

Details of the accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3.

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

18. Financial instruments and risk management (continued)

Categories of financial instruments

The carrying values of each category of financial instruments, as defined in IAS 39, are disclosed in the following table

	2007 <u>£'000</u>	2006 <u>£'000</u>
Financial assets		
Loans and receivables	37	17
Non financial assets	<u>24</u>	<u>46</u>
	<u>61</u>	<u>63</u>
Financial liabilities		
Amortised cost	17	33
Non financial liabilities	<u>17</u>	<u>12</u>
	<u>34</u>	<u>45</u>

Risk Management

The Company uses a comprehensive framework for managing risks established by the Lombard group of companies and the Royal Bank of Scotland group of companies

The risks associated with the Company's businesses are as follows

Interest rate risk and sensitivity analysis

Finance lease receivables, hire purchase receivables and other instalment credit receivables are based on fixed interest rates. These are funded primarily through balances owed to group undertakings which is held in the form of fixed rate loans, the profile of which is borrowed so as to match the maturity of the receivables. The Company manages the respective maturities to minimise any differences between them and so limit any interest rate risk.

The matching of the repricing maturity characteristics of the Company's assets and liabilities achieved through hedges transacted within another group company. This results in the Company having exposure to interest rate risk, though this would be offset elsewhere in the group.

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared on the assumption that the balances receivable and/or payable at the balance sheet date were receivable and/or payable for the whole year.

If interest rates had been 0.5% higher and all other variables were held constant, the Company's profit for the year would have decreased by £85 (2006: £164). This is mainly due to the Company's exposure to interest rates on its variable rate borrowings. There would be no other material impact on equity.

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

18. Financial instruments and risk management (continued)

Currency risk

The Company has no significant market risk as all balances are denominated in sterling

Credit risk

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Company. Credit risk arises principally from the Company's lending activities.

Analysis of credit quality by credit rating,

The following tables provide an analysis of the credit quality of the Company's financial assets at the balance sheet date

	Analysis of credit quality by quality grade			Accruing past due	Non accrual	Less Impair- ment provision	Total
	AQ1-3	AQ4	AQ5				
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
2007							
Finance lease receivables	-	37	-	-	-	-	37
2006							
Finance lease receivables	-	17	-	-	-	-	17

The analysis of credit quality by quality grade represents the maximum exposure to credit risk excluding past due and non accrual. Assets are graded according to the following

Asset quality grade	probability of default (PD)
AQ1	<=0.2%
AQ2	>0.2% and <=0.6%
AQ3	>0.6% and <=1.5%
AQ4	>1.5% and <=5%
AQ5	>5%

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

18. Financial instruments and risk management (continued)

Liquidity Risk

Liquidity risk arises where assets and liabilities have different contractual maturities. The Company manages liquidity risk through applying the established framework put in place within the group.

The maturity analysis of financial liabilities is disclosed in note 14.

The company has no significant liquidity risk as it has access to financing facilities and support provided by fellow group companies.

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The Company manages this risk, in line with the RBS Group framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The Company also maintains contingency facilities to support operations in the event of disasters.

19. Contingent liabilities

The Royal Bank of Scotland Group has agreed to compensate UK members for any adjustments in respect of UK Transfer Pricing that may arise under paragraph 1A of Schedule 28 AA, Income and Corporation Taxes Act 1988.

20. Post balance sheet events

There have been no significant events between the year end and the approval of these accounts which would require a change to the disclosures in the accounts.

LOMBARD NETWORK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2007

21. Related parties

The Company's immediate parent and ultimate controlling party are described in note 22

Amounts due from / (to) group undertakings and cash and cash equivalents:

The table below details balances and transactions with group undertakings

	Opening balance <u>£'000</u>	Net payments <u>£'000</u>	Net interest paid <u>£'000</u>	Closing balance <u>£'000</u>
Non banking members of the group Lombard Technology Services Limited	(33)	17	(1)	(17)

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

No emoluments were paid to any director by the Company during the year (2006 £nil), (see note 6)

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2006 £nil)

Other than the directors, there are no other personnel that are considered to be key management personnel for the purposes of related party disclosure

22. Parent companies

The Company's immediate parent company is Lombard North Central PLC

The Company's ultimate holding company, ultimate controlling party, and the parent of the largest group into which the Company is consolidated is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Copies of the financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ

The smallest subgroup into which the Company is consolidated has as its parent company The Royal Bank of Scotland plc, a company incorporated in Great Britain and registered in Scotland. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ