

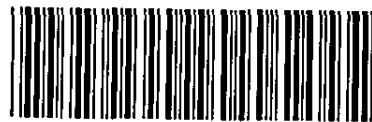
NATIONAL AUSTRALIA FINANCE (EQUIPMENT LEASING) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Registered number 02259571

30 SEPTEMBER 2011

TUESDAY



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NATIONAL AUSTRALIA FINANCE (EQUIPMENT LEASING) LIMITED
Year ended 30 September 2011

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Officers and Professional Advisers

Directors

R Lakin
G Elswood

Secretary

B Lewis

Registered office

88 Wood Street
London
EC2V 7QQ

Bankers

National Australia Bank Limited

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Report of the Directors

The directors of National Australia Finance (Equipment Leasing) Limited (the "Company") submit their report and Financial Statements for the year ended 30 September 2011. The Company is registered in England and Wales with registration number 02259571.

Principal activities

The Company operates as a holding company investing in the partnership capital of National Australia Finance (Asset Leasing) LLP which provides leasing facilities to industry and commerce.

Profits and appropriations

The profit attributable to the shareholders for the year ended 30 September 2011 amounted to £24,003 (2010: £22,546). Interim dividends totalling £1,700,000 (2010: £Nil) were paid during the year. The directors do not recommend the payment of a final dividend in respect of this financial year (2010: £Nil).

Business review and future developments

There have been no significant changes to the business during the year. The principal risk and uncertainties are set out in the risk overview note to the Financial Statements. The Company does not expect any significant changes in the future.

The directors do not rely on any key performance indicators at the company level to monitor performance. The nature of the business means it is more relevant to perform a review of the KPI's at the NAB Group level.

Going Concern

The directors consider the going concern basis of preparation of the Financial Statements to be appropriate. The Company has generated satisfactory profits and has an adequate capital base for the Company to continue in operation for at least the next 12 months from the date of approval of the Financial Statements. There are no events or conditions that exist that cast any doubt on the Company's ability to continue as a going concern.

Directors and directors' interests

The names of the current directors are listed on page 2.

P. Rayner (resigned 14 July 2011)
G. Elswood (appointed 2 December 2011)
B. Stockwell (resigned 30 April 2012)

Directors' interests

As the Company is a wholly owned subsidiary of National Australia Bank Limited ("NAB"), which is incorporated in Australia, any interest which the directors may have in NAB does not need to be notified to the Company so is not disclosed in this report. No director had any interest in the shares or debentures of the Company or any Group company at any time during the year.

Directors' liabilities

During the year the NAB Group paid a premium for a contract insuring the directors and officers of NAB, its subsidiaries and controlled entities against personal liabilities which may arise in the course of the performance of their duties, as well as protecting the NAB Group itself to the extent that it is obliged to indemnify directors and officers for such liability.

Directors' remuneration

The directors of the company are remunerated as employees of the ultimate parent company, National Australia Bank Limited, and do not receive incremental remuneration in respect of their duties as directors of the company. As there has been no substantial new activity in the year requiring executive input, the directors believe it would be inappropriate to apportion part of their remuneration as being in respect of their duties to the company.

Report of the Directors (continued)

Company secretary

The current Company secretary is shown on page 2

Employee involvement

The Company does not have any employees (2010 Nil) All staff are provided by the ultimate parent company, NAB

Charitable and political donations

No charitable or political donations were made throughout the year (2010 £Nil)

Corporate Governance

It is the Company's policy not to include all of the disclosures in respect of voluntary Corporate Governance Codes of Practice as it is a wholly owned subsidiary of NAB. The NAB Group's Annual Financial Report details the corporate governance framework applicable to the Company. These disclosures are made after consideration of authoritative pronouncements on audit committees and associated disclosures in Australia, the USA and UK.

Events since the balance sheet date

No information has been identified since the balance sheet date, about conditions existing at the balance sheet date, which are required to be disclosed in these financial statements.

Auditors

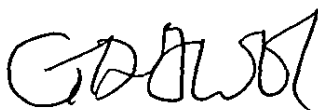
In accordance with section 485 of the Companies Act 2006 a resolution to reappoint Ernst & Young LLP will be proposed at the next meeting of the board of directors.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 2. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the directors



G Elswood
Director
14 June 2012

Statement of Directors' Responsibilities in relation to the Financial Statements

The directors are responsible for preparing the directors' report and the Financial Statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

The directors are required to prepare Financial Statements for each financial period which present fairly the financial position of the company and the financial performance and cash flows of the company for that period. In preparing those company financial statements the directors are required to

- select suitable accounting policies in accordance with *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance, and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the Financial Statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 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

**Independent Auditor's Report to the Members of to the Members of National Australia Finance
(Equipment Leasing) Limited**

We have audited the Financial Statements of National Australia Finance (Equipment Leasing) Limited for the year ended 30 September 2011 which comprise the income statement, statement of changes in equity, balance sheet, cash flow statement and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 an auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the report and Financial Statements of the Company to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the Financial Statements

- give a true and fair view of the state of the Company's affairs as at 30 September 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Independent Auditor's Report to the Members of National Australia Finance (Equipment Leasing) Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Company's Financial Statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Javier Faiz (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, statutory auditor
London

15 JUNE 2012

Income Statement for the Year to 30 September 2011

| | Note | 2011 £ | 2010 £ |
|---|------|---------------|---------------|
| Dividend Income | 13 | 25,000 | - |
| | | <u>25,000</u> | <u>-</u> |
| Other Expenses | 3 | (400) | (400) |
| | | <u>(400)</u> | <u>(400)</u> |
| Profit/(Loss) on ordinary activities before tax | | <u>24,600</u> | <u>(400)</u> |
| Tax (expense)/credit | 4 | (597) | 22,946 |
| Profit for the year and total comprehensive profit | | <u>24,003</u> | <u>22,546</u> |

All items dealt with in arriving at the profit/(loss) before tax for 2011 and 2010 relate to continuing operations

Statement of changes in equity for the Year to 30 September 2011

| | Share capital £ | Retained earnings £ | Total shareholders' equity £ |
|------------------------------|-----------------------|---------------------------|---------------------------------------|
| Balance at 1 October 2009 | 10,000 | 1,919,839 | 1,929,839 |
| Profit for the year | - | 22,546 | 22,546 |
| Balance at 30 September 2010 | <u>10,000</u> | <u>1,942,385</u> | <u>1,952,385</u> |
| Profit for the year | - | 24,003 | 24,003 |
| Dividend paid | - | (1,700,000) | (1,700,000) |
| Balance at 30 September 2011 | <u>10,000</u> | <u>266,388</u> | <u>276,388</u> |

Balance Sheet as at 30 September 2011

| | Note | 2011 £ | 2010 £ |
|-----------------------------------|------|----------------|------------------|
| Non current assets | | | |
| Investment in partnership | 6 | 10,000 | 10,000 |
| Deferred tax asset | 8 | 8,810 | - |
| | | <u>18,810</u> | <u>10,000</u> |
| Current assets | | | |
| Cash and cash equivalents | 12 | 267,251 | 2,259,757 |
| Due from related entities | 13 | - | 6,459 |
| | | <u>267,251</u> | <u>2,266,216</u> |
| Total assets | | <u>286,061</u> | <u>2,276,216</u> |
| Current liabilities | | | |
| Trade and other payables | 7 | 4,878 | 321,114 |
| Due to related entities | 13 | 4,795 | - |
| | | <u>9,673</u> | <u>321,114</u> |
| Non current liabilities | | | |
| Deferred tax liability | 8 | - | 2,717 |
| | | <u>-</u> | <u>2,717</u> |
| Total liabilities | | <u>9,673</u> | <u>323,831</u> |
| Net assets | | <u>276,388</u> | <u>1,952,385</u> |
| Shareholders' equity | | | |
| Share capital | 9 | 10,000 | 10,000 |
| Retained earnings | 10 | 266,388 | 1,942,385 |
| Total shareholders' equity | 11 | <u>276,388</u> | <u>1,952,385</u> |

The Financial Statements were approved by the directors on 14 June 2012 and were signed on their behalf by


R Lakin
Director

Cash Flow Statement for the year to 30 September 2011

| | Note | 2011 £ | 2010 £ |
|--|------|--------------------|------------------|
| Cash flows from operating activities | | | |
| Payments to suppliers | | (400) | (400) |
| | | <u>(400)</u> | <u>(400)</u> |
| Tax paid | | (317,106) | (2,508) |
| Net cash used in operating activities | | <u>(317,506)</u> | <u>(2,908)</u> |
| Cash flows from investing activities | | | |
| Dividend received from partnership | | 25,000 | - |
| Net cash provided by investing activities | | <u>25,000</u> | <u>-</u> |
| Cash flows from financing activities | | | |
| Ordinary dividends paid | | (1,700,000) | - |
| Net cash used in financing activities | | <u>(1,700,000)</u> | <u>-</u> |
| Net decrease in cash and cash equivalents | | <u>(1,992,506)</u> | <u>(2,908)</u> |
| Cash and cash equivalents at beginning of year | | 2,259,757 | 2,262,665 |
| Cash and cash equivalents at end of year | 12 | <u>267,251</u> | <u>2,259,757</u> |

Notes to the Financial Statements

1) Authorisation of Financial Statements and statement of compliance with International Financial Reporting Standards

The Financial Statements of National Australia Finance (Equipment Leasing) Limited for the year ended 30 September 2011 were authorised for issue by the directors on 14 June 2012 and the balance sheet was signed on their behalf by R Lakin

The Company is incorporated and registered in the UK

The ultimate parent undertaking is National Australia Bank Limited ("NAB"), a company incorporated in the State of Victoria, Australia. This company heads the smallest and largest group in which the results of the Company are consolidated.

National Australia Finance (Europe Holdings) Limited is the immediate holding company for the Company.

Copies of group accounts prepared in respect of National Australia Bank Limited may be obtained from the London Branch at 88 Wood Street, London EC2V 7QQ.

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the Companies Act 2006. The principal accounting policies adopted by the Company are set out in Note 2.

2) Accounting policies

Basis of preparation

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date are based on best estimates at that date. Although the Company has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

The Financial Statements have been prepared under the historical cost convention, as modified by the application of fair value measurements as required by the relevant accounting standards.

Accounting developments

During the year the IASB and International Financial Reporting Interpretations Committee issued the following standards and interpretations with an effective date after the date of the Financial Statements that would be relevant to this Company in future years:

| International Financial Reporting Standards | | Effective date |
|--|--|---------------------------------|
| | | Annual periods beginning |
| | | On or after |
| IFRS 9 | Financial Instruments: Recognition and Measurement | 1 January 2013 |

The Company has not early adopted this new/revised standard and interpretation, which is unlikely to have a significant impact on the Company's Financial Statements. There were no IFRIC's released that are deemed relevant to the Company.

Functional and presentational currency

The Financial Statements are presented in pounds sterling, which is the Company's functional and presentational currency. All references to £ are to Pounds Sterling unless otherwise stated.

Notes to the Financial Statements (continued)

2) Accounting policies (continued)

Recognition of fee income including loan related fees and costs

Interest income is reflected in the income statement using the effective interest method. The effective interest rate method is a method of calculating amortisation using the effective interest rate of a financial instrument. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument.

Recognition of fee expenses from funding activities

When fees relate to specific transactions or events, they are recognised as expense in the period that services are received. When they are charged for services provided over a period, they are recognised as expense on an accruals basis.

Related party transactions

The Company enters into a number of related party transactions including receiving and providing funding to other NAB Group companies. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not classed as 'available for sale' or designated at fair value through profit and loss. Loans and receivables are recorded at amortised cost using the effective interest method, adjusted for impairment losses and unearned income. They are derecognised when the rights to receive cash flow have expired or transferred substantially all the risks and rewards of ownership.

Investment in partnership

The Company has taken the exemption from consolidation under section 401 of the Companies Act 2006. The Company is required to hold its investment at cost less impairment.

Income tax

Income tax expense or revenue is the tax payable (or receivable) on the current period's taxable income based on the applicable tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. A deferred tax asset or liability is not recognised if it arises from initial recognition of an asset or liability that at the time of the transaction affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses.

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The investment in partnership is with National Australia Finance (Asset Leasing) LLP, which is a non-taxable entity therefore the Company is responsible for 1% of any tax arising in the partnership.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of inception. Cash and cash equivalents are brought to account at the face value or the gross value of the outstanding balance where appropriate.

Notes to the Financial Statements (continued)

3) Other expenses

| | 2011 £ | 2010 £ |
|----------------------|------------|------------|
| FSA registration fee | 400 | 400 |
| | <u>400</u> | <u>400</u> |

4) Income tax expense/ (credit)

a) Analysis of charge/(credit) for the year

| | 2011 £ | 2010 £ |
|--|------------|-----------------|
| Current Tax | | |
| Corporation tax payable at 27% (2010 28%) | 12,124 | 11,067 |
| Prior year adjustment | - | (22,733) |
| Deferred Tax | | |
| Origination and reversal of temporary timing differences | (11,527) | (11,280) |
| Income tax expense / (credit) reported in the income statement | <u>597</u> | <u>(22,946)</u> |

b) Factors affecting tax charge / (credit) for the year

| | 2011 £ | 2010 £ |
|--|---------------|-----------------|
| Profit/(Loss) before tax | <u>24,600</u> | <u>(400)</u> |
| (Loss)/profit multiplied by standard rate of corporation tax in the UK of 27% (2010 28%) | 6,642 | (112) |
| Effects of | | |
| Items non deductible for tax purposes | (6,750) | |
| Prior year adjustment | - | (22,733) |
| Change in tax rate | 705 | (101) |
| Total income tax charge / (credit) for the year | <u>597</u> | <u>(22,946)</u> |

Notes to the Financial Statements (continued)

5) Dividends paid

| | 2011 £ | 2010 £ |
|--|------------------|-----------|
| Equity Interim ordinary dividends paid £170 per share (2010 £Nil per share) | 1,700,000 | - |
| | <u>1,700,000</u> | <u>-</u> |

6) Investment in partnership

| | 2011 £ | 2010 £ |
|---|---------------|---------------|
| Investment in National Australia Finance (Asset Leasing) LLP | 10,000 | 10,000 |
| | <u>10,000</u> | <u>10,000</u> |

On 30 September 2005, the Company invested £10,000 in a partnership, National Australia Finance (Asset Leasing) LLP

The Partnership accounts are drawn up with a September year end. For the year ended 30th September 2011, the Partnership had a profit of £41,896 (2010 £133,420) and net asset value of £2,996,595 (2010 £5,454,699). The Company's share of Partnership profit for the year ended 30th September 2011 is £419 (2010 £1,334). Its share of net assets in the Partnership is £29,966 (2010 £54,547).

7) Trade and other payables

| | 2011 £ | 2010 £ |
|-------------------------|--------------|----------------|
| Corporation tax payable | 4,878 | 321,114 |
| | <u>4,878</u> | <u>321,114</u> |

8) Deferred tax (asset)/ liability

| | 2011 £ | 2010 £ |
|------------------------------|----------------|--------------|
| Opening balance | 2,717 | 13,997 |
| Deferred tax credit (Note 4) | (11,527) | (11,280) |
| | <u>(8,810)</u> | <u>2,717</u> |

Notes to the Financial Statements (continued)

8) Deferred tax (asset)/ liability (continued)

The rate of corporation tax enacted at the balance sheet date was 25%. Accordingly this rate has been used to calculate the deferred tax asset held by the company. On 21 March 2012 the Chancellor announced a change to the UK rate of corporation tax which was substantively enacted on 26 March 2012. The announced corporation tax rate of 24% will be effective from 1 April 2012 with further reductions of 1% per annum anticipated until the rate reaches 22% in 2014. These additional changes will be enacted separately each year.

The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 22% is expected to be £1,057 (equivalent to 3% of the closing gross deferred tax balance).

9) Share capital

| | 2011 £ | 2010 £ |
|---|-----------|-----------|
| <i>Authorised</i> | | |
| 10,000 Ordinary shares of £1 each | 10,000 | 10,000 |
| <i>Allotted, called up and fully paid</i> | | |
| 10,000 Ordinary shares of £1 each | 10,000 | 10,000 |

10) Retained earnings

| | 2011 £ | 2010 £ |
|---------------------|-------------|-----------|
| At 1 October | 1,942,385 | 1,919,839 |
| Profit for the year | 24,003 | 22,546 |
| Dividends paid | (1,700,000) | - |
| At 30 September | 266,388 | 1,942,385 |

11) Shareholders' equity

| | 2011 £ | 2010 £ |
|---|-------------|-----------|
| Profit for the year | 24,003 | 22,546 |
| Dividends paid | (1,700,000) | - |
| Net (decrease)/increase in shareholders' equity | (1,675,997) | 22,546 |
| Opening shareholders' equity | 1,952,385 | 1,929,839 |
| Closing shareholders' equity | 276,388 | 1,952,385 |

Notes to the Financial Statements (continued)

12) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances due within three months at inception

| | 2011 £ | 2010 £ |
|------------------------|----------------|------------------|
| Cash at Bank (Note 13) | 267,251 | 2,259,757 |
| | <u>267,251</u> | <u>2,259,757</u> |

13) Related party transactions

The Company receives a range of services from the ultimate parent and related parties including loans and deposits and various administrative services. Fees may be charged for these services.

During the year there have been transactions between the Company, its ultimate parent and controlled entities of the ultimate parent.

In the normal course of business the Company maintains and conducts transactions with other members of the NAB Group. This business is conducted at prevailing market rates and terms.

The Company receives a range of services from the ultimate parent and related parties including loans and deposits and various administrative services. Fees may be charged for these services.

| | 2011 £ | 2010 £ |
|---|----------------|------------------|
| Amounts due from related entities | | |
| Current assets | | |
| Cash at bank held with controlled entities of the ultimate parent | 267,251 | 2,259,757 |
| Amounts due from controlled entities of the ultimate parent | - | 6,459 |
| | <u>267,251</u> | <u>2,266,216</u> |
| Amounts due to related entities | | |
| Current liabilities | | |
| Amounts due to controlled entities of the ultimate parent | 4,795 | - |
| | <u>4,795</u> | <u>-</u> |

Notes to the Financial Statements (continued)

13) Related party transactions (continued)

| | 2011 £ | 2010 £ |
|---|---------------|-----------|
| Transactions during the year with related entities | | |
| Dividend income from controlled entities of the ultimate parent | 25,000 | - |
| | <u>25,000</u> | <u>-</u> |

The Company's audit fees are borne by the ultimate parent company, NAB

Transactions with directors, key management and their close family members

There are no amounts outstanding at 30 September 2011 (2010 £Nil) for transactions, arrangements and agreements between the Company and its directors, key management and their close family members during the year

Compensation of key management personnel

All compensation received by key management personnel relates to their duties on behalf of other NAB Group companies. Thus no disclosure is presented in these Financial Statements.

Directors' emoluments

The directors are employed as executives of other NAB Group companies. The aggregate emoluments of the directors of the Company were £Nil.

14) Risk overview

Risk management

Effective management of risk is a key capability for a successful financial services provider, and is fundamental to NAB Group. A key component of the NAB Group's risk management strategy is the establishment by the Board of a formal 'risk appetite statement' for the NAB Group.

This places an overall limit on the total amount of risk that the NAB Group is prepared to take. That position is set with respect to the returns that the NAB Group is seeking to provide to shareholders, the credit rating that the NAB Group is seeking to maintain, and the NAB Group's capital position and desired ratios.

In line with the NAB Group Risk Charter, the NAB Group's approach to risk management is based on an overriding principle that risk management capability must be embedded within the business' front-line teams to be effective. This overriding principle embodies the following concepts:

- all business decisions proactively consider risk,
- business managers use the risk management framework, which assists in the appropriate balancing of both risk and reward components,
- all employees are responsible for risk management in their day-to-day activities, and
- risk management is a core competency for all employees.

The NAB Group manages risk within an established 'three lines of defence' framework. Control is exercised through clearly defined delegation of authority, with clear and rapid communication and escalation channels throughout the organisation. The first line of defence comprises the business units managing the risks associated with their activities. The second line encompasses dedicated risk functions who are accountable for independent monitoring and oversight. The third line of

Notes to the Financial Statements (continued)

14) Risk overview (continued)

Risk management (continued)

defence relates to Internal Audit independently reviewing, monitoring, and testing business unit compliance with risk policies and procedures, and regularly assessing the overall effectiveness of the risk management framework

The NAB Group Risk Management Committee, chaired by the Managing Director and Group Chief Executive, serves as the principal risk strategy and policy decision making body within the NAB Group, and provides the Board with assurance in the performance of the overall risk management framework. This committee is supported by three sub-committees – NAB Group Credit and Concentration Risk Committee, NAB Group Asset and Liability Committee, and NAB Group Capital Committee – each with a specialised focus

Within the UK there is also a regional Risk Management Committee comprised of senior regional executives, which serves to provide a leadership focus on key risk issues from a regional perspective

Operational risk and compliance

Operational risk is the risk of loss resulting from inadequate or failed processes, people or systems, or from external events. This includes risk relating to the management of ongoing activities, as well as to organisational changes such as project and change initiatives

Compliance is the requirement to comply with external regulatory and legal obligations in addition to operating within the Group and regional policies and standards. This includes risk relating to reputational impact, incurring restrictive conditions and undertakings by regulators on how the Group does business

Various reports are produced at management, Board sub-committee and Board level to assist with their oversight and monitoring obligations. This incorporates regional reporting of risk profiles, key operational risk and events, as well as consideration of external events and their relevance to the NAB Group. This process generates visibility and understanding of the NAB Group's overall operational risk profile

The Operational Risk Framework ("ORF") is based on a set of core principles and defines the NAB Group's standards for operational risk management and compliance. Its design recognises the importance of embedding operational risk and compliance into 'business-as-usual' activities. It has particular focus on defining and implementing the right behaviours and incorporating risk consideration into the Group's systems and processes

The ORF is an essential element of the business strategy, which underpins all operational risk management activities. It includes

- An established governance structure that is used to ensure consistent application, management and reporting of the operational risk management process. This element also includes the establishment and communication of the Company's operational risk appetite, and
- A structured risk management process to facilitate the identification, quantification and management of risks

The NAB Group is committed to sound risk management and compliance and continues to improve its capabilities in these areas

Fair values

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

The carrying amounts of cash and cash equivalents, amounts due from and due to related entities, and other trade receivables and payables are considered to approximate fair value. This is due to their short term nature

Investments in partnership is unlisted and do not have a quoted market price, these are measured at cost less impairment as the fair value cannot be reliably measured

Notes to the Financial Statements (continued)

14) Risk overview (continued)

Credit risk

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. NAB places limits around the amount of risk accepted to one borrower, which are monitored on a frequent basis.

Given the majority of balances are with related entities the credit risk is deemed to be minimal.

The maximum exposure to credit risk for the components of the balance sheet are set out below.

| | 2011 £ | 2010 £ |
|-----------------------------------|----------------|------------------|
| Assets | | |
| Investment in partnership | 10,000 | 10,000 |
| Deferred tax asset | 8,810 | - |
| Cash and cash equivalents | 267,251 | 2,259,757 |
| Due from related entities | - | 6,459 |
| Total credit risk exposure | 286,061 | 2,276,216 |

The Company does not have any collateral or other credit enhancements supporting these assets. The credit quality of assets are neither past due or impaired. There are no undrawn commitments that the Company is exposed to.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has no material transactional exposures that give rise to net currency gains and losses.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities when they fall due.

The liquidity risk monitoring and maintenance is managed on a monthly basis from reviews performed on management information to ensure that all liabilities can be met when they fall due.

The directors do not believe there is a significant exposure to liquidity risk due to the nature of the liability exposures.

| Cash flows maturity profile for liabilities as they fall due | 3 months or less | 3 to 12 months | No specific maturity | Total |
|---|------------------|----------------|----------------------|-------|
| 2011 £ | | | | |
| Trade and other payables | - | - | 4,878 | 4,878 |
| Due to related entities | - | - | 4,795 | 4,795 |
| | - | - | 9,673 | 9,673 |

Notes to the Financial Statements (continued)

14) Risk overview (continued)

Liquidity risk (continued)

| Cash flows maturity profile for liabilities as they fall due | 3 months or less | 3 to 12 months | No specific maturity | Total |
|---|-------------------------|-----------------------|-----------------------------|--------------|
| 2010 | | | | |
| £ | | | | |
| Trade and other payables | - | - | 321,114 | 321,114 |
| Deferred tax liabilities | - | - | 2,717 | 2,717 |
| | - | - | 323,831 | 323,831 |

Interest rate risk

Part of the Company's exposure to interest rate risk is in relation to the mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset

The table below summarises these pricing mismatches as at 30 September 2011 and 30 September 2010

| Interest rate sensitivity analysis | Weighted average effective interest rate | Call | 3 months or less | No specific maturity | Non interest bearing | Total |
|---|---|-------------|-------------------------|-----------------------------|-----------------------------|--------------|
| 2011 | | | | | | |
| £ | % | | | | | |
| Assets | | | | | | |
| Investment in partnership | - | - | - | - | 10,000 | 10,000 |
| Deferred tax asset | - | - | - | - | 8,810 | 8,810 |
| Cash and cash equivalents | - | 267,251 | - | - | - | 267,251 |
| | | 267,251 | - | - | 18,810 | 286,061 |
| Liabilities | | | | | | |
| Trade and other payables | - | - | - | - | 4,878 | 4,878 |
| Due to related entities | - | - | - | - | 4,795 | 4,795 |
| Shareholders' equity | - | - | - | - | 276,388 | 276,388 |
| | | - | - | - | 286,061 | 286,061 |
| Gap | | 267,251 | - | - | (267,251) | - |

Notes to the Financial Statements (continued)

14) Risk overview (continued)

Interest rate risk (continued)

| Interest rate sensitivity analysis 2010 £ | Weighted average effective interest rate % | Call | 3 months or less | No specific maturity | Non interest bearing | Total |
|---|---|-----------|------------------|----------------------|----------------------|-----------|
| Assets | | | | | | |
| Investment in partnership | - | - | - | - | 10,000 | 10,000 |
| Cash and cash equivalents | - | 2,259,757 | - | - | - | 2,259,757 |
| Due from related entities | - | - | - | - | 6,459 | 6,459 |
| | | 2,259,757 | - | - | 16,459 | 2,276,216 |
| Liabilities | | | | | | |
| Trade and other payables | - | - | - | - | 321,114 | 321,114 |
| Deferred tax liabilities | - | - | - | - | 2,717 | 2,717 |
| Shareholders' equity | - | - | - | - | 1,952,385 | 1,952,385 |
| | | - | - | - | 2,276,216 | 2,276,216 |
| Gap | | 2,259,757 | - | - | (2,259,757) | - |

Capital Management

The Company is governed by NAB Group's capital management policy. The objectives of the NAB Group's capital management policy are to efficiently manage the capital base to optimise shareholder returns whilst maintaining capital adequacy and satisfying key stakeholders such as regulators and ratings agencies. This is managed and monitored at a group level not at a Company level.