

Company Number: 4311042

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

30 SEPTEMBER 2011



NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

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NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Officers and Professional Advisers

Directors	James Duffy Keith Malkin Lynn McManus
Secretary	Lorna McMillan (appointed 13 October 2010)
Registered Office	88 Wood Street London EC2V 7QQ
Bankers	Clydesdale Bank PLC 30 St Vincent Place Glasgow G1 2HL
Auditors	Ernst & Young LLP 1 More London Place London SE1 2AF

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Report of the Directors

The Directors of National Australia (Asset Finance) Limited (the "Company") submit their Report and Financial Statements for the year ended 30 September 2011

Activities

The Company provides leasing facilities and hire purchase facilities to industry and commerce

Profits and appropriations

The profit attributable to the shareholder for the year ended 30 September 2011 amounted to £1,505 (2010 £2,748)

No dividend was paid during the year (2010 £Nil) The Directors do not recommend the payment of a final dividend in respect of this financial year (2010 £Nil)

Principal risks and uncertainties

The key risks facing the Company are discussed further in note 10

Business review

Following the sale of lease agreements, under a National Australia Bank Limited ("NAB") initiated project in December 2007, the scale of the Company's operations has been significantly reduced The Directors are currently considering the future of the Company and its operations However in the meantime the Directors are satisfied that the Company operates as a going concern

The Directors do not rely on key performance indicators at the individual company level The business is managed by monitoring product related information in conjunction with that of other leasing entities within National Australia Group Europe Limited which is not specific to individual companies

Going concern

The Directors are satisfied that the Company has adequate resources to meet its obligations for the foreseeable future and confirm that the Company is a going concern For this reason they continue to adopt the going concern basis in preparing the Financial Statements

Directors and Directors' interests

In terms of the Articles of Association of the Company, no directors are required to retire by rotation

Directors' interests

The current Directors are shown on page 2 None of the Directors held shares in the Company or in any fellow subsidiary company during the year As the Company is a wholly owned subsidiary of NAB, which is incorporated in Australia, any interest which the Directors may have in NAB does not need to be notified to the Company and thus is not disclosed in this report

Appointments

Scott Butterworth was appointed as a Director of the Company on 25 February 2011
Lorna McMillan was appointed as Secretary of the Company on 13 October 2010

Resignations

Iain Smith resigned as a Director of the Company on 25 February 2011
Bernadette Lewis resigned as Secretary of the Company on 13 October 2010
Scott Butterworth resigned as a Director of the Company on 20 January 2012

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 obligated to indemnify Directors and officers for such liability

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Report of the Directors (continued)

Directors and Directors' interests (continued)

Directors' remuneration

The Directors of the Company are remunerated as employees of other NAB group companies, 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.

Employees

The Company does not have any employees. All staff are provided by other NAB group companies.

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 the UK.

Elective regime

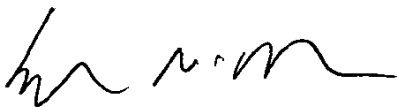
In accordance with the provisions of the Companies Act 2006, as amended, the Company has elected to dispense with the laying of Financial Statements before a general meeting, the holding of annual general meetings and the obligation to appoint Auditors annually.

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



Lynn McManus
Director
12 June 2012

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

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 law and regulations

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards (IFRSs) and applicable law. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing these 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,
- 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 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

We have audited the financial statements of National Australia (Asset Finance) Limited for the year ended 30 September 2011 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Shareholder's Equity, the Statement of Cash Flows and the related notes 1 to 12. 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 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's 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 of the Director's 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.



INVESTOR IN PEOPLE

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office.

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

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, or returns adequate for our audit have not been received from branches not visited by us, or
- ▶ the 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

A handwritten signature in black ink, appearing to be 'Javier Faiz', written over the last bullet point of the list.

*Javier Faiz (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
19 June 2012*

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Income Statement for the year ended 30 September 2011

	Note	2011 £	2010 £
Finance lease income		11,034	10,553
Finance costs	9	<u>(8,973)</u>	<u>(6,736)</u>
Profit on ordinary activities before tax		2,061	3,817
Tax expense	3	(556)	(1,069)
Profit for the year		<u>1,505</u>	<u>2,748</u>

The Company has no recognised gains or losses other than those disclosed above

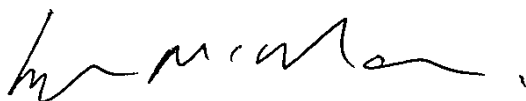
All items dealt with in arriving at the profit before tax for 2011 and 2010 relate to continuing operations

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Balance Sheet as at 30 September 2011

	Note	2011 £	2010 £
Current assets			
Due from related entities	9	140,438	124,292
Finance lease receivables	4	-	238,207
Trade and other receivables	5	-	16,456
Total assets		<u>140,438</u>	<u>378,955</u>
Current liabilities			
Due to related entities	9	89	241,959
Trade and other payables	6	1,848	-
		<u>1,937</u>	<u>241,959</u>
Net assets		<u>138,501</u>	<u>136,996</u>
Equity			
Share capital	7	1	1
Retained earnings		138,500	136,995
Total equity		<u>138,501</u>	<u>136,996</u>

The Financial Statements were approved by the Directors on 12 June 2012 and were signed on their behalf by



Lynn McManus
Director

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Statement of Changes in Equity for the year ended 30 September 2011

	Share Capital £	Retained Earnings £	Total £
Balance at 1 October 2009	1	134,247	134,248
Profit for the year ended 30 September 2010	<u>-</u>	<u>2,748</u>	<u>2,748</u>
Balance at 30 September 2010	1	136,995	136,996
Profit for the year ended 30 September 2011	<u>-</u>	<u>1,505</u>	<u>1,505</u>
Balance at 30 September 2011	<u>1</u>	<u>138,500</u>	<u>138,501</u>

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Statement of Cash Flows for the year ended 30 September 2011

	Note	2011 £	2010 £
Cash flows from operating activities			
Profit on ordinary activities before tax		2,061	3,817
<i>Adjustments for non-cash movements</i>			
Interest expense	9	<u>8,973</u>	<u>6,736</u>
Cash flows from operating activities before changes in operating assets and liabilities		11,034	10,553
Changes in operating assets and liabilities			
<i>Net decrease in</i>			
Finance lease receivables		238,207	330,740
<i>Net decrease in</i>			
Trade and other payables		<u>12</u>	<u>-</u>
Net cash provided by operating activities		249,253	341,293
Tax received/ (paid)		<u>17,736</u>	<u>(1,852)</u>
Net cash provided by operating activities		266,989	339,441
Cash flows from financing activities			
Interest paid		(8,973)	(6,895)
Net decrease in amounts due to related entities		<u>(241,870)</u>	<u>(330,479)</u>
Net cash used in financing activities		(250,843)	(337,374)
Net increase in cash and cash equivalents		16,146	2,067
Cash and cash equivalents at beginning of year		124,292	122,225
Cash and cash equivalents at end of year	8	<u>140,438</u>	<u>124,292</u>

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Notes to the Financial Statements

1. Authorisation of Financial Statements and statement of compliance with IFRS

In these Financial Statements National Australia (Asset Finance) Limited is referred to as the "Company"

The Financial Statements of the Company for the year ended 30 September 2011 were approved by the Directors on 12 June 2012 and the balance sheet was signed on their behalf by Lynn McManus

The Company is incorporated in the UK and registered in England and Wales

The ultimate parent undertaking, and ultimate controlling party is National Australia Bank Limited ("NAB"), a company incorporated in the State of Victoria, Australia. NAB also heads the largest group in which the results of the Company are consolidated. The smallest group in which the results of the Company are consolidated is that headed by National Australia Group Europe Limited ("NAGE") which is incorporated in the UK and registered in England and Wales. NAGE is the immediate holding company for the Company.

Copies of the Group Financial Statements prepared in respect of NAGE may be obtained from the Company Secretary, National Australia Group Europe Limited, 88 Wood Street, London, EC2V 7QQ.

Statement of compliance

The Financial Statements of the Company have been presented in accordance with International Financial Reporting Standards 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 on a going concern basis under the historical cost convention.

Significant accounting judgements and estimates

In the process of applying the Company's accounting policies, management has exercised judgements and estimates in determining the amounts recognised in the Financial Statements. The most significant use of judgement and estimates are as follows:

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review. In addition note 11 to the Financial Statements includes the Company's objectives, policies and processes for managing its capital and note 10 to the Financial Statements includes the Company's financial risk management objectives.

The Company has access to financial resources and the support of its ultimate parent. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Currency of presentation

All amounts are expressed in Pounds Sterling and all references to £ are to Pounds Sterling unless otherwise stated

Finance leases

Classification

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership to the lessee. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Recognition and subsequent measurement

Assets held under finance leases are recognised as finance lease receivables on Balance Sheet. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Initial direct costs include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease.

The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the gross investment in the lease discounted at the interest rate implicit in the lease. The gross investment in the lease is the aggregate of the minimum lease payments receivable under a finance lease, and any unguaranteed residual value accruing.

When a lease is disposed of, the gain or loss on sale is recognised in the Income Statement on the effective date of sale.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event'), and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

Revenue recognition

Finance leases

Finance lease income is recognised over the term of the lease using the net investment method (before tax) reflecting a constant periodic rate of return.

Income tax

Income tax on the profit or loss for the year comprises current tax.

Current 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. Income tax expense is recognised in the income statement except to the extent that it related to items recognised directly in equity, in which case it is recognised in equity.

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

Income tax (continued)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and liquid assets, amounts due from other banks (to the extent less than 90 days) and short-term government securities (which has the same characteristics as cash)

Cash and cash equivalents are brought to account at the face value or the gross value of the outstanding balance where appropriate

Accounting developments

The Company has adopted the following standards, interpretations and amendments which have been endorsed by the European Union. None of the following standards, interpretations and amendments had a material impact on the Company's Financial Statements

(i) Applied in the current reporting period

- *Improvements to IFRSs 2009*
Improvements to IFRSs 2009, issued 16 April 2009, makes numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvement project. Certain amendments are effective for financial periods beginning on or after 1 January 2010
- *Improvements to IFRSs 2010*
Improvements to IFRSs 2010, issued 6 May 2010, makes numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvement project. Certain amendments are effective for financial periods beginning on or after 1 July 2010

(ii) Early adopted and applied in the current reporting period

The Company has not early adopted any standard, interpretation or amendment.

(iii) To be applied in a future reporting period

The following standards, interpretations and amendments were available for adoption in the European Union, but not mandatory, for the 30 September 2011 reporting period. Those amendments which are applicable to the Group and which are not likely to have an impact on the Group's Financial Statements and have not yet been applied by the Group in preparing this financial report are as follows

- Revision to IAS 24 Related Party Disclosures, issued 4 November 2009 and effective for financial periods beginning on or after 1 January 2011
- Improvements to IFRSs 2010, issued 6 May 2010, makes numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvement project. Certain amendments are effective for financial periods beginning on or after 1 January 2011

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Accounting developments (continued)

The following standards, interpretations and amendments were not available for adoption in the European Union for the 30 September 2011 reporting period. Those amendments which are applicable to the Group and, which are not likely to have an impact on the Group's Financial Statements, and have not yet been applied or early adopted by the Group in preparing this financial report are:

- Amendments to IAS12 Deferred Tax: Recovery of Underlying Assets, issued 20 December 2010, is effective for financial periods beginning on or after 1 January 2012
- IFRS 13 Fair Value Measurement, issued May 2011 and effective for financial periods beginning on or after 1 January 2013

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Notes to the Financial Statements (continued)

3. Income tax expense

a) Analysis of charge in the period	2011 £	2010 £
Current tax		
UK Corporation tax payable	<u>556</u>	<u>1,069</u>
b) Factors affecting tax charge for the period		
Profit before tax	<u>2,061</u>	<u>3,817</u>
Profit multiplied by standard rate of corporation tax in UK of 27% (2010 28%)	<u>556</u>	<u>1,069</u>
Effects of		
Adjustments to tax in respect of prior periods	<u>-</u>	<u>-</u>
	<u>556</u>	<u>1,069</u>

On 21 March 2012 the UK Government announced a further reduction to the standard rate of corporation tax from the already announced 25% to 24% and this will be effective from 1 April 2012. The UK Government also confirmed its intention to reduce the corporation tax rate by a further 1% per annum, falling to 23% from 1 April 2013 and 22% from 1 April 2014. The 23% rate is expected to be substantively enacted in July 2012.

4 Finance lease receivables

	Minimum lease payments	
	2011 £	2010 £
Within one year	<u>-</u>	<u>238,207</u>
	<u>-</u>	<u>238,207</u>

5 Trade and other receivables

	2011 £	2010 £
Group tax relief receivable	<u>-</u>	<u>16,456</u>

6. Trade and other payables

	2011 £	2010 £
VAT payable	12	-
Group tax relief payable	<u>1,836</u>	<u>-</u>
	<u>1,848</u>	<u>-</u>

7 Share capital

	Number	£
Authorised:		
Ordinary shares of £1 each		
At 30 September 2011 and 2010	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each		
At 30 September 2011 and 2010	<u>1</u>	<u>1</u>

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Notes to the Financial Statements (continued)

8. Cash and cash equivalents

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

	2011 £	2010 £
Cash at bank	<u>140,438</u>	<u>124,292</u>

9 Related party transactions

The Company receives a range of services from the parent and related parties, including loans and various administrative services

Amounts due from related entities	2011 £	2010 £
Current assets		
Cash at bank held with related subsidiary	<u>140,438</u>	<u>124,292</u>

Amounts due to related entities	2011 £	2010 £
Current liabilities		
Loans due to ultimate parent	-	241,870
Accrued interest payable to ultimate parent	<u>89</u>	<u>89</u>
	<u>89</u>	<u>241,959</u>

Transactions during the year with related parties	2011 £	2010 £
Interest expense	<u>8,973</u>	<u>6,736</u>

Other transactions with related entities

The Company's audit fees are borne by NAGE, a controlled entity of the Company's ultimate parent company, NAB. NAGE paid £3,000 of audit fees on behalf of the Company in relation to the current year (2010 £3,000).

Transactions with Directors, key management and their close family members

There were 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 that arose during the year.

Compensation of key management personnel

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

Directors' emoluments

The Directors are employed as executives of other NAB companies. The aggregate emoluments of the Directors of the Company as computed in accordance with Part I of Schedule 6 of the Companies Act 2006 were £Nil (2010 £Nil).

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Notes to the Financial Statements (continued)

10. Management of risk

Effective management of risk is a key capability for a successful financial services provider, and is fundamental to the Company's strategy and its immediate parent NAGE, and its ultimate parent entity NAB

The Company manages risk within an established 'three lines of defence' framework consistent throughout the NAB Group. 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 monitoring and oversight. The third line of 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.

These company level defences are overlaid by a broader UK group risk management framework and procedure. This framework includes a European Boards' Risk Committee ("EBRC") and a UK Risk Committee ("UKRC").

The EBRC focuses on all elements of risk, including compliance risk, operational risk, material risk, credit risk and balance sheet management.

The UKRC monitors and systematically assesses the risk profile within the region against established risk appetite parameters. They also assist the 'front-line' businesses in the design and implementation of appropriate risk management policies/strategies, and work with the businesses to promote awareness of the need to manage risk. Together with the NAB Group Risk Management function, efforts continue to evolve the organisational culture and staff behaviours.

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.

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 considerations into the Company'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,
- a structured risk management process to facilitate the identification, quantification and management of risks.

The Company is committed to sound operational risk management and compliance within this framework.

Credit risk

Credit risk is the potential that a borrower or a counterparty will fail to meet its obligations in accordance with agreed terms. The NAB Group's credit risk management infrastructure is framed to provide sound management principles and practices for the maintenance of appropriate asset quality across the NAB Group. These principles and practices are followed by the Company Group Portfolio Management & Policy, a division of NAB Group Risk Management, is responsible for the development and maintenance of credit policies and key credit risk systems that form the basis of the Company's credit risk management.

The Company achieves its credit risk management objectives through both the traditional focuses on approval and monitoring of individual transactions and asset quality, analysis of the performance of the various credit risk portfolios and the independent oversight of credit portfolios, all of which are within the established group credit risk policy and management framework. Portfolio monitoring techniques cover such areas as industry or geographic concentrations and delinquency trends.

NATIONAL AUSTRALIA (ASSET FINANCE) LIMITED

Notes to the Financial Statements (continued)

10. Management of risk (continued)

Balance sheet market risk

Balance sheet market risk for the Company includes liquidity risk and interest rate risk

Due to the related party nature of the Company's current operations, the Directors do not believe the Company has any significant exposure to liquidity or interest rate risk

11 Capital management overview

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. The Company is not subject to externally imposed capital requirements, however its capital is managed as part of the NAB Group.

12. Events since the balance sheet date

No other information has been identified since the balance sheet date about conditions existing at the balance sheet date which is required to be disclosed in these Financial Statements.