

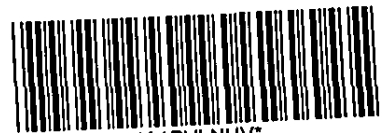
NATIONAL AUSTRALIA FINANCE (VESSEL LEASING NO. 4) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Registered number 06208221

30 SEPTEMBER 2011

TUESDAY



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COMPANIES HOUSE

NATIONAL AUSTRALIA FINANCE (VESSEL LEASING NO. 4) LIMITED
Year ended 30 September 2011

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NATIONAL AUSTRALIA FINANCE (VESSEL LEASING NO 4) LIMITED
Year ended 30 September 2011

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 (Vessel Leasing No 4) 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 06208221.

Principal activities

On the 2 July 2007 the Company invested in 100% of the share capital of Puget Limited and 99.998% of the partnership capital of The Puget Limited Partnership, which provides leasing facilities to industry and commerce. The company acts as a holding company.

Profits and appropriations

The profit attributable to the shareholders for the year ended 30 September 2011 amounted to 3,581,036 (2010: £407,441 loss). No dividend has been 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).

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 and funding from its parents 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. Elwood (appointed 02 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.

Report of the Directors (continued)

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.

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.

By order of the board



G Elswood

Director

14 June 2012

Statement of Directors' Responsibilities

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 National Australia Finance (Vessel Leasing No. 4) Limited

We have audited the Financial Statements of National Australia Finance (Vessel Leasing No 4) 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 (Vessel Leasing No. 4) 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 received	13	3,999,920	-
		<u>3,999,920</u>	<u>-</u>
Finance costs	13	(193,111)	(173,489)
Other operating expenses	3	(165,870)	(42,612)
		<u>(358,981)</u>	<u>(216,101)</u>
Profit/(loss) on ordinary activities before tax		<u>3,640,939</u>	<u>(216,101)</u>
Tax expense	4	(59,903)	(191,340)
Profit/(loss) for the year and total comprehensive profit	10	<u>3,581,036</u>	<u>(407,441)</u>

All items dealt with in arriving at the 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	1	(2,934,990)	(2,934,989)
Loss for the year	-	(407,441)	(407,441)
Balance at 30 September 2010	1	(3,342,431)	(3,342,430)
		<u></u>	<u></u>
Profit for the year	-	3,581,036	3,581,036
Balance at 30 September 2011	1	238,605	238,606

Balance Sheet as at 30 September 2011

	Note	2011 £	2010 £
Non current assets			
Investment in controlled entities	5	34,827,576	34,827,576
		<u>34,827,576</u>	<u>34,827,576</u>
Current assets			
Cash and cash equivalents	12	736,833	224,166
Trade and other receivables	6	322,816	558,004
		<u>1,059,649</u>	<u>782,170</u>
Total assets		<u>35,887,225</u>	<u>35,609,746</u>
Current liabilities			
Trade and other payables	7	558,331	-
Due to related entities	13	29,383,283	32,427,182
		<u>29,941,614</u>	<u>32,427,182</u>
Non current liabilities			
Deferred tax liabilities	8	5,707,005	6,524,994
		<u>5,707,005</u>	<u>6,524,994</u>
Total liabilities		<u>35,648,619</u>	<u>38,952,176</u>
Net assets		<u>238,606</u>	<u>(3,342,430)</u>
Shareholders' equity			
Share capital	9	1	1
Retained earnings	10	238,605	(3,342,431)
Total shareholders' equity	11	<u>238,606</u>	<u>(3,342,430)</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			
Interest paid		(195,614)	(189,616)
Tax (paid)/received		(250,241)	18,607
Net cash used in operating activities		(445,855)	(171,009)
Cash flows from investing activities			
Dividend received from partnership		3,999,920	-
Net cash provided by investing activities		3,999,920	-
Cash flows from financing activities			
Decrease in amounts due to related entities		(3,041,398)	(222,715)
Net cash used in financing activities		(3,041,398)	(222,715)
Net increase in cash and cash equivalents		512,667	(393,724)
Cash and cash equivalents at beginning of year		224,166	617,890
Cash and cash equivalents at end of year	12	736,833	224,166

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 (Vessel Leasing No 4) 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 NAB 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 IFRICs released that are deemed relevant to the Company.

Notes to the Financial Statements (continued)

2) Accounting policies (continued)

Functional and presentational currency

The Financial Statements are presented in pounds sterling, which is the Company's functional and presentational currency

Exemption from consolidation

The Company has interests in subsidiary companies but has taken advantage of the exemption from consolidation under the Companies Act 2006 section 401, because the Company is included in non-EEA group consolidated accounts of the ultimate parent NAB

Investment in controlled entities

Investments in controlled entities are stated at original cost, and are written down to a recoverable amount where their carrying value exceeds recoverable amount. Investments in controlled entities are tested on an annual basis for impairment, and additionally whenever an indication of impairment exists. Any decrement in the carrying value is recognised as an expense in the income statement in the reporting period in which the impairment loss occurs.

Impairment

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. Impairment losses are incurred 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 the loss event or events has had an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

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 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.

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.

Notes to the Financial Statements (continued)

2) Accounting policies (continued)

Income tax (continued)

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.

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.

3) Other operating expenses

	2011 £	2010 £
Legal and arrangement fees	165,870	42,612
	<u>165,870</u>	<u>42,612</u>

Notes to the Financial Statements (continued)

4) Income tax expense/(credit)

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

	2011 £	2010 £
Current tax		
Corporation tax payable/(recoverable) at 27% (2010 28%)		
-Current year	877,892	34,526
-Prior year adjustment	-	327,039
Total current tax	877,892	361,565
Deferred tax		
Origination and reversal of temporary timing differences		
- Current year (note 7)	(361,429)	71,441
- Tax rate difference	(456,560)	(241,666)
Total deferred tax	(817,989)	(170,225)
Income tax expense reported in the income statement	59,903	191,340

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

	2011 £	2010 £
Profit/(loss) before tax	3,640,939	(216,101)
Profit multiplied by standard rate of corporation tax in the UK of 27% (2010 28%)	983,054	(60,508)
Effects of		
Items non-deductible for tax purpose	(466,591)	166,475
Tax rate difference	(456,560)	(241,666)
Prior year adjustment	-	327,039
Total income tax charge for the year	59,903	191,340

Notes to the Financial Statements (continued)

5) Investment in controlled entities

	2011 £	2010 £
Partnership capital of The Puget Limited Partnership	34,827,575	34,827,575
Share capital Puget Limited	1	1
	<u>34,827,576</u>	<u>34,827,576</u>

On 2 July 2007, the Company invested £34,827,575 in a 99.998% stake of a partnership, The Puget Limited Partnership and £1 for 100% of the share capital of Puget Limited

Puget Limited is a nominee company which holds the legal title of the Vessel, on trust for the Partnership

The Partnership accounts are drawn up with a September year end. For the year ended 30 September 2011 the Partnership had a profit of £1,989,489 (2010: £482,004) and net asset value of £37,060,697 (2010: £39,071,208). The Company's share of Partnership profit for the year ended 30 September 2011 is £1,989,449 (2010: £481,994). Its share of net assets in the Partnership is £37,059,956 (2010: £39,070,427).

6) Trade and other receivables

	2011 £	2010 £
Sundry debtors	322,816	488,684
Group relief receivable	-	69,320
	<u>322,816</u>	<u>558,004</u>

7) Trade and other payables

	2011 £	2010 £
Corporation tax payable	558,331	-
	<u>558,331</u>	<u>-</u>

NATIONAL AUSTRALIA FINANCE (VESSEL LEASING NO 4) LIMITED

Year ended 30 September 2011

Notes to the Financial Statements (continued)**8) Deferred tax liabilities**

	2011 £	2010 £
Opening balance	6,524,994	6,695,219
Tax expense recognised in income statement (Note 3)	(817,989)	(170,225)
Closing balance	<u>5,707,005</u>	<u>6,524,994</u>
<i>The deferred tax liabilities included in the balance sheet are attributable to</i>		
Partnership net book value	<u>5,707,005</u>	<u>6,524,994</u>

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 £684,841 (equivalent to 3% of the closing gross deferred tax balance).

9) Share capital

	2011 £	2010 £
<i>Authorised</i>		
100 Ordinary shares of £1 each	100	100
<i>Allotted, called up and fully paid</i>		
1 Ordinary shares of £1 each	<u>1</u>	<u>1</u>

10) Retained earnings

	2011 £	2010 £
At 1 October	(3,342,431)	(2,934,990)
Profit/(loss) for the year	3,581,036	(407,441)
At 30 September	<u>238,605</u>	<u>(3,342,431)</u>

Notes to the Financial Statements (continued)

11) Shareholders' equity

	2011 £	2010 £
Profit/(loss) for the year	3,581,036	(407,441)
Net increase/(decrease) in shareholders' equity	3,581,036	(407,441)
Opening shareholders' deficit	(3,342,430)	(2,934,989)
Closing shareholders' surplus/(deficit)	238,606	(3,342,430)

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)	736,833	224,166

13) Related party transactions

The Company is a wholly owned controlled entity of National Australia Finance (Europe Holdings) Limited. The ultimate parent of the Company is NAB.

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.

Notes to the Financial Statements (continued)

13) Related party transactions (continued)

	2011 £	2010 £
Amounts due from related entities		
Non current assets		
Investment in controlled entities	34,827,576	34,827,576
	<u>34,827,576</u>	<u>34,827,576</u>
Current assets		
Cash at bank held with ultimate parent	736,833	224,166
	<u>736,833</u>	<u>224,166</u>

	2011 £	2010 £
Amounts due to related entities		
Current liabilities		
Amounts due to ultimate parent undertaking	22,196,761	26,511,225
Interest payable to the ultimate parent undertaking	39,957	42,460
Amount due to partnership	7,146,565	5,873,497
	<u>29,383,283</u>	<u>32,427,182</u>

	2011 £	2010 £
Transactions during the year with related parties		
Dividend received from The Puget Limited Partnership	3,999,920	-
Finance cost	(193,111)	(173,489)
	<u></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

Notes to the Financial Statements (*continued*)

13) Related party transactions (*continued*)

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 (2010: £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 area for all employees.

The NAB Group manages risk within an established 'three lines of defence' framework. Control is exercised through a 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 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.

Notes to the Financial Statements (continued)

14) Risk overview (continued)

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 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 controlled entities are unlisted and do not have a quoted market price, these are measured at cost less impairment as the fair value cannot be reliably measured.

Credit risk

Credit risk is the potential that a borrower or a 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 exposures to credit risk for the components of the balance sheet are set out below.

Notes to the Financial Statements (continued)

14) Risk overview (continued)

Credit risk (continued)

	2011 £	2010 £
Assets		
Investment in controlled entities	34,827,576	34,827,576
Cash and cash equivalents	736,833	224,166
Trade and other receivables	322,816	558,004
Total credit risk exposure	35,887,225	35,609,746

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 related party nature of funding and liability exposures with fellow NAB Group companies.

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
2011				
£				
Trade and other payables	-	-	558,331	558,331
Due to related entities	29,383,283	-	-	29,383,283
Deferred tax liabilities	-	-	5,707,005	5,707,005
	<hr/> 29,383,283	<hr/> -	<hr/> 6,265,336	<hr/> 35,648,619

Cash flows maturity profile for liabilities as they fall due	3 months or less	3 to 12 months	No specific maturity	Total
2010				
£				
Due to related entities	32,427,182	-	-	32,427,182
Deferred tax liabilities	-	-	6,524,994	6,524,994
	<hr/> 32,427,182	<hr/> -	<hr/> 6,524,994	<hr/> 38,952,176

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 on the following page summarises these pricing mismatches as at 30 September 2011 and 30 September 2010

Notes to the Financial Statements (continued)

14) Risk Overview (continued)

Interest rate risk (continued)

Interest rate sensitivity analysis 2011 £	Weighted average effective interest rate %	Call	3 months or less	Non interest bearing	Total
Assets					
Investment in controlled entities	-	-	-	34,827,576	34,827,576
Cash and cash equivalents	-	736,833	-	-	736,833
Trade and other receivables	-	-	-	322,816	322,816
		736,833	-	35,150,392	35,887,225
Liabilities					
Due to related entities	0.8%	-	22,196,761	39,957	22,236,718
Due to partnership	-	-	-	7,146,565	7,146,565
Trade and other payables	-	-	-	558,331	558,331
Deferred tax liabilities	-	-	-	5,707,005	5,707,005
Shareholders equity	-	-	-	238,606	238,606
		-	22,196,761	13,690,464	35,887,225
Gap		736,833	(22,196,761)	21,459,928	-

NATIONAL AUSTRALIA FINANCE (VESSEL LEASING NO 4) LIMITED

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Notes to the Financial Statements (continued)

14) Risk Overview (continued)

Interest rate risk (continued)

	Weighted average effective interest rate %	Call	3 months or less	Non interest bearing	Total
Interest rate sensitivity analysis					
2010					
£					
Assets					
Investment in controlled entities	-	-	-	34,827,576	34,827,576
Cash and cash equivalents	-	224,166	-	-	224,166
Trade and other receivables	-	-	-	558,004	558,004
		224,166	-	35,385,580	35,609,746
Liabilities					
Due to related entities	0.7%	-	26,511,225	42,460	26,553,685
Due to partnership	-	-	-	5,873,497	5,873,497
Deferred tax liabilities	-	-	-	6,524,994	6,524,994
Shareholders equity	-	-	-	(3,342,430)	(3,342,430)
		-	26,511,225	9,098,521	35,609,746
Gap		224,166	(26,511,225)	26,287,059	-

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.