

**NATIONAL AUSTRALIA GROUP EUROPE INVESTMENTS LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

Registered number SC80960

**30 SEPTEMBER 2011**

THURSDAY



\*S1C12MA1\*  
SCT 28/06/2012 #666  
COMPANIES HOUSE

**NATIONAL AUSTRALIA GROUP EUROPE INVESTMENTS LIMITED**  
*Year ended 30 September 2011*

| <b>Contents</b>  | <b>Page</b> |
|--|-------------|
| Officers and Professional Advisers                     | 2           |
| Report of the Directors                                | 3 – 5       |
| Statement of Directors' Responsibilities               | 6           |
| Report of the Independent Auditor                      | 7 – 8       |
| Income Statement and Statement of Comprehensive Income | 9           |
| Statement of Changes in Equity                         | 10          |
| Balance Sheet  | 11          |
| Cash Flow Statement                                    | 12          |
| Notes to the Financial Statements                      | 13 – 28     |

**Officers and Professional Advisers**

|                          |   |
|--------------------------|---|
| <b>Directors</b>         | J. Duffy<br>D. Rawson<br>B. Carr  |
| <b>Secretary</b>         | B. Lewis  |
| <b>Registered Office</b> | 30 St Vincent Place<br>Glasgow<br>G1 2HL  |
| <b>Bankers</b>           | National Australia Bank Limited   |
| <b>Solicitors</b>        | CMS - Cameron McKenna<br>Mitre House<br>160 Aldersgate street<br>London<br>EC1A 4DD |
| <b>Auditors</b>          | Ernst & Young LLP<br>1 More London Place<br>London<br>SE1 2AF                       |

## **NATIONAL AUSTRALIA GROUP EUROPE INVESTMENTS LIMITED**

*Year ended 30 September 2011*

### **Report of the Directors**

The directors of National Australia Group Europe Investments Limited (the "Company") submit their report and Financial Statements for the year ended 30 September 2011. The Company is registered in Scotland with registration number SC80960.

#### **Principal activities**

The Company operates as an investment holding company. The Company also leases information technology premises from Clydesdale Bank PLC at Clydesdale Business Bank and sub-leases these premises to National Australia Group Europe Services Limited, a fellow subsidiary of National Australia Group Europe Limited.

#### **Business review and future developments**

The Company continues to act as an investment company with holdings in controlled and third party entities. On 20 November 2009 the Company acquired, from the London Branch of National Australia Bank Limited, 31,398,794 Class C ordinary shares and 15,768 Class B preference shares in Samsonite. The shares were acquired for nil consideration, the market value on 20 November 2009. In accordance with NAB Group accounting policy for investments of this type in which the NAB group holds less than 5% the holding is classified as available-for-sale. On 16 June 2011 the Company received net proceeds of £21,033,271.86 for the sale of the ordinary shares and net proceeds of £234,548.88 for the sale of the preference shares following their listing under an initial public offering on the Hong Kong stock exchange.

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 National Australia Bank (NAB) Group level.

#### **Profits and appropriations**

The profit attributable to the shareholders for the year ended 30 September 2011 amounted to £43,006,000 (2010: £19,236,000). Interim dividends totalling £49,583,000 (2010: £19,245,000) were paid during the year. The directors do not recommend the payment of a final dividend in respect of this financial year (2010: £Nil)

#### **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.

S. Middleton (resigned 23 May 2011)

B. Carr (appointed 15 July 2011)

#### **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.

## **Report of the Directors (continued)**

### 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.

### **Employee Involvement**

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

### **Company secretary**

The current company secretary is shown on page 2.

### **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**

Between the period from February 2010 to May 2011 the Company acquired a total of 1,527,783 shares in Phoenix Group Holdings under a recent restructure. The shares were purchased for £10,455,086. In accordance with NAB Group accounting policy for investments of this type in which the NAB group holds less than 5% the holding is classified as available-for-sale. At 30 September 2011 the fair value of the shares was £7,166,830 based off the quoted price on the London Stock exchange at that date.

On 7 October 2011 a further 32,762 Phoenix shares were acquired. These shares were purchased for £166,300. In November 2011 1,560,045 shares were sold with the Company receiving net proceeds of £7,709,433 which resulted in a loss on sale for the shares of £2,607,242.

On 22 February 2012 the remaining 500 Phoenix shares were sold to NAB Investments Limited for £2,925.

In September 2010 the Company acquired 552,486 units of Phoenix Group Holdings equity warrants under a recent restructure for £143,646. At 30 September 2011 the fair value of the warrants was £165,746 based off the quoted price on the London Stock exchange at that date.

On 20 January 2012 the 552,486 units of Phoenix Group Holdings equity warrants were sold to NAB Investments Ltd for £165,746.

### **Auditors**

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

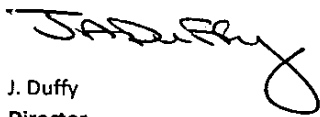
**Report of the Directors (continued)**

**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



J. Duffy  
Director  
26 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 National Australia Group Europe Investments Limited**

We have audited the Financial Statements of National Australia Group Europe Investments Limited for the year ended 30 September 2011 which comprise the income statement, statement of comprehensive income, statement of changes in equity, balance sheet, cash flow statement and the related notes 1 to 22. 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.

**NATIONAL AUSTRALIA GROUP EUROPE INVESTMENTS LIMITED**

*Year ended 30 September 2011*

**Independent Auditor's Report to the Members of National Australia Group Europe Investments 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

*27/6/12.*

**Income Statement for the year to 30 September 2011**

|   | Note | 2011<br>£'000 | 2010<br>£'000 |
|---|------|---------------|---------------|
| Interest income and similar income              | 3    | 21,592        | 17,873        |
| Interest expense                                | 20   | (517)         | (442)         |
| Dividend income                                 | 4    | 5,331         | 6,887         |
| Gain on share sale                              | 5    | 21,268        | -             |
| Other income                                    | 6    | 34            | 9             |
|   |      | <u>47,708</u> | <u>24,327</u> |
| Other expenses                                  | 7    | (321)         | (289)         |
| <b>Profit on ordinary activities before tax</b> |      | <u>47,387</u> | <u>24,038</u> |
| Tax expense                                     | 8    | (4,381)       | (4,802)       |
| <b>Profit for the year</b>                      |      | <u>43,006</u> | <u>19,236</u> |

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

**Statement of comprehensive income for the year to 30 September 2011**

|   | 2011<br>£'000  | 2010<br>£'000 |
|---|----------------|---------------|
| Profit for the year   | 43,006         | 19,236        |
| <b>Other comprehensive income</b>   |                |               |
| Revaluation reserve (loss)/gain   | (3,432)        | 367           |
| Tax credit/(expense) relating to components of other comprehensive income | 95             | (95)          |
| <b>Other comprehensive (loss)/income for the year net of tax</b>          | <u>(3,337)</u> | <u>272</u>    |
| <b>Total comprehensive profit for the year net of tax</b>                 | <u>39,669</u>  | <u>19,508</u> |

**Statement of changes in equity for the year to 30 September 2011**

|                              | Share<br>capital | Retained<br>earnings | Other<br>reserves | Total<br>shareholders'<br>equity |
|------------------------------|------------------|----------------------|-------------------|----------------------------------|
|                              | £'000            | £'000                | £'000             | £'000                            |
| Balance at 1 October 2009    | 3,189,662        | 21,128               | -                 | 3,210,790                        |
| Total comprehensive profit   | -                | 19,236               | 272               | 19,508                           |
| Dividends paid               | -                | (19,245)             | -                 | (19,245)                         |
| Balance at 30 September 2010 | 3,189,662        | 21,119               | 272               | 3,211,053                        |
| Total comprehensive profit   | -                | 43,006               | (3,337)           | 39,669                           |
| Dividends paid               | -                | (49,583)             | -                 | (49,583)                         |
| Balance at 30 September 2011 | 3,189,662        | 14,542               | (3,065)           | 3,201,139                        |

**NATIONAL AUSTRALIA GROUP EUROPE INVESTMENTS LIMITED**  
*Year ended 30 September 2011*

**Balance Sheet as at 30 September 2011**

|                                   | Note | 2011<br>£'000    | 2010<br>£'000    |
|-----------------------------------|------|------------------|------------------|
| <b>Non current assets</b>         |      |                  |                  |
| Investment in controlled entities | 10   | 594,726          | 594,785          |
| Investment securities             | 11   | 7,167            | 10,003           |
|                                   |      | <u>601,893</u>   | <u>604,788</u>   |
| <b>Current assets</b>             |      |                  |                  |
| Cash and cash equivalents         | 19   | 198              | 5,525            |
| Due from related entities         | 20   | 2,663,656        | 2,660,619        |
| Other assets                      | 12   | 1,875            | 6,692            |
|                                   |      | <u>2,665,729</u> | <u>2,672,836</u> |
| <b>Total assets</b>               |      | <u>3,267,622</u> | <u>3,277,624</u> |
| <b>Current liabilities</b>        |      |                  |                  |
| Due to related entities           | 20   | 66,439           | 66,430           |
| Other liabilities                 | 14   | 44               | 46               |
|                                   |      | <u>66,483</u>    | <u>66,476</u>    |
| <b>Non current liabilities</b>    |      |                  |                  |
| Deferred tax liability            | 13   | -                | 95               |
| <b>Total liabilities</b>          |      | <u>66,483</u>    | <u>66,571</u>    |
| <b>Net assets</b>                 |      | <u>3,201,139</u> | <u>3,211,053</u> |
| <b>Shareholders' equity</b>       |      |                  |                  |
| Share capital                     | 15   | 3,189,662        | 3,189,662        |
| Retained earnings                 | 16   | 14,542           | 21,119           |
| Other reserves                    | 17   | (3,065)          | 272              |
| <b>Total shareholders' equity</b> | 18   | <u>3,201,139</u> | <u>3,211,053</u> |

The Financial Statements were approved by the directors on 26 June 2012 and were signed on their behalf by:



J. Duffy  
 Director

**Cash Flow Statement for the year to 30 September 2011**

|   | Note | 2011<br>£'000  | 2010<br>£'000  |
|---|------|----------------|----------------|
| <b>Cash flows from operating activities</b>                   |      |                |                |
| Profit before taxation  |      | 47,387         | 24,038         |
| <i>Adjustments for non cash movements:</i>                    |      |                |                |
| Interest income   |      | (681)          | (87)           |
| Interest expense  |      | 517            | 442            |
| Dividend income   |      | (781)          | (42)           |
| Other income  |      | (22)           | -              |
| Other expenses  |      | 71             | 23             |
| Gain on share sale  |      | (21,268)       | -              |
|   |      | <hr/> 25,223   | <hr/> 24,374   |
| (Increase) / decrease in amounts due from related entities    |      | (2,860)        | 17,526         |
| VAT paid  |      | (6)            | (10)           |
| Tax received / (paid)   |      | 780            | (12,996)       |
| <b>Net cash provided by operating activities</b>              |      | <hr/> 23,137   | <hr/> 28,894   |
| <b>Cash flows from investing activities</b>                   |      |                |                |
| Shares sold   |      | 21,268         | -              |
| Shares purchased  |      | (149)          | (4,347)        |
| <b>Net cash provided by / (used in) investing activities</b>  |      | <hr/> 21,119   | <hr/> (4,347)  |
| <b>Cash flows from financing activities</b>                   |      |                |                |
| Dividends paid  |      | (49,583)       | (19,245)       |
| <b>Net cash used in financing activities</b>                  |      | <hr/> (49,583) | <hr/> (19,245) |
| <b>Net (decrease) / increase in cash and cash equivalents</b> |      | <hr/> (5,327)  | <hr/> 5,302    |
| Cash and cash equivalents at beginning of year                |      | 5,525          | 223            |
| <b>Cash and cash equivalents at end of year</b>               | 19   | <hr/> 198      | <hr/> 5,525    |

## 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 Group Europe Investments Limited ("the Company") for the year ended 30 September 2011 were authorised for issue by the directors on 26 June 2012 and the balance sheet was signed on their behalf by J. Duffy.

The Company is incorporated in the UK and registered in Scotland.

The ultimate parent undertaking is National Australia Bank Limited ("NAB"), a company incorporated in the State of Victoria, Australia. This company 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 which is incorporated in Great Britain and registered in England & Wales.

Copies of group accounts prepared in respect of National Australia Group Europe Limited may be obtained from the Company Secretary at 88 Wood Street, London, EC2V 7QQ. Copies of the group accounts prepared in respect of NAB may be obtained from National Australia Bank Limited (London Branch), 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.

#### Prior year's restatements

Some prior year figures have been restated in the related party transactions note to include interest on sub-lease to fellow subsidiary and exclude the Phoenix Group Holdings dividends under dividend income from subsidiaries.

#### 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

IFRS 9

Financial Instruments: Recognition and Measurement

Effective date  
Annual periods beginning  
On or after  
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.

## 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. All amounts are expressed in pounds sterling and all values are rounded to the nearest thousand pounds unless otherwise stated.

#### 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.

#### 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.

#### 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 instruments 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.

#### Available for sale securities

Available for sale investments are non-derivative financial assets that are designated as available for sale and are not categorised into any of the categories of (i) fair value through profit and loss (ii) loans and receivables or (iii) held to maturity. Available for sale investments primarily comprise debt and equity securities.

Available for sale investments are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale or impairment when the cumulative gain or loss is transferred to the income statement.

Investments in equity instruments that do not have a quoted market price in an active market are measured at cost less impairment for any permanent diminution in value.

**Notes to the Financial Statements (continued)**

**2) Accounting policies (continued)**

**Dividends**

Dividend income is recorded in the income statement on an accruals basis when the Company's right to receive the dividend is established. Dividend expense is recorded when the Company has the obligation to pay the dividend.

**Leases**

Operating lease income and expense is recognised on a straight-line basis over the lease term even if the receipts are not on such a basis unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

**Derivative financial instruments**

All derivatives are recognised in the balance sheet at fair value on trade date. The carrying value of a derivative is measured at fair value throughout the life of the contract.

**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 basis 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. Income tax is recognised in the income statement except to the extent that it is related to items recognised in equity, in which case the tax is also recognised in equity.

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.

**Segmental Reporting**

A business segment is a distinguishable component of the entity that is engaged in providing groups of related products and services and that is subject to the risks and returns that are different from those of other business segments. The Company's role is primarily to act as an intermediate holding company to the UK Group. As the results of the Company are presented under one segment to the NAGE Executive Committee no segmental information is provided in these Financial Statements.

In addition the Company has no material segments outside the UK and thus no geographical segment information is presented.

Notes to the Financial Statements (continued)

3) Interest income and similar income

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Interest income from related entities      | 21,329        | 17,610        |
| Interest on sub-lease to fellow subsidiary | 263           | 263           |
|  | <u>21,592</u> | <u>17,873</u> |

4) Dividend income

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| <i>Related entities</i>                     |               |               |
| National Australia Group Europe Finance B.V | 2,400         | 3,000         |
| NAGEO B.V                                   | 1,500         | 2,800         |
| P.F.A (UK) Limited                          | 658           | 990           |
| Ariodante                                   | 5             | -             |
| <i>Other entities</i>                       |               |               |
| Phoenix Group                               | <u>768</u>    | <u>97</u>     |
|   | <u>5,331</u>  | <u>6,887</u>  |

5) Gain on share sale

|                                    | 2011<br>£'000 | 2010<br>£'000 |
|------------------------------------|---------------|---------------|
| Gain on sale of share in Samsonite | <u>21,268</u> | <u>-</u>      |
|                                    | <u>21,268</u> | <u>-</u>      |

6) Other income

|                              | 2011<br>£'000 | 2010<br>£'000 |
|------------------------------|---------------|---------------|
| Phoenix equity warrants – FV | 22            | -             |
| Sundry items                 | <u>12</u>     | <u>9</u>      |
|                              | <u>34</u>     | <u>9</u>      |

Notes to the Financial Statements (continued)

7) Operating expenses

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Rental of premises under operating lease | 219           | 219           |
| Sundry expenses                          | 102           | 70            |
|  | <u>321</u>    | <u>289</u>    |

8) Income tax expense

a) Analysis of charge in the year

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Corporation tax payable/(recoverable) at 27% (2010: 28%) |               |               |
| - Current Year   | 5,869         | 4,802         |
| - Prior year adjustment-                                 | (1,488)       |               |
| Income tax expense reported in the income statement      | <u>4,381</u>  | <u>4,802</u>  |

b) Factors affecting tax charge for the period

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Profit before tax  | 47,387        | 24,038        |
| Profit multiplied by standard rate of corporation tax in the UK of 27% (2010: 28%) | <u>12,794</u> | <u>6,731</u>  |
| Effects of:  |               |               |
| Amounts not subject to tax   | (6,942)       | (1,929)       |
| Non-deductible expense   | 18            | -             |
| Prior year adjustment  | (1,488)       | -             |
| Tax rate change  | (1)           | -             |
| Total income tax charge for the year   | <u>4,381</u>  | <u>4,802</u>  |

9) Dividends paid

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Equity interim ordinary dividends paid £0.016 per share (2010: £0.006 per share) | <u>49,583</u> | <u>19,245</u> |

**Notes to the Financial Statements (continued)**

**10) Investment in controlled entities**

|                 | 2011<br>£'000 | 2010<br>£'000 |
|-----------------|---------------|---------------|
| At 30 September | 594,726       | 594,785       |

| Name of subsidiary                              | Activity                      | Country of<br>Incorporation | Class of holding  | Holding                      |
|---|-------------------------------|-----------------------------|---|------------------------------|
| NAGEO B.V.                                      | Investment Holding<br>Company | Netherlands                 | Ordinary  | 100%                         |
| National Australia Group Europe<br>Finance B.V. | Investment Holding<br>Company | Netherlands                 | Ordinary<br>Preference  | 100%<br>100%                 |
| Ariodante Limited                               | Trading Company               | England and Wales           | Class B Stock   | 100%                         |
| P.F.A. (UK) Limited                             | Investment Holding<br>Company | Cayman Islands              | A1 Ordinary<br>A2 Ordinary<br>B Redeemable Ordinary<br>Class 1 Preference | 100%<br>100%<br>100%<br>100% |
| NAGEAIL   | Investment Holding<br>Company | Cayman Islands              | Ordinary  | 100%                         |

**11) Investment securities**

|                        | 2011<br>£'000 | 2010<br>£'000 |
|------------------------|---------------|---------------|
| Phoenix Group Holdings | 7,167         | 10,003        |
|                        | <u>7,167</u>  | <u>10,003</u> |

Between the period from February 2010 to May 2011 the Company acquired a total of 1,527,783 shares in Phoenix Group Holdings under a recent restructure. The shares were purchased for £10,455,086. In accordance with NAB Group accounting policy for investments of this type in which the NAB group holds less than 5% the holding is classified as available-for-sale. At 30 September 2011 the fair value of the shares was £7,166,830 based off the quoted price on the London Stock exchange at that date.

Notes to the Financial Statements (continued)

12) Other assets

|                             | 2011<br>£'000 | 2010<br>£'000 |
|-----------------------------|---------------|---------------|
| Trade and other receivables | 465           | 143           |
| Group relief receivable     | 1,244         | 6,405         |
| Equity warrants             | 166           | 144           |
|                             | <u>1,875</u>  | <u>6,692</u>  |

| <i>Total derivatives held</i>            | Contract<br>Units | Fair Value<br>Assets<br>£'000 | Fair Value<br>Liabilities<br>£'000 |
|--|-------------------|-------------------------------|------------------------------------|
| Equity warrants – Phoenix Group Holdings | 552,486           | 166                           | -                                  |
| Total equity related contracts           | <u>552,486</u>    | <u>166</u>                    | <u>-</u>                           |

In September 2010 the Company acquired 552,486 units of Phoenix Group Holdings equity warrants under a recent restructure for £143,646. At 30 September 2011 the fair value of the warrants was £165,746 based on the quoted price on the London Stock exchange at that date.

13) Deferred tax liability

|                                      | 2011<br>£'000 | 2010<br>£'000 |
|--------------------------------------|---------------|---------------|
| Opening balance                      | 95            | -             |
| Deferred tax movement through equity | (95)          | 95            |
|                                      | <u>-</u>      | <u>95</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.

**Notes to the Financial Statements (continued)**

**14) Other liabilities**

|                                  | 2011<br>£'000 | 2010<br>£'000 |
|----------------------------------|---------------|---------------|
| Lease receivable deferred income | 44            | 46            |
|                                  | <u>44</u>     | <u>46</u>     |

**15) Share capital**

|  | 2011<br>£            | 2010<br>£            |
|--|----------------------|----------------------|
| <i>Authorised:</i>                         |                      |                      |
| 4,217,000,000 ordinary shares of £1 each   | 4,217,000,000        | 4,217,000,000        |
|  | <u>4,217,000,000</u> | <u>4,217,000,000</u> |
| <i>Allotted, called up and fully paid:</i> |                      |                      |
| 3,189,661,721 ordinary shares of £1 each   | 3,189,661,721        | 3,189,661,721        |
|  | <u>3,189,661,721</u> | <u>3,189,661,721</u> |

**16) Retained earnings**

|                     | 2011<br>£'000 | 2010<br>£'000 |
|---------------------|---------------|---------------|
| At 1 October        | 21,119        | 21,128        |
| Profit for the year | 43,006        | 19,236        |
| Dividends paid      | (49,583)      | (19,245)      |
| At 30 September     | <u>14,542</u> | <u>21,119</u> |

**17) Other reserves**

|   | 2011<br>£'000  | 2010<br>£'000 |
|---|----------------|---------------|
| At 1 October  | 272            | -             |
| (Decrease)/increase in available-for-sale revaluation reserve | (3,337)        | 272           |
| At 30 September   | <u>(3,065)</u> | <u>272</u>    |

**Notes to the Financial Statements (continued)**

**18) Shareholders' equity**

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Total comprehensive profit for the year         | 39,669        | 19,508        |
| Dividends paid                                  | (49,583)      | (19,245)      |
| Net (decrease)/increase in shareholder's equity | (9,914)       | 263           |
| Opening shareholders' equity                    | 3,211,053     | 3,210,790     |
| Closing shareholders' equity                    | 3,201,139     | 3,211,053     |

**19) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of inception:

|                                     | 2011<br>£'000 | 2010<br>£'000 |
|-------------------------------------|---------------|---------------|
| Due from related entities (Note 20) | 198           | 5,525         |

**NATIONAL AUSTRALIA GROUP EUROPE INVESTMENTS LIMITED***Year ended 30 September 2011***Notes to the Financial Statements (continued)****20) Related party transactions**

The Company is a wholly owned controlled entity of National Australia Group Europe Limited. The immediate parent is National 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.

|  | 2011<br>£'000    | 2010<br>£'000    |
|--|------------------|------------------|
| <b>Amounts due from related entities</b>     |                  |                  |
| <b>Current assets</b>                        |                  |                  |
| Amounts due from intermediate parent         | 2,662,379        | 2,659,520        |
| Interest receivable from intermediate parent | 1,277            | 1,099            |
| Cash held at ultimate parent                 | 198              | 5,525            |
| Total amounts due from related entities      | <u>2,663,854</u> | <u>2,666,143</u> |

**Amounts due to related entities**

|                                       |               |               |
|---------------------------------------|---------------|---------------|
| <b>Current liabilities</b>            |               |               |
| Amounts due to subsidiaries           | 66,439        | 66,430        |
| Total amounts due to related entities | <u>66,439</u> | <u>66,430</u> |

**Transactions during the year with related parties**

|   |               |               |
|---|---------------|---------------|
| Interest income from intermediate parent    | 21,329        | 17,610        |
| Interest on sub-lease to fellow subsidiary  | 263           | 263           |
| Dividend income from subsidiaries           | 4,563         | 6,790         |
| Income due from related entities            | <u>26,155</u> | <u>24,663</u> |
| Interest expense to subsidiary undertakings | <u>517</u>    | <u>442</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.

## Notes to the Financial Statements (*continued*)

### 20) Related party transactions (*continued*)

#### *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).

### 21) 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 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.

#### *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.

## Notes to the Financial Statements (continued)

### 21) Risk overview (continued)

#### Operational risk and compliance (continued)

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 considerations 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, other assets and other liabilities 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.

|                                   | 2011<br>£'000    | 2010<br>£'000    |
|-----------------------------------|------------------|------------------|
| <b>Assets</b>                     |                  |                  |
| Investment in controlled entities | 594,726          | 594,785          |
| Investment securities             | 7,167            | 10,003           |
| Cash assets                       | 198              | 5,525            |
| Due from related entities         | 2,663,656        | 2,660,619        |
| Other assets                      | 1,875            | 6,692            |
| <b>Total credit risk exposure</b> | <b>3,267,622</b> | <b>3,277,624</b> |

**Notes to the Financial Statements (continued)**

**21) Risk overview (continued)**

**Credit risk (continued)**

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.

| <b>Cash flows maturity profile for liabilities as they fall due</b> | <b>3 months or less</b> | <b>No specific maturity</b> | <b>Total</b>  |
|---|-------------------------|-----------------------------|---------------|
| 2011  |                         |                             |               |
| £'000   |                         |                             |               |
| Due to related entities   | 66,439                  | -                           | 66,439        |
| Other liabilities   | 44                      | -                           | 44            |
|   | <u>66,483</u>           | <u>-</u>                    | <u>66,483</u> |

| <b>Cash flows maturity profile for liabilities as they fall due</b> | <b>3 months or less</b> | <b>No specific maturity</b> | <b>Total</b>  |
|---|-------------------------|-----------------------------|---------------|
| 2010  |                         |                             |               |
| £'000   |                         |                             |               |
| Due to related entities   | 66,430                  | -                           | 66,430        |
| Deferred liability  | -                       | 95                          | 95            |
| Other liabilities   | 46                      | -                           | 46            |
|   | <u>66,476</u>           | <u>95</u>                   | <u>66,571</u> |

**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.

Notes to the Financial Statements (continued)

21) Risk overview (continued)

Interest rate risk (continued)

| Interest rate sensitivity analysis<br>2011<br>£'000 | Weighted average effective interest rate % | Call | 3 months or less | No specific maturity | Non interest bearing | Total     |
|---|--|------|------------------|----------------------|----------------------|-----------|
| <b>Assets</b>                                       |  |      |                  |                      |                      |           |
| Investments in controlled entities:                 |  |      |                  |                      |                      |           |
| - Ordinary shares                                   | -  | -    | -                | -                    | 279,623              | 279,623   |
| - Preference shares                                 | 0.6%                                       | -    | -                | 315,103              | -                    | 315,103   |
| Investment securities                               | -  | -    | -                | -                    | 7,167                | 7,167     |
| Cash assets   | -  | 198  | -                | -                    | -                    | 198       |
| Due from related entities                           | 0.8%                                       | -    | 2,662,379        | -                    | 1,277                | 2,663,656 |
| Other assets  | -  | -    | -                | -                    | 1,875                | 1,875     |
|   |  | 198  | 2,662,379        | 315,103              | 289,942              | 3,267,622 |
| <b>Liabilities</b>                                  |  |      |                  |                      |                      |           |
| Due to related entities                             | 0.8%                                       | -    | 66,439           | -                    | -                    | 66,439    |
| Other liabilities                                   | -  | -    | -                | -                    | 44                   | 44        |
| Shareholder's equity                                | -  | -    | -                | -                    | 3,201,139            | 3,201,139 |
|   |  | -    | 66,439           | -                    | 3,201,183            | 3,267,622 |
|   |  | 198  | 2,595,940        | 315,103              | (2,911,241)          | -         |

Notes to the Financial Statements (continued)

21) Risk overview (continued)

Interest rate risk (continued)

| Interest rate sensitivity analysis<br>2010<br>£'000 | Weighted average effective interest rate % | Call  | 3 months or less | No specific maturity | Non interest bearing | Total     |
|---|--|-------|------------------|----------------------|----------------------|-----------|
| <b>Assets</b>                                       |  |       |                  |                      |                      |           |
| Investments in controlled entities:                 |  |       |                  |                      |                      |           |
| - Ordinary shares                                   | -  | -     | -                | -                    | 279,682              | 279,682   |
| - Preference shares                                 | 0.4%                                       | -     | -                | 315,103              | -                    | 315,103   |
| Investment securities                               | -  | -     | -                | -                    | 10,003               | 10,003    |
| Cash assets   | -  | 5,525 | -                | -                    | -                    | 5,525     |
| Due from related entities                           | 0.7%                                       | -     | 2,659,520        | -                    | 1,099                | 2,660,619 |
| Other assets  | -  | -     | -                | -                    | 6,692                | 6,692     |
|   |  | 5,525 | 2,659,520        | 315,103              | 297,476              | 3,277,624 |
| <b>Liabilities</b>                                  |  |       |                  |                      |                      |           |
| Due to related entities                             | 0.7%                                       | -     | 66,430           | -                    | -                    | 66,430    |
| Deferred tax liability                              | -  | -     | -                | -                    | 95                   | 95        |
| Other liabilities                                   | -  | -     | -                | -                    | 46                   | 46        |
| Shareholder's equity                                |  |       | -                | -                    | 3,211,053            | 3,211,053 |
|   |  | -     | 66,430           | -                    | 3,211,194            | 3,277,624 |
|   |  | 5,525 | 2,593,090        | 315,103              | (2,913,718)          | -         |

A +/- 25 bps movement in interest rates will result in an increase/decrease to profit and loss after tax of £4,737,591. (2010: +/-£4,667,562).

A +/- 1% movement in the share price of the available-for-sale securities will result in an increase/decrease to equity reserves of £52,318 (2010: £ 72,018).

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.

**Notes to the Financial Statements (continued)**

**22) Prior year's restatements**

As described in note 2, certain prior year figures have been restated. The restatement has no impact on the income statement or balance sheet.

|  | 2010<br>£'000 |
|--|---------------|
| <b>Transactions during the year with related parties</b> |               |
| Interest on sub-lease to fellow subsidiary               |               |
| As previously reported                                   | -             |
| movement   | 263           |
| as restated  | <u>263</u>    |
| <br>Dividend income from subsidiaries                    | <br>-         |
| As previously reported                                   | 6,887         |
| movement   | (97)          |
| as restated  | <u>6,790</u>  |