

NATIONAL AUSTRALIA GROUP EUROPE INVESTMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Registered number SC80960

30 SEPTEMBER 2012

TUESDAY



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Officers and Professional Advisers

Directors

J. Duffy
D. Rawson
B. Carr

Secretary

B. Lewis

Registered Office

30 St Vincent Place
Glasgow
G1 2HL

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 Group Europe Investments Limited (the "Company") submit their report and Financial Statements for the year ended 30 September 2012. 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 entities.

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 20 January 2012 the remaining 500 Phoenix shares were sold to NAB Investments Limited for £2,920.

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.

In September 2012 P.F.A. (UK) Limited by way of a capital reduction, repurchased £38,000,300 of its B ordinary shares and £65,100,000 of its Class 1 Preference shares held by the Company leaving the Company with an investment of A ordinary shares in P.F.A. (UK) Limited of £1,000.

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 2012 amounted to £21,374,000 (2011: £43,006,000). Interim dividends totalling £31,806,000 (2011: £49,583,000) were paid during the year. The directors do not recommend the payment of a final dividend in respect of this financial year (2011: 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.

Report of the Directors (continued)

Directors and directors' interests

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

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.

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 (2011: 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 (2011: £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 reporting date

NAGEO B.V. made a £151,225,000 distribution from its ordinary share premium account reserve to the Company on 30 April 2013.

National Australia Group Europe Finance B.V. made a £89,774,955 distribution from its ordinary share premium account reserve and a £250,000,000 distribution from its preference share premium account reserve to the Company on 30 April 2013.

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.

NATIONAL AUSTRALIA GROUP EUROPE INVESTMENTS LIMITED

Year ended 30 September 2012

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



B. Carr

Director

21 June 2013

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).

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit and loss of the Company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with *IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements;
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the Financial Statements of National Australia Group Europe Investments Limited for the year ended 30 September 2012 which comprise the statement of comprehensive income, statement of changes in equity, statement of financial position, statement of cash flows and the related notes 1 to 17. 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 Statement of Directors' Responsibilities set out on page 6, 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 Directors' 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 2012 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 2012

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

21 June 2013

Statement of comprehensive income for the year ended 30 September 2012

	Note	2012 £'000	2011 £'000
Interest income	3	26,318	21,592
Interest expense	16	(643)	(517)
Dividend income	4	4,275	5,331
(Loss)/profit on share sale	5	(2,607)	21,268
Other income	6	2	34
		<u>27,345</u>	<u>47,708</u>
Other expenses	7	(275)	(321)
Profit on ordinary activities before tax		<u>27,070</u>	<u>47,387</u>
Tax expense	8	(5,696)	(4,381)
Profit for the year		<u>21,374</u>	<u>43,006</u>
Other comprehensive income			
Revaluation reserve gain/(loss)		3,065	(3,432)
Tax credit relating to components of other comprehensive income		-	95
Other comprehensive income/(loss) for the year net of tax		<u>3,065</u>	<u>(3,337)</u>
Total comprehensive profit for the year net of tax		<u>24,439</u>	<u>39,669</u>

All items dealt with in arriving at the profit before tax for 2012 and 2011 relate to continuing operations.

Statement of changes in equity for the year ended 30 September 2012

	Share capital £'000	Retained earnings £'000	Other reserves £'000	Total shareholders' equity £'000
Balance at 1 October 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	<u>3,189,662</u>	<u>14,542</u>	<u>(3,065)</u>	<u>3,201,139</u>
Total comprehensive profit	-	21,374	3,065	24,439
Dividends paid	-	(31,806)	-	(31,806)
Balance at 30 September 2012	<u>3,189,662</u>	<u>4,110</u>	<u>-</u>	<u>3,193,772</u>

Statement of financial position as at 30 September 2012

	Note	2012 £'000	2011 £'000
Non current assets			
Investment in controlled entities	10	491,625	594,726
Investment securities	11	-	7,167
Deferred tax asset	12	669	-
		<u>492,294</u>	<u>601,893</u>
Current assets			
Cash and cash equivalents	16	200	198
Due from related entities	16	2,705,432	2,663,656
Other assets	13	39	1,875
		<u>2,705,671</u>	<u>2,665,729</u>
Total assets		<u>3,197,965</u>	<u>3,267,622</u>
Current liabilities			
Due to related entities	16	715	66,439
Other liabilities	14	3,478	44
		<u>4,193</u>	<u>66,483</u>
Total liabilities		<u>4,193</u>	<u>66,483</u>
Net assets		<u>3,193,772</u>	<u>3,201,139</u>
Shareholders' equity			
Share capital	15	3,189,662	3,189,662
Retained earnings		4,110	14,542
Other reserves		-	(3,065)
Total shareholders' equity		<u>3,193,772</u>	<u>3,201,139</u>

The Financial Statements were approved by the directors on 21 June 2013 and were signed on their behalf by:



D. Rawson
Director

Statement of cash flows for the year ended 30 September 2012

	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
Profit before taxation		27,070	47,387
<i>Adjustments for non cash movements:</i>			
Interest income		665	(681)
Interest expense		-	517
Dividend income		259	(781)
Other income		-	(22)
Other expenses		56	71
Loss/(profit) on share sale		2,607	(21,268)
		<hr/> 30,657	<hr/> 25,223
Increase in loans to related entities		(42,440)	(2,860)
VAT paid		-	(6)
Tax (paid)/ received		<hr/> (1,687)	<hr/> 780
Net cash (used in)/provided by operating activities		<hr/> (13,470)	<hr/> 23,137
Cash flows from investing activities			
Proceeds from buyback from subsidiary undertaking		103,100	-
Shares sold		7,712	21,268
Warrants sold		166	-
Shares purchased		-	(149)
Net cash provided by investing activities		<hr/> 110,978	<hr/> 21,119
Cash flows from financing activities			
Dividends paid		(31,806)	(49,583)
Decrease in borrowings from related entities		<hr/> (65,700)	<hr/> -
Net cash used in financing activities		<hr/> (97,506)	<hr/> (49,583)
Net increase/(decrease) in cash and cash equivalents		<hr/> 2	<hr/> (5,327)
Cash and cash equivalents at beginning of year		198	5,525
Cash and cash equivalents at end of year	16	<hr/> 200	<hr/> 198

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 2012 were authorised for issue by the directors on 21 June 2013 and the statement of financial position was signed on their behalf by D. Rawson.

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 and liabilities. Assumptions made at each reporting 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

(a) New and amended standards adopted by the company

There are no IFRSs, IFRIC interpretations or any amended standards that are effective for the first time for the financial year beginning 1 October 2011 that have a material impact on the company.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the company:

- IFRS 9 (new standard) "Financial instruments" (effective from 1 January 2015) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded as a component of 'other comprehensive income'.

Notes to the Financial Statements (continued)

2) Accounting policies (continued)

Accounting developments (Continued)

- IFRS 12 (new standard) "Disclosure of Interests in Other Entities" (effective from 1 January 2013) includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

There are no other new standards or amendments to existing standards not yet effective that are considered relevant to the Company.

Functional and presentational currency

The Financial Statements are presented in pounds sterling, which is the Company's functional and presentational currency. All amounts are expressed in pounds sterling and all values are rounded to the nearest thousand pounds unless otherwise stated.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and at bank.

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 statement of comprehensive income in the reporting period in which the impairment loss occurs.

Interest income

Interest income is reflected in the statement of comprehensive income 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.

Related party transactions

The Company enters into a number of related party transactions including receiving and providing funding to other NAB Group companies accounted for as loans and receivables. 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.

Notes to the Financial Statements (continued)

2) Accounting policies (continued)

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 statement of comprehensive income.

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.

Dividends

Dividend income is recorded in the statement of comprehensive income 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 statement of financial position at fair value on trade date. The carrying value of a derivative is measured at fair value throughout the life of the contract and recognised as assets when their fair value is positive and as liabilities when their fair value is negative. Derivatives are recognised as held for trading with changes in the fair value of derivatives recognised in the statement of comprehensive income.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

The current tax charge is calculated on the taxable income for the period and on the basis of the tax laws enacted or substantively enacted at 30 September 2012.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Share capital

Ordinary shares are classified as equity.

Notes to the Financial Statements (continued)

3) Interest income

	2012 £'000	2011 £'000
Interest income from related entities	26,055	21,329
Interest on sub-lease to fellow subsidiary	263	263
	<u>26,318</u>	<u>21,592</u>

4) Dividend income

	2012 £'000	2011 £'000
<i>Related entities</i>		
National Australia Group Europe Finance B.V	2,400	2,400
NAGEO B.V	1,000	1,500
P.F.A (UK) Limited	875	658
Ariodante	-	5
<i>Other entities</i>		
Phoenix Group	-	768
	<u>4,275</u>	<u>5,331</u>

5) (Loss)/profit on share sale

	2012 £'000	2011 £'000
(Loss)/profit on sale of shares	(2,607)	21,268
	<u>(2,607)</u>	<u>21,268</u>

In November 2011 1,560,045 Phoenix 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.

In the prior year on 16 June 2011 the Company received net proceeds of £21,033,271.86 for the sale of the ordinary shares in Samsonite and net proceeds of £234,548.88 for the sale of the preference shares in Samsonite following their listing under an initial public offering on the Hong Kong stock exchange.

Notes to the Financial Statements (continued)

6) Other income

	2012 £'000	2011 £'000
Phoenix equity warrants – FV	-	22
Sundry items	2	12
	<u>2</u>	<u>34</u>

7) Other expenses

	2012 £'000	2011 £'000
Rental of premises under operating lease	219	219
Sundry expenses	56	102
	<u>275</u>	<u>321</u>

8) Income tax expense

a) Analysis of charge in the year

	2012 £'000	2011 £'000
Current tax		
Corporation tax payable/(recoverable) at 25% (2011: 27%)	6,365	5,869
- Current Year		
- Prior year adjustment-	-	(1,488)
	<u>6,365</u>	<u>4,381</u>
Deferred tax		
Origination and reversal of temporary timing differences		
- Current year (note 12)	(669)	-
- Prior year adjustment	-	-
	<u>(669)</u>	<u>-</u>
Income tax expense reported in the statement of comprehensive income	<u>5,696</u>	<u>4,381</u>

Notes to the Financial Statements (continued)

8) Income tax expense

b) Factors affecting tax charge for the period

	2012 £'000	2011 £'000
Profit before tax	27,070	47,387
Profit multiplied by standard rate of corporation tax in the UK of 25% (2011: 27%)	6,768	12,794
Effects of:		
Amounts not subject to tax	(1,130)	(6,942)
Non-deductible expense	-	18
Prior year adjustment	-	(1,488)
Tax rate change	58	(1)
Total income tax charge for the year	5,696	4,381

9) Dividends paid

	2012 £'000	2011 £'000
Equity interim ordinary dividends paid £0.010 per share (2011: £0.016 per share)	31,806	49,583

10) Investment in controlled entities

	2012 £'000	2011 £'000
At 30 September	491,625	594,726

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

Notes to the Financial Statements (continued)

11) Investment securities

	2012 £'000	2011 £'000
Phoenix Group Holdings	-	7,167
	<hr/> -	<hr/> 7,167

12) Deferred tax asset

	2012 £'000	2011 £'000
Opening balance	-	-
Tax credit recognised in statement of comprehensive income (Note 8)	669	-
Closing balance	<hr/> 669	<hr/> -

NAGEI has realised a £2.9m capital loss upon the sale of Phoenix shares. This has been recognised as a deferred tax asset at the 23% deferred tax rate, on the basis that there will be sufficient capital gains arising in future years to fully utilise the loss.

The Finance Bill 2012 was substantively enacted on 3rd July 2012. The reduction to the standard rate of corporation tax rate from 24% to 23% will be effective from 1 April 2013. Accordingly the deferred tax balances at 30th September 2012 have been stated at 23%. Further reductions are anticipated until the rate reaches 20% from 1 April 2015. 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 20% is expected to be £87,257 (equivalent to 3% of the closing gross deferred tax balance).

13) Other assets

	2012 £'000	2011 £'000
Trade and other receivables	39	465
Group relief receivable	-	1,244
Equity warrants	-	166
	<hr/> 39	<hr/> 1,875

Notes to the Financial Statements (continued)

14) Other liabilities

	2012 £'000	2011 £'000
Corporation tax payable	3,434	-
Lease receivable deferred income	44	44
	<hr/> 3,478	<hr/> 44

15) Share capital

	2012 £	2011 £
<i>Authorised:</i>		
4,217,000,000 ordinary shares of £1 each	4,217,000,000	4,217,000,000
	<hr/>	<hr/>
<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
	<hr/>	<hr/>

16) 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.

Notes to the Financial Statements (continued)

16) Related party transactions (continued)

	2012 £'000	2011 £'000
Amounts due from related entities		
Current assets		
Amounts due from intermediate parent	2,704,821	2,662,379
Interest receivable from intermediate parent	611	1,277
Cash held at ultimate parent	200	198
Total amounts due from related entities	2,705,632	2,663,854
Amounts due to related entities		
Current liabilities		
Amounts due to subsidiaries	715	66,439
Total amounts due to related entities	715	66,439
Transactions during the year with related parties		
Interest income from intermediate parent	26,055	21,329
Interest on sub-lease to fellow subsidiary	263	263
Dividend income from subsidiaries	4,275	4,563
Income due from related entities	30,593	26,155
Interest expense to subsidiary undertakings	643	517

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 2012 (2011: £nil) for transactions, arrangements and agreements between the Company and its directors, key management and their close family members during the year.

Compensation of key management personnel

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

Directors' emoluments

The directors are employed as executives of other NAB Group companies and do not receive incremental remuneration in respect of their duties as directors of this 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. The aggregate emoluments of the directors of the Company were £nil (2011: £nil).

Notes to the Financial Statements (continued)

17) 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.

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.

Notes to the Financial Statements (continued)

17) Risk overview (continued)

Operational risk and compliance (continued)

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 statement of financial position are set out below.

	2012 £'000	2011 £'000
Assets		
Investment in controlled entities	491,625	594,726
Investment securities	-	7,167
Deferred tax assets	669	-
Cash and cash equivalents	200	198
Due from related entities	2,705,432	2,663,656
Other assets	39	1,875
Total credit risk exposure	3,197,965	3,267,622

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.

Notes to the Financial Statements (continued)

17) Risk overview (continued)

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.

Cash flows maturity profile for liabilities as they fall due	3 months or less	No specific maturity	Total
2012 £'000			
Due to related entities	715	-	715
Other liabilities	44	3,434	3,478
	<u>759</u>	<u>3,434</u>	<u>4,193</u>

Cash flows maturity profile for liabilities as they fall due	3 months or less	No specific maturity	Total
2011 £'000			
Due to related entities	66,439	-	66,439
Other liabilities	44	-	44
	<u>66,483</u>	<u>-</u>	<u>66,483</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 2012 and 30 September 2011.

Notes to the Financial Statements (continued)

17) Risk overview (continued)

Interest rate risk (continued)

Interest rate sensitivity analysis 2012 £'000	Weighted average effective interest rate %	Call	3 months or less	No specific maturity	Non interest bearing	Total
Assets						
Investments in controlled entities:						
- Ordinary shares	-	-	-	-	241,622	241,622
- Preference shares	-	-	-	250,003	-	250,003
Deferred tax asset	-	-	-	-	669	669
Cash assets	-	200	-	-	-	200
Due from related entities	1.0%	-	2,704,821	-	611	2,705,432
Other assets	-	-	-	-	39	39
		200	2,704,821	250,003	242,941	3,197,965
Liabilities						
Due to related entities	1.1%	-	715	-	-	715
Other liabilities	-	-	-	-	3,478	3,478
Shareholders' equity	-	-	-	-	3,193,772	3,193,772
		-	715	-	3,197,250	3,197,965
		200	2,704,106	250,003	(2,954,309)	-

Notes to the Financial Statements (continued)

17) Risk overview (continued)

Interest rate risk (continued)

Interest rate sensitivity analysis 2011 £'000	Weighted average effective interest rate %	Call	3 months or less	No specific maturity	Non interest bearing	Total
Assets						
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 and cash equivalents	-	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
Liabilities						
Due to related entities	0.8%	-	66,439	-	-	66,439
Other liabilities	-	-	-	-	44	44
Shareholders' equity			-	-	3,201,139	3,201,139
		-	66,439	-	3,201,183	3,267,622
		198	2,595,940	315,103	(2,911,241)	-

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.