

**NAB EUROPE LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

Registered number 6641387

**30 SEPTEMBER 2019**

**WEDNESDAY**



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**Officers and Professional Advisers**

<b>Directors</b>	B. Carr R. Lakin J. McClusky S. Nye
<b>Secretary</b>	B. Lewis
<b>Registered Office (former)</b>	88 Wood Street, London, EC2V 7QQ
<b>Registered Office (from 2 December 2019)</b>	52 Lime Street, London, EC3M 7AF
<b>Bankers</b>	National Australia Bank Limited
<b>Auditors</b>	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY

## **Strategic report for the year ended 30 September 2019**

The directors of NAB Europe Limited (the "company") present their Strategic Report for the year ended 30 September 2019.

### **Principal activities**

The company is classified by the FCA as an IFPRU limited licence firm and has received MiFID passporting authority throughout the European Union. The company is a private company limited by shares incorporated and domiciled in the United Kingdom (UK) and the principal place of business is 52 Lime Street, London EC3M 7AF.

The company's activities comprise distributing bonds to foreign counterparties, including banks, funds and fund managers. The majority of the business is executed through an electronic portal on Bloomberg via a request for quote basis; however, some transactions are dealt over the phone with counterparties.

### **Business review**

There have been no significant changes to the business during the year. The company still performs a vital role in distributing bonds to foreign counterparties in parts of the EEA where the ultimate parent undertaking National Australia Bank Limited ("NAB"), does not have passporting authority. The directors do not expect Brexit to have a significant impact on the business model of the company and continue to monitor developments in this area.

### **Principal risks and uncertainties**

The principal risks and uncertainties to the company are outlined below. Further detail on the company's approach to the management of risk can be found in the risk overview note 6.

#### *Market risk*

The company acts on a matched (riskless) principal basis, where all the market risk associated with the transaction is cleared on a transaction by transaction basis to the firm's ultimate parent undertaking NAB. The income received by the company is a fee per transaction, paid by NAB on a monthly basis.

#### *Operational risk and compliance*

Operational risk is the risk of loss resulting from inadequate or failed processes, people or systems, or from external events. This includes risk relating to the management of ongoing activities, as well as to organisational changes such as project and change initiatives. The NAB Group is committed to sound risk management and compliance and continues to improve its capabilities in these areas.

#### *Credit risk*

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

The maximum exposure to credit risk is equivalent to the carrying value of the company's assets.

#### *Political Risk*

The UK decision to exit the European Union has created uncertainty. The company has reviewed the likely impact and concluded that there is no immediate impact as a significant level of business is generated from non-EU based customers.

### **Key Performance Indicators**

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

The Strategic Report was approved by the board of directors on 17 January 2020 and was signed on its behalf by:



B. Garr  
Director

## **Directors' report for the year ended 30 September 2019**

The directors of NAB Europe Limited (the "company") present their report together with the audited financial statements of the company for the year ended 30 September 2019. The company is registered in England and Wales with registration number 6641387. The company is a private company limited by shares.

### **Principal activities**

The company's business activities are set out in the Strategic Report.

### **Results and dividends**

The profit attributable to the shareholders for the year ended 30 September 2019 amounted to £199,000 (2018: £282,000). Interim dividends totalling £nil (2018: £2,000,000) were paid during the year. The directors do not recommend the payment of a final dividend in respect of the financial year (2018: £nil).

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

There have been no significant changes to the business during the year. The principal risks and uncertainties are set out in note 6 to the financial statements. The directors do not expect Brexit to have a significant impact on the business model of the company and are monitoring developments in this area. The company does not expect any significant changes in the future.

### **Going Concern**

The directors consider the going concern basis of preparation of the financial statements to be appropriate. The company has generated positive cash flows through the year and has an adequate capital base for the company to continue in operation. The company has reviewed the likely impact of the UK's exit from the EU and concluded that there is no immediate impact, as a significant level of business is generated from non-EU based customers. Additionally, the actions of the parent with regard to this event are unlikely to have any short-term material change on the way that business continues.

### **Directors and directors' interests**

The directors who held office during the year and up to the date of signing these financial statements are listed on page 2. In accordance with the company's Articles of Association, none of the directors are required to retire by rotation.

### 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' interests

As the company is a wholly owned subsidiary of NAB, which is incorporated in Australia, any interest which the directors may have in NAB does not need to be notified to the company so is not disclosed in this report. No director had any interest in the shares or debentures of the company.

### 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. Therefore, for the purposes of this disclosure, the directors have estimated the amount of time spent on qualifying services and apportioned their remuneration accordingly. The total directors' remuneration for the year was £2,000 (2018: £2,000). This cost is incurred by the ultimate parent company.

**Directors' report for the year ended 30 September 2019 (continued)**

**Employee involvement**

The company does not have any employees (2018: nil). All staff are provided by the ultimate parent company, NAB.

**Political donations**

No political donations were made during the year (2018: £nil).

**Events since the reporting date**

The company has transferred a number of EU counterparties to National Australia Bank Limited London branch (NAB London) in cases where NAB London has bilateral permission to transact with these counterparties. The outcome of the transfer is for a material reduction to the income of the company which the directors acknowledge and assess as having no impact on the continuation of the business under the existing model. Given the volume of transactions with non-EU counterparties there is no impact on the going concern basis of preparation of the financial statements.

**Company secretary**

The company secretary during the year and up to the date of signing these financial statements is listed on page 2.

**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.

**Auditors and disclosure of information to auditors**

So far as each director is aware at the time this report is approved, there is no relevant audit information of which the company's auditors are unaware. Relevant information is defined as information needed by the company's auditors in connection with preparing their report. Each director has taken all the steps (such as making enquiries of other directors and the auditors and any other steps required by the director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

In accordance with section 485 of the Companies Act 2006 Ernst & Young LLP will be deemed to be reappointed as auditors of the company when the end of the next accounting period for appointing auditors expires.

By order of the board



S. Nye  
Director

17 January 2020

## **Statement of Directors' responsibilities for the year ended 30 September 2019**

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable United Kingdom law and 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.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

## **Independent Auditor's Report to the Members of NAB Europe Limited**

### **Opinion**

We have audited the financial statements of NAB Europe Limited for the year ended 30 September 2019 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 7, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2019 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.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.



## **Independent Auditor's Report to the Members of NAB Europe Limited (continued)**

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

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.

*Ernst & Young LLP*

Chetan Trivedy (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

Date 17 JANUARY 2020

**Statement of comprehensive income for the year ended 30 September 2019**

	Note	2019 £'000	2018 £'000
Fee income	5	246	348
<b>Profit on ordinary activities before tax</b>		<u>246</u>	<u>348</u>
Income tax expense	3	(47)	(66)
<b>Profit for the year and total comprehensive income</b>		<u>199</u>	<u>282</u>

All items dealt with in arriving at the profit before tax for 2019 and 2018 relate to continuing operations.


**Statement of changes in equity for the year ended 30 September 2019**

	Share capital £'000	Retained earnings £'000	Total shareholders' equity £'000
Balance at 1 October 2017	250	2,194	2,444
Profit for the year and total comprehensive profit	-	282	282
Dividend paid	-	(2,000)	(2,000)
Balance at 30 September 2018	<u>250</u>	<u>476</u>	<u>726</u>
Profit for the year and total comprehensive profit	-	199	199
Balance at 30 September 2019	<u>250</u>	<u>675</u>	<u>925</u>

**Statement of financial position as at 30 September 2019**

	Note	2019 £'000	2018 £'000
<b>Current assets</b>			
Cash at bank	5	930	754
Due from related entities	5	14	13
<b>Total assets</b>		<u>944</u>	<u>767</u>
<b>Current liabilities</b>			
Current tax payable		19	41
<b>Total liabilities</b>		<u>19</u>	<u>41</u>
<b>Net Assets</b>		<u>925</u>	<u>726</u>
<b>Shareholders' equity</b>			
Share capital	4	250	250
Retained earnings		675	476
<b>Total shareholders' equity</b>		<u>925</u>	<u>726</u>

The Financial Statements were approved by the directors on 17 January 2020 and were signed on their behalf by:



B. Lakin  
Director

**Statement of cash flows for the year ended 30 September 2019**

	Note	2019 £'000	2018 £'000
<b>Cash flows from operating activities</b>			
Profit before taxation		246	348
<i>Adjustments for non-cash movements:</i>			
(Increase)/decrease in amounts due from related entities		(1)	7
		<hr/> 245	<hr/> 355
Tax paid – current tax		(69)	(57)
Tax paid – group relief		(24)	-
Tax refund received		24	-
		<hr/> 176	<hr/> 298
<b>Cash flows from financing activities</b>			
Dividends paid		-	(2,000)
		<hr/> 176	<hr/> (1,702)
<b>Net increase/(decrease) in cash at bank</b>			
Cash at bank at beginning of year		754	2,456
Cash at bank at end of year	5	<hr/> 930	<hr/> 754
<hr/> <hr/>			
		2019 £'000	2018 £'000
<b>Cash flows from financing activities</b>			
Dividends paid		-	(2,000)
		<hr/>	<hr/> (2,000)
<hr/> <hr/>			

## Notes to the Financial Statements

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

The Financial Statements of NAB Europe Limited for the year ended 30 September 2019 were authorised for issue by the directors on 17 January 2020 and the statement of financial position was signed on their behalf by R. Lakin.

The company is incorporated in the UK and registered in England and Wales.

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

Copies of the group accounts prepared in respect of NAB may be obtained from National Australia Bank Limited (London Branch), 52 Lime Street, London, EC3M 7AF.

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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS, and under the historical cost convention. The financial statements have been prepared on a going concern basis. The accounting policies set out below have been applied in respect of the financial year ended 30 September 2019 and have been applied consistently to all periods presented in these financial statements. The company has applied accounting standard IFRS 9 "Financial Instruments" for the first time for their annual reporting period 1 October 2018 to 30 September 2019.

#### Accounting developments

This note explains the impact of the adoption of newly effective accounting standards on these financial statements.

- IFRS 15 "Revenue from contracts with customers" – IFRS 15 which is effective for annual periods beginning on 1 January 2018 had no significant impact on the company. The company's sole source of revenue is a transaction fee received from the ultimate parent. Revenue is recognised when it is probable that the economic benefits will flow to the company and it can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. In order to recognise revenue in line with the completion of performance obligations as required by IFRS 15, the company recognises revenue on an accrual basis when the company transacts with the market and then completes a corresponding back-to-back transaction with the ultimate parent company, NAB.
- IFRS 9 "Financial instruments" which is effective for annual periods beginning on 1 January 2018 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, including the impairment of financial assets. 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'. The new requirements of IFRS 9 have not been adopted retrospectively and are therefore not reflected in the disclosures for the 2018 comparative period. The accounting policies for the comparative year are disclosed in the 2018 financial statements. There were no changes in the classification and measurement of financial assets or liabilities on adoption of IFRS 9. On the date of initial application, the financial instruments of the company were as follows:

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

**2) Accounting policies (continued)**

	Measurement category		Transition carrying amount	
	Per IAS 39	Per IFRS 9	Per IAS 39	Per IFRS 9
<b>Financial assets</b>			<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	Amortised cost	Amortised cost	754	754
Due from related entities	Amortised cost	Amortised cost	13	13

**Future accounting developments**

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.

**Recognition of revenue**

Income is reflected in the statement of comprehensive income when the company transacts with the market and then completes a corresponding back-to-back transaction with the ultimate parent company, NAB, resulting in a transaction fee payable to the company by NAB. Income is recognised in the statement of comprehensive income as it accrues.

**Income tax**

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

The current tax charge is calculated on the taxable income for the year and on the basis of the tax laws enacted or substantively enacted at 30 September 2019.

**Share capital**

Ordinary shares are classified as equity.

**Dividends**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid.

**Financial assets**

Financial assets of the company include cash at bank and due from related entities.

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

**Other receivables**

Other receivables are initially recognised at fair value and subsequently measured at amortised cost, less provision for impairment

**Impairment of financial assets**

Impairment of financial assets is provided for in accordance with IFRS 9 "Financial Instruments" which was adopted for the financial period commencing 1 October 2018. The company has elected to take the IFRS 9 simplified approach and therefore measures the loss allowance at an amount equal to lifetime expected credit losses. Financial assets measured at amortised cost are subject to impairment under the Expected Credit Loss model (ECL) where ECL is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

**3) Income tax expense**

**a) Analysis of charge for the year**

	2019 £'000	2018 £'000
<b>Current tax</b>		
Corporation tax payable at 19.0% (2018: 19.0%)		
- Current year	(47)	(66)
Income tax charge reported in the statement of comprehensive income	(47)	(66)
	<u>                    </u>	<u>                    </u>

**b) Factors affecting tax charge for the year**

	2019 £'000	2018 £'000
Profit before tax	246	348
Profit multiplied by standard rate of corporation tax in the UK of 19.0% (2018: 19.0%)	(47)	(66)
Total income tax charge for the year	(47)	(66)
	<u>                    </u>	<u>                    </u>

The Finance Act (No.2) 2015 and the Finance Act 2016 contain provisions reducing the rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 17% from 1 April 2020 respectively. These Acts were enacted on 18 November 2015 and 15 September 2016 respectively.

**4) Share capital**

	2019 £'000	2018 £'000
<i>Authorised:</i>		
1,000,000 £1 ordinary shares	1,000	1,000
<i>Allotted, called up and fully paid:</i>		
250,000 £1 ordinary shares	250	250
	<u>                    </u>	<u>                    </u>

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

**4) Share capital (continued)**

On incorporation 1,000,000 ordinary shares were authorised for issue. £1 of share capital was issued and fully paid on incorporation, a further £249,999 was issued and fully paid on 16 December 2008.

**5) Related party transactions**

The company is a wholly owned controlled entity of NAB which is the immediate and the ultimate parent entity of the company.

	2019 £'000	2018 £'000
<b>Amounts due from related entities</b>		
<b>Current Assets</b>		
Cash at bank with ultimate parent	930	754
Accrued transaction fees from ultimate parent	14	13
	944	767
	944	767

	2019 £'000	2018 £'000
<b>Transactions during the year with related parties</b>		
Transaction fees from ultimate parent	246	348
Transactions with subsidiary of ultimate parent	21	-
	267	348
	267	348

Under a service agreement between the company and its parent, all transaction processing and its associated services are undertaken by the parent on behalf of the company. All associated processing costs are borne by the parent.

The company's audit fees of £11,142 (2018: £11,142) 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 2019 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. For the purposes of this disclosure, the directors have estimated the amount of time spent on qualifying services and apportioned their remuneration accordingly. The aggregate emoluments of the directors of the company were £2,000 (2018: £2,000). This cost is incurred by the parent entity.



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

### **6) Risk overview**

#### ***Risk management***

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

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

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

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

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

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

#### ***Market Risk***

The company acts on a matched (riskless) principal basis, where all the market risk associated with the transaction is cleared on a transaction by transaction basis to the firm's ultimate parent undertaking NAB. The income received by the company is a fee per transaction, paid by NAB on a monthly basis.

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

**6) Risk overview (continued)**

**Credit Risk**

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

The maximum exposure to credit risk is equivalent to the carrying value of the company's assets.

Given the balances are with a related entity the credit risk is deemed to be minimal.

**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 Directors do not believe there is a significant exposure to liquidity risk due to the nature and amount of the liabilities held. The comparison of the company's financial assets and financial liabilities maturity is shown below.

<b>As at 30 September 2019</b>	<b>3 months or less</b>	<b>3 to 12 months</b>	<b>Due after 12 months</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial Assets</b>				
Cash and cash equivalents	930	-	-	930
Due from related entities	14	-	-	14

<b>As at 30 September 2018</b>	<b>3 months or less</b>	<b>3 to 12 months</b>	<b>Due after 12 months</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial Assets</b>				
Cash and cash equivalents	754	-	-	754
Due from related entities	13	-	-	13

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

### **6) Risk overview (continued)**

#### ***Interest rate risk***

The Directors do not believe there is significant risk because the cash at bank does not earn interest on the balance.

#### ***Conduct Risk***

Three areas of Conduct Risk have been identified: confidentiality, conflicts of interest and market misconduct. These are mitigated by the company's system of controls and by mandatory annual training.

#### ***Political Risk***

The UK decision to exit the European Union has created uncertainty. The company has reviewed the likely impact and concluded that there is no immediate impact as a significant level of business is generated from non-EU based customers.

#### ***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. During the past year the company complied in full with all its externally imposed capital requirements.

### **7) Events since the reporting date**

The company has transferred a number of EU counterparties to National Australia Bank Limited London branch (NAB London) in cases where NAB London has bilateral permission to transact with these counterparties. The outcome of the transfer is for a material reduction to the income of the company which the directors acknowledge and assess as having no impact on the continuation of the business under the existing model. Given the volume of transactions with non-EU counterparties there is no impact on the going concern basis of preparation of the financial statements.