

Company Registered No: 05404150

PREMIER AUDIT COMPANY LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2010



**Group Secretariat
The Royal Bank of Scotland Group plc
PO Box 1000
Gogarburn
Edinburgh
EH12 1HQ**

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2010

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS: O D Watts
J H Wood

SECRETARY: R E Fletcher

REGISTERED OFFICE: Smith House
PO Box 343
Elmwood Avenue
Feltham
Middlesex
TW13 7WH

AUDITOR: Deloitte LLP
London

Registered in England and Wales

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2010

ACTIVITIES AND BUSINESS REVIEW

This directors' report has been prepared in accordance with the special provisions available to companies entitled to the small companies exemption.

Activity

The principal activity of the company continues to be auditing and debtor verification

The company is a subsidiary of The Royal Bank of Scotland Group plc which provides the company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment. For this reason, the directors believe that performance indicators specific to the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis. Copies can be obtained from Group Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the group's website at rbs.com.

Review of the year***Business review***

The directors are satisfied with the company's performance in the year. The company will be guided by its shareholder in seeking further opportunities for growth

Financial performance

The retained profit for the year was £9,000 (2009 retained profit £6,000) and this was transferred to reserves. An interim dividend of £45,000 was paid during the year (2009: £nil)

Principal risks and uncertainties

The company is funded by facilities from RBS Invoice Finance Limited

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 10 to these financial statements

Going concern

The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis. They considered the accounts of The Royal Bank of Scotland Group plc for the year ended 31 December 2010, approved on 23 February 2011 which were prepared on a going concern basis

DIRECTORS' REPORT (continued)**DIRECTORS AND SECRETARY**

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 2

From 1 January 2010 to date the following changes have taken place

	Appointed	Resigned
Directors		
A D Barnard		19 April 2010
O D Watts	19 April 2010	

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare a directors' report and financial statements for each financial year and the directors have elected to prepare them in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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 at the end of the year and the profit or loss for the financial year of the company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to

- select suitable accounting policies and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance, and
- make an assessment of the company's ability to continue as a going concern.

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 to enable them to ensure that the directors' report and financial statements comply with the requirements of 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.

DIRECTORS' REPORT (continued)

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the directors at the date of approval of this report confirms that

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information, and to establish that the company's auditor is aware of that information

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

AUDITOR

Deloitte LLP has expressed its willingness to continue in office as auditor

Approved by the Board of Directors and signed on behalf of the Board



O D Watts

Director

Date

27 MAY 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PREMIER AUDIT COMPANY LIMITED

We have audited the financial statements of Premier Audit Company Limited ('the company') for the year ended 31 December 2010 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 13. 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, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

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 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006


In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PREMIER AUDIT
COMPANY 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, 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,
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report

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Mark Rhys, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
London, United Kingdom

27th May 2011

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

Continuing operations	Notes	2010 £'000	2009 £'000
Revenue	3	129	99
Operating expenses	4	(117)	(90)
Profit before tax		12	9
Tax charge	6	(3)	(3)
Profit and total comprehensive income for the year		9	6

The accompanying notes form an integral part of these financial statements

BALANCE SHEET

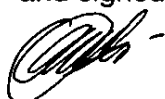
as at 31 December 2010

	Notes	2010 £'000	2009 £'000
Current assets			
Amounts owed by group undertakings	8	18	54
Total assets		<u>18</u>	<u>54</u>
Current liabilities			
Trade and other payables	9	3	3
Total liabilities		<u>3</u>	<u>3</u>
Equity			
Share capital	11	-	-
Retained earnings		15	51
Total equity		<u>15</u>	<u>51</u>
Total liabilities and equity		<u>18</u>	<u>54</u>

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of directors on
and signed on its behalf by

27 MAY 2011



O D Watts
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2009	-	45	45
Profit for the year	-	6	6
At 31 December 2009	-	51	51
Profit for the year	-	9	9
Dividends paid (note 7)	-	(45)	(45)
At 31 December 2010	-	15	15

Total comprehensive income for the year of £9,000 (2009 £6,000) was wholly attributable to the owners of the company

The accompanying notes form an integral part of these financial statements

CASH FLOW STATEMENT
for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Operating activities			
Profit for the year before tax		12	9
Operating cash flows before movements in working capital		<u>12</u>	<u>9</u>
Increase/(decrease) in amounts owed by group undertakings		36	(2)
Net cash from operating activities before tax		<u>48</u>	<u>7</u>
Interest received		-	-
Tax paid		(3)	(7)
Net cash flows from operating activities		<u>45</u>	<u>-</u>
Net cash flows from investing activities		<u>-</u>	<u>-</u>
Cash flows from financing activities			
Dividends paid	7	(45)	-
Net cash flows from financing activities		<u>(45)</u>	<u>-</u>
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		<u>-</u>	<u>-</u>

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies****a) Presentation of accounts**

The accounts are prepared on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS)

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

The accounts are prepared on the historical cost basis except as noted in the following accounting policies

The company's accounts are presented in accordance with the Companies Act 2006

Adoption of new and revised standards

There are a number of changes to IFRS that were effective from 1 January 2010. They have had no material effect on the company's financial statements for the year ended 31 December 2010.

b) Foreign currencies

The company's financial statements are presented in sterling which is the functional currency of the company.

c) Revenue recognition

Revenue arises in the United Kingdom from continuing activities and represents charges to clients. Revenue is measured at the fair value of consideration received or receivable and is recognised when the services are delivered.

Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity and interest expense on financial liabilities other than those at fair value through profit or loss are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability.

d) Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity. Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

e) Financial assets

On initial recognition, financial assets are classified into held-to-maturity investments, loans and receivables, held-for-trading, designated as at fair value through profit or loss, or available-for-sale financial assets.

Loans and receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

f) Impairment of financial assets

The company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

g) Financial liabilities

On initial recognition financial liabilities are classified into held-for-trading; designated as at fair value through profit or loss, or amortised cost.

Amortised cost

All financial liabilities are measured at amortised cost using the effective interest method.

h) Derecognition

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition.

A financial liability is removed from the balance sheet when the obligation is discharged, or cancelled, or expires.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1. Accounting policies (continued)****i) Accounting developments**

The International Accounting Standards Board (IASB) issued '*Improvements to IFRS*' in May 2010 implementing minor changes to IFRS, making non-urgent but necessary amendments to standards, primarily to remove inconsistency and to clarify wording. The revisions are effective for annual periods beginning on or after 1 July 2010 and are not expected to have a material effect on the company

The IASB issued IFRS 9 'Financial Instruments' in October 2010 simplifying the classification and measurement requirements in IAS 39 'Financial Instruments Recognition and Measurement' in respect of financial assets and liabilities. The standard reduces the measurement categories for financial assets to two: fair value and amortised cost while keeping categories for liabilities broadly the same. Only financial assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding and which are held within a business model whose objective is to hold assets in order to collect contractual cash flows are classified as amortised cost. All other financial assets are measured at fair value with changes in value generally taken to profit or loss. The IASB will add impairment and hedging requirements to the standard before it becomes effective for annual periods beginning on or after 1 January 2013, early application is permitted.

This standard makes major changes to the framework for the classification and measurement of financial assets and will have a effect on the company's Financial Statements. The company is assessing the effect which also depends on the outcome of the other phases of IASB's IAS 39 replacement project.

The IASB issued 'Disclosures - Transfers of Financial Assets' (Amendments to IFRS 7) in October 2010 to extend the standard's disclosure requirements about derecognition to align with US GAAP. The revisions are effective for annual periods beginning on or after 1 July 2011 and will not affect the financial position or reported performance of the company.

The International Financial Reporting Interpretations Committee issued interpretation IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' in December 2009. The interpretation clarifies that the profit or loss on extinguishing liabilities by issuing equity instruments should be measured by reference to fair value, preferably of the equity instruments. The interpretation, effective for the company for annual periods beginning on or after 1 January 2011, is not expected to have a material effect on the company.

2. Critical accounting policies and key sources of estimation uncertainty

The reported results of the company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the company's accounting policies that are considered by the directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the company would affect its reported results.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Revenue

	2010	2009
	£'000	£'000
Debt verification and audit fees	129	99

4. Operating expenses

	2010	2009
	£'000	£'000
Management fees	117	90

Staff costs, number of employees and directors' emoluments

All staff and directors were employed by RBS, the accounts for which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The company has no employees and pays a management charge for services provided by other group companies. The directors of the company do not receive remuneration for specific services provided to the company.

Management recharge

Management charges relate to the company's share of group resources such as the use of IT platforms, staff and a share of central resources. These are re-charged on an annual basis by RBS Invoice Finance Limited.

5. Auditors' Remuneration

There was no charge in either the current or prior year's financial statements for auditor's remuneration as the fees of £3,000 (2009: £3,000) were charged in the financial statements of RBS Invoice Finance Limited.

6. Tax

	2010	2009
	£'000	£'000
Current taxation:		
UK corporation tax charge for the year	3	3
Tax charge for the year	3	3

The actual tax charge matches the expected tax charge.

The changes to tax rates and capital allowances proposed in the Budget on 22 June 2010 and 23 March 2011 are not expected to have a material effect on the company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Ordinary dividends

	2010 £'000	2009 £'000
Interim dividend paid	<u>45</u>	<u>-</u>

8. Amounts owed by group undertakings

	2010 £'000	2009 £'000
Amounts owed by group undertakings	<u>18</u>	<u>54</u>

9. Trade and other payables

	2010 £'000	2009 £'000
Current liabilities		
Corporation tax payable	<u>3</u>	<u>3</u>

10. Financial instruments and risk management

(i) Categories of Financial instruments

The following tables analyse the company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 "Financial Instruments, Recognition and Measurement". Assets and liabilities outside the scope of IAS 39 are shown separately.

2010	At amortised cost £'000	Non financial assets/ liabilities £'000	Total £'000
Assets			
Loans and receivables	<u>18</u>	<u>-</u>	<u>18</u>
Liabilities			
Trade and other payables	<u>-</u>	<u>3</u>	<u>3</u>
Equity			<u>15</u>
			<u>18</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Financial instruments and risk management (continued)

2009	At amortised cost £'000	Non financial assets/ liabilities £'000	Total £'000
Assets			
Loans and receivables	54	-	54
Liabilities			
Trade and other payables	-	3	3
Equity			51
			54

The fair value of financial instruments that are not carried at fair value on the balance sheet is considered not to be materially different to the carrying amounts

(ii) Financial risk management

The principal risks associated with the company's businesses are as follows.

Interest rate risk

Interest rate risk arises where assets and liabilities have different repricing maturities

The financial liabilities of the company consist of amounts due to group undertakings. The amounts due to group undertakings do not have any significant interest rate risk as they are due primarily on demand.

Currency risk

The company has no currency risk as all transactions and balances are denominated in sterling.

NOTES TO THE FINANCIAL STATEMENTS (continued)**10. Financial instruments and risk management (continued)****Credit risk**

The objective of credit risk management is to enable the company to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved appetite for the risk that customers will be unable to meet their obligations to the company

The key principles of the group's Credit Risk Management Framework are set out below

- Approval of all credit exposure is granted prior to any advance or extension of credit
- An appropriate credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure. This includes a review of, amongst other things, the purpose of credit and sources of repayment, compliance with affordability tests, repayment history, capacity to repay, sensitivity to economic and market developments and risk-adjusted return
- Credit risk authority is dictated by the Board and specifically granted in writing to all individuals involved in the granting of credit approval. In exercising credit authority, the individuals act independently of any related business revenue origination
- All credit exposures, once approved, are effectively monitored and managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment

The company has no significant credit risk as all loans and receivables are with group undertakings. No amounts owed by group undertakings are past due.

Liquidity risk

The contractual maturity of all financial liabilities is within one year of the balance sheet date.

The company has no material liquidity risk as it has access to group funding.

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The Company manages this risk, in line with the RBS group framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The Company also maintains contingency facilities to support operations in the event of disasters.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Share capital

	2010 £	2009 £
Authorised:		
1,000 Ordinary shares of £1	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid		
Equity shares		
2 Ordinary shares of £1	<u>2</u>	<u>2</u>

The company has one class of ordinary shares which carry no right to fixed income.

12. Capital resources

The company's capital consists of equity comprising issued share capital and retained earnings. The company is a member of The Royal Bank of Scotland group of companies which has regulatory disciplines over the use of capital. In the management of capital resources, the company is governed by the group's policy which is to maintain a strong capital base: it is not separately regulated. The group has complied with the FSA's capital requirements throughout the year.

13. Related parties

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly-owned by the UK Government. As a result, the UK Government and UK Government controlled bodies became related parties of the company.

The company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland. Its immediate parent company is RBS Invoice Finance (Holdings) Limited which is incorporated in Great Britain and registered in England and Wales.

As at 31 December 2010, The Royal Bank of Scotland Group plc heads the largest group in which the company is consolidated and The Royal Bank of Scotland plc heads the smallest group in which the company is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

Related party transactions with UK Government bodies

Transactions between the company, the UK Government and UK Government controlled bodies consisted solely of corporation tax and Value Added Tax.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Related parties (continued)

Related party transactions with group undertakings

The tables below detail transactions and balances with group undertakings

	2010 £'000	2009 £'000
Net interest received		
Fellow subsidiaries	-	-
Net amounts receivable		
Fellow subsidiaries	18	54