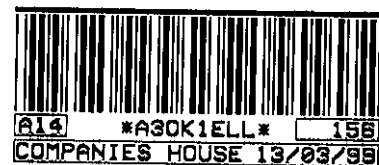


Virgin Direct Personal Finance Limited

Directors' Report and Financial Statements

For the period ended 30 September 1998



Virgin Direct Personal Finance Limited

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Virgin Direct Personal Finance Limited

Registered No. 3414708

DIRECTORS

Keith George Hodgkinson
Stephen Thomas Matthew Murphy
George Anthony Schofield
Trevor James Thompson

SECRETARY

Alan Wallace McKean

AUDITORS

PricewaterhouseCoopers
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

BANKERS

The Royal Bank of Scotland plc
Norwich Branch
5 Queen Street
Norwich
NR2 4TL

REGISTERED OFFICE

Waterhouse Square
138-142 Holborn
London EC1N 2TH

Virgin Direct Personal Finance Limited

DIRECTORS' REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 1998

The directors present their annual report and the audited financial statements for the first accounting period from 5 August 1997 to 30 September 1998.

INCORPORATION AND CHANGE OF NAME

The company was incorporated on 5 August 1997 as Circlemicro Limited. The company changed its name to Virgin Direct Personal Finance Limited on 13 October 1997.

REGISTERED OFFICE

The company was incorporated with a Registered Office at 1 Mitchell Lane, Bristol, BS1 6BU. The company changed its Registered Office to Waterhouse Square, 138-142 Holborn, London EC1N 2TH on 28 August 1997.

SHARE CAPITAL

The company was incorporated with an authorised share capital of 1,000 Ordinary Shares of £1 each and two Ordinary Shares of £1 each were issued and fully paid up.

On 17 October 1997 the two issued Ordinary Shares and the 998 unissued Ordinary Shares were designated as "A" Ordinary Shares.

On 17 October 1997 the authorised share capital was increased and reorganised by written resolution to 20,000,000 Ordinary Shares of £1 each divided into 10,000,000 "A" Ordinary Shares of £1 each and 10,000,000 "B" Ordinary Shares of £1 each.

On 17 October 1997 the issued share capital was increased to £10,000,001 by the issue of 4,999,999 "A" Ordinary Shares of £1 each and 5,000,000 "B" Ordinary Shares of £1 each.

On 7 May 1998 the issued share capital was increased to £16,000,001 by the issue of 3,000,000 "A" Ordinary Shares of £1 each and 3,000,000 "B" Ordinary Shares of £1 each.

On 22 July 1998 the authorised share capital was increased by ordinary resolution to 100,000,000 Ordinary Shares of £1 each divided into 50,000,000 "A" Ordinary Shares of £1 each and 50,000,000 "B" Ordinary Shares of £1 each.

In every case, the consideration for issued shares was cash.

RESULTS AND DIVIDENDS

The retained loss for the period ended 30 September 1998 amounted to £13,096,000. The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company is a joint venture between Virgin Direct and The Royal Bank of Scotland plc. The principal activity is the marketing and administration of the Virgin *One* account, a personal bank account with The Royal Bank of Scotland which is secured against the customer's home. Services to the company are provided by both partners in the venture.

The viability of the product was successfully established through a pilot campaign to existing Virgin Direct customers in late 1997 and operating expenses include launch expenses of £2,797,000. The product has since been made available to the general public through a press advertising campaign starting in May 1998 and, more recently, a television advertising campaign. Having established the product in the market and the capability to administer it, the intention is to increase volumes during 1999.

Virgin Direct Personal Finance Limited

FIXED ASSETS

Details of the company's tangible fixed assets are in Note 8 to the accounts.

POST BALANCE SHEET EVENT

During October 1998, the shareholders of the company have injected a further £6,000,000 of share capital to provide working capital to enable the company to continue with its current marketing campaign.

DIRECTORS

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

Instant Companies Limited was appointed sole director of the company on 5 August 1997 on formation of the company. The following changes have taken place since the date of incorporation:

Name	Date Appointed	Date Resigned
George Anthony Schofield	27 August 1997	
Stuart William Sinclair	27 August 1997	26 February 1998
Jonathan Eliot Schwartz	27 August 1997	16 October 1997
(re-appointed)	20 November 1997	22 July 1998
Stephen Thomas Matthew Murphy	27 August 1997	
Instant Companies Limited	5 August 1997	27 August 1997
David Norman Dyer	16 October 1997	
Gordon Douglas McCallum	17 October 1997	24 November 1997
Keith George Hodgkinson	18 March 1998	
Trevor James Thompson	22 July 1998	
Peter Thomas Johnson	22 July 1998	

David Norman Dyer is alternate director to George Anthony Schofield.

Peter Thomas Johnson is alternate director to Trevor James Thompson.

DIRECTORS' INTERESTS

No director had an interest in the shares of the company.

The following directors were beneficially interested in the 25p ordinary shares of The Royal Bank of Scotland Group plc, the ultimate holding company.

	At 5 August 1997 (or date of appointment if later)	At 30 September 1998
D N Dyer	1,254	2,414
K G Hodgkinson	14,348	15,661
G A Schofield	267,468	16,888

(continued)

Virgin Direct Personal Finance Limited

DIRECTORS' INTERESTS (continued)

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised by directors during the period to 30 September 1998 are included in the table below

	At 5 August 1997 (or date of appointment if later)	Options granted Number	Options granted Price	Options exercised Number	Options exercised Price	At 30 September 1998
D N Dyer	1,569	-	-	-	-	1,569
K G Hodgkinson	36,252	21,700 319	10.065 7.99	1,204	2.12	57,067
G A Schofield	213,875	-	-	19,000 10,000 58,000 125,000 541 1,334	4.29 3.99 5.35 6.01 3.44 2.12	NIL

No director had an interest in any of the preference shares of The Royal Bank of Scotland Group Plc during the year to 30 September 1998. In addition, during the period, none of the directors held a beneficial interest in the loan capital of The Royal Bank of Scotland Group plc or in the share or loan capital of The Royal Bank of Scotland plc or of any other subsidiaries, including the company.

SECRETARY

Swift Incorporations Limited was appointed as first secretary of the company on 5 August 1997 on formation of the company.

Alan Wallace McKean was appointed secretary on 27 August 1997 upon the resignation of Swift Incorporations Limited on 27 August 1997.

CHARITABLE DONATIONS

During the period the company made charitable donations amounting to £1,535. No political donations were made.

YEAR 2000

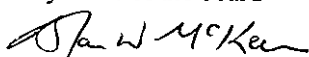
Both Virgin Direct and The Royal Bank of Scotland are well advanced towards achieving Year 2000 compliant systems and processes. Each company has its own comprehensive plans which are co-ordinated with and complementary to the other. Testing of changes is taking place and compliance sign off is anticipated in mid 1999.

AUDITORS

Messrs. Coopers & Lybrand resigned as auditors of the company on 29 July 1998.

Messrs. PricewaterhouseCoopers were appointed to fill the casual vacancy and have indicated their willingness to continue in office. Resolutions to appoint them and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the board



A W McKean
Secretary

18 November 1998

Virgin Direct Personal Finance Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. 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 these financial statements comply with the aforementioned requirements.

Virgin Direct Personal Finance Limited

REPORT OF THE AUDITORS TO THE MEMBERS OF VIRGIN DIRECT PERSONAL FINANCE LIMITED

We have audited the financial statements on pages 8 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 11.

Respective responsibilities of directors and auditors

As described on page 6 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

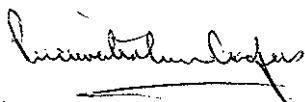
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

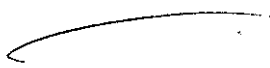
Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 1998 and of its loss and cash flows for the period from 5 August 1997 to 30 September 1998 and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh

25th November 1998



Virgin Direct Personal Finance Limited

PROFIT AND LOSS ACCOUNT

for the period from 5 August 1997 to 30 September 1998

	Notes	1998 £000
TURNOVER	2	207
Operating expenses		(13,800)
OPERATING LOSS	3	<u>(13,593)</u>
Bank interest receivable		497
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(13,096)</u>
Tax on loss on ordinary activities	6	0
RETAINED LOSS FOR THE PERIOD	12	<u>(13,096)</u>

All operations of the company are continuing.

There were no other recognised gains or losses in the period, other than the loss for the period as reported above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the period stated above, and their historical cost equivalents.

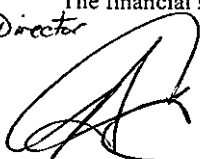
Virgin Direct Personal Finance Limited

BALANCE SHEET
at 30 September 1998

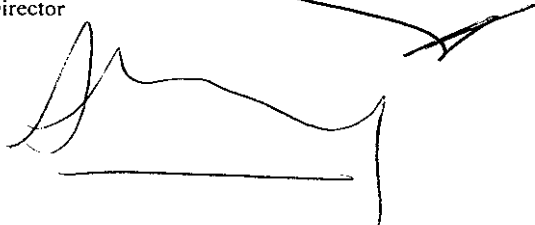
	Notes	1998 £000
FIXED ASSETS		
Tangible assets	8	2,419
		<u>2,419</u>
CURRENT ASSETS		
Debtors	9	465
Cash at bank and in hand		2,070
		<u>2,535</u>
CREDITORS : amounts falling due within one year	10	2,050
NET CURRENT ASSETS		<u>485</u>
NET ASSETS		<u>2,904</u>
CAPITAL AND RESERVES		
Called up share capital	11	16,000
Profit and loss account	12	(13,096)
EQUITY SHAREHOLDERS' FUNDS		<u>2,904</u>

The financial statements on pages 8 to 14 were approved by the Board of Directors on 18 November 1998

Director



Director



Virgin Direct Personal Finance Limited

CASH FLOW STATEMENT

for the period from 5 August 1997 to 30 September 1998

	1998 £000
CONTINUING OPERATING ACTIVITIES	
Operating loss	(13,593)
Depreciation	419
Increase in prepayments and accruals	(465)
Increase in trade creditors	1,333
Increase in accruals	636
Increase in other creditors	81
Net cash outflow from continuing operating activities	(11,589)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE	
Interest Received	497
CAPITAL EXPENDITURE	
Purchase of tangible fixed assets	(2,838)
CASH FLOW BEFORE FINANCING	(13,930)
FINANCING	
Issue of ordinary shares	16,000
Increase in cash in the period	2,070

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 30 September 1998

1 PRINCIPAL ACCOUNTING POLICIES

Fundamental Accounting Concept

The company is dependent on continuing finance being made available by its shareholders to enable it to continue operating and meet liabilities as they fall due. The shareholders have agreed to provide sufficient funds to the company for these purposes. The directors therefore consider it appropriate to prepare the accounts on a going concern basis.

Basis of accounting

The financial statements have been prepared under the historical cost convention of accounting and in accordance with applicable Accounting Standards in the United Kingdom.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is provided on a straight line basis in order to write off the cost of fixed assets less their appropriate residual value over their estimated useful lives. Depreciation is charged from the date assets are brought into use. The time periods being used is 4 years for all fixed assets.

Development expenditure

Expenditure on specific projects developing software and processes for the company is written off as incurred.

Deferred taxation

Deferred taxation is calculated using the liability method on all timing differences, but is only provided for where the amount is likely to become payable in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged in the profit and loss account as they fall due under the contract.

Provisioning

Specific bad debt provisions are recognised in line with standard Royal Bank of Scotland policy, that is, after a defined period of account management and subsequent transfer of administration to Retail Credit Services.

Television advertisement production costs

Television advertisement production costs have been amortised over the expected useful life of those advertisements on a straight line basis.

2 TURNOVER

Turnover is attributable to one continuing activity, the marketing of the Virgin One account. Turnover is derived from the margin between interest paid by customers on their bank accounts and the funding cost of the assets required to match these customer balances on the Royal Bank of Scotland balance sheet.

3. OPERATING LOSS

	1998 £000
Operating loss is stated after charging:	
Auditors' remuneration	23
Depreciation of tangible owned fixed assets	419
Operating lease rentals - land and buildings	168

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 30 September 1998

4 DIRECTORS' EMOLUMENTS

There were no directors' fees or emoluments payable during the period.

5 EMPLOYEE INFORMATION

Staff costs

Wages and salary costs

Social Security costs

1998

£000

1,312

137

1,449

The average monthly number of persons employed was as follows:

1998

Call Centre & Administration

139

Non Operational

47

186

6 TAX ON LOSS ON ORDINARY ACTIVITIES

There is no tax charge for the current period.

Tax losses of approximately £13 million are available to carry forward against future taxable profits.

7 DEFERRED TAXATION

1998

£000

No adjustment for the effects of deferred taxation has been included in the accounts.

The deferred taxation asset not included in the accounts, in accordance with the company's accounting policy, is as follows:

Capital allowances in arrears of depreciation

0

Losses for taxation purposes carried forward

4,050

Net deferred taxation asset

4,050

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 30 September 1998

8	TANGIBLE FIXED ASSETS	Hardware £000	Software £000	Fixtures & Fittings £000	Total £000
	Cost:				
	Additions	1,471	350	1,017	2,838
	At 30 September 1998	<u>1,471</u>	<u>350</u>	<u>1,017</u>	<u>2,838</u>
	Depreciation:				
	Charge for the period	206	76	137	419
	At 30 September 1998	<u>206</u>	<u>76</u>	<u>137</u>	<u>419</u>
	Net book value at 30 September 1998	<u>1,265</u>	<u>274</u>	<u>880</u>	<u>2,419</u>
9	DEBTORS: amounts falling due within one year				1998 £000
	Prepayments and accruals				394
	Amount due from The Royal Bank of Scotland plc				71
					<u>465</u>
10	CREDITORS: amounts falling due within one year				1998 £000
	Trade creditors				1,333
	Accruals				636
	Amount due to Virgin Direct Management Services Ltd.				81
					<u>2,050</u>
11	CALLED UP SHARE CAPITAL			1998 No.	1998 £000
	<i>Authorised</i>				
	"A" Ordinary shares of £1 each			50,000,000	50,000
	"B" Ordinary shares of £1 each			50,000,000	50,000
	<i>Allotted, called up and fully paid</i>				
	"A" Ordinary shares of £1 each			8,000,001	8,000
	"B" Ordinary shares of £1 each			8,000,000	8,000

Movements in, and other changes to, share capital during the period are shown in the directors' report.

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 30 September 1998

12 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £000	Profit and loss account £000	Total share- holders' funds £000
Loss for the year	0	(13,096)	(13,096)
Share capital issued	16,000	0	16,000
At 30 September 1998	<u>16,000</u>	<u>(13,096)</u>	<u>2,904</u>
Attributable to:			
Equity interests			<u>2,904</u>

13 OTHER FINANCIAL COMMITMENTS

	1998
At 30 September 1998 the company had annual commitments under non-cancellable operating leases as set out below:	£000
Land and Buildings	
Operating leases which expire:	
In over five years	192

14. RELATED PARTY TRANSACTIONS

The company has undertaken transactions with the following related parties:

			£000
Virgin Direct (2) Limited	Shareholder	Provision of share capital ("B" shares)	8,000
		Payment for use of Virgin trademark	2
Virgin Direct Management Services Limited	Service Provider	Assets purchased and recharged	985
		Services under SLA	2,868
		Amounts due to at period end	81
The Royal Bank of Scotland plc	Shareholder	Provision of share capital ("A" shares)	8,000
		Assets purchased and recharged	190
		Services under SLA	3,195
		Turnover and interest receivable	704
		Amounts due from at period end	71
		Bank balance	2,070

The above transactions are charged in accordance with the Shareholder's Agreement between Virgin Direct and The Royal Bank of Scotland and are thus not necessarily charged at arms length.

15. ULTIMATE PARENT COMPANY

The company's immediate holding company is The Royal Bank of Scotland plc which is incorporated in Scotland. The company's ultimate holding company is The Royal Bank of Scotland Group plc which is incorporated in Scotland. Accounts for the ultimate holding company can be obtained from The Royal Bank of Scotland Group plc, 42 St. Andrew Square, Edinburgh EH2 2YE.