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**Virgin Direct
Personal Finance Limited**

Directors' Report and Financial Statements

For the year ended 30 September 1999



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Virgin Direct Personal Finance Limited

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Virgin Direct Personal Finance Limited

Registered No. 3414708

DIRECTORS

William Gorman
Keith George Hodgkinson
Peter Thomas Johnson
Norman Cardie McLuskie
Stephen Thomas Matthew Murphy

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 year ended 30 September 1999

The directors present their annual report and the audited financial statements for the year to 30 September 1999.

RESULTS AND DIVIDENDS

The retained loss for the year ended 30 September 1999 amounted to £13,189,000 (1998 - £13,096,000 loss). 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.

During the year, a number of marketing campaigns were undertaken, focussing primarily on press advertising and special features with quality newspapers. Other distribution methods have been evaluated and are being used and developed where they are effective. The *One* account now has a firm foundation from which to become a significant force in the flexible mortgage market. A new administration building allows space for expansion of both call centre and back office staff numbers, particularly as the number of live and active accounts grows.

TANGIBLE FIXED ASSETS

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

POST BALANCE SHEET EVENT

During October 1999, the shareholders of the Company have injected a further £5,000,000 of working capital to enable the Company to continue with its current marketing campaigns

DIRECTORS

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

The following changes have taken place since 1 October 1998:

On 26 January 1999, Mr. George Anthony Schofield resigned as a director of the Company.

On 26 January 1999, Mr. David Norman Dyer resigned as a director of the Company.

On 26 January 1999, Mr. Norman Cardie McLuskie was appointed as a director of the Company.

On 27 July 1999, Mr. Trevor James Thompson resigned as a director of the Company.

On 27 July 1999, Mr. Peter Thomas Johnson resigned as a director of the Company.

On 27 July 1999, Mr. William Gorman was appointed as a director of the Company.

On 27 July 1999, Mr. Peter Thomas Johnson was appointed as a director of the Company.

Mr. Peter Thomas Johnson was formerly an alternate director to Mr. Trevor James Thompson and is currently an alternate director to Mr. William Gorman.

Virgin Direct Personal Finance Limited

DIRECTORS' REPORT (continued)

for the year ended 30 September 1999

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 1 October 1998 (or date of appointment if later)	At 30 September 1999
K G Hodgkinson	15,661	18,725
N C McLuskie	83,943	86,832

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 1999 are included in the table below

	At 1 October 1998 (or date of appointment if later)	Options granted Number	Options granted Price	Options exercised Number	Options exercised Price	At 30 September 1999
K G Hodgkinson	57,067	622	£10.85	2,005	£3.44	55,684
N C McLuskie	233,095	10,530	£12.91	782	£3.44	251,199
		8,217	£12.055			
		139	£10.85			

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 1999. 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.

CHARITABLE AND POLITICAL DONATIONS

During the period the Company made neither charitable nor political donations.

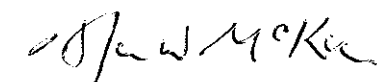
YEAR 2000

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 and compliance sign-off have taken place. Business continuity plans are currently in course of finalisation.

AUDITORS

Messrs. PricewaterhouseCoopers, the auditors of the Company, have indicated their willingness to continue in office and resolutions to re-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 1999

Virgin Direct Personal Finance Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

We have audited the financial statements on pages 7 to 14.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 5 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

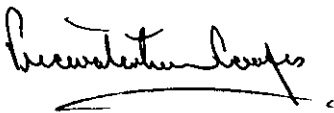
Basis of audit opinion

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 at 30 September 1999 and of its loss and cash flows for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh

24th November 1999

Virgin Direct Personal Finance Limited

PROFIT AND LOSS ACCOUNT for the year ended 30 September 1999

		Year ended 30 September 1999 £000	Period ended 30 September 1998 £000
	Notes		
TURNOVER	2	4,227	207
Operating expenses		(19,286)	(13,800)
OPERATING LOSS	3	<u>(15,059)</u>	<u>(13,593)</u>
Bank interest receivable		188	497
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(14,871)</u>	<u>(13,096)</u>
Tax on loss on ordinary activities	6	1,682	0
RETAINED LOSS FOR THE YEAR	13	<u><u>(13,189)</u></u>	<u><u>(13,096)</u></u>

All operations of the Company are continuing.

There were no other recognised gains or losses in the year, other than the loss for the year 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 year stated above, and their historical cost equivalents.

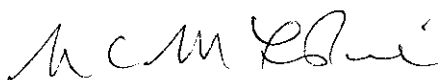
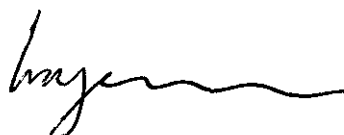
Virgin Direct Personal Finance Limited

BALANCE SHEET at 30 September 1999

		Year ended 30 September 1999 £000	Period ended 30 September 1998 £000
	Notes		
FIXED ASSETS			
Tangible assets	8	2,724	2,419
		<u>2,724</u>	<u>2,419</u>
CURRENT ASSETS			
Debtors	9	3,174	465
Cash at bank and in hand		289	2,070
		<u>3,463</u>	<u>2,535</u>
CREDITORS : amounts falling due within one year	10	2,472	2,050
NET CURRENT ASSETS		<u>991</u>	<u>485</u>
NET ASSETS		<u>3,715</u>	<u>2,904</u>
CAPITAL AND RESERVES			
Called up share capital	12	30,000	16,000
Profit and loss account	13	(26,285)	(13,096)
EQUITY SHAREHOLDERS' FUNDS		<u>3,715</u>	<u>2,904</u>

The financial statements on pages 7 to 14 were approved by the Board of Directors on 18 November 1999

Director

Virgin Direct Personal Finance Limited

CASH FLOW STATEMENT for the year to 30 September 1999

		Year ended 30 September 1999 £000	Period ended 30 September 1998 £000
	Notes		
CONTINUING OPERATING ACTIVITIES			
Operating loss		(15,059)	(13,593)
Depreciation		739	419
Increase in debtors and prepayments		(389)	(407)
Increase in stock		(105)	(58)
(Decrease) / increase in trade creditors		(1,198)	1,333
Increase in accruals		938	636
Increase in other creditors		259	81
Net cash outflow from continuing operating activities		<u>(14,815)</u>	<u>(11,589)</u>
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest Received		188	497
CAPITAL EXPENDITURE			
Net purchase of tangible fixed assets		(1,154)	(2,838)
CASH FLOW BEFORE FINANCING		<u>(15,781)</u>	<u>(13,930)</u>
FINANCING			
Issue of ordinary shares		14,000	16,000
Increase in cash in the period	11	<u>(1,781)</u>	<u>2,070</u>

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 1999

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 period being used is 4 years for all fixed assets, except computer hardware (5 years).

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. The Company is liable for bad debts and both specific and general provisions are charged through the profit and loss account.

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

	Year ended 30 September 1999 £000	Period ended 30 September 1998 £000
Operating loss is stated after charging:		
Auditors' remuneration	24	23
Depreciation of tangible owned fixed assets	739	419
Operating lease rentals - land and buildings	178	168

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 1999

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

Year ended 30 September 1999 £000	Period ended 30 September 1998 £000
--	--

4,657

450

1,312

137

5,107

1,449

The average monthly number of persons employed was as follows:

Call Centre & Administration

Non Operational

1999

177

65

1998

139

47

242

186

6 TAX ON LOSS ON ORDINARY ACTIVITIES

Prior year adjustment

Consortium relief for 1998 losses

Tax credit through profit and loss account

1999
£000

1,682

1,682

1998
£000

0

0

There is no tax charge for the current period.

Tax losses of approximately £21 million are available to carry forward against future taxable profits.

7 DEFERRED TAXATION

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

Losses for taxation purposes carried forward

Net deferred taxation asset

1999
£000

0

6,400

6,400

1998
£000

0

4,050

4,050

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 1999

8	TANGIBLE FIXED ASSETS	Hardware £000	Software £000	Fixtures & Fittings £000	Total £000
	Cost:				
	At 1 October 1998	1,471	350	1,017	2,838
	Additions	807	94	676	1,577
	Disposals	(472)	(5)	(331)	(808)
	At 30 September 1999	<u>1,806</u>	<u>439</u>	<u>1,362</u>	<u>3,607</u>
	Depreciation:				
	At 1 October 1998	206	76	137	419
	Provided during the year	381	96	262	739
	Disposals	(166)	(1)	(108)	(275)
	At 30 September 1999	<u>421</u>	<u>171</u>	<u>291</u>	<u>883</u>
	Net book value at 30 September 1999	<u>1,385</u>	<u>268</u>	<u>1,071</u>	<u>2,724</u>
	Net book value at 1 October 1998	<u>1,265</u>	<u>274</u>	<u>880</u>	<u>2,419</u>

9	DEBTORS: amounts falling due within one year	Year ended 30 September 1999 £000	Period ended 30 September 1998 £000
	Prepayments	123	336
	Stock	163	58
	Amount due from Virgin Direct Management Services Ltd	533	0
	Amount due from Virgin Direct (2) Ltd	10	0
	Amount due from The Royal Bank of Scotland plc	2,345	71
		<u>3,174</u>	<u>465</u>

10	CREDITORS: amounts falling due within one year	1999 £000	1998 £000
	Trade creditors	135	1,333
	Accruals	1,997	636
	Amount due to Virgin Direct Management Services Ltd.	336	81
	Amount due to Virgin Direct (2) Ltd.	4	0
		<u>2,472</u>	<u>2,050</u>

11 RECONCILIATION OF MOVEMENT IN NET DEBT

	At 1 October 1998 £000	Cash flow £000	At 30 September 1999 £000
Cash in hand and at bank	<u>2,070</u>	<u>(1,781)</u>	<u>289</u>

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 1999

12	CALLED UP SHARE CAPITAL	1999 No.	1999 £000	1998 No.	1998 £000
	<i>Authorised</i>				
	"A" Ordinary shares of £1 each	50,000,000	50,000	50,000,000	50,000
	"B" Ordinary shares of £1 each	50,000,000	50,000	50,000,000	50,000

Allotted, called up and fully paid

"A" Ordinary shares of £1 each	15,000,001	15,000	8,000,001	8,000
"B" Ordinary shares of £1 each	15,000,000	15,000	8,000,000	8,000

On 21 October 1998 the issued share capital was increased to £22,000,001 by the issue of 3,000,000 "A" Ordinary Shares of £1 each and 3,000,000 "B" Ordinary Shares of £1 each.

On 8 March 1999 the issued share capital was increased to £25,000,001 by the issue of 1,500,000 "A" Ordinary Shares of £1 each and 1,500,000 "B" Ordinary Shares of £1 each.

On 8 June 1999 the issued share capital was increased to £30,000,001 by the issue of 2,500,000 "A" Ordinary Shares of £1 each and 2,500,000 "B" Ordinary Shares of £1 each.

In every case, the "A" Ordinary Shares were allotted to The Royal Bank of Scotland plc and the "B" Ordinary Shares were allotted to Virgin Direct (2) Ltd and the consideration for issued shares was cash.

13 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £000	Profit and loss account £000	Total share- holders' funds £000
At 1 October 1998	16,000	(13,096)	2,904
Loss for the year	0	(13,189)	(13,189)
Share capital issued	14,000	0	14,000
At 30 September 1999	<u>30,000</u>	<u>(26,285)</u>	<u>3,715</u>
Attributable to:			
Equity interests			<u>3,715</u>

14 OTHER FINANCIAL COMMITMENTS

At 30 September 1999 the Company had annual commitments under non-cancellable operating leases as set out below:

	Year ended 30 September 1999 £000	Period ended 30 September 1998 £000
Land and Buildings		
Operating leases which expire:		
In over five years	436	192

Virgin Direct Personal Finance Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 1999

15 RELATED PARTY TRANSACTIONS

			Year ended	Period ended
			30 September	30 September
			1999	1998
			£000	£000
The Company has undertaken transactions with the following related parties:				
Virgin Direct (2) Limited	Shareholder	Provision of share capital ("B" shares)	7,000	8,000
		Payment for use of Virgin trademark	9	2
		Receipt of consortium relief	10	0
		Amounts due (from) at period end	(6)	0
Virgin Direct Management Services Limited	Service Provider	Assets purchased and recharged	0	985
		Assets sold to VDMS	533	0
		Services under SLA	579	2,868
		Marketing costs	415	0
		Amounts due to (from) at period end	(197)	81
The Royal Bank of Scotland plc	Shareholder	Provision of share capital ("A" shares)	7,000	8,000
		Assets purchased and recharged	0	190
		Services under SLA	1,240	3,195
		Turnover and interest receivable	4,415	704
		Receipt of consortium relief	1,672	0
		Amounts due from at period end	2,345	71
		Bank balance	289	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.

16 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.