

Company No. 3414708

**Virgin Direct
Personal Finance Limited**

Directors' Report and Financial Statements

For the year ended 31 December 2001



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**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001**

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Registered in England No. 3414708

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

David Norman Dyer
Jayne-Anne Gadhia
Keith George Hodgkinson
Norman Cardie McLuskie
Finlay Ferguson Williamson

SECRETARY

John Albert Lea

AUDITORS

Deloitte & Touche
39 George Street
Edinburgh
EH2 2HZ

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

DIRECTORS' REPORT

for the year ended 31 December 2001

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

RESULTS AND DIVIDENDS

The retained loss for the year ended 31 December 2001 amounted to £1,956,000 (Restated 2000 - £6,811,000 loss). The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Company is a wholly owned subsidiary of 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. The Company is also the administrator of the NatWest One account.

During the year, a number of marketing campaigns were undertaken, focusing on press advertising and special features with quality newspapers. 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.

PARENT COMPANY

On 3 August 2001, The Royal Bank of Scotland plc acquired the 50% share capital previously owned by Challenger (Norwich) Limited (formerly Virginmoney Limited) to increase its ownership to 100% of the share capital of the Company.

DIRECTORS

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

The following changes have taken place since 1 January 2001:

On 1 January 2001, Mr Timothy Cardwell Wade was appointed a director of the company as an alternate director to Mr Gorman.

On 27 July 2001, Mr William Richard Gorman, Mr Gordon Douglas McCallum and Mr Timothy Cardwell Wade resigned as directors of the Company.

On 6 August 2001, Mr David Norman Dyer and Mrs Jayne-Anne Gadhia were appointed directors of the Company.

On 18 December 2001, Mr Finlay Ferguson Williamson was appointed a Director of the Company.

EMPLOYEE INVOLVEMENT

During the year, the policy of providing employees with information about the Company has been continued through weekly newsletters and the intranet site. There are also regular events within which management share results and targets with the employees and at which staff suggestions and queries are encouraged. Employees participate in the success of the business through the performance related bonus scheme.

DISABLED EMPLOYEES

The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Company's policy, wherever practicable, to provide continuing employment under normal terms and conditions. It is also the Company's policy to provide training, career development and promotion to disabled employees wherever appropriate.

DIRECTORS' INTERESTS

No director had an interest in the shares of the company. The following directors were beneficially interested in the ordinary shares of The Royal Bank of Scotland Group plc:

	As at 1 January 2001*	As at 31 December 2001
D N Dyer	4,765	4,115
K G Hodgkinson	30,616	31,609
N C McLuskie	140,385	145,290
F F Williamson	9,254	9,254

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised during the period are:

	As at 1 January 2001*	Granted during the period Options	Price	Exercised during the period Options	Price	As at 31 December 2001
J A Gadhia	-	8,800	17.18	-	-	8,800
K G Hodgkinson	33,453	7,500 173 150	17.18 13.64 15.63	621	3.88	40,655
N C McLuskie	73,113	23,300 335	17.18 13.64	1,333 225	3.88 7.41	95,190
F F Williamson	41,055	-	-	-	-	41,055

No director had an interest in any of the preference shares during the year to 31 December 2001.

The following directors were beneficially interested in the Additional Value Shares of The Royal Bank of Scotland Group plc:

	As at 1 January 2001*	As at 31 December 2001
D N Dyer	4,722	4,722
K G Hodgkinson	20,126	20,126
N C McLuskie	26,584	26,584
F F Williamson	7,811	7,811

None of the directors in office at 31 December 2001 held any interest in the share or loan capital of the company or any other group company.

CHARITABLE AND POLITICAL DONATIONS

During the year the Company made charitable donations of £27,000. No political donations were made.

SUPPLIER PAYMENT POLICY

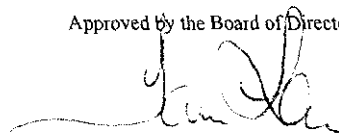
The company is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is the company's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking by the company to pay suppliers within 30 days of a correctly prepared invoice submitted in accordance with the terms of the contract.

At 31 December 2001, the aggregate amount owed to suppliers represented 30.9 times the daily average amount invoiced by suppliers to the company during the period.

ELECTIVE RESOLUTIONS

On 14 February 2002, the company passed elective resolutions pursuant to Section 379A of the Companies Act 1985, dispensing with the holding of annual general meetings, the laying of annual reports and accounts before the shareholders in general meeting, and the obligation to re-appoint auditors annually.

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



J A Lea
Secretary
18 April 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing the financial statements, 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 financial statements;
- Prepare the 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 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 financial statements 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.

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

We have audited the financial statements of Virgin Direct Personal Finance Limited for the year ended 31 December 2001 set out on pages 7 to 13 which have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 1985. We also report 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 with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors
39 George Street
Edinburgh
EH2 2HZ

Date:

16 May 2002

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2001

		Year ended 31 December 2001	15 month period ended 31 December 2000 (restated note - 1)
	Notes	£000	£000
TURNOVER	2	42,304	25,545
Operating expenses		(44,343)	(35,876)
OPERATING PROFIT/(LOSS)	3	(2,039)	(10,331)
Impairment of tangible fixed assets		(644)	-
Bank interest receivable		272	380
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,411)	(9,951)
Tax on loss on ordinary activities	7	455	3,140
PROFIT/(LOSS) FOR THE PERIOD	12	(1,956)	(6,811)

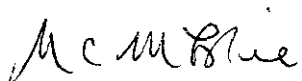
All operations of the Company are continuing.

In addition to the loss for the period as reported above, a prior period adjustment (see note 1) resulted in an increase of £9,632,000 to the brought forward balance on the profit and loss account. 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.

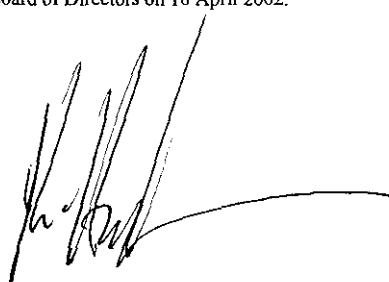
BALANCE SHEET
at 31 December 2001

		As at 31 December 2001	As at 31 December 2000 (Restated)
	Notes	£000	£000
FIXED ASSETS			
Tangible assets	8	7,305	3,581
		<u>7,305</u>	<u>3,581</u>
CURRENT ASSETS			
Debtors	9	19,825	15,164
Cash at bank and in hand		2,425	3,501
		<u>22,250</u>	<u>18,665</u>
CREDITORS : amounts falling due within one year	10	8,907	5,918
NET CURRENT ASSETS		<u>13,343</u>	<u>12,747</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>20,648</u>	<u>16,328</u>
CREDITORS : amounts falling due after more than one year			
Loans		3,876	-
NET ASSETS		<u>16,772</u>	<u>16,328</u>
CAPITAL AND RESERVES			
Called up share capital	11	44,400	42,000
Profit and loss account	12	(27,628)	(25,672)
EQUITY SHAREHOLDERS' FUNDS		<u>16,772</u>	<u>16,328</u>

The financial statements on pages 7 to 13 were approved by the Board of Directors on 18 April 2002.



N C McLuskie
Director



K G Hodkinson
Director

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2001

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1 PRINCIPAL ACCOUNTING POLICIES

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 5 years for computer hardware, 4 years for other assets except improvements to leasehold properties where the period is the remaining period of the lease.

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 policy of The Royal Bank of Scotland, 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.

Acquisition costs

During the year the company changed its policy on the accounting treatment of customer acquisition costs. Previously the policy was to expense customer acquisition costs to the profit and loss account in the period in which they were incurred.

In order to more closely match costs with revenues the Directors believe that it is now more appropriate to treat these costs as prepayments and write them off to the profit and loss account on a straight line basis over a period of 12 months.

Prior period figures have been restated to reflect this change in accounting policy. The effect of the change is to reduce previously reported operating expenses in the prior period by £2,208,000. The change has meant that operating expenses for 2001 are £2,906,000 lower than under the previous policy.

2 TURNOVER

Turnover is principally 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. In addition, the Company receives a fee from Virgin Direct Life Limited for the introduction (and subsequent sale) of life insurance to its customers.

3 OPERATING PROFIT/(LOSS)

	Year ended 31 December 2001 £000	15 month Period ended 31 December 2000 £000
Operating profit/(loss) is stated after charging:		
Auditors' remuneration	18	22
Depreciation of tangible owned fixed assets	1,561	1,349
Operating lease rentals		
- land and buildings	436	554
- computer equipment	292	-
Exceptional costs - see note 4	2,963	-

4 EXCEPTIONAL COSTS

Exceptional costs comprise:

- a) bonus payments made to certain employees of the Company during the year, charged in arriving at operating loss - see note 3.
- b) the impairment of tangible fixed assets of £644,000 arising as a result of changes to the Company's technology infrastructure.

5 DIRECTORS' EMOLUMENTS

Directors' fees or emoluments payable during the period amounted to £113,000 (nil - 2000)

6 EMPLOYEE INFORMATION

	Year ended 31 December 2001 £000	15 month Period ended 31 December 2000 £000
Staff costs		
Wages and salary costs	11,647	13,781
Social Security costs	1,099	1,450
Other pension costs	193	-
	<u>12,939</u>	<u>15,231</u>
Less Long Term Incentive Scheme Payments made by Virginmoney and Virgin Direct Limited	-	(3,347)
	<u>12,939</u>	<u>11,884</u>

The average monthly number of persons employed was as follows:

	2001	2000
Call Centre & Administration	405	326
Non Operational	180	98
	<u>585</u>	<u>424</u>

7 TAX ON LOSS ON ORDINARY ACTIVITIES

	2001 £000	2000 £000
Current period		
Consortium relief receivable for current period	-	1,277
Prior year adjustment		
Consortium relief for 2000 (prior year - 1999) losses	455	1,863
Tax credit through profit and loss account	<u>455</u>	<u>3,140</u>

Tax losses of approximately £7.6 million are available to carry forward against future trading profits.

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2001

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8 TANGIBLE FIXED ASSETS

	Hardware £000	Software £000	Fixtures & Fittings £000	Total £000
Cost:				
At 1 January 2000	3,184	702	1,491	5,377
Additions	2,437	810	3,106	6,353
Disposals	(1,369)	(322)	(101)	(1,792)
At 31 December 2001	<u>4,252</u>	<u>1,190</u>	<u>4,496</u>	<u>9,938</u>
Depreciation:				
At 1 January 2000	1,057	157	582	1,796
Provided during the year	886	201	474	1,561
Disposals	(594)	(93)	(37)	(724)
At 31 December 2001	<u>1,349</u>	<u>265</u>	<u>1,019</u>	<u>2,633</u>
Net book value at 31 December 2001	<u>2,903</u>	<u>925</u>	<u>3,477</u>	<u>7,305</u>
Net book value at 31 December 2000	<u>2,127</u>	<u>545</u>	<u>909</u>	<u>3,581</u>

9 DEBTORS: amounts falling due within one year

	Year ended 31 December 2001 £000	Restated Period ended 31 December 2000 £000
Debtors	988	1,187
Prepayments	13,181	10,047
Stock	1	122
Amount due from National Westminster plc	503	-
Amount due from The Royal Bank of Scotland plc - current balances	5,152	2,531
Amount due from The Royal Bank of Scotland plc - consortium relief	-	1,277
	<u>19,825</u>	<u>15,164</u>

10 CREDITORS: amounts falling due within one year

	2001 £000	2000 £000
Trade creditors	249	1,191
Accruals	8,658	4,727
	<u>8,907</u>	<u>5,918</u>

11 CALLED UP SHARE CAPITAL

	2001 No.	2001 £000	2000 No.	2000 £000
<u>Authorised</u>				
"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
<u>Allotted, called up and fully paid</u>				
"A" Ordinary shares of £1 each	22,200,001	22,200	21,000,001	21,000
"B" Ordinary shares of £1 each	22,200,000	22,200	21,000,000	21,000

On 9 February 2001 the issued share capital was increased to £44,400,001 by the issue of 1,200,000 "A" Ordinary Shares of £1 each and 1,200,000 "B" Ordinary Shares of £1 each.

12 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Note	Share capital £000	Profit and loss account £000	Total shareholders funds £000
At 31 December 2000 as previously reported	7	42,000	(35,304)	6,696
Prior period adjustment for change in accounting policy		-	9,632	9,632
At 31 December 2000 as restated		42,000	(25,672)	16,328
Loss for the period		-	(1,956)	(1,956)
Share capital issued		2,400	-	2,400
At 31 December 2001		44,400	(27,628)	16,772
Attributable to:				
Equity interests				16,772

13 OTHER FINANCIAL COMMITMENTS

At 31 December 2001 the Company had annual commitments under non-cancellable operating leases as set out below:

	2001 £000	2000 £000
Land and Buildings		
Operating leases which expire:		
In under five years	-	66
In over five years	426	312
Computer Equipment		
Operating leases which expire:		
In under five years	846	-

14 RELATED PARTY TRANSACTIONS

The Company has undertaken transactions with related parties as shown below:

		Period ended 31 December 2001 £000	Period ended 31 December 2000 £000
Capital Introduced			
The Royal Bank of Scotland plc	Provision of share capital ("A" shares)	1,200	6,000
Virginmoney Limited	Provision of share capital ("B" shares)	1,200	6,000
Profit and Loss Account items			
Virginmoney Limited	Payment for use of Virgin trademark	(20)	(36)
	Receipt of consortium relief	-	-
Virgin Direct Management Services Limited	Services under SLA	1,495	785
	Sales commission	1,469	291
The Royal Bank of Scotland plc	Services under SLA	(3,314)	(2,174)
	Turnover and interest receivable	40,086	25,925
	Receipt of consortium relief	1,732	1,863
Lombard Network Services Limited	Lease rentals	(292)	-
National Westminster Bank plc	Services under SLA	503	-
Green Flag Group	Sales commission	443	-
Balance Sheet items			
Virginmoney Limited	Amounts due from/(to) at period end	(3)	44
Virgin Direct Management Services Limited	Amounts due from at period end	778	520
The Royal Bank of Scotland plc	Amounts due from at period end	5,152	3,808
	Bank balance	2,425	3,501
National Westminster Bank plc	Amounts due from at period end	503	-
Green Flag Group	Amounts due from at period end	69	-

The above transactions are charged in accordance with the Service Level Agreements (SLA) in place between the Company and the related parties shown above and are thus not necessarily charged at arms length.

15 ULTIMATE PARENT COMPANY

The company's ultimate holding company is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Financial Statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh, EH2 2YE.

The smallest subgroup into which the company is consolidated has as its parent company The Royal Bank of Scotland plc, a company incorporated in Great Britain and registered in Scotland. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh, EH2 2YE.