

The One Account Limited

(formerly Virgin Direct Personal Finance Limited)

Directors' Report and Financial Statements

For the year ended 31 December 2002



Group Secretary's Department
The Royal Bank of Scotland Group plc
1 Princes Street
London EC2R 8PB

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

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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

REGISTERED OFFICE

Waterhouse Square
138-142 Holborn
London
EC1N 2TH

AUDITORS

Deloitte & Touche
Edinburgh

BANKERS

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

DIRECTORS' REPORT

for the year ended 31 December 2002

The directors present their report and the audited financial statements for the year ended 31 December 2002.

CHANGE OF NAME

On 9 January 2003 the Company changed its name from Virgin Direct Personal Finance Limited to The One Account Limited.

ACTIVITIES AND BUSINESS REVIEW

The Company is a wholly owned subsidiary of The Royal Bank of Scotland plc. The principal activity throughout the year was the marketing and administration of the Virgin One Account, a personal bank account with The Royal Bank of Scotland plc which is secured against the customer's home. The Company is also the administrator of the NatWest One Account and the Direct Line One Account, the latter being launched in April 2002.

During the year, a number of marketing campaigns were undertaken, focusing on television, press and radio together with special features in the quality newspapers. The product continues to build on its firm foundation and has become a significant force in the flexible mortgage market. In the year a new administration building was acquired in Manchester giving space for expansion of the Company's servicing departments.

The retained profit for the year ended 31 December 2002 amounted to £2,338,000 (2001: retained loss £4,079,000 as restated). The directors do not recommend the payment of a dividend.

The directors do not anticipate any material change in either the type or level of activities of the company.

DIRECTORS AND SECRETARY

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

During the year to 31 December 2002 there were no changes made in the composition of the Board.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 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.

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 2002*	As at 31 December 2002
D N Dyer	4,115	4,208
J-A Gadhia	-	399
K G Hodgkinson	31,609	37,152
N C McLuskie	145,290	150,037
F F Williamson	9,254	10,956

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised during the period by the following directors of the company and members of their immediate family are:

	As at 1 January 2002*	Granted during the period		Exercised during the period		As at 31 December 2002
		Options	Price	Options	Price	
D N Dyer	-	769	12.35	-	-	769
J-A Gadhia	8,800	8,900 1,340	18.18 12.35	-	-	19,040
K G Hodgkinson	40,655	7,200 86	18.18 12.35	23,409 418	9.33 4.61	24,114
N C McLuskie	95,190	22,100 335	18.18 12.35	1,046 149	4.61 10.06	116,430
F F Williamson	41,055	6,700 375	18.18 12.35	1,046	4.61	47,084

* = or date of appointment, if later

No director had an interest in any of the preference shares during the year to 31 December 2002.

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

	As at 1 January 2002*	As at 31 December 2002
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 2002 held any interest in the share or loan capital of the company or any other group 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.

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 2002, the aggregate amount owed to suppliers represented 5 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.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors.

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

J A Lea

Secretary

Dated 27.5.2003

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
THE ONE ACCOUNT LIMITED**

We have audited the financial statements of The One Account Limited for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

Edinburgh

Dated 4 June 2003

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002

	Notes	2002 £000	2001 Restated * £000
TURNOVER	2	54,015	42,304
Operating expenses		(50,729)	(44,343)
OPERATING PROFIT/(LOSS)	3	<u>3,286</u>	<u>(2,039)</u>
Impairment of tangible fixed assets		-	(644)
Bank interest receivable		217	272
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>3,503</u>	<u>(2,411)</u>
Taxation	6	(1,165)	(1,668)
PROFIT/(LOSS) FOR THE PERIOD	12	<u><u>2,338</u></u>	<u><u>(4,079)</u></u>

All operations of the Company are continuing.

* The profit and loss account for the year ended 31 December 2001 has been restated for the adoption of FRS 19.

In addition to the profit for the year as reported above, a prior period adjustment (see note 12) resulted in an increase of £4,190,000 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 profit 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 2002

		2002	2001
			Restated *
	Notes	£000	£000
FIXED ASSETS			
Tangible assets	7	8,367	7,305
		<u>8,367</u>	<u>7,305</u>
CURRENT ASSETS			
Debtors & Prepayments	8	23,849	19,825
Cash at bank and in hand		2,162	2,425
Deferred Tax Asset	9	3,189	4,190
		<u>29,200</u>	<u>26,440</u>
CREDITORS : amounts falling due within one year	10	10,391	8,907
NET CURRENT ASSETS		<u>18,809</u>	<u>17,533</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>27,176</u>	<u>24,838</u>
CREDITORS : amounts falling due after more than one year			
Loans		3,876	3,876
NET ASSETS		<u>23,300</u>	<u>20,962</u>
CAPITAL AND RESERVES			
Called up share capital	11	44,400	44,400
Profit and loss account	12	(21,100)	(23,438)
EQUITY SHAREHOLDERS' FUNDS		<u>23,300</u>	<u>20,962</u>

* The balance sheet as at 31 December 2001 has been restated for the adoption of FRS19.

The financial statements on pages 7 to 13 were approved by the Board of Directors on 27 May 2003 and were signed on its behalf by:

N C McLuskie

N C McLuskie
Director

K G Hodgkinson
Director

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. The company has taken advantage of the exemption from preparing cash flow statements conferred by Financial Reporting Standard 1 (revised) on the grounds that it is a wholly owned subsidiary.

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 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.

Taxation

Provision is made for taxation at current enacted rates on taxable profits. Timing differences arise where gains and losses are accounted for in different periods for financial reporting purposes and for taxation purposes. Deferred taxation is accounted for in full for all such timing differences, except in relation to revaluations of fixed assets where there is no commitment to dispose of the asset and taxable gains on sales of fixed assets that are rolled over into the tax cost of replacement assets. Deferred tax assets are only recognised to the extent that it is more likely than not that they will be recovered. Deferred tax amounts are not discounted.

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 plc, 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.

Customer acquisition costs

In order to match costs with revenues, customer acquisition costs are treated as prepayments and written off to the profit and loss account on a straight line basis over a period of 12 months.

Restatements

The company has implemented Financial Reporting Standard 19 'Deferred Tax' ("FRS19") which requires recognition of deferred tax assets and liabilities on timing differences. The effect of adopting the new policy is to increase the tax charge for 2001 by £2,123,000 and reduce retained losses at 31 December 2001 by £4,190,000 (note 12).

2 TURNOVER

Turnover is principally attributable to one continuing activity, the operation 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 plc balance sheet.

3 OPERATING PROFIT/(LOSS)

	2002 £000	2001 £000
Operating profit/(loss) is stated after charging:		
Auditors' remuneration	19	18
Depreciation of tangible owned fixed assets	1,749	1,561
Operating lease rentals		
- land and buildings	668	436
- computer equipment	1,064	292
Exceptional costs in respect of bonus payments and impairment of tangible fixed assets	-	2,963

4 DIRECTORS' EMOLUMENTS

Directors' fees or emoluments earned during the period amounted to £499,000 (2001 - £113,000). The emoluments of the highest paid director were £331,000.

Two directors are accruing retirement benefits in respect of qualifying services in defined benefit schemes. The accrued pension for the highest paid director at the year end was £2,295 per annum.

5 EMPLOYEE INFORMATION

	2002 £000	2001 £000
Staff costs		
Wages and salary costs	17,500	11,647
Social Security costs	1,707	1,099
Other pension costs	697	193
	<u>19,904</u>	<u>12,939</u>

The average monthly number of persons employed was as follows:

	2002 No.	2001 No.
Call Centre & Administration	542	405
Non Operational	202	180
	<u>744</u>	<u>585</u>

6 TAX ON LOSS ON ORDINARY ACTIVITIES

	2002 £000	2001 Restated £000
Current taxation		
UK corporation tax charge for the year at 30%	65	-
Under provision in respect of prior periods	82	-
Consortium relief revisions in respect of prior years	17	(455)
Deferred taxation		
Origination and reversal of timing differences	1,001	2,123
	<u>1,165</u>	<u>1,668</u>

Adoption of FRS 19 has required a change in the method of accounting for deferred taxation. As a result, the comparative figure for taxation on profit on ordinary activities for 2001 has been restated from the previously reported credit of £455k to a charge of £1,668k. The impact of adopting FRS 19 on the 2002 accounts is an increase to the tax charge by £1,001k.

The actual tax charge differs from the expected tax charge which is computed by applying the standard UK corporation tax rate of 30%.

	2002 £000	2001 Restated £000
Expected tax charge/(credit)	1,051	(723)
Non deductible items	1,325	926
Capital allowances in excess of depreciation	(275)	68
Unutilised losses	(2,036)	(3,161)
Change in accounting policy in respect of acquisition costs	-	2,890
Current tax charge for the period	<u>65</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2002

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7 TANGIBLE FIXED ASSETS

	Hardware £000	Software £000	Fixtures & Fittings £000	Total £000
Cost:				
At 1 January 2002	4,252	1,190	4,496	9,938
Additions	1,376	240	1,203	2,819
Disposals	(48)	-	(44)	(92)
At 31 December 2002	<u>5,580</u>	<u>1,430</u>	<u>5,655</u>	<u>12,665</u>
Depreciation:				
At 1 January 2002	1,349	265	1,019	2,633
Provided during the year	796	270	683	1,749
Disposals	(43)	-	(36)	(84)
At 31 December 2002	<u>2,097</u>	<u>535</u>	<u>1,666</u>	<u>4,298</u>
Net book value at 31 December 2002	<u>3,483</u>	<u>895</u>	<u>3,989</u>	<u>8,367</u>
Net book value at 31 December 2001	<u>2,903</u>	<u>925</u>	<u>3,477</u>	<u>7,305</u>

8 DEBTORS: amounts falling due within one year

	2002 £000	2001 £000
Trade debtors	6,224	6,643
Prepayments	17,625	13,182
	<u>23,849</u>	<u>19,825</u>

9 DEFERRED TAXATION

Provision for deferred taxation has been made as follows:

	2002 £000	2001 Restated £000
Deferred tax provision	(103)	-
Deferred tax asset	3,292	4,190
	<u>3,189</u>	<u>4,190</u>
Short term timing differences		
Capital allowances	(103)	173
Bad and doubtful debt provisions	2,957	1,646
Other timing differences	335	2,371
	<u>3,189</u>	<u>4,190</u>
As previously reported	-	
Prior year adjustment	<u>4,190</u>	
At 1 January 2002 as restated	4,190	
Charge to profit and loss account	(1,001)	
At 31 December 2002	<u>3,189</u>	

A deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. The directors consider that there will be sufficient future profits to support recognition of the net deferred tax asset.

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2002

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10 CREDITORS: amounts falling due within one year

	2002 £000	2001 £000
Trade creditors	129	249
Accruals	10,197	8,658
Taxation	65	-
	<u>10,391</u>	<u>8,907</u>

11 CALLED UP SHARE CAPITAL

	2002 No.	2002 £000	2001 No.	2001 £000
<i>Authorised</i>				
Ordinary shares of £1 each	100,000,000	100,000	100,000,000	100,000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	44,400,001	44,400	44,400,001	44,400

On 1 July 2002 the authorised and issued share capital of the Company, namely "A" and "B" Ordinary Shares of £1 each, were redesignated Ordinary Shares of £1 each.

12 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £000	Profit and loss account £000	Total shareholders funds £000
At 31 December 2001 as previously reported	44,400	(27,628)	16,772
Prior period adjustment for change in accounting policy		4,190	4,190
At 31 December 2001 as restated	<u>44,400</u>	<u>(23,438)</u>	<u>20,962</u>
Profit for the period		2,338	2,338
At 31 December 2002	<u>44,400</u>	<u>(21,100)</u>	<u>23,300</u>
Attributable to:			
Equity interests			<u>23,300</u>

13 OTHER FINANCIAL COMMITMENTS

At 31 December 2002 the Company had annual commitments under non-cancellable operating leases as set out below:

	2002 £000	2001 £000
Land and Buildings		
Operating leases which expire:		
In less than one year	62	-
In over five years	606	426
Computer Equipment		
Operating leases which expire:		
In less than one year	2	-
In more than one year but less than five years	863	846

14 RELATED PARTY TRANSACTIONS

The company is exempt from the requirement of Financial Reporting Standard 8 'Related Party Disclosures' to disclose transactions and balances with other subsidiaries or investees of the group as its results are included in the Consolidated Financial Statements of The Royal Bank of Scotland Group plc.

15 ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking 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.