

Company Registration No: 3414708

The One Account Limited

(formerly Virgin Direct Personal Finance Limited)

Directors' Report and Financial Statements

For the year ended 31 December 2003



Group Secretariat
The Royal Bank of Scotland Group plc
3 Princess Way, Redhill Surrey
RH1 1NP

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

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Registered in England No. 3414708

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

David Norman Dyer
Jayne-Anne Gadhia
Norman Cardie McLuskie
Peter Anderson Shaw
Christopher Paul Sullivan
Finlay Ferguson Williamson

SECRETARY

Angela Mary Cunningham

REGISTERED OFFICE

Waterhouse Square
138-142 Holborn
London
EC1N 2TH

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Edinburgh

BANKERS

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

DIRECTORS' REPORT

for the year ended 31 December 2003

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

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 flexible and current account mortgages, which are personal bank accounts with The Royal Bank of Scotland plc secured against the customer's home. The Company is also the administrator of the NatWest One Account and the Direct Line One Account.

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 products continue to build on their firm foundations and the company has become a significant force in the flexible mortgage market.

The retained profit for the year ended 31 December 2003 amounted to £16,244,000 (2002: £2,338,000). The directors do not recommend the payment of a dividend (2002: nil).

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 2003 there were no changes made in the composition of the Board. On 13 January 2004 Christopher Paul Sullivan was appointed as a director of the Company. On 4 August 2004 Keith George Hodgkinson resigned as a director of the Company. On 9 August 2004 Peter Anderson Shaw was appointed as a director of the Company.

On 21 April 2004 Angela Mary Cunningham was appointed secretary of the Company and John Albert Lea resigned as secretary of the Company.

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' REPORT - continued

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 2003*	As at 31 December 2003
D N Dyer	4,208	4,552
J-A Gadhia	399	399
K G Hodgkinson	37,152	38,818
N C McLuskie	150,037	154,508
F F Williamson	10,956	11,417

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 2003*	Granted during the period		Exercised during the period		As at 31 December 2003
		Options	Price	Options	Price	
D.N Dyer	769	3,000	16.26	-	-	3,769
J-A Gadhia	19,040	13,800	12.37	-	-	32,840
K G Hodgkinson	24,114	12,200 104	12.37 13.07	343	7.41	36,075
N C McLuskie	116,430	39,700	12.37	90	9.85	156,040
F F Williamson	47,084	11,800	12.37	-	-	58,884

* = or date of appointment, if later

No director had an interest in any of the preference shares during the year to 31 December 2003.

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

	As at 1 January 2003*	As at 31 December 2003
D N Dyer	4,722	-
K G Hodgkinson	20,126	-
N C McLuskie	26,584	-
F F Williamson	7,811	-

On 31 December 2003, the Additional Value Shares were de-listed from The London Stock Exchange, converted to Non-Voting Deferred Shares and transferred to RBS NVDS Nominees Limited. None of the directors has an interest in the Non-Voting Deferred Shares.

None of the directors in office at 31 December 2003 held any interest in the share or loan capital of the company or any other group Company.

DIRECTORS' REPORT - continued

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 2003, the aggregate amount owed to suppliers represented 22 times the daily average amount invoiced by suppliers to the Company during the period.

AUDITORS

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 11 August 2003 under the provisions of Section 26(5) of the Companies Act 1989. The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of Section 386(2) of the Companies Act 1985.

ELECTIVE RESOLUTIONS

The Company has 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

A M Cunningham
Secretary

Dated 25 August 2004

**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 2003 set out on pages 7 to 13 which 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte and Touche LLP
Chartered Accountants and Registered Auditors
Edinburgh

Dated 10 September 2004

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2003

		2003	2002
	Notes	£000	£000
TURNOVER	2	66,781	54,015
Administrative expenses		(44,167)	(50,729)
OPERATING PROFIT	3	22,614	3,286
Bank interest receivable		394	217
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		23,008	3,503
Taxation	6	(6,764)	(1,165)
PROFIT FOR THE PERIOD	13	16,244	2,338

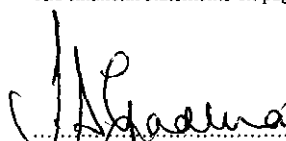
All operations of the Company are continuing.

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 2003

		2003	2002
	Notes	£000	£000
FIXED ASSETS			
Tangible assets	7	7,822	8,367
		<u>7,822</u>	<u>8,367</u>
CURRENT ASSETS			
Debtors	8	40,451	27,038
Cash at bank and in hand		13,484	2,162
		<u>53,935</u>	<u>29,200</u>
CREDITORS : amounts falling due within one year	10	18,337	10,391
NET CURRENT ASSETS		<u>35,598</u>	<u>18,809</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>43,420</u>	<u>27,176</u>
CREDITORS : amounts falling due after more than one year	11		
Loans		3,876	3,876
NET ASSETS		<u>39,544</u>	<u>23,300</u>
CAPITAL AND RESERVES			
Called up share capital	12	44,400	44,400
Profit and loss account	13	(4,856)	(21,100)
EQUITY SHAREHOLDERS' FUNDS	13	<u>39,544</u>	<u>23,300</u>

The financial statements on pages 7 to 13 were approved by the Board of Directors on 25 August 2004 and were signed on its behalf by:


J-A Gadhia
Director

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2003

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 a cash flow statement 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 and 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 evenly over 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 36 months.

2 TURNOVER

Turnover is principally attributable to one continuing activity, the operation of the flexible and current account mortgages. 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

	2003 £000	2002 £000
Operating profit is stated after charging:		
Auditors' remuneration	27	19
Depreciation of tangible owned fixed assets	1,998	1,749
Operating lease rentals		
- land and buildings	676	668
- computer equipment	938	1,064

In 2003, the period over which customer acquisition costs are deferred, was revised from 12 to 36 months. This revision was made to reflect the period of recovery of those costs. The impact of this change in respect of Customer acquisition costs is to have an additional £16.8m of acquisition costs treated as prepayments at the end of the year, when compared with the previous method. The company has also reviewed the types of costs it treats in this manner. This review has resulted in £4.8m of additional expense being charged to the Profit & Loss account in 2003.

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2003

4 DIRECTORS' EMOLUMENTS

Directors' fees or emoluments earned during the period amounted to £423,000 (2002 - £499,000). The emoluments of the highest paid director were £287,000 (2002 - £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 £3,987 per annum (2002 - £2,295 p.a.).

5 EMPLOYEE INFORMATION

	2003 £000	2002 £000
Staff costs		
Wages and salary costs	20,270	17,500
Social Security costs	1,700	1,707
Other pension costs	1,413	697
	<u>23,383</u>	<u>19,904</u>

The average monthly number of persons employed was as follows:

	2003 No.	2002 No.
Call Centre & Administration	686	542
Non Operational	206	202
	<u>892</u>	<u>744</u>

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £000	2002 £000
Current taxation		
UK corporation tax charge for the year at 30%	4,408	65
(Over)/Under provision in respect of prior periods	(780)	82
	<u>3,628</u>	<u>147</u>
Consortium relief revisions in respect of prior years	-	17
Deferred taxation		
Origination and reversal of timing differences	2,298	1,001
Movement in respect of prior year	838	-
	<u>6,764</u>	<u>1,165</u>

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

	2003 £000	2002 £000
Expected tax charge/(credit)	6,902	1,051
Non deductible items	18	1,325
(Over)/Under provision in respect of prior periods	(780)	82
Capital allowances in excess of depreciation	(141)	(275)
Utilised losses	(2,371)	(2,036)
Current tax charge for the period	<u>3,628</u>	<u>147</u>

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2003

7 TANGIBLE FIXED ASSETS

	Hardware £000	Software £000	Fixtures & Fittings £000	Total £000
Cost:				
At 1 January 2003	5,580	1,430	5,655	12,665
Additions	1,130	312	11	1,453
At 31 December 2003	<u>6,710</u>	<u>1,742</u>	<u>5,666</u>	<u>14,118</u>
Depreciation:				
At 1 January 2003	2,097	535	1,666	4,298
Provided during the year	967	327	704	1,998
At 31 December 2003	<u>3,064</u>	<u>862</u>	<u>2,370</u>	<u>6,296</u>
Net book value at 31 December 2003	<u>3,646</u>	<u>880</u>	<u>3,296</u>	<u>7,822</u>
Net book value at 31 December 2002	<u>3,483</u>	<u>895</u>	<u>3,989</u>	<u>8,367</u>

8 DEBTORS: amounts falling due within one year

	2003 £000	2002 £000
Trade debtors	4,804	6,224
Prepayments & accrued income	35,593	17,625
Deferred tax asset - see note 9	54	3,189
	<u>40,451</u>	<u>27,038</u>

9 DEFERRED TAXATION

Provision for deferred taxation has been made as follows:

	2003 £000	2002 £000
Deferred tax provision	-	(103)
Deferred tax asset	54	3,292
	<u>54</u>	<u>3,189</u>
Short term timing differences		
Capital allowances	54	(103)
Bad and doubtful debt provisions	-	2,957
Other timing differences	-	335
	<u>54</u>	<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 2003

10 CREDITORS: amounts falling due within one year

	2003 £000	2002 £000
Trade creditors	1,584	129
Accruals	12,280	10,197
Corporation Tax	4,473	65
	<u>18,337</u>	<u>10,391</u>

11 CREDITORS : amounts falling due after more than one year

This is an interest free loan from the parent company, for which there are no fixed terms for repayment

12 CALLED UP SHARE CAPITAL

	2003 No.	2003 £000	2002 No.	2002 £000
<i>Authorised</i>				
Ordinary shares of £1 each	<u>100,000,000</u>	<u>100,000</u>	<u>100,000,000</u>	<u>100,000</u>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	<u>44,400,001</u>	<u>44,400</u>	<u>44,400,001</u>	<u>44,400</u>

13 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £000	Profit and loss account £000	Total shareholders' funds £000
At 31 December 2002	44,400	(21,100)	23,300
Profit for the period	-	16,244	16,244
At 31 December 2003	<u>44,400</u>	<u>(4,856)</u>	<u>39,544</u>
Attributable to: Equity interests			<u>39,544</u>

14 OTHER FINANCIAL COMMITMENTS

At 31 December 2003 the Company had annual commitments under non-cancellable operating leases as set out below:

	2003 £000	2002 £000
Land and Buildings		
Operating leases which expire:		
In less than one year	76	62
In over five years	600	606
Computer Equipment		
Operating leases which expire:		
In less than one year	2	2
In more than one year but less than five years	936	863

15 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.

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2003

16 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.