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VIRGIN MONEY LIFE LIMITED

Annual Report

For the Year Ended 31 December 2003



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Virgin Money Life Limited

Registered No. 3087584

DIRECTORS AND OFFICERS

EXECUTIVE DIRECTORS

Dr P Pester
S Leeming
I Larkin
M Hodgkinson

NON-EXECUTIVE DIRECTORS

Sir Richard Branson
G McCallum

SECRETARY

P Gram

APPOINTED ACTUARY

K Wright

AUDITORS

Ernst & Young LLP
1, More London Place
London SE1 2AF

BANKERS

HSBC
City of London Corporate Office
PO Box 125
27-32 Poultry
London EC2P 2BX

REGISTERED OFFICE

Discovery House
Whiting Road
Norwich NR4 6EJ

DIRECTORS' REPORT

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

RESULTS AND DIVIDENDS

The retained profit for the year ended 31 December 2003 amounted to £3.5 million (2002 - £5.7 million). The directors do not recommend the payment of a dividend (2002: £Nil).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is the undertaking of ordinary long-term insurance business in the United Kingdom, namely life and survival insurance.

Sales of life products continue to be strong with over 40,000 lives insured as at 31 December 2003.

FUTURE DEVELOPMENTS

The focus of the company during the coming year will be to ensure that the customer proposition is competitive, while generating sufficient returns and that we continue to build cost effective distribution.

DIRECTORS AND THEIR INTERESTS

The names of the current directors are listed on page 1.

The following changes took place during the year:

M Hodgkinson Appointed 9 July 2003

The interests of Sir Richard Branson in the share capital of Virgin Money Group Limited are disclosed in the consolidated financial statements of that company. No other director has any interests in the share capital of Virgin Money Group Limited or its subsidiary companies.

AUDITORS

A resolution to reappoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the board



Dr P Pester
Director
11 March 2004

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 and of the profit or loss of the company for that period. In preparing those 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; 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board



Dr P Pester
Director
11 March 2004

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRGIN MONEY
LIFE LIMITED

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 17. These financial statements have been prepared on the basis of 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 legal and regulatory requirements and United Kingdom 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 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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 affairs of the company 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.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
11 March 2004

Virgin Money Life Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2003

TECHNICAL ACCOUNT – LONG TERM BUSINESS

	Notes	2003 £000	2002 £000
EARNED PREMIUMS			
Gross premiums written	2	11,616	10,185
Outward reinsurance premiums		(5,956)	(4,845)
Earned premiums net of reinsurance		5,660	5,340
Investment income	3	1,062	507
Unrealised gains on investments	3	-	598
TOTAL TECHNICAL INCOME		6,722	6,445
CLAIMS INCURRED			
Claims paid - gross amount		(2,178)	(1,930)
- reinsurer's share		1,438	1,094
- net of reinsurance		(740)	(836)
Change in provision for outstanding claims - gross amount		17	(237)
- reinsurer's share		15	324
- net of reinsurance		32	87
CHANGES IN OTHER TECHNICAL PROVISIONS			
Long term business provision - gross amount		(9,972)	(1,402)
- reinsurer's share		8,924	2,574
- net of reinsurance		(1,048)	1,172
OTHER CHARGES			
Net operating expenses	4	(1,170)	(519)
Investment expenses and charges	3	(4)	(35)
Unrealised losses on investments	3	(401)	-
Tax attributable to the long term business	8	-	-
BALANCE ON THE TECHNICAL ACCOUNT – LONG TERM BUSINESS		3,391	6,314

The accounting policies and notes on pages 9 to 16 form an integral part of these financial statements.

Virgin Money Life Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2003

NON-TECHNICAL ACCOUNT

		2003	2002
	Notes	£000	£000
BALANCE ON THE LONG TERM BUSINESS TECHNICAL ACCOUNT		3,391	6,314
Tax attributable to balance on long term business technical account	8	1,303	2,706
Shareholders' pre-tax profit from long term business		4,694	9,020
Investment income	3	692	397
Investment expenses and charges	3	(37)	-
Unrealised (losses) / gains on investments	3	(134)	27
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,215	9,444
Tax on profit on ordinary activities	8	(1,714)	(3,718)
RETAINED PROFIT FOR THE FINANCIAL YEAR		3,501	5,726

There are no recognised gains and losses other than those shown in the Profit and Loss account, consequently no Statement of Total Recognised Gains and Losses has been presented.

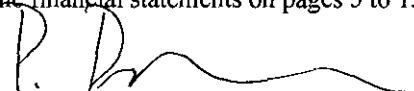
The accounting policies and notes on pages 9 to 16 form an integral part of these financial statements.

Virgin Money Life Limited

BALANCE SHEET at 31 December 2003

		2003	2002
	Notes	£000	£000
ASSETS			
INVESTMENTS			
Loan to parent undertaking	10	8,775	5,000
Other financial investments	10	22,082	20,533
DEBTORS			
Debtors arising out of direct insurance operations – policyholders		413	315
Debtors arising out of reinsurance operations		1,116	2,432
Amounts due from parent undertaking		51	29
Other debtors		356	332
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long term business provision		27,624	18,700
Claims outstanding		687	672
OTHER ASSETS			
Cash at bank and in hand		3,080	2,700
TOTAL ASSETS		<u>64,184</u>	<u>50,713</u>
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	11	15,000	15,000
Profit and loss account	15	8,348	4,847
Shareholders' funds attributable to equity interests	15	<u>23,348</u>	<u>19,847</u>
TECHNICAL PROVISIONS			
Long term business provision – gross amount	14	35,604	25,632
Claims outstanding – gross account		915	933
PROVISIONS FOR DEFERRED TAXATION	12	540	442
CREDITORS: Amounts falling due within one year			
Other creditors including taxation and social security	13	1,567	1,225
Creditors arising out of reinsurance operations		1,748	2,269
Amounts owed to credit institutions		254	137
ACCRUALS AND DEFERRED INCOME		208	228
TOTAL LIABILITIES		<u>64,184</u>	<u>50,713</u>

The financial statements on pages 5 to 15 were approved by the Board of Directors on 11 March 2004.


Dr P Pester
Director

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2003

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255A of, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985 and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business dated December 1998.

The financial statements have been prepared in accordance with applicable accounting standards which have been applied consistently.

Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the reversal of the underlying timing differences can be deducted.

Premiums

Gross premiums are accounted for on policy anniversaries (monthly / annual). Reinsurance premiums are accounted for when gross premiums are receivable.

Investments

Investment valuations

Listed investments are included in the balance sheet at mid-market value and loans at directors' valuation.

Investment income and expenses

Investment income includes interest and gains and losses on the realisation of investments and related expenses. Interest and expenses are accounted for on an accruals basis.

Investment gains

Realised gains and losses on investments are calculated as the difference between net sales proceeds and their original cost.

All gains and losses on policyholder fund investments are dealt with through the technical account. All gains and losses on shareholder fund investments are dealt with through the non-technical account.

Long term business provision

The long term business provision is determined by the company's appointed actuary following his annual investigation of the long term business and is calculated on the Modified Statutory Solvency Basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The calculation uses the net premium valuation method.

Claims

Claims are accounted for as and when notification is received.

Cash flow statement

The company is a wholly-owned subsidiary of Virgin Money Group Limited and is included in the consolidated financial statements of Virgin Money Group Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996).

Virgin Money Life Limited

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2003

Segmental reporting

In the opinion of the directors, the company operates in one business segment being that of long term insurance business in the United Kingdom. Within this segment the company writes permanent health and life insurance business.

Depreciation

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.

Computer hardware	4 years
Computer software	3 years

2. SEGMENTAL ANALYSIS

Gross premiums written

All premiums are periodic, received from contracts written in the United Kingdom and relate to individuals.

	2003 £000	2002 £000
Non-participating:		
Life	11,419	9,961
Permanent health	197	224
	<u>11,616</u>	<u>10,185</u>

Gross new business

	2003 £000	2002 £000
Non-participating:		
Life	2,703	2,825
Permanent health	-	-
	<u>2,703</u>	<u>2,825</u>

Virgin Money Life Limited

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2003

3. INVESTMENT RETURN SUMMARY

Long term insurance business

	2003	2002
	£000	£000
Investment income:		
Income from listed investments	801	745
Gains/(losses) on the realisation of investments	261	(238)
	<u>1,062</u>	<u>507</u>
Investment management expenses, including interest	(4)	(35)
Unrealised (losses)/gains on investments	(401)	598
	<u>657</u>	<u>1,070</u>
Net investment return included in the long term business technical account		

Shareholders' interest

Investment income:		
Income from listed investments	446	163
Losses on the realisation of investments	(73)	(16)
Interest on loan to holding company	319	250
	<u>692</u>	<u>397</u>
Investment management expenses, including interest	(37)	-
Unrealised (losses)/gains on investments	(134)	27
	<u>521</u>	<u>424</u>
Net investment return included in the non-technical account		
Total investment return	<u>1,178</u>	<u>1,494</u>

4. NET OPERATING EXPENSES

	2003	2002
	£000	£000
Acquisition costs	4,137	3,339
Reinsurance rebates	(4,013)	(3,785)
Administrative expenses	1,046	965
	<u>1,170</u>	<u>519</u>

No depreciation was charged during the year (2002 - nil).

5. AUDITORS' REMUNERATION

All amounts payable to the auditors have been charged to Virgin Money Management Services Limited, a fellow subsidiary undertaking, and are disclosed in the accounts of that company.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2003

6. STAFF COSTS

The company did not directly employ any staff during the year. The services of individuals were obtained in exchange for payments made to Virgin Money Management Services Limited, a fellow subsidiary undertaking. These recharges have formed part of the general recharges for services made by Virgin Money Management Services Limited, and therefore form a part of the staff costs disclosed in that company.

7. DIRECTORS' EMOLUMENTS

During 2003, none of the directors were remunerated primarily for their services to the company, and it is not possible to determine the proportion of remuneration, which relates to this company. The directors are employed by Virgin Money Management Services Limited, a fellow subsidiary undertaking, and the emoluments are disclosed within the accounts of that company.

8. TAXATION

	2003 £000	2002 £000
<i>Long term business technical account</i>		
Current year:		
Group relief	-	-
Prior year:		
Group relief	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
<i>Non-technical account</i>		
Current year:		
Group relief	1,072	1,225
Tax attributable to shareholders' long term business profits	1,303	2,706
Deferred tax movement	98	(213)
	<hr/>	<hr/>
Current tax charge for the year	2,473	3,718
Prior year:		
Group relief	(759)	-
	<hr/>	<hr/>
	1,714	3,718
	<hr/>	<hr/>

Group relief is taken where available and is paid for in full.

Virgin Money Life Limited

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2003

Factors affecting the tax charge for the year

The difference between the current tax charge for the year and the charge based on the standard rate of corporation tax in the UK (30%) is set out below:

Non-technical account

	2003 £000	2002 £000
Profit on ordinary activities before tax	4,865	9,444
Less: Gross up of tax attributable to long term business technical account	(1,303)	(2,706)
	<u>3,562</u>	<u>6,738</u>
Profit above multiplied by standard rate of tax (30%)	1,069	2,021
Tax losses relieved in the current year		(839)
Prior year adjustment	(759)	-
Other differences	3	43
	<u>313</u>	<u>1,225</u>
Current tax charge for the year (before gross up)		

9. FIXED ASSETS

	Computer Equipment £000
Cost:	
At 1 January 2003 and 31 December 2003	<u>374</u>
Depreciation:	
At 1 January 2003 and 31 December 2003	<u>374</u>
Net book value:	
At 1 January 2003 and 31 December 2003	<u>-</u>

Virgin Money Life Limited

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2003

10. INVESTMENTS

	2003 £000	2002 £000
Loan to parent undertaking	8,775	5,000

In February 1998 £5m of the above loan was provided to Virgin Money Group Limited, increasing to £8.8m in June 2003. This is repayable by February 2005. It attracts interest at 100 basis points over 3 monthly LIBOR. Interest received during the year was £319,000 (2002 - £250,000) of which £51,000 (2002 - £29,000) was accrued at the end of the year.

Other financial investments

UK debt and other fixed income securities listed on a recognised stock exchange:

	2003 £000	2002 £000
Market value	22,082	20,533
Cost	22,312	20,228

Assets attributable to the long term business fund

At 31 December 2003 the total amount of assets representing the long term fund of the company valued in accordance with Schedule 9A to the Companies Act 1985 was £51.2 million (2002: £40.5 million).

11. SHARE CAPITAL

	2003 £000	2002 £000
Authorised, allotted called up and fully paid: 15,000,000 ordinary shares of £1 each	15,000	15,000

12. PROVISION FOR DEFERRED TAXATION

	2003 £000	2002 £000
At 1 January	442	-
Prior year adjustment	-	655
Movement in the year	98	(213)
At 31 December 2003	540	442

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2003

The above deferred tax provision represents the tax effect of profits recognised in the statutory financial statements in advance of profits recognised on an FSA basis.

Deferred tax assets not recognised under the company's accounting policy are set out below:

	2003 £000	2002 £000
Capital allowances in arrears of depreciation	13	17
Losses carried forward	859	701
Acquisition costs	152	165
Net deferred taxation asset	<u>1,024</u>	<u>883</u>

13. CREDITORS

	2003 £000	2002 £000
Corporation tax group relief	313	1,225
Amount due to fellow subsidiary undertakings	1,254	-
	<u>1,567</u>	<u>1,225</u>

14. LONG TERM ASSURANCE LIABILITIES TO POLICYHOLDERS

The long term business provision has been calculated by K Wright, the Appointed Actuary of the company and Fellow of the Institute of Actuaries, using a modified net premium valuation method.

The principal assumptions underlying the calculations were as follows:

- All life business was valued using the AM(80)/AF(80) mortality table and an interest rate of 3% (2002 -3%);
- Permanent health business was valued using inception rates based on statistics relating to recent experience in the United Kingdom.

The principal changes to estimation techniques made since the prior year are as follows:

- Tables of morbidity inception rates updated;
- Overrun maintenance expense assumption increased to £23 from £22 per annum;
- Expense inflation assumption increased to 3.75% from 3.25%;
- New provision of £34,600 for system changes ;
- Tax rate reduced to 21% from 22%.

The overall effect of changes to assumptions has been to increase the long term business provision, net of reinsurers' share by £0.45m.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2003

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share Capital £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 1 January 2003	15,000	4,847	19,847
Profit for the financial year	-	3,501	3,501
At 31 December 2003	15,000	8,348	23,348

Of the above profit and loss account reserve, an amount of £5.9m is non-distributable.

16. RELATED PARTY TRANSACTIONS

In accordance with the exemption provided in FRS 8 paragraph 3(c) the company does not disclose transactions with related parties that are part of the Virgin Money Group Limited group.

17. ULTIMATE PARENT COMPANY

The company's ultimate parent undertaking is Virgin Money Group Limited which is incorporated in Great Britain. Virgin Money Group Limited has included the company in its group accounts, copies of which are available from Companies House, Crown Way, Cardiff CF4 3UZ.