



Interim Results

24th July 2001

agenda

- **Introduction - Paul Gratton**
- **Strategic Overview - Mike Harris**
- **Operational Results - Paul Gratton**
- **Financial Results - Stacey Cartwright**
- **Summary - Paul Gratton**

half year highlights

- customer numbers top 1.7 million (H1 2001: 370,000 acquired)
- customer acquisition costs falling
- retail assets grew by 21% in six months to £4.5 billion - card balances now exceed £1.5 billion
- widening net interest margins (H1 2001: 169 bps; H1 2000: 73 bps)
- total revenue up 130% to £76.2 million (H1 2000: £33.2 million)
- loss before tax on plan at £63.4 million (H1 2000: £80.7 million)
- remain bang on track for breakeven during Q4 2001
- strategic alliance with Microsoft

Egg's strategic agenda

from intention to superior growth

COMPANY PROGRESSION

**REPUTATION AS
A SERIOUS PLAYER**



PROFITABILITY



**SUPERIOR
GROWTH**

KEY ASSETS

**TECHNOLOGY
BRAND
CUSTOMERS**



**DIGITAL
PRODUCTS**



**DIGITAL
RELATIONSHIPS**

**UK
SCALE**

**INTERNATIONAL
SCALE**

Egg's strategic agenda

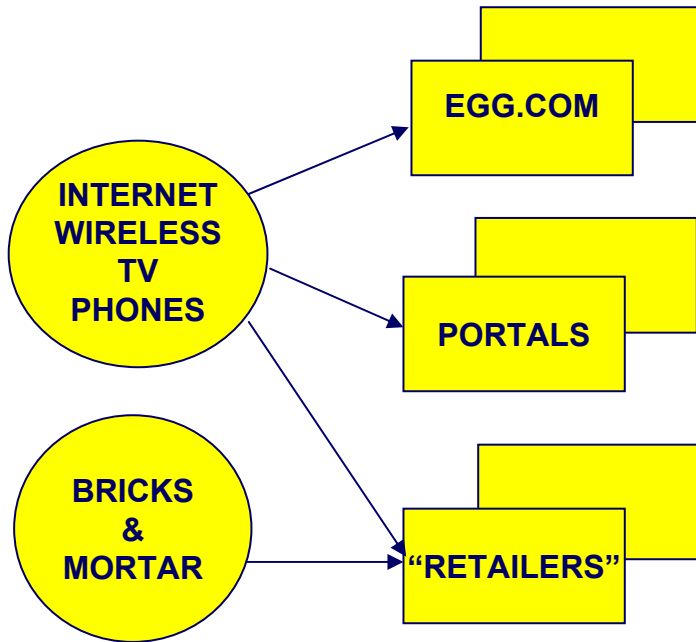
in an environment of global competitors



- **Egg is world class at Design, Integration and Marketing of Digital Financial Services**

Egg's strategic agenda

International scale can come from a network of best of breed distributors

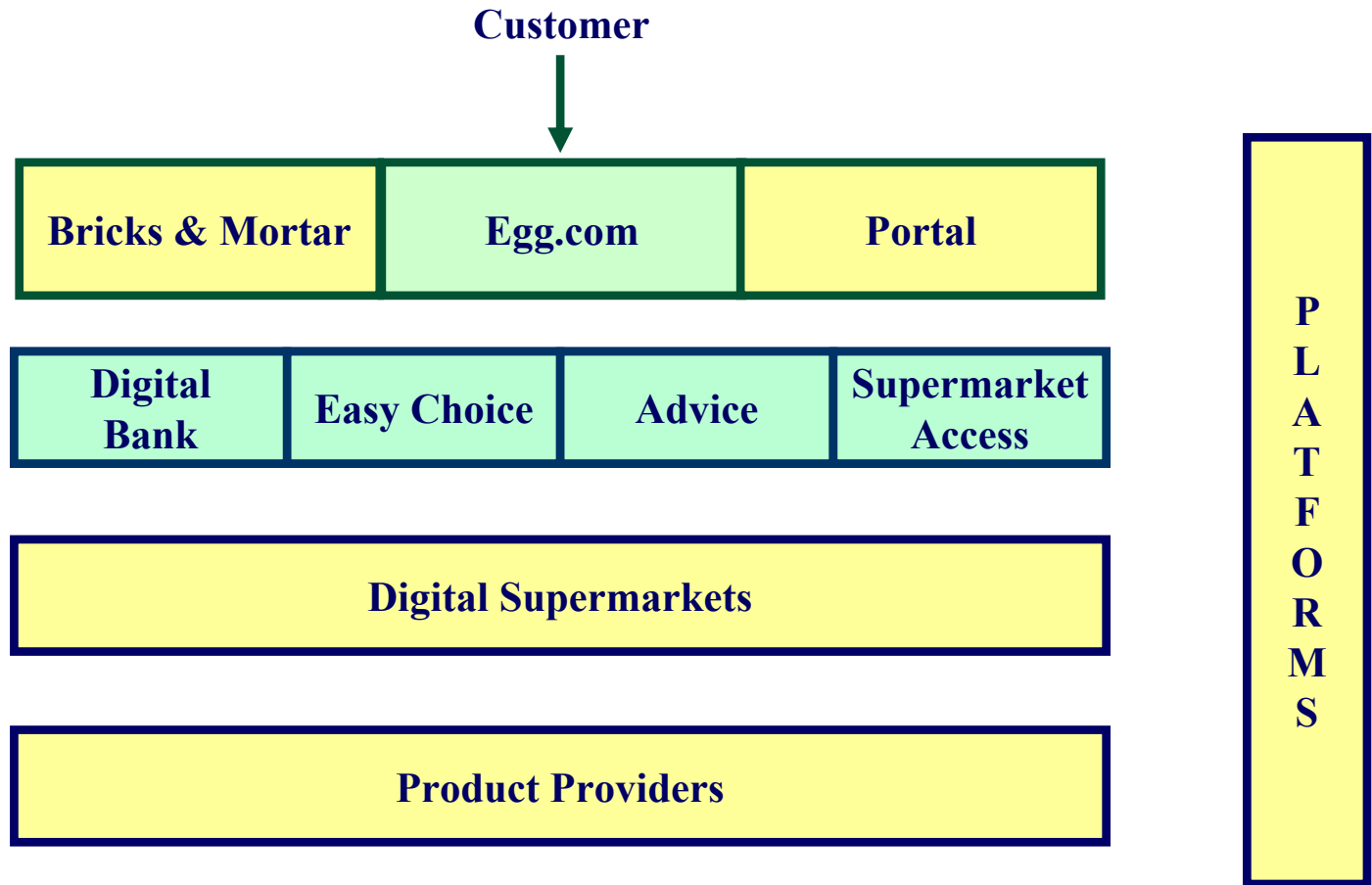


EGG:|

Design, Integration
and Marketing
of Financial
Services
Relationships

Egg's strategic agenda

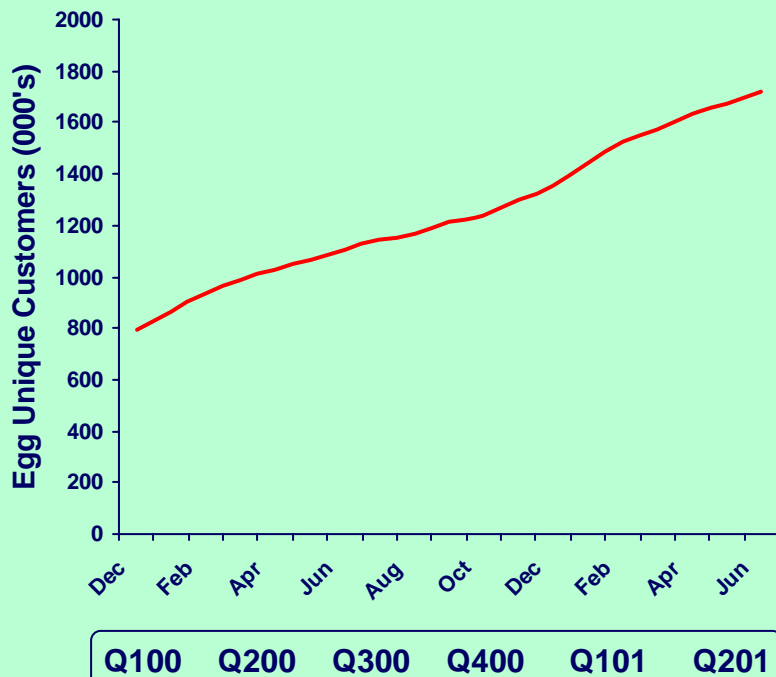
a business structure for superior growth



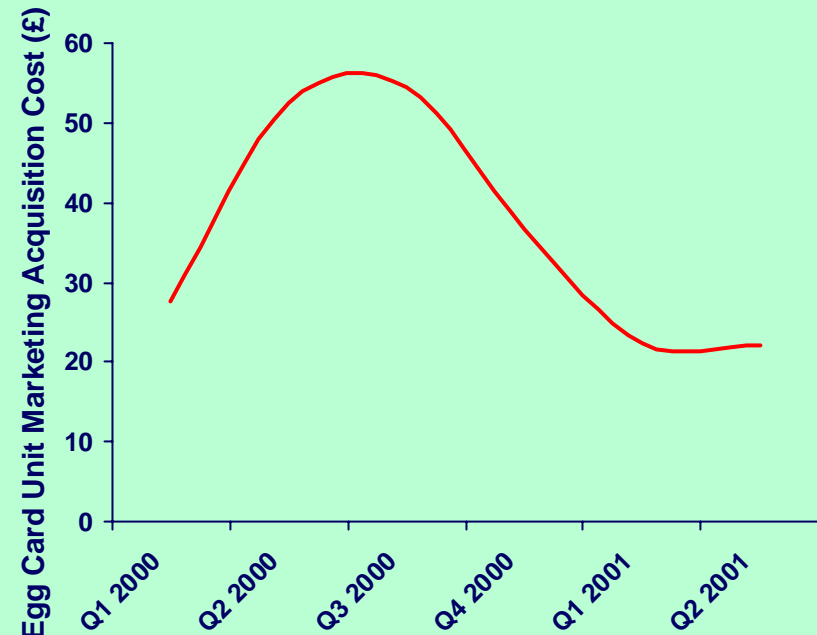
customer growth

continued strong acquisition - best half year ever

customer numbers



card acquisition costs

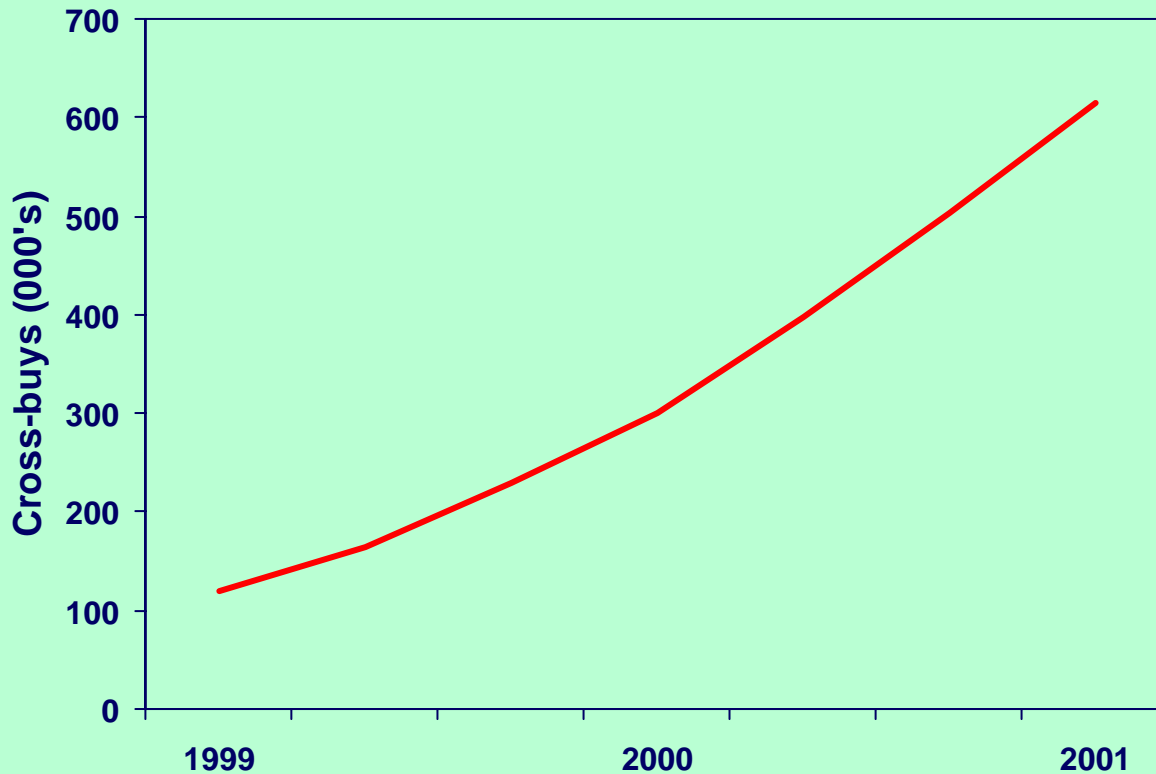


**370,000 net new
customers in 2001**

**total Egg
customers up to
1.72 million**

**more efficient
customer
acquisition**

cross buying momentum building



**H1 2001:
218,000
cross buys**

**H1 2000:
109,000
cross buys**

**June 2000
Ratio: 1.09
June 2001
Ratio: 1.36**

UK business

key sales data

	June 2001	June 2000
Growth in card balances	£636m	£375m
Egg personal loan disbursements	£219m	£154m
Egg mortgage disbursements	£164m	£318m
Egg savings outflows	(£702m)	(£307m)
new funds into Egg Invest	£70m	£22m
new policies in Egg Insure	8k	n/a
intermediation revenue	£1.0m	£0.2m

credit cards

loyal, upmarket, profitable customer base

- 1.13m credit card customers
- 89% of customers attracted by promotional prices are migrating to paying interest at the full rate
- after 12 months the balance transfer book is 110% of original amount
- average balance of £1,742 per account (UK average: £877)
- average salary of over £30,000
- credit performance better than plan (less than 40% of limits currently utilised)

personal loans

profitable growth

- volumes increasing - disbursements up 42% on first half 2000
- half of all loans sold this year were cross sales
- reducing unit marketing costs (H1 2001: £51, H1 2000: £127)
- cohort analysis shows cross sold loans are better credit quality
- PPI penetration remains high at 57%

mortgages

new proposition

- mortgage sales down compared to last year as competition extends to backbooks
- tactically we have reduced marketing spend hence unit marketing costs are significantly lower (£55 in H1 2001 vs £422 in H1 2000)
- unit servicing costs falling on back of successful JV with Marlborough Sterling
- migrating our mortgage strategy to a three strand approach:
 - award winning long-term good value variable rate product (priced at 75bps above base)
 - Egg Saver Mortgage (flexible interest offset proposition)
 - mortgage supermarket supported by Easy Choice

savings

growing the margin

- savings outflows continue as expected in response to repricing of the book
- total customer base increased by a net 5k to 625k
- average balance has reduced with the loss of the unprofitable higher balances
- positive contribution from Egg deposit book was £6.7m in H1 2001 (versus £2.2m negative in H1 2000)

Egg Invest

a creditable start



- £112 million invested in fifteen months since launch
- 32,000 customers at end June
- took 2% of total ISA market in last five weeks of the 2001 season
- equivalent to approximately 10% of the direct market
- leading online direct supermarket
- built brand awareness as more than just a bank

revenues versus costs

six month profit and loss

	June 2001 £m	June 2000 £m
net interest income	59.8	30.6
other operating income	16.4	2.6
total revenue	76.2	33.2
operational & administrative expenses	(65.4)	(50.9)
brand & marketing costs	(21.1)	(23.4)
development costs	(7.6)	(17.7)
total administrative expenses	(94.1)	(92.0)
depreciation & amortisation	(10.4)	(7.4)
bad debt provision	(33.0)	(14.5)
operating loss	(61.3)	(80.7)
share of associate/j.v. losses	(2.1)	-
loss before tax	(63.4)	(80.7)

NII growing rapidly even with 0% dilution

tight cost control against 56% customer growth

loss before tax down by 21%

revenues versus costs

margins growing rapidly

	Half year to Jun 2001	Full year to Dec 2000	Half year to Jun 2000
interest spread (bps)	130	64	34
net interest margin (bps)	169	106	73
risk adjusted margin, net of bad debt provisions (bps)	82	61	38

revenue versus costs

migrating to breakeven - quarterly trend

	Q2 2001	Q1 2001	Q4 2000	Q3 2000	Q2 2000	Q1 2000
total revenues	39.7	36.5	32.0	28.0	18.8	14.4
total admin expenses	(43.2)	(50.9)	(52.9)	(47.8)	(48.8)	(43.2)
depreciation	(5.0)	(5.4)	(5.1)	(4.4)	(3.8)	(3.6)
bad debts	(16.4)	(16.6)	(12.4)	(10.3)	(8.6)	(5.9)
operating loss	(24.9)	(36.4)	(38.4)	(34.5)	(42.4)	(38.3)
share of associates	(0.6)	(1.5)	(1.7)	-	-	-
loss before tax	(25.5)	(37.9)	(40.1)	(34.5)	(42.4)	(38.3)

revenue versus costs

migrating to breakeven - second half drivers

- natural unwinding of card book out of incentive period (currently 34% of balances at 0%)
- Egg Card APR will move to 12.9% from 1 August
- full year benefit of deposit repricing (internet only account: 30bps additional margin; telephone account: 50bps additional margin)

revenue versus costs

operating income analysis

	June 2001 £m	June 2000 £m
commissions and profit share receivable	12.8	5.6
credit card fees and commissions	5.5	1.7
treasury and other banking product fees, net	(3.5)	(5.2)
dealing profits/losses	(0.4)	0.2
other income	2.0	0.3
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total	16.4	2.6
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profitable asset growth

balance sheet

	June 2001 £m	June 2000 £m
mortgages	2,468	2,049
personal loans	542	305
credit cards	1,565	603
total retail assets	4,575	2,957
treasury assets	3,135	5,505
other assets	166	260
total assets	7,876	8,722
deposits	6,356	7,722
wholesale funds	652	31
subordinated debt	124	-
other liabilities	268	388
shareholders' funds	476	581
total capital & liabilities	7,876	8,722

retail asset
growth -
£0.8bn in six
months

credit card
balances
exceed
£1.5bn

Tier 2 debt of
£124m raised
in June

profitable asset growth

bad debts - credit card delinquency rates falling

	June 2001			December 2000		
	Customer Balance £m	Period-end Provision £m	%	Customer Balance £m	Period-end Provision £m	%
Mortgages	2,468	3.3	0.13%	2,405	3.2	0.13%
Personal Loans	542	22.4	4.13%	445	16.5	3.71%
Credit Cards	1,556	31.6	2.03%	929	22.8	2.45%
Total	4,566	57.3	1.25%	3,779	42.5	1.12%

**mortgage
LTV ratio
56%**

**loans
directly
acquired
moving to
cross-
selling**

**credit card
impaired
balances
Dec 2000:
1.05%
Jun 2001:
0.89%**

capital and funding

	Jun 2001	Dec 2000
Tier 1 capital	£442m	£479m
Total capital	£589m	£497m
Risk - weighted assets	£3.88bn	£3.86bn
Risk asset ratios		
- Tier 1	11.4%	12.4%
- Total	15.2%	12.9%

**strong
capital base**

**EMTN
programme
now in place**

**£124m Tier 2
debt raised
in June**

summary

“We acquired 370,000 net new customers at reduced acquisition cost as we increase our momentum towards breakeven during Q4. We are also delighted with our recently announced strategic alliance with Microsoft as we continue to expand our network of powerful partnerships”

summary

practical application of our strategy

