

Egg plc

**Interim Results
23rd July 2002**

agenda

- **Introduction - Mike Harris (Executive Vice Chairman)**
- **Operational Review - Paul Gratton (Chief Executive Officer)**
- **Financial Results - Stacey Cartwright (Chief Financial Officer)**
- **Outlook & Summary - Paul Gratton**

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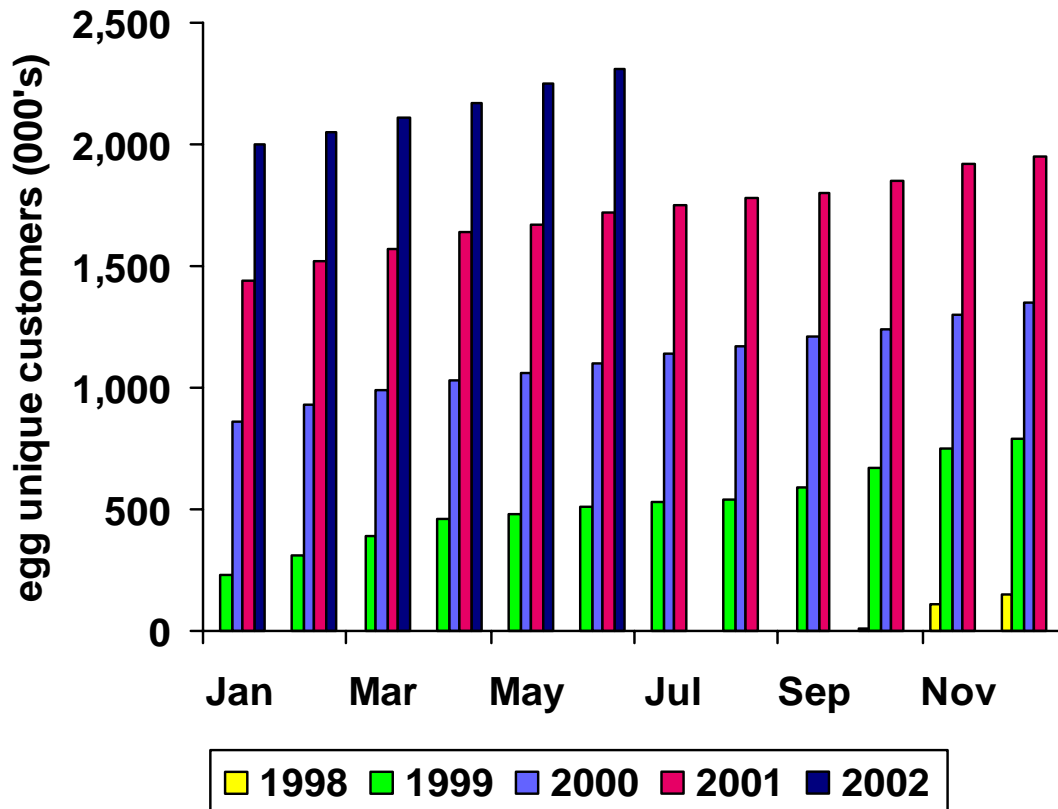
highlights

- strong first half with 362,000 net new customers
- successful refresh of Egg Brand
- card balances now exceed £2.1 billion (5% market share)
- savings balances grew by £1.6 billion (H1 2001: £0.7 billion outflow)
- total revenue doubles to £154.4 million (H1 2001: £76.2 million)
- UK profit before tax at £8.7 million (H1 2001: UK loss of £61.7 million)
- Zebank deal completed and approved by French regulator

customer growth

strong acquisition in H1

customer growth



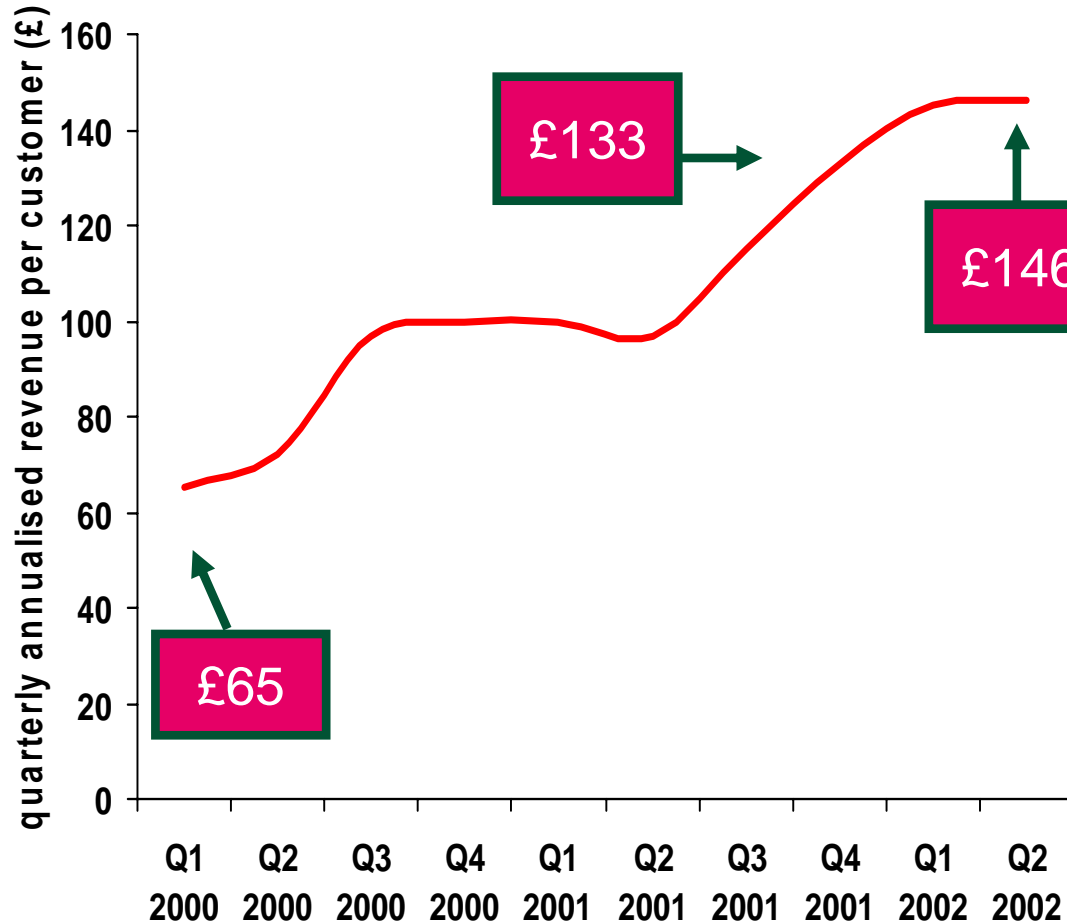
362,000 net new customers in H1 2002 (205,000 in Q2)

total Egg UK customers up to 2.31 million

customer acquisition costs remain at £20-£25 per card

UK customer profitability

revenue per customer growing



revenue per customer continues to grow - up 10% in the half year

P/L strain of new card acquisition being absorbed by existing customer base which is now at scale

recent deposit incentives have a negative short term impact on revenues but provides long-term benefit as alternative to wholesale funds

credit cards

loyal, upmarket, profitable customer base

- 1.7m credit card customers
- balances now exceed £2 billion (5% market share)
- 85% of customers attracted by promotional prices are migrating to paying interest at the full rate
- total card book now profitable overall – absorbing 0% acquisition strain – yields now at 8.45% (June 2001: 6.30%)
- average balance of £1,533 per account (UK average: £904)
- average annual spend of £2,200 per account (UK average: £1,350)
- average salary circa £30,000
- strong credit performance

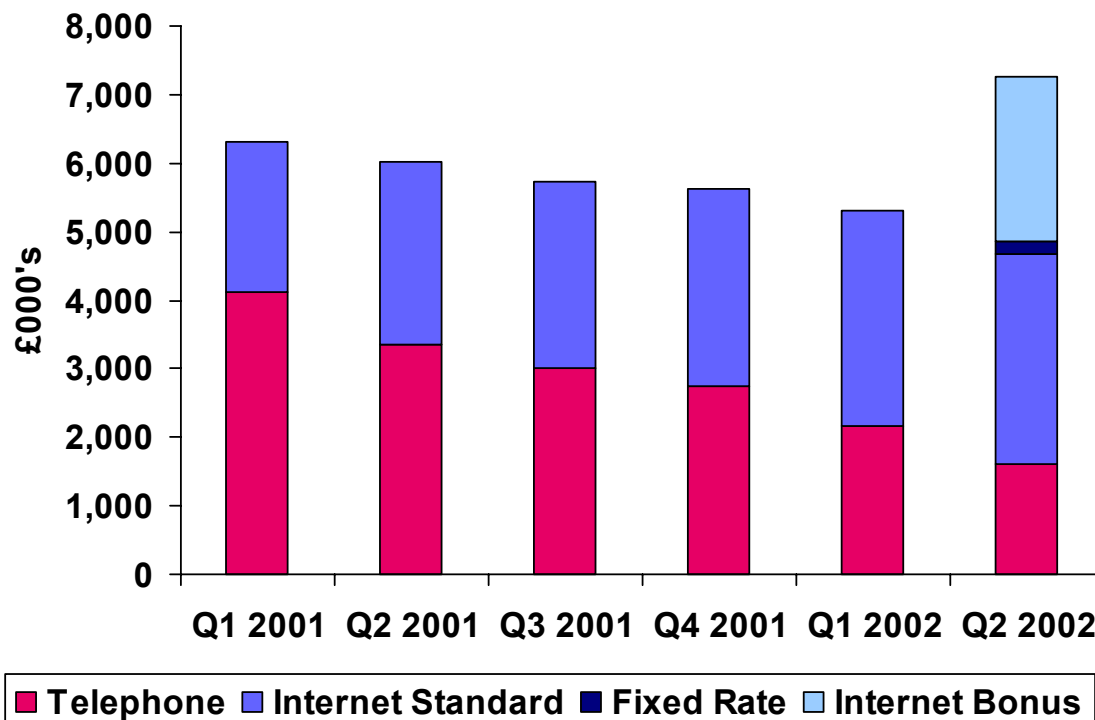
personal loans

profitable growth

- **volumes increasing - disbursements up 21% on H1 2001**
- **simplified application process**
- **pre-approved loans to card customers - improving credit quality**
- **9.9% flat rate proving very successful**
- **June was record month with 6,800 loan sales (June 2001: 4,800)**
- **significant reduction in unit marketing costs (H1 2002: £6, H1 2001: £51)**
- **PPI penetration remains high at 56%**

savings

growing the book and the margin



inflow of £2bn in Q2 2002

migrating customers to internet based account

net 59,000 new customers in H1 - total now 685,000

net interest contribution doubled to £13.8m in H1 2002

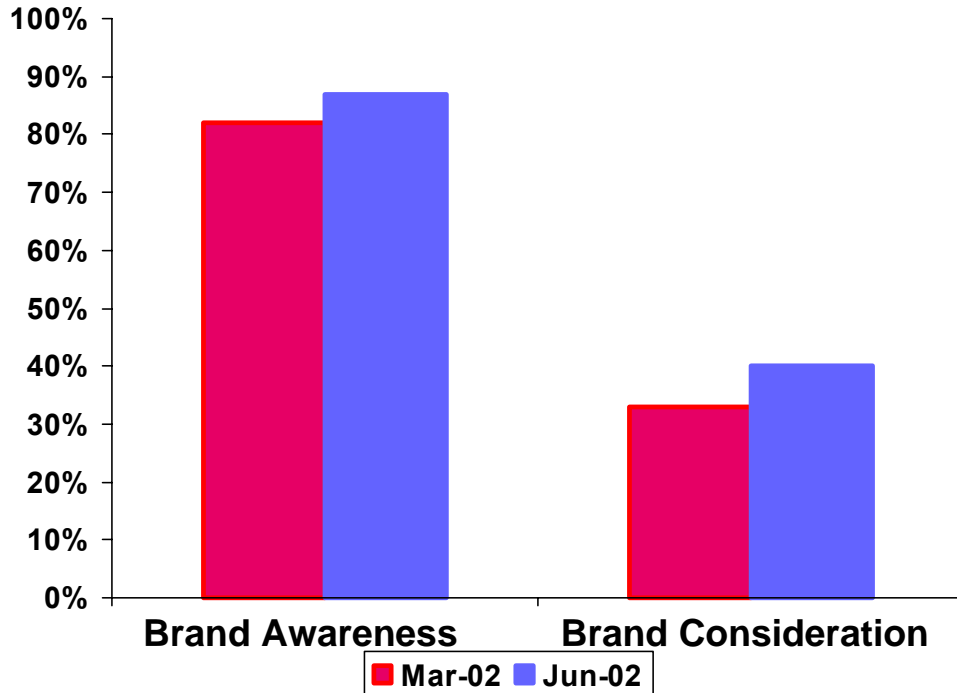
Egg Brand why refresh?



- global capability
- positioned firmly on the consumers side
- make things simple and straightforward

Egg Brand

what has it achieved?



**brand awareness and
brand consideration
both strongly up on
back of refresh
campaign**

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revenues versus costs

UK profit and loss account

	June 2002 £m	June 2001 £m
net interest income	111.5	59.8
other operating income	42.9	16.4
total revenue	154.4	76.2
operational & administrative expenses	(63.9)	(63.5)
brand & marketing costs	(20.7)	(21.1)
development costs	(9.9)	(7.8)
total administrative expenses	(94.5)	(92.4)
depreciation & amortisation	(9.6)	(9.8)
bad debt provision	(39.2)	(33.0)
operating profit/loss	11.1	(59.0)
share of associate/j.v. losses	(2.4)	(2.7)
profit/loss before tax	8.7	(61.7)

revenues up
103%

tightly
controlled
operating
costs

credit quality
remains high

profit and loss account

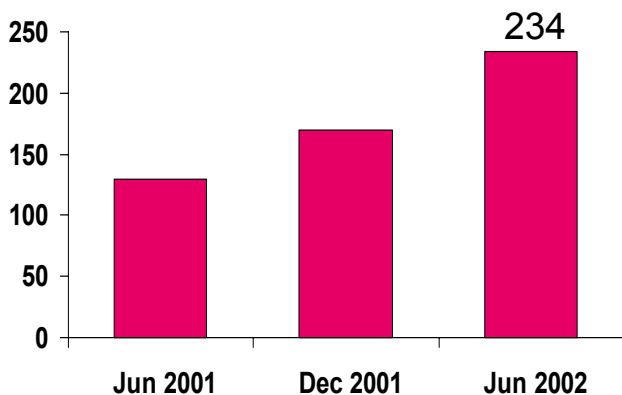
quarterly trend

£m	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002
total revenues	39.8	50.8	62.4	73.7	80.7
operational expenses	(32.5)	(32.5)	(30.8)	(31.8)	(32.1)
brand & marketing	(6.0)	(6.6)	(8.2)	(7.8)	(12.9)
development	(3.8)	(3.1)	(2.8)	(5.7)	(4.2)
total admin expenses	(42.2)	(42.2)	(41.8)	(45.3)	(49.2)
depreciation	(5.0)	(4.9)	(5.4)	(4.9)	(4.7)
bad debts provisions	(16.4)	(19.5)	(15.5)	(18.6)	(20.6)
UK operating profit/loss	(23.9)	(15.8)	(0.3)	4.9	6.2
share of associates	(0.6)	(0.7)	(1.2)	(0.8)	(1.6)
UK profit/loss before tax	(24.5)	(16.5)	(1.5)	4.1	4.6
international costs	(1.0)	(1.9)	(1.8)	(1.7)	(5.8)
restructuring	-	-	(2.7)	-	-
group profit/loss before tax	(25.5)	(18.4)	(6.0)	2.4	(1.2)

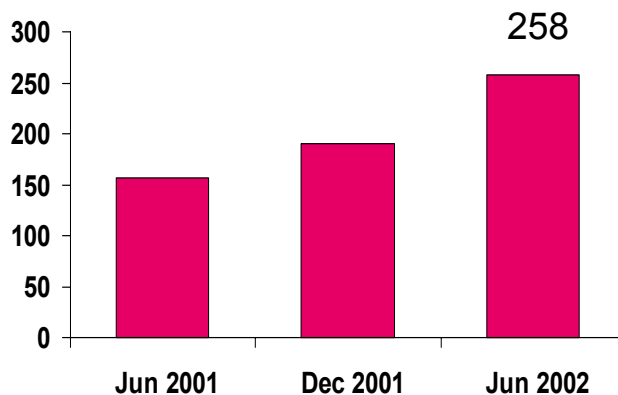
revenues versus costs

margins growing rapidly

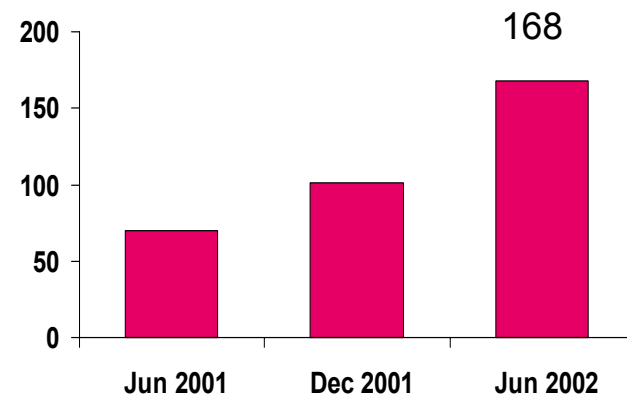
Interest Spread



Net Interest Margin



Risk Adjusted Net Interest Margin



card book now at scale
and able to absorb
acquisition strain

profit on offline savings
accounts mitigating cost
of new online offers

risk-adjusted margin has
now reached 168bps

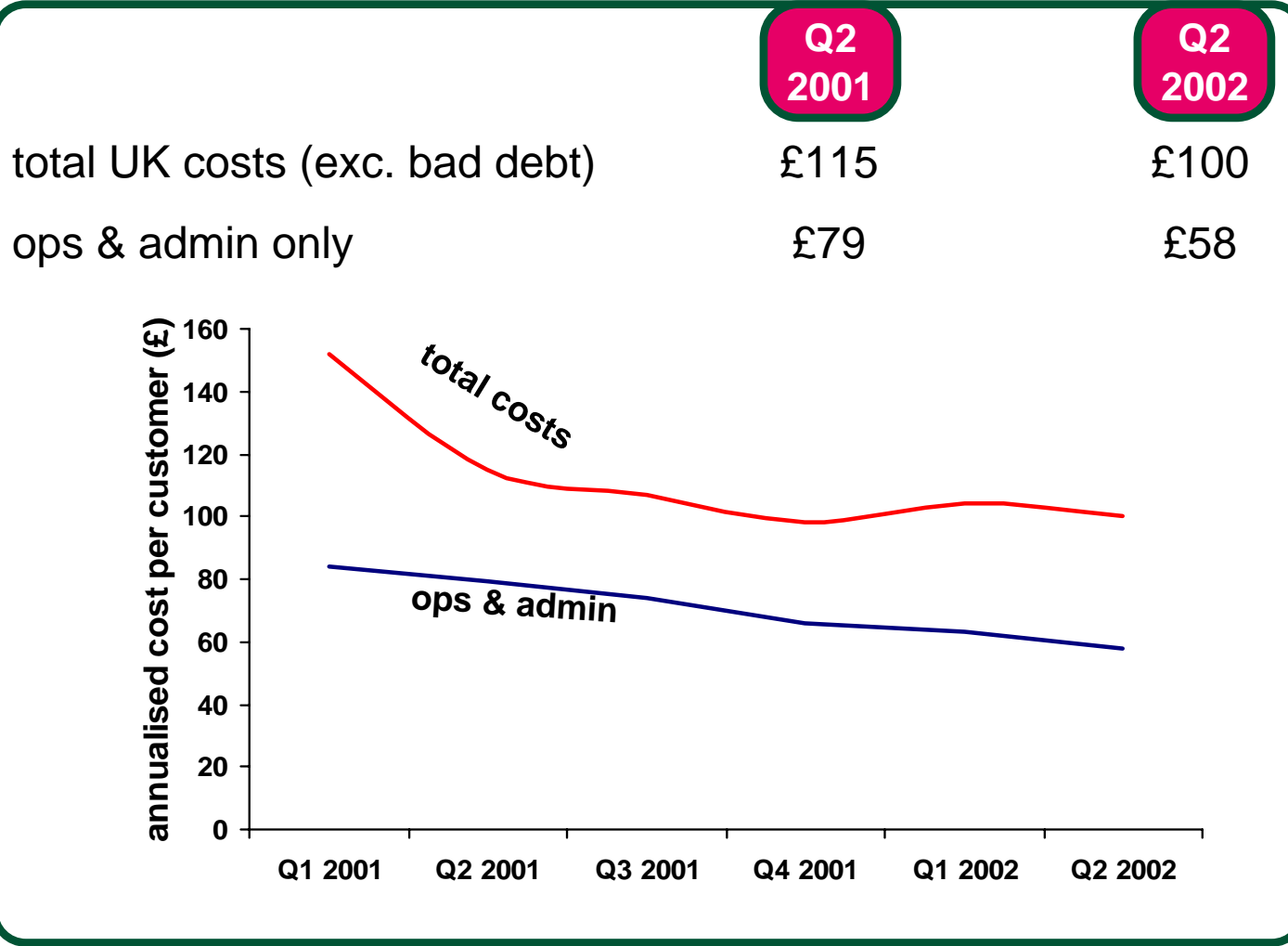
revenue versus costs

other operating income growing strongly

	June 2002 £m	June 2001 £m
commissions and profit share	16.4	12.8
credit card - insurance commissions	13.7	3.7
- other (incl. net interchange)	10.7	1.8
other (incl. treasury)	2.1	(1.9)
total other operating income	<u>42.9</u>	<u>16.4</u>

revenues versus costs

cost per customer falling



flexible
capacity
planning

card costs
reduction

economies of
scale

profitable asset growth

consolidated balance sheet

	June 2002 £m	June 2001 £m
mortgages	2,388	2,468
personal loans	666	542
credit cards	2,121	1,565
total retail assets	5,175	4,575
treasury assets	4,325	3,135
other assets	163	166
total assets	9,663	7,876
deposits	7,667	6,356
wholesale funds	1,110	652
subordinated debt	202	124
other liabilities	205	268
shareholders' funds	479	476
total capital & liabilities	9,663	7,876

card
balances
exceed £2bn

strong
deposit
growth on
back of new
product
offerings

balance
sheet nearly
£10bn

profitable asset growth

bad debts - continued strong performance

	secured		unsecured	
	June 2002	Dec 2001	June 2002	Dec 2001
customer balance (£m)	2,388	2,428	2,787	2,365
period end provision (£m)	3.5	3.4	101.4	77.4
% provision held	0.15%	0.14%	3.63%	3.26%
impaired balances (£m)	7.4	7.8	78.5	56.9
impaired as % total	0.31%	0.32%	2.82%	2.41%
provisions as % of impaired balances	47%	44%	129%	136%

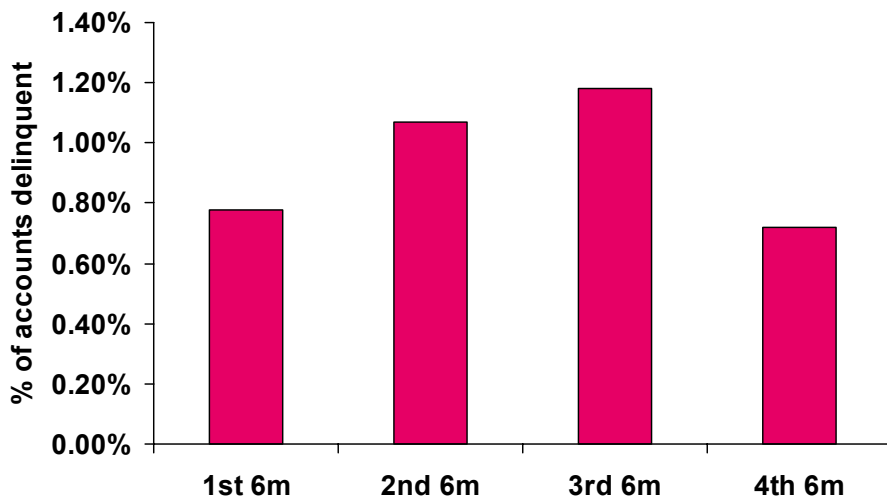
mortgages -
9 years
cover

unsecured -
growth in
book plus
stage of life
cycle

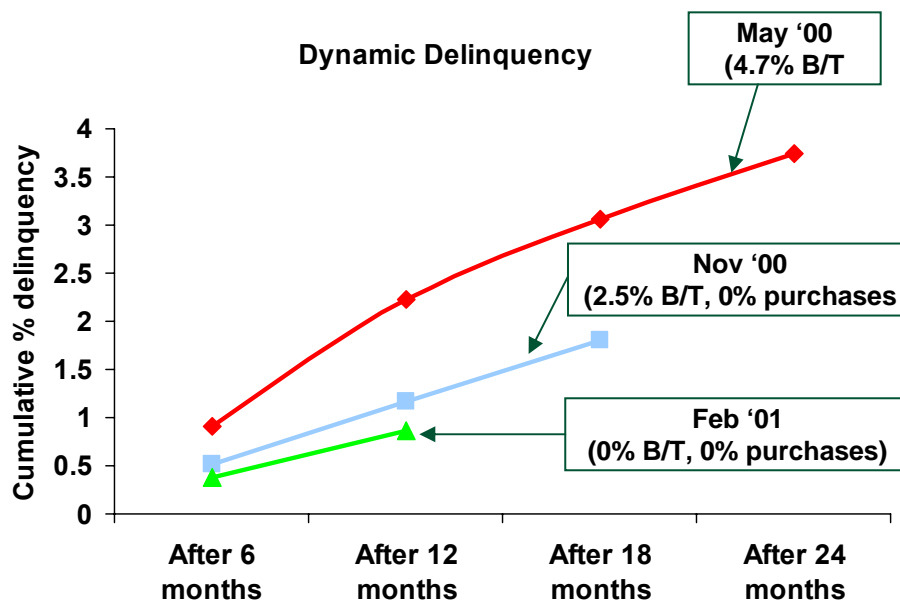
profitable asset growth

steady downward trend in delinquency

Emergence of Delinquency (Jan '00 tranche)



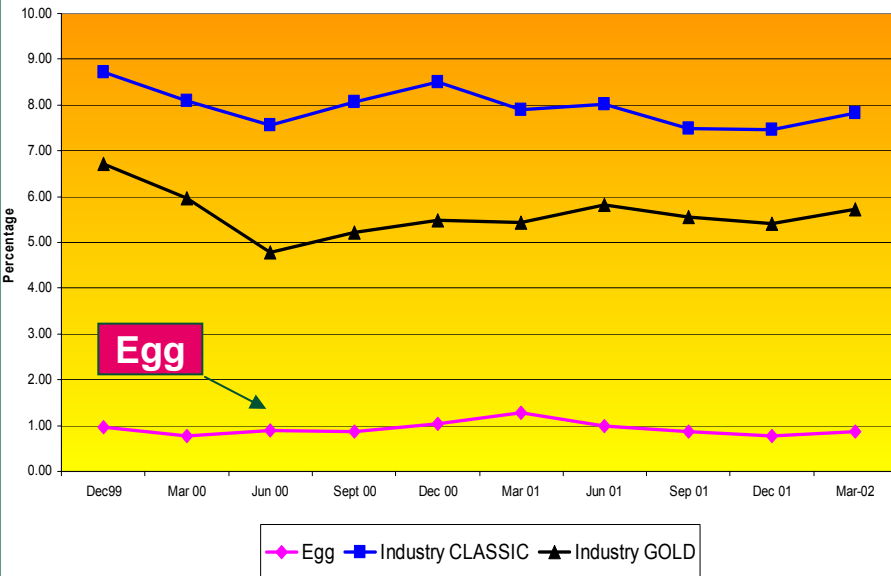
Dynamic Delinquency



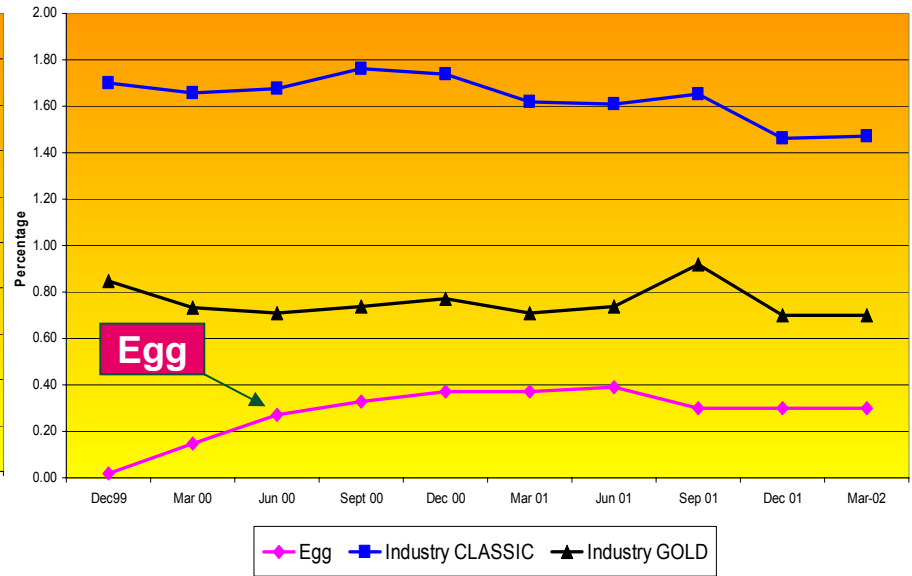
profitable asset growth

bad debt benchmarking

% 1 Cycle accounts



% 2 Cycle accounts



Source: Fair Isaacs Benchmarking

capital and funding

strong capital base

	June 2002	Dec 2001
tier 1 capital	£517m	£516m
total capital	£663m	£587m
risk-weighted assets	£5.0bn	£4.3bn
risk asset ratios		
- tier 1	10.4%	12.0%
- total	13.3%	13.6%

**strong risk
asset ratios**

**£75m tier 2
debt June
2002**

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What have we achieved?

- strong first half performance
- good customer acquisition figures combined with profits in UK
- revenues growing and costs under control
- Zebank deal completed

What's next?

- continue to grow our UK business profitably
- continue to innovate, focus on aggregation in H2 2002
- launch Egg in France