

Egg plc

**Interim Results
23 July 2003**

agenda

- **Operational Review - Paul Gratton (CEO)**
- **Financial Results - Stacey Cartwright (CFO)**
- **Outlook & Summary - Paul Gratton**

highlights

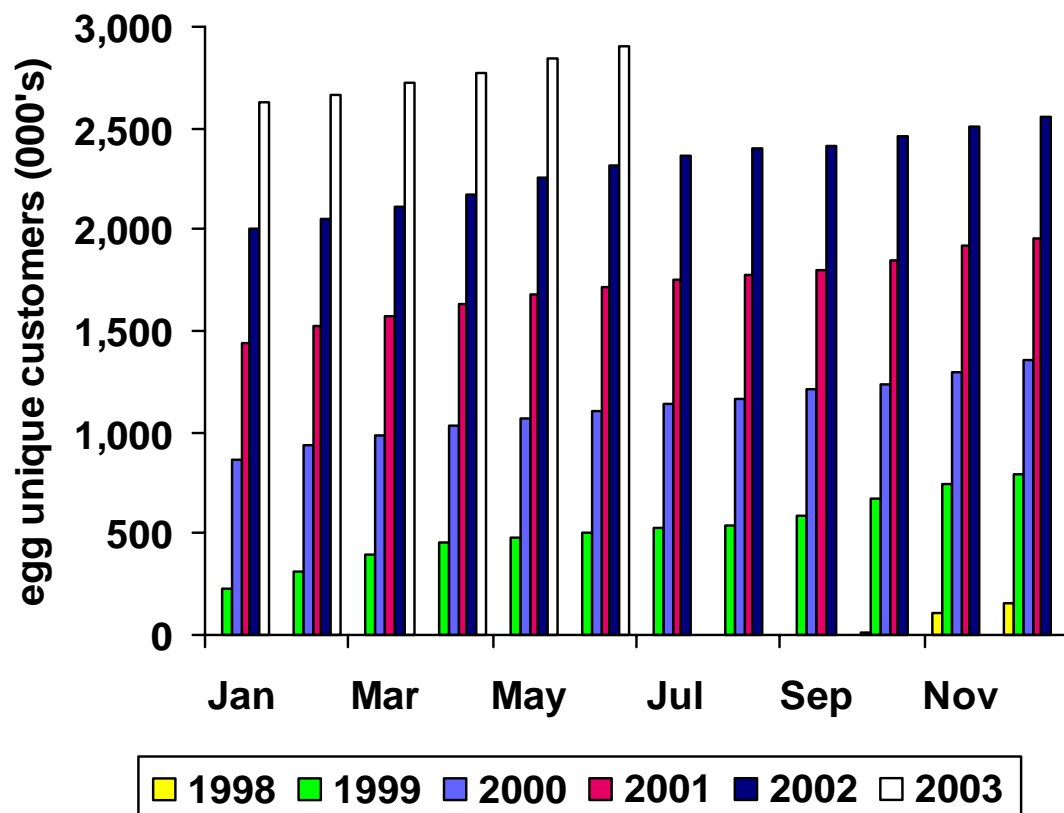
UK business

- UK business made £36.7m profit before tax (H1 2002: £11.6m)
- revenues of £200m were up 29% on H1 2002 with fees and commissions the real driver of growth
- total costs fell slightly at £103m while average customer numbers increased by 31%
- customer growth continues strongly with 340,000 net acquisition (H1 2002: 362,000)
- card balances reach £2.7bn (H1 2002: £2.1bn) and total unsecured lending is now £4.0bn (H1 2002: £2.8bn)
- record period for personal loan sales with £711m disbursed (H1 2001: £266m)
- savings balances fell by £0.7bn in line with expectations
- credit quality remains strong and industry benchmarking continues to show our portfolio as having lower arrears rates than other card companies

UK business review

customer acquisition

customer growth



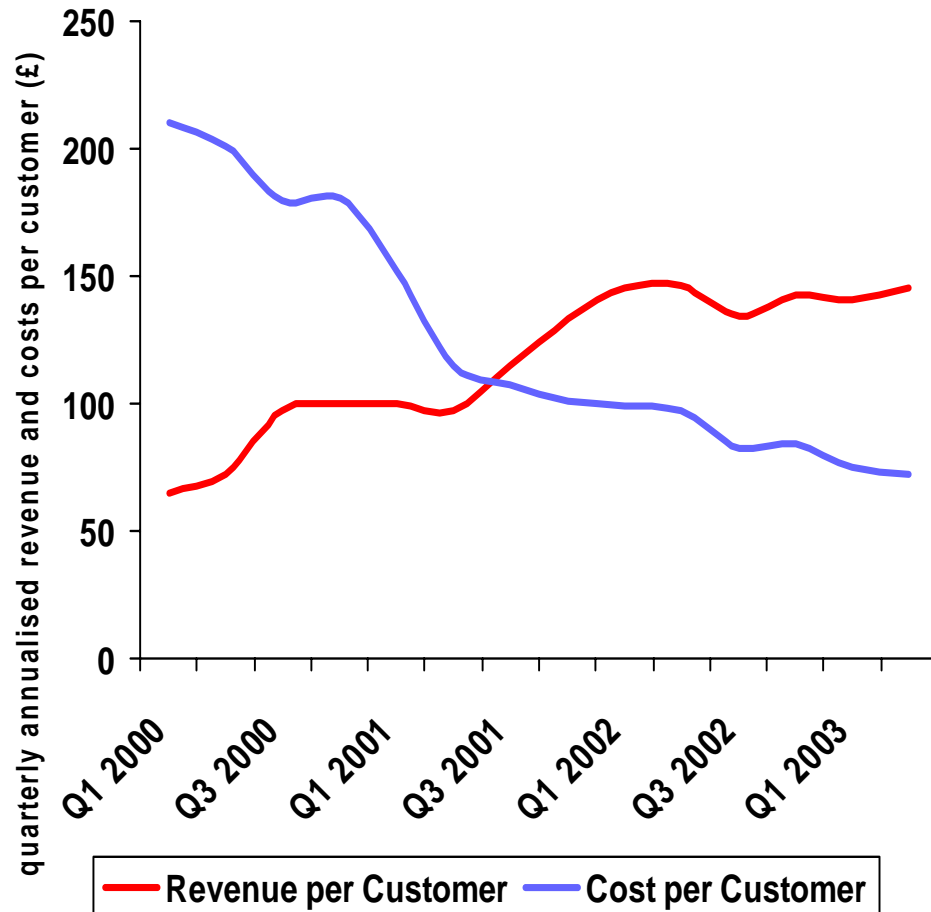
340,000 net new customers in H1 2002 (H1 2001: 362,000)

total Egg UK customers up to 2.9 million

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

UK business review

business model benefits emerging



revenue per customer has grown steadily while cost per customer has fallen sharply

revenue per customer sensitive to acquisition spikes where incentive offers slow margin growth

cost per customer showing the benefit of the digital model as volumes increase

UK business review

credit cards – continuing momentum

- **2.3m credit card customers (H1 2002: 1.7m)**
- **customer acquisition still proving robust despite proliferation of 0% offers following Egg's lead (Q2 was highest ever quarter for sales with 196,000 new card customers joining)**
- **marketing costs remain stable, operating costs demonstrating economies of scale and credit quality unchanged**
- **balances reach £2.7bn (5% share of total card market, 9% share of net card balance growth in 2003)**
- **book still maturing with further improvement in card yields (H1 2003: 9.8%, H1 2002: 8.5%)**

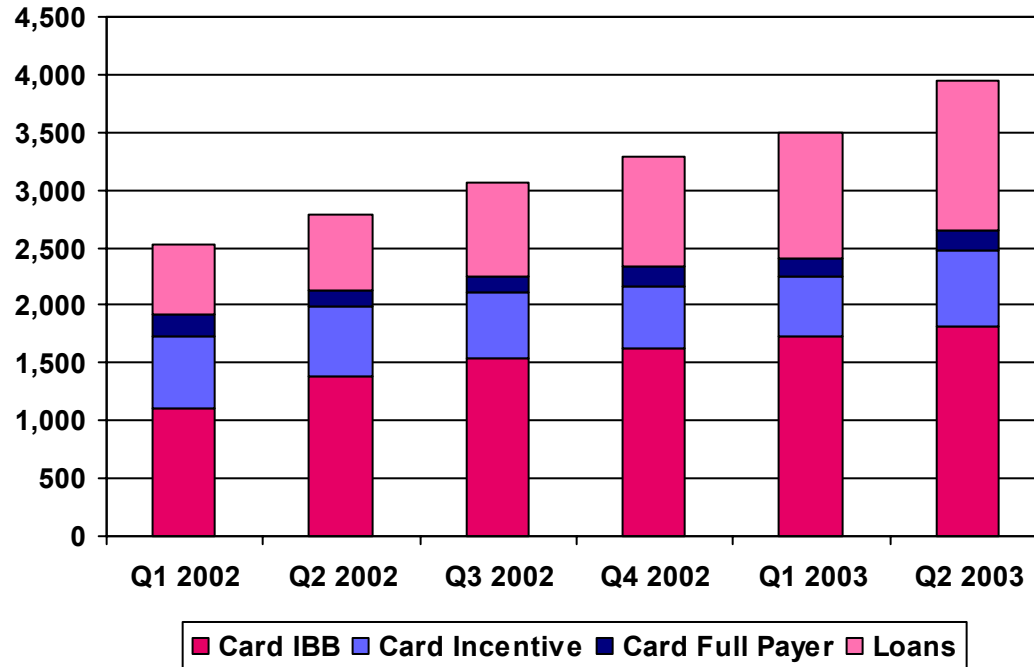
UK business review

personal loans – record growth

- record disbursements of £711m (H1 2002: £266m)
- cross sold to Egg card base resulting in better credit profile and lower marketing costs than directly acquired loans
- 181,000 loan customers now on board so significant capacity still available within card base
- MORI research shows 25% of Egg customers have a loan somewhere else – only 6% have a loan with Egg
- strongly value-enhancing (with early P/L benefit through associated insurance sales)
- PPI penetration rate currently running at 59%

UK business review

unsecured lending – portfolio analysis



overall unsecured lending balance growth of £1.0bn in the last 12 months

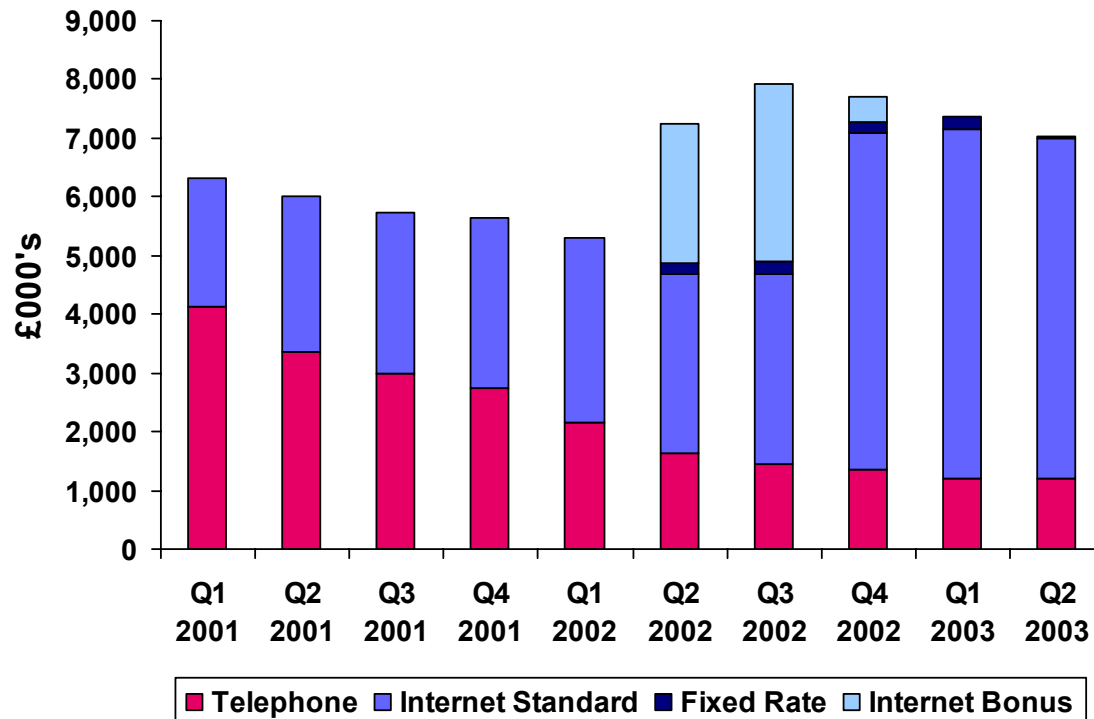
% of card customers on incentive rates rose to 25% in Q2 2003 following successful campaign

93% of balances revolve each month – this % has been stable over time

loan balances now account for half the growth in the portfolio

UK business review

savings – outflows in line with expectations



outflows are consistent with patterns in prior years

chosen not to compete aggressively on price since the bonus account campaign

£1.3bn surplus of retail deposits over retail assets on group basis

net interest contribution from deposits was £27.4m in H1 2003 (H1 2002: £13.8m)

France business review

key points

- **customer acquisition slower than original plans**
- **42,000 active cards at end June**
- **balances have doubled in Q2 over Q1 to €68m**
- **card usage and borrowing trends are both encouraging**
- **brand awareness (77%) and consideration (29%) are very creditable**
- **business performance being monitored closely having regard to our planned P/L investment of €300m**

Group P/L

analysis by business unit

	H1 2003 £m	H1 2002 £m
UK	36.7	11.6
France	(48.7)	(5.5)
Subsidiaries/Assoc/JV	(2.8)	(2.8)
Restructuring	(5.2)	-
Other International	(2.8)	(2.1)
	<hr/>	<hr/>
Group (Loss)/Profit Before Tax	<u>(22.8)</u>	<u>1.2</u>

**UK business
sustainably
profitable
(H1 profit > than
full year 2002)**

**France: start up
losses**

UK P/L

half year figures

	H1 2003 £m	H1 2002 £m
Net Interest Income	125.9	111.5
Other Operating Income	73.6	42.9
Total Revenue	199.5	154.4
Ops/Admin Expenses	(67.2)	(63.4)
Brand and Marketing	(18.9)	(20.7)
Development	(9.5)	(9.9)
Depreciation	(7.4)	(9.6)
Total Costs	(103.0)	(103.6)
Bad Debt Provision	(59.8)	(39.2)
Profit Before Tax	36.7	11.6

revenues up
29%

total costs fell
while average
customer
numbers grew
31%

credit quality
remains strong

UK P/L

quarterly trend

	Q1 2002 £m	Q2 2002 £m	Q3 2002 £m	Q4 2002 £m	Q1 2003 £m	Q2 2003 £m
Net interest income	55.3	56.2	53.8	58.0	64.3	61.6
Other Operating Income	18.4	24.5	25.8	30.9	30.6	43.0
Total Revenues	73.7	80.7	79.6	88.9	94.9	104.6
Ops/Admin Expenses	(31.7)	(31.7)	(33.3)	(36.8)	(32.9)	(34.3)
Brand & Marketing Costs	(7.8)	(12.9)	(6.0)	(7.9)	(9.0)	(9.9)
Development Costs	(5.7)	(4.2)	(4.2)	(3.3)	(4.9)	(4.6)
Depreciation & Amortisation	(4.9)	(4.7)	(4.7)	(4.2)	(4.0)	(3.4)
Provisions for Bad & Doubtful Debts	(18.6)	(20.6)	(21.2)	(23.7)	(26.8)	(33.0)
Egg UK Profit/(Loss)	5.0	6.6	10.2	13.0	17.3	19.4

revenues show
consistent growth
trend

ops/admin costs under
control and showing
scale benefits

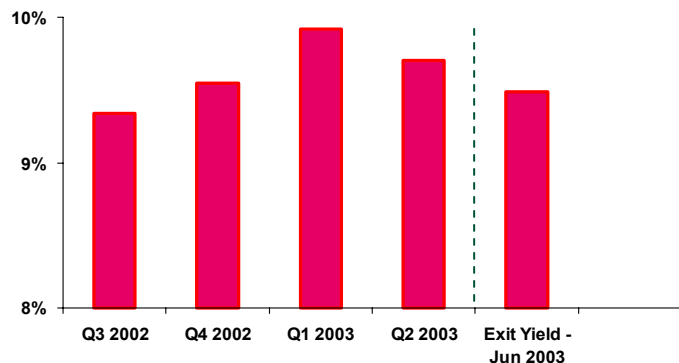
brand, marketing and
development costs
deployed tactically

credit costs grow
with size and mix
of book

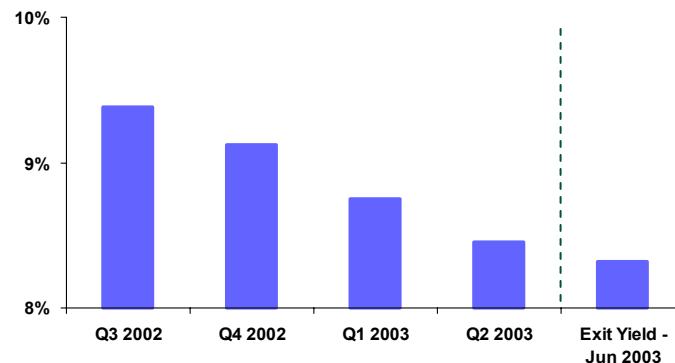
UK P/L

product yields – key trends

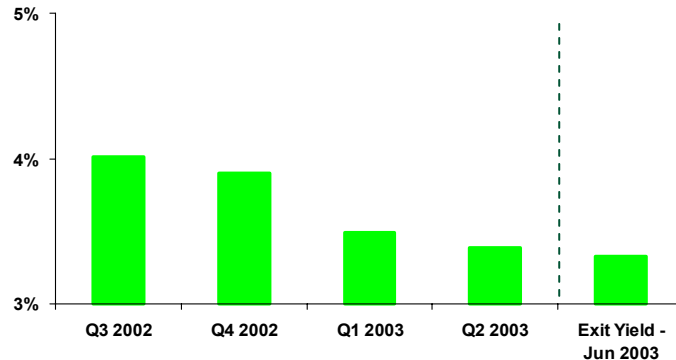
QuarterlyYields - Cards



QuarterlyYields - Loans



QuarterlyYields - Savings

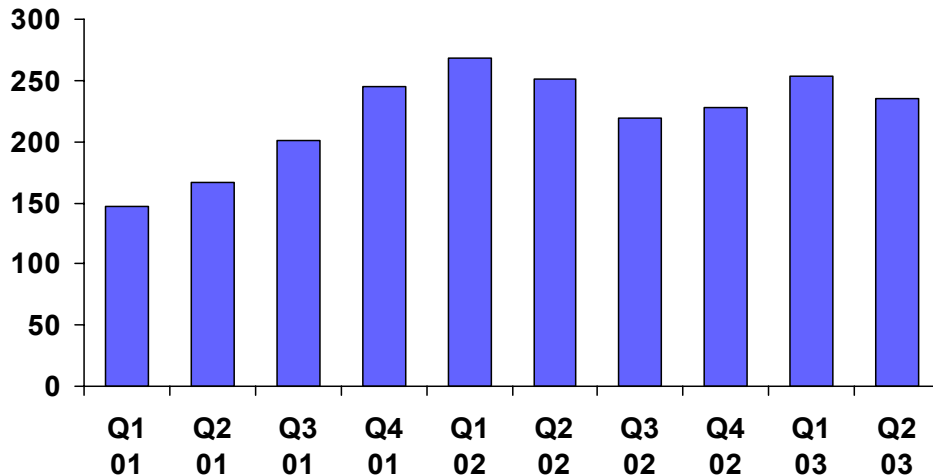


cards reflects strong acquisition in Q2 2003

savings reflects unwinding of bonus account in 2003

loans pricing decisions and success of cross sales campaign terms of volumes

Quarterly Interest Margins



Interest Margin

Half Year 2002: 2.59%
Full Year 2002: 2.36%
Half Year 2003: 2.44%

margins are stabilising around 2.5%: card maturity benefits offset by tactical loan pricing and debt funding

reduced margins Q2 over Q1 due to the record quarter for card acquisition with strain of 0% offer

impact of the savings bonus account pricing on margins is now fully unwound

UK P/L

other operating income

	H1 2003 £m	H1 2002 £m
PPI (incl. profit share)	35.1	16.4
credit card fees and commissions		
– insurance commissions	18.4	13.7
- other (incl. net interchange)	15.6	10.7
other (incl. treasury)	4.5	2.1
per statutory accounts	<u>73.6</u>	<u>42.9</u>

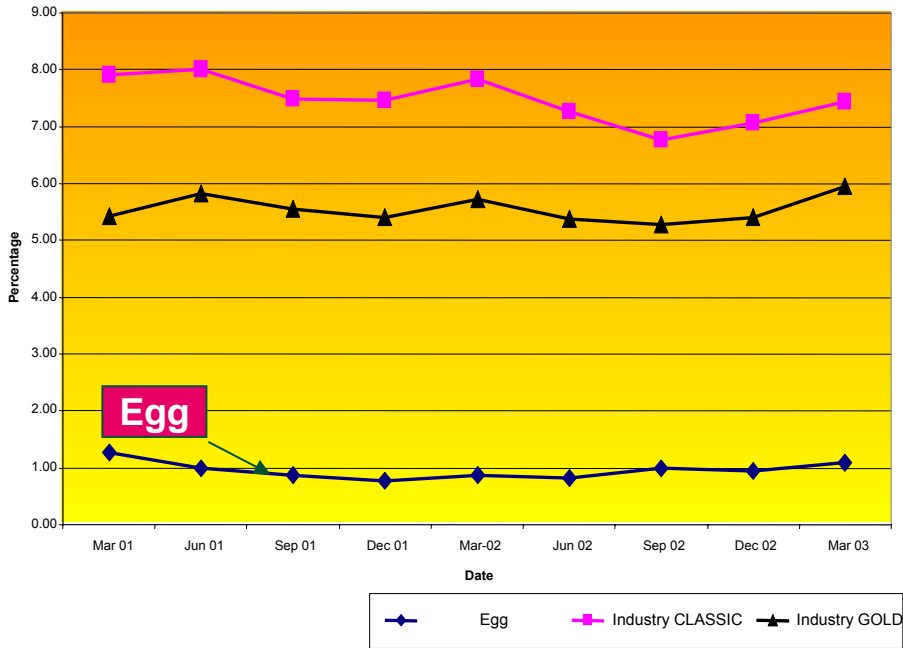
**strong growth in PPI on
back of record loans
volumes**

**card fees reflect greater
transactional revenues
from larger book plus
more new card
customers acquired than
prior year driving
insurance commissions**

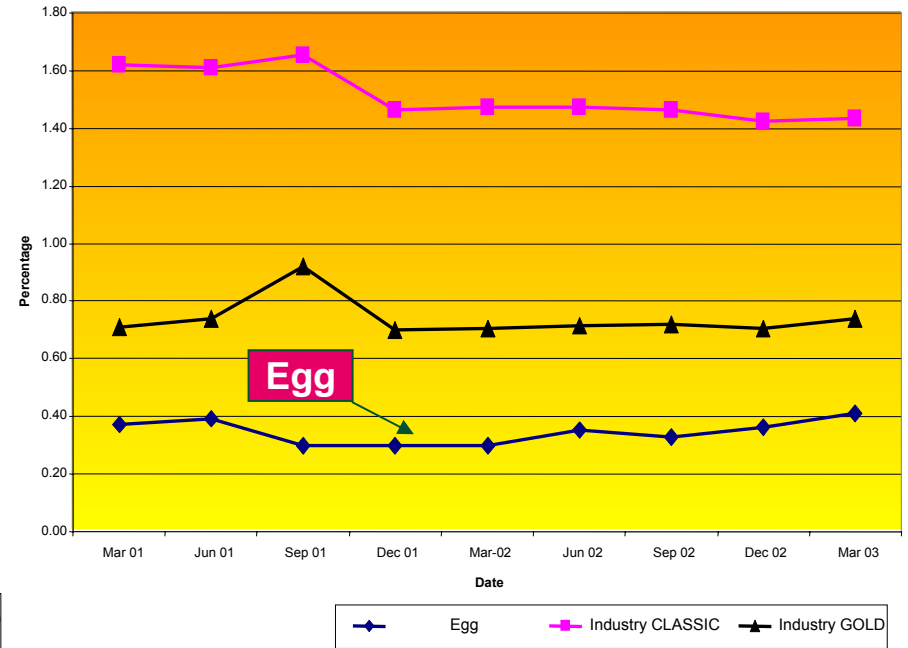
**improvement in other
income includes
additional £3.0m profit on
disposal of treasury
assets**

UK P/L bad debt benchmarking

% 1 Cycle accounts



% 2 Cycle accounts



Source: Fair Isaacs Benchmarking

UK P/L

bad debts - continued strong performance

	secured		unsecured	
	Dec 2002	Jun 2003	Dec 2002	Jun 2003
customer balance (£m)	2,360	2,222	3,302	3,953
period end provision (£m)	3.4	2.8	122.4	151.7
% provision held	0.14%	0.13%	3.71%	3.83%
impaired balances (£m)	7.6	8.2	96.6	129.9
impaired as % total	0.32%	0.37%	2.93%	3.28%
provisions as % of impaired balances	45%	34%	127%	117%

mortgages continue to require minimal provision and have healthy LTV ratios

unsecured book reflects higher proportion of loans in the portfolio and stage in the life cycle on card books

France P/L

key metrics

	Q1 2003 €'m	Q2 2003 €'m	H1 2003 €m	H1 2003 £m
Operating Income	0.4	1.6	2.0	1.4
- Brand and marketing	(14.5)	(13.6)	(28.1)	(19.2)
- Operating costs (including legacy products)	(14.3)	(16.0)	(30.3)	(20.7)
- Development	(2.5)	(2.4)	(4.9)	(3.3)
- Depreciation	(2.9)	(2.9)	(5.8)	(3.9)
- Bad Debt Provisions	(1.5)	(2.7)	(4.2)	(2.7)
	<u>(35.3)</u>	<u>(36.0)</u>	<u>(71.3)</u>	<u>(48.4)</u>
- Goodwill amortisation				(0.3)
Total				<u><u>(48.7)</u></u>

consolidated balance sheet

strong growth

	June 2003 £m	June 2002 £m
mortgages	2,222	2,388
personal loans	1,311	666
credit cards	2,642	2,121
total retail assets	6,175	5,175
treasury assets	4,388	4,325
other assets	593	163
total assets	11,156	9,663
deposits	7,317	7,667
wholesale funds	2,501	1,110
subordinated debt	451	202
other liabilities	446	205
shareholders' funds	441	479
total capital & liabilities	11,156	9,663

unsecured
lending
balances
increase by
£1bn

£250m of tier 2
subordinated
debt raised in
Q2 2003

£1bn secured
loan within
wholesale
funds

consolidated balance sheet

strong capital base and utilisation of efficiency tools

	June 2003	June 2002
tier 1 capital	£472m	£517m
total capital	£869m	£663m
risk-weighted assets	£4.9bn	£5.0bn
risk asset ratios		
- tier 1	9.7%	10.4%
- total	17.8%	13.3%

£1bn
credit card
securitisation
in past 12
months

credit default
swaps on
£1.7bn of
mortgages and
£1.1bn of ABS

£250m
additional tier 2
debt raised in
2003

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