

Egg plc

Preliminary Results

Analysts Presentation

23 February 2004

Agenda

- | | |
|--|-----------------------------|
| 1. Introduction | Paul Gratton (CEO) |
| 2. Egg France | Paul Gratton (CEO) |
| 3. Egg UK – Brand and Customer Base | Paul Gratton (CEO) |
| 4. Egg UK – Products and Marketing | Mark Nancarrow (COO) |
| 5. Financials | David Doyle (CFO) |
| 6. Q & A | Paul Gratton (CEO) |

Introduction

5 years on – Key Achievements

- **The World's premier internet financial services brand**
 - Leading and largest pure online bank
 - Proven first-mover advantage and sustainable market leadership
- **Industry leading marketing skills and CRM expertise**
 - Integrated customer communication strategies
 - Low unit marketing acquisition costs (74% of industry average)
- **Great products**
 - Substantial and profitable credit card portfolio (£3bn of balances)
 - Record volumes of personal loan cross sales
 - Track record on savings products
- **Leading edge technology and digital services potential**
 - Award winning IT, marketing, CRM and security technology
 - Account aggregation live on the Earl website, further tools in live pilot

Introduction

5 years on – Key Achievements

- **Substantial upmarket customer base**
 - 3.2 million unique customers with above average incomes and propensity to hold financial products
 - Target market growing with increasing internet penetration
- **Delivering a holistic customer experience**
 - High levels of customer satisfaction
 - Customer complaints at all time lows
- **Proven track record and robust growth prospects**
 - Turned UK business from £150m loss in 2000 to £70m profit in 2003, delivering 50% compound annual growth in customer numbers over that period
 - High customer loyalty and market growth potential

Agenda

- | | |
|--|-----------------------------|
| 1. Introduction | Paul Gratton (CEO) |
| 2. Egg France | Paul Gratton (CEO) |
| 3. Egg UK – Brand and Customer Base | Paul Gratton (CEO) |
| 4. Egg UK – Products and Marketing | Mark Nancarrow (COO) |
| 5. Financials | David Doyle (CFO) |
| 6. Q & A | Paul Gratton (CEO) |

- **France is a market ripe for a revolution in consumer experience of financial services**
- **Egg has built assets in France**
 - **Scaleable card and general banking operations**
 - **57% unprompted brand awareness and 22% prompted brand awareness**
 - **66,000 card accounts demonstrating profitable behaviour**
- **Options exist but decision on France is on hold until auction process is completed**

Agenda

- | | |
|--|-----------------------------|
| 1. Introduction | Paul Gratton (CEO) |
| 2. Egg France | Paul Gratton (CEO) |
| 3. Egg UK – Brand and Customer Base | Paul Gratton (CEO) |
| 4. Egg UK – Products and Marketing | Mark Nancarrow (COO) |
| 5. Financials | David Doyle (CFO) |
| 6. Q & A | Paul Gratton (CEO) |

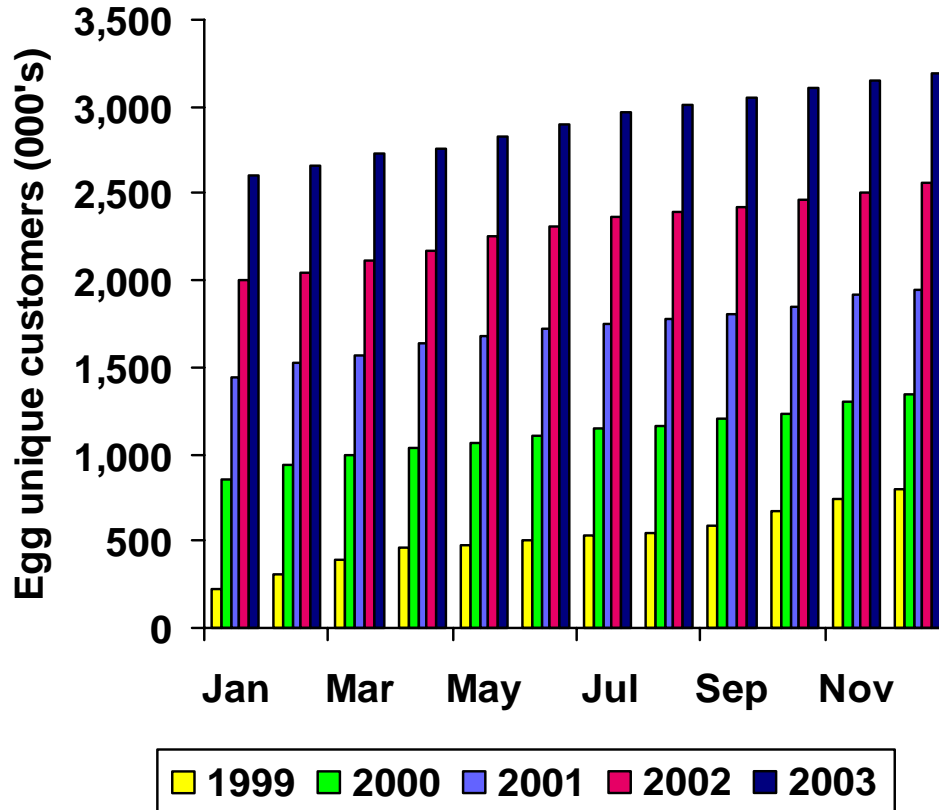
Egg UK

2003 Highlights

- **Profits more than doubled to £73m (2002: £35m)**
- **Revenues up almost 30% while total costs rose just 6%**
- **Unsecured lending balances grew by £1.5bn (2002: £0.9bn)**
- **Egg took 10% of the net market growth in credit card balances and 12% of the net market increase in personal lending in 2003**
- **Card balances reach £3.0bn (6% of UK market) up from £2.3bn in 2002**
- **Personal loan sales totalled £1.7bn up 108% on 2002 (£0.8bn)**
- **Credit quality remains strong with card arrears levels still well below industry average**

Customer Base Acquisition

customer growth



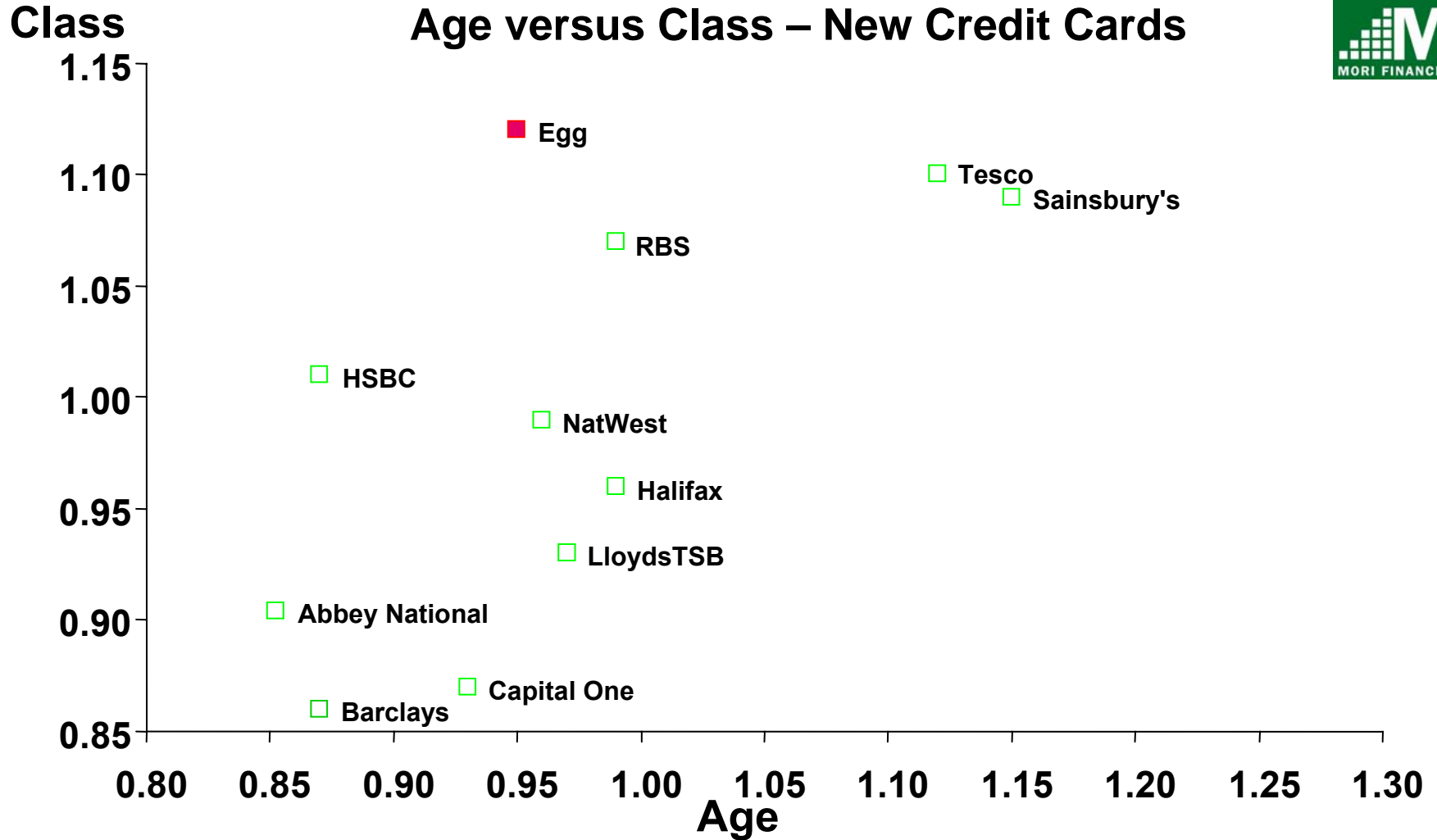
635,000 net new customers in 2003 (2002: 610,000)

total Egg UK customers up to 3.2 million

CAGR of 50% since 1998

Customer Base

Young and Upmarket



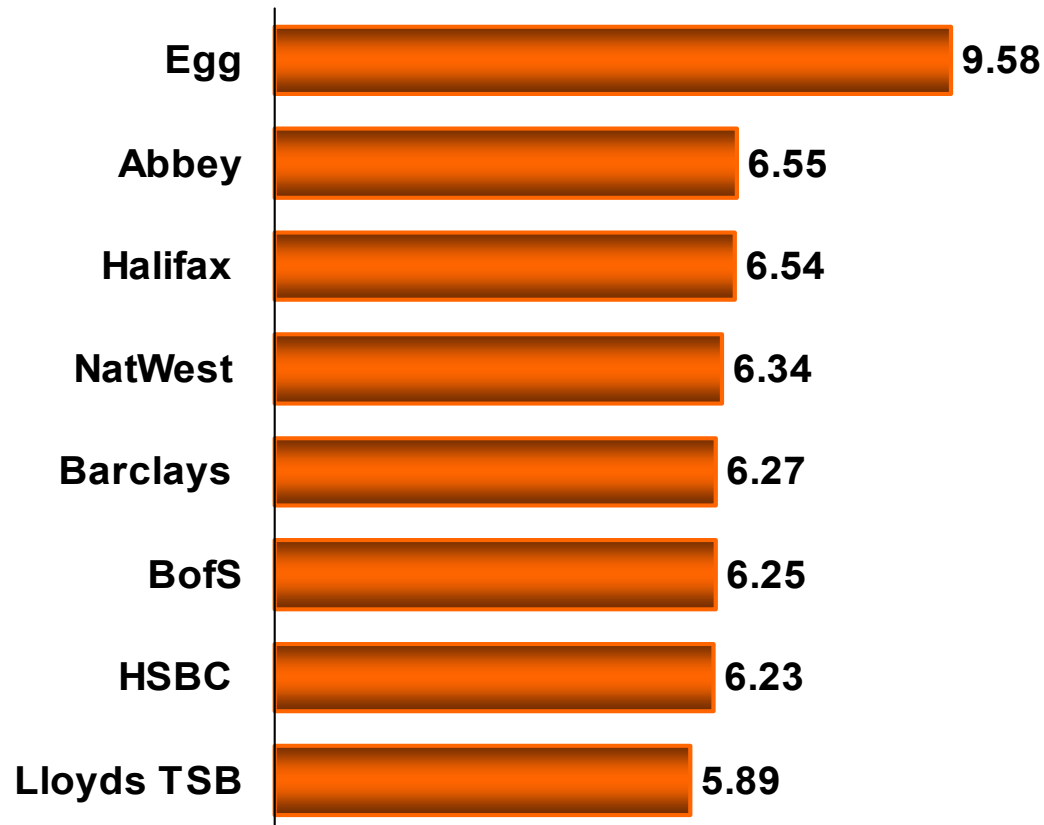
Note:

- Axes show index to market average, where t = market average
- GB 6 M/E June 2003

Customer Base

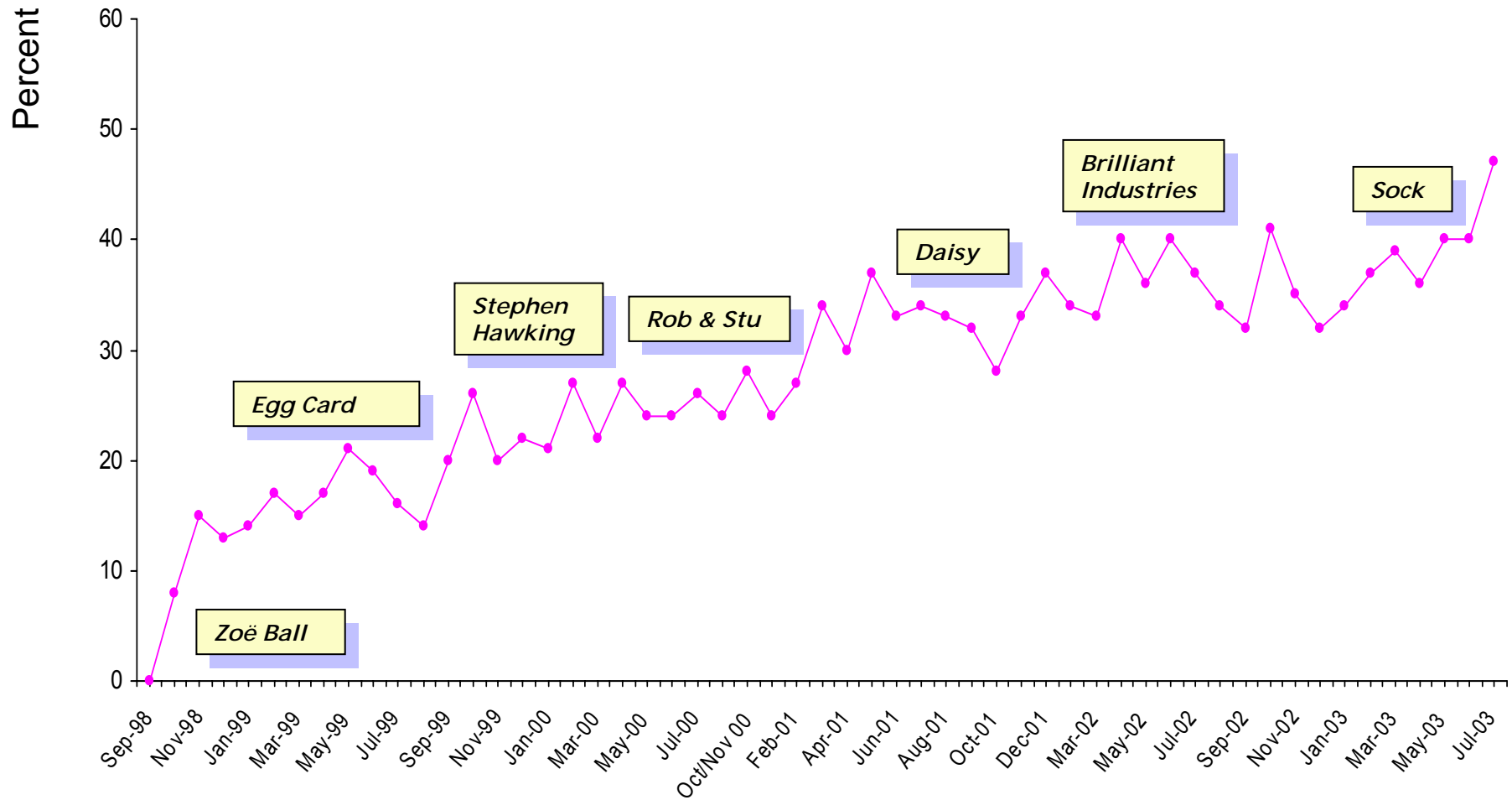
Financially Sophisticated

Number of Financial Products Per Customer



Brand

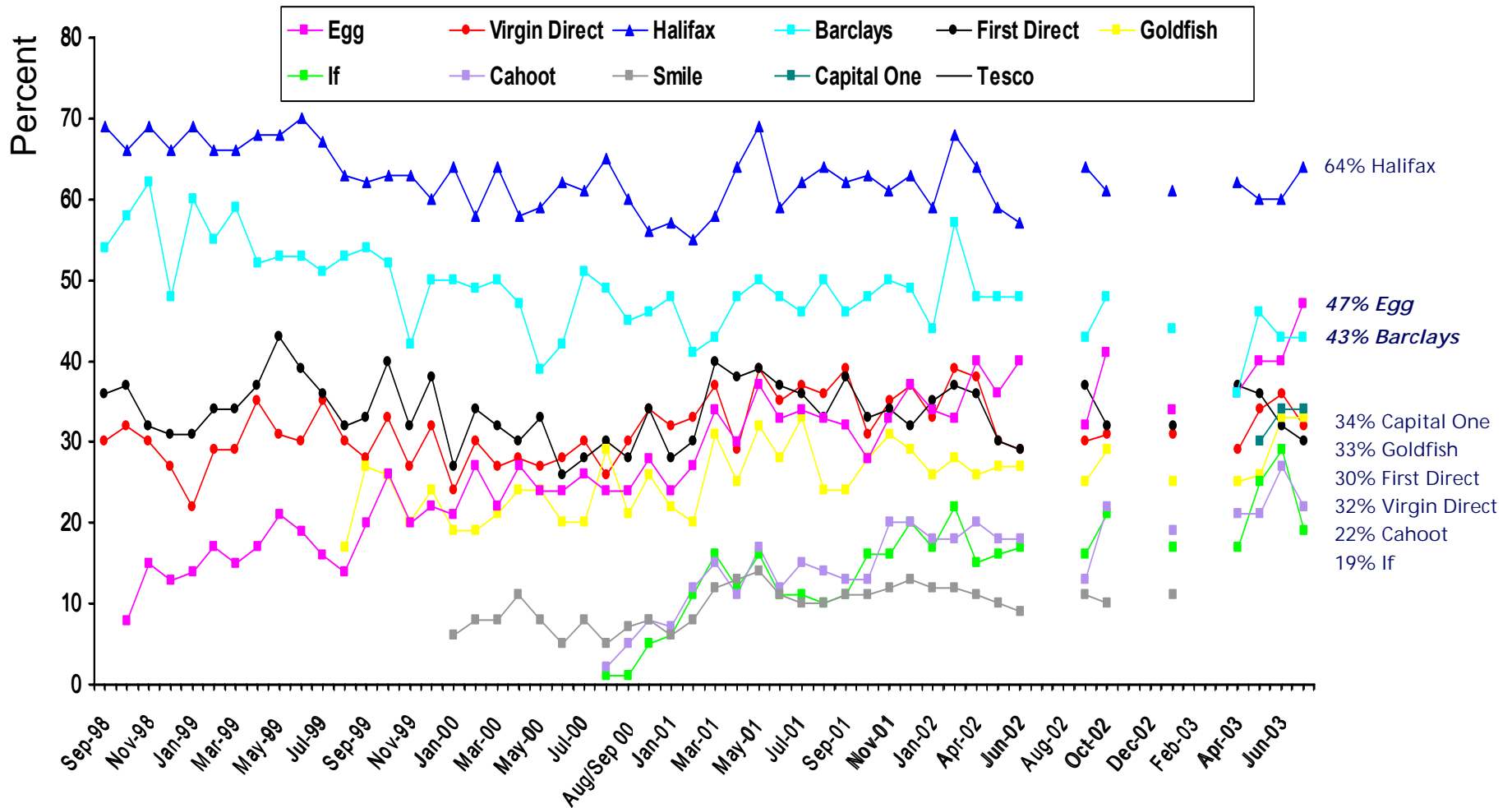
Consideration has developed strongly since launch



Source: Hall and Partners

Brand

Significantly greater consideration than other new entrants



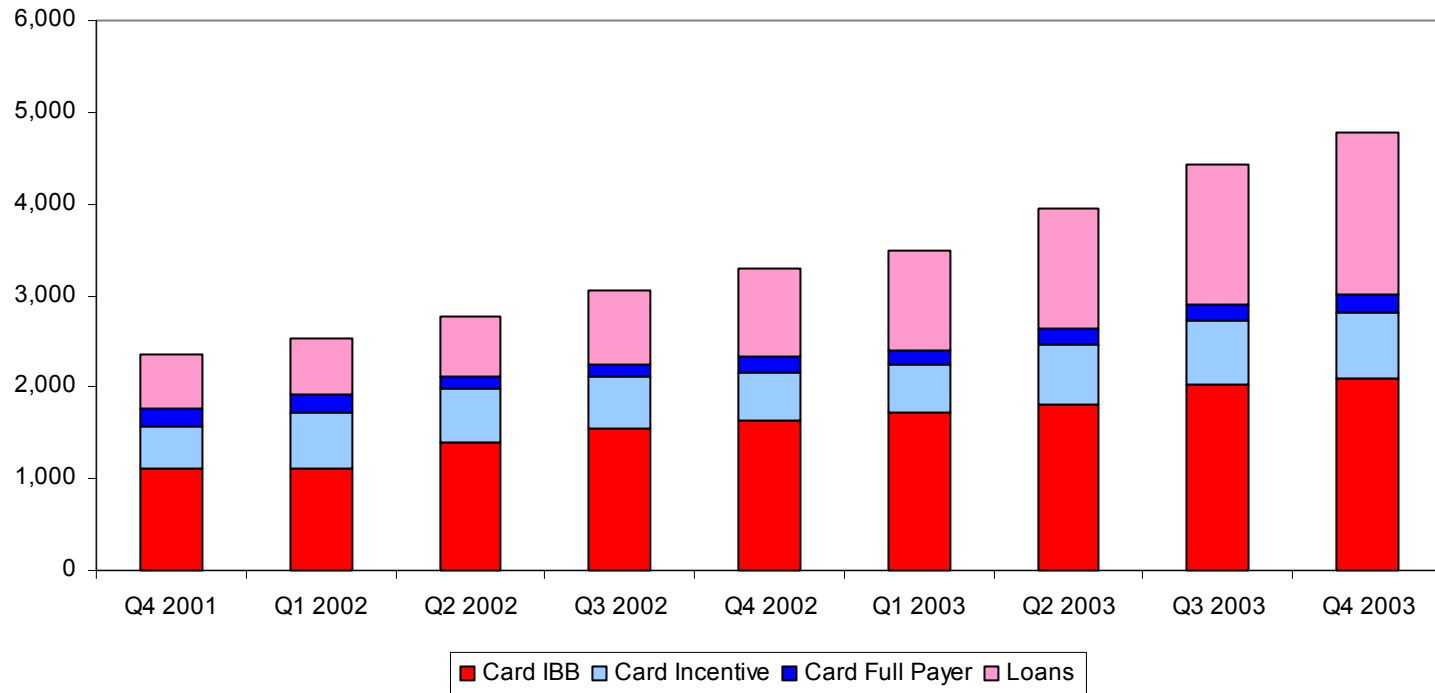
Source: Hall and Partners

Agenda

- | | |
|--|-----------------------------|
| 1. Introduction | Paul Gratton (CEO) |
| 2. Egg France | Paul Gratton (CEO) |
| 3. Egg UK – Brand and Customer Base | Paul Gratton (CEO) |
| 4. Egg UK – Products and Marketing | Mark Nancarrow (COO) |
| 5. Financials | David Doyle (CFO) |
| 6. Q & A | Paul Gratton (CEO) |

Products

Unsecured Lending – Profitable Balance Growth



IBB has risen from 62% of card base in December 2001 to 70% at December 2003

% of card book on incentive offers was 24% on average in 2003 having been 37% in 2001 and 27% in 2002

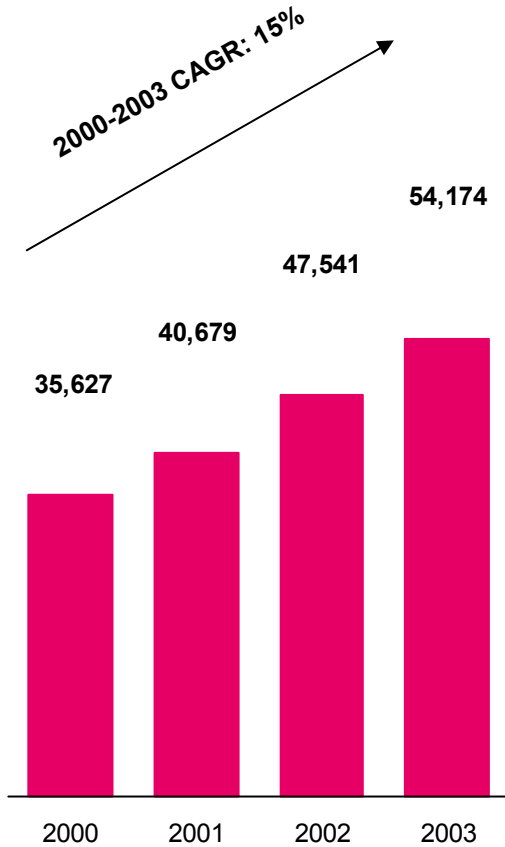
full payers have reduced as a % of the card book down to stable 7% level in 2003

loans now represent 37% of the total unsecured book (2001: 25%) (2002: 29%)

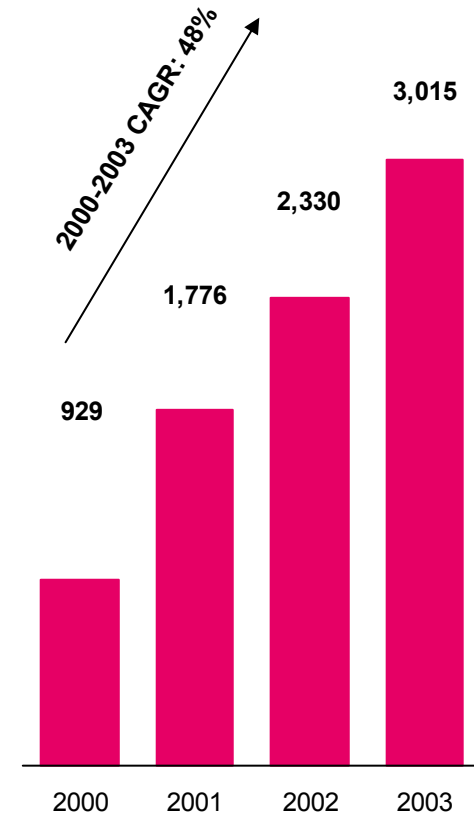
Cards

Market Growth

UK Market Receivables (£m)



Egg Card Receivables (£m)

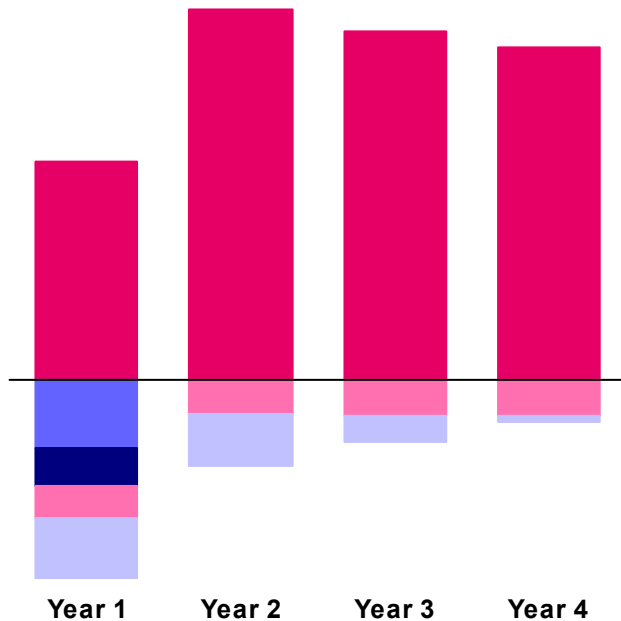


Cards

Indicative Portfolio New Business Economics

Contribution (£)

Total Contribution	(30)	140	140	140
--------------------	------	-----	-----	-----



- Net Revenues
- Marketing Acquisition Costs
- Set-up Costs
- Servicing and other Costs
- Bad Debts and Fraud

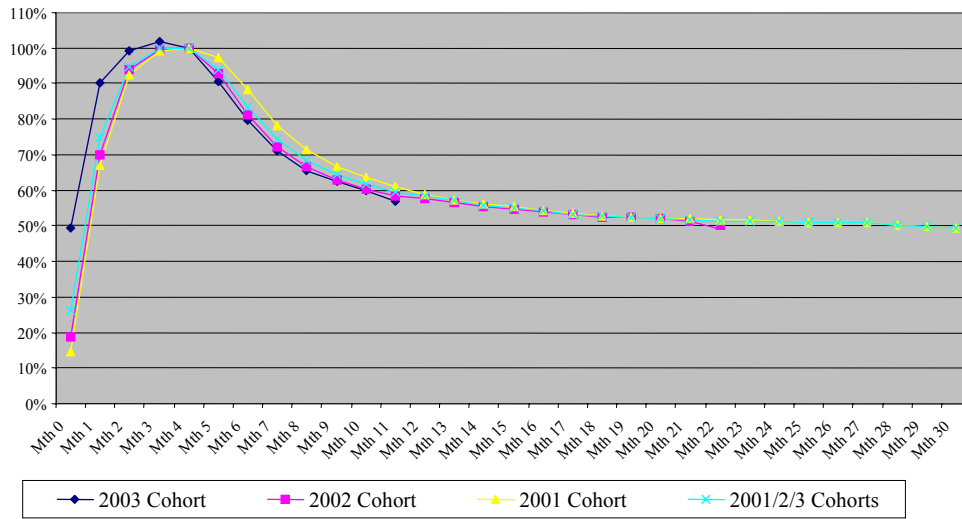
Key Observations

- Initial marketing costs, setup costs, incentive offers and general bad debt provision means cards are loss-making in year 1
- Servicing costs low throughout life
- Smooth and predictable profit flows from year 2 onwards

Cards

Balance Profile by Cohort

Balance Run-Off By Elapsed Month : Balances peak in Mth 4



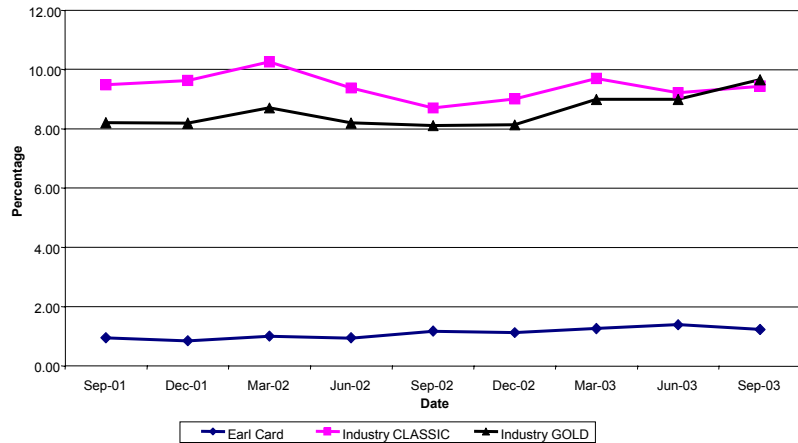
Key Observations

- The current Egg product offering generates a highly predictable shape of balance growth for each cohort of business as:
 - Customers on promotional rates build balances rapidly over the first 4 months and then pay down either partially or in full at the end of their promotional period.
 - Thereafter balances remain very stable with approximately 85% of balances being interest bearing.
 - Underlying attrition and unsecured lending cross sales are partially offset by additional balance transfers to existing customers

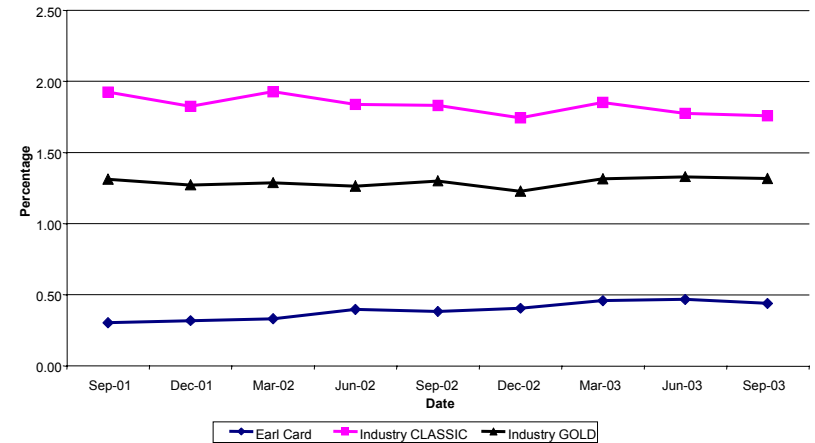
Cards

Credit Quality - Delinquency

% 1 Cycle Balance



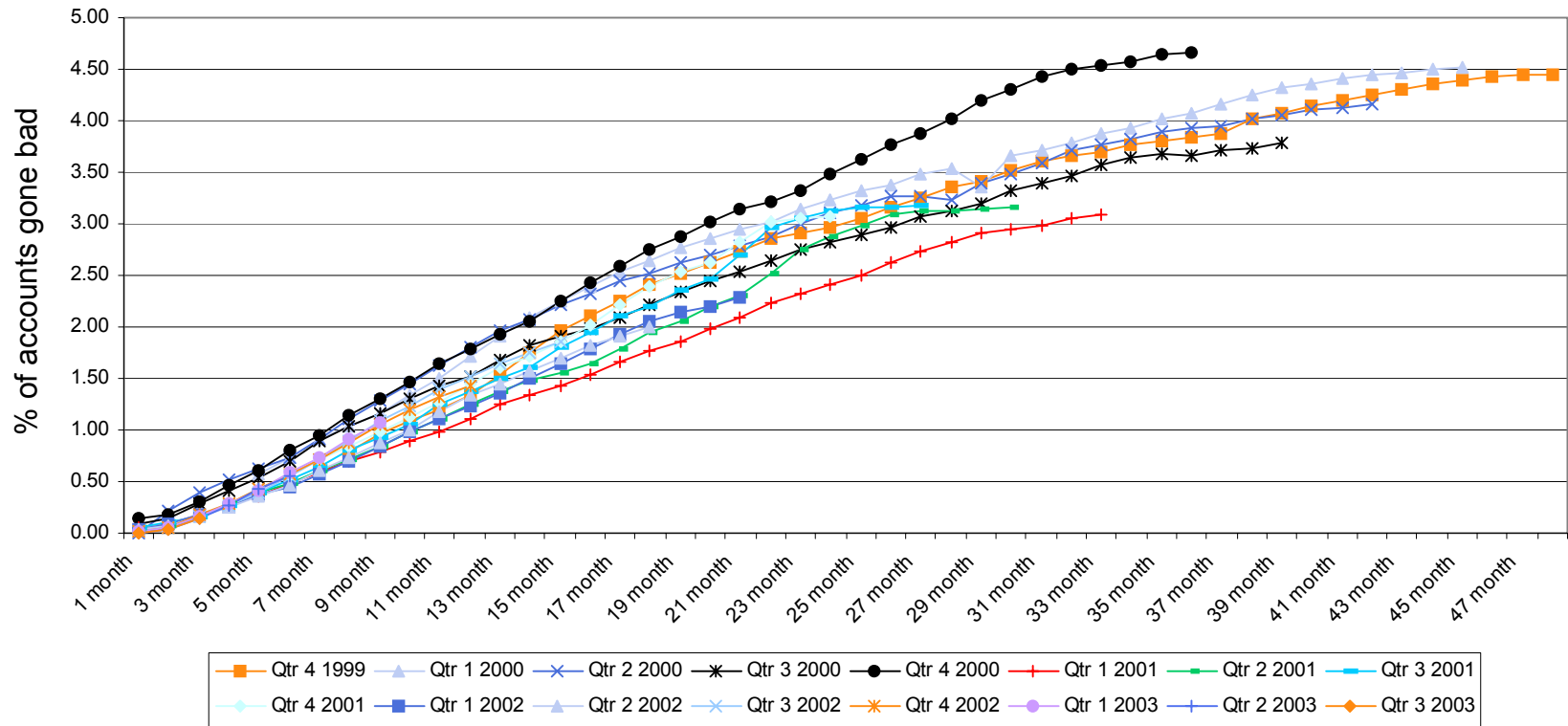
% 2 Cycle Balance



- Levels of impaired balance consistently out perform industry Classic and Gold portfolios
- Brand benefits – upscale population
- Digital filter – customers have outperformed expectations based on demography alone
- Product – direct debit proposition has transformed credit management
 - Early collections activity, pre-delinquency
 - Accelerated treatment strategies

Cards

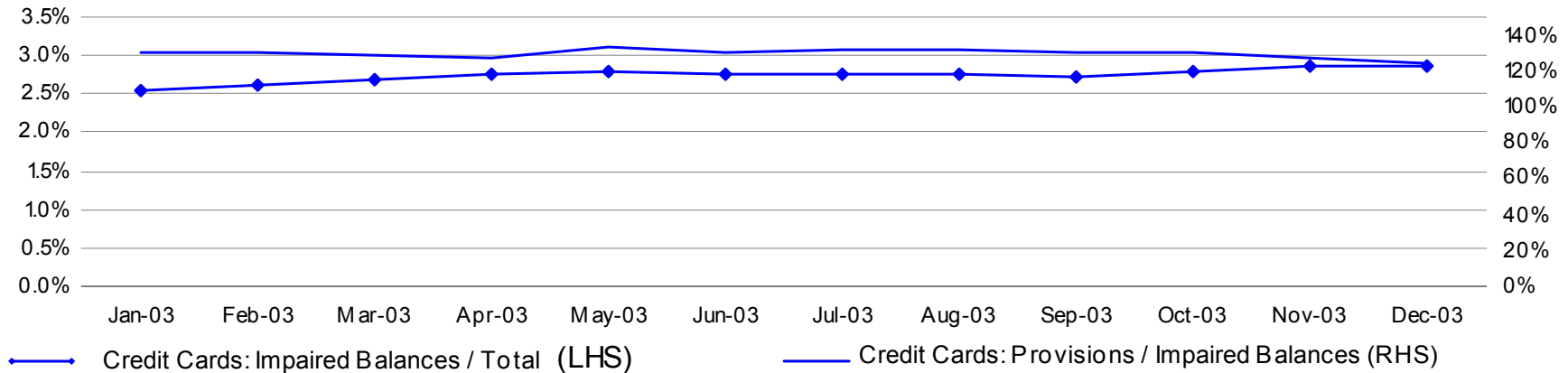
Emergence of 'Bad' Accounts over Time



The emergence of 'bad' accounts shows a consistent trend over time, with recent cohorts outperforming the average

Cards

Provisions and Impaired Balances as % of Portfolio



Levels of impaired balances have grown in line with expectations given the growth of the portfolio and the timing of debt emergence

Provisions as % of impaired balances have been stable with marginal improvement in Q4 being attributable to the better recoveries on externally placed debt

Loans

Profitable Portfolio Growth

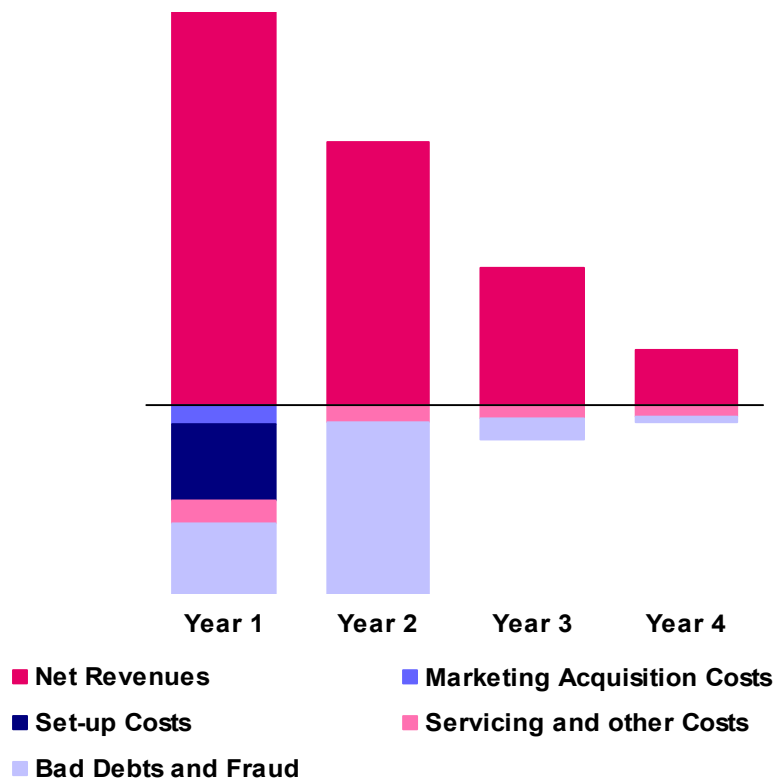
- **CRM capability driving highly successful cross sales strategy**
- **Record disbursements of £1.7 billion (2002: £0.8 billion)**
- **Net balance growth of £800 million which was 12% of the net market growth in 2003**
- **Egg now has 1.5% of the total market**
- **40% of Egg customers have a loan somewhere, Egg has just 15% of those loans (i.e. 6% of our base cross sold to by end 2003)**
- **PPI penetration at just over 60%**
- **Improving credit profile**

Loans

Indicative Portfolio New Business Economics

Contribution (£)

Total Contribution	180	30	50	20
--------------------	-----	----	----	----

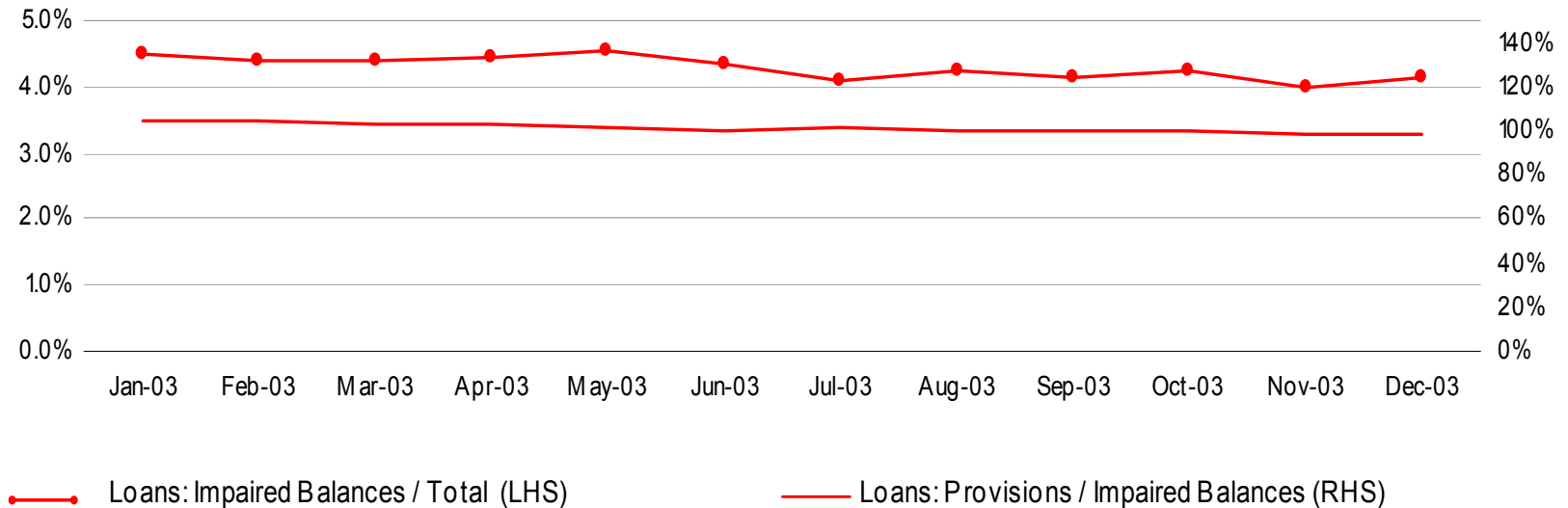


Key Observations

- Upfront PPI commission dominates year 1 cashflows
- Smaller contribution thereafter results from
 - Peak of bad debts is in the first 24 months
 - Repayment and redemption profile naturally erodes interest income

Loans

Provisions and Impaired Balances as % of Portfolio

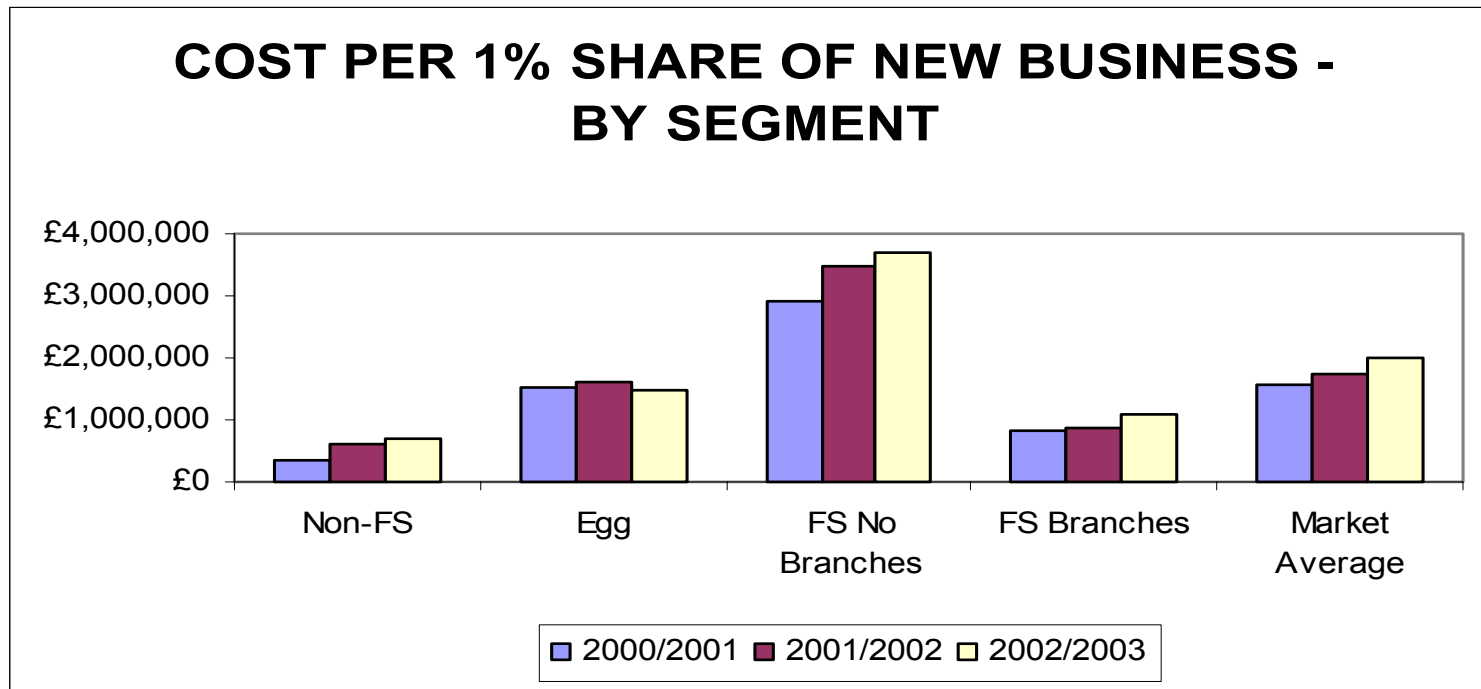


Impaired balances are higher % of book than on cards but falling over time as more cross-sold loans in the mix which are higher quality

Provision levels have remained stable with the improvements in Q4 2003 again due to better recoveries on externally placed debt

Marketing Acquisition Costs

Egg acquisition costs are 40% of those of its direct competitors and 74% of the industry average



(Source: Mori/Thomson InterMedia)

Marketing

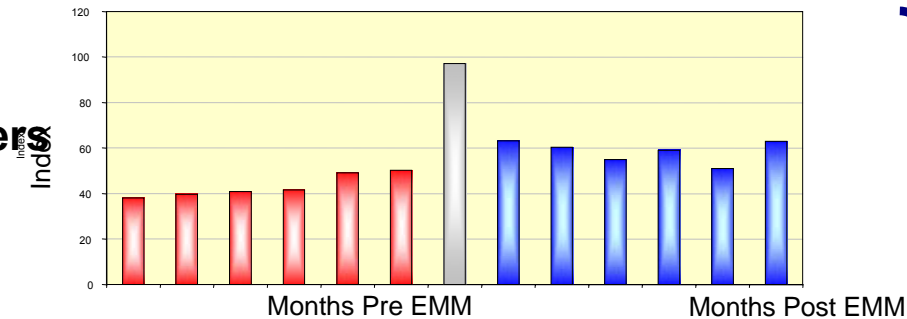
Applying our CRM capability

- **CRM best practices: Egg's cutting edge play (Forrester research, September 2003) "... In the past two years, Egg has quietly built a world-class CRM infrastructure..."**
- **Further loan cross sales**
- **New card proposition**
- **Insurance**
- **Mortgages**

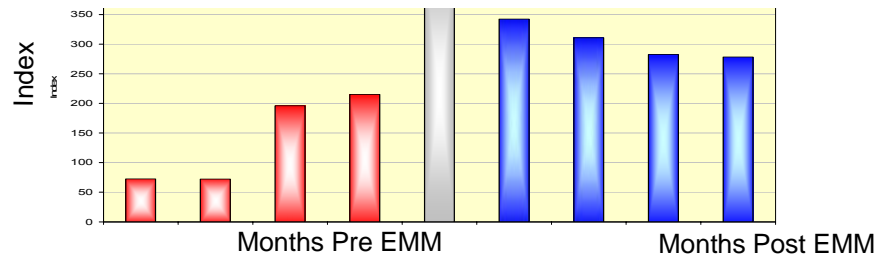
New Initiatives

Evidence of Valuable Behaviour in Current Egg Money Manager Customers

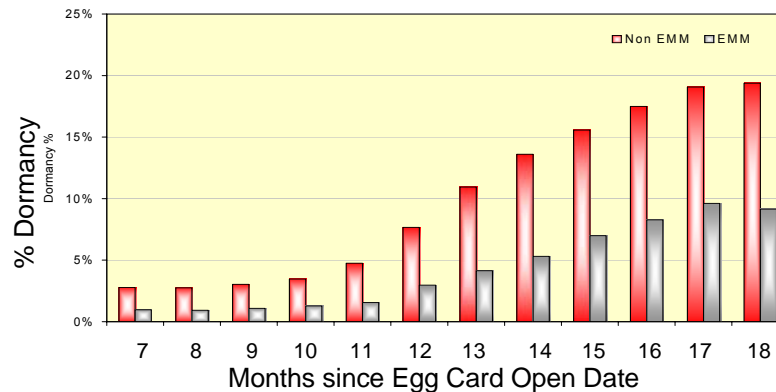
20% additional card balance transfers with money manager



Increased website visits with money manager



Dormancy reduced by 50% with money manager



Conservatively these improvements suggest a 20% increase in value per customer

Agenda

- | | |
|--|-----------------------------|
| 1. Introduction | Paul Gratton (CEO) |
| 2. Egg France | Paul Gratton (CEO) |
| 3. Egg UK – Brand and Customer Base | Paul Gratton (CEO) |
| 4. Egg UK – Products and Marketing | Mark Nancarrow (COO) |
| 5. Financials | David Doyle (CFO) |
| 6. Q & A | Paul Gratton (CEO) |

Profit and Loss Account

Group – Analysis by Business Unit

	2003 £m	2002 £m
Egg UK	72.8	34.8
Egg France	(89.1)	(46.7)
Other International	(4.3)	(3.4)
Subsidiaries/Assoc/JV's	(3.6)	(1.3)
Restructuring	(10.3)	-
Group Loss Before Tax	(34.4)	(16.6)

Egg UK profits more than double

France reflects full year of investment after launch in November 2002

Restructuring has removed circa £12 million of payroll costs

Profit and Loss Account

Egg UK

	2003 £m	2002 £m
Net Interest Income	263.0	223.3
Other Operating Income	156.6	102.7
Total Revenue	419.6	326.0
Ops/Admin Expenses	(143.6)	(133.5)
Brand and Marketing	(33.9)	(34.6)
Development	(19.9)	(17.4)
Depreciation	(18.4)	(18.5)
Total Costs	(215.8)	(204.0)
Amounts w/o Fixed Asset Inv.	(4.3)	(3.1)
Bad Debt Provision	(126.7)	(84.1)
Profit/(Loss) Before Tax	<u>72.8</u>	<u>34.8</u>

Revenues up 29%

Ops/Admin costs up 8%
while customer numbers
grew 25%

Industry leading marketing
efficiency

Increased investment in
development (CRM and
Basel II)

Wholesale provisions –
prudent accrual to first
loss level of credit
derivative

Retail credit quality
remains strong

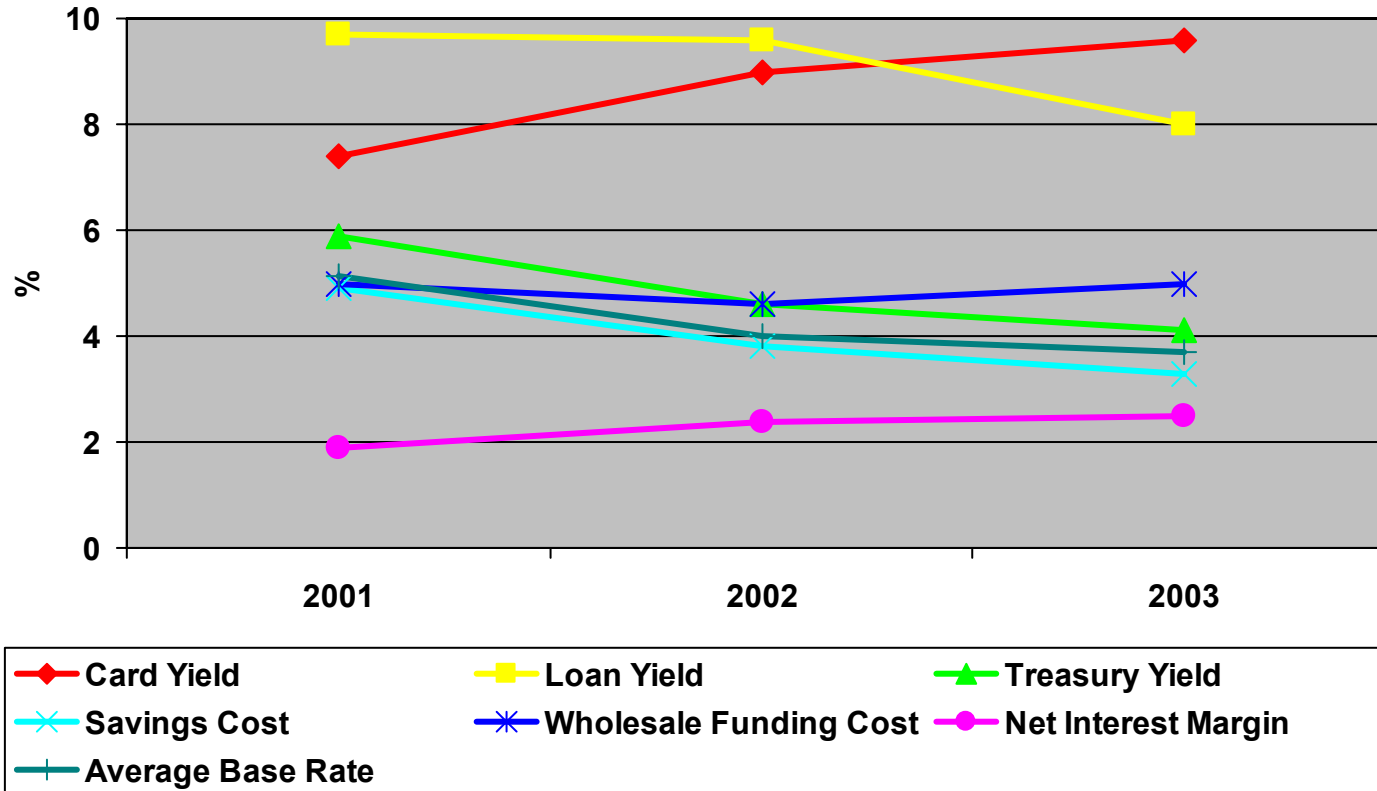
Profit and Loss Account

Egg UK - Quarterly Trend

	Q1 2002 £m	Q2 2002 £m	Q3 2002 £m	Q4 2002 £m	Q1 2003 £m	Q2 2003 £m	Q3 2003 £m	Q4 2003 £m
Net interest income	55.3	56.2	53.8	58.0	64.3	61.6	64.6	72.5
Other Operating Income	18.4	24.5	25.8	34.0	30.6	43.0	43.6	39.4
Total Revenues	73.7	80.7	79.6	92.0	94.9	104.6	108.2	111.9
Ops/Admin Expenses	(31.7)	(31.7)	(33.3)	(36.8)	(32.9)	(34.3)	(36.8)	(39.7)
Brand & Marketing Costs	(7.8)	(12.9)	(6.0)	(7.9)	(9.0)	(9.9)	(6.5)	(8.5)
Development Costs	(5.7)	(4.2)	(4.2)	(3.3)	(4.9)	(4.6)	(5.9)	(4.5)
Depreciation & Amortisation	(4.9)	(4.7)	(4.7)	(4.2)	(4.0)	(3.4)	(4.4)	(6.5)
Amounts w/o Fixed Asset Inv.	-	-	-	(3.1)	-	-	-	(4.3)
Provisions for Bad & Doubtful Debts	(18.6)	(20.6)	(21.2)	(23.7)	(26.8)	(33.0)	(34.6)	(32.3)
Egg UK Profit/(Loss)	5.0	6.6	10.2	13.0	17.3	19.4	20.0	16.1

Revenue Drivers

Asset and Liability Yields – Key Trends



Revenue Drivers

Other Operating Income

	2003 £m	2002 £m
PPI (incl. profit share)	78.3	40.7
Card fees and commissions - insurance commissions	42.0	27.1
- other (incl. net interchange)	34.1	27.4
Other (incl. treasury)	2.2	7.5
Total	156.6	102.7

Strong growth in PPI commissions on back of record loans volumes (penetration running at over 60%)

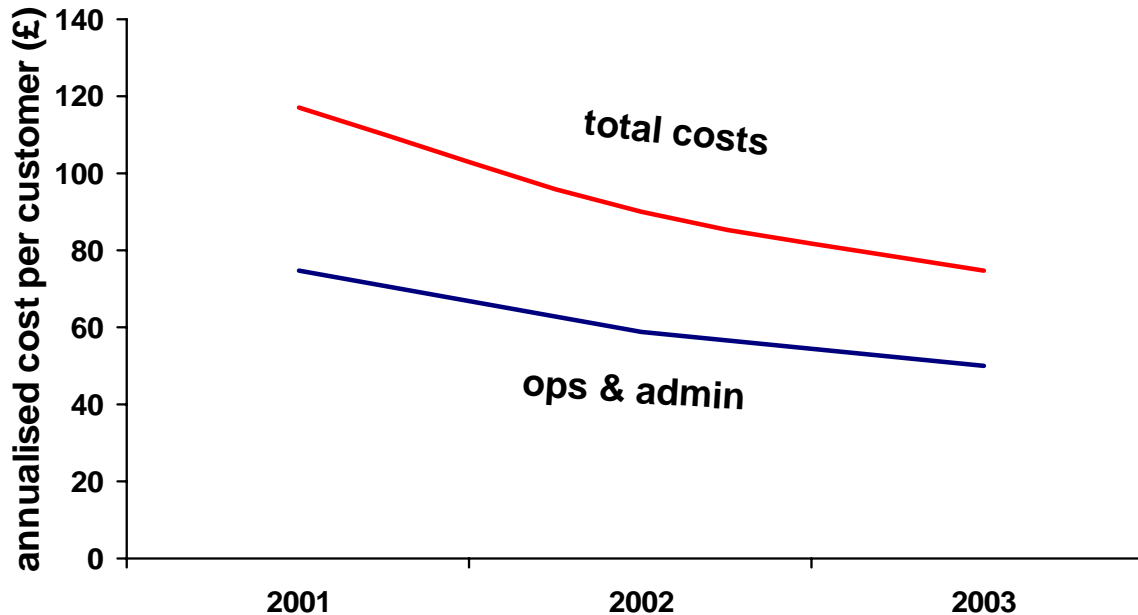
Card fees reflect greater transactional revenues from larger book and point of sale commissions selling CRP (29% run-rate)

Other income fell slightly with lower profits on disposal of investments and higher fees re tier 2 debt and securitisation

Costs

Increasing efficiency

<u>Costs Per Customer</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Total (excluding Bad Debts)	£75	£90	£117
Operational and Admin.	£50	£59	£75



Economies of scale as benefits of digital model emerge

Marketing efficiencies (brand leadership and CRM)

Maintaining investment in development spend

Bad Debt Provisions

Prudent Cover

	Cards		Loans	
	Dec 2003	Dec 2002	Dec 2003	Dec 2002
customer balance (£m)	3,015	2,330	1,773	967
period end provision (£m)	109	77	70	45
% provision held	3.6%	3.3%	3.9%	4.6%
impaired balances (£m)	86	53	73	43
impaired as % total	2.8%	2.3%	4.1%	4.4%
provisions as % of impaired balances	126%	144%	96%	105%
charge as % of average assets	2.7%	2.4%	3.9%	4.7%

Consolidated Balance Sheet

Further Growth

	2003 £m	2002 £m
Mortgages	1,995	2,361
Personal Loans	1,773	977
Credit Cards	3,134	2,337
Retail Assets	6,902	5,675
Wholesale Assets	4,486	4,518
Other Assets	307	372
Total Assets	11,695	10,565
Customer Deposits	6,452	8,016
Wholesale Liabilities	3,862	1,516
Subordinated Debt	451	202
Other Liabilities	494	370
Shareholders' Funds	436	461
Total Capital & Liabilities	11,695	10,565

Unsecured lending balances increase by £1.6bn (2002: £1.0bn)

Savings outflows as expected (£1.5bn)

Wholesale liabilities (including securitisations) increase by £2.4bn to fund asset growth and savings outflows

Capital, Funding and Liquidity

Capital Base

	Dec 2003	Dec 2002
Tier 1 Capital	£474m	£512m
Tier 2 Capital	£474m	£200m
Supervisory Deductions	(£89m)	(£60m)
Total Capital	£861m	£652m
Risk-weighted Assets	£4.9bn	£4.9bn
Risk asset Ratios		
- Tier 1	9.7%	9.9%
- Total	17.5%	13.2%

£1.5bn of card securitisation to manage RWAs and Tier 1 ratio

Credit Derivatives over £1.75bn of mortgages and £0.9bn of ABS/MBS assets

£450m of Tier 2 debt

Agenda

- | | |
|--|-----------------------------|
| 1. Introduction | Paul Gratton (CEO) |
| 2. Egg France | Paul Gratton (CEO) |
| 3. Egg UK – Brand and Customer Base | Paul Gratton (CEO) |
| 4. Egg UK – Products and Marketing | Mark Nancarrow (COO) |
| 5. Financials | David Doyle (CFO) |
| 6. Q & A | Paul Gratton (CEO) |

egg™