Egg plc

Under Embargo until 07.00h, 27th April 2005

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Q1 2005 Financial Results and New Business Figures

"Operating profit was £10 million for the core UK business on the new IFRS basis of reporting, which is consistent with the plans we outlined in our preliminary results announcement. The overall Group profit was £5 million in the quarter.

"Egg's UK credit card business has performed well, with balance growth in excess of £200 million and good acquisition of new accounts, a result that compares favourably to an industry-wide reduction in credit card balances in January and February. As planned, personal loan sales have reduced in the period from the record levels seen in 2004 following our actions to tighten our lending criteria.

"Strong acquisition and balance growth on cards has had a negative short-term impact on revenue due to the funding cost of the introductory offers, which is now recognised up front under IFRS. Revenues were also impacted by our deliberate reduction in personal loan sales volumes and hence the lower income generated from selling associated insurances. Costs continue to be well controlled and we have also delivered a further improvement in unit marketing acquisition costs this quarter. We are close to completing a restructuring that will align our cost base to our strategy which is re-focused on the core UK business. To that end we have incurred £6 million of restructuring costs in Q1 and expect a further £4 million to be recognised in Q2 on completion of the review.

"Credit quality remains strong in the card book and the increasing provisions reflect the good growth we have seen in balances. Within the personal loan book the quality of new business written this quarter has improved following the changes to our lending criteria and we expect this to lead to the loans impairment charge reducing in the second half of the year.

"Overall the result for the period was in line with our expectations and we remain confident that operating profit will grow strongly over the remainder of the year."

Paul Gratton, CEO, Egg plc

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Highlights:

Analysis of Group Income Statement (adopted IFRS Basis):

	Q1 2005	Q1 2004 (i)
	£m	£m
Egg UK	**9.9**	15.7
Egg France (ii)	**4.8**	(15.6)
Subsidiaries/Associates/JV's (iii)	**(3.4)**	(0.4)
Transaction Costs	**-**	(1.3)
Restructuring Costs	**(6.3)**	(2.3)
Group Profit/(Loss) before Tax	**5.0**	(3.9)

(i) UK GAAP comparatives restated to IFRS basis (excluding IAS 32 and IAS 39 which are only effective from 1 January 2005).

(ii) Profit in 2005 reflects release of surplus in the provision for exit costs (£3.5 million) and foreign exchange gains (£1.3 million).

(iii) Q1 2005 includes Funds Direct exit cost provision of £3.3 million.

Group

- Group operating income up 6% to £125 million (Q1 2004: £119 million)
- Group profit before tax of £5.0 million (Q1 2004: £3.9 million loss)
- Retained profit after tax of £8.2 million (Q1 2004: £4.7 million retained loss)
- Group earnings per share of 1.1p (Q1 2004: 0.6p loss per share)
- Total group assets of £12.3 billion (Q1 2004: £11.2 billion)

UK

- Egg UK delivered a Q1 operating profit of £9.9 million (Q1 2004: £15.7 million)
- Net interest margin was 2.43% (Q1 2004: 2.54%)
- Cost/Income ratio was 45% (Q1 2004: 52%)
- Unsecured lending balances grew by £277 million (Q1 2004: £238 million) leading to period end balances of £6.5 billion (Q1 2004: £5.0 billion)
- Personal loan drawdowns were £442 million (Q1 2004: £563 million)

Other

- Exit costs of Egg France now expected to be €165 million and thus €5 million (£3.5 million) of the provision has been released.
- Decision taken to raise exit costs provision of £3.3 million for Funds Direct in the period.

Chief Executive Paul Gratton said:

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“Operating profit was £10 million for the core UK business on the new IFRS basis of reporting, which is consistent with the plans we outlined in our preliminary results announcement. The overall Group profit was £5 million in the quarter.

“Egg’s UK credit card business has performed well, with balance growth in excess of £200 million and good acquisition of new accounts, a result that compares favourably to an industry-wide reduction in credit card balances in January and February. MasterCard continues to perform well and contribute to the good growth rates seen over the past three quarters. As planned, following our tightening of lending criteria, personal loan sales have reduced in the first quarter from the record levels seen in 2004.

“Revenues in the UK in the quarter at £125 million were up 4% compared to the run-rate in Q1 through Q3 last year but fell compared to our record performance in Q4 2004. This was expected given the funding cost of our incentive offers on new cards and the fact that personal loans generate significant up front income in terms of the commission earned from selling associated insurances.

“Costs continue to be well controlled and we have also delivered a further improvement in unit marketing acquisition costs this quarter. In total, costs were £56 million this quarter as compared to £62 million in the same period last year and £66 million in Q4 2004. We are close to completing a restructure that will align our cost base to our strategy which is re-focused on the core UK business. As we have announced separately today this process includes changes to our Board structure and to the responsibilities of our Executive Directors and Company Secretary. We have incurred £6 million of restructuring costs in Q1 and expect a further £4 million to be recognised in Q2 on completion of the review. We expect annualised savings to reach £12 million.

“Credit quality remains strong in the card book and the increasing provisions reflect the good growth we have seen in balances. Within the personal loan book the quality of new business written this quarter has improved following the changes to our lending criteria and we expect this to lead to the loans bad debt charge reducing in the second half of the year.

“Our exit from France is complete with closure costs now expected to be €5 million (£3 million) lower than our original provision. In addition the Board has taken the prudent decision to provide £3 million against the full exit costs of Funds Direct.

“Overall the result for the period was in line with our expectations and we remain confident that operating profit will grow strongly over the remainder of the year.”

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Overview of Group Results

Summary Income Statement by quarter (adopted IFRS basis) (unaudited)

	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
UK	**£m**	£m	£m	£m	£m
Net Interest Income	**70.8**	73.3	70.4	70.1	74.0
Other Operating Income	**53.8**	66.3	48.3	49.9	44.7
Egg UK Operating Income	**124.6**	139.6	118.7	120.0	118.7
Operational and Administrative Expenses	**(37.1)**	(40.7)	(39.2)	(37.7)	(40.6)
Brand and Marketing Costs	**(8.1)**	(12.4)	(9.0)	(10.6)	(9.6)
Development Costs	**(3.7)**	(6.2)	(5.2)	(4.7)	(5.9)
Depreciation and Amortisation	**(6.9)**	(7.1)	(4.3)	(5.6)	(5.9)
Impairment Losses on Loans and Advances to Customers	**(58.9)**	(52.8)	(47.1)	(41.3)	(41.0)
Egg UK Operating Profit	**9.9**	20.4	13.9	20.1	15.7
France					
Net Interest Income	**(0.3)**	0.8	1.8	2.1	1.6
Other Operating Income	**1.3**	(7.0)	0.9	(0.1)	-
Egg France Operating Income	**1.0**	(6.2)	2.7	2.0	1.6
Operational and Administrative Expenses	**(9.0)**	(10.1)	(8.5)	(9.9)	(9.1)
Brand and Marketing Costs	**-**	-	-	(0.9)	(1.6)
Development Costs	**-**	-	-	(0.2)	(0.4)
Depreciation and Amortisation	**-**	(0.4)	(3.1)	(1.7)	(1.0)
Impairment Losses on Loans and Advances to Customers	**(0.3)**	(5.8)	(3.9)	(5.5)	(5.1)
Utilisation of Exit Cost Provision	**9.6**	15.8	10.1	-	-
Egg France Operating Profit/(Loss)	**1.3**	(6.7)	(2.7)	(16.2)	(15.6)
Subsidiaries/Associates/JV's	**(3.4)**	(17.6)	(1.0)	(0.6)	(0.4)
Transaction Costs	**-**	(2.7)	(1.1)	(1.3)	(1.3)
Provision for France Exit Costs	**3.5**	-	(112.8)	-	-
Restructuring Costs	**(6.3)**	(3.0)	-	0.2	(2.3)
Group Profit/(Loss) Before Tax	**5.0**	(9.6)	(103.7)	2.2	(3.9)

Note: All comparatives for 2004 have been restated to adopted IFRS basis (excluding the impact of IAS 32 and IAS 39, which only came into effect from 1 January 2005).

Commentary on Summary Income Statement

Egg UK

Revenues

Net interest income in Q1 2005 was £71 million (Q4 2004: £73 million). Most of the decrease reflects the adoption of IAS 39. The revised accounting for incentive offers on the credit card portfolio will mean lower interest income in periods of strong acquisition of incentive balances similar to that we have seen in Q1. In addition the margin has been negatively affected by higher funding costs arising from the increase in savings balances at bonus rates.

Non-interest income in Q1 2005 was £54 million (Q4 2004: £66 million). As we explained in our preliminary results in February the performance in Q4 2004 was exceptionally strong, with the previous quarterly run-rate last year averaging £48 million. We remain confident that non-interest income for the full year 2005 will exceed that of last year.

Included in the Q1 2005 operating income figure is £1 million of unrealised losses on derivatives arising from the adoption of fair value accounting under IAS 39 which is purely a timing difference given no gain or loss is expected over the life of the derivatives as they are economic hedges and will not be traded.

The two other main factors in the £12 million reduction from Q4 2004 are the £6 million profit on disposal of investment securities that was not repeated in Q1 2005 and the reduction in commission earned on associated insurances resulting from the lower personal loan volumes compared to the record high in Q4 2004. Given the lower loans sales reflects our tightening of lending criteria we are now acquiring a higher credit quality loan book and these customers have a relatively lower propensity to buy associated insurances and therefore our penetration rate has also reduced from 59% in 2004 to 51% in the first quarter.

Costs

Operational and administrative costs at £37 million for the quarter have reduced by 9% over Q4 2004. In part this reduction reflects some immediate benefit from the restructuring begun this quarter, which has been mainly targeted at the overhead base. In addition we have been tightly managing operational expenditure and ensuring it is focused on the core business.

Brand and marketing costs were £8 million (Q4 2004: £12 million). 139,000 new Visa card accounts were opened in the quarter (Q4 2004: 119,000). This represented an excellent performance with unit marketing acquisition costs on Visa cards reducing to £32 each compared to £36 in Q4 2004 and £39 in the equivalent period last year. The tactical investment in marketing bonus savings accounts and insurance products in Q4 2004 was not repeated.

Development costs were £4 million for the quarter, a significant decrease from Q4 2004 (£6 million). The decrease reflects the fact that the majority of the investment in systems and processes in preparation for IFRS, Basel 2 and other regulatory changes is now complete.

Depreciation and amortisation at £7 million is in line with expectations (Q4 2004: £7 million).

This strong overall cost performance has contributed to an improvement in the cost/income ratio this quarter to 45% (Q4 2004: 48%). Moving forward we expect to achieve further operational economies of scale as we focus on our core UK business. The restructuring exercise is expected to deliver total annual savings of £12 million in our overheads when finalised.

Impairment for Losses on Loans and Advances to Customers

The Q1 charge for impairment of £59 million was in line with our expectations given the strong growth in card balances in the quarter, the stage in life cycle of the loan book and IFRS accounting changes in the treatment of suspended interest which increases both impairment and interest income compared to UK GAAP. The impairment charge as a percentage of 12 month lagged assets in the overall unsecured portfolio remained consistent at 3.9% (Q4 2004: 3.8%). Moving forward we expect the impact of our decision to tighten lending criteria, allied to the fact that the personal loan book will have matured further, should see both the absolute charge and the charge as a percentage of lagged assets start to reduce over the second half of the year.

At the period end, impairment provisions on the balance sheet represented 3.3% of assets compared to 3.2% in December 2004.

Egg France and Provision for Exit Costs

We now expect the final costs of exiting our French business to be lower than the £113 million (€170 million) provision made in July 2004. £106 million (€159 million) of this provision has now been utilised

and the updated estimate of total closure costs is £110 million (€165m). We are therefore releasing £3.5 million (€5 million) of the provision this quarter.

The IFRS accounts include a £6.7 million loss in Q4 2004 and £1.3 million profit in Q1 2005 within other income in respect of foreign exchange gains and losses on translation of the French balance sheet and profit and loss account (which previously were accounted for through reserves). These did not form part of the exit costs provision.

Subsidiaries/Associates/JV's

The £3.4 million net loss in Q1 primarily reflects the exit costs provision in respect of Funds Direct.

Restructuring Costs

As previously indicated, we are close to completing our review of our total cost base, and in particular the overhead functions, in light of our exit from France and the renewed focus on our core UK business. This review is almost complete and by the end of the first quarter £6.3 million of costs had been incurred or accrued in respect of people who have exited the business.

We have now almost completed the review, which has included the Executive structures at Egg and resulted in the Board changes announced separately today. We expect the additional restructuring costs, which will be recognised in Q2 2005, will amount to approximately £3.5 million.

The estimated annual savings resulting from this reorganisation is £12 million of which approximately £7 million will benefit the 2005 income statement.

Egg UK

Product Information

	31 Mar 2005	31 Mar 2004	31 Dec 2004
Product balances	**£m**	£m	£m
Egg Card	**3,783**	3,010	3,578
Egg Personal Loans	**2,690**	2,015	2,618
Total Unsecured Lending	**6,473**	5,025	6,196
Egg Mortgages	**1,132**	1,181	1,102
Prudential Mortgages	**561**	738	591
Total Secured Lending	**1,693**	1,919	1,693
Egg Savings	**6,554**	6,117	6,215
Prudential Savings	**124**	161	121
Total Retail Liabilities	**6,678**	6,278	6,336

Unsecured Lending

Net lending balance growth was £277 million (Q1 2004: £238 million). Credit card balance growth was a £205 million (5.7%) net increase in the first quarter, a strong result when compared with the same period last year when balances reduced by £5m. It is also encouraging against the background of industry balances reducing by 0.6% in January and February. 154,000 new card accounts were opened of which nearly 15,000 were MasterCard.

Personal loan disbursements were £442m in the quarter. This is a solid performance, but as expected, is a reduction on the record loan volumes achieved in 2004 and reflects our decision, indicated in our preliminary results announcement to tighten lending criteria.

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Savings

Q1 2005 saw a strong net inflow on Egg deposits of £339 million as compared with an outflow of £47m in the same period last year. This was driven by the success of Egg's latest bonus account offering. Retail liabilities are an important element to Egg's overall funding strategy and the success in Q1 means that we now have a strong liquidity position and we expect margins to increase over the remainder of the year as the impact of the bonus rates unwinds.

Other Products

Customers are continuing to show demand for a broad range of Egg branded products. In the period from end Q1 2004 to end Q1 2005, the total number of these products (other than our main acquisition product, the Visa card) sold by Egg has increased by 34%. This represents an increase in the number of these products held as a proportion of Visa card accounts from 50% to 58% over the period. The vast majority of these additional Egg products are cross-sold to existing customers. If we also include cross-sales of associated insurances on loans and cards the percentage of other products as a proportion of Visa cards rises to 97%. These figures demonstrate the increasing ability to cross sell, the propensity of existing customers to take additional products and the continuing attractiveness of Egg's brand.

Capital

Egg's total capital ratio was 12.9% as at 31 March 2005 (31 December 2004: 12.5%). The increase in the ratio over the year end position primarily reflects a further £250 million of credit card securitisation in the quarter.

Independent review report by KPMG Audit plc to Egg plc

Introduction

We have been engaged by the Group to review the financial information set out on pages 12 to 58 for the three months ended 31 March 2005, and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

The next annual financial statements of the Group will be prepared in accordance with those IFRSs adopted for use by the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in those next annual financial statements.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 *Review of interim financial information* issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Emphasis of matter

Without qualifying our review conclusion, we draw your attention to the following matter. As the basis of preparation note to the financial information explains there is a possibility that the directors may determine that some changes to these accounting policies are necessary when it prepares the full annual financial statements for the first time in accordance those IFRSs adopted for use by the European Union.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the three months ended 31 March 2005.

KPMG Audit Plc
Chartered Accountants

27 April 2005

FINANCIAL INFORMATION

Financial results prepared in accordance with International Financial Reporting Standards adopted for use in the European Union for the three months ended 31 March 2005 and for the year ended 31 December 2004.

Introduction

Following the adoption of IAS Regulation EC 1606/2002 on the 19 July 2002 by the European Parliament, Egg plc ("the Group"), along with all other European listed entities, will be required to prepare consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU") for years beginning 1 January 2005.

The Group will apply IFRS for the year ended 31 December 2005, and will prepare one year's of comparative figures under IFRS. Accordingly, the Group's date of transition to IFRS is 1 January 2004 and its first reporting period under IFRS is for the three months ended 31 March 2005. This report therefore contains the consolidated financial results for the 3 months ended 31 March 2005 on the basis of IFRS, and comparatives for the 3 months ended 31 March 2004 and for the year ended 31 December 2004 restated to IFRS.

To assist with the understanding of the impact of transition from UK GAAP to IFRS, the Group has presented the Consolidated Statement of Changes in Equity on pages 19 and 20 and further reconciliations in Appendix 1.

Basis of preparation

EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of the Group for the year ended 31 December 2005 be prepared in accordance with IFRS adopted by the EU (adopted IFRS).

The financial information has been prepared on the basis of recognition and measurement requirements of IFRS in issue that are either endorsed by the EU and effective, or are expected to be endorsed and effective at 31 December 2005, the Group's first annual reporting date at which they are required to use adopted IFRS. Based on these adopted and unadopted IFRSs, the Directors have made assumptions about the accounting policies to be applied, as detailed in the description of accounting policies set out below.

In particular the directors have assumed that the amendment to IAS 19 'Employee Benefits – Actuarial Gains and Losses' issued by the IASB will be fully adopted by the EU and therefore available for use in the annual IFRS Financial Statements for the year ended 31 December 2005.

In respect of financial instruments, the Group's policy has been to adopt IAS 32 'Financial Instruments: Disclosure and Presentation' and 39 'Financial Instruments: Recognition and Measurement' from 1 January 2005, except as restricted by the European Commissions Accounting Regulatory Committee. Comparatives for 2004 have not been restated to reflect the requirements of IAS 32 and IAS 39 and, as permitted by IFRS 1, are accounted for under UK GAAP in accordance with the accounting policies set out in the annual financial statements for the year ended 31 December 2004.

In addition, the adopted IFRSs that will be effective or available for voluntary early adoption in the annual financial statements for the year ended 31 December 2005 are still subject to change and to the issue of additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for the annual period that are relevant to this interim financial information will be determined only when the annual financial statements are prepared for the year ended 31 December 2005.

The comparative figures for the financial year ended 31 December 2004 are not the Group's statutory accounts for that financial year. Those accounts, which were prepared under UK GAAP in accordance with the Companies Act 1985, have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

Transitional arrangements

On transition to IFRS, an entity is generally required to apply IFRS retrospectively, except where an exemption is available under IFRS 1 'First-time Adoption of International Financial Reporting Standards'. The following is a summary of the key elections from IFRS 1 that were made by the Group:

- The Group has elected to adopt the IFRS 1 exemption in relation to business combinations and will only apply IFRS 3 'Business Combinations' prospectively from 1 January 2004. As a result, the balance of goodwill under UK GAAP as 31 December 2003 will be deemed the cost of goodwill at 1 January 2004.
- The Group has elected to adopt the IFRS 1 option to reset foreign currency cumulative translation reserves to zero on transition to IFRS.

Furthermore, the Group has adopted the exemption in IFRS 1 to not prepare comparative information in accordance with IAS 32 ‘Financial Instruments: Disclosure and Presentation’ and IAS 39 ‘Financial Instruments: Recognition and Measurement’. These standards will therefore only apply from 1 January 2005 and in the comparative figures for the year ended 31 December 2004, financial instruments will continue to be accounted for on a UK GAAP basis. The Group has also elected to adopt IFRS 5 ‘Non-current Assets Held for Sale and Discontinued Operations’ from 1 January 2005.

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Consolidated income statement (unaudited)

	Notes	**Three months ended 31 March 2005** £m	Three months ended 31 March 2004 £m	Year ended 31 December 2004 £m
Continuing operations:				
Interest income		**252.2**	211.8	902.8
Interest expense		**(181.4)**	(137.8)	(615.4)
Net interest income		**70.8**	74.0	287.4
Fee and commission income		**54.4**	52.1	220.7
Fee and commission expense		**(4.2)**	(9.9)	(25.2)
Net fee and commission income		**50.2**	42.2	195.5
Net trading income		**2.9**	-	-
Other operating income		**0.7**	2.5	14.7
Operating income		**124.6**	118.7	497.6
Administrative expenses				
- personnel expenses		**(24.3)**	(22.4)	(92.7)
- depreciation and amortisation		**(6.9)**	(5.9)	(22.2)
- other administrative expenses		**(30.9)**	(35.7)	(139.3)
		(62.1)	(64.0)	(254.2)
Impairment losses on loans and advances to customers	2	**(58.9)**	(41.0)	(182.4)
Operating profit		**3.6**	13.7	61.0
Share of operating (loss)/profit of joint venture		**(0.1)**	0.3	0.3
Share of associate losses		**-**	(0.1)	(0.4)
Profit on continuing ordinary activities before tax		**3.5**	13.9	60.9
Tax charge on profit on continuing ordinary activities	3	**(0.3)**	(5.7)	(24.7)
Profit on continuing ordinary activities after tax		**3.2**	8.2	36.2
Discontinued operations:				
Profit/(loss) on discontinued ordinary activities after tax	4	**5.0**	(12.9)	(137.2)
Retained profit/(loss) for the period		**8.2**	(4.7)	(101.0)

Consolidated income statement (continued) (unaudited)

	Notes	**Three months ended 31 March 2005 £m**	Three months ended 31 March 2004 £m	Year ended 31 December 2004 £m
Attributable to:				
Equity holders of the parent		**9.0**	(4.6)	(99.7)
Minority interests		**(0.8)**	(0.1)	(1.3)

	Notes	**Pence per share**	Pence per share	Pence per share
Consolidated earnings/(loss) per share				
Basic	5	**1.1**	(0.6)	(11.3)
Diluted	5	**1.1**	(0.6)	(11.3)
Continuing earnings per share				
Basic	5	**0.4**	1.0	4.6
Diluted	5	**0.4**	1.0	4.6

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Consolidated balance sheet (unaudited)

	31 March 2005 £m	31 March 2004 £m	31 December 2004 £m
Assets			
Cash and balances with central banks	**14.3**	13.2	14.0
Loans and advances to banks	**483.7**	268.6	615.9
Securities purchased under agreement to resell	**321.5**	-	319.4
Investment securities	**3,298.8**	3,557.6	3,119.7
Derivative financial instruments	**48.9**	10.3	16.0
Loans and advances to customers	**7,917.3**	6,864.0	7,642.0
Prepayments and accrued income	**10.5**	64.0	58.3
Investments in joint venture and associate	**9.9**	6.5	6.3
Property, plant and equipment	**48.0**	56.1	48.0
Intangible assets	**44.5**	44.9	49.0
Deferred tax	**35.6**	23.9	28.9
Other assets	**98.6**	326.4	130.6
Total assets	**12,331.6**	11,235.5	12,048.1

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Consolidated balance sheet (unaudited) (continued)

	31 March 2005 £m	31 March 2004 £m	31 December 2004 £m
Liabilities			
Deposits by banks	**2,548.8**	1,613.5	2,352.0
Securities sold under agreements to repurchase	**-**	239.2	130.5
Customer accounts	**6,839.8**	6,408.8	6,607.4
Investment securities in issue	**1,605.6**	1,581.6	1,806.5
Derivative financial instruments	**57.2**	11.2	17.5
Other liabilities	**385.4**	347.6	110.5
Accruals and deferred income	**87.9**	147.5	215.0
Provisions for liabilities and charges	**4.9**	-	16.8
Subordinated liabilities			
- Dated loan capital	**459.9**	450.8	450.8
Total liabilities	**11,989.5**	10,800.2	11,707.0
Shareholders' equity			
Called up share capital	**412.2**	411.8	412.2
Share premium account	**111.0**	110.4	111.0
Capital reserve	**359.7**	359.7	359.7
Other reserves	**5.6**	0.2	(0.5)
Accumulated losses	**(545.5)**	(447.9)	(541.2)
Total equity attributable to the equity holders of the parent	**343.0**	434.2	341.2
Minority interests (equity)	**(0.9)**	1.1	(0.1)
Total equity	**342.1**	435.3	341.1
Total equity and liabilities	**12,331.6**	**11,235.5**	**12,048.1**

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Consolidated statement of changes in equity (unaudited)

	Note	Attributable to equity holders of the Group					Minority	Total
		Called up share capital	Share premium account	Capital reserve	Other reserves	Accumulated losses	interest	
		£m	£m	£m	£m	£m	£m	£m
Changes in equity for the three months ended 31 March 2004:								
Balance at 1 January 2004 as previously reported under UK GAAP		410.3	107.5	359.7	-	(445.1)	1.2	433.6
Changes upon transition to IFRS		-	-	-	-	0.5[1]	-	0.5
Restated balance under IFRS		410.3	107.5	359.7	-	(444.6)	1.2	434.1
Exchange differences on foreign currency translations		-	-	-	0.2	-	-	0.2
Net gain recognised directly in equity		-	-	-	0.2	-	-	0.2
Loss for the period		-	-	-	-	(4.6)	(0.1)	(4.7)
Total recognised income and expense for the period		-	-	-	0.2	(4.6)	(0.1)	(4.5)
Increase in share capital		1.5	-	-	-	-	-	1.5
Increase in share premium		-	2.9	-	-	-	-	2.9
Share-based payment adjustment to reserves		-	-	-	-	0.4	-	0.4
Awards under incentive schemes		-	-	-	-	0.9	-	0.9
Balance at 31 March 2004		411.8	110.4	359.7	0.2	(447.9)	1.1	435.3
Changes in equity for the year ended 31 December 2004:								
Balance at 1 January 2004 as restated under IFRS		410.3	107.5	359.7	-	(444.6)	1.2	434.1
Exchange differences on foreign currency translations		-	-	-	(0.5)	-	-	(0.5)
Net loss recognised directly in equity		-	-	-	(0.5)	-	-	(0.5)
Loss for the year		-	-	-	-	(99.7)	(1.3)	(101.0)
Total recognised expense for the year		-	-	-	(0.5)	(99.7)	(1.3)	(101.5)
Increase in share capital		1.9	-	-	-	-	-	1.9
Increase in share premium		-	3.5	-	-	-	-	3.5
Share-based payment adjustment to reserves		-	-	-	-	2.3	-	2.3
Awards under incentive schemes		-	-	-	-	0.8	-	0.8
Balance at 31 December 2004		412.2	111.0	359.7	(0.5)	(541.2)	(0.1)	341.1

[1] The adjustment relates to deferred tax on share-based payments.

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Consolidated statement of changes in equity (unaudited) (continued)

		Attributable to equity holders of the Group					Minority	Total
		Called up share capital	Share premium account	Capital reserve	Other reserves	Accumulated losses	interest	
	Note	£m	£m	£m	£m	£m	£m	£m
Changes in equity for the three months ended 31 March 2005:								
Balance at 31 December 2004		**412.2**	**111.0**	**359.7**	**(0.5)**	**(541.2)**	**(0.1)**	**341.1**
Changes in accounting policy (adoption of IAS 32 and IAS 39)	Appendix 2	-	-	-	**(0.9)**	**(14.4)**	**-**	**(15.3)**
Restated balance		**412.2**	**111.0**	**359.7**	**(1.4)**	**(555.6)**	**(0.1)**	**325.8**
Available-for-sale investments:								
Valuation gains taken to equity		-	-	-	**3.2**	**-**	**-**	**3.2**
Cash flow hedges:								
Gains taken to equity		-	-	-	**2.9**	**-**	**-**	**2.9**
Exchange differences on foreign currency translations		-	-	-	**0.9**	**-**	**-**	**0.9**
Net income recognised directly in equity		-	-	-	**7.0**	**-**	**-**	**7.0**
Profit/(loss) for the period		-	-	-	**-**	**9.0**	**(0.8)**	**8.2**
Total recognised income and expense for the period		-	-	-	**7.0**	**9.0**	**(0.8)**	**15.2**
Share-based payment adjustment to reserves		-	-	-	**-**	**1.1**	**-**	**1.1**
Balance at 31 March 2005		**412.2**	**111.0**	**359.7**	**5.6**	**(545.5)**	**(0.9)**	**342.1**

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Consolidated cash flow statement (unaudited)

	Note	**Three months ended 31 March 2005**	Three months ended 31 March 2004	Year ended 31 December 2004
		£m	£m	£m
Cash flows from operating activities				
Continuing operations:				
Operating profit before taxation		**3.6**	13.7	61.0
Adjusted for:				
Depreciation, impairment and amortisation		**7.1**	8.5	28.4
Impairment losses on loans and advances to customers		**13.0**	16.6	70.1
Gain on sale of investment securities		**-**	(1.5)	(7.5)
Net (increase)/decrease in operating assets:				
Loans and advances to banks		**(189.0)**	(47.7)	54.8
Derivative financial instruments		**(16.0)**	-	-
Loans and advances to customers		**(266.8)**	(110.2)	(1,115.6)
Securities purchased under agreement to resell		**(1.3)**	-	(319.4)
Accrued income and prepayments		**0.1**	10.8	16.9
Other assets		**70.0**	(35.6)	99.4
Net increase/(decrease) in operating liabilities:				
Deposits by banks		**237.6**	(45.7)	772.3
Securities sold under agreements to repurchase		**(131.0)**	(590.0)	(698.7)
Customer accounts		**414.5**	(34.5)	(53.0)
Investment securities in issue		**(209.5)**	158.7	383.6
Accruals and deferred income		**(14.4)**	(5.3)	29.6
Derivative financial instruments		**7.2**	-	-
Other liabilities		**226.4**	28.9	(133.6)
Subordinated liabilities		**6.7**	-	-
Group relief/(taxation paid)		**2.7**	(1.8)	14.1
Net cash inflow/(outflow) from continuing operating activities		**160.9**	(635.1)	(797.6)
Discontinued operations:				
Net cash (outflow)/inflow from discontinued operating activities		**(168.5)**	12.1	76.2
Total net cash inflow/(outflow) from operating activities		**22.1**	(623.0)	(721.4)

Consolidated cash flow statement (unaudited) (continued)

	Note	**Three months ended 31 March 2005**	Three months ended 31 March 2004	Year ended 31 December 2004
	Note	**£m**	£m	£m
Cash flows from investing activities				
Continuing operations:				
Purchase of property, plant and equipment		**(3.3)**	(6.2)	(13.1)
Disposal of property, plant and equipment		**-**	(1.2)	-
Purchase of software intangibles		**(3.4)**	(0.6)	(37.7)
Purchase of investment securities		**(3,481.0)**	(1,377.6)	(6,447.5)
Disposal of investment securities		**3,307.2**	1,941.1	7,435.3
Net cash (outflow)/inflow from continuing investing activities		**(180.5)**	555.5	937.0
Discontinued operations:				
Net cash inflow from discontinued investing activities		**19.4**	1.1	90.6
Total net cash (outflow)/inflow from investing activities		**(161.1)**	556.6	1,027.6
Cash flows from financing activities				
Continuing operations:				
Proceeds from issue of share capital		**-**	4.4	5.4
Net cash inflow from continuing financing activities		**-**	4.4	5.4
Discontinued operations:				
Net cash inflow from discontinued financing activities		**-**	-	-
Total net cash inflow from financing activities		**-**	4.4	5.4
(Decrease)/increase in cash and cash equivalents in the period		**(168.7)**	(62.0)	311.6
Cash and cash equivalents at the beginning of the period	6	**627.7**	322.9	322.9
Exchange adjustments		**1.6**	1.8	(6.9)
Cash and cash equivalents at the end of the period	6	**460.6**	262.7	627.6

NOTES TO THE FINANCIAL INFORMATION

1. Significant accounting policies

The following is a list of the Group's key accounting policies under IFRS. As a result of the Group's decision to adopt the IFRS 1 exemption and not restate comparatives for IAS 32 and IAS 39, certain accounting policies will only apply from 1 January 2005 and not to the 2004 comparatives. These policies have been denoted with an asterisk.

Basis of consolidation

The financial information of the Group incorporates the assets, liabilities, and results of the Company and its subsidiary undertakings (including Special Purpose Entities) to 31 March 2005. Subsidiary undertakings are all entities over which the Group has the power to govern its financial and operating policies so as to obtain benefits from their activities. Inter-company transactions and balances are eliminated upon consolidation.

Associated undertakings and joint ventures

An associate is an entity that is neither a subsidiary nor a joint venture, in which the Group has the power to exercise significant influence regarding the financial and operating policy decisions of the investee. A joint venture is a long term contractual arrangement between the Group and one or more other parties to undertake an economic activity in which the investing parties exercise joint control.

The Group's share of the profits net of losses of associates and of joint ventures are included in the consolidated income statement on an equity accounting basis and its interest in their net assets is included in investments in the consolidated balance sheet by reference to its equity holdings. When the Group's share of losses exceeds its interest in an associate or joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued.

Financial instruments *

The Group classifies its financial assets (excluding derivatives) as either loans and receivables or available-for-sale. Other than derivatives, the Group does not classify any of its financial assets as fair value through profit or loss or held-to-maturity.

The Group measures all of its financial liabilities at amortised cost, other than those derivative financial instruments which have been designated as part of a hedging relationship (see below).

a) Loans and receivables and financial liabilities at amortised cost

The Group's loans and advances to customers are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and whose recoverability is based solely on the credit risk of the issuer. The Group measures both its loans and receivables and financial liabilities (other than derivatives designated as part of a hedging relationship) at amortised cost, whereby the principal balance is the amount at initial recognition, less any principal repayments and impairment and adjusted for the cumulative amortisation calculated using the effective interest method. The effective interest method is a method whereby estimated future cash payments or receipts are discounted through the expected life of the financial instrument.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets, principally but not exclusively investment securities, intended to be held for an indefinite period of time. The Group measures these assets at fair value, with subsequent changes in fair value being recognised in equity except for impairment losses and foreign exchange gains and losses which are recognised in the income statement. Upon derecognition of the asset, or where there is objective evidence that the investment security is impaired, the cumulative gains and losses recognised in equity are removed from equity and recycled to the income statement.

Impairment losses on loans and advances to customers *

The Group assesses its financial assets or groups of financial assets for objective evidence of impairment at each balance sheet date. An impairment loss is recognised if, and only if, there is a loss event (or events) that has occurred after initial recognition and has a reliably measurable impact on the estimated future cash flows of the financial assets or groups of financial assets.

a) Assets held at amortised cost

Where the financial asset(s) is carried at amortised cost, the Group measures the amount of the impairment loss by comparing the carrying amount of the asset with the present value of its estimated future cash flows.

In estimating the future cash flows, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks which have been adjusted for conditions in the historical loss experience which no longer exist. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

The amount of the impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

b) Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets are impaired. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The rate used to discount the cash flows is the original effective interest rate on the available-for-sale financial asset(s). The amount of the impairment loss is recognised in the income statement. This includes cumulative gains and losses previously recognised in equity which are now recycled from equity to the income statement.

Derivative financial instruments and hedge accounting *

a) Derivative financial instruments

The Group undertakes transactions in derivative financial instruments, which include currency swaps, interest rate swaps, interest rate caps, forward rate agreements, options, credit derivatives and similar instruments, for non-trading purposes.

The Group's derivative activities are entered into for the purpose of matching or eliminating risk from potential movements in interest rates inherent in the Group's assets, liabilities and positions or for the purpose of reducing credit risk inherent in the Group's balance sheet. All derivative transactions (including foreign exchange and credit) are for economic hedging purposes and so it is therefore decided at the outset which position the derivative will be hedging. Derivatives are reviewed regularly for their effectiveness as hedges and corrective action taken, if appropriate.

Where the derivative has not been designated as a hedge or does not qualify for a hedging relationship in accordance with IAS 39, the derivative is initially measured at fair value, and re-measured at fair value at each balance sheet date, with the changes in the fair value of the

derivative being recognised through the income statement. Fair values are based on quoted market prices in active markets, and where these are not available, using valuation techniques such as discounted cash flow models.

Where the fair value of the derivative is positive, the derivative is recognised on balance sheet as a financial asset. Conversely, where its fair value is negative, the derivative is recognised on balance sheet as a financial liability.

b) Cash flow hedges

Where relevant, the Group has elected to designate its derivatives as hedges against the exposure to variability in cash flows of its recognised assets and liabilities, with the effective part of any gain or loss on the derivative financial instrument recognised directly in equity. At inception, the Group formally designates the hedge, documenting the nature of the hedging relationship, the risk management objective and the strategy for undertaking the hedge.

Derivatives designated as hedges are tested for effectiveness on inception of the hedge relationship and on an ongoing basis. The ineffective part of any gain or loss is recognised in the income statement immediately. Any gain or loss arising from changes in the time value of the derivative is excluded from the measurement of the hedge effectiveness and is recognised in the income statement.

Cumulative amounts recognised through equity are taken to the income statement in the period in which the underlying hedged item matures and its associated gain or loss affects the income statement. Cumulative amounts recognised through equity are also taken to the income statement in the period in which the hedging relationship is broken or the hedge becomes ineffective.

The Group has not designated its derivatives as any other type of hedge in accordance with IAS 39.

c) Embedded derivatives

Certain derivatives are embedded within other non-derivative host financial instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risk of the host instrument, and where the hybrid instrument is not measured at fair value, the Group separates the embedded derivative from the host instrument and measures it at fair value with the changes in fair value recognised in the income statement. Depending on the classification of

the host instrument, the host is then measured in accordance with the relevant requirements of IAS 39.

Offsetting financial instruments *

Financial assets and their related liabilities are presented gross within the relevant headings in the Group balance sheet, unless there is a legally enforceable right to offset and there is an intention to settle net in which case the assets and liabilities are presented net.

Derecognition of financial assets and liabilities *

The Group's policy is to derecognise financial assets only when the contractual right to the cash flows from the financial asset expire. The Group also derecognises financial assets that it transfers to another party provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset. Where the transfer does not result in the Group transferring the right to receive the cash flows of the financial assets, but it does result in the Group assuming a corresponding obligation to pay the cash flows to another recipient, the financial assets are also accordingly derecognised.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

Investment securities *

On initial recognition, debt issued is measured at its fair value net of transaction costs directly attributable to the debt issued, in accordance with IAS 39. Subsequent measurement is at amortised cost using the effective interest rate method to amortise incremental attributable issue and transaction costs over the life of the instrument.

Interest income and expense recognition *

Interest income and interest expense on loans and receivables and liabilities held at amortised cost are recognised on an effective yield basis, inclusive of transactions costs and fees, and discounts and premiums where appropriate. As previously described, the effective interest method is a method whereby estimated future cash payments or receipts are discounted over the expected life of the financial instrument.

Share-based payments

Share-based payments are accounted for on a fair value basis. The Group measures the fair values of the Save-As-You-Earn schemes using the Black-Scholes model and the fair value of

all other share-based payment schemes including the Restricted Share Plans (RSPs) using a Present Economic Value (binomial) model. The fair value is then recognised in the income statement over the relevant vesting period and adjusted for lapses, with the number of shares expected to lapse estimated at each balance sheet prior to the vesting date, with the corresponding increase recognised in equity. The only exception is where the share-based payment has vesting outcomes attached to market based performance conditions such as in the case of some of the RSPs. Under these circumstances, additional modelling is required to take into account these market based performance conditions which effectively estimate the number of shares expected to vest. No subsequent adjustment is then made to the fair value charge for shares that do not vest in the event that these performance conditions are not met.

In accordance with the transitional provisions of IFRS 2 'Share-based Payments', the Group has only applied the requirements of the standard to share-based payments granted after 7 November 2002.

Property, plant and equipment

Buildings, leasehold improvements, fixtures and fittings, plant and equipment, computer equipment and other tangible assets are stated at cost, less any accumulated depreciation. The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Costs capitalised are depreciated to their estimated residual values in equal annual instalments over their estimated useful lives, as follows:

Buildings	25 to 50 years
Leasehold improvements	10 years
Fixtures and fittings	10 years
Plant and equipment	3 - 10 years
Computer equipment	3 to 5 years

Land is stated at cost and is not depreciated. Assets under construction are not depreciated until they are brought into commercial use.

Intangible assets

a) Goodwill

Goodwill is stated at cost less any accumulated impairment losses. On acquisition of a business, goodwill arises where the consideration given exceeds the fair values attributed to the net assets acquired. The goodwill is capitalised and is subject to an annual impairment review and also when there are indications of impairment.

Prior to 31 December 2003, purchased goodwill was capitalised and amortised on a straight-line basis, over the investment's estimated useful life, assessed on an individual basis. Impairment reviews were carried out only as was appropriate. Amortisation of goodwill ceased from 1 January 2004.

b) Computer software

Costs incurred in the development of computer software for internal use are capitalised as intangible assets where the software leads to the creation of an identifiable non-monetary asset and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. The software is classified as an intangible asset where it is not an integral part of the related hardware and amortised over its estimated useful life which is generally 3 to 5 years.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks.

Provisions

The Group recognises a provision when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount has been reliably estimated.

Taxation

Income tax payable is charged on all taxable profits arising in the accounting period.

Deferred tax is calculated on all taxable temporary differences arising on the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets and liabilities are recognised at gross on the balance sheet and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred taxes are determined using the rates enacted or substantively enacted at the balance sheet date.

The deferred tax charge or credit is recognised in the income statement unless the deferred tax relates to fair value adjustments for available-for-sale investments, effective elements of cash flow hedges and other amounts taken directly to equity. In these circumstances the deferred tax charge or credit will also be recognised in equity and recycled to the income statement at the same time as when the originating entry is recycled from equity to the income statement. Group relief receivable from the parent company is included in other assets.

Foreign currency translation

Foreign currency monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date and foreign currency non-monetary items measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Exchange differences on monetary items are dealt with in the income statement. Exchange differences on non-monetary items are recognised in line with whether the gain or loss on the non-monetary item itself is recognised in the income statement or in equity.

The balance sheets of overseas branches are translated into sterling at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates of exchange for the period from 1 January to the balance sheet date. All exchange differences relating to the translation of an overseas branch are recognised through a separate component of other reserves.

Upon the disposal of a foreign operation, the cumulative foreign currency translation reserves which relate to the operation being disposed of is taken to the income statement when the gain or loss on disposal is recognised.

From 1 January 2005, foreign exchange gains or losses on available-for-sale debt securities will be recognised in the income statement.

Employee benefits

The Group accounts for its pension schemes and other non share-based employee benefits under IAS 19 'Employee Benefits'.

The Group's main pension scheme, which covers 81% of the Group's employees who have taken up their right to contribute to a pension scheme, is a defined contribution scheme. For this scheme the cost is charged to the income statement as contributions become due. The assets of the Scheme are held in a separately administered fund.

Certain employees are members of the Prudential plc's defined benefit scheme ('Prudential Scheme'). In line with paragraph 34A of the amendment to IAS 19 'Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures', even though the Prudential Scheme is a defined benefit scheme, as there is no contractual agreement or stated policy for charging the net defined benefit cost of the plan as a whole measured in accordance with IAS 19 to individual group entities, the net defined benefit cost of the plan has only been recognised in the financial statements of Prudential plc as it is the legal sponsor employer of the plan. Therefore, in accordance with IAS 19, the Group recognises a cost on the basis of its contributions payable to the plan for the period.

Further details of the Prudential Scheme are shown in the group financial statements of Prudential plc.

Other employee benefits are recognised in the income statement as incurred.

Leased assets

Leases are classified as operating leases where the risks and rewards of ownership are retained by the lessor. Operating lease rentals are expensed to the income statement on a straight line basis.

The Group does not undertake any material financing leases as either lessee or lessor.

Profit share from creditor insurance policies

Profit share from creditor insurance policies are recognised on an accruals basis.

Brand development costs

Brand development costs are written off as incurred.

Treasury shares

Share capital in the Company purchased by the Group is recognised as a reduction in shareholders' equity.

2. Impairment losses on loans and advances to customers

Group operating loss is stated after charging impairment losses on loans and advances to customers of £59.2 million (31 March 2004 on a UK GAAP basis: £46.1 million). The impairment losses on loans and advances to customers at 31 March 2005 have been calculated on the basis of IAS 39 as explained in the significant accounting policies in note 1. The balances at 31 March 2004 and 31 December 2004 were calculated on the basis of UK GAAP as explained in the principal accounting policies in the 2004 annual report.

	Continuing	Discontinued	**Total**
	£m	£m	**£m**
Balance at 31 December 2004 under UK GAAP	249.4	0.9	**250.3**
IAS 39 transition adjustments	(3.3)	-	**(3.3)**
IFRS reclassification	7.7	-	**7.7**
Revised balance at 1 January 2005 under IFRS	253.8	0.9	**254.7**
Amounts written off	(45.9)	(1.2)	**(47.1)**
New and additional allowances	58.9	0.3	**59.2**
Net charge against allowances	13.0	(0.9)	**12.1**
Balance at 31 March 2005	266.8	-	**266.8**

Allowances at 31 March 2005 were 3.27% of advances to customers (31 March 2004: 3.01%).

3. Tax

The taxation charge assumes a UK corporation tax rate of 30% (2004: 30%) and comprises:

	Three months ended 31 March 2005	Three months ended 31 March 2004	Year ended 31 December 2004
	£m	£m	£m
Tax charge on profit on continuing ordinary activities	**0.3**	5.7	24.7

4. Discontinued operations

The following is an analysis of the loss on ordinary activities after tax for discontinued operations (represented by Egg France and Funds Direct).

	Three months ended 31 March 2005	Three months ended 31 March 2004	Year ended 31 December 2004
	£m	£m	£m
Net interest (expense)/income	**(0.5)**	1.6	6.4
Other operating income/(expense)	**1.4**	-	(6.0)
Operating income	**0.9**	1.6	0.4
Administrative expenses	**(8.9)**	(13.3)	(45.6)
Depreciation and amortisation	**-**	(1.0)	(7.1)
Impairment of goodwill and fixed assets re Funds Direct	**-**	-	(16.6)
Impairment losses on loans and advances to customers	**(0.3)**	(5.1)	(20.1)
Utilisation of provision for loss on termination of discontinued operations	**9.6**	-	25.9
Operating profit/(loss)	**1.3**	(17.8)	(63.1)
Release/(provision) for loss on termination of discontinued operations	**0.2**	-	(112.8)
Profit/(loss) on discontinued ordinary activities before tax	**1.5**	(17.8)	(175.9)
Tax credit on loss on ordinary activities	**3.5**	4.9	38.7
Retained profit/(loss) attributable to discontinued operations	**5.0**	(12.9)	(137.2)

5. Earnings/(loss) per share

The consolidated earnings per share is calculated by dividing the retained profit attributable to the Group for the financial period by the weighted average of ordinary shares in issue during the period. The continuing earnings per share was calculated by dividing the profit after tax attributable to continuing operations for the financial period by the weighted average of ordinary shares in issue during the period.

The discontinued earnings/(loss) per share for the three months ended 31 March 2005 is as follows:

	Three months ended 31 March 2005	Three months ended 31 March 2004	Year ended 31 December 2004
Discontinued operations:			
Basic earnings/(loss) per share (pence)	**0.7**	(1.6)	(15.9)
Diluted earnings/(loss) per share (pence)	**0.7**	(1.6)	(15.9)

The discontinued earnings per share was calculated by dividing the retained loss attributable to discontinued operations for the financial period by the weighted average of ordinary shares in issue during the period.

6. Cash and cash equivalents

	As at 1 January 2005	**Cash flow[2]**	**As at 31 March 2005**
	£m	**£m**	**£m**
Cash	**14.0**	**0.3**	**14.3**
Loans and advances to other banks payable on demand	**344.2**	**(100.5)**	**243.7**
Cash equivalents	**269.4**	**(66.8)**	**202.6**
	627.6	**(167.0)**	**460.6**

	As at 1 January 2004	Cash flow	As at 31 March 2004
	£m	£m	£m
Cash	13.3	(0.1)	13.2
Loans and advances to other banks payable on demand	146.6	48.8	195.4
Cash equivalents	163.0	(108.9)	54.1
	322.9	(60.2)	262.7

	As at 1 January 2004	Cash flow	As at 31 December 2004
	£m	£m	£m
Cash	13.3	0.7	14.0
Loans and advances to other banks payable on demand	146.6	197.6	344.2
Cash equivalents	163.0	106.4	269.4
	322.9	304.7	627.6

The cash balance at 31 March 2005, 31 December 2004 and 31 March 2004 relates solely to a cash ratio deposit, held with the Bank of England.

7. Segmental information

The Group is organised into two main business segments:

(i) Retail Financial Services ("Retail") – is responsible for all customer focused products and services. It includes credit cards, consumer loans, mortgages, savings and insurance products.

(ii) Treasury and Balance Sheet Management ("Wholesale") – is responsible for asset and liability management across the Group's overall balance sheet. In particular it manages the Group's capital and liquidity positions as well as managing market and currency risks.

In determining how to allocate income and costs between these two segments, the Group uses a transfer pricing methodology.

Given its responsibility for management of the overall balance sheet, capital and liquidity the Wholesale segment effectively charges or pays a net transfer price depending on whether it is funding or investing the net balance transferred from the Retail balance sheet each day. This net transfer price is market based and adjusted firstly to take account of liquidity requirements and secondly for derivatives used to manage the interest rate risk within the Retail balance sheet.

The cost of the debt capital held by the Group is split between Retail and Wholesale according to the proportion of risk weighted assets held within each segment. The balance of the risk weighted assets is currently calculated according to the Basel 1 definitions.

The net return on investing the equity capital including the costs of the various capital management techniques currently in use by the Group including credit card securitisation and credit default swaps is earned by Treasury and for segmental reporting purposes is also split between Retail and Wholesale according to the proportion of risk weighted assets held within each segment .

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[2] The movement in cash flow includes FX movements.

7. Segmental information (continued)

All external customer revenues and expenses are allocated to Retail as are the majority of the Group's operating costs and the investment in brand and marketing. The costs allocated to the Wholesale segment are directly attributable to its lines of business.

As the Group has disposed of its French business, it no longer considers disclosure along geographical segmentation lines to be appropriate. The results, cash flows, assets and liabilities relating to the French business are included within discontinued operations.

	Retail	Wholesale	Total
	£m	£m	£m
Three months ended 31 March 2005			
Continuing operations:			
Net interest income	**69.3**	**1.5**	**70.8**
Operating profit	**2.0**	**1.6**	**3.6**
Discontinued operations:			
Net interest expense	**(0.5)**	**-**	**(0.5)**
Operating profit	**1.3**	**-**	**1.3**
Year ended 31 December 2004			
Continuing operations:			
Net interest income	280.3	7.1	287.4
Operating profit	55.5	5.5	61.0
Discontinued operations:			
Net interest income	6.4	-	6.4
Operating loss	(63.1)	-	(63.1)
Three months ended 31 March 2004			
Continuing operations:			
Net interest income	72.1	1.9	74.0
Operating profit	12.5	1.2	13.7
Discontinued operations:			
Net interest income	1.6	-	1.6
Operating loss	(17.8)	-	(17.8)

APPENDICES

UK GAAP TO IFRS RECONCILIATIONS

Appendix 1 contains the reconciliations from UK GAAP to IFRS of the:

- income statement for
  - the three months ended 31 March 2004, and
  - the year ended 31 December 2004;
- balance sheet as at
  - 31 March 2004, and
  - 31 December 2004; and
- cash flow statements for
  - the three months ended 31 March 2004, and
  - the year ended 31 December 2004.

Appendix 2 contains reconciliations of the balance sheet as at 1 January 2005, this being the date of adoption of IAS 32 and IAS 39.

Explanations have also been provided for key reconciling items. In presenting the financial statements and the reconciliations contained in this document, the Group has applied IAS 1 'Presentation of Financial Statements', and for the cash flow statement, IAS 7 'Cash Flow Statements'. Therefore certain reclassifications have been made to comply with these standards, and where applicable, other standards, to ensure compliance with the presentation requirements of IFRS.

1. EXPLANATION OF KEY IMPACTS OF TRANSITION FROM UK GAAP TO IFRS

(a) IFRS 2 Share-based Payment

In accordance with IFRS 2, the Group is required to recognise a fair value charge for all share-based payments granted after 7 November 2002, including Save-As-You-Earn schemes. The fair values are to be determined at the date of grant using option valuation models and for this purpose, the Group is using the Black-Scholes model for all Save-As-You-Earn schemes and the Present Economic Value (binomial) model for the Restricted Share Plans (RSPs) and the Group's other option schemes. The fair value charge is spread over the relevant vesting period and adjusted for lapses, with the number of shares expected to lapse estimated at each balance sheet prior to the vesting date. The only exception is where the share-based payment has vesting outcomes attached to market based performance conditions such as in the case of some of the RSPs. Under these circumstances, additional modelling is required to take into account these market based performance conditions which effectively estimate the number of shares expected to vest. No subsequent adjustment is then made to the fair value charge for shares that do not vest in the event that these performance conditions are not met.

In addition to recognising a charge under IFRS 2, it was also necessary to remove all share-based payment charges under UK GAAP. Under UK GAAP, a charge was recognised for the intrinsic value of the shares granted over the relevant vesting period. The reconciling items in the reconciliations of the income statement contained in this appendix are therefore a combination of both the IFRS 2 charge and the UK GAAP reversing entry for the period. The IFRS 2 charge on its own for the three months ended 31 March 2004 was £0.4 million. After reversing the UK GAAP charge for the period of £1.1 million, this resulted in a net overall gain in the period of £0.7m. For the year ended 31 December 2004, the IFRS 2 charge on its own was £2.3 million. The UK GAAP credit for this period was £1.0 million, and after the reversal of this credit, the net overall charge for the period increased to £3.3 million.

(b) IFRS 3 Business Combinations

Under IFRS 3, goodwill is considered to be an intangible asset under IFRS and is therefore not amortised. Instead it is carried at cost and assessed annually for impairment or also when there are indicators of impairment.

Under IFRS 1, an exemption is available in the standard which provides an entity with an option not to retrospectively apply IFRS 3. The Group has elected to adopt this exemption, and accordingly the impact of this will be to deem the UK GAAP balance of goodwill at the date of transition to IFRS (1 January 2004) as being the cost of goodwill for IFRS purposes.

Restatements prior to this date are not required. For the purposes of restating 2004 to an IFRS basis, all goodwill amortisation charges were removed, including those charges recognised by our associate for which we have equity accounted. These charges were posted in the associate line.

(c) IAS 12 Income Taxes

The income tax credit relates to the recognition of a deferred tax asset on share schemes in accordance with IAS 12. The amount of the deferred tax is based on the amount expected to be tax assessable to the employee (tax deductible for the company) which is the market price of the share at vesting less any amounts payable by the employee (intrinsic value). As a consequence, there is not necessarily any correlation between the amounts recognised for deferred tax under IAS 12 and the amounts charged as the fair value charge under IFRS 2. The amount of deferred taxes is also recognised over the relevant vesting period.

IAS 12 requires that deferred tax assets and liabilities be recognised on temporary differences, subject to the assessment of recoverability on a 'probable' basis. In applying the requirements of the standard, the only area which gave rise to a deferred tax adjustment for the Group in 2004 was in the area of share-based payments as described above.

(d) IAS 21 The Effects of Changes in Foreign Exchange Rates

IAS 21 requires that upon disposal or liquidation of a foreign operation, or part thereof, the associated foreign currency translation reserve is removed from equity and recognised in the income statement. As a consequence of the disposal of France's banking portfolio, we have recognised £6.7 million as a foreign exchange loss in 2004 within other operating expenses. Additionally, a foreign exchange gain of £1.3 million has been recognised in 2005 within other operating income. Both amounts have been included in discontinued operations.

(e) IAS 38 Intangible Assets

IAS 38 requires that software which is not an integral part of the related hardware be classified as an intangible asset rather than as a tangible fixed asset. For this purpose, we have reclassified the net book value of certain software from tangible to intangible assets. IAS 38 also requires that costs directly attributable to software development be capitalised and amortised over the software's useful life, subject to it meeting the future economic benefits criteria. In applying these specific criteria under IAS 38, the Group did not identify any such further costs to be capitalised under transition to IFRS. Accordingly, the only adjustment on transition to IFRS was a balance sheet reclassification.

2. UK GAAP TO IFRS RECONCILIATIONS – INCOME STATEMENT

2A. Reconciliation of the Income Statement
For the three months ended 31 March 2004

	UK GAAP on an IFRS format	Reclassifications	IFRS 2 Share-based Payments	IFRS 3 Business Combinations	IAS 12 Income Taxes	Total Effect of Transition to IFRS	Restated under IFRS (unaudited)
	£m	£m	£m	£m	£m	£m	£m
Continuing operations:							
Interest income	211.8	-	-	-	-	-	211.8
Interest expense	(137.8)	-	-	-	-	-	(137.8)
Net interest income	74.0	-	-	-	-	-	74.0
Fee and commission income	52.1	-	-	-	-	-	52.1
Fee and commission expense	(9.9)	-	-	-	-	-	(9.9)
Net fee and commission income	42.2	-	-	-	-	-	42.2
Other operating income	2.5	-	-	-	-	-	2.5
Operating income	118.7	-	-	-	-		118.7
Administrative expenses							
- personnel expenses	-	(23.1)	0.7	-	-	(22.4)	(22.4)
- depreciation and amortisation	(5.9)	-	-	-	-	-	(5.9)
- other administrative expenses	(58.8)	23.1	-	-	-	23.1	(35.7)
	(64.7)	-	0.7	-	-	0.7	(64.0)
Impairment losses on loans and advances to customers	(41.0)	-	-	-	-	-	(41.0)
Operating profit	13.0	-	0.7	-	-	0.7	13.7
Share of operating profit of joint ventures	0.3	-	-	-	-	-	0.3
Share of associate losses	(0.4)	-	-	0.3	-	0.3	(0.1)
Profit on continuing ordinary activities before tax	12.9	-	0.7	0.3	-	1.0	13.9

2A. Reconciliation of the Income Statement
For the three months ended 31 March 2004 (continued)

	UK GAAP on an IFRS format	Reclassifications	IFRS 2 Share-based Payments	IFRS 3 Business Combinations	IAS 12 Income Taxes	Total Effect of Transition to IFRS	Restated under IFRS (unaudited)
	£m	£m	£m	£m	£m	£m	£m
Tax charge on profit on continuing ordinary activities	(5.8)	-	-	-	0.1	0.1	(5.7)
Profit on continuing ordinary activities after tax	7.1	-	0.7	0.3	0.1	1.1	8.2
Discontinued operations:							
Loss on discontinued ordinary activities after tax	(12.9)	-	-	-	-	-	(12.9)
Retained loss for the period	(5.8)	-	0.7	0.3	0.1	1.1	(4.7)

2B. Reconciliation of the Income Statement
For the year ended 31 December 2004

	UK GAAP on an IFRS format	Reclassifications	IFRS 2 Share-based Payments	IFRS 3 Business Combinations	IAS 12 Income Taxes	IAS 21 The Effects of Changes in Foreign Exchange Rates	Total Effect of Transition to IFRS	Restated under IFRS (unaudited)
	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations:								
Interest income	902.8	-	-	-	-	-	-	902.8
Interest expense	(615.4)	-	-	-	-	-	-	(615.4)
Net interest income	287.4	-	-	-	-	-	-	287.4
Fee and commission income	220.7	-	-	-	-	-	-	220.7
Fee and commission expense	(25.2)	-	-	-	-	-	-	(25.2)
Net fee and commission income	195.5	-	-	-	-	-	-	195.5
Other operating income	14.7	-	-	-	-	-	-	14.7
Operating income	497.6	-	-	-	-	-		497.6
Administrative expenses								
- personnel expenses	-	(89.4)	(3.3)	-	-	-	(92.7)	(92.7)
- depreciation and amortisation	(22.2)		-	-	-	-	-	(22.2)
- other administrative expenses	(228.7)	89.4	-	-	-	-	89.4	(139.3)
	(250.9)	-	(3.3)	-	-	-	(3.3)	(254.2)
Impairment losses on loans and advances to customers	(182.4)	-	-	-	-	-	-	(182.4)
Operating profit	64.3	-	(3.3)	-	-	-	(3.3)	61.0

2B. Reconciliation of the Income Statement
For the year ended 31 December 2004 (continued)

	UK GAAP on an IFRS format	Reclassifications	IFRS 2 Share-based Payments	IFRS 3 Business Combinations	IAS 12 Income Taxes	IAS 21 The Effects of Changes in Foreign Exchange Rates	Total Effect of Transition to IFRS	Restated under IFRS (unaudited)
	£m	£m	£m	£m	£m	£m	£m	£m
Share of operating profit of joint ventures	0.3	-	-	-	-	-	-	0.3
Share of associate losses	(1.6)	-	-	1.2	-	-	1.2	(0.4)
Profit on continuing ordinary activities before tax	63.0	-	(3.3)	1.2	-	-	(2.1)	60.9
Tax charge on profit on continuing ordinary activities	(24.8)	-	-	-	0.1	-	0.1	(24.7)
Profit on continuing ordinary activities after tax	38.2	-	(3.3)	1.2	0.1	-	(2.0)	36.2
Discontinued operations:								
Loss on discontinued ordinary activities after tax	(131.0)	-	-	0.5	-	(6.7)	(6.2)	(137.2)
Retained loss for the year	(92.8)	-	(3.3)	1.7	0.1	(6.7)	(8.2)	(101.0)

3. UK GAAP TO IFRS RECONCILIATIONS – SHAREHOLDERS' EQUITY

As at 1 January 2004

	£m
Shareholders' equity at 1 January 2004:	
UK GAAP	433.6
Adjustment for deferred tax on share schemes	0.5
IFRS	434.1

Notes:

On transition to IFRS, it was also necessary to recognise a share-based payment charge under IFRS 2 and reverse the UK GAAP charge. These adjustments had no net impact on shareholders' equity as both sides of these two adjustments were to equity.

4. UK GAAP TO IFRS RECONCILIATIONS – BALANCE SHEET

4A. Reconciliation of the Balance Sheet

As at 31 March 2004

	UK GAAP on an IFRS format	IFRS adjustments	Restated under IFRS (unaudited)
	£m	£m	£m
Assets			
Cash and balances with central banks	13.2	-	13.2
Loans and advances to banks	268.6	-	268.6
Investment securities	3,557.6	-	3,557.6
Derivative financial instruments	10.3	-	10.3
Loans and advances to customers	6,864.0	-	6,864.0
Prepayments and accrued income	64.0	-	64.0
Investments in joint venture and associates	6.2	0.3	6.5
Property, plant and equipment	95.1	(39.0)	56.1
Intangible assets	5.9	39.0	44.9
Deferred tax	23.3	0.6	23.9
Other assets	326.4	-	326.4
Total assets	11,234.6	0.9	11,235.5
Liabilities			
Deposits by banks	1,613.5	-	1,613.5
Securities sold under agreements to repurchase	239.2	-	239.2
Customer accounts	6,408.8	-	6,408.8
Investment securities in issue	1,581.6	-	1,581.6
Derivative financial instruments	11.2	-	11.2
Other liabilities	347.6	-	347.6
Accruals and deferred income	147.5	-	147.5
Subordinated liabilities			
- Dated loan capital	450.8	-	450.8
Total liabilities	10,800.2	-	10,800.2
Shareholders' equity			
Called up share capital	411.8	-	411.8
Share premium account	110.4	-	110.4
Capital reserve	359.7	-	359.7
Other reserves	-	0.2	0.2
Accumulated losses	(448.6)	0.7	(447.9)
Total equity attributable to the equity holders of the parent	433.3	0.9	434.2
Minority interests (equity)	1.1	-	1.1
Total equity	434.4	0.9	435.3
Total equity and liabilities	11,234.6	0.9	11,235.5

4B. Reconciliation of the Balance Sheet

As at 31 December 2004

	UK GAAP on an IFRS format £m	IFRS adjustments £m	Restated under IFRS (unaudited) £m
Assets			
Cash and balances with central banks	14.0	-	14.0
Loans and advances to banks	615.9	-	615.9
Securities purchased under agreement to resell	319.4	-	319.4
Investment securities	3,119.7	-	3,119.7
Derivative financial instruments	16.0	-	16.0
Loans and advances to customers	7,642.0	-	7,642.0
Prepayments and accrued income	58.3	-	58.3
Investments in joint venture and associates	5.0	1.3	6.3
Property, plant and equipment	96.5	(48.5)	48.0
Intangible assets	-	49.0	49.0
Deferred tax	28.2	0.7	28.9
Other assets	130.6	-	130.6
Total assets	12,045.6	2.5	12,048.1
Liabilities			
Deposits by banks	2,352.0	-	2,352.0
Securities sold under agreements to repurchase	130.5	-	130.5
Customer accounts	6,607.4	-	6,607.4
Investment securities in issue	1,806.5	-	1,806.5
Derivative financial instruments	17.5	-	17.5
Other liabilities	110.5	-	110.5
Accruals and deferred income	215.0	-	215.0
Provisions for liabilities and charges	16.8	-	16.8
Subordinated liabilities			
- Dated loan capital	450.8	-	450.8
Total liabilities	11,707.0	-	11,707.0
Shareholders' equity			
Called up share capital	412.2	-	412.2
Share premium account	111.0	-	111.0
Capital reserve	359.7	-	359.7
Other reserves	-	(0.5)	(0.5)
Accumulated losses	(544.2)	3.0	(541.2)
Total equity attributable to the equity holders of the parent	338.7	2.5	341.2
Minority interests (equity)	(0.1)	-	(0.1)
Total equity	338.6	2.5	341.1
Total equity and liabilities	12,045.6	2.5	12,048.1

5. UK GAAP TO IFRS RECONCILIATIONS – CASH FLOW STATEMENT

The most significant adjustment to the cash flow statement under IFRS is an adjustment to reclassify certain amounts from loans and advances to cash and cash equivalents. Presentation of a cash flow statement on an IFRS basis does not affect the underlying cash flows of the business.

5A. Reconciliation of the Cash Flow Statement

For the 3 months ended 31 March 2004

	UK GAAP on an IFRS format £m	IFRS adjustments £m	Restated under IFRS (unaudited) £m
Cash flows from operating activities			
Continuing operations:			
Operating profit before taxation	13.0	0.7	13.7
Adjusted for:			
Depreciation, impairment and amortisation	9.2	(0.7)	8.5
Impairment losses on loans and advances to customers	16.6	-	16.6
Gain on sale of investment securities	(1.5)	-	(1.5)
Net (increase)/decrease in operating assets:			
Loans and advances to banks	80.8	(128.5)	(47.7)
Loans and advances to customers	(110.2)	-	(110.2)
Securities purchased under agreement to resell	-	-	-
Accrued income and prepayments	10.8	-	10.8
Other assets	(35.6)	-	(35.6)
Net increase/(decrease) in operating liabilities:			
Deposits by banks	(45.7)	-	(45.7)
Securities sold under agreements to repurchase	(590.0)	-	(590.0)
Customer accounts	(34.5)	-	(34.5)
Investment securities in issue	158.7	-	158.7
Accruals and deferred income	(5.3)	-	(5.3)
Other liabilities	28.9	-	28.9
Taxation paid	(1.8)	-	(1.8)
Net cash outflow from continuing operating activities	(506.6)	(128.5)	(635.1)
Discontinued operations:			
Net cash (outflow)/inflow from discontinued operating activities	(7.6)	19.7	12.1
Total net cash outflow from operating activities	(514.2)	(108.8)	(623.0)

5A. Reconciliation of the Cash Flow Statement

For the 3 months ended 31 March 2004 (continued)

	UK GAAP on an IFRS format £m	IFRS adjustments £m	Restated under IFRS (unaudited) £m
Cash flows from investing activities			
Continuing operations:			
Purchase of property, plant and equipment	(6.2)	-	(6.2)
Disposal of property, plant and equipment	(1.2)	-	(1.2)
Purchase of software intangibles	(0.6)	-	(0.6)
Purchase of investment securities	(1,377.6)	-	(1,377.6)
Disposal of investment securities	1,941.1	-	1,941.1
Net cash inflow from continuing investing activities	555.5	-	555.5
Discontinued operations:			
Net cash inflow from discontinued investing activities	1.1	-	1.1
Total net cash inflow from investing activities	556.6	-	556.6
Cash flows from financing activities			
Continuing operations:			
Proceeds from issue of share capital	4.4	-	4.4
Total net cash inflow from financing activities	4.4	-	4.4
Increase/(decrease) in cash and cash equivalents in the period	46.8	(108.8)	(62.0)
Cash and cash equivalents at the beginning of the period	159.9	163.0	322.9
Exchange adjustments	1.8	-	1.8
Cash and cash equivalents at the end of the period	208.5	54.2	262.7

5B. Reconciliation of the Cash Flow Statement

For the year ended 31 December 2004

	UK GAAP on an IFRS format £m	IFRS adjustments £m	Restated under IFRS (unaudited) £m
Cash flows from operating activities			
Continuing operations:			
Operating profit before taxation	64.3	(3.3)	61.0
Adjusted for:			
Depreciation, impairment and amortisation	25.1	3.3	28.4
Impairment losses on loans and advances to customers	70.1	-	70.1
Gain on sale of investment securities	(7.5)	-	(7.5)
Net (increase)/decrease in operating assets:			
Loans and advances to banks	110.0	(55.2)	54.8
Loans and advances to customers	(1,115.6)	-	(1,115.6)
Securities purchased under agreement to resell	(319.4)	-	(319.4)
Accrued income and prepayments	16.9	-	16.9
Other assets	99.4	-	99.4
Net increase/(decrease) in operating liabilities:	772.3	-	772.3
Deposits by banks			
Securities sold under agreements to repurchase	(698.7)	-	(698.7)
Customer accounts	(53.0)	-	(53.0)
Investment securities in issue	383.6	-	383.6
Accruals and deferred income	29.6	-	29.6
Other liabilities	(133.6)	-	(133.6)
Group relief	14.1	-	14.1
Net cash outflow from continuing operating activities	(742.4)	(55.2)	(797.6)
Discontinued operations:			
Net cash (outflow)/inflow from discontinued operating activities	(85.4)	161.6	76.2
Total net cash (outflow)/inflow from operating activities	(827.8)	106.4	(721.4)

5B. Reconciliation of the Cash Flow Statement

For the year ended 31 December 2004 (continued)

	UK GAAP on an IFRS format £m	IFRS adjustments £m	Restated under IFRS (unaudited) £m
Cash flows from investing activities			
Continuing operations:			
Purchase of property, plant and equipment	(13.1)	-	(13.1)
Purchase of software intangibles	(37.7)	-	(37.7)
Purchase of investment securities	(6,447.5)	-	(6,447.5)
Disposal of investment securities	7,435.3	-	7,435.3
Net cash inflow from continuing investing activities	937.0	-	937.0
Discontinued operations:			
Net cash inflow from discontinued investing activities	90.6	-	90.6
Total net cash inflow from investing activities	1,027.6	-	1,027.6
Cash flows from financing activities			
Continuing operations:			
Proceeds from issue of share capital	5.4	-	5.4
Total net cash inflow from financing activities	5.4	-	5.4
Increase in cash and cash equivalents in the year	205.2	106.4	311.6
Cash and cash equivalents at the beginning of the year	159.9	163.0	322.9
Exchange adjustments	(6.8)	-	(6.8)
Cash and cash equivalents at the end of the year	358.3	269.4	627.7

1. RECONCILIATION OF BALANCE SHEET UPON ADOPTION OF IAS 32 AND IAS 39
As at 1 January 2005

IAS 32 covers the disclosure and presentation of financial instruments whereas IAS 39 covers their recognition and measurement. IAS 39 requires that all financial assets and financial liabilities, including derivatives, be recognised on balance sheet, with the instruments being accounted for at either fair value or amortised cost, depending on the classification of the instrument.

The Group has adopted the exemption provided in IFRS 1 to not present comparative information in accordance with IAS 32 and IAS 39. Comparative information for financial instruments in 2004 will therefore be prepared on the basis of the UK GAAP accounting policies as disclosed in the last annual report with IAS 32 and IAS 39 being applied from 1 January 2005. Adjustments to reflect the adoption of IAS 32 and IAS 39 at 1 January 2005 have been recognised through equity and are reflected in the reconciliations contained in this appendix. The following is an explanation of the key impacts of adoption of IAS 32 and IAS 39 as at 1 January 2005.

(a) Reclassifications

In accordance with IAS 32 and IAS 39, certain reclassifications have been made to reflect the appropriate categorisations required by these standards. These have included adjustments to transfer:

- accrued interest on loans and receivables previously recognised within prepayments and accrued income under UK GAAP, to the amortised cost carrying amount within loans and advances;
- within Other assets on the balance sheet was certain accrued interest amounts on derivatives previously off balance sheet. These amounts have been reclassified to the derivative financial instruments category on the balance sheet; and
- other reclassifications for investment securities and other wholesale assets.

(b) Effective interest rate

Credit card receivables
Under UK GAAP, the carrying amount of credit card receivables with low or zero rate interest on balance transfers or purchases are carried at cost, with interest being accrued at 0% during the incentive period and then at the standard rate thereafter.

Under IAS 39, credit card receivables are categorised as non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These receivables are measured on an amortised cost basis, whereby the principal balance includes the accrued interest and unamortised fees and discounts and interest income is recognised on an effective yield basis inclusive of all integral fees and discounts.

In calculating the effective interest on the credit card receivables, the Group has recognised as an upfront loss in the income statement the cost of the discount given to customers as compared to the market rate. Thereafter, interest income will then be recognised at the market rate from day one on the incentive balances until they are paid off and interest income will be recognised on non-incentive balances at the standard rate on the credit cards as the interest is earned. Where credit cards fees are deemed integral to the product they will be included in the effective interest calculation and spread over the life of the product.

The impact upon transition to IFRS is to create a liability for the un-amortised discount on the balance sheet based on year end 2004 incentive balances which is credited to the income statement during 2005. The overall net impact on 2005 profit before tax is not expected to be material.

Other products

Egg offers promotional rates on customer deposits through the bonus account and on mortgages through the discount product. Under IFRS all interest, integral fees and costs will now be recognised on a level yield basis to the expected maturity date.

(c) Impairment losses on loans and advances to customers

Under UK GAAP specific and formulated provisions are raised against non-performing loans and a general provision against the balance.

Under IAS 39, an impairment loss on loans and advances to customers is only recognised where there is objective evidence that a debt is impaired. The recoverable amount of an impaired asset is the present value of expected future cash flows discounted at the original effective interest rate, and the difference between this and the asset balance is the impaired amount. Interest income is recognised only on the loans and receivables balances net of impairment.

There is little impact in the overall level of impairment losses to be recognised under IAS 39 due to the similarities to the Group's former provisioning methodology under UK GAAP. On transition to IFRS, there was a small release of the UK GAAP bad debts provision, and prospectively, the Group expects a similar charge to the income statement for impairment losses on loans and advances to customers under IFRS as for the bad and doubtful debts charge that would have occurred under UK GAAP.

(d) Wholesale financial instruments

Under UK GAAP all wholesale instruments were previously accounted for on an accruals cost basis. Under IAS 39, certain wholesale financial instruments are required to be measured at fair value, and depending on whether they have been classified as fair value through profit or loss or as available-for-sale, the changes in fair value are recognised in the income statement or in equity respectively. The measurement techniques for fair valuing financial instruments have been described in the significant accounting policies in note 1.

On transition to IFRS, the impact of valuing derivative financial instruments at fair value through profit or loss resulted in a reduction in equity of £7.1 million. For those instruments classified as available-for-sale, this resulted in a reduction in other reserves of £1.6 million.

The adjustments for wholesale financial instruments at fair value also include the impact of designating some of the Group's derivatives as cash flow hedges. Previously accounted for on an off balance sheet basis, on transition the cash flow hedges resulted in a fair value gain of £0.3 million, all of which was deemed to be an effective hedge and recognised in other reserves.

(e) Equity saving products

At the date of transition to IFRS, the Group was party to certain equity savings products which contained embedded derivatives. The host contracts have been accounted for at amortised cost and resulted in a reduction in liabilities and a net gain to equity reserves of £7.4 million. The embedded derivates were accounted for at fair value in accordance with IAS 39. The impact of this was to bring onto the balance sheet at fair value a purchased option (gain of £12.5 million), a written option (loss of £12.4 million) and a Libor swap (loss of £9.3 million), giving a net loss at transition to equity reserves of £9.2 million.

(f) Derecognition of financial liabilities

The Group's policy is to derecognise financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired. Accordingly, on transition the Group has written back certain financial liabilities previously written off.

(g) IAS 12 Income Taxes

The IAS 39 adjustments are temporary differences, and accordingly a deferred tax asset has been recognised on the total of these adjustments at 30% as it is expected that they will be taxable or relievable at a future point in time. The Group has also assessed the recoverability of the deferred tax asset and has determined that the asset will be fully recoverable.

2. RECONCILIATION OF THE BALANCE SHEET UPON ADOPTION OF IAS 32 AND IAS 39 - As at 1 January 2005

		IAS 32 and 39 adjustments								
	1 January 2005 (excluding IAS 39)	Reclassifications (a) £m	Effective interest rate (b) £m	Impairment (c) £m	Wholesale financial instruments	Equity savings products (e) £m	Derecognition of financial liabilities (f) £m	IAS 12 Income Taxes (g)	Total Adjustments	Restated (unaudited)
Assets										
Cash and balances with central banks	14.0	-	-	-	-	-	-	-	-	14.0
Loans and advances to banks	615.9	0.3	-	-	-	-	-	-	0.3	616.2
Securities purchased under agreement to resell	319.4	0.7	-	-	-	-	-	-	0.7	320.1
Investment securities	3,119.7	19.7	-	-	(2.5)	-	-	-	17.2	3,136.9
Derivative financial instruments	16.0	-	-	-	4.3	12.5	-	-	16.8	32.8
Loans and advances to customers	7,642.0	29.0	(7.5)	3.3	-	-	-	-	24.8	7,666.8
Prepayments and accrued income	58.3	(49.7)	-	-	-	-	-	-	(49.7)	8.6
Investments in joint venture and associate	6.3	-	-	-	-	-	-	-	-	6.3
Property, plant and equipment	48.0	-	-	-	-	-	-	-	-	48.0
Intangible assets	49.0	-	-	-	-	-	-	-	-	49.0
Deferred tax	28.9	-	-	-	-	-	-	6.5	6.5	35.4
Other assets	130.6	-	-	-	(2.2)	-	-	-	(2.2)	128.4
Total assets	12,048.1	-	(7.5)	3.3	(0.4)	12.5	-	6.5	14.4	12,062.5

2. RECONCILIATION OF THE BALANCE SHEET UPON ADOPTION OF IAS 32 AND IAS 39 - As at 1 January 2005 (continued)

		IAS 32 and 39 adjustments								
	1 January 2005 (excluding IAS 39)	Reclassifications (a) £m	Effective interest rate (b) £m	Impairment (c) £m	Wholesale financial instruments	Equity savings products (e) £m	Derecognition of financial liabilities (f) £m	IAS 12 Income Taxes (g)	Total Adjustments	Restated (unaudited)
Liabilities										
Deposits by banks	2,352.0	13.5	-	-	0.1	-	-	-	13.6	2,365.6
Securities sold under agreements to repurchase	130.5	0.5	-	-	-	-	-	-	0.5	131.0
Customer accounts	6,607.4	83.9	(2.2)	-	-	(7.4)	9.6	-	83.9	6,691.3
Investment securities in issue	1,806.5	8.6	-	-	-	-	-	-	8.6	1,815.1
Derivative financial instruments	17.5	0.4	-	-	10.5	21.7	-	-	32.6	50.1
Other liabilities	110.5	(0.3)	-	-	(2.4)	-	-	-	(2.7)	107.8
Accruals and deferred income	215.0	(107.9)	-	-	-	-	-	-	(107.9)	107.1
Provisions for liabilities and charges	16.8	-	-	-	-	-	-	-	-	16.8
Subordinated liabilities										
- Dated loan capital	450.8	1.3	-	-	(0.2)	-	-	-	1.1	451.9
Total liabilities	11,707.0	-	(2.2)	-	8.0	14.3	9.6	-	29.7	11,736.7
Shareholders' equity										
Called up share capital	412.2	-	-	-	-	-	-	-	-	412.2
Share premium account	111.0	-	-	-	D -	-	-	-	-	111.0
Capital reserve	359.7	-	-	-	-	-	-	-	-	359.7
Other Reserves	(0.5)	-	-	-	(1.3)	-	-	0.4	(0.9)	(1.4)
Accumulated losses	(541.2)	-	(5.3)	3.3	(7.1)	(1.8)	(9.6)	6.1	(14.4)	(555.6)
Total equity attributable to the equity holders of the parent	341.2	-	(5.3)	3.3	(8.4)	(1.8)	(9.6)	6.5	(15.3)	325.9
Minority interests (equity)	(0.1)	-	-	-	-	-	-	-	-	(0.1)
Total equity	341.1	-	(5.3)	3.3	(8.4)	(1.8)	(9.6)	6.5	(15.3)	325.8
Total equity and liabilities	12,048.1	-	(7.5)	3.3	(0.4)	12.5	-	6.5	14.4	12,062.5

Average Balance Sheet (UK Business Only)

(£m, except percentages)

	31 March 2005		31 March 2004		31 December 2004	
	Avg. Balance	**Avg. Rate %**	Avg. Balance	Avg. Rate %	Avg. Balance	Avg. Rate %
Assets						
Wholesale assets	**4,161**	**4.62**	4,354	4.13	4,212	4.51
Mortgages	**1,770**	**5.27**	2,111	4.70	1,835	5.09
Personal loans	**2,416**	**7.16**	1,547	7.73	2,228	7.25
Credit cards	**3,354**	**9.56**	2,808	9.55	3,175	9.61
Total average interest-earning assets	**11,701**	**6.66**	10,820	6.18	11,450	6.55
Fixed and other assets	**289**		337		339	
Total assets	**11,990**		11,157		11,789	
Liabilities						
Customer accounts	**6,366**	**4.16**	6,754	3.28	6,280	3.90
Wholesale liabilities and subordinated debt	**4,661**	**4.66**	3,471	4.13	4,540	4.67
Total average interest-bearing liabilities	**11,027**	**4.37**	10,225	3.57	10,820	4.22
Other liabilities	**444**		440		450	
Total liabilities	**11,471**		10,665		11,270	
Total equity	**519**		492		519	
Total equity and liabilities	**11,990**		11,157		11,789	

Note: The above analysis represents interest earned or borne on on-balance sheet assets and liabilities only. In each case the average balances and yields have been calculated on a 12-month rolling basis.

The figures for Q1 2005 are compiled on full IFRS basis including the effect of IAS 32 and IAS39 and as such are no longer strictly comparable to the prior period and prior year figures.

Average Yields (UK Business Only)

	31 March 2005 Average rate %	31 March 2004 Average rate %	31 December 2004 Average rate %
Interest income as a percentage of average interest-earning assets	**6.66**	6.18	6.55
Interest expense as a percentage of average interest-bearing liabilities	**4.37**	3.57	4.22
Interest spread	**2.29**	2.61	2.33
Net interest margin (includes interest on off-balance sheet items)	**2.43**	2.54	2.51

Note:

This press release contains certain forward-looking statements with respect to the financial condition, results of operations, and businesses of the Egg Group. These statements and forecasts involve risk and uncertainty because they relate to events that depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The statements have been made with reference to forecast price changes, economic conditions and the current regulatory environment. Nothing in this press release should be construed as a profit forecast.

Ends

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