



**Preliminary Results**  
**19th February 2001**

# agenda

- **Introduction - Mike Harris**
- **Highlights and Operational Results - Paul Gratton**
- **Financial Results - Stacey Cartwright**
- **Outlook - Paul Gratton**

# highlights

- 70% increase in customer numbers to 1.35 million (559,000 acquired)
- retail assets grew by 84% to £3.8 billion - card balances exceed £1 billion in January 2001
- loss before tax on plan at £155 million (1999 : £150 million)
- total revenue quadrupled to £93 million
- widening net interest margins (from 34 bps up to 106 bps)
- intermediation capability now built; Invest, Insure, Mortgages, Shop
- brand awareness reaches 88% (1999 : 63%)
- remain bang on track for breakeven during Q4 2001

# Egg: key measures

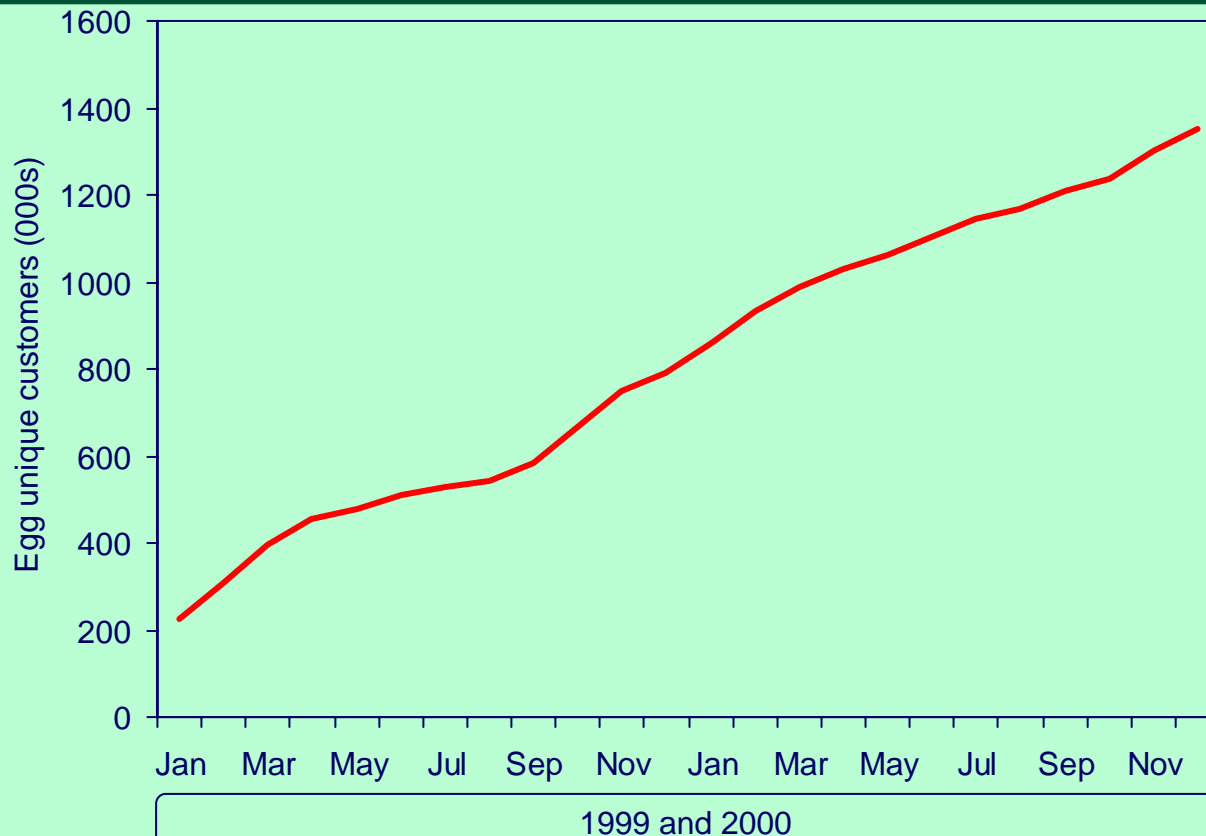
- customer growth
- loyalty
- cross buying
- new products and services
- revenue versus costs
- profitable asset growth

# customer growth

## another great year of acquisition



### customer acquisition



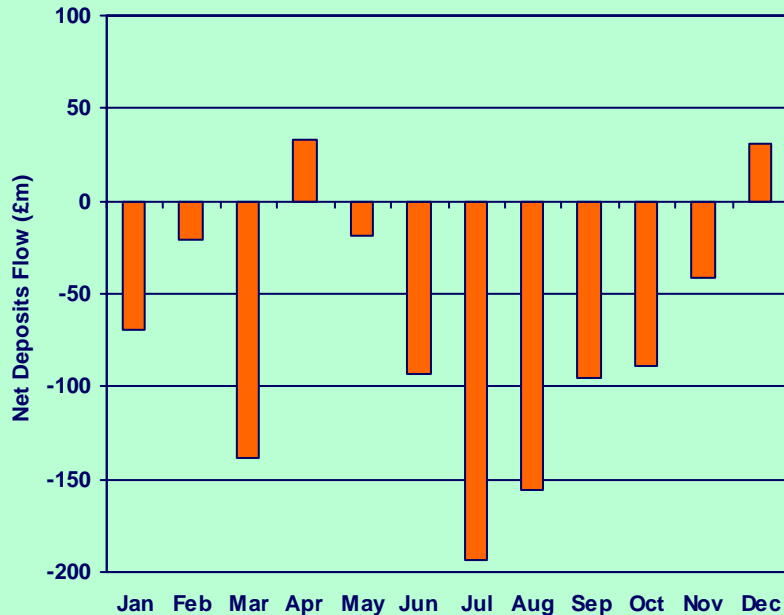
**total Egg customers up 70% to 1.35 million (Dec 2000)**

**559,000 net new customers in 2000**

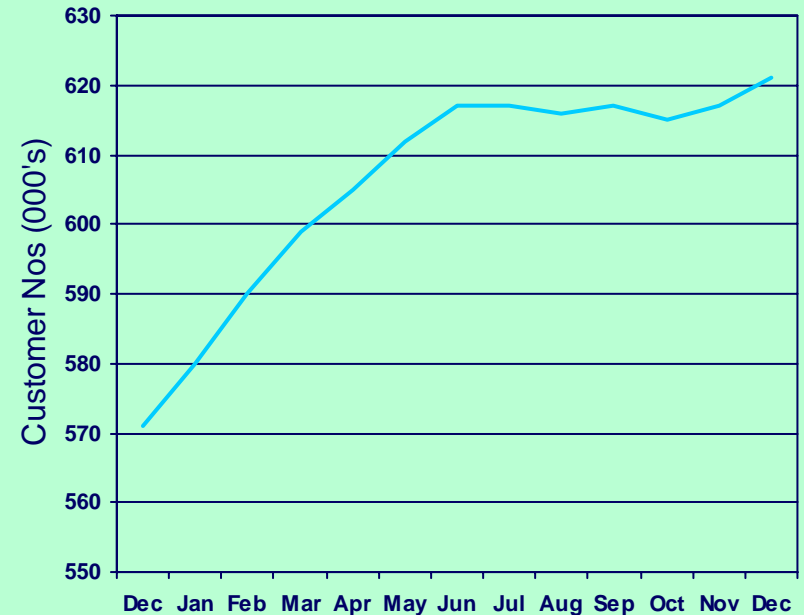
**over 100,000 net new customers in 2001 to date**

# loyalty

deposits - shift in demographics



2000



2000

outflows  
slowing as  
book  
stabilises

“newer”  
customers  
look more  
profitable

50,000 net  
new deposit  
customers  
acquired

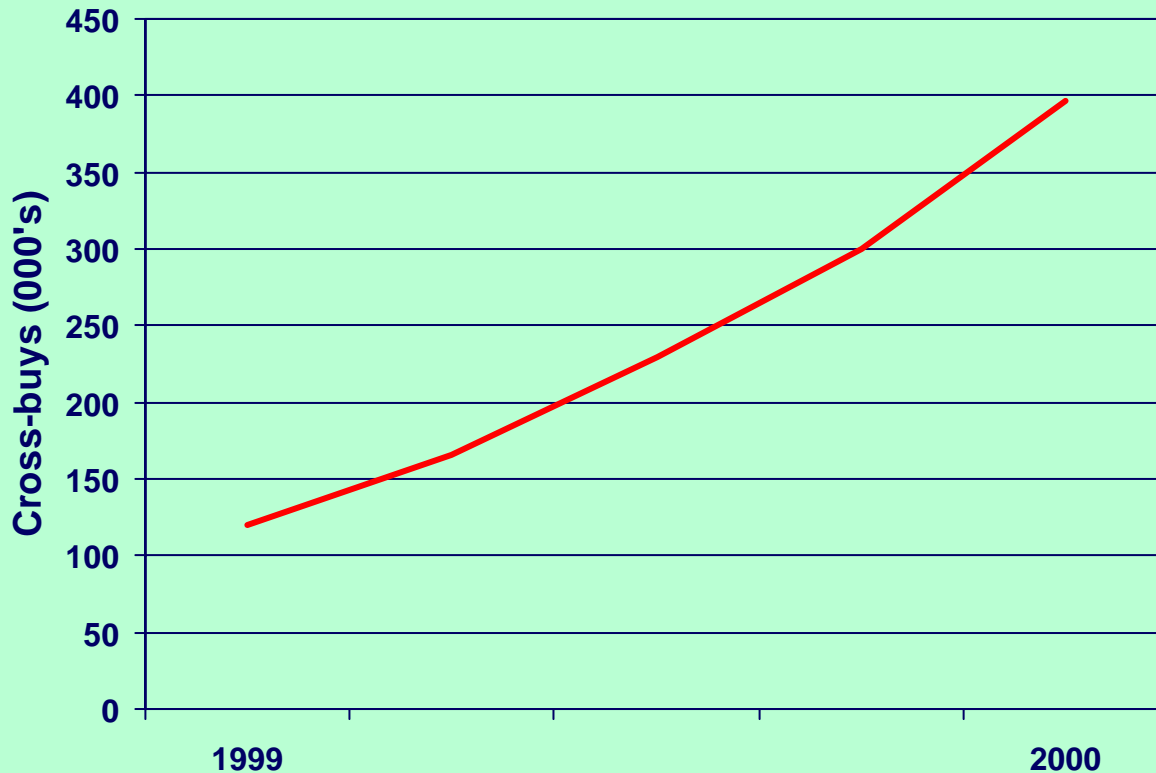
# loyalty

## Egg Card

- 745,000 credit card customers
- over 90% of customers attracted by promotional prices are migrating to paying interest at the full rate
- these balances are 120% of original amount transferred to Egg
- average balance of approximately £2,000 per account
- average monthly spend nearly double UK average
- upmarket customer base
- credit performance better than plan

# cross buying

## healthy start



**397,000 cross  
buys in total at  
year-end**

**97,000 cross  
buys in Q4**

**1999 Ratio 1.15  
2000 Ratio 1.29**



# new products and services

capability delivered in 2000



## Launched

- Egg Invest
- share dealing
- personal balance sheet
- Egg Insure (motor and home)
- Boots powered by Egg card
- rejuvenated website
- WAP

## Complete awaiting marketing launch

- mortgage intermediation
- digital TV
- current account
- electronic wallet

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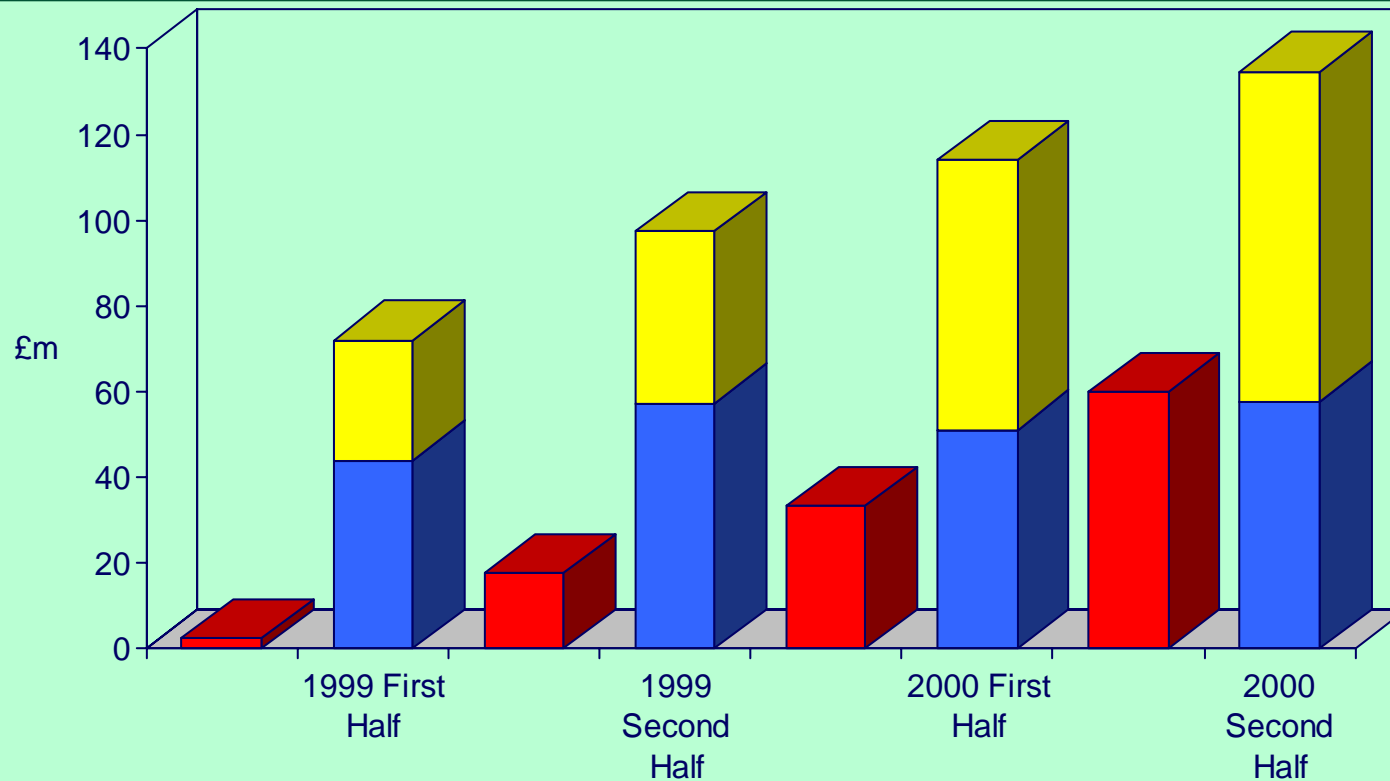
# revenues versus costs

## profit and loss

	1999 £m	2000 £m
<b>net interest income</b>	<b>24.2</b>	<b>80.0</b>
other operating income/(expenses)	(4.5)	13.2
<b>total revenue</b>	<b>19.7</b>	<b>93.2</b>
operational and administrative expenses	(101.0)	(108.4)
brand and marketing costs	(21.7)	(50.7)
development costs	(27.6)	(33.6)
<b>total administrative expenses</b>	<b>(150.3)</b>	<b>(192.7)</b>
depreciation and amortisation	(10.2)	(16.9)
bad debt provision	(8.9)	(37.2)
<b>operating loss</b>	<b>(149.7)</b>	<b>(153.6)</b>
share of associate losses	0.0	(1.7)
<b>loss before tax</b>	<b>(149.7)</b>	<b>(155.3)</b>

# revenues versus costs

## migration to break even



**Total Cost  
Coverage**

**3%**

**18%**

**29%**

**45%**

**Ops/Admin  
Cost Coverage**

**5%**

**31%**

**65%**

**104%**

■ Revenues ■ Operational & Admin Expenses ■ Other Costs

# revenues versus costs

margins growing rapidly

	Dec 1999 bps	June 2000 bps	Dec 2000 bps
interest spread	1	34	64
net interest margin	34	73	106
risk adjusted margin, net of bad debt provisions	21	38	61

# revenue versus costs

## operating income analysis

	1999 £m	2000 £m
commissions receivable	8.0	10.9
credit card fees	0.1	6.5
other banking product fees, net	(9.6)	(6.5)
treasury	(3.1)	0.8
other income	0.1	1.5
	<hr/>	<hr/>
total	(4.5)	13.2
	<hr/> <hr/>	<hr/> <hr/>

# profitable asset growth

## balance sheet

	31/12/99 £m	31/12/00 £m
mortgages	1,623	2,405
personal loans	207	445
credit cards	228	929
<b>total retail assets</b>	<b>2,058</b>	<b>3,779</b>
treasury assets	6,587	3,931
other assets	291	234
<b>total assets</b>	<b>8,936</b>	<b>7,934</b>
deposits	8,157	7,128
other liabilities	312	282
shareholders' funds	467	524
<b>total capital &amp; liabilities</b>	<b>8,936</b>	<b>7,934</b>

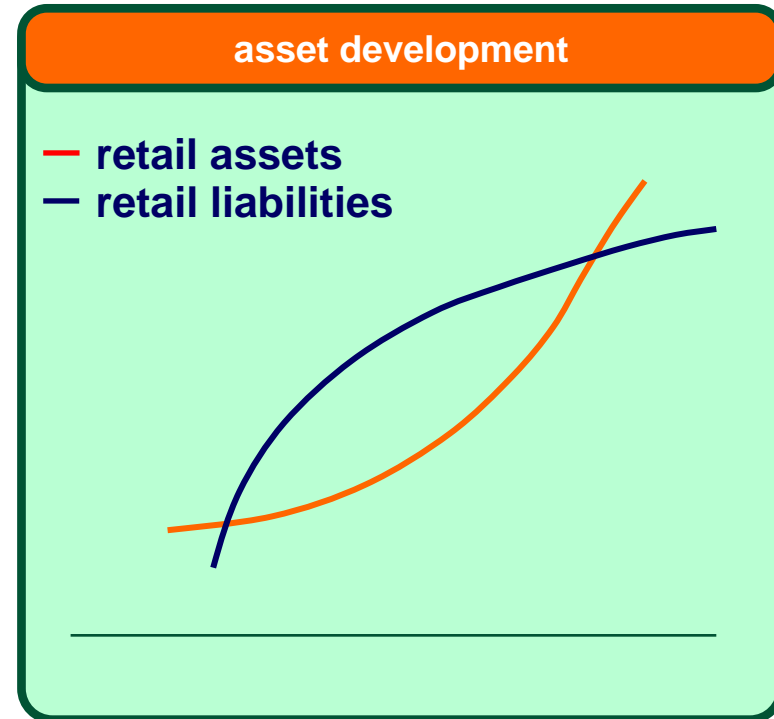
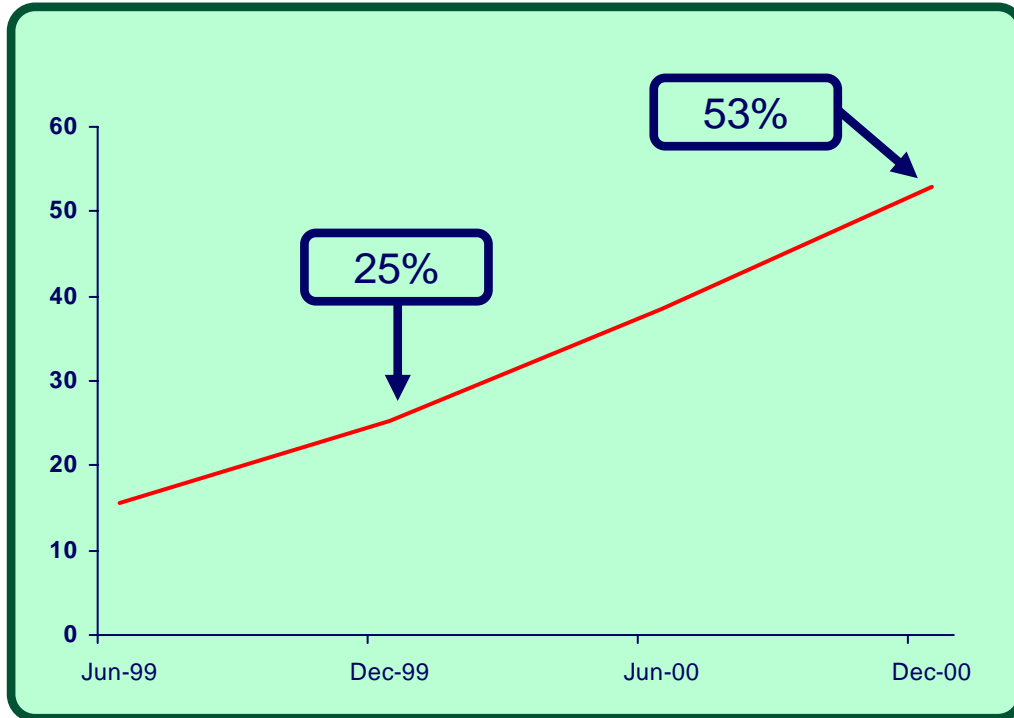
retail asset  
growth -  
£1.7bn in  
twelve  
months

credit card  
balances  
topped £1bn  
in Jan 2001

IPO  
proceeds -  
£150m

# profitable asset growth

## retail assets versus retail liabilities



**June 99**  
£m

**Dec 99**  
£m

**June 00**  
£m

**Dec 00**  
£m

retail assets 1,156

2,058

2,983

3,779

retail liabilities 7,425

8,157

7,721

7,128



# profitable asset growth

## key sales data

	1999	2000
Egg mortgage disbursements	£419m	£579m
Egg personal loan disbursements	£199m	£347m
growth in card balances	£228m	£701m
new funds into Egg Invest	n/a	£54m
new policies in Egg Insure	n/a	8k
Egg Shop revenue	£20k	£923k

# profitable asset growth

bad debts - provision reflects change in mix of assets

	1999			2000		
	Customer Balance £m	Year-end Provision £m	%	Customer Balance £m	Year-end Provision £m	%
Mortgages	1,623	2.4	0.15%	2,405	3.2	0.13%
Personal Loans	207	4.7	2.27%	445	16.5	3.71%
Credit Cards	228	4.7	2.06%	929	22.8	2.45%
<b>Total</b>	<b>2,058</b>	<b>11.8</b>	<b>0.57%</b>	<b>3,779</b>	<b>42.5</b>	<b>1.12%</b>

# capital

	1999	2000
Tier 1 capital	£391m	£479m
Total capital	£403m	£497m
Risk - weighted assets	£2.74bn	£3.86bn
Risk asset ratios		
- Tier 1	14.3%	12.4%
- Total	14.7%	12.9%

**strong  
capital base**

**small  
amount of  
Tier 2 debt to  
be taken on  
in 2001**

**rating  
agency  
discussions  
underway**

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# outlook

Egg is perfectly positioned to exploit strategic assets

we have developed key strategic assets and a clear first-mover advantage

- unique brand
- attractive customer base
- multi-channel distribution
- technology infrastructure and knowledge

- integrated open finance businesses
  - banking
  - financial services intermediation
  - transaction portal

...that we will now...

translate into a sustainable, profitable and winning business model in the UK

# outlook

## European strategy: B<sup>2</sup>B



B<sup>2</sup>B

- largely an Application Service Provider play (ASP)
- ASP eg: Egg Invest Platform is White-labelled - Egg brand is not necessarily used
- most likely to be a financial services partner but others considered
- partner obviously has control over the end-customer proposition
- opportunity to lever our IT capability

# outlook

European strategy: B<sup>2</sup>B<sup>2</sup>C



B<sup>2</sup>B<sup>2</sup>C

- largely partnership-based market disrupters
- end game might be co-branded franchises such as Egg@OtherBrand
- partner has large customer base - not necessarily financial services, maybe similar to Boots
- Egg has significant control over the end-customer proposition

# summary

- **we are brilliantly positioned to exploit our first mover advantage in a market set to explode**



**egg:** | Individual  
Money  
Matters