



# **Preliminary Results**

## **25th February 2002**

# agenda

- **Introduction - Mike Harris**
- **Operational Review - Paul Gratton**
- **Financial Results - Stacey Cartwright**
- **Outlook & Summary - Paul Gratton**

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# highlights

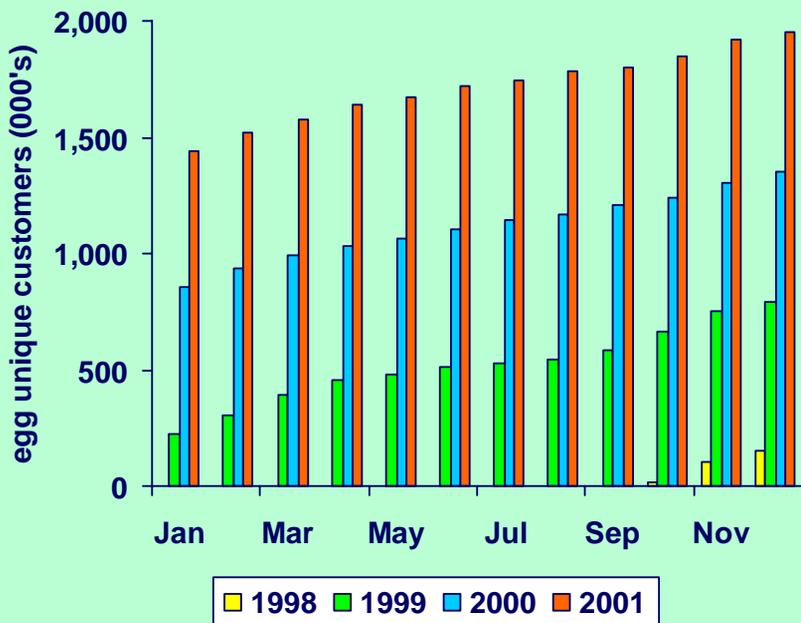
- customer numbers reach 1.95 million by year end (now over 2 million)
- higher customer growth (2001: 600,000; 2000: 559,000)
- lower customer acquisition costs
- retail assets grew by 26% to £4.8 billion - card balances now exceed £1.75 billion
- widening net interest margins (2001: 190 bps; 2000: 97 bps)
- total revenue doubles to £189.4 million (2000: £93.2 million)
- loss before tax at £87.8 million (2000: £155.3 million)
- achieved breakeven for UK during Q4 2001
- entry strategy for Europe accelerated through French acquisition

# customer growth

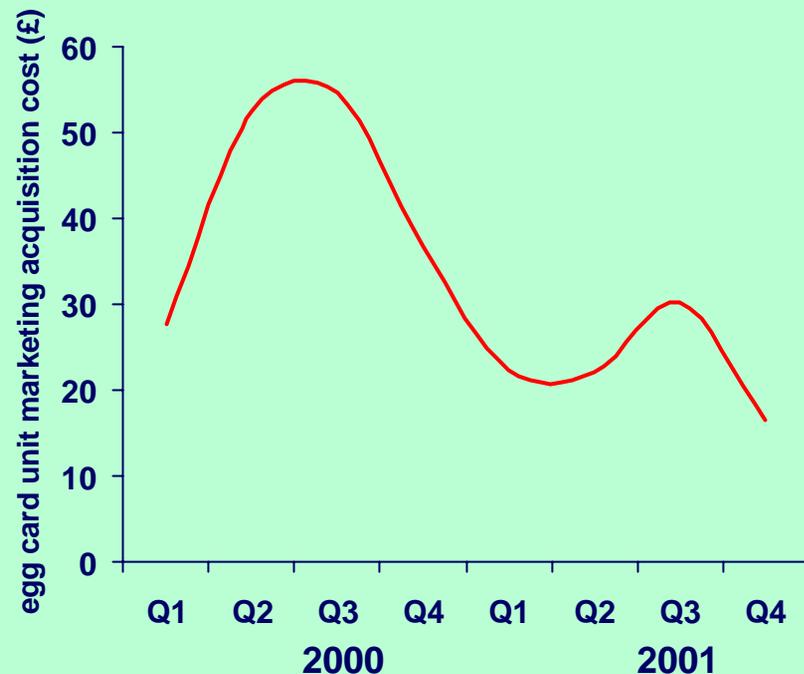
best ever year of acquisition



## customer growth



## egg card acquisition costs



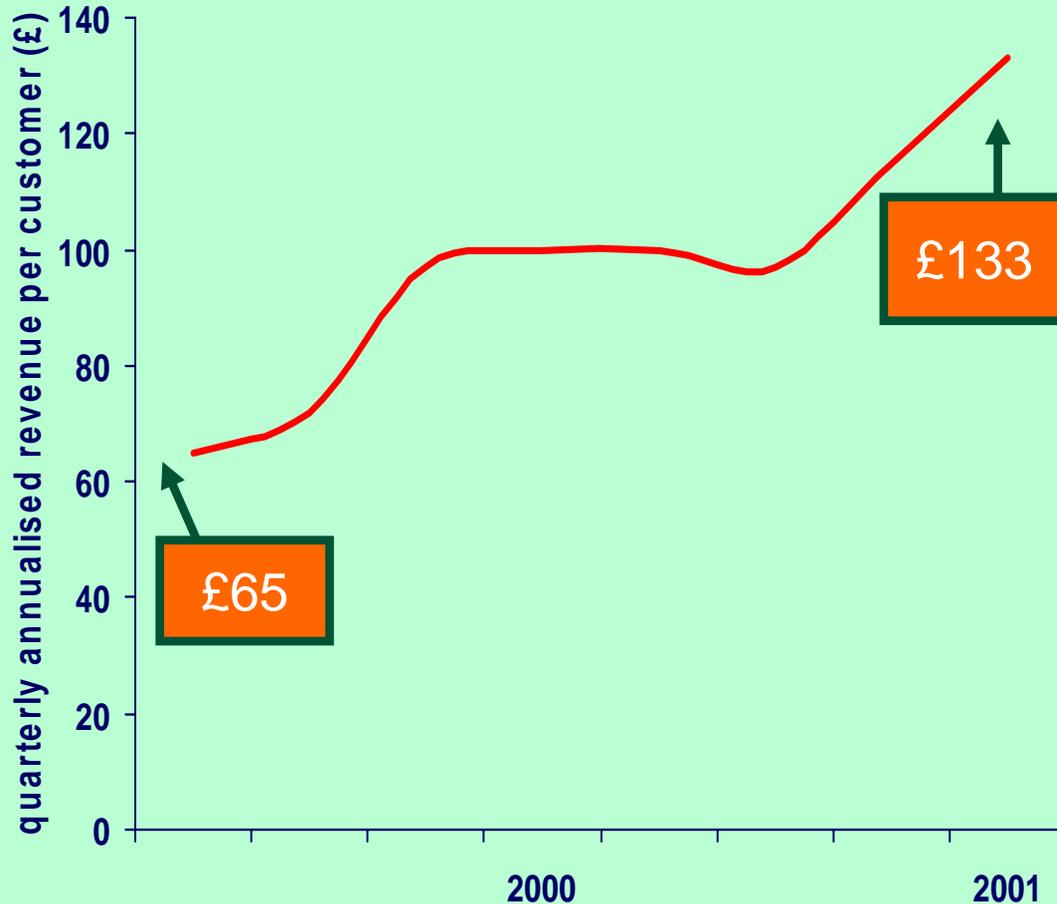
**600,000 net new customers in 2001 vs 559,000 in 2000**

**total Egg customers up to 1.95 million**

**more efficient customer acquisition**

# UK customer profitability

revenue per customer and cross sales growing



Note: average revenue per customer in 2001 was £111 (2000: £85)

revenue per  
customer has  
doubled from Q1  
2000 to Q4 2001

cross holding ratio:  
Dec 2001  
1.44  
Dec 2000  
1.29

no. of cross-bought  
products in the year  
up 64%:  
2001  
454,000  
2000  
277,000

# UK business

## key sales data

	Year to Dec 2001	Year to Dec 2000
growth in card balances	£840m	£701m
egg personal loan disbursements	£419m	£347m
egg mortgage disbursements	£344m	£579m
egg savings outflows	(£1.1bn)	(£0.8bn)
new funds into egg invest	£82m	£54m
new policies in egg insure	55k	8k
intermediation revenue	£2.5m	£0.9m

# credit cards

loyal, upmarket, profitable customer base

- 1.37m credit card customers
- 87% of customers attracted by promotional prices are migrating to paying interest at the full rate
- total card book now profitable overall - able to absorb acquisition strain
- average balance of £1,600 per account (UK average: £900)
- average annual spend of £2,600 per account (UK average: £1,400)
- average salary circa £30,000
- strong credit performance

# personal loans

profitable growth



- volumes increasing - disbursements up 21% on 2000
- over 70% of all loans sold in 2001 were cross sales - no direct marketing planned for 2002
- significant reduction in unit marketing costs (2001: £27, 2000: £109)
- PPI penetration remains high at 56%
- new business quality driving improving credit performance

# mortgages

steady progress

- competitive marketplace with much unprofitable business being written
- tactical reduction in our marketing spend hence unit marketing costs are significantly lower (£36 in 2001 vs. £212 in 2000)
- mortgage processing joint venture with Marlborough Stirling progressing well with new clients (e.g. Standard Life Bank, Alliance & Leicester), results in lower unit servicing costs for Egg moving forward
- strategy to build a profitable mortgage book through cross-sales of flexible offset product (now accounts for 65% of all applications)
- thus NPV per customer is rising strongly

# savings

## growing the margin

- savings outflows continue as expected in response to re-pricing of the book
- total customer base increased by a net 5k to 625k
- positive net interest contribution from Egg deposit book was £15.4m in 2001 (versus £3.0m negative in 2000)
- additional re-pricing of the offline book in January 2002 is expected to lead to more outflows this year, but will improve contribution still further
- growth initiatives planned for online book in 2002

# Egg Invest

well positioned



- £130 million of client monies from launch to end 2001
- 37,000 customers at end December
- well positioned as the leading online direct supermarket
- Fundsdirect acquired - first B2B foothold
- widening distribution channels - MSN

# widening distribution

Microsoft

**egg:** | Individual  
Money  
Matters

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**msn** | **egg:invest** Tee up an ISA pack

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MSN have 41.5 million unique users across 14 countries in Europe

UK deal expanded to cover cards, payments as well as investments

launching funds proposition in France this year with other products to follow

# widening distribution

## France

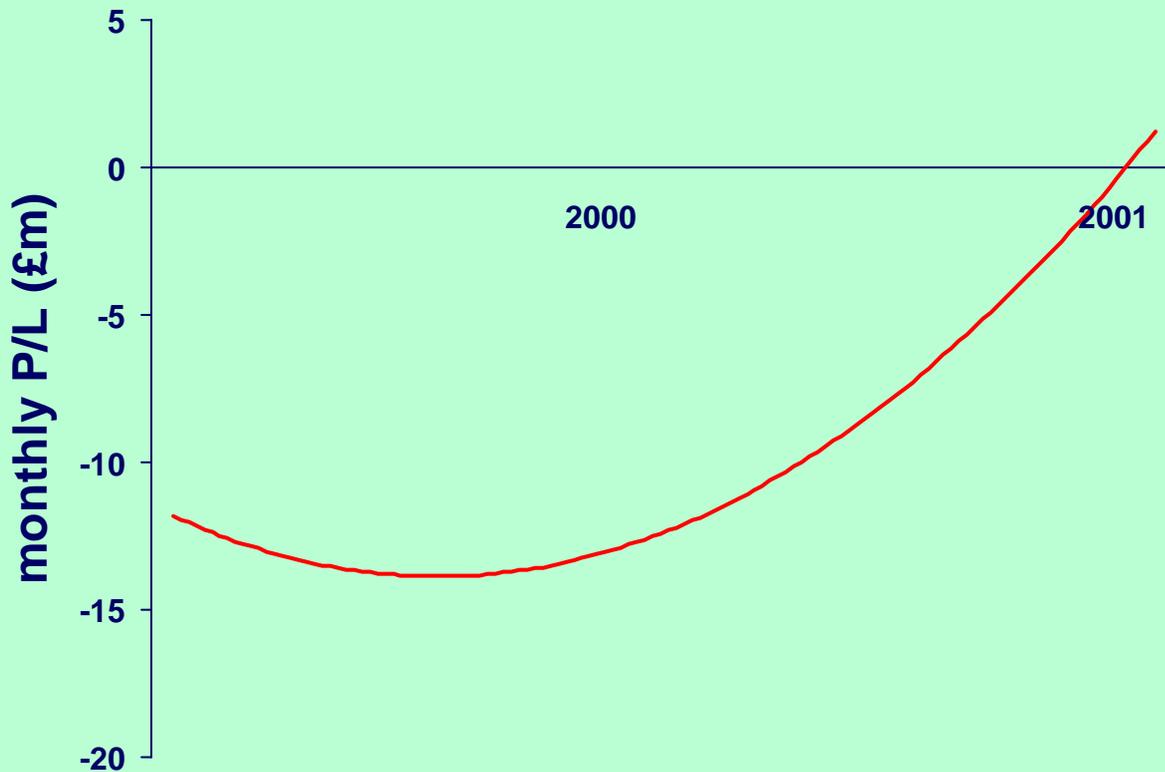
- acquisition of Zebank for Euro 8 million (net assets 31/12/01 of Euro 31 million)
- 70,000 customers at announcement date
- accelerated B2C launch of Egg brand in France using existing Zebank capability (call centre, systems and people)
- retailer distribution deals with Sephora and La Samaritaine
- integrated with MSN channel

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# UK business achieves breakeven

monthly profit and loss



**Q4 2001 UK loss:  
£1.5m**

**Full Year  
2001**

UK	(£79.7m)
int'l	(£5.4m)
other	(£2.7m)
<b>total</b>	<b>(£87.8m)</b>

# revenue versus costs

## quarterly trend

£m	Q4 2000	Q1 2001	Q2 2001	Q3 2001	Q4 2001
total revenues	32.0	36.5	39.7	50.8	<b>62.4</b>
operational expenses	(31.5)	(30.9)	(32.6)	(32.5)	<b>(30.8)</b>
brand & marketing	(15.6)	(15.1)	(6.0)	(6.6)	<b>(8.2)</b>
development	(5.8)	(4.2)	(3.6)	(3.1)	<b>(2.8)</b>
total admin expenses	(52.9)	(50.2)	(42.2)	(42.2)	<b>(41.8)</b>
depreciation	(5.1)	(5.4)	(5.0)	(4.9)	<b>(5.4)</b>
bad debts provisions	(12.4)	(16.6)	(16.4)	(19.5)	<b>(15.5)</b>
UK operating loss	(38.4)	(35.7)	(23.9)	(15.8)	<b>(0.3)</b>
share of associates	(1.7)	(1.5)	(0.6)	(0.7)	<b>(1.2)</b>
<b>UK loss before tax</b>	<b>(40.1)</b>	<b>(37.2)</b>	<b>(24.5)</b>	<b>(16.5)</b>	<b>(1.5)</b>
international costs	-	(0.5)	(1.0)	(1.9)	<b>(1.8)</b>
restructuring	-	-	-	-	<b>(2.7)</b>
<b>group loss before tax</b>	<b>(40.1)</b>	<b>(37.9)</b>	<b>(25.5)</b>	<b>(18.4)</b>	<b>(6.0)</b>

# revenues versus costs

## full year profit and loss account

	Year to Dec 2001 £m	Year to Dec 2000 £m
<b>net interest income</b>	<b>145.7</b>	<b>80.0</b>
other operating income	43.7	13.2
<b>total revenue</b>	<b>189.4</b>	<b>93.2</b>
operational & administrative expenses	(132.0)	(108.4)
brand & marketing costs	(35.8)	(50.7)
development costs	(16.7)	(33.6)
<b>total administrative expenses</b>	<b>(184.5)</b>	<b>(192.7)</b>
depreciation & amortisation	(20.7)	(16.9)
bad debt provision	(68.0)	(37.2)
<b>operating loss</b>	<b>(83.8)</b>	<b>(153.6)</b>
share of associate/j.v. losses	(4.0)	(1.7)
<b>loss before tax</b>	<b>(87.8)</b>	<b>(155.3)</b>

revenues  
doubled

total admin  
costs fell  
despite  
record  
acquisition

loss before  
tax down by  
43%

# revenues versus costs

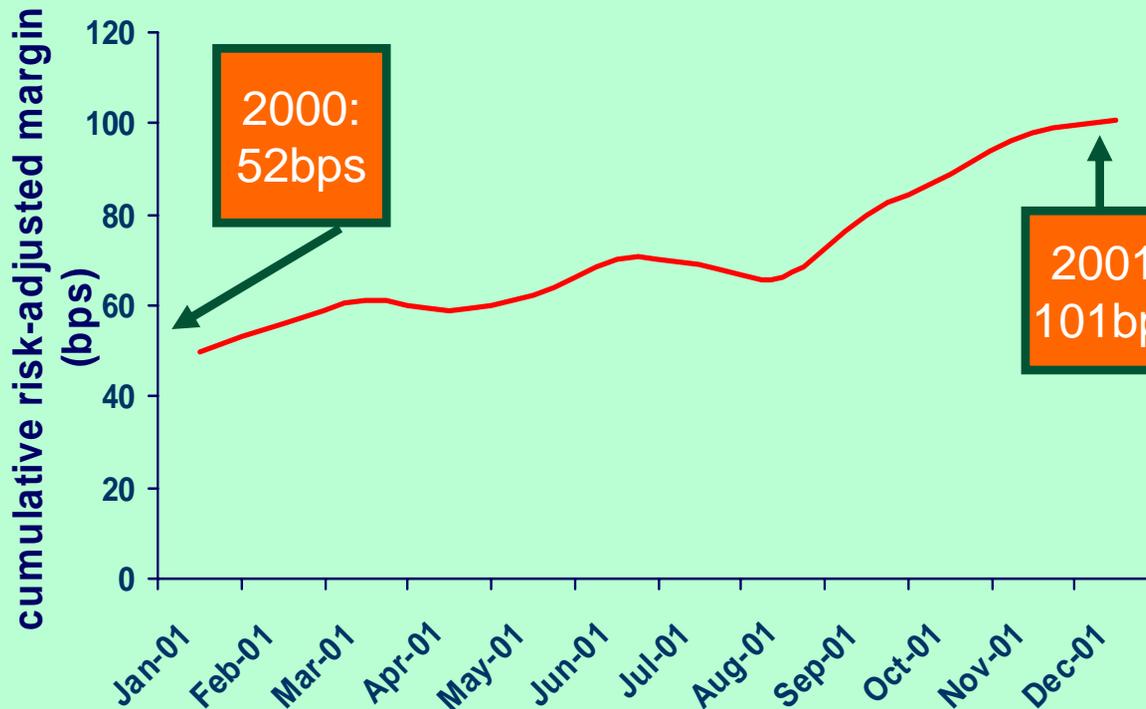
## margins growing rapidly

	Full year to Dec 2001	Half year to Jun 2001	Full year to Dec 2000
interest spread (bps)	170	130	64
net interest margin (bps)	190	157	97

maturing  
card book

offline  
savings  
accounts  
priced for  
profit

risk-adjusted  
margin  
reaches  
101bps



# revenue versus costs

other operating income more than trebles

	Year to Dec 2001 £m	Year to Dec 2000 £m
commissions and profit share receivable	28.4	10.9
credit card fees and commissions	17.6	6.5
treasury and other banking product fees, net	(6.6)	(8.8)
profit on sale of investment securities	0.8	3.1
other income	3.5	1.5
	<hr/>	<hr/>
total other operating income	<u>43.7</u>	<u>13.2</u>

# revenues versus costs

## cost per customer falling

	Q1	Q2	Q3	Q4
total costs (exc. bad debt)	£152	£115	£107	£98
ops & admin only	£84	£79	£74	£66



Note: average ops & admin costs in 2001 were £75 (2000: £99)

system and  
process  
improvements

marketing  
efficiencies

tight control  
and economies  
of scale on  
overheads

# profitable asset growth

## balance sheet

	Dec 2001 £m	Dec 2000 £m
mortgages	2,428	2,405
personal loans	596	445
credit cards	1,769	929
<b>total retail assets</b>	<b>4,793</b>	<b>3,779</b>
treasury assets	3,137	3,931
other assets	153	234
<b>total assets</b>	<b>8,083</b>	<b>7,934</b>
deposits	5,945	7,128
wholesale funds	1,304	31
subordinated debt	124	-
other liabilities	234	251
shareholders' funds	476	524
<b>total capital &amp; liabilities</b>	<b>8,083</b>	<b>7,934</b>

retail asset  
growth -  
£1.0bn in the  
year

credit card  
balances  
exceed  
£1.75bn

asset growth  
funded by  
wholesale  
liabilities

# profitable asset growth

## bad debts - continued strong performance

	secured		unsecured	
	Dec 2001	Dec 2000	Dec 2001	Dec 2000
customer balance (£m)	2,428	2,405	2,365	1,374
period end provision (£m)	3.4	3.2	77.4	39.3
% provision held	0.14%	0.13%	3.26%	2.86%
impaired balances (£m)	7.8	7.7	56.9	31.4
impaired as % total	0.32%	0.32%	2.41%*	2.29%
provisions as % of impaired balances	44%	42%	136%	125%

(\* like for like 2.10%)

**mortgage  
LTV ratio  
56%**

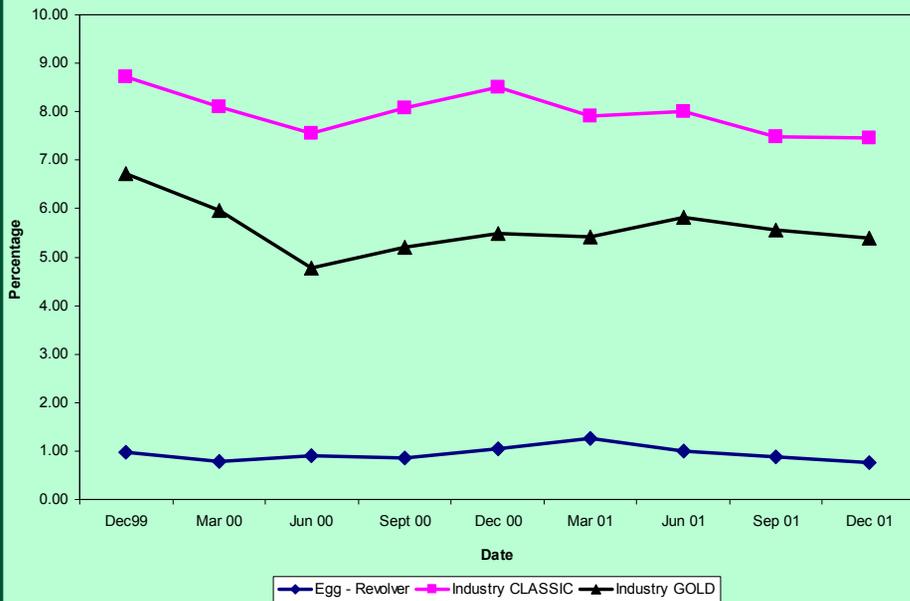
**healthy  
coverage  
of more  
than 100%  
of  
impaired  
balances**

**Q3  
additional  
20bps  
general  
provision  
on cards**

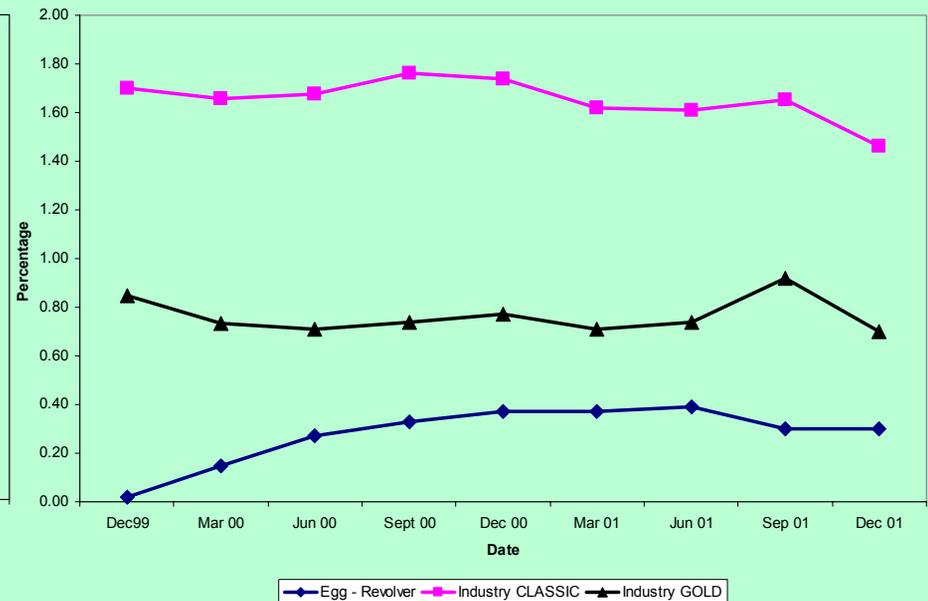
# profitable asset growth

## bad debt benchmarking

### 1 Cycle accounts



### 2 Cycle accounts



Source: Fair Isaacs Benchmarking

# capital and funding

## strong capital base

	Dec 2001	Dec 2000
tier 1 capital	£434m	£479m
total capital	£587m	£497m
risk-weighted assets	£4.3bn	£3.9bn
risk asset ratios		
- tier 1	10.1%	12.4%
- total	13.6%	12.9%

tier 2 debt  
of £124m  
from June  
2001

plenty of  
capacity for  
further debt  
raising

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# outlook

## goals for 2002

- UK business into profit
- another strong year of card-led customer growth in UK
- innovation: new money management tools for customers
- successful French launch as first European step



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### Savings accounts

Egg product 1	<a href="#">View</a>	£00,000.00
Egg product 2	<a href="#">View</a>	£00,000.00
External product 1	<a href="#">View</a>	£00,000.00
External product 2	<a href="#">View</a>	£00,000.00
		£00,000.00

### Investments

Egg product 1	<a href="#">View</a>	£00,000.00
External product 1	<a href="#">View</a>	£00,000.00
External product 2	<a href="#">View</a>	£00,000.00
		£00,000.00

**Total** £00,000.00

### Credit cards

Egg product 1	<a href="#">View</a>	£00,000.00
External product 1	<a href="#">View</a>	£00,000.00
		£00,000.00

### Loans

Egg product 1	<a href="#">Info</a>	£00,000.00
External product 1	<a href="#">View</a>	£00,000.00
		£00,000.00

### Mortgages

Egg product 1	<a href="#">Info</a>	£00,000.00
		£00,000.00

**Total** £00,000.00

### Current Accounts

External product 1	<a href="#">View</a>	£00,000.00
		£00,000.00

### Tools & features

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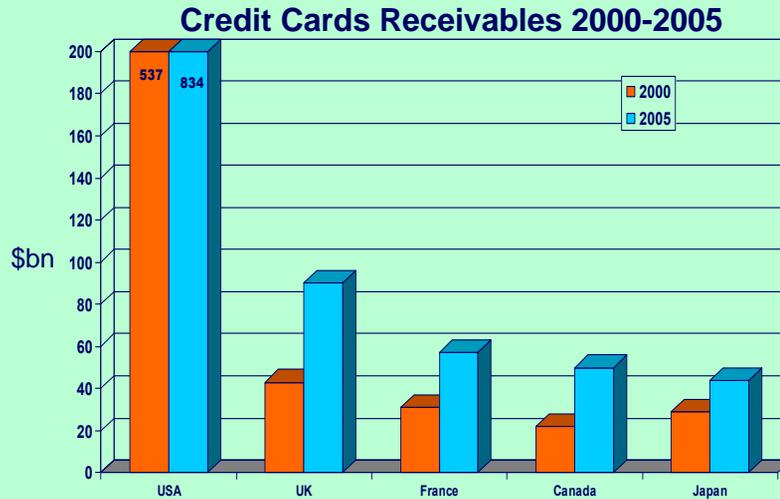
**Oil! Pack it in.**  
Whatever kind of investor you are, we're sure we've got an ISA to suit you. Get an information pack now. [Get it](#)

aggregation to launch in Q2

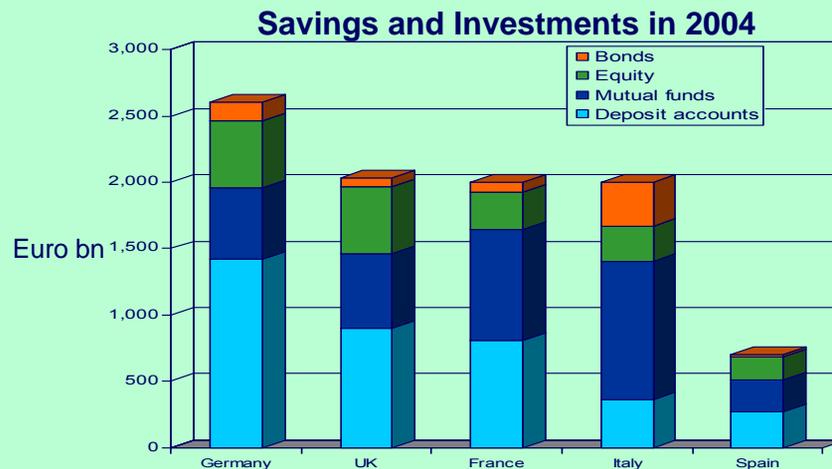
digital payments

# outlook

## the French market opportunity



Source: Morgan Stanley Dean Witter Research



Source: Datamonitor

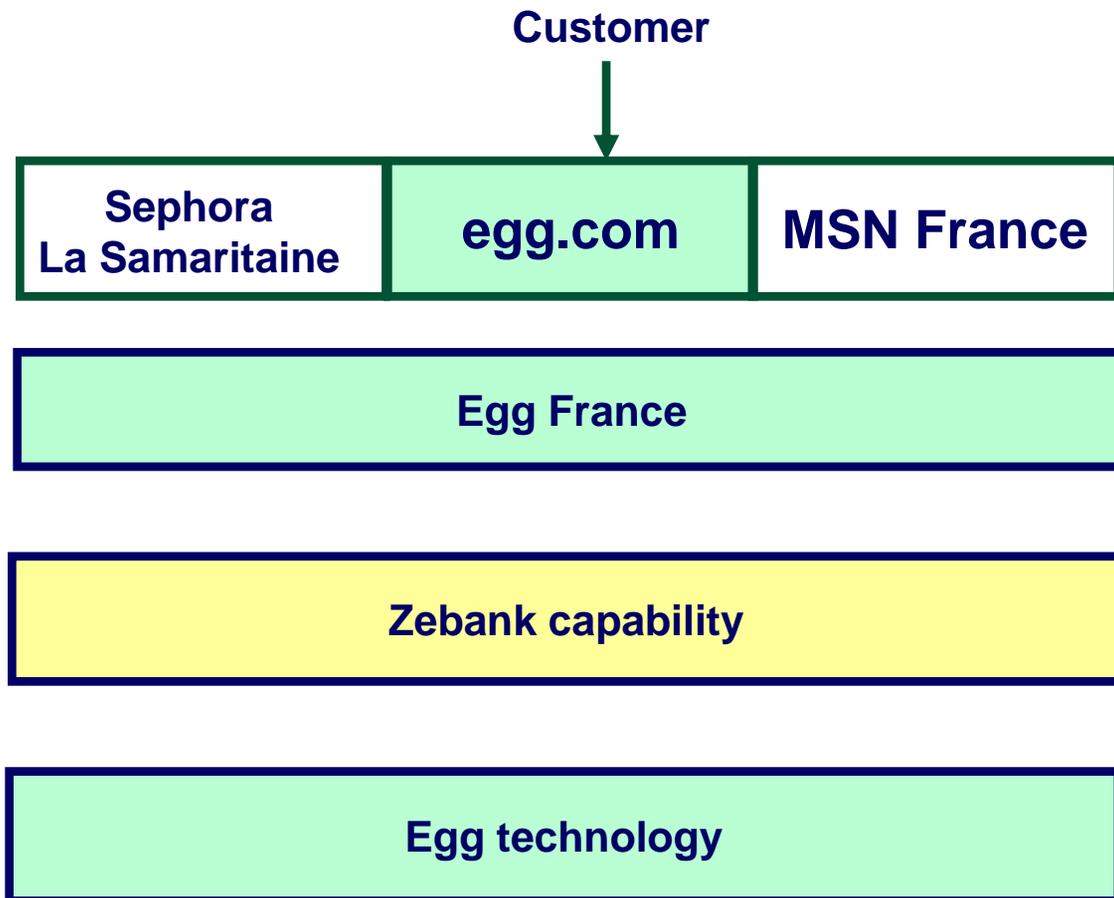
**22% of French  
bank online now**

**45% forecast to  
bank online by  
2005**

Source: Forrester

# outlook

## French business model



approx.  
£100m P/L  
investment in  
first 3 years

1 million  
customers in  
that  
timeframe

breakeven by  
end of 2004

more product  
detail nearer  
launch

# summary

- UK business now profitable
- delivered a record year of customer growth (600,000 newly acquired)
- revenue per customer growing strongly
- costs under control and economies of scale emerging
- first step in Europe with exciting opportunity in France
- brilliantly positioned

**egg:**

Individual  
Money  
Matters