



**Egg plc**

**Preliminary Results  
24 February 2003**

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**egg<sup>TM</sup>**

# agenda

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

## highlights

### UK business

- UK business now sustainably profitable earning £35m profit before tax (2001: loss of £76m)
- revenues of £323m were up 70% as margin grew to 2.4% (2001: 1.9%) and other operating income more than doubled to £100m
- costs well controlled rising by 4% to £203m while average customer numbers increased by 35%
- customer growth continues strongly with 610,000 net acquisition (2001: 600,000)
- card balances exceed £2.3bn (5% market share) (2001: £1.7bn)
- record year for loan sales with £829m disbursed (2001: £419m)
- savings balances grew by £2.1bn (2001: outflow of £1.1bn) following the success of the bonus account during the year
- Egg Money Manager has 135,000 registered users
- credit quality remains strong and industry benchmarking continues to show our portfolio as having lower arrears rates than other card companies

# highlights

## France

- **Egg France launched on plan in November 2002**
- **Egg name already established with brand awareness in France now 55% (ahead of UK at equivalent stage)**
- **69,000 applications of which 44,000 accepted**
- **we expect 27,000 customers once all verification procedures completed**
- **early data shows customers are actively using the card with an average 19 transactions per account per month (including cash withdrawals)**
- **total customers reach 90,000 including those converted from former Zebank base**

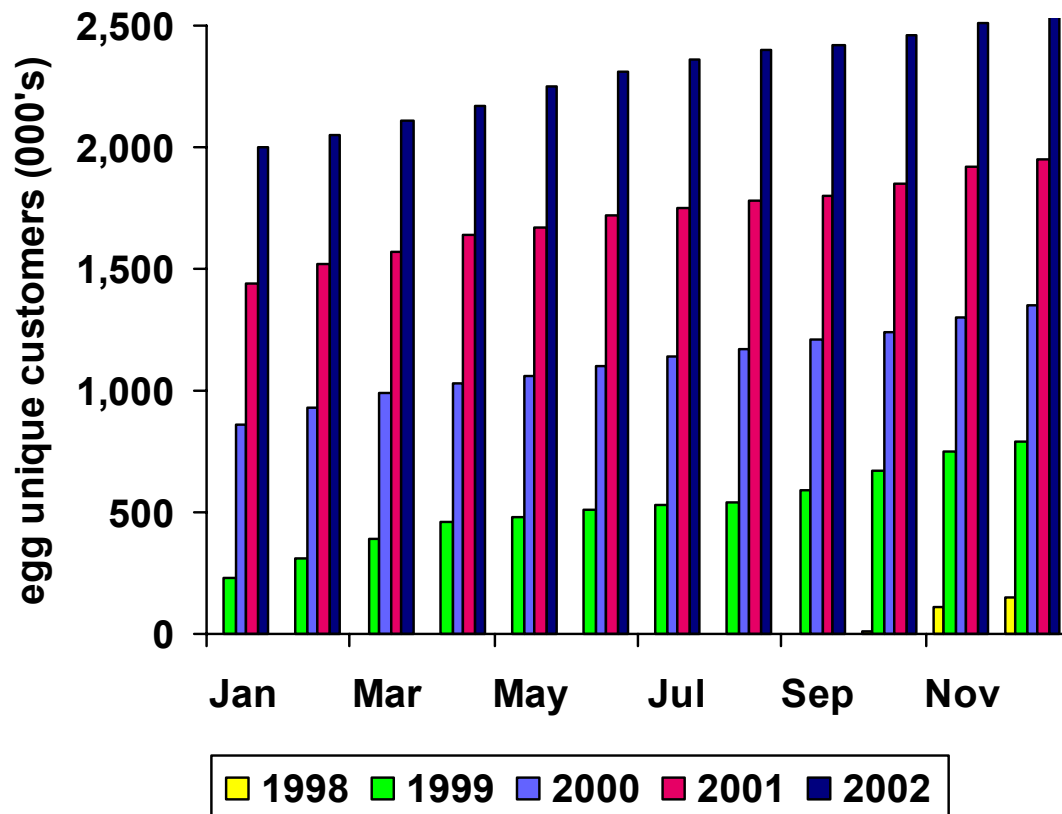
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# UK business review

## customer acquisition

### customer growth



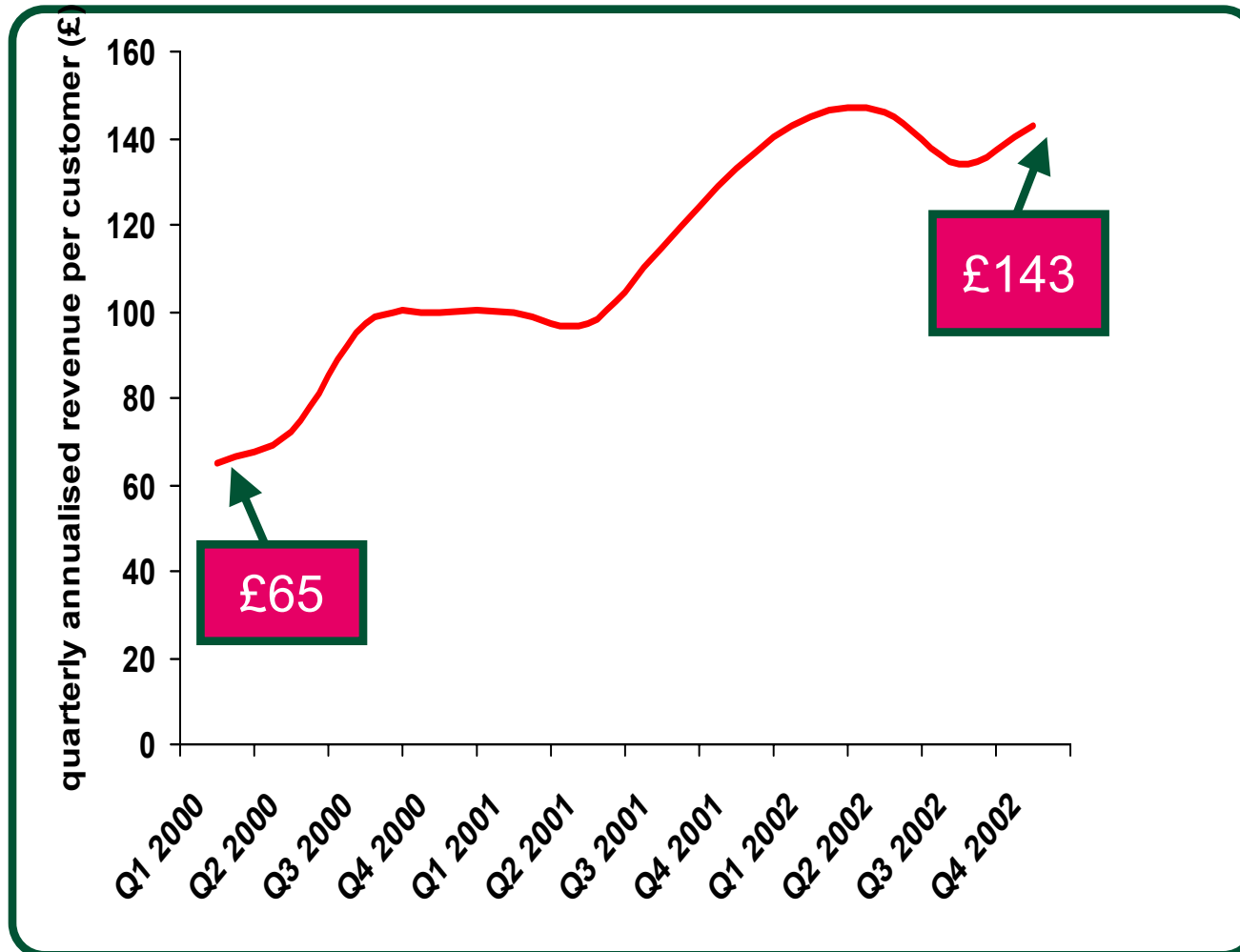
610,000 net new customers in 2002  
(2001: 600,000)

total Egg UK customers up to 2.6 million

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

# UK business review

## revenue per customer trending upwards



revenue per customer continues to grow – 2002 average was £142 up 27% on 2001 (£112)

Q4 has seen the expected recovery in income per customer to £143 (annualised) as deposit and card customers acquired in Q2 on incentives have rolled onto the long-term rates

## **UK business review**

### **credit cards – now a scale player**

- **1.91m credit card customers (2001: 1.37m)**
- **customer acquisition proving robust despite proliferation of 0% offers following Egg's lead**
- **brand and marketing continues to attract upmarket customers with strong credit profiles**
- **balances reach £2.33bn (5% share of total card market and 8% share of VISA balances)**
- **average balance and spend continue to exceed the rest of the industry**
- **book maturing with significant improvement in card yields (2002: 9.0%, 2001: 7.4%)**



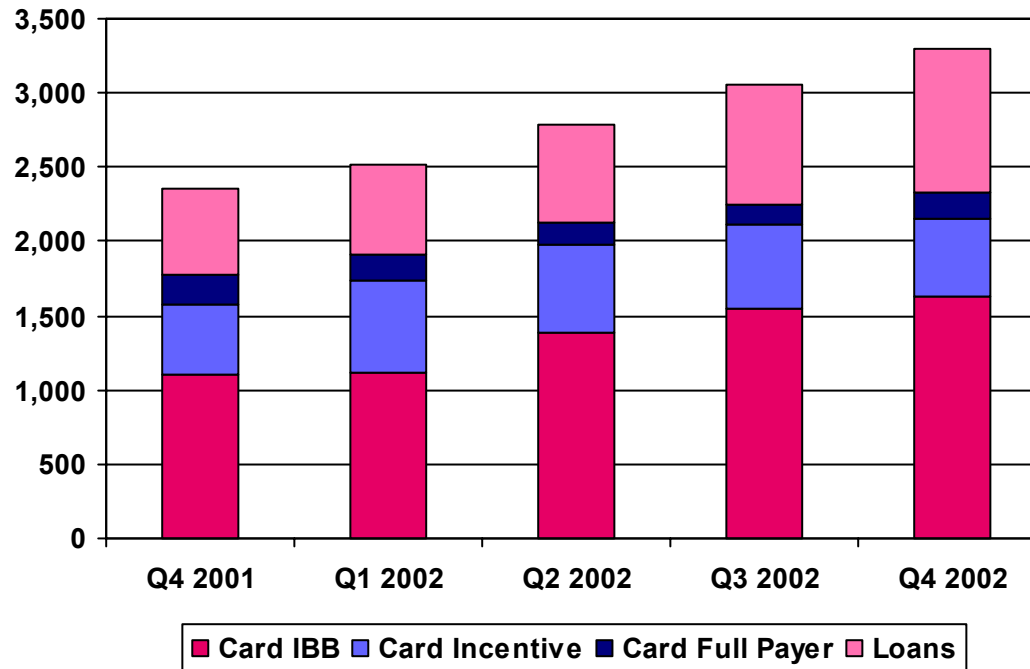
## UK business review

### personal loans – record growth

- record disbursements of £829m (2001: £419m)
- cross sold to Egg card base resulting in better credit profile and lower marketing costs than directly acquired loans
- our MI systems allow us to pre-approve customers using their behavioral data to offer them a personalised facility
- holistic approach to unsecured lending
- strongly value-enhancing (with early P/L benefit through associated insurance sales)
- PPI penetration rate currently running at 56%

# UK business review

## unsecured lending – portfolio analysis



IBB has risen from 62% of card base in December 2001 to 70% at December 2002

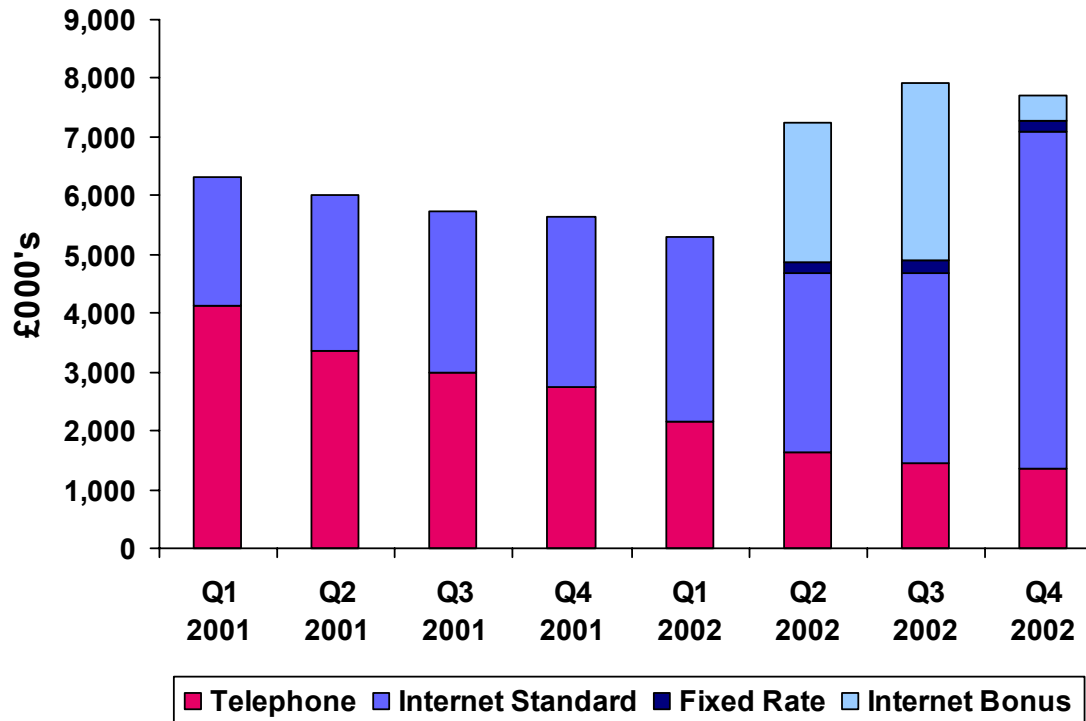
% of card book on incentive offers was 27% on average in 2002 having been 37% in 2001

full payers have reduced as a % of the card book

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

# UK business review

## savings – growing the book



net inflows of  
£2.1bn in 2002  
(2001: outflow of  
£1.1bn)

bonus account  
funds rolling onto  
standard terms with  
moderate attrition

deposit book  
contributed  
£16.3m positive  
interest  
contribution  
(2001: £15.4m)

114,000 net new  
customers in  
2002

## **UK business review**

### **other products**

- **Egg Mortgages had a solid year with sales of £485m (2001: £363m) on the back of excellent PR coverage for the award-winning flexible SVR product and cross sales to the base**
- **Egg Insure added 62,000 customers in 2002 to reach 85,000 by year end**
- **Egg Invest continues to experience the effect of low consumer confidence in equity based products**

# France business review

smooth launch - IT and operations work well

**'le beurre et l'argent du beurre, c'est possible?'** une autre idée de l'argent **egg**<sup>TM</sup>

Carte Egg ▶ Banque ▶ Bourse ▶ Epargne ▶ Crédit ▶ Actualités ▶ [votre Carte Egg ▶](#)  
[vos autres comptes ▶](#)

**Accueil**  
Les avantages ▶  
Qui sommes-nous ▶  
Notre philosophie ▶  
Egg dans la presse ▶  
Espace journaliste ▶

**Autre site**  
Egg UK ▶

**Egg et vous**  
Egg recrute ▶  
Contacter Egg ▶

**Enfin une carte de crédit multifonction :**

- dépensez et Egg vous reverse de l'argent sur chaque achat
- remboursez comme vous voulez : utilisez - ou non - sa fonction crédit

[en savoir plus ▶](#)

**5% REVERSÉS** sur tous vos achats

**tout en transparence**  
**ça cache quelque chose ?**  
Les idées reçues ne résistent pas au succès de la Carte Egg.  
[jugez plutôt ▶](#)

**offre spéciale**  
**5% de cash back** jusqu'au 15/04/2003, pour toute demande de carte acceptée entre le 1er février et le 15 mars 2003.  
**5% REVERSÉS**

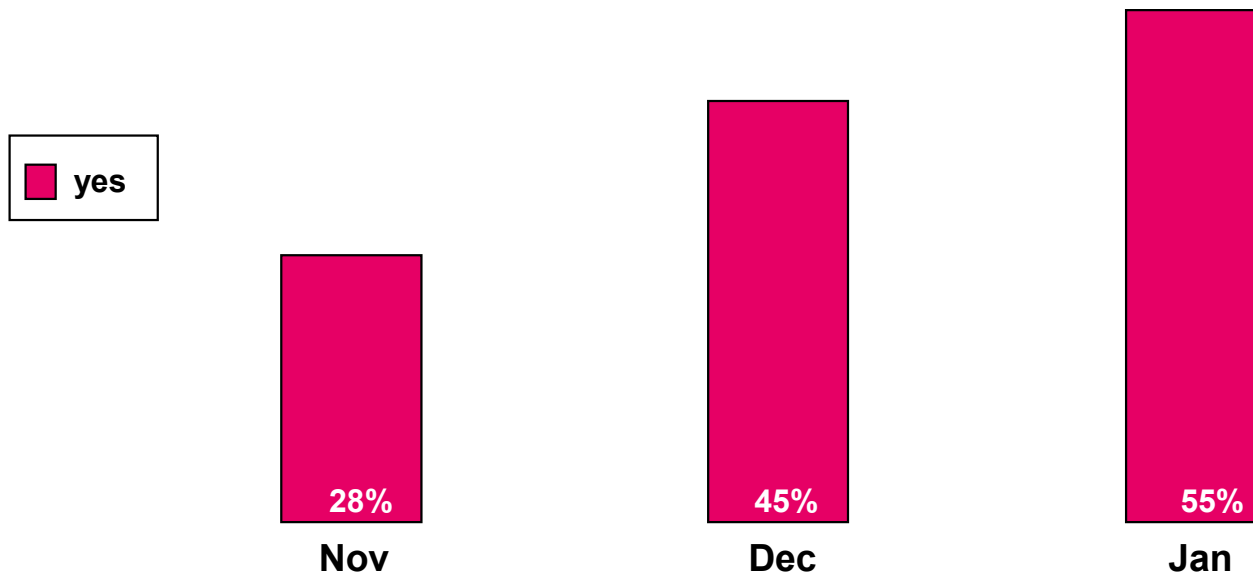
99% website availability since launch

>95% of calls answered in <20 seconds

# France business review

## brand awareness at 55%

UK launch (Dec 98) prompted awareness = 52%



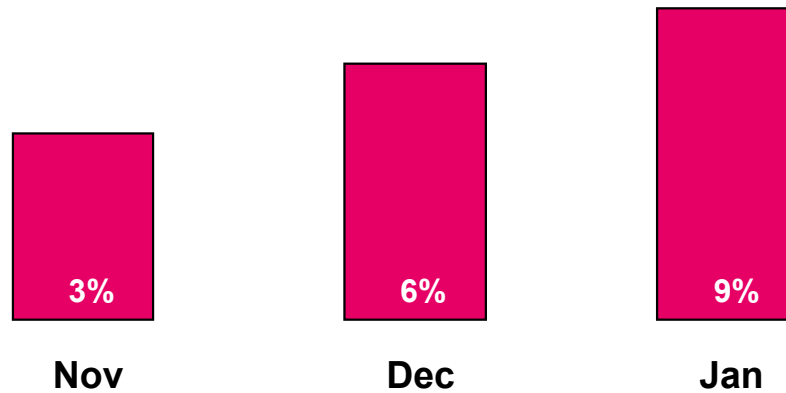
# France business review

brand consideration - significantly exceeds levels achieved by UK launch

- Prompted consideration already 23% - compares to

ING Direct	28%
Banque Direct	32%
Cetelem	30%
Banque AGF	32%

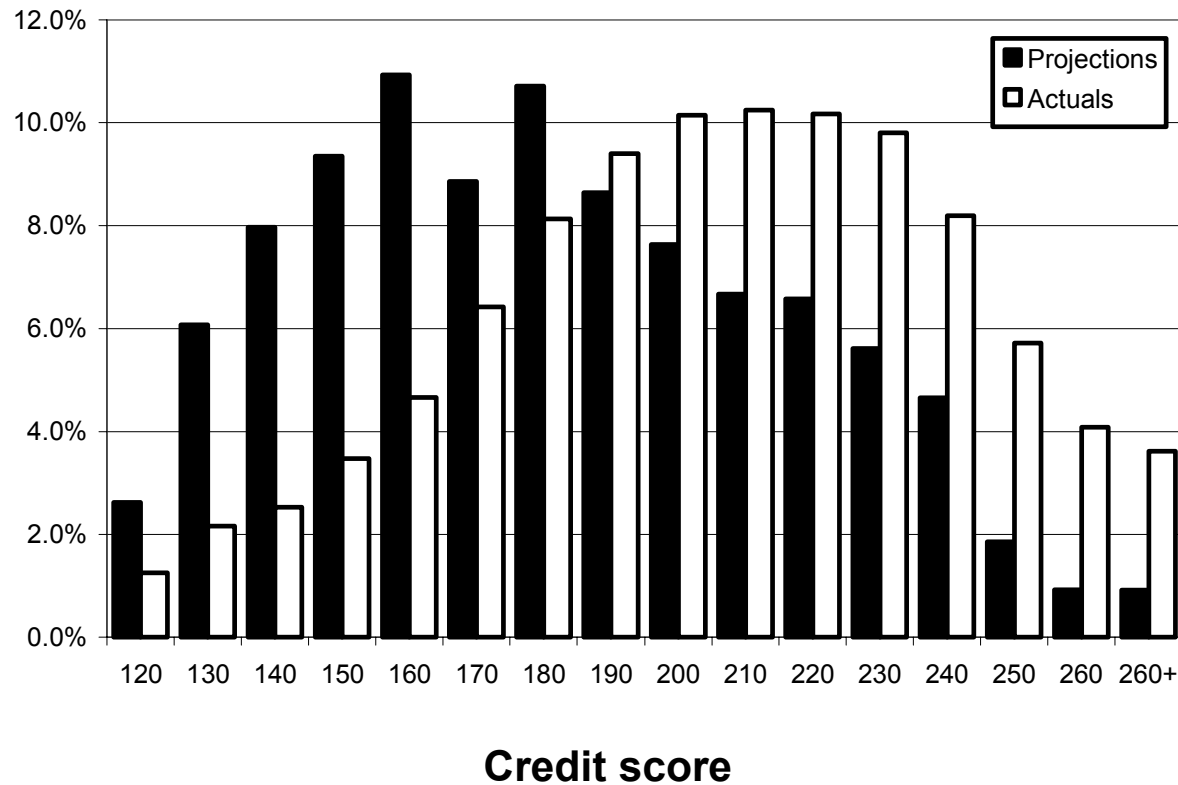
- UK equivalent 13% at similar stage
- Unprompted consideration even more impressive



- UK equivalent 1% at similar stage

# France business review

high quality customer base - ahead of our expectations



- 44,000 applicants passed credit score
- 27,000 expected to become active
- Average age 41
- Average income is £30,000 p.a.



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# Group P/L analysis by business unit

	2002 £m	2001 £m
UK	34.8	(75.7)
France	(46.7)	-
Subsidiaries/Assoc/JV:		
- share of losses	(4.8)	(4.0)
- profit on disposal	3.5	-
Restructuring	-	(2.7)
Other International	(3.4)	(5.4)
	<hr/>	<hr/>
Group loss before tax	<u>(16.6)</u>	<u>(87.8)</u>

**UK business sustainably profitable (£110m increase year on year)**

**France launch on plan with major up front investment in brand and marketing**

**continuing investment in international research and development**

# UK P/L

## full year figures

	2002 £m	2001 £m
Net Interest Income	223.3	145.7
Other Operating Income	99.6	43.7
Total Revenue	322.9	189.4
Ops/Admin Expenses	(133.5)	(126.8)
Brand and Marketing	(34.6)	(35.9)
Development	(17.4)	(13.7)
Depreciation	(18.5)	(20.7)
Total Costs	(204.0)	(197.1)
Bad Debt Provision	(84.1)	(68.0)
Profit/(Loss) Before Tax	34.8	(75.7)

revenues up  
70%

total costs up  
4% while  
average  
customer  
numbers grew  
35%

credit quality  
remains strong

# UK P/L

## quarterly trend

	Q1 2001 £m	Q2 2001 £m	Q3 2001 £m	Q4 2001 £m	Q1 2002 £m	Q2 2002 £m	Q3 2002 £m	Q4 2002 £m
Net interest income	28.1	31.7	38.5	47.4	55.3	56.2	53.8	58.0
Other Operating Income	8.4	8.0	12.3	15.0	18.4	24.5	25.8	30.9
<b>Total Revenues</b>	<b>36.5</b>	<b>39.7</b>	<b>50.8</b>	<b>62.4</b>	<b>73.7</b>	<b>80.7</b>	<b>79.6</b>	<b>88.9</b>
Ops/Admin Expenses	(30.9)	(32.6)	(32.5)	(30.8)	(31.7)	(31.7)	(33.3)	(36.8)
Brand & Marketing Costs	(15.1)	(6.0)	(6.6)	(8.2)	(7.8)	(12.9)	(6.0)	(7.9)
Development Costs	(4.2)	(3.6)	(3.1)	(2.8)	(5.7)	(4.2)	(4.2)	(3.3)
Depreciation & Amortisation	(5.4)	(5.0)	(4.9)	(5.4)	(4.9)	(4.7)	(4.7)	(4.2)
Provisions for Bad & Doubtful Debts	(16.6)	(16.4)	(19.5)	(15.5)	(18.6)	(20.6)	(21.2)	(23.7)
<b>Egg UK Profit/(Loss)</b>	<b>(35.7)</b>	<b>(23.9)</b>	<b>(15.8)</b>	<b>(0.3)</b>	<b>5.0</b>	<b>6.6</b>	<b>10.2</b>	<b>13.0</b>

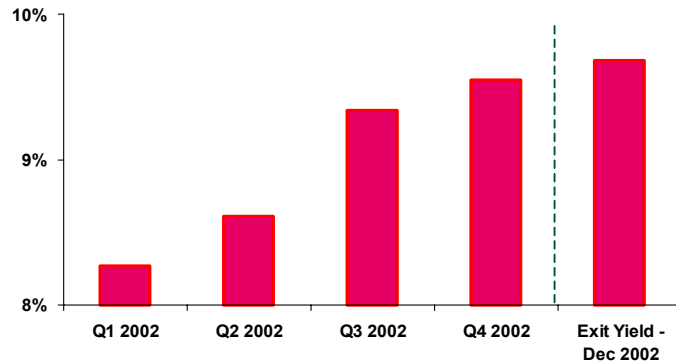
revenues show consistent growth trend

brand, marketing and development costs deployed tactically

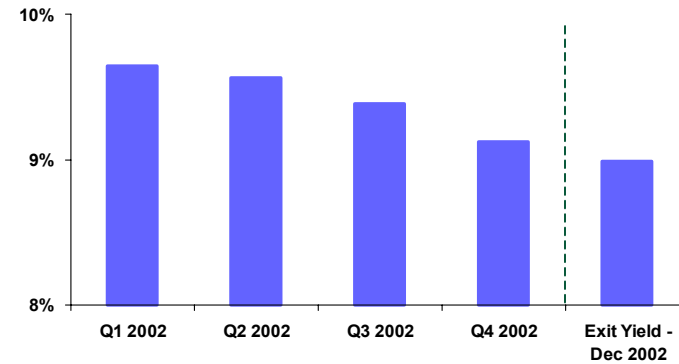
credit costs relatively constant

# UK P/L product yields – key trends

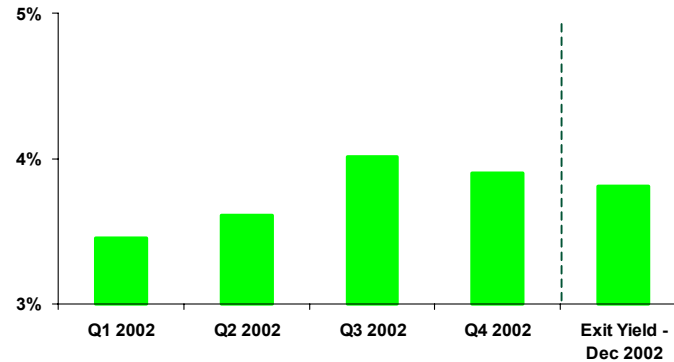
QuarterlyYields - Cards



QuarterlyYields - Loans



QuarterlyYields - Savings



cards reflects the continuing maturing of the book

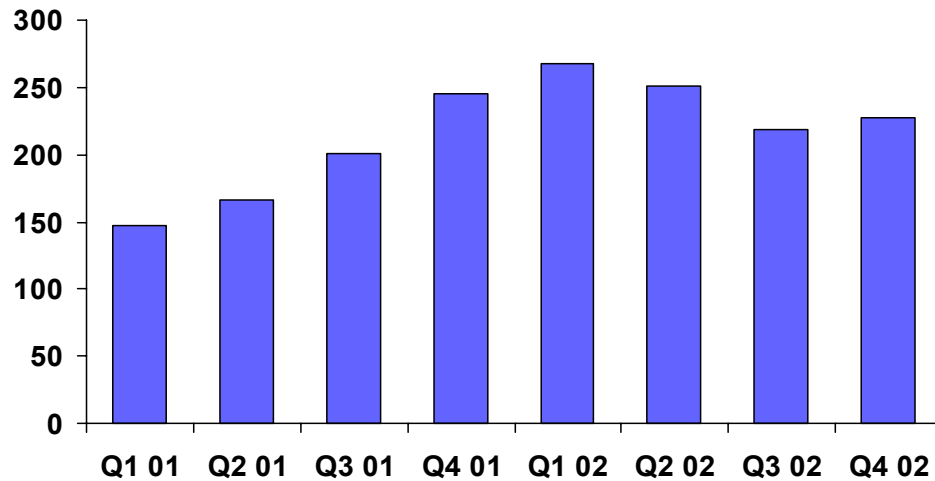
savings reflects decision to use bonus account as alternative to wholesale funds

loans reflects decision to remove tiered rates and offer 7.9% or 9.9%

# UK P/L

interest margins - growing year on year

### Quarterly Interest Margins



### Full Year Interest Margin

2001: 1.90%

2002: 2.40%

margins growing strongly year on year

Q2 acquisition on card and launch of bonus account has had short-term impact on margins in 2002

Q3 2002 was the peak quarter for customers on incentive offers with margins rising again in Q4 2002

# UK P/L

## other operating income

	2002 £m	2001 £m
PPI (incl. profit share)	40.7	27.1
credit card fees and commissions		
– insurance commissions	27.1	10.7
- other (incl. net interchange)	27.4	6.9
other (incl. treasury)	7.5	(1.0)
per statutory accounts	102.7	43.7
provision against fixed asset investment	(3.1)	-
other operating income	99.6	43.7

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

**card fees reflect greater  
transactional revenues  
from larger book plus full  
year effect of cashback  
reduction in 2001**

**improvement in other  
income is predominantly  
due to higher gains on  
disposal of treasury  
investments**

# UK P/L costs

total UK costs (exc. bad debt)  
ops & admin only

Avg. 2001

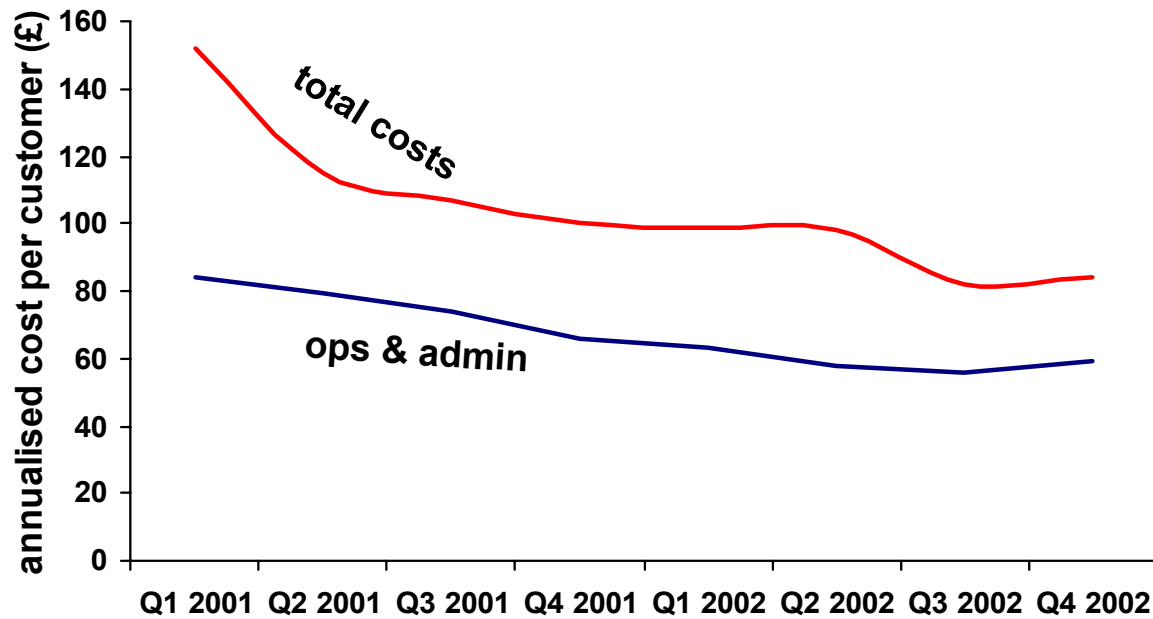
£117

£75

Avg. 2002

£90

£59



economies of scale

marketing efficiencies

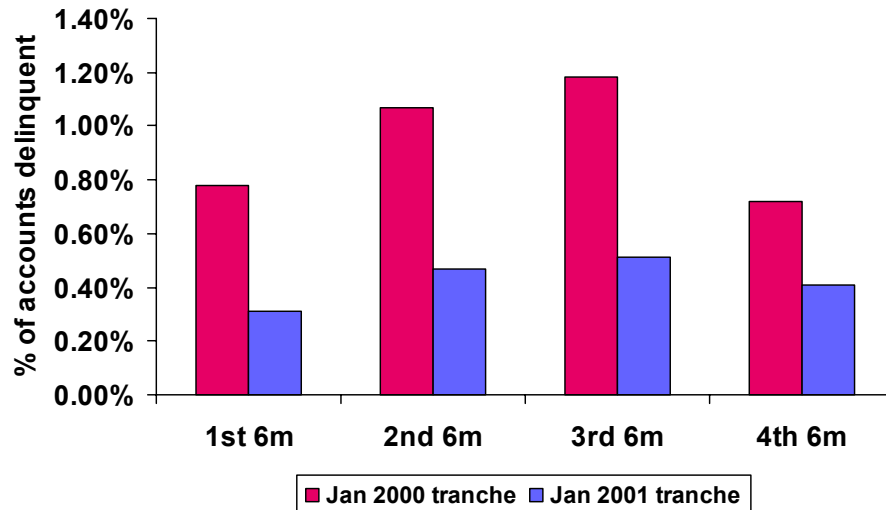
process improvements



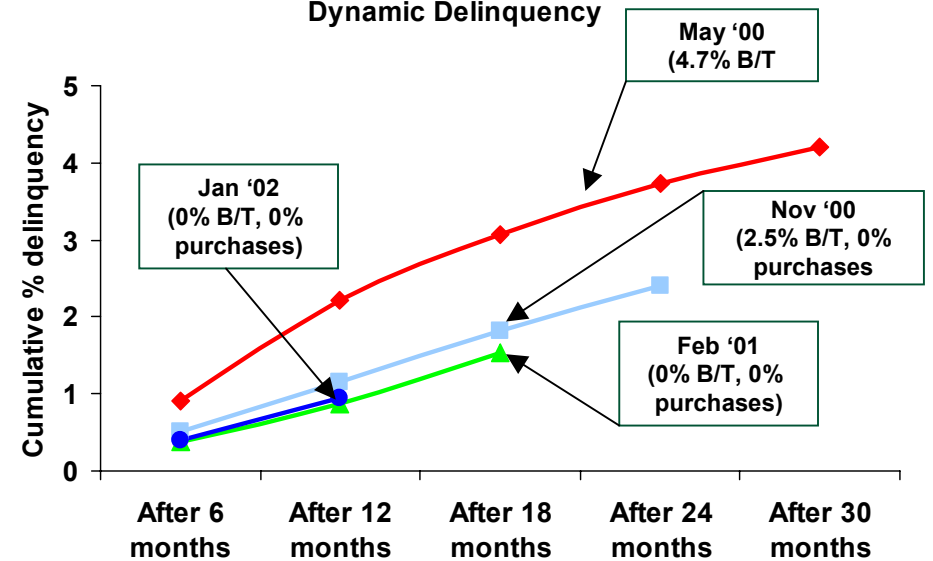
# UK P/L

steady downward trend in delinquency

### Emergence of Delinquency

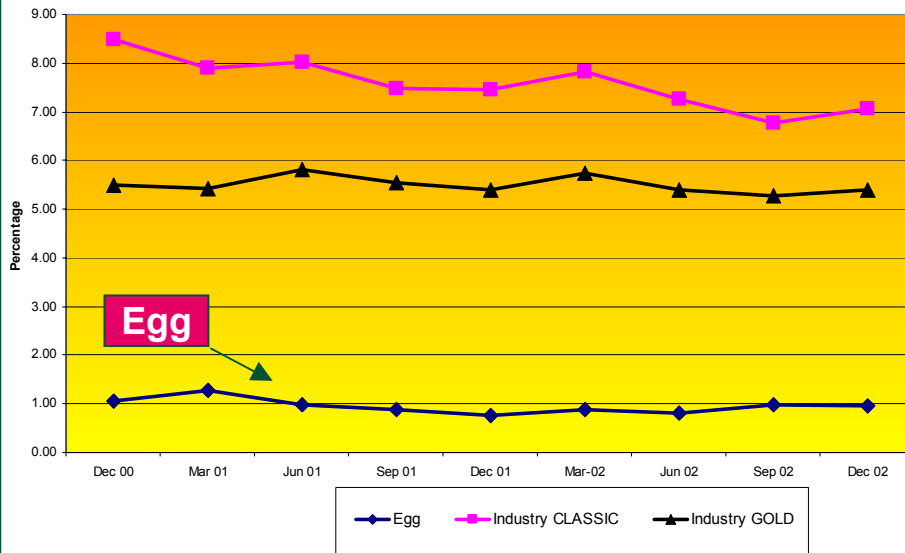


### Dynamic Delinquency

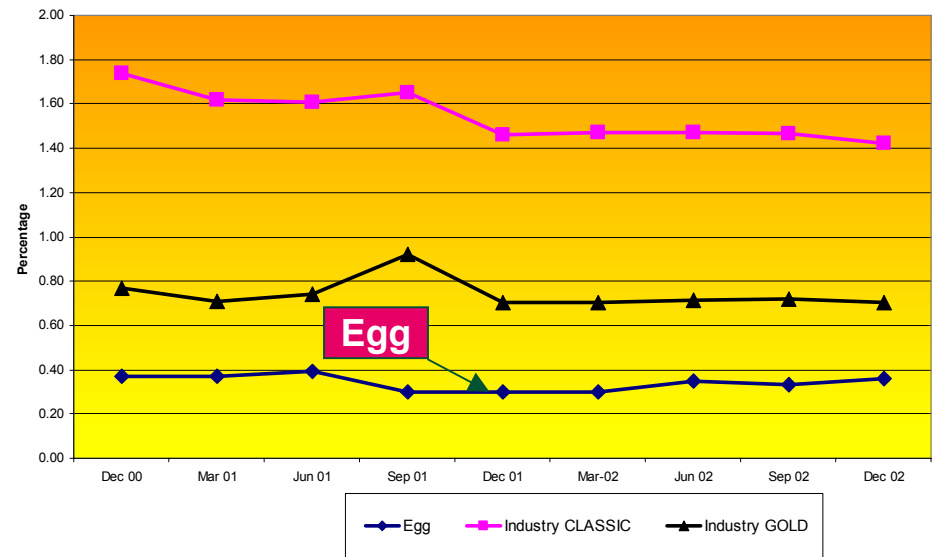


# UK P/L bad debt benchmarking

% 1 Cycle accounts



% 2 Cycle accounts



Source: Fair Isaacs Benchmarking

# UK P/L

## bad debts - continued strong performance

	secured		unsecured	
	Dec 2002	Dec 2001	Dec 2002	Dec 2001
customer balance (£m)	2,360	2,428	3,302	2,365
period end provision (£m)	3.4	3.4	122.4	77.4
% provision held	0.14%	0.14%	3.71%	3.26%
impaired balances (£m)	7.6	7.8	96.6	56.9
impaired as % total	0.32%	0.32%	2.93%	2.41%
provisions as % of impaired balances	45%	44%	127%	136%

mortgages continue to require minimal provision and have healthy LTV ratios

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

## France P/L key metrics

	2002 £m	2002 €m
Operating Income	1.2	1.9
- Brand and marketing	(14.0)	(21.9)
- Development start up costs Egg France	(8.7)	(13.6)
- Ongoing costs of Zebank	(24.9)	(38.8)
- Goodwill amortisation	(0.3)	-
	<u>(46.7)</u>	<u>(72.4)</u>

# consolidated balance sheet

## strong growth

	2002 £m	2001 £m
mortgages	2,361	2,429
personal loans	977	597
credit cards	2,337	1,776
total retail assets	5,675	4,801
treasury assets	4,518	3,137
other assets	372	117
<b>total assets</b>	<b>10,565</b>	<b>8,056</b>
deposits	8,016	5,945
wholesale funds	1,516	1,317
subordinated debt	202	124
other liabilities	370	207
shareholders' funds	461	464
<b>total capital &amp; liabilities</b>	<b>10,565</b>	<b>8,056</b>

strong growth  
in savings  
balances  
(£2.1bn)

unsecured  
lending  
balances  
increase by  
£1bn

£500m secured  
loan within  
wholesale  
funds

# consolidated balance sheet

strong capital base and utilisation of efficiency tools

	Dec 2002	Dec 2001
tier 1 capital	£490m	£516m
total capital	£652m	£587m
risk-weighted assets	£4.9bn	£4.3bn
risk asset ratios		
- tier 1	9.9%	12.0%
- total	13.2%	13.6%

£500m  
credit card  
securitisation  
in Nov 2002

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

£75m additional  
tier 2 debt  
raised in 2002

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