bread financial

Bread Financial

First quarter 2024 results

April 25, 2024

Ralph Andretta | President & CEO

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Forward-looking statements

This release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements give our expectations or forecasts of future events and can generally be identified by the use of words such as “believe,” “expect,” “anticipate,” “estimate,” “intend,” “project,” “plan,” “likely,” “may,” “should” or other words or phrases of similar import. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding, and the guidance we give with respect to, our anticipated operating or financial results, future financial performance and outlook, future dividend declarations, and future economic conditions.

We believe that our expectations are based on reasonable assumptions. Forward-looking statements, however, are subject to a number of risks and uncertainties that are difficult to predict and, in many cases, beyond our control. Accordingly, our actual results could differ materially from the projections, anticipated results or other expectations expressed in this release, and no assurances can be given that our expectations will prove to have been correct. Factors that could cause the outcomes to differ materially include, but are not limited to, the following: macroeconomic conditions, including market conditions, inflation, rising interest rates, unemployment levels and the increased probability of a recession, and the related impact on consumer payment rates, savings rates and other behavior; global political and public health events and conditions, including ongoing wars and military conflicts; future credit performance, including the level of future delinquency and write-off rates; the loss of, or reduction in demand from, significant brand partners or customers in the highly competitive markets in which we compete; the concentration of our business in U.S. consumer credit; inaccuracies in the models and estimates on which we rely, including the amount of our Allowance for credit losses and our credit risk management models; the inability to realize the intended benefits of acquisitions, dispositions and other strategic initiatives; our level of indebtedness and ability to access financial or capital markets; pending and future legislation, regulation, supervisory guidance, and regulatory and legal actions, including, but not limited to, those related to financial regulatory reform and consumer financial services practices, as well as any such actions with respect to late fees, interchange fees or other charges; impacts arising from or relating to the transition of our credit card processing services to third party service providers that we completed in 2022; failures or breaches in our operational or security systems, including as a result of cyberattacks, unanticipated impacts from technology modernization projects or otherwise; and any tax liability, disputes or other adverse impacts arising out of or relating to the spinoff of our former LoyaltyOne segment or the bankruptcy filings of Loyalty Ventures Inc. and certain of its subsidiaries. In addition, the CFPB recently issued a final rule that, absent a successful legal challenge, will place significant limits on credit card late fees, which would have a significant impact on our business and results of operations for at least the short term and, depending on the effectiveness of the mitigating actions that we may take in response to the final rule, potentially over the long term; we cannot provide any assurance as to the effective date of the rule, the result of any pending or future challenges or other litigation relating to the rule, or our ability to mitigate or offset the impact of the rule on our business and results of operations. The foregoing factors, along with other risks and uncertainties that could cause actual results to differ materially from those expressed or implied in forward-looking statements, are described in greater detail under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the most recently ended fiscal year, which may be updated in Item 1A of, or elsewhere in, our Quarterly Reports on Form 10-Q filed for periods subsequent to such Form 10-K. Our forward-looking statements speak only as of the date made, and we undertake no obligation, other than as required by applicable law, to update or revise any forward-looking statements, whether as a result of new information, subsequent events, anticipated or unanticipated circumstances or otherwise.

Non-GAAP financial measures

We prepare our audited Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (GAAP). However, certain information included herein constitutes non-GAAP financial measures. Our calculations of non-GAAP financial measures may differ from the calculations of similarly titled measures by other companies. In particular, *Pretax pre-provision earnings* (PPNR) is calculated by increasing/decreasing Income from continuing operations before income taxes by the net provision/release in Provision for credit losses. *PPNR less gain on portfolio sales* then decreases PPNR by the gain on any portfolio sales in the period. We use PPNR and PPNR less gain on portfolio sales as metrics to evaluate our results of operations before income taxes, excluding the volatility that can occur within Provision for credit losses and the one-time nature of a gain on the sale of a portfolio. *Tangible common equity over Tangible assets* (TCE/TA) represents Total stockholders’ equity reduced by Goodwill and intangible assets, net, (TCE) divided by Tangible assets (TA), which is Total assets reduced by Goodwill and intangible assets, net. We use TCE/TA as a metric to evaluate the Company’s capital adequacy and estimate its ability to cover potential losses. *Tangible book value per common share* represents TCE divided by shares outstanding. We use Tangible book value per common share as a metric to estimate the Company’s potential value. We believe the use of these non-GAAP financial measures provide additional clarity in understanding our results of operations and trends. For a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures, please see the “Reconciliation of GAAP to Non-GAAP Financial Measures”.

First quarter 2024 highlights

Demonstrated financial resilience

- Net income of $134 million and Earnings per diluted share of $2.70
- Tangible book value per share of $45.96 increased 20% year-over-year
- Shares repurchased totaled $11 million, representing 293,000 shares at an average price per share of $37.54
- Direct-to-consumer deposits increased 24% versus the first quarter of 2023 to approximately $7 billion
- Given strong investor demand, upsized senior unsecured notes offering to $900 million in January 2024

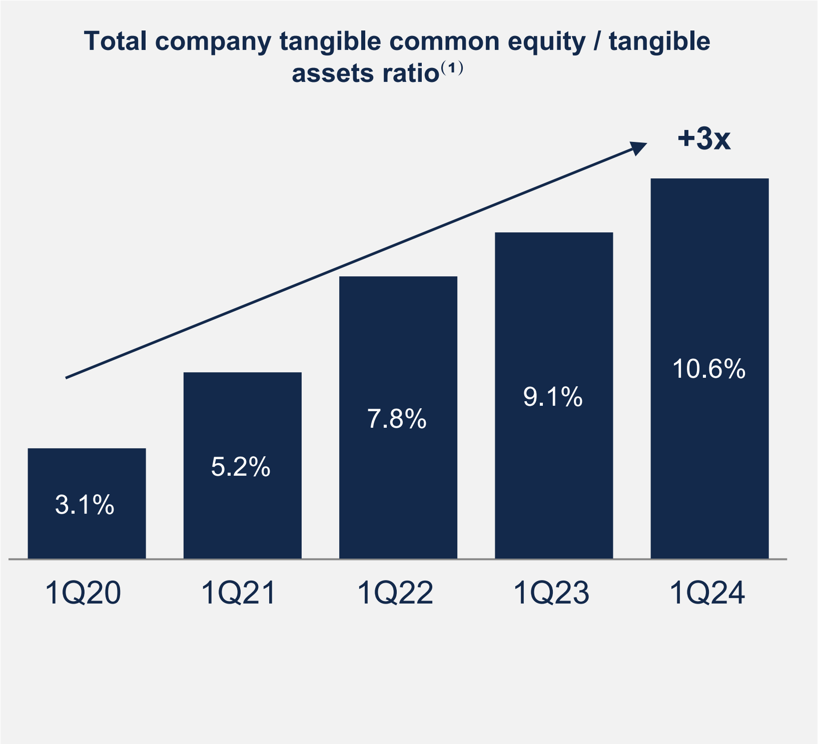
Proactive risk management

- Meaningful progress made in implementing mitigation plans to limit the financial impact of the CFPB late fee rule
  - Actions taken have improved previously estimated 4Q24 revenue impact
- Consumer spending continues to moderate as consumers self-regulate and macroeconomic pressures persist
  - Ongoing strategic credit tightening to balance macroeconomic headwinds and returns

Capital allocation

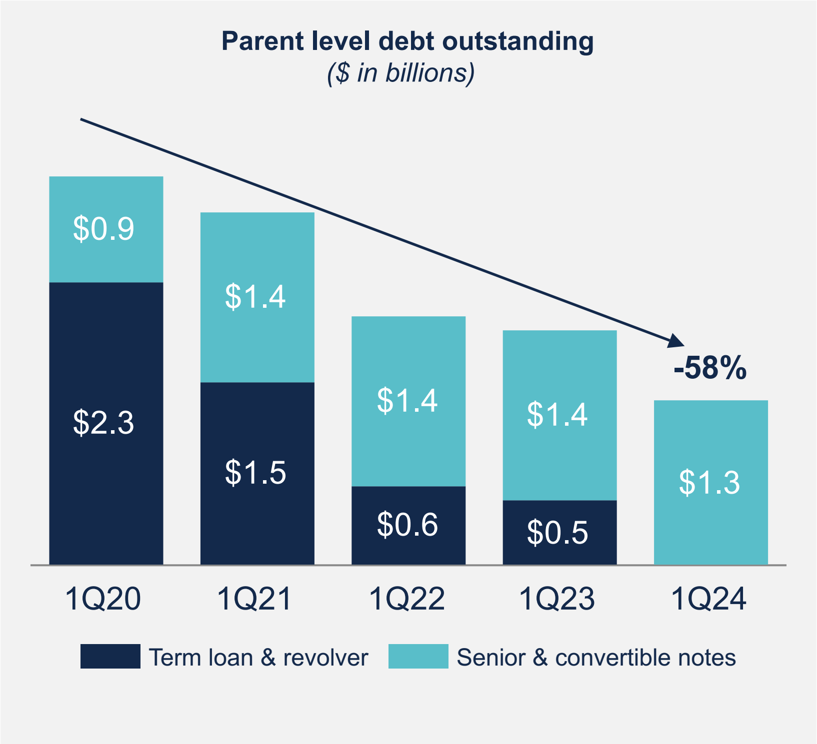
Improve capital metrics

$1.5 billion tangible common equity build since 2020



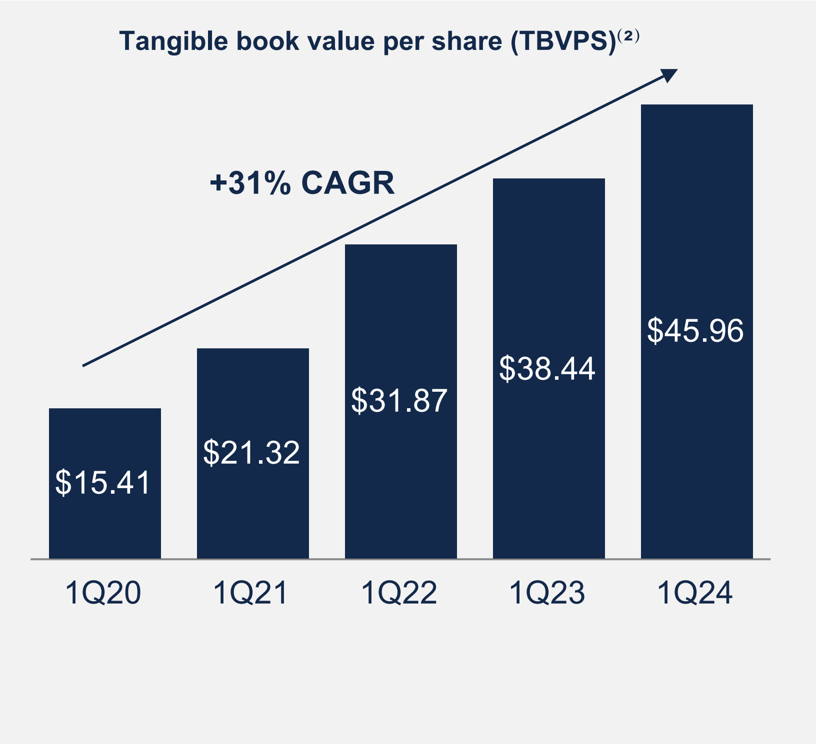
Reduce debt levels

Paid down $1.8 billion since 2020



Drive shareholder value

~$31 increase in TBVPS since 2020



(1) Tangible common equity (TCE) represents Total stockholders' equity reduced by Goodwill and intangible assets, net. Tangible assets (TA) represents Total assets reduced by Goodwill and intangible assets, net. TCE/TA is a non-GAAP financial measure.
(2) Tangible book value per common share represents TCE divided by shares outstanding and is a non-GAAP financial measure.

2024 focus areas

Responsible growth

Scale and diversify product offerings to align with the changing macroeconomic landscape, while optimizing brand partner growth and revenue opportunities

Manage macroeconomic and regulatory environment

Proactively execute strategies to mitigate business impacts resulting from government regulation and macroeconomic challenges

Accelerate digital and technology capabilities

Drive our digital-first strategy to enhance product offerings, increase customer self-servicing, and improve the overall customer experience

Operational excellence

Accelerate continuous improvement gains to drive technology advancements, improved customer satisfaction, control enhancements, enterprise-wide efficiency, and value creation

First quarter 2024 financial highlights

Continuing operations

$1.0 billion	$135 million	$2.73
Revenue	**Income from continuing operations**	**Diluted EPS**

Year-over-year comparisons

- Credit sales of $6.0 billion decreased 18%, reflecting the sale of the BJ's Wholesale Club portfolio in late February 2023, ongoing strategic credit tightening, and moderating consumer spending, partially offset by new partner growth.
- Average loans of $18.5 billion decreased 4% year-over-year driven by the decline in credit sales and contributing factors noted above.
- Revenue decreased $298 million, or 23%, driven by the benefit from the BJ's gain on sale in the prior year, lower net late fee revenue, and higher interest expense.
- Income from continuing operations decreased by $320 million, or 70%, as the prior year benefited from the BJ's gain on sale and related reserve release.
- The delinquency rate of 6.2% increased from 5.7% in the first quarter of 2023 and decreased 30 basis points sequentially.
- The net loss rate of 8.5% increased from 7.0% in the first quarter of 2023 and increased 50 basis points sequentially.

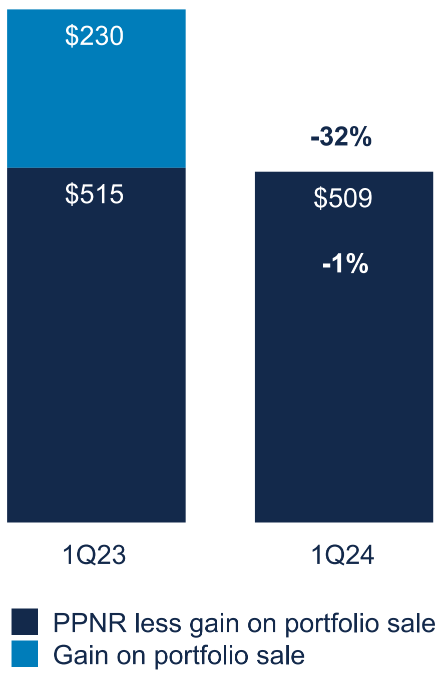
Notes: Continuing operations excludes amounts associated with our former LoyaltyOne segment and our former Epsilon segment which previously have been disclosed as discontinued operations and classified accordingly. As well, beginning in 2024, we revised the calculation of average balances to more closely align with industry practice by incorporating an average daily balance. Prior to 2024, average balances represent the average balance at the beginning and end of each month, averaged over the periods indicated.

Summary P&L results

Continuing operations

($ in millions, except per share)	1Q24	1Q23	$ Change	% Change
Total interest income	$ 1,300	$ 1,335	$ (35)	(3)
Total interest expense	248	218	30	14
Net interest income	**1,052**	**1,117**	**(65)**	**(6)**
Total non-interest income	(61)	172	(233)	nm
Revenue	**991**	**1,289**	**(298)**	**(23)**
Net principal losses	394	342	52	15
Reserve release	(73)	(235)	162	(69)
Provision for credit losses	321	107	214	nm
Total non-interest expenses	482	544	(62)	(12)
Income before income taxes	**188**	**638**	**(450)**	**(70)**
Provision for income taxes	53	183	(130)	(71)
Net income	**$ 135**	**$ 455**	**$ (320)**	**(70)**
Net income per diluted share	$ 2.73	$ 9.08	$ (6.35)	(70)
Weighted avg. shares outstanding – diluted	49.7	50.1		
Pretax pre-provision earnings (PPNR)*	**$ 509**	**$ 745**	**$ (236)**	**(32)**
Less: Gain on portfolio sale	—	(230)	230	nm
PPNR less gain on portfolio sale*	$ 509	$ 515	$ (6)	(1)

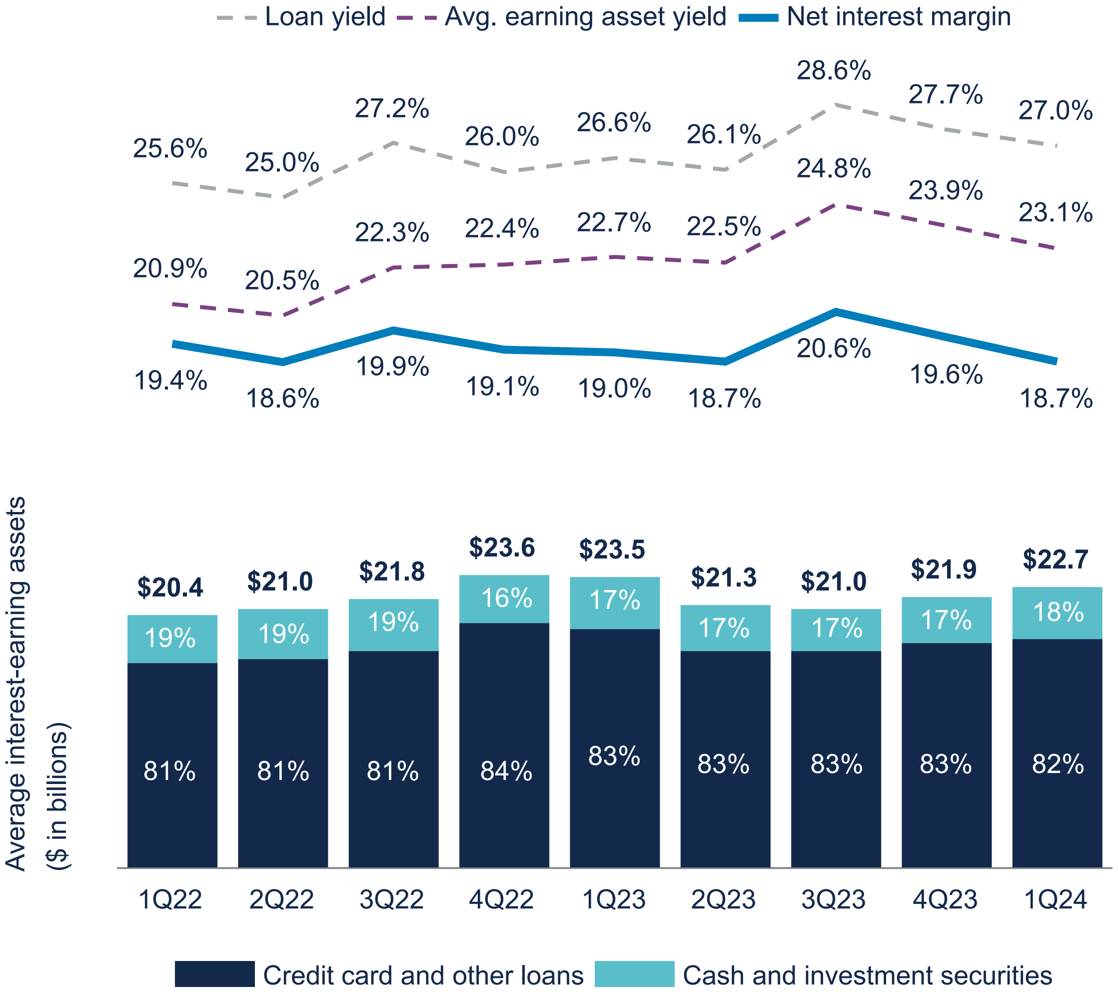
PPNR growth*
($ in millions)



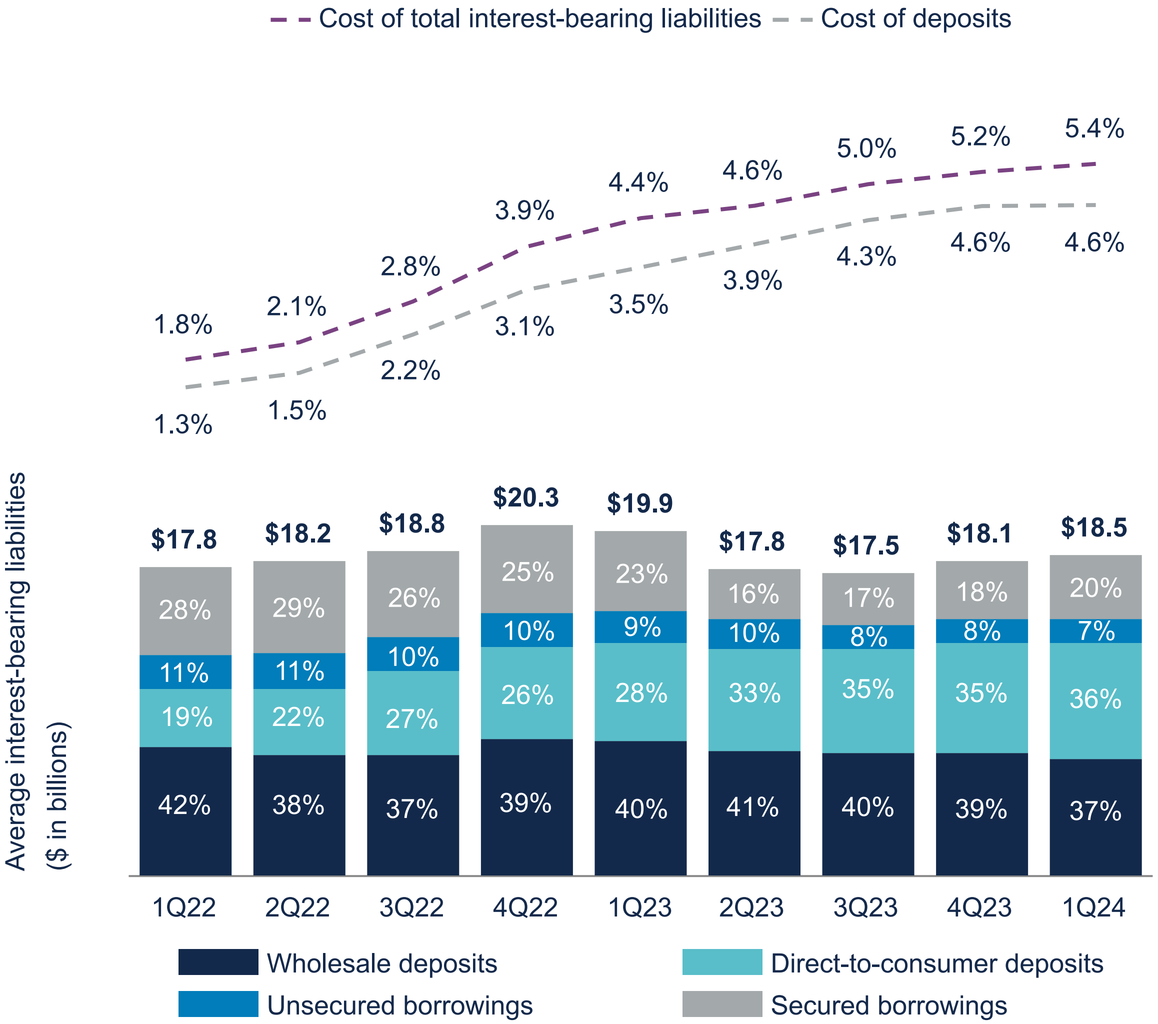
** PPNR and PPNR less gain on portfolio sale are non-GAAP financial measures. See "Non-GAAP Financial Measures" and "Reconciliation of GAAP to Non-GAAP Financial Measures".*
nm – Not meaningful, denoting a variance of 100 percent or more.

Net interest margin

Interest-earning asset yields & mix



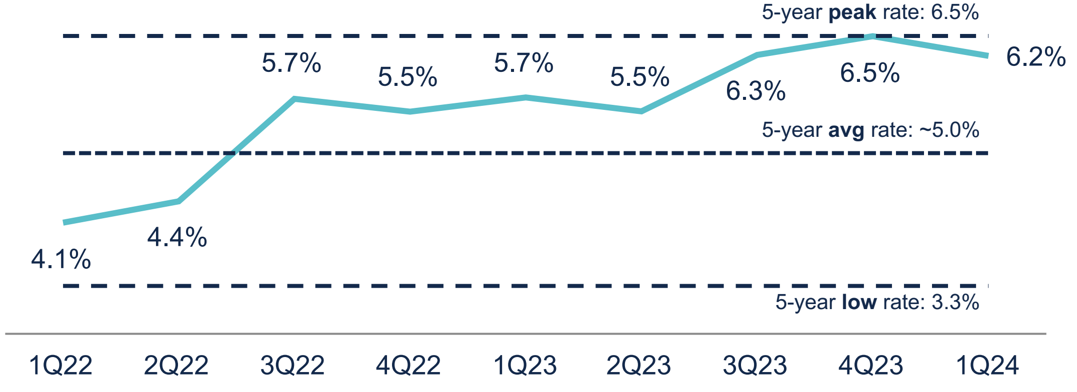
Interest-bearing liability costs & funding mix



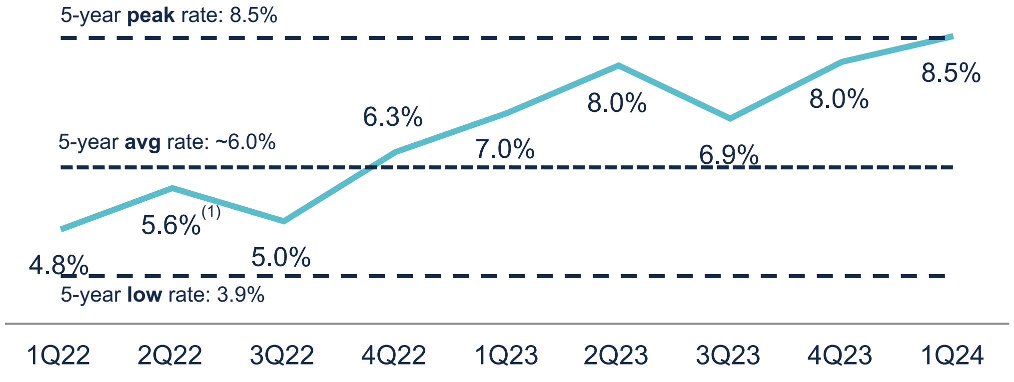
Note: Beginning in 2024, we revised the calculation of average balances to more closely align with industry practice by incorporating an average daily balance. Prior to 2024, average balances represent the average balance at the beginning and end of each month, averaged over the periods indicated.

Credit quality and allowance

Delinquency rates

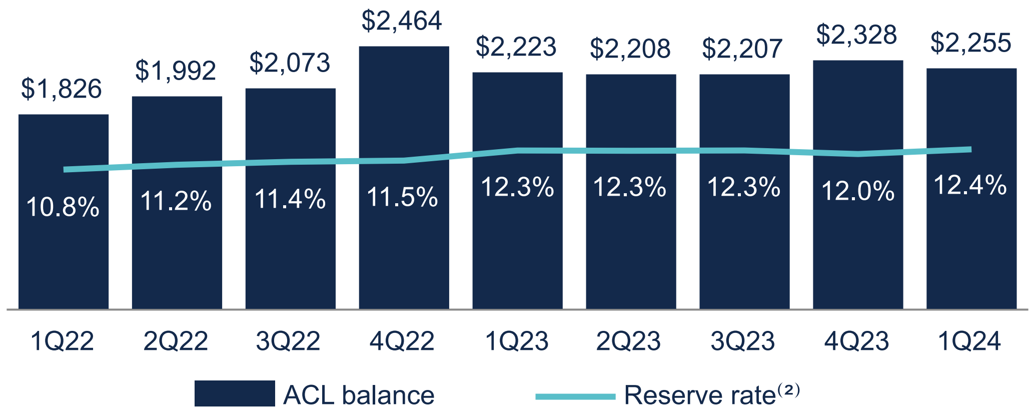


Net loss rates



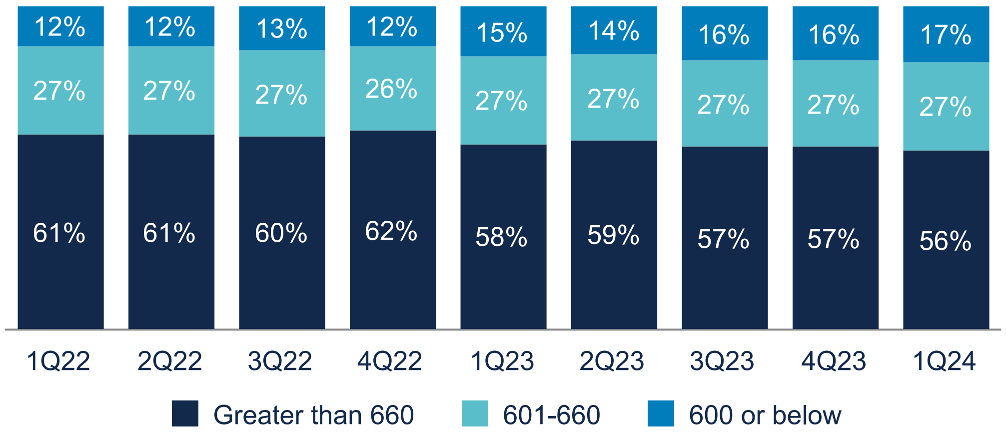
Reserve rates

($ in millions)



Revolving credit risk distribution

(Vantage score)



(1) The 2Q22 Net loss rate includes a 30 basis point increase from the effects of the purchase of previously written-off accounts that were sold to a third-party debt collection agency.

(2) Calculated as the percentage of the Allowance for credit losses to end-of-period Credit card and other loans.

Notes: Starting with 3Q22 through 2Q23, the Delinquency and Net loss rates were impacted by the transition of our credit card processing services in June 2022. As well, beginning in 2024, we revised the calculation of average balances to more closely align with industry practice by incorporating an average daily balance. Prior to 2024, average balances represent the average balance at the beginning and end of each month, averaged over the periods indicated.

Strengthened financial resilience

Bread Financial is positioned to perform well through a full economic cycle

- Strong corporate governance
- Proactive risk management
- Prudent balance sheet management
- Expense discipline
- Enhanced core capabilities

Strengthened balance sheet and funding mix

Loan loss reserve materially higher	Capital ratios significantly improved	Reduced debt levels	Increased mix of direct-to-consumer deposits

Enhanced credit risk management and underlying credit distribution

Diversification across products and partners	Prudent and proactive line management	Well-established risk appetite metrics	Credit mix shift to higher quality over time

Active recession readiness playbook

2024 financial outlook

Our outlook now includes the forecasted impacts of the CFPB late fee rule and assumes a May 14th effective date*

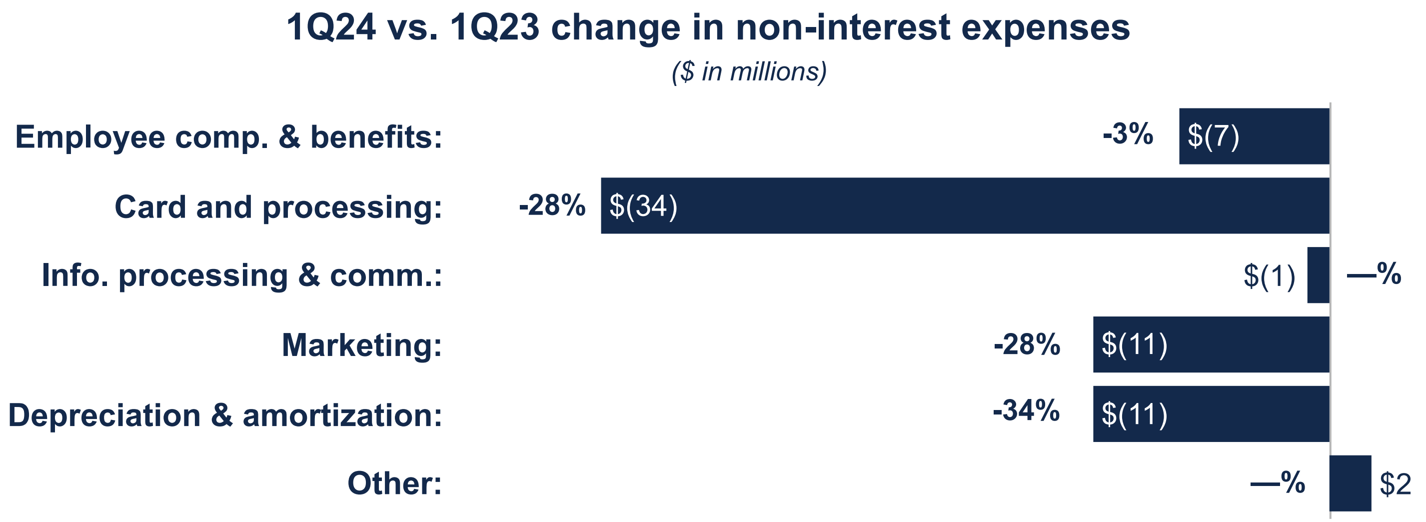
Full year 2023 actuals	Full year 2024 outlook	Commentary
Average loans 2023: $18,216 million	Down low-single digits	• Based on our current economic outlook, CFPB late fee rule impacts, ongoing strategic credit tightening actions, higher gross credit losses, and visibility into our pipeline, we expect 2024 average credit card and other loans to be down low-single digits relative to 2023.
Revenue (excl. Gain on sale) 2023: $4,059 million	Down mid- to high-teens	• Revenue, excluding gains on portfolio sales, is anticipated to be down in the mid- to high-teen range as a result of the impact of the CFPB late fee rule, net of mitigation actions, as well as previously disclosed higher reversals of interest and fees due to expected higher gross credit losses, lower merchant discount fees, a continued shift in product mix, and projected interest rate reductions by the Federal Reserve. • The CFPB late fee rule is expected to reduce fourth quarter total revenue in the mid-teen range on an isolated basis relative to the fourth quarter of 2023, net of mitigation actions. This reflects an improvement from our previously disclosed estimated impact. We continue to expect the financial impact of the late fee rule will lessen over time as our mitigation actions mature.
Total non-interest expenses 2023: $2,092 million	Down low- to mid-single digits	• We continue to strategically invest in technology modernization, marketing, and product innovation to drive growth and efficiencies.
Net loss rate 2023: 7.5%	Low 8% range	• Our outlook is inclusive of continued inflationary pressure on consumers' ability to pay, our credit management actions, CFPB late fee rule impacts, and expected slower loan growth.

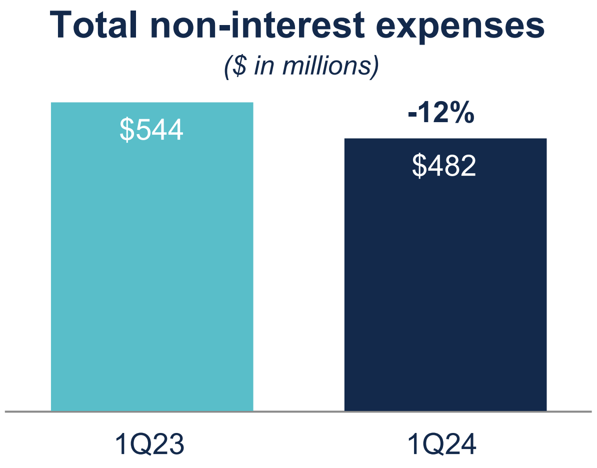
** The CFPB's final late fee rule is currently slated to become effective May 14, 2024. A lawsuit has been filed challenging the rule and seeking an injunction of the rule's effectiveness during the pendency of the litigation, but we can provide no assurance regarding the outcome of this or any other litigation relating to the rule. See "Forward-Looking Statements" included elsewhere in this presentation."*

Appendix

Total non-interest expenses

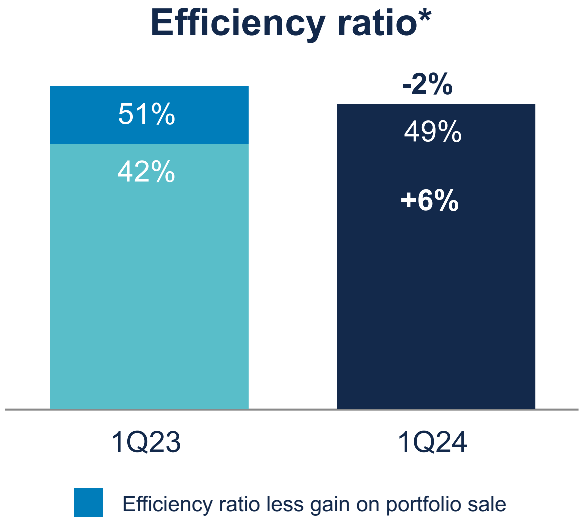
Continuing operations





Total non-interest expenses decreased 12% versus 1Q23

- Employee compensation and benefit costs decreased due to a reduction in demand-based outsourced and contract labor and decreased headcount driven by a decrease in collections and customer care staffing.
- Card and processing expenses decreased due primarily to lower fraud losses, as well as reduced volume-related card and statement costs.
- Marketing expenses decreased primarily due to decreased spending associated with brand partner joint marketing campaigns and direct-to-consumer offerings.
- Depreciation and amortization costs decreased due to lower amortization of developed technology.



** Efficiency ratio represents Total non-interest expenses divided by Total net interest and non-interest income.*

Summary financial highlights

Continuing operations

($ in millions)	1Q24	1Q23	1Q24 vs 1Q23	4Q23	1Q24 vs 4Q23
Credit sales	$ 6,030	$ 7,373	(18%)	$ 7,802	(23%)
Average credit card and other loans	$ 18,546	$ 19,405	(4%)	$ 18,267	2%
End-of-period credit card and other loans	$ 18,185	$ 18,060	1%	$ 19,333	(6%)
End-of-period direct-to-consumer deposits	$ 6,984	$ 5,630	24%	$ 6,454	8%
Return on average assets(1)	2.4%	7.7%	(5.3%)	0.8%	1.6%
Return on average equity(2)	17.5%	73.0%	(55.5%)	6.2%	11.3%
Return on average tangible common equity(3)	23.1%	107.0%	(83.9%)	8.5%	14.6%
Net interest margin(4)	18.7%	19.0%	(0.3%)	19.6%	(0.9%)
Loan yield(5)	27.0%	26.6%	0.4%	27.7%	(0.7%)
Efficiency ratio(6)	48.6%	42.2%	6.4%	50.8%	(2.2%)
Double leverage ratio(7)	118.0%	158.6%	(40.6%)	123.9%	(5.9%)
Common equity tier 1 capital ratio(8)	12.6%	11.8%	0.8%	12.2%	0.4%
Total risk-weighted assets(9)	$ 19,344	$ 18,893	2%	$ 20,140	(4%)
Tangible common equity / tangible assets ratio(10)	10.6%	9.1%	1.5%	9.6%	1.0%
Tangible book value per common share(11)	$ 45.96	$ 38.44	20%	$ 43.70	5%
Payment rate(12)	14.8%	15.6%	(0.8%)	14.5%	0.3%
Delinquency rate	6.2%	5.7%	0.5%	6.5%	(0.3%)
Net loss rate	8.5%	7.0%	1.5%	8.0%	0.5%
Reserve rate	12.4%	12.3%	0.1%	12.0%	0.4%

The terms associated with footnotes (1) through (12) are defined on the Definition of Terms slide at the end of the Appendix.

Note: Starting with 3Q22 through 2Q23, the Delinquency and Net loss rates were impacted by the transition of our credit card processing services in June 2022.

Summary financial highlights - trending

Continuing operations

($ in millions)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
Credit sales	$ 6,887	$ 8,140	$ 7,689	$ 10,166	$ 7,373	$ 7,057	$ 6,668	$ 7,802	$ 6,030
Year-over-year change	*14%*	*10%*	*4%*	*16%*	*7%*	*(13%)*	*(13%)*	*(23%)*	*(18%)*
Average credit card and other loans	$ 16,650	$ 17,003	$ 17,598	$ 19,820	$ 19,405	$ 17,652	$ 17,540	$ 18,267	$ 18,546
Year-over-year change	*5%*	*11%*	*14%*	*23%*	*17%*	*4%*	*—%*	*(8%)*	*(4%)*
End-of-period credit card and other loans	$ 16,843	$ 17,769	$ 18,126	$ 21,365	$ 18,060	$ 17,962	$ 17,922	$ 19,333	$ 18,185
Year-over-year change	*8%*	*13%*	*16%*	*23%*	*7%*	*1%*	*(1%)*	*(10%)*	*1%*
End-of-period direct-to-consumer deposits	$ 3,561	$ 4,191	$ 5,176	$ 5,466	$ 5,630	$ 5,993	$ 6,098	$ 6,454	$ 6,984
Year-over-year change	*66%*	*75%*	*70%*	*72%*	*58%*	*43%*	*18%*	*18%*	*24%*
Return on average assets(1)	4.0%	0.2%	2.4%	(2.2%)	7.7%	1.2%	3.2%	0.8%	2.4%
Return on average equity(2)	38.5%	2.2%	22.8%	(23.3%)	73.0%	9.4%	24.8%	6.2%	17.5%
Return on average tangible common equity(3)	56.0%	3.1%	32.3%	(35.5%)	107.0%	13.2%	34.3%	8.5%	23.1%
Net interest margin(4)	19.4%	18.6%	19.9%	19.1%	19.0%	18.7%	20.6%	19.6%	18.7%
Loan yield(5)	25.6%	25.0%	27.2%	26.0%	26.6%	26.1%	28.6%	27.7%	27.0%
Efficiency ratio(6)	46.2%	52.9%	49.7%	53.1%	42.2%	55.7%	48.7%	50.8%	48.6%
Double leverage ratio(7)	201.8%	187.7%	182.4%	183.6%	158.6%	141.4%	127.4%	123.9%	118.0%
Common equity tier 1 capital ratio(8)	10.9%	10.7%	11.5%	8.7%	11.8%	12.1%	12.9%	12.2%	12.6%
Total risk-weighted assets(9)	$ 18,560	$ 19,050	$ 18,830	$ 22,065	$ 18,893	$ 18,745	$ 18,730	$ 20,140	$ 19,344
Tangible common equity / tangible assets ratio(10)	7.8%	7.5%	8.0%	6.0%	9.1%	9.4%	10.0%	9.6%	10.6%
Tangible book value per common share(11)	$ 31.87	$ 31.75	$ 34.30	$ 29.42	$ 38.44	$ 38.99	$ 42.45	$ 43.70	$ 45.96
Payment rate(12)	17.7%	15.3%	15.5%	16.4%	15.6%	15.0%	14.4%	14.5%	14.8%
Delinquency rate	4.1%	4.4%	5.7%	5.5%	5.7%	5.5%	6.3%	6.5%	6.2%
Net loss rate	4.8%	5.6%	5.0%	6.3%	7.0%	8.0%	6.9%	8.0%	8.5%
Reserve rate	10.8%	11.2%	11.4%	11.5%	12.3%	12.3%	12.3%	12.0%	12.4%

The terms associated with footnotes (1) through (12) are defined on the Definition of Terms slide at the end of the Appendix.

Note: Starting with 3Q22 through 2Q23, the Delinquency and Net loss rates were impacted by the transition of our credit card processing services in June 2022.

Summary P&L results - trending

Continuing operations

($ in millions, except per share)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
Total interest income	$ 1,068	$ 1,073	$ 1,218	$ 1,325	$ 1,335	$ 1,197	$ 1,301	$ 1,312	$ 1,300
Total interest expense	79	95	133	195	218	205	219	237	248
Net interest income	**989**	**978**	**1,085**	**1,130**	**1,117**	**992**	**1,082**	**1,075**	**1,052**
Total non-interest income	(68)	(85)	(106)	(97)	172	(40)	(51)	(58)	(61)
Revenue	**921**	**893**	**979**	**1,033**	**1,289**	**952**	**1,031**	**1,017**	**991**
Net principal losses	199	238	218	312	342	351	304	367	394
Reserve (release) build	(6)	166	86	380	(235)	(15)	—	115	(73)
Provision for credit losses	193	404	304	692	107	336	304	482	321
Total non-interest expenses	426	473	486	548	544	530	502	516	482
Income (loss) before income taxes	**302**	**16**	**189**	**(207)**	**638**	**86**	**225**	**19**	**188**
Provision for income taxes	91	4	55	(73)	183	22	52	(26)	53
Net income (loss)	**$ 211**	**$ 12**	**$ 134**	**$ (134)**	**$ 455**	**$ 64**	**$ 173**	**$ 45**	**$ 135**
Net income (loss) per diluted share	$ 4.21	$ 0.25	$ 2.69	$ (2.68)	$ 9.08	$ 1.27	$ 3.46	$ 0.90	$ 2.73
Weighted average shares outstanding – diluted	50.0	49.9	49.9	50.0	50.1	50.3	50.1	49.6	49.7
Pretax pre-provision earnings (PPNR)*	**$ 495**	**$ 420**	**$ 493**	**$ 485**	**$ 745**	**$ 422**	**$ 529**	**$ 501**	**$ 509**
Less: Gain on portfolio sale	—	—	—	—	(230)	—	—	—	—
PPNR less gain on portfolio sale*	$ 495	$ 420	$ 493	$ 485	$ 515	$ 422	$ 529	$ 501	$ 509

* *PPNR and PPNR less gain on portfolio sale are non-GAAP financial measures. See “Non-GAAP Financial Measures” and "Reconciliation of GAAP to Non-GAAP Financial Measures".*

Net interest margin

($ in millions)	1Q24 Average balance	1Q24 Interest income / expense	1Q24 Average yield / rate
Cash and investment securities	$ 4,135	$ 53	5.1%
Credit card and other loans	18,546	1,247	27.0%
Total interest-earning assets	**22,681**	**1,300**	**23.1%**
Direct-to-consumer (Retail)	6,739	81	4.9%
Wholesale deposits	6,771	74	4.4%
Interest-bearing deposits	**13,510**	**155**	**4.6%**
Secured borrowings	3,663	63	6.8%
Unsecured borrowings	1,354	30	9.0%
Interest-bearing borrowings	**5,017**	**93**	**7.4%**
Total interest-bearing liabilities	**$ 18,527**	**$ 248**	**5.4%**
Net interest income		**$ 1,052**	
Net interest margin*		**18.7%**	

** Net interest margin represents annualized Net interest income divided by average Total interest-earning assets.*

Note: Beginning in 2024, we revised the calculation of average balances to more closely align with industry practice by incorporating an average daily balance. Prior to 2024, average balances represent the average balance at the beginning and end of each month, averaged over the periods indicated.

Net income and diluted EPS components

($ in millions, except per share amounts)	1Q24	1Q23	$ Change	% Change
Income from continuing operations, net of taxes	$ 135	$ 455	$ (320)	(70)
(Loss) income from discontinued operations, net of taxes	(1)	—	(1)	nm
Net income	**$ 134**	**$ 455**	**$ (321)**	**(71)**
Net income per diluted share from continuing ops	$ 2.73	$ 9.08	$ (6.35)	(70)
Net (loss) income per diluted share from discontinued ops	$ (0.03)	$ —	$ (0.03)	nm
Net income per diluted share	**$ 2.70**	**$ 9.08**	**$ (6.38)**	**(70)**
Weighted average shares outstanding – diluted *(in millions)*	49.7	50.1		

nm – Not meaningful, denoting a variance of 100 percent or more.

Capital and liquidity

As of March 31, 2024:

- Total company liquidity of $7.1 billion including all undrawn credit facilities and conduits at the banks; parent liquidity of $0.9 billion consisting of cash plus revolver capacity
- Total company common equity tier 1 capital ratio of 12.6%, up 80 basis points versus a year ago
- Banks remain well capitalized on a total risk-based capital basis, nearly double the 10% well-capitalized threshold
- Prudent interest rate management with no held-to-maturity securities

Capital ratios	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	Rolling 4 quarter avg.
Total company										
Common equity tier 1 capital ratio(1)	10.9%	10.7%	11.5%	8.7%	11.8%	12.1%	12.9%	12.2%	12.6%	12.5%
Total risk-based capital ratio(2)	12.3%	12.0%	12.9%	10.1%	13.2%	13.4%	14.2%	13.6%	14.0%	13.8%
Total risk-weighted assets(3)	$ 18,560	$ 19,050	$ 18,830	$ 22,065	$ 18,893	$ 18,745	$ 18,730	$ 20,140	$ 19,344	$ 19,240
Tangible common equity / tangible assets ratio(4)	7.8%	7.5%	8.0%	6.0%	9.1%	9.4%	10.0%	9.6%	10.6%	9.9%
Comenity Bank										
Common equity tier 1 capital ratio(1)	22.5%	22.7%	20.7%	18.4%	18.3%	18.8%	20.3%	19.7%	18.2%	19.2%
Total risk-based capital ratio(2)	23.8%	24.0%	22.0%	19.7%	19.7%	20.1%	21.6%	21.1%	19.6%	20.6%
Comenity Capital Bank										
Common equity tier 1 capital ratio(1)	19.3%	18.1%	18.4%	16.1%	21.7%	18.2%	18.5%	16.6%	17.5%	17.7%
Total risk-based capital ratio(2)	20.7%	19.4%	19.7%	17.5%	23.0%	19.6%	19.9%	18.0%	18.9%	19.1%

The terms associated with footnotes (1) through (4) are defined on the Definition of Terms slide at the end of the Appendix.

Note: The Common equity tier 1 capital ratio and Total risk-based capital ratio include adjustments for the phase-in of the effect of the current expected credit loss (CECL) model on regulatory capital over a three-year period beginning in the first quarter of 2022, through 2024. 75%, 50% and 25% of the phase-in is included in 2024, 2023 and 2022, respectively. The effects of CECL on our regulatory capital will be fully phased-in beginning in the first quarter of 2025.

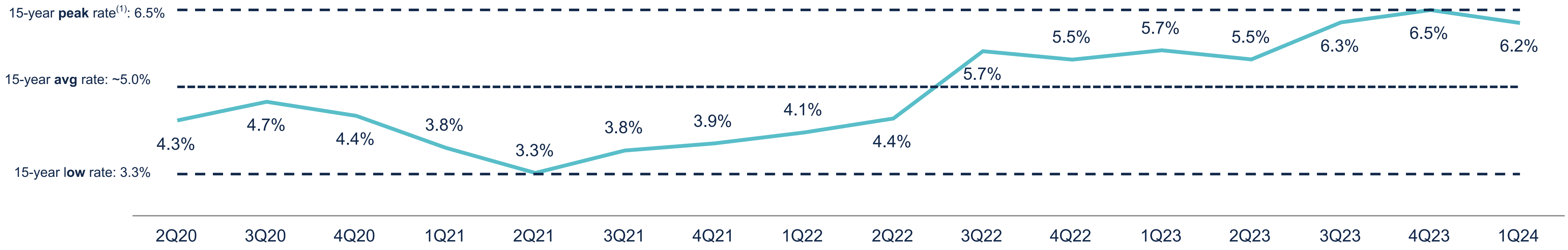
Reconciliation of GAAP to non-GAAP financial measures

($ in millions)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
Pretax pre-provision earnings (PPNR)									
Income (loss) before income taxes	$ 302	$ 16	$ 189	$ (207)	$ 638	$ 86	$ 225	$ 19	$ 188
Provision for credit losses	193	404	304	692	107	336	304	482	321
Pretax pre-provision earnings (PPNR)	**$ 495**	**$ 420**	**$ 493**	**$ 485**	**$ 745**	**$ 422**	**$ 529**	**$ 501**	**$ 509**
Less: Gain on portfolio sale	—	—	—	—	(230)	—	—	—	—
PPNR less gain on portfolio sale	$ 495	$ 420	$ 493	$ 485	$ 515	$ 422	$ 529	$ 501	$ 509

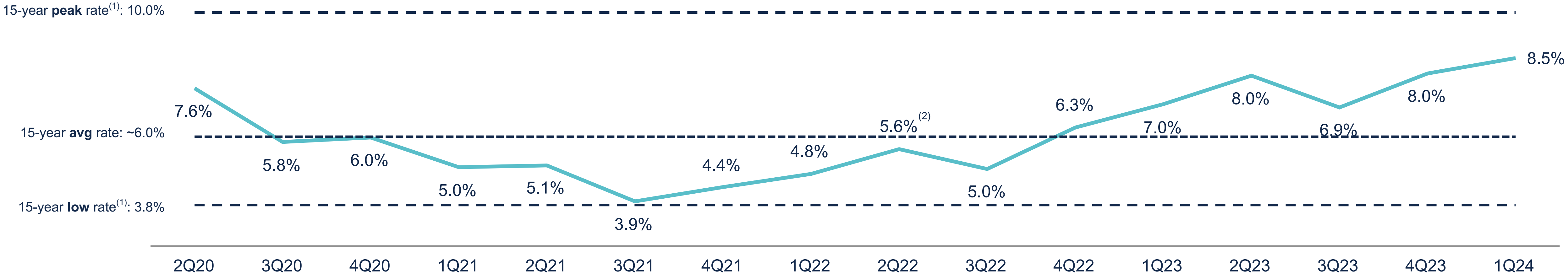
	1Q20	1Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
Tangible common equity (TCE)											
Total stockholders' equity	$ 1,088	$ 1,764	$ 2,268	$ 2,275	$ 2,399	$ 2,265	$ 2,716	$ 2,736	$ 2,864	$ 2,918	$ 3,032
Less: Goodwill and intangible assets, net	(354)	(704)	(682)	(694)	(690)	(799)	(790)	(780)	(771)	(762)	(753)
Tangible common equity (TCE)	**$ 734**	**$ 1,060**	**$ 1,586**	**$ 1,581**	**$ 1,709**	**$ 1,466**	**$ 1,926**	**$ 1,956**	**$ 2,093**	**$ 2,156**	**$ 2,279**
Tangible assets (TA)											
Total assets	$ 24,235	$ 21,163	$ 20,938	$ 21,811	$ 21,960	$ 25,407	$ 21,970	$ 21,609	$ 21,608	$ 23,141	$ 22,299
Less: Goodwill and intangible assets, net	(354)	(704)	(682)	(694)	(690)	(799)	(790)	(780)	(771)	(762)	(753)
Tangible assets (TA)	**$ 23,881**	**$ 20,459**	**$ 20,256**	**$ 21,117**	**$ 21,270**	**$ 24,608**	**$ 21,180**	**$ 20,829**	**$ 20,837**	**$ 22,379**	**$ 21,546**

Credit quality trends

Delinquency rates



Net loss rates



(1) Peak Delinquency rate occurred in 2023 and peak Net loss rate occurred in 2009. Low Net loss rate occurred in 2014.

(2) The 2Q22 Net loss rate includes a 30 basis point increase from the effects of the purchase of previously written-off accounts that were sold to a third-party debt collection agency.

Notes: Starting with 3Q22 through 2Q23, the Delinquency and Net loss rates were impacted by the transition of our credit card processing services in June 2022. As well, beginning in 2024, we revised the calculation of average balances to more closely align with industry practice by incorporating an average daily balance. Prior to 2024, average balances represent the average balance at the beginning and end of each month, averaged over the periods indicated.

Definition of terms

Note

(1) Beginning in 2024, we revised the calculation of average balances to more closely align with industry practice by incorporating an average daily balance. Prior to 2024, average balances represent the average balance at the beginning and end of each month, averaged over the periods indicated.

Summary financial highlights

(1) **Return on average assets:** Return on average assets represents annualized Income from continuing operations divided by average Total assets.
(2) **Return on average equity:** Return on average equity represents annualized Income from continuing operations divided by average Total stockholders' equity.
(3) **Return on average tangible common equity:** Return on average tangible common equity represents annualized Income from continuing operations divided by average Tangible common equity, which itself is defined below.
(4) **Net interest margin:** Net interest margin represents annualized Net interest income divided by average Total interest-earning assets.
(5) **Loan yield:** Loan yield represents annualized Interest and fees on loans divided by Average credit card and other loans.
(6) **Efficiency ratio:** Efficiency ratio represents Total non-interest expenses divided by Total net interest and non-interest income.
(7) **Double leverage:** Double leverage ratio represents Parent Company investment in subsidiaries divided by BFH consolidated equity.
(8) **Common equity tier 1 capital ratio:** The Common equity tier 1 capital ratio represents common equity tier 1 capital divided by total risk-weighted assets.
(9) **Total risk-weighted assets:** Total risk-weighted assets are generally measured by allocating assets, and specified off-balance sheet exposures, to various risk categories as defined by the Basel III standardized approach.
(10) **Tangible common equity / tangible assets ratio:** Tangible common equity (TCE) represents Total stockholders' equity reduced by Goodwill and intangible assets, net. Tangible assets (TA) represents Total assets reduced by Goodwill and intangible assets, net. TCE/TA is a non-GAAP financial measure.
(11) **Tangible book value per share:** Tangible book value per common share represents TCE divided by shares outstanding and is a non-GAAP financial measure.
(12) **Payment rate:** Payment rate represents consumer payments during the last month of the period, divided by the beginning-of-month Credit card and other loans, including held for sale in applicable periods.

Capital and liquidity

(1) **Common equity tier 1 capital ratio:** The Common equity tier 1 capital ratio represents common equity tier 1 capital divided by total risk-weighted assets.
(2) **Total risk-based capital ratio:** The Total risk-based capital ratio represents total capital divided by total risk-weighted assets.
(3) **Total risk-weighted assets:** Total risk-weighted assets are generally measured by allocating assets, and specified off-balance sheet exposures, to various risk categories as defined by the Basel III standardized approach.
(4) **Tangible common equity / tangible assets ratio:** Tangible common equity (TCE) represents Total stockholders' equity reduced by Goodwill and intangible assets, net. Tangible assets (TA) represents Total assets reduced by Goodwill and intangible assets, net. TCE/TA is a non-GAAP financial measure.