bread financial

Bread Financial

Barclays Global Financial Services Conference

September 12, 2023

Ralph Andretta | President & Chief Executive Officer

Perry Beberman | EVP & Chief Financial Officer

Val Greer | EVP & Chief Commercial Officer

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 the ongoing war in Ukraine and the continuing effects of the global COVID-19 pandemic; 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 recent bankruptcy filings of Loyalty Ventures Inc. and certain of its subsidiaries. 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.

This release is not an offer of a security.

Non-GAAP financial measures

We prepare our 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”.

Quarter-to-date key highlights

Moderating consumer spending and account acquisition

- Closely monitoring impact of inflation, rising interest rates, and the expiration of student loan forbearance on consumer spending
- Current economic headwinds tend to disproportionately impact moderate- to low-income consumers
- Year-over-year credit sales increase in beauty and travel and entertainment
- Sudden rise in gas prices in August pressured consumer spending

Proactive risk management given macroeconomic pressures

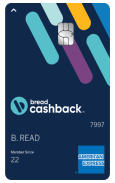
- Strategically tightening credit to balance macroeconomic headwinds and returns
- Our credit risk profile remains well above pre-pandemic levels due to diversification in products, including an increase in co-brand, and proactive responsible credit risk management
- Positioned to perform well through a full economic cycle

Our business transformation

Building a stronger, more focused tech-forward financial services company driving customer loyalty and profitable growth

- ☑ New leadership team and board refreshment
- ☑ Rebranded with expanded product suite and DTC offerings

bread financial — Private Label & Co-Brand Programs | bread pay | bread savings



- ☑ Added and extended iconic brand partner relationships

AAA | DELL Technologies | NFL EXTRA POINTS | ULTA BEAUTY | VICTORIA'S SECRET

- ☑ Upgraded core technology and digital capabilities
- ☑ Enhanced credit risk management and underlying credit distribution
- ☑ Focused on improving capital ratios and reducing our leverage

2Q23 key financial milestones

Portfolio size	**$18.0B**	with ~100 partner relationships
Capital ratios significantly improved	**+3x**	TCE/TA ratio increase since 1Q20 to 9.4%
Reduced debt	**-55%**	$1.7 billion parent debt reduction since 1Q20
Increased direct-to-consumer deposits	**+$4.8B**	DTC deposit growth since 1Q20 to $6.0 billion
Delivering shareholder value	**+33% CAGR**	tangible book value per share growth since 1Q20

2023 focus areas

Responsible growth

Support organic growth and new brand partner launches that deliver long-term value

Enhance balance sheet

Build capital and continue to reduce parent-level debt;
ensure proactive credit, liquidity, and interest rate risk management

Optimize data & technology

Leverage new capabilities to create additional value and continue driving efficiencies

Strategically invest

Deliver exceptional value and experiences through marketing, loyalty, and technology innovation

Differentiated products and brand partnerships

Expanded product offerings provide consumer choices across the total addressable market

Budget/Cash Flow ⟷ Rewards/Convenience

Gen Z | Millennial | Gen X | Baby Boomer

- Installment loans
- Private label credit card
- Co-brand credit card
- Proprietary credit card
- Split-pay (BNPL)
- Savings products

Product
graduation
from credit-building products to a full suite of financial offerings

Product
optimization
presents the right product, to the right customer, at the right time

Long history of brand partnership success

Card partner loyalty

5 largest partners
under contract through at least 2028

Well diversified

~100
card partners in multiple industry verticals

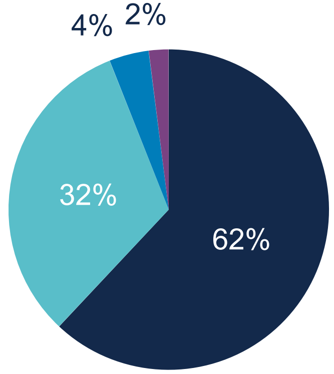
U.S. consumer penetration

We've put a card in the wallets of
1 in 8
American adults, including 1 in 6 U.S. female adults

2Q23 product diversification

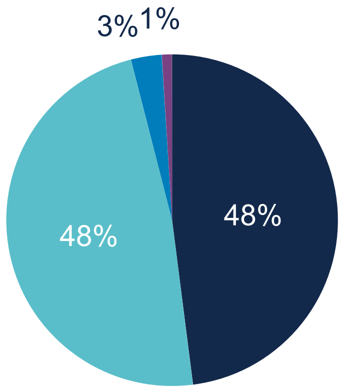
Diversifying our product mix to optimize risk-adjusted returns and deliver sustainable, profitable growth

End-of-period loans by product



Private Label · Co-Brand · Proprietary · Bread Pay

Credit sales by product



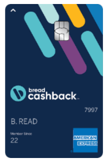
Private Label
(Closed Network)

- Long history of successes with programs tailored to build customer loyalty and drive sales for our partners' brands
- Traditional PLCC average loan ~$400; also provide promotional "Big Ticket" PLCC financing
- Higher revenue yields; deeper underwriting; lower credit lines

Co-Brand
(Open Network)

- Builds brand loyalty through broader rewards earned on general purpose purchases, diversifying spend
- Majority of co-brand portfolio >660 Vantage score
- Higher credit scores; higher credit lines; lower revenue yields

Proprietary
(Open Network)



- General purpose cashback cards to capture incremental spend, and build and retain customer relationships
- Increases total addressable market, including the Millennial and Gen Z populations
- Direct-to-consumer (DTC); no partner risk or share of economics

Bread Pay

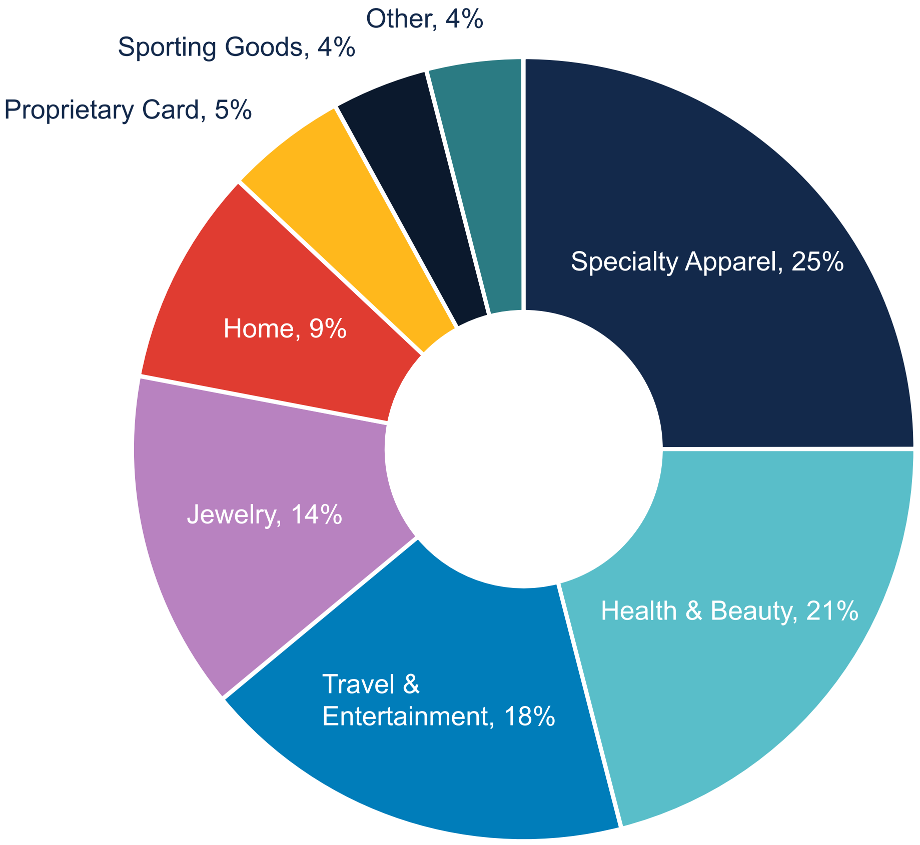
bread pay™

- Bread Pay consists of buy now, pay later (BNPL) offerings including both digital installment and split-pay
- Bolsters full suite of products to provide consumer choice with focus on Millennials and Gen Z
- Over 95% of loans are installment

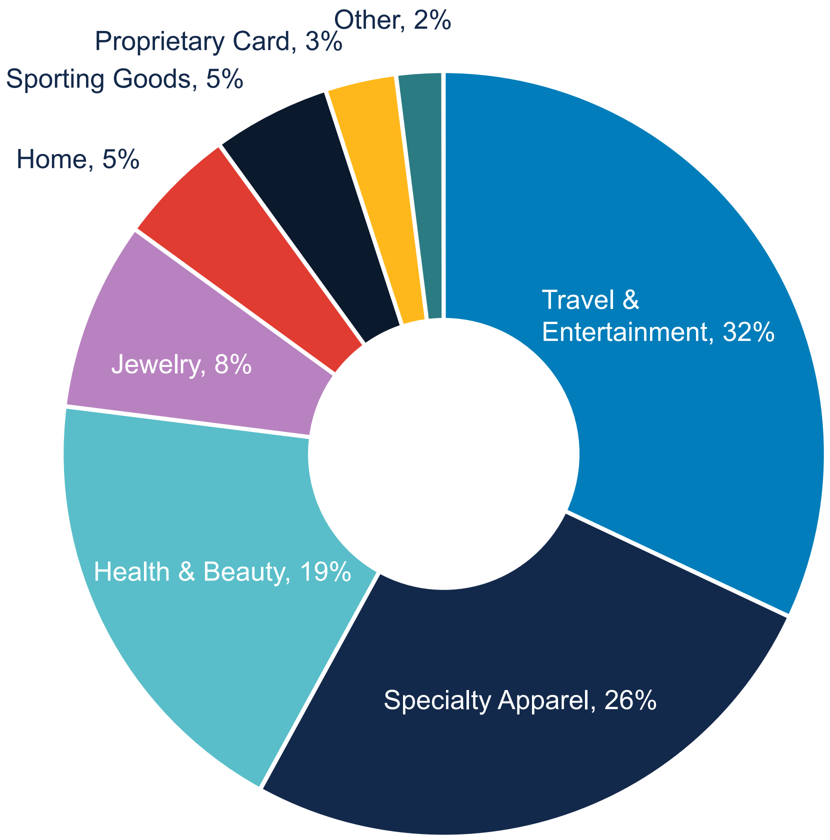
2Q23 partner diversification

Improving portfolio diversification through brand partner additions and vertical expansion

End-of-period loans by brand partner



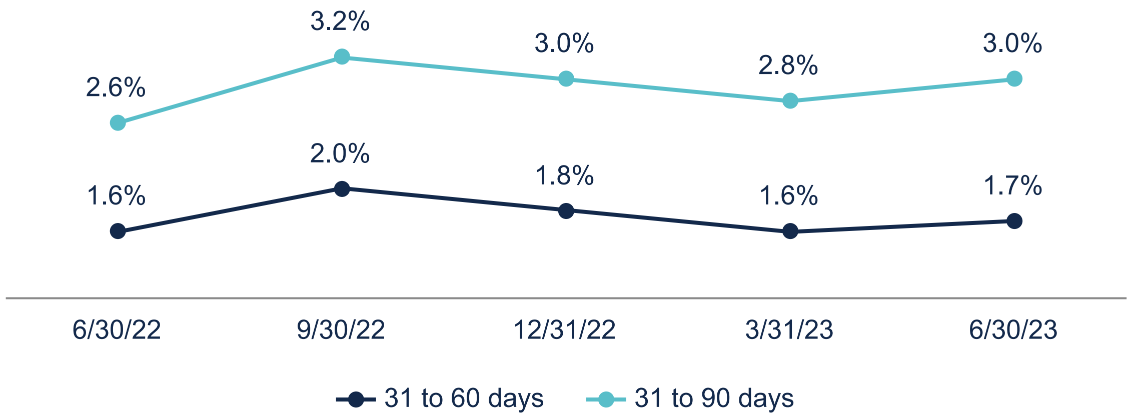
Credit sales by brand partner



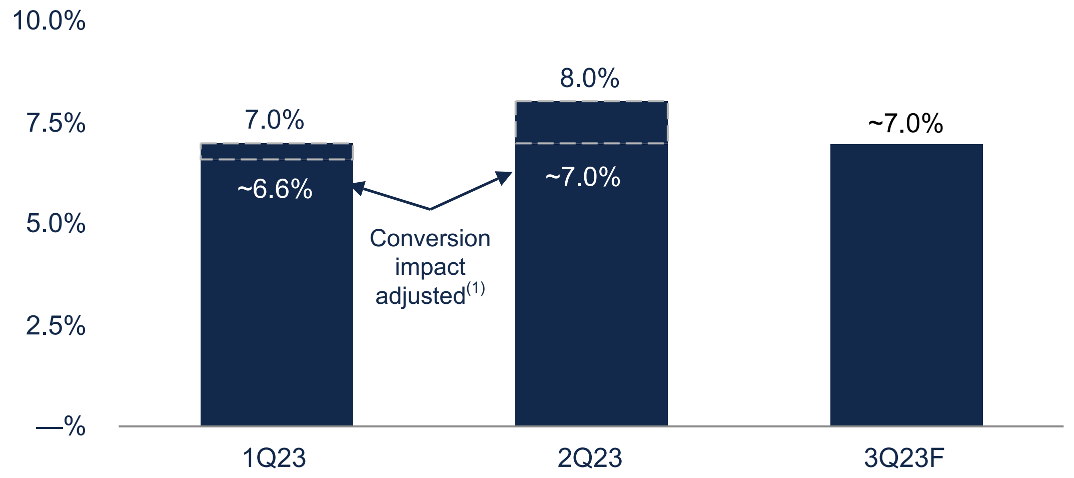
Credit performance update

Improvement in early-stage delinquencies provides confidence in 3Q23 net loss rate outlook

Early-stage delinquency rates trending as expected

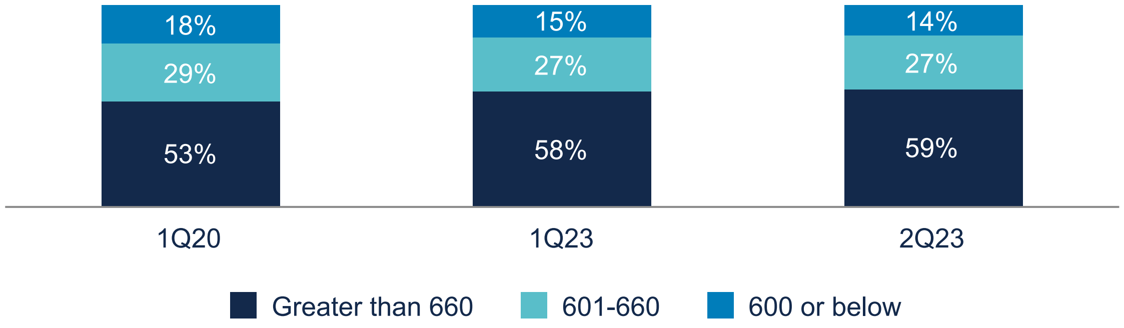


Net loss rate expected to stabilize in 3Q23



- **Closely monitoring the impact of persistent inflation on consumers and continue to proactively adjust our underwriting and credit management accordingly**
- **660+ Vantage Score mix steady in 2Q23, up 600 basis points from 1Q20**

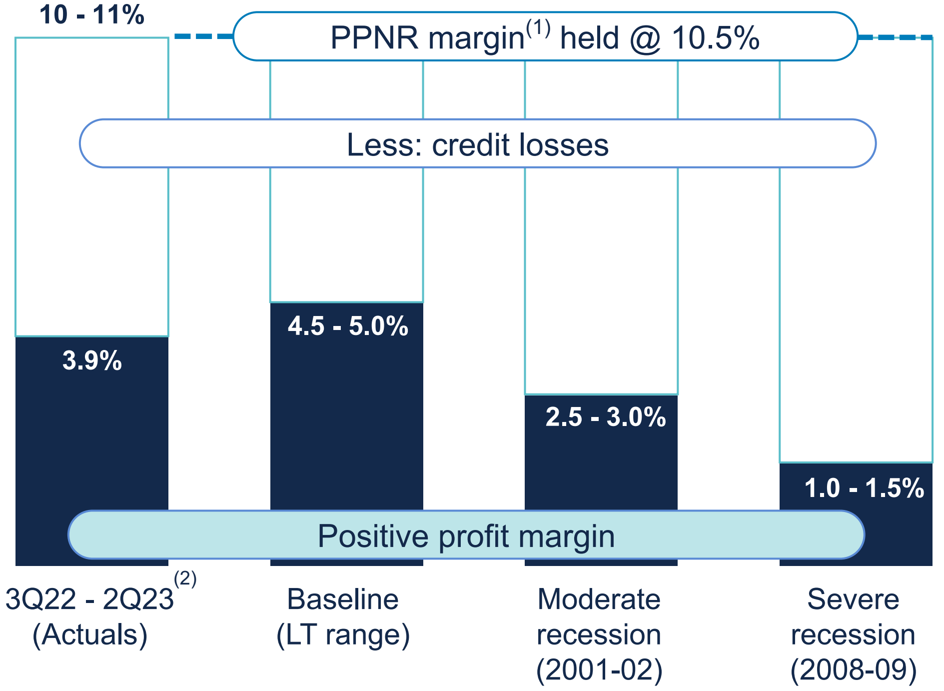
Maintaining improved Vantage score mix vs. pre-pandemic levels



(1) Estimated impact related to the transition of our credit card processing services to the net loss rate.

Strong, durable profit margins

Positive profit margin maintained in stressed scenarios



Net loss rate	Range of net loss rates		
6.6%	5.5-6.0%	7.5-8.0%	9.0-9.5%

Expect to outperform historic loss levels due to enhanced credit risk management

In addition to strong profit margins, **strengthened balance sheet ratios and credit mix** provide more layers and confidence in resilience.

- **Attractive risk-adjusted loan yield**[3] **of 19.9%** on average over the previous four quarters. Approximately **330 bps** higher than the closest peer.
- **Loan loss reserve materially higher.** Rate of **12.3%, up 630 bps** from year-end 2019 and prior pre-recession periods.
- **Capital ratios significantly improved.** TCE/TA ratio[4] at **9.4%**, an increase of **over 630** basis points from 1Q20.
- **Credit mix shifting to higher quality.** Risk score mix with >660 at **59%**, above pre-pandemic levels.

(1) *Pretax Pre-Provision Earnings (PPNR) margin represents PPNR divided by average loans. PPNR is a non-GAAP financial measure. See the Non-GAAP financial measures section and the Reconciliation of GAAP to non-GAAP financial measures included in the appendix.*
(2) *Excludes $230 million Gain on sale in 1Q23*
(3) *Risk-adjusted loan yield represents loan yield less the net principal loss rate.*
(4) *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. See the Non-GAAP financial measures section and the Reconciliation of GAAP to non-GAAP financial measures included in the appendix.*

Capital allocation

Improve capital metrics

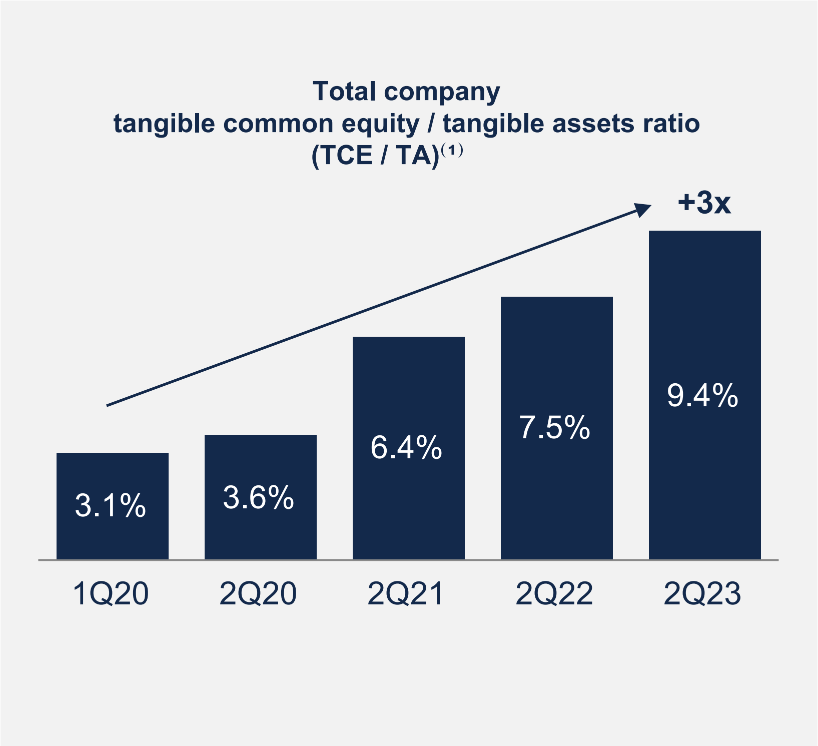
$1.2 billion tangible common equity build since 2020

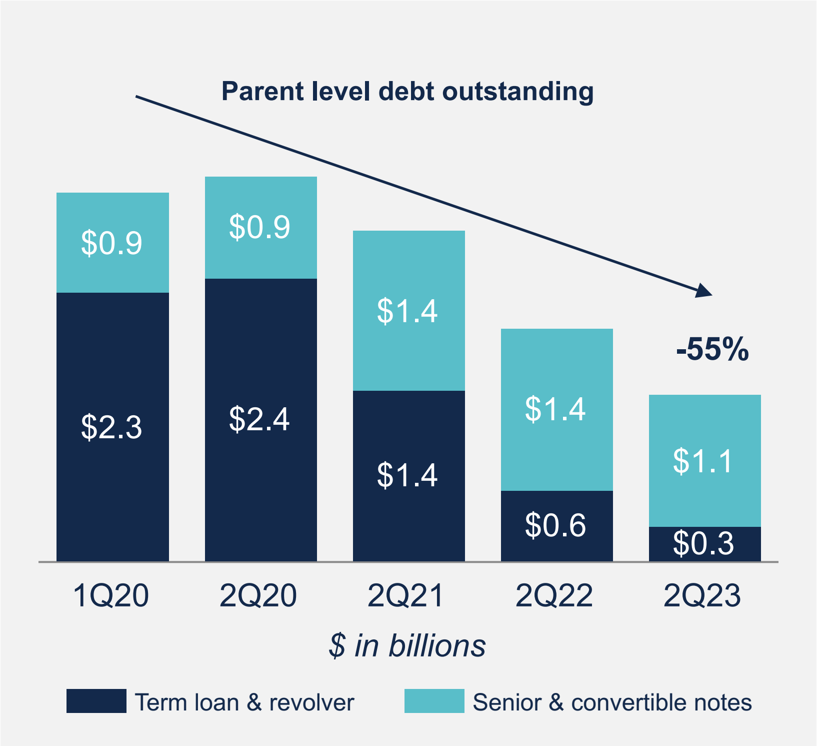
Reduce debt levels

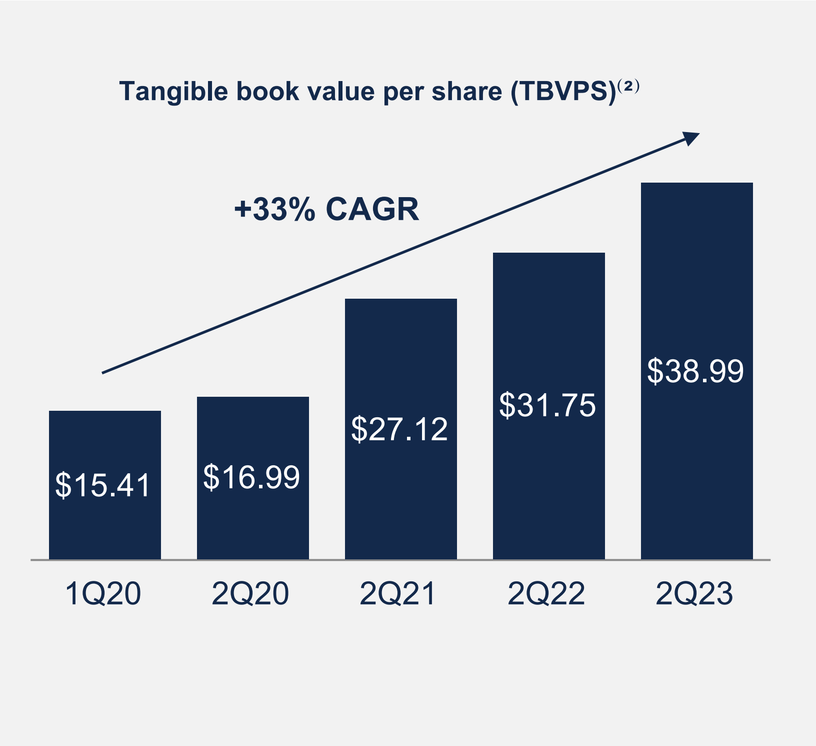
Paid down $1.7 billion since 2020

Drive shareholder value

~$24 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.

Appendix

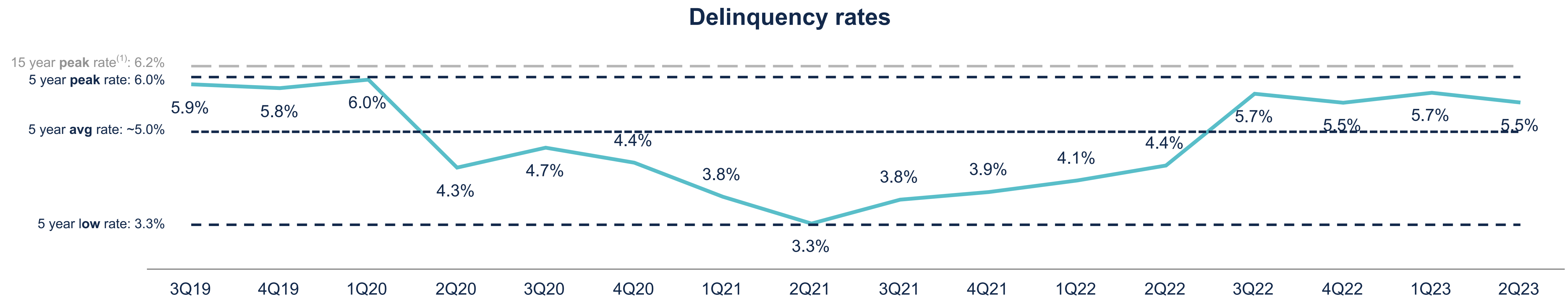
Summary financial highlights

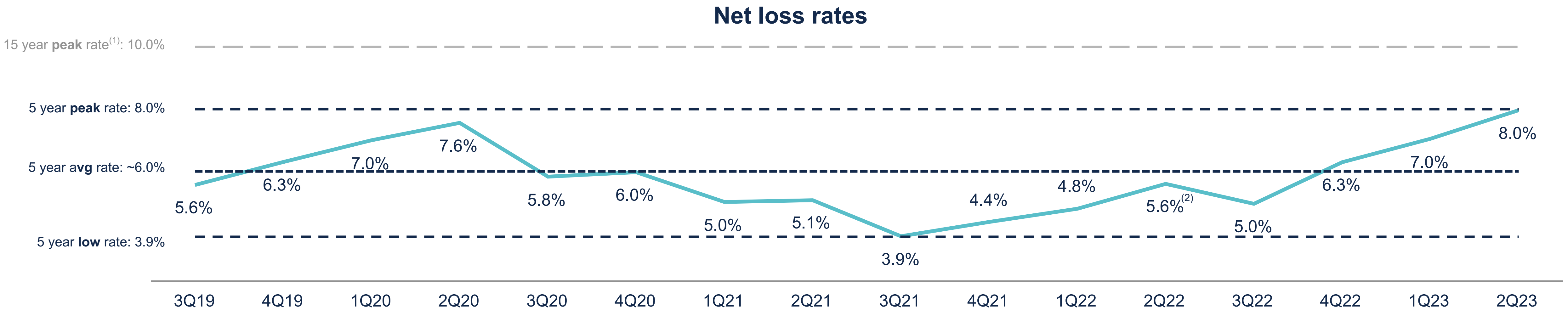
Continuing operations

($ in millions)	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	YTD'22	YTD'23
Credit sales	$ 7,401	$ 7,380	$ 8,778	$ 6,887	$ 8,140	$ 7,689	$ 10,166	$ 7,373	$ 7,057	$ 15,028	$ 14,430
Year-over-year change	*54%*	*20%*	*15%*	*14%*	*10%*	*4%*	*16%*	*7%*	*(13%)*	*12%*	*(4%)*
Average credit card and other loans	$ 15,282	$ 15,471	$ 16,086	$ 16,650	$ 17,003	$ 17,598	$ 19,820	$ 19,405	$ 17,652	$ 16,827	$ 18,528
Year-over-year change	*(5%)*	*1%*	*2%*	*5%*	*11%*	*14%*	*23%*	*17%*	*4%*	*8%*	*10%*
End-of-period credit card and other loans	$ 15,724	$ 15,690	$ 17,399	$ 16,843	$ 17,769	$ 18,126	$ 21,365	$ 18,060	$ 17,962	$ 17,769	$ 17,962
Year-over-year change	*(1%)*	*1%*	*4%*	*8%*	*13%*	*16%*	*23%*	*7%*	*1%*	*13%*	*1%*
End-of-period direct-to-consumer deposits	$ 2,398	$ 3,052	$ 3,180	$ 3,561	$ 4,191	$ 5,176	$ 5,466	$ 5,630	$ 5,993	$ 4,191	$ 5,993
Year-over-year change	*30%*	*79%*	*87%*	*66%*	*75%*	*70%*	*72%*	*58%*	*43%*	*75%*	*43%*
Return on average assets(1)	4.8%	3.7%	1.1%	4.0%	0.2%	2.4%	(2.2%)	7.7%	1.2%	2.1%	4.6%
Return on average equity(2)	56.4%	38.0%	11.1%	38.5%	2.2%	22.8%	(23.3%)	73.0%	9.4%	19.9%	39.7%
Net interest margin(3)	17.3%	18.9%	18.8%	19.4%	18.6%	19.9%	19.1%	19.0%	18.7%	19.0%	18.8%
Loan yield(4)	23.9%	25.6%	25.2%	25.6%	25.0%	27.2%	26.0%	26.6%	26.1%	25.3%	26.4%
Efficiency ratio(5)	55.5%	50.6%	50.0%	46.2%	52.9%	49.7%	53.1%	42.2%	55.7%	49.5%	47.9%
Tangible common equity / tangible assets ratio (TCE/TA)(6)	6.4%	7.2%	6.6%	7.8%	7.5%	8.0%	6.0%	9.1%	9.4%	7.5%	9.4%
Tangible book value per common share(7)	$ 27.12	$ 31.18	$ 28.09	$ 31.87	$ 31.75	$ 34.30	$ 29.42	$ 38.44	$ 38.99	$ 31.75	$ 38.99
Cash dividend declared per common share	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.42	$ 0.42
Payment rate(8)	17.6%	16.7%	17.2%	17.7%	15.3%	15.5%	16.4%	15.6%	15.0%	15.3%	15.0%
Delinquency rate	3.3%	3.8%	3.9%	4.1%	4.4%	5.7%	5.5%	5.7%	5.5%	4.4%	5.5%
Net principal loss rate	5.1%	3.9%	4.4%	4.8%	5.6%	5.0%	6.3%	7.0%	8.0%	5.2%	7.5%
Reserve rate	10.4%	10.5%	10.5%	10.8%	11.2%	11.4%	11.5%	12.3%	12.3%	11.2%	12.3%

(1) Return on average assets represents annualized Income from continuing operations divided by average Total assets.
(2) Return on average equity represents annualized Income from continuing operations divided by average Total stockholders' equity.
(3) Net interest margin represents annualized Net interest income divided by average Total interest-earning assets.
(4) Loan yield represents annualized Interest and fees on loans divided by Average credit card and other loans.
(5) Efficiency ratio represents Total non-interest expenses divided by Total net interest and non-interest income.
(6) 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.
(7) Tangible book value per common share represents TCE divided by shares outstanding and is a non-GAAP financial measure.
(8) 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.

Credit quality trends





(1) Peak Delinquency and Net loss rates occurred in 2009.
(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.
Note: Starting with 3Q22, the Delinquency and Net loss rates were impacted by the transition of our credit card processing services.

Reconciliation of GAAP to non-GAAP financial measures

($ in millions)	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	YTD'22	YTD'23
Pretax pre-provision earnings (PPNR)											
Income (loss) before income taxes	$ 354	$ 259	$ 65	$ 302	$ 16	$ 189	$ (207)	$ 638	$ 86	$ 319	$ 724
Provision for credit losses	(14)	161	363	193	404	304	692	107	336	598	442
Pretax pre-provision earnings (PPNR)	**$ 340**	**$ 420**	**$ 428**	**$ 495**	**$ 420**	**$ 493**	**$ 485**	**$ 745**	**$ 422**	**$ 917**	**$ 1,166**
Less: Gain on portfolio sale	—	(10)	—	—	—	—	—	(230)	—	—	(230)
PPNR less gain on portfolio sale	$ 340	$ 410	$ 428	$ 495	$ 420	$ 493	$ 485	$ 515	$ 422	$ 917	$ 936

	1Q20	2Q20	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	YTD'22	YTD'23
Tangible common equity (TCE)													
Total stockholders' equity	$ 1,088	$ 1,155	$ 2,048	$ 2,246	$ 2,086	$ 2,268	$ 2,275	$ 2,399	$ 2,265	$ 2,716	$ 2,736	$ 2,275	$ 2,736
Less: Goodwill and intangible assets, net	(354)	(345)	(699)	(694)	(687)	(682)	(694)	(690)	(799)	(790)	(780)	(694)	(780)
Tangible common equity (TCE)	**$ 734**	**$ 810**	**$ 1,349**	**$ 1,552**	**$ 1,399**	**$ 1,586**	**$ 1,581**	**$ 1,709**	**$ 1,466**	**$ 1,926**	**$ 1,956**	**$ 1,581**	**$ 1,956**
Tangible assets (TA)													
Total assets	$ 24,235	$ 22,867	$ 21,812	$ 22,257	$ 21,746	$ 20,938	$ 21,811	$ 21,960	$ 25,407	$ 21,970	$ 21,609	$ 21,811	$ 21,609
Less: Goodwill and intangible assets, net	(354)	(345)	(699)	(694)	(687)	(682)	(694)	(690)	(799)	(790)	(780)	(694)	(780)
Tangible assets (TA)	**$ 23,881**	**$ 22,522**	**$ 21,113**	**$ 21,563**	**$ 21,059**	**$ 20,256**	**$ 21,117**	**$ 21,270**	**$ 24,608**	**$ 21,180**	**$ 20,829**	**$ 21,117**	**$ 20,829**

bread financial