

REFINITIV

DELTA REPORT

10-Q

DISCOVER FINANCIAL SERVIC

10-Q - SEPTEMBER 30, 2024 COMPARED TO 10-Q - JUNE 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	1923
CHANGES	313
DELETIONS	1066
ADDITIONS	544

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended **June 30, 2024** ~~September 30, 2024~~
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 001-33378

DISCOVER FINANCIAL SERVICES

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

36-2517428

(I.R.S. Employer Identification No.)

2500 Lake Cook Road, Riverwoods, Illinois 60015

(Address of principal executive offices, including zip code)

(224) 405-0900

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act

<u>Title of each class</u>	<u>Trading symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	DFS	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of **July 26, 2024** ~~December 13, 2024~~, there were **251,071,540** ~~251,226,920~~ shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

DISCOVER FINANCIAL SERVICES
Quarterly Report on Form 10-Q for the quarterly period ended **June 30, 2024** ~~September 30, 2024~~

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Except as otherwise indicated or unless the context otherwise requires, "Discover Financial Services," "Discover," "DFS," "we," "us," "our," and "the Company" refer to Discover Financial Services and its subsidiaries. See Glossary of Acronyms, located after Part I — Item 4, for terms and abbreviations used throughout the quarterly report.

We own or have rights to use the trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to Discover®, PULSE®, Cashback Bonus®, Discover Cashback Checking®, Discover it®, Freeze it®, College Covered® and Diners Club International®. All other trademarks, trade names and service marks included in this quarterly report on Form 10-Q are the property of their respective owners.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

DISCOVER FINANCIAL SERVICES Condensed Consolidated Statements of Financial Condition (unaudited) (dollars in millions, except for share amounts)

	June 30, 2024	December 31, 2023
	September 30, 2024	December 31, 2023
		(As Restated)
Assets		
Assets		
Assets		
Cash and cash equivalents		
Cash and cash equivalents		
Cash and cash equivalents		
Restricted cash		
Investment securities (includes available-for-sale securities of \$13,242 and \$13,402 reported at fair value with associated amortized cost of \$13,438 and \$13,451 at June 30, 2024 and December 31, 2023, respectively)		
Investment securities (includes available-for-sale securities of \$13,242 and \$13,402 reported at fair value with associated amortized cost of \$13,438 and \$13,451 at June 30, 2024 and December 31, 2023, respectively)		
Investment securities (includes available-for-sale securities of \$13,242 and \$13,402 reported at fair value with associated amortized cost of \$13,438 and \$13,451 at June 30, 2024 and December 31, 2023, respectively)		
Other short-term investments		
Investment securities (includes available-for-sale securities of \$14,590 and \$13,402 reported at fair value with associated amortized cost of \$14,470 and \$13,451 at September 30, 2024 and December 31, 2023, respectively)		
Loan receivables		

Loans held-for-sale		
Loans held-for-sale		
Loans held-for-sale		
Loan portfolio		
Total loan receivables		
Allowance for credit losses		
Net loan receivables		
Premises and equipment, net		
Goodwill		
Other assets		
Other assets		
Other assets		
Total assets		
Liabilities and Stockholders' Equity		
Liabilities		
Liabilities		
Liabilities		
Deposits		
Deposits		
Deposits		
Interest-bearing deposit accounts		
Interest-bearing deposit accounts		
Interest-bearing deposit accounts		
Non-interest bearing deposit accounts		
Total deposits		
Short-term borrowings		
Long-term borrowings		
Accrued expenses and other liabilities		
Total liabilities		
Commitments, contingencies and guarantees (Notes 9, 12 and 13)	Commitments, contingencies and guarantees (Notes 9, 12 and 13)	Commitments, contingencies and guarantees (Notes 9, 12 and 13)
Stockholders' Equity		
Common stock, par value \$0.01 per share; 2,000,000,000 shares authorized; 572,265,525 and 570,837,720 shares issued at June 30, 2024 and December 31, 2023, respectively		
Common stock, par value \$0.01 per share; 2,000,000,000 shares authorized; 572,265,525 and 570,837,720 shares issued at June 30, 2024 and December 31, 2023, respectively		
Common stock, par value \$0.01 per share; 2,000,000,000 shares authorized; 572,265,525 and 570,837,720 shares issued at June 30, 2024 and December 31, 2023, respectively		
Preferred stock, par value \$0.01 per share; 200,000,000 shares authorized; 10,700 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively		
Common stock, par value \$0.01 per share; 2,000,000,000 shares authorized; 572,469,165 and 570,837,720 shares issued at September 30, 2024 and December 31, 2023, respectively		
Common stock, par value \$0.01 per share; 2,000,000,000 shares authorized; 572,469,165 and 570,837,720 shares issued at September 30, 2024 and December 31, 2023, respectively		
Common stock, par value \$0.01 per share; 2,000,000,000 shares authorized; 572,469,165 and 570,837,720 shares issued at September 30, 2024 and December 31, 2023, respectively		
Preferred stock, par value \$0.01 per share; 200,000,000 shares authorized; 10,700 shares issued and outstanding at September 30, 2024 and December 31, 2023, respectively		
Additional paid-in capital		
Retained earnings		
Accumulated other comprehensive loss		
Treasury stock, at cost; 321,194,606 and 320,734,860 shares at June 30, 2024 and December 31, 2023, respectively		
Accumulated other comprehensive income (loss)		
Treasury stock, at cost; 321,255,534 and 320,734,860 shares at September 30, 2024 and December 31, 2023, respectively		
Total stockholders' equity		
Total liabilities and stockholders' equity		

See Notes to the Condensed Consolidated Financial Statements.

DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Financial Condition (unaudited)
(dollars in millions)

The table below presents the carrying amounts of certain assets and liabilities of Discover Financial Services' consolidated variable interest entities ("VIEs"), which are included in the condensed consolidated statements of financial condition above. The assets in the table below include those assets that can only be used to settle obligations of the consolidated VIEs. The liabilities in the table below include third-party liabilities of consolidated VIEs only and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts for which creditors have recourse to the general credit of Discover Financial Services.

	June 30, 2024	December 31, 2023
	September 30, 2024	December 31, 2023
Assets		
Restricted cash		
Restricted cash		
Restricted cash		
Loans held-for-sale		
Loan portfolio		
Allowance for credit losses allocated to securitized loan receivables		
Other assets		
Liabilities		
Short- and long-term borrowings		
Short- and long-term borrowings		
Short- and long-term borrowings		
Accrued expenses and other liabilities		
See Notes to the Condensed Consolidated Financial Statements.		

DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Income (unaudited)
(dollars in millions, except for share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024		2023	2024	2023	2024 2023
(As Restated)								
Interest income								
Credit card loans								
Credit card loans								
Credit card loans								
Other loans, including loans held-for-sale								
Investment securities								
Other interest income								
Total interest income								
Interest expense								
Deposits								

Deposits
Deposits
Short-term borrowings
Long-term borrowings
Total interest expense
Net interest income
Provision for credit losses
Net interest income after provision for credit losses
Other income
Discount and interchange revenue, net
Discount and interchange revenue, net
Discount and interchange revenue, net
Protection products revenue
Loan fee income
Transaction processing revenue
Gains (losses) on equity investments
Other income
Other income
Other income
Total other income
Other expense
Employee compensation and benefits
Employee compensation and benefits
Employee compensation and benefits
Marketing and business development
Information processing and communications
Professional fees
Premises and equipment
Other expense
Total other expense
Income before income taxes
Income tax expense
Net income
Net income allocated to common stockholders
Basic earnings per common share
Diluted earnings per common share

See Notes to the Condensed Consolidated Financial Statements.

DISCOVER FINANCIAL SERVICES									
Condensed Consolidated Statements of Comprehensive Income (unaudited)									
(dollars in millions)									
For the Three Months Ended		For the Six Months Ended		For the Three Months Ended		For the Nine Months Ended			
June 30,		June 30,		September 30,		September 30,			
2024	2023	2024		2023	2024	2023		2024	2023
(As Restated)									
Net income									
Other comprehensive loss, net of tax									

Unrealized losses on available-for-sale investment securities, net of tax
Unrealized losses on available-for-sale investment securities, net of tax
Unrealized losses on available-for-sale investment securities, net of tax
Other comprehensive income (loss), net of tax
Unrealized gains (losses) on available-for-sale investment securities, net of tax
Unrealized gains (losses) on available-for-sale investment securities, net of tax
Unrealized gains (losses) on available-for-sale investment securities, net of tax
Unrealized gains (losses) on cash flow hedges, net of tax
Other comprehensive loss
Other comprehensive loss
Other comprehensive loss
Other comprehensive income (loss)
Other comprehensive income (loss)
Other comprehensive income (loss)
Comprehensive income

See Notes to the Condensed Consolidated Financial Statements.

DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Changes in Stockholders' Equity (unaudited)
(dollars in millions, shares in thousands)

	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
<u>For the Three Months Ended June 30, 2023</u>											
<u>For the Three Months Ended June 30, 2023</u>											
<u>For the Three Months Ended June 30, 2023</u>											
Balance at March 31, 2023											
<u>For the Three Months Ended September 30, 2023</u>											
<u>For the Three Months Ended September 30, 2023</u>											
<u>For the Three Months Ended September 30, 2023</u>											
Balance at June 30, 2023 (As Restated)											
Net income											
Net income											
Net income											
Net income (As Restated)											
Net income (As Restated)											
Net income (As Restated)											
Other comprehensive loss											
Purchases of treasury stock											
Common stock issued under employee benefit plans											

Common stock issued and stock-based compensation expense
Dividends — common stock (\$0.70 per share)
Dividends — common stock (\$0.70 per share)
Dividends — common stock (\$0.70 per share)
Dividends — Series C preferred stock (\$2,750 per share)
Dividends — Series D preferred stock (\$3,062.50 per share)
Balance at September 30, 2023 (As Restated)
Balance at June 30, 2023
Balance at June 30, 2023
Balance at June 30, 2023
For the Three Months Ended June 30, 2024
For the Three Months Ended June 30, 2024
For the Three Months Ended June 30, 2024
Balance at March 31, 2024
For the Three Months Ended September 30, 2024
For the Three Months Ended September 30, 2024
For the Three Months Ended September 30, 2024
Balance at June 30, 2024 (As Restated)
Net income
Net income
Net income
Other comprehensive loss
Other comprehensive income
Purchases of treasury stock
Common stock issued under employee benefit plans
Common stock issued and stock-based compensation expense
Dividends — common stock (\$0.70 per share)
Dividends — common stock (\$0.70 per share)
Dividends — common stock (\$0.70 per share)
Dividends — Series C preferred stock (\$2,750 per share)
Dividends — Series D preferred stock (3,062.50 per share)
Balance at September 30, 2024
Balance at June 30, 2024
Balance at June 30, 2024
Balance at June 30, 2024

See Notes to the Condensed Consolidated Financial Statements.

	Preferred Stock	Additional Paid-in Capital	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
Shares	Capital	Capital	Earnings	Comprehensive Loss	Stock	Equity		Capital	Earnings	Income	Stock	Equity
Shares												
Shares												
For the Six Months Ended June 30, 2023												
For the Six Months Ended June 30, 2023												

<u>For the Six Months Ended June 30, 2023</u>	
Balance at December 31, 2022	
<u>For the Nine Months Ended September 30, 2023</u>	
<u>For the Nine Months Ended September 30, 2023</u>	
<u>For the Nine Months Ended September 30, 2023</u>	
Balance at December 31, 2022 (As Restated)	
Cumulative effect of ASU No. 2022-02 adoption	
Net income	
Net income (As Restated)	
Other comprehensive loss	
Purchases of treasury stock	
Common stock issued under employee benefit plans	
Common stock issued and stock-based compensation expense	
Dividends — common stock (\$1.30 per share)	
Dividends — common stock (\$1.30 per share)	
Dividends — common stock (\$1.30 per share)	
Dividends — Series C preferred stock (\$2,750 per share)	
Dividends — Series D preferred stock (\$3,062.50 per share)	
Balance at June 30, 2023	
Dividends — common stock (\$2.00 per share)	
Dividends — common stock (\$2.00 per share)	
Dividends — common stock (\$2.00 per share)	
Dividends — Series C preferred stock (\$5,500 per share)	
Dividends — Series D preferred stock (\$6,125 per share)	
Balance at September 30, 2023 (As Restated)	
<u>For the Six Months Ended June 30, 2024</u>	
<u>For the Six Months Ended June 30, 2024</u>	
<u>For the Six Months Ended June 30, 2024</u>	
Balance at December 31, 2023	
<u>For the Nine Months Ended September 30, 2024</u>	
<u>For the Nine Months Ended September 30, 2024</u>	
<u>For the Nine Months Ended September 30, 2024</u>	
Balance at December 31, 2023 (As Restated)	
Cumulative effect of ASU No. 2023-02 adoption	
Net income	
Other comprehensive loss	
Other comprehensive income	
Purchases of treasury stock	
Common stock issued under employee benefit plans	
Common stock issued and stock-based compensation expense	
Dividends — common stock (\$1.40 per share)	

Dividends — common stock (\$1.40 per share)
Dividends — common stock (\$1.40 per share)
Dividends — Series C preferred stock (\$2,750 per share)
Dividends — Series D preferred stock (\$3,062.50 per share)
Balance at June 30, 2024
Dividends — common stock (\$2.10 per share)
Dividends — common stock (\$2.10 per share)
Dividends — common stock (\$2.10 per share)
Dividends — Series C preferred stock (\$5,500 per share)
Dividends — Series D preferred stock (\$6,125 per share)
Balance at September 30, 2024

See Notes to the Condensed Consolidated Financial Statements.

DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Cash Flows (unaudited)
(dollars in millions)

	For the Six Months Ended June 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
			(As Restated)	
Cash flows provided by operating activities				
Net income				
Net income				
Net income				
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for credit losses				
Provision for credit losses				
Provision for credit losses				
Deferred income taxes				
Depreciation and amortization				
Amortization of deferred revenues				
Net losses on investments and other assets				
Gain related to loans sold				
Other, net				
Changes in assets and liabilities:				
Increase in other assets				
Increase in other assets				
Increase in other assets				
Increase (decrease) in accrued expenses and other liabilities				
Decrease (increase) in other assets				
Decrease (increase) in other assets				
Decrease (increase) in other assets				
Decrease in accrued expenses and other liabilities				
Net cash provided by operating activities				
Cash flows provided by (used for) investing activities				

Cash flows provided by (used for) investing activities
Cash flows provided by (used for) investing activities
Purchases of other short-term investments
Maturities of available-for-sale investment securities
Purchases of other short-term investments
Maturities of available-for-sale investment securities
Purchases of other short-term investments
Maturities of available-for-sale investment securities
Purchases of available-for-sale investment securities
Maturities of held-to-maturity investment securities
Purchases of held-to-maturity investment securities
Proceeds from the sale of loans originated for investment
Net change in principal on loans originated for investment
Proceeds from the sale of other real estate owned
Proceeds from the sale of other investments
Proceeds from the sale of other investments
Proceeds from the sale of other investments
Purchases of other investments
Proceeds from sale of premises and equipment
Purchases of premises and equipment
Net cash used for investing activities
Cash flows provided by (used for) financing activities
Cash flows provided by (used for) financing activities
Cash flows provided by (used for) financing activities
Net change in short-term borrowings
Net change in short-term borrowings
Net change in short-term borrowings
Net change in deposits
Net change in deposits
Net change in deposits
Proceeds from issuance of securitized debt
Maturities and repayment of securitized debt
Maturities and repayments of other long-term borrowings
Maturities and repayments of other long-term borrowings
Proceeds from issuance of other long-term borrowings
Maturities and repayments of other long-term borrowings
Proceeds from issuance of common stock
Purchases of treasury stock
Dividends paid on common and preferred stock
Dividends paid on common and preferred stock
Dividends paid on common and preferred stock
Net cash (used for) provided by financing activities
Net decrease in cash, cash equivalents and restricted cash
Net (decrease) increase in cash, cash equivalents and restricted cash
Cash, cash equivalents and restricted cash, at the beginning of the period
Cash, cash equivalents and restricted cash, at the end of the period
Reconciliation of cash, cash equivalents and restricted cash
Reconciliation of cash, cash equivalents and restricted cash
Reconciliation of cash, cash equivalents and restricted cash
Cash and cash equivalents
Cash and cash equivalents

Cash and cash equivalents
Restricted cash
Cash, cash equivalents and restricted cash, at the end of the period
Supplemental disclosures of non-cash information:
Supplemental disclosures of non-cash information:
Supplemental disclosures of non-cash information:
Net transfers from loans held-for-investment to loans held-for-sale
Net transfers from loans held-for-investment to loans held-for-sale
Net transfers from loans held-for-investment to loans held-for-sale

See Notes to the Condensed Consolidated Financial Statements.

Notes to the Condensed Consolidated Financial Statements
(unaudited)

1. Background and Basis of Presentation

Description of Business

Discover Financial Services ("DFS" or the "Company") is a digital banking and payment services company. The Company is a bank holding company under the Bank Holding Company Act of 1956 and a financial holding company under the Gramm-Leach-Bliley Act. Therefore, the Company is subject to oversight, regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company provides digital banking products and services and payment services through its subsidiaries. The Company offers its customers credit card loans, personal loans, home loans and deposit products. The Company also operates the Discover Network, the PULSE network ("PULSE") and Diners Club International ("Diners Club"), collectively known as the Discover Global Network. The Discover Network processes transactions for Discover-branded credit and debit cards and provides payment transaction processing and settlement services. PULSE operates an electronic funds transfer network, providing financial institutions issuing debit cards on the PULSE network with access to automated teller machines ("ATMs") domestically and internationally, as well as merchant acceptance throughout the United States of America ("U.S.") for debit card transactions. Diners Club is a global payments network of licensees, which are generally financial institutions, that issue Diners Club branded credit and charge cards and/or provide card acceptance services.

The Company manages its business activities in two segments, Digital Banking and Payment Services, based on the products and services provided. See Note 16: Segment Disclosures for a detailed description of each segment's operations and the allocation conventions used in business segment reporting.

Pending Sale of The Private Student Loan Portfolio

In November 2023, the Company announced its Board of Directors had authorized management to explore the sale of its private student loan portfolio. The Company stopped accepting new applications for private student loans February 1, 2024, and as of June 30, 2024, the Company's private student loan portfolio was classified as loans held-for-sale. On July 17, 2024, Discover Bank entered into a purchase agreement to sell its private student loan portfolio and transfer servicing of the portfolio to a third-party servicer upon the sale. As of June 30, 2024, the principal balance of the private student loan portfolio, excluding interest to be capitalized, was approximately \$10.1 billion. The purchase price payable to Discover Bank in the transaction is at represents a premium to the balances of principal and interest to be capitalized balances of the private student loan portfolio and, based on certain assumptions, proceeds are estimated to be up to approximately \$10.8 billion over the course of 2024. portfolio. The transaction is expected to be completed in multiple closings by the end of 2024, subject to the satisfaction or waiver of customary closing conditions. The first closing was executed during the three months ended September 30, 2024, resulting in the recognition of a \$70 million gain recorded in other income on the condensed consolidated statements of income. As of September 30, 2024, the remaining principal balance of the private student loan portfolio, excluding interest to be capitalized, was approximately \$8.5 billion, and based on certain assumptions the remaining proceeds are estimated to be up to approximately \$9.0 billion. For more information, see Discover's Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on July 17, 2024.

Pending Merger with Capital One Financial Corporation

On February 19, 2024, Discover and Capital One Financial Corporation ("Capital One") jointly announced that they entered into an agreement and plan of merger (the "Merger Agreement"), under which the companies will combine in an all-stock merger, which valued Discover at \$35.3 billion based on the price of Capital One common stock on the last trading day before the public announcement of the merger. Under the terms of the Merger Agreement, holders of Discover common stock will receive 1.0192 shares of Capital One common stock for each share of Discover common stock they own. Capital One shareholders will own approximately 60% of the combined company and Discover shareholders will own approximately 40% of the combined company. The Merger Agreement contains customary representations and warranties, covenants and closing conditions. The Board of Directors of the combined company will have fifteen directors, consisting of twelve Capital One Board members and three Discover Board members to be named at a later date. For more information, see Discover's Current Report on Form 8-K filed with the SEC on February 22, 2024.

Completion of the proposed merger remains subject to approval by the Federal Reserve Board and the Office of the Comptroller of the Currency and other customary closing conditions, including the approval of both companies' shareholders.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP.

for complete consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments necessary for the fair presentation of results for the interim period. All such adjustments are of a normal, recurring nature. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the condensed consolidated financial statements. The Company believes that the estimates used in the preparation of the condensed consolidated financial statements are reasonable. Actual results could differ from these estimates. These interim condensed consolidated financial statements should be read in conjunction with the Company's 2023 audited consolidated financial statements filed with the Company's annual report on Form 10-K for the year ended December 31, 2023. The condensed consolidated financial statements for the period ended September 30, 2023 have been restated as disclosed in the Company's annual report on Form 10-K/A for the year ended December 31, 2023.

Certain prior year amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on the Company's condensed consolidated financial condition, results of operations or changes in stockholders' equity.

Restatement of Financial Statements

As reported in the second quarter of 2023, beginning in 2007, the Company incorrectly classified certain credit card accounts into its highest merchant and merchant acquirer pricing tier. The card product classification impacts the pricing and charging of discount and interchange revenue, which is recorded within discount and interchange revenue, net, on the consolidated statements of income. The Company determined that corrections to the financial statements for the impacts of the card product misclassification were required for prior periods presented in this Form 10-Q. Therefore, the Company has reflected these corrections to the condensed consolidated financial statements for prior periods presented in this Form 10-Q. Additionally, prior period amounts in the applicable notes to the condensed consolidated financial statements have been corrected. The impacts of the misclassification and subsequent corrections are contained entirely within the Digital Banking segment.

Recently Issued Accounting Pronouncements (Not Yet Adopted)

In December 2023, November 2024, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*. This ASU aims to build a better understanding of an entity's expenses through more detailed tabular disclosures surrounding certain costs and expenses (including but not limited to employee compensation, amortization of intangibles, and depreciation), defining and disclosing selling expense, and qualitatively describing remaining amounts not disaggregated in relevant expense captions. In addition, certain existing expense disclosures will be required to be presented within the same note and tabular format as prescribed by ASU No. 2024-03. The guidance is effective for the Company for the year ending December 31, 2027, and interim periods thereafter and can be applied on a prospective or retrospective basis. While the ASU implements further disclosure requirements, it does not change how an entity calculates and/or records its expenses, and it will have no impact on the Company's consolidated financial condition, results of operations or cash flows.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This ASU enhances the transparency of income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid. Entities are required to disaggregate the rate reconciliation (including percentages and reported amounts) by certain specified categories with additional disaggregation by nature and/or jurisdiction for items over a designated threshold. Income taxes paid (net of refunds received) must be disaggregated by federal, state and foreign taxes and separately by individual jurisdiction in which that amount for a particular jurisdiction is equal to or greater than five percent of total income taxes paid (net of refunds received). This annual disclosure guidance is effective for the Company for the year ending December 31, 2025 and can be adopted on either a prospective or retrospective basis. The Company expects to adopt this standard on a prospective basis. While the ASU implements further income tax disclosure requirements, it does not change how an entity determines its income tax obligation, and it will have no impact on the Company's consolidated financial condition, results of operations or cash flows.

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The ASU requires disclosure of additional segment level information, particularly regarding significant segment expenses. Entities must disclose significant expense categories and amounts that are regularly provided to the chief operating decision maker ("CODM") and included in the reported segment measure of profit or loss. Other segment items must also be reported, which are those items that make up the difference between segment revenues less significant segment expenses and reported segment profit or loss. Additionally, entities must disclose the identity of the CODM and how they use the reported measures of segment profit or loss for decision making and assessing segment performance. The guidance is effective for the Company for the year ending December 31, 2024, and interim periods thereafter and requires retrospective application. While the ASU implements further segment disclosure requirements, it does not change how an entity identifies its operating or reportable segments, and it will have no impact on the Company's consolidated financial condition, results of operations or cash flows.

2. Investments

The Company's investment securities consist of the following (dollars in millions):

	June 30, 2024	December 31, 2023
U.S. Treasury ⁽¹⁾ and U.S. GSE ⁽²⁾ securities	\$ 12,827	\$ 12,937
Residential mortgage-backed securities - Agency ⁽³⁾	681	718
Total investment securities	\$ 13,508	\$ 13,655

	September 30, 2024	December 31, 2023
U.S. Treasury bills ⁽¹⁾	\$ 735	\$ —
Total other short-term investments	\$ 735	\$ —
U.S. Treasury ⁽²⁾ and U.S. GSE ⁽³⁾ securities	\$ 14,185	\$ 12,937
Residential mortgage-backed securities - Agency ⁽⁴⁾	680	718
Total investment securities	\$ 14,865	\$ 13,655

- (1) Includes \$442 million U.S. Treasury bills with maturity dates greater than 90 days but less than one year at the time of acquisition.
- (2) Includes \$407 million and \$320 million of U.S. Treasury securities pledged as swap collateral as of June 30, 2024, September 30, 2024 and December 31, 2023, respectively.
- (3) Consists of securities issued by the Federal Home Loan Bank ("FHLB").
- (4) Primarily consists of securities issued by Fannie Mae, Freddie Mac, or Ginnie Mae.

The amortized cost, gross unrealized gains and losses and fair value of available-for-sale and held-to-maturity investment securities are as follows (dollars in millions):

	Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At June 30, 2024									
At September 30, 2024									
Available-for-Sale Investment Securities ⁽¹⁾									
Available-for-Sale Investment Securities ⁽¹⁾									
Available-for-Sale Investment Securities ⁽¹⁾									
U.S. Treasury and U.S. GSE securities									
U.S. Treasury and U.S. GSE securities									
U.S. Treasury and U.S. GSE securities									
Residential mortgage-backed securities - Agency									
Total available-for-sale investment securities									
Held-to-Maturity Investment Securities ⁽²⁾									
Residential mortgage-backed securities - Agency ⁽³⁾									
Residential mortgage-backed securities - Agency ⁽³⁾									
Residential mortgage-backed securities - Agency ⁽³⁾									
Total held-to-maturity investment securities									
At December 31, 2023									
At December 31, 2023									
At December 31, 2023									
Available-for-Sale Investment Securities ⁽¹⁾									
Available-for-Sale Investment Securities ⁽¹⁾									
Available-for-Sale Investment Securities ⁽¹⁾									
U.S. Treasury and U.S. GSE securities									
U.S. Treasury and U.S. GSE securities									

U.S. Treasury and U.S. GSE securities
Residential mortgage-backed securities - Agency
Total available-for-sale investment securities
Held-to-Maturity Investment Securities ⁽²⁾
Residential mortgage-backed securities - Agency ⁽³⁾
Residential mortgage-backed securities - Agency ⁽³⁾
Residential mortgage-backed securities - Agency ⁽³⁾
Total held-to-maturity investment securities

- (1) Available-for-sale investment securities are reported at fair value.
- (2) Held-to-maturity investment securities are reported at amortized cost.
- (3) Amounts represent residential mortgage-backed securities ("RMBS") that were classified as held-to-maturity as they were entered into as a part of the Company's community reinvestment initiatives.

The Company primarily invests in U.S. Treasury obligations and securities issued by a U.S. government agency ("Agency") or government-sponsored enterprise ("U.S. GSE"), which have long histories with no credit losses and are explicitly or implicitly guaranteed by the U.S. federal government. Therefore, management has concluded that there is no expectation of non-payment on its investment securities and does not record an allowance for credit losses on these investments. In addition, the Company does not have the intent to sell any available-for-sale securities in an unrealized loss position and does not believe it is more likely than not that it will be required to sell any such security before recovery of its amortized cost basis.

The following table provides information about available-for-sale investment securities with aggregate gross unrealized losses and the length of time that individual investment securities have been in a continuous unrealized loss position (dollars in millions):

	Number of Securities in a Loss Position		Less than 12 months	More than 12 months	Number of Securities in a Loss Position		Less than 12 months			More than 12 months	
			Fair Value	Fair Value	Unrealized Losses	Unrealized Losses	Number of Securities in a Loss Position	Unrealized Losses	Fair Value	Unrealized Losses	
	At June 30, 2024										
At September 30, 2024											
Available-for-Sale Investment Securities											
Available-for-Sale Investment Securities											
Available-for-Sale Investment Securities											
U.S. Treasury and U.S. GSE securities											
U.S. Treasury and U.S. GSE securities											
U.S. Treasury and U.S. GSE securities											
Residential mortgage-backed securities - Agency											
At December 31, 2023											
At December 31, 2023											
At December 31, 2023											
Available-for-Sale Investment Securities											
Available-for-Sale Investment Securities											

Available-for-Sale
Investment Securities
U.S. Treasury and
U.S. GSE securities
U.S. Treasury and
U.S. GSE securities
U.S. Treasury and
U.S. GSE securities
Residential
mortgage-backed
securities - Agency

There were no proceeds from sales or recognized gains or losses on available-for-sale securities during the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024** and 2023. See Note 8: Accumulated Other Comprehensive Income for unrealized gains and losses on available-for-sale securities during the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024** and 2023.

Maturities of available-for-sale debt securities and held-to-maturity debt securities are provided in the following table (dollars in millions):

	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
<u>At June 30, 2024</u>					
	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
<u>At September 30, 2024</u>					
Available-for-Sale Investment Securities — Amortized Cost					
U.S. Treasury and U.S. GSE securities					
U.S. Treasury and U.S. GSE securities					
U.S. Treasury and U.S. GSE securities					
Residential mortgage-backed securities - Agency ⁽¹⁾					
Total available-for-sale investment securities					
Held-to-Maturity Investment Securities — Amortized Cost					
Residential mortgage-backed securities - Agency ⁽¹⁾					
Residential mortgage-backed securities - Agency ⁽¹⁾					
Residential mortgage-backed securities - Agency ⁽¹⁾					
Total held-to-maturity investment securities					
Available-for-Sale Investment Securities — Fair Values					
U.S. Treasury and U.S. GSE securities					
U.S. Treasury and U.S. GSE securities					
U.S. Treasury and U.S. GSE securities					
Residential mortgage-backed securities - Agency ⁽¹⁾					
Total available-for-sale investment securities					
Held-to-Maturity Investment Securities — Fair Values					
Residential mortgage-backed securities - Agency ⁽¹⁾					
Residential mortgage-backed securities - Agency ⁽¹⁾					
Residential mortgage-backed securities - Agency ⁽¹⁾					
Total held-to-maturity investment securities					

(1) Maturities of RMBS are reflective of the contractual maturities of the investment.

Other Investments

As a part of the Company's community reinvestment initiatives, the Company has made equity investments in certain limited partnerships and limited liability companies that finance the construction and rehabilitation of affordable rental housing and stimulate economic development in low- to moderate-income communities. These investments are recorded within other assets on the Company's condensed consolidated statements of financial condition. The Company has elected to account for its qualifying investments in Low Income Housing Tax Credit and New Markets Tax Credit programs under the proportional amortization method beginning January 1, 2024 on a modified retrospective basis. As of June 30, 2024 September 30, 2024, all of the Company's tax credit investments qualified for this election. Prior to 2024, these investments were accounted for using the equity method. Under the proportional amortization method, the cost of the investment is amortized in proportion to the income tax credits and other income tax benefits received, the net effect of which is recognized as a component of income tax expense on the condensed consolidated statements of income and within cash flows provided by operating activities on the condensed consolidated statements of cash flows. The Company earns a return primarily through tax credits allocated to the affordable housing projects and the community revitalization projects. The Company does not consolidate these investments as the Company does not have a controlling financial interest in the investee entities. The related commitments for future investments are recorded in accrued expenses and other liabilities within the consolidated statements of financial condition for delayed equity contributions that are unconditional and legally binding. Equity contributions that are contingent upon a future event are recognized when that contingent event becomes probable. As of June 30, 2024 September 30, 2024 and December 31, 2023, the Company had outstanding investments in these entities of \$463 million \$451 million and \$514 million, respectively, and related liabilities for delayed equity contributions of \$173 million \$156 million and \$187 million, respectively. During the three and six nine months ended June 30, 2024 September 30, 2024, the Company recognized \$16 million \$15 million and \$31 million \$46 million of amortization, respectively. During the three and six nine months ended June 30, 2024 September 30, 2024 the Company recognized \$18 million \$17 million and \$36 million \$52 million of income tax credits and other income tax benefits, respectively. Non-income tax benefits comprised only immaterial cash distributions from these investments during the three and six nine months ended June 30, 2024 September 30, 2024.

The Company holds non-controlling equity positions in several payment services entities and third-party venture capital funds, which invest in such entities. Most of the direct investments in such entities are not subject to equity method accounting because the Company does not have significant influence over the investee. The Company's investments in third-party venture capital funds represent limited partnership interests and are accounted for under the equity method. The common or preferred equity securities that the Company holds typically do not have readily determinable fair values. As a result, these investments are carried at cost minus impairment, if any. As of June 30, 2024 September 30, 2024 and December 31, 2023, the carrying value of these investments, which are recorded within other assets on the Company's condensed consolidated statements of financial condition, was \$38 million and \$35 million, respectively.

3. Loan Receivables

The Company's loans held-for-investment comprise two loan portfolio segments: credit card loans and other loans.

The Company's classes of receivables within the two portfolio segments are depicted in the following table (dollars in millions):

	June 30, 2024	December 31, 2023
	September 30, 2024	December 31, 2023
Loans held-for-sale ⁽¹⁾⁽²⁾		
Loan portfolio		
Credit card loans ⁽³⁾⁽⁴⁾		
Credit card loans ⁽³⁾⁽⁴⁾		
Credit card loans ⁽³⁾⁽⁴⁾		
Other loans ⁽¹⁾		
Private student loans ⁽²⁾		
Private student loans ⁽²⁾		
Private student loans ⁽²⁾		
Personal loans		
Other loans		
Total other loans		
Total loan portfolio		
Total loan receivables		
Allowance for credit losses		
Net loan receivables		

(1) Accrued interest receivable on private student, personal and other loans, which is presented as part of other assets in the Company's condensed consolidated statements of financial condition, was \$563 million \$372 million, \$71 million \$74 million and \$26 million \$28 million, respectively, at June 30, 2024 September 30, 2024 and \$522 million, \$69 million and \$21 million, respectively, at December 31, 2023.

- (2) At **June 30, 2024** **September 30, 2024**, the private student loan portfolio was classified as held-for-sale and there were **\$6.3 billion** **\$6.0 billion** of private student loans in repayment. At December 31, 2023, the private student loan portfolio was classified as held-for-investment and there were \$6.3 billion of private student loans in repayment.
- (3) Amounts include carrying values of **\$12.2** **\$11.7** billion and \$14.8 billion underlying investors' interest in trust debt at **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively, and **\$16.8** **\$16.9** billion and \$15.6 billion in seller's interest at **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively. See Note 4: Credit Card and Private Student Loan Securitization Activities for additional information.
- (4) Unbilled accrued interest receivable on credit card loans, which is presented as part of other assets in the Company's condensed consolidated statements of financial condition, was **\$724 million** **\$726 million** and \$753 million at **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively.

Loans Held-for-Sale

When a decision to sell loans is made, the loans are reclassified as held-for-sale. As previously disclosed, in November 2023, the Company's Board of Directors authorized management to explore options for selling the private student loan portfolio. Based on the results of management's exploration of the marketplace, in the second quarter of 2024, the Board authorized management to pursue entry into a sale transaction. As of **June 30, 2024** **September 30, 2024**, the Company's private student loans portfolio was transferred to the held-for-sale classification and comprised **comprises** the entirety of the Company's loans held-for-sale balance. The Company includes its loans held-for-sale in loan receivables and carries these assets at the lower of amortized cost or fair value. The estimated fair value of loans held-for-sale is based on the pricing terms defined in the purchase agreement **that was** executed on July 17, 2024. An allowance for credit losses is not maintained for loans held-for-sale. Interest income on loans held-for-sale continues to accrue and is recognized in income based on the contractual rate of interest. As with the Company's loans held-for-investment, accrued interest on loans held-for-sale is recorded in other assets in the Company's condensed consolidated statements of financial condition. Accrued interest on private student loans as of **June 30, 2024** **September 30, 2024**, was incorporated into the lower of amortized cost or fair value measurement of those loans.

Credit Quality Indicators

As part of credit risk management activities, on an ongoing basis, the Company reviews information related to the performance of a customer's account with the Company and information from credit bureaus, such as FICO or other credit scores, relating to the customer's broader credit performance. The Company actively monitors key credit quality indicators, including FICO scores and delinquency status, for its loan receivables. These indicators are important to understand the overall credit performance of the Company's customers and their ability to repay.

FICO scores are generally obtained at the origination of the account and are refreshed monthly or quarterly thereafter to assist in predicting customer behavior. Historically, the Company has noted that accounts with FICO scores below 660 have larger delinquencies and credit losses than those with higher credit scores.

Credit quality disclosures, including disclosures pertaining to loan modifications to borrowers experiencing financial difficulty, do not apply to loans carried at the lower of amortized cost or fair value. Therefore, loans held-for-sale are excluded from these disclosures.

The following table provides the distribution of the amortized cost basis (excluding accrued interest receivable presented in other assets) by the most recent FICO scores available for the Company's customers for credit card and personal loan receivables (dollars in millions):

Credit Risk Profile by FICO Score												
June 30, 2024						December 31, 2023						
September 30, 2024						December 31, 2023						
660 and Above			Less than 660 or No Score			660 and Above			Less than 660 or No Score			
\$			%			\$			%			
Credit card loans	Credit card loans	\$ 80,169	80	80	%	\$ 19,897	20	20	%	\$ 82,238	80	80
Personal loans by origination year												
Personal loans by origination year												
Personal loans by origination year												
2024												
2024												
2024												
2023												
2023												
2023												
		4,067	96	96	%	170	4	4	%	\$ 5,149	98	98

2022	2022	1,924	92	92	%	177	8	8	%	2,604	93	93
2021	2021	721	91	91	%	74	9	9	%	1,049	92	92
2020	2020	227	92	92	%	21	8	8	%	355	92	92
Prior	Prior	137	84	84	%	26	16	16	%	247	86	86
Total	Total											
personal loans	personal loans	\$ 9,839	95	95	%	\$ 482	5	5	%	\$ 9,404	95	95

Delinquencies are an indicator of credit quality at a point in time. A loan balance is considered delinquent when contractual payments on the loan become 30 days past due.

The amortized cost basis (excluding accrued interest receivable presented in other assets) of delinquent loans in the Company's loan portfolio is shown below for credit card and personal loan receivables (dollars in millions):

December 31, 2023												
June 30, 2024												
December 31, 2023												
September 30, 2024												
	30-89 Days Delinquent	30-89 Days Delinquent	90 or More Days Delinquent	Total Past Due	30-89 Days Delinquent	90 or More Days Delinquent	Total Past Due		30-89 Days Delinquent	90 or More Days Delinquent	Total Past Due	
Credit card loans												
Personal loans by origination year												
Personal loans by origination year												
Personal loans by origination year												
2024												
2024												
2024												
2023												
2023												
2023												
2022												
2021												
2020												
Prior												
Total personal loans												

Allowance for Credit Losses

The following tables provide changes in the Company's allowance for credit losses (dollars in millions):

	For the Three Months Ended June 30, 2024					For the Three Months Ended September 30, 2024				
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at March 31, 2024										
Balance at June 30, 2024										
Additions										
Provision for credit losses ⁽¹⁾⁽²⁾										
Provision for credit losses ⁽¹⁾⁽²⁾										
Provision for credit losses ⁽¹⁾⁽²⁾										

Provision for credit losses ⁽¹⁾											
Provision for credit losses ⁽¹⁾											
Provision for credit losses ⁽¹⁾											
Deductions											
Charge-offs											
Charge-offs											
Charge-offs											
Recoveries											
Net charge-offs											
Balance at June 30, 2024											
Balance at June 30, 2024											
Balance at June 30, 2024											
Balance at September 30, 2024											
Balance at September 30, 2024											
Balance at September 30, 2024											
For the Three Months Ended June 30, 2023											
For the Three Months Ended June 30, 2023											
For the Three Months Ended June 30, 2023											
For the Three Months Ended September 30, 2023											
For the Three Months Ended September 30, 2023											
For the Three Months Ended September 30, 2023											
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans	
Balance at March 31, 2023											
Balance at June 30, 2023											
Additions											
Additions											
Additions											
Provision for credit losses ⁽¹⁾											
Provision for credit losses ⁽¹⁾											
Provision for credit losses ⁽¹⁾											
Deductions											
Charge-offs											
Charge-offs											
Charge-offs											
Recoveries											
Net charge-offs											
Balance at June 30, 2023											
Balance at June 30, 2023											
Balance at June 30, 2023											
Balance at September 30, 2023											
Balance at September 30, 2023											
Balance at September 30, 2023											
For the Six Months Ended June 30, 2024											
For the Six Months Ended June 30, 2024											
For the Six Months Ended June 30, 2024											

For the Nine Months Ended September 30, 2024										
For the Nine Months Ended September 30, 2024										
For the Nine Months Ended September 30, 2024										
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at December 31, 2023										
Additions										
Provision for credit losses ⁽¹⁾⁽²⁾										
Provision for credit losses ⁽¹⁾⁽²⁾										
Provision for credit losses ⁽¹⁾⁽²⁾										
Deductions										
Charge-offs										
Charge-offs										
Charge-offs										
Recoveries										
Net charge-offs										
Balance at June 30, 2024										
Balance at June 30, 2024										
Balance at June 30, 2024										
Balance at September 30, 2024										
Balance at September 30, 2024										
Balance at September 30, 2024										
For the Six Months Ended June 30, 2023										
For the Six Months Ended June 30, 2023										
For the Six Months Ended June 30, 2023										
For the Nine Months Ended September 30, 2023										
For the Nine Months Ended September 30, 2023										
For the Nine Months Ended September 30, 2023										
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at December 31, 2022										
Cumulative effect of ASU No. 2022-02 adoption ⁽³⁾										
Balance at January 1, 2023										
Additions										
Provision for credit losses ⁽¹⁾										
Provision for credit losses ⁽¹⁾										
Provision for credit losses ⁽¹⁾										
Deductions										
Charge-offs										
Charge-offs										
Charge-offs										
Recoveries										
Net charge-offs										
Balance at June 30, 2023										
Balance at June 30, 2023										
Balance at June 30, 2023										
Balance at September 30, 2023										

Balance at September 30, 2023
Balance at September 30, 2023

- (1) Excludes a \$6 million and \$8 million \$31 million adjustment of the liability for expected credit losses on unfunded commitments for the three months ended June 30, 2024 and 2023, respectively, September 30, 2023, and \$40 million and \$25 million \$6 million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively, as the liability is recorded in accrued expenses and other liabilities in the Company's condensed consolidated statements of financial condition. With the transfer of private student loans to the held-for-sale classification as of June 30, 2024, a liability for expected credit losses on unfunded commitments is no longer recorded.
- (2) Includes the adjustment to eliminate the allowance for credit losses upon classifying the private student loan portfolio as held-for-sale.
- (3) Represents the adjustment to the allowance for credit losses as a result of the adoption of ASU No. 2022-02 on January 1, 2023, which eliminated the requirement to apply discounted cash flow measurements for certain troubled debt restructurings.

The allowance for credit losses was approximately \$8.5 billion at June 30, 2024 September 30, 2024, which reflects a \$777 million release \$31 million build from March 31, 2024 June 30, 2024, and an \$802 million a \$771 million release from December 31, 2023. The build in the allowance for credit losses for the three months ended September 30, 2024 was primarily driven by the impact of loan growth in the Company's loan portfolio. The release in the allowance for credit losses for the three and six nine months ended June 30, 2024 September 30, 2024 was driven by the reversal of the private student loans allowance due to the loans being classified as held-for-sale, partially offset by the impact of loan growth.

The allowance estimation process begins with a loss forecast that uses certain macroeconomic variables and multiple macroeconomic scenarios among its inputs. In estimating the allowance at June 30, 2024 September 30, 2024, the Company used a macroeconomic forecast that projected the following amounts: (i) unemployment rate ending 2024 at 4.04% 4.35% and, within the Company's reasonable and supportable period, peaking at 4.08% 4.62% in the fourth third quarter of 2025 and (ii) 2.53% 2.54% growth rate in real gross domestic product in 2024.

In estimating expected credit losses, the Company considered the uncertainties associated with borrower behavior and payment trends, as well as recent and expected macroeconomic conditions including those relating to consumer price inflation and the fiscal and monetary policy responses to that inflation. Subsequent to the Federal Reserve raising its federal funds rate target range, real GDP growth and labor market conditions exceeded most economists' expectations, while inflation moderated but remained above the target rate. Federal Reserve officials have suggested that believe trends in inflation and employment are supportive of a less restrictive monetary policy, as indicated by a reduction of the policy rate is likely at its peak for federal funds target range in September 2024 and signaling of further cuts over the current tightening cycle, however, remainder of 2024. However, the timing and magnitude of rate decreases will be dependent on trends in economic data, particularly inflation. Restrictive inflation and labor market conditions, and monetary policy remains restrictive, which typically precedes weaker consumer credit conditions caused by rising unemployment as economic growth slows. While credit performance in the Company's lending portfolios has evolved in line with its expectations, the Company assessed the prospects for various macroeconomic outcomes in setting its allowance for credit losses.

The forecast period the Company deemed to be reasonable and supportable was 18 months for all periods presented. The 18 months reasonable and supportable forecast period was deemed appropriate given the current economic conditions. For all periods presented, the Company determined that a reversion period of 12 months was appropriate for the same reason. The Company applied a weighted reversion method to provide a more reasonable transition to historical losses for all loan products for all periods presented.

The net charge-offs for credit card loans and personal loans increased for the three and six nine months ended June 30, 2024 September 30, 2024, when compared to the same periods in 2023, primarily driven by portfolio seasoning.

Net charge-offs of principal are recorded against the allowance for credit losses, as shown in the preceding table. Information regarding net charge-offs of interest and fee revenues on credit card and other loans is as follows (dollars in millions):⁽¹⁾

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023	2024	2023	2024	2023
Interest and fees accrued subsequently charged-off, net of recoveries (recorded as a reduction of interest income)								
Fees accrued subsequently charged-off, net of recoveries (recorded as a reduction to other income)								

(1) Amounts presented in this table include charge-offs related to private student loans through June 30, 2024, the date those loans were transferred to held-for-sale classification.

Gross principal charge-offs of the Company's loan portfolio are presented in the table below, on a year-to-date basis, for credit card and personal loan receivables (dollars in millions):

For the Six Months Ended June 30,
For the Six Months Ended June 30,

	For the Six Months Ended June 30,					
	For the Nine Months Ended September 30,					
	For the Nine Months Ended September 30,					
	For the Nine Months Ended September 30,					
	2024		2024	2023	2024	2023
Credit card loans						
Personal loans by origination year						
Personal loans by origination year						
Personal loans by origination year						
2024						
2024						
2024						
2023						
2023						
2023						
2022						
2021						
2020						
Prior						
Total personal loans						

Delinquent and Non-Accruing Loans

The amortized cost basis (excluding accrued interest receivable presented in other assets) of delinquent and non-accruing loans in the Company's loan portfolio, which excludes loans held-for-sale, is shown below for each class of loan receivables (dollars in millions):⁽¹⁾

	30-89 Days Delinquent	30-89 Days Delinquent	90 or More Days Delinquent	Total Past Due	90 or More Days Delinquent and Accruing	Total Non- accruing ⁽²⁾	30-89 Days Delinquent	90 or More Days Delinquent	Total Past Due	90 or More Days Delinquent and Accruing	Total Non- accruing ⁽²⁾
At June 30, 2024											
At September 30, 2024											
Credit card loans											
Credit card loans											
Credit card loans											
Other loans											
Personal loans											
Personal loans											
Personal loans											
Other loans											
Total other loans											
Total loan portfolio											
At December 31, 2023											
At December 31, 2023											
At December 31, 2023											
Credit card loans											
Credit card loans											
Credit card loans											
Other loans											
Personal loans											
Personal loans											
Personal loans											

Other loans
Total other loans
Total loan portfolio

- (1) The payment status of both modified and unmodified loans is included in this table.
- (2) The Company estimates that the gross interest income that would have been recorded under the original terms of non-accruing credit card loans was \$9 million and \$10 million \$11 million for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively, and \$17 million \$26 million and \$18 million \$29 million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively. The Company does not separately track the amount of gross interest income that would have been recorded under the original terms of loans. Instead, the Company estimated this amount based on customers' current balances and most recent interest rates.

Loan Modifications to Borrowers Experiencing Financial Difficulty

The Company has internal loan modification programs that provide relief to credit card and personal loan borrowers who are experiencing financial hardship. The internal loan modification programs include both temporary and permanent programs, which vary by product. External loan modification programs, through third party consumer credit counseling agencies, are also available for credit card and personal loans. Those programs feature interest rate reductions, payment delays, term extensions, or a combination thereof.

For credit card customers, the Company offers both temporary and permanent hardship programs. The temporary hardship programs consist of an interest rate reduction lasting for a period no longer than 12 months. Charging privileges on these accounts are generally suspended while in the program. However, if the customer meets certain criteria, charging privileges may be reinstated following completion of the program.

The permanent modification program involves closing the account, changing the structure of the loan to a fixed payment loan with a maturity no longer than 72 months and reducing the interest rate on the loan. The permanent modification program does not typically provide for the forgiveness of unpaid principal, but may allow for the reversal of certain unpaid interest or fee assessments. The Company also makes permanent loan modifications for customers who request financial assistance through external sources, such as a consumer credit counseling agency program. These loans typically receive a reduced interest rate, typically continue to be subject to the original minimum payment terms and do not normally include waiver of unpaid principal, interest or fees.

For personal loan customers, the Company offers various payment programs, including temporary and permanent programs, in certain situations. The temporary programs normally consist of reducing the minimum payment for no longer than 12 months and, in certain circumstances, the interest rate on the loan is reduced. The permanent programs involve extending the loan term and, in certain circumstances, reducing the interest rate on the loan. The total term of the loan, including modification, may not exceed nine years. The Company also allows permanent loan modifications for customers who request financial assistance through external sources, similar to the credit card customers discussed above. Payments are modified based on the new terms agreed upon with the credit counseling agency.

In addition to the programs described above, the Company will in certain cases accept partial payment in full satisfaction of the outstanding receivable. This is a form of principal forgiveness also known as a settlement. The difference between the loan balance and the amount received at settlement is recorded as a charge-off.

The Company monitors borrower performance after using payment programs. The Company believes the programs are useful in assisting customers experiencing financial difficulties and allowing them to make timely payments. In addition to helping customers with their credit needs, these programs are designed to maximize collections and ultimately the Company's profitability. The Company plans to continue to use payment programs to provide relief to customers experiencing financial difficulties.

The following table provides the period-end amortized cost basis, by modification category, of loans to borrowers experiencing financial difficulty that entered a modification program during the period (dollars in millions). Some of the loans presented in the table below may no longer be enrolled in a program at period-end:

		For the Three Months Ended June 30,			For the Six Months Ended June 30,		
		For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2024		2024	2023	2024		2023
							2024
Credit card loans ⁽¹⁾⁽²⁾							
Interest rate reduction							
Interest rate reduction							
Interest rate reduction							

Personal loans

(1) Represents the amount of interest and fees forgiven resulting from accounts entering into a credit card loan modification program and pre-charge off settlements. Interest and fees forgiven are reversed against the respective line items in the condensed consolidated statements of income.

(2) For personal loan payment delays, the Company limits this assistance to a life of loan maximum of 12 months.

The following table presents the payment status and period-end amortized cost basis, by class of loan receivable, of loans that were modified to borrowers experiencing financial difficulty during the 12 months preceding each of the periods presented (dollars in millions):⁽¹⁾

(1) This table includes any loan that entered a modification program during the preceding 12 months without regard to whether it remained in a modification program as of the reporting date.

The following table presents the defaulted amount and period-end amortized cost basis, by modification category, of loans that defaulted during the period and were modified to borrowers experiencing financial difficulty during the 12 months preceding default (dollars in millions):

	For the Three Months Ended June 30, 2024			For the Six Months Ended June 30, 2024		For the Nine Months Ended September 30, 2024			
	Defaulted Amount ⁽¹⁾	Defaulted Amount ⁽¹⁾	Period-end Amortized Cost Basis	Defaulted Amount ⁽¹⁾	Period-end Amortized Cost Basis	Defaulted Amount ⁽¹⁾	Period-end Amortized Cost Basis	Defaulted Amount ⁽¹⁾	Period-end Amortized Cost Basis
Credit card loans									
Interest rate reduction									
Interest rate reduction									
Interest rate reduction									
Total credit card loans									
Personal loans									
Personal loans									
Personal loans									
Payment delay									
Payment delay									
Payment delay									
Term extension									
Interest rate reduction and payment delay									
Interest rate reduction and term extension									
Total personal loans									
	For the Three Months Ended September 30, 2023			For the Nine Months Ended September 30, 2023					
	Defaulted Amount ⁽¹⁾	Period-end Amortized Cost Basis		Defaulted Amount ⁽¹⁾	Period-end Amortized Cost Basis				
Credit card loans									
Interest rate reduction									
Interest rate reduction									
Interest rate reduction									

Total credit
card loans
Personal loans
Personal loans
Personal loans
Payment delay
Payment delay
Payment delay
Term
extension
Interest rate
reduction and
payment delay
Interest rate
reduction and term
extension
Total
personal loans

(1) For purposes of this disclosure, a loan is considered to be defaulted when it is 60 days or more delinquent at month end and has advanced two stages of delinquency subsequent to modification. Loans that entered a modification program in any stage of delinquency but did not experience a further payment default are included in the payment status table above but are not counted as defaulted for purposes of this disclosure.

The period-end amortized cost basis of credit cards loans modified on or after January 1, 2023 to borrowers experiencing financial difficulty which subsequently defaulted was \$73 million and \$84 million for the three and six months ended June 30, 2023, respectively. The period-end amortized cost basis of personal loans modified on or after January 1, 2023 to borrowers experiencing financial difficulty which subsequently defaulted was immaterial for the three and six months ended June 30, 2023.

4. Credit Card and Private Student Loan Securitization Activities

The Company's securitizations are accounted for as secured borrowings and the related trusts are treated as consolidated subsidiaries of the Company. For a description of the Company's principles of consolidation with respect to VIEs, see Note 1: Background and Basis of Presentation to the consolidated financial statements in the Company's annual report on Form 10-K 10-K/A for the year ended December 31, 2023.

Credit Card Securitization Activities

The Company accesses the term asset securitization market through Discover Card Master Trust I ("DCMT") and Discover Card Execution Note Trust ("DCENT"). Credit card loan receivables are transferred into DCMT and beneficial interests in DCMT are transferred into DCENT. DCENT issues debt securities to investors that are reported primarily in long-term borrowings.

The DCENT debt structure consists of four classes of securities (DiscoverSeries Class A, B, C and D notes), with the most senior class generally receiving a triple-A rating. To issue senior, higher-rated classes of notes, it is necessary to obtain the appropriate amount of credit enhancement, generally through the issuance of junior, lower-rated or more highly subordinated classes of notes. Wholly-owned subsidiaries of Discover Bank hold the subordinated classes of notes. The Company is exposed to credit risk associated with trust receivables as of the balance sheet date through the retention of these subordinated interests. The estimate of expected credit losses on trust receivables is included in the allowance for credit losses estimate.

The Company's retained interests in the trust's assets, consisting of investments in DCENT notes held by subsidiaries of Discover Bank, constitute intercompany positions that are eliminated in the preparation of the Company's condensed consolidated statements of financial condition.

Upon transfer of credit card loan receivables to the trust, the receivables and certain cash flows derived from them become restricted for use in meeting obligations to the trust's creditors. Further, the transferred credit card loan receivables are owned by the trust and are not available to the Company's third-party creditors. The trusts have ownership of cash balances, the amounts of which are reported in restricted cash within the Company's condensed consolidated statements of financial condition. Except for the seller's interest in trust receivables, the Company's interests in trust assets are generally subordinate to the interests of third-party investors in trust debt and, as such, may not be realized by the Company if needed to absorb deficiencies in cash flows that are allocated to those investors. Apart from the restricted assets related to securitization activities, the investors and the securitization trusts have no recourse to the Company's other assets or the Company's general credit for a shortage in cash flows.

The carrying values of these restricted assets, which are presented on the Company's condensed consolidated statements of financial condition as relating to securitization activities, are shown in the following table (dollars in millions):

	June 30, 2024	December 31, 2023
	September 30, 2024	December 31, 2023
Restricted cash		
Investors' interests held by third-party investors		
Investors' interests held by third-party investors		
Investors' interests held by third-party investors		
Investors' interests held by wholly-owned subsidiaries of Discover Bank		
Seller's interest		
Loan receivables ⁽¹⁾		
Allowance for credit losses allocated to securitized loan receivables ⁽¹⁾		
Net loan receivables		
Other assets		
Carrying value of assets of consolidated variable interest entities		

(1) The Company maintains its allowance for credit losses at an amount equal to lifetime expected credit losses associated with all loan receivables, which includes all loan receivables in the trusts. Therefore, the credit risk associated with the transferred receivables is fully reflected on the Company's statements of financial condition in accordance with GAAP.

The debt securities issued by the consolidated trusts are subject to credit, payment and interest rate risks on the transferred credit card loan receivables. To protect investors in the securities, there are certain features or triggering events that will cause an early amortization of the debt securities, including triggers related to the impact of the performance of the trust receivables on the availability and adequacy of cash flows to meet contractual requirements. As of **June 30, 2024** **September 30, 2024**, no economic or other early amortization events have occurred.

The Company continues to own and service the accounts that generate the loan receivables held by the trusts. Discover Bank receives servicing fees from the trusts based on a percentage of the monthly investor principal balance outstanding. Although the fee income to Discover Bank offsets the fee expense to the trusts and thus is eliminated in consolidation, failure to service the transferred loan receivables in accordance with contractual requirements could lead to a termination of the servicing rights and the loss of future servicing income, net of related expenses.

Private Student Loan Securitization Activities

The Company's private student loan trust receivables reported in loan receivables and the related debt issued by the trust reported in long-term borrowings were immaterial as of **June 30, 2024** **September 30, 2024** and December 31, 2023. The amounts are included, together with amounts related to the Company's credit card securitizations, in the supplemental information about assets and liabilities of consolidated variable interest entities, which is presented with the Company's condensed consolidated statements of financial condition.

5. Deposits

The Company obtains deposits from consumers directly or through affinity relationships ("direct-to-consumer deposits"). Additionally, the Company obtains deposits through third-party securities brokerage firms that offer the Company's deposits to their customers ("brokered deposits"). Direct-to-consumer deposit products include savings accounts, certificates of deposit, money market accounts, IRA savings accounts, IRA certificates of deposit and checking accounts. Brokered deposit products include certificates of deposit and sweep accounts.


The following table summarizes certificates of deposits maturing over the remainder of this year, over each of the next four years and thereafter (dollars in millions):

	At June 30, 2024	At September 30, 2024
2024		
2025		
2026		
2027		
2028		
Thereafter		
Total		

Long-term borrowings consist of borrowings having original maturities of one year or more. The following table provides a summary of the Company's long-term borrowings and weighted-average interest rates on outstanding balances (dollars in millions):

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REFINITIV 

Fixed to floating-rate senior notes ⁽⁴⁾
Discover Bank
Discover Bank
Discover Bank

Fixed-rate senior bank notes⁽¹⁾

Fixed-rate senior bank notes⁽¹⁾

Fixed-rate senior bank notes⁽¹⁾

Fixed-rate subordinated bank notes

Fixed-rate Federal Home Loan Bank advances

Floating-rate Federal Home Loan Bank advances ⁽⁵⁾
--

Total long-term borrowings

- (1) The Company uses interest rate swaps to hedge portions of these long-term borrowings against changes in fair value attributable to changes in the applicable benchmark interest rates. The use of these interest rate swaps impacts the carrying value of the debt. See Note 15: Derivatives and Hedging Activities.
- (2) The private student loan securitization trust floating-rate asset-backed security includes an issuance with the following interest rate term: Prime rate + 100 basis points as of June 30, 2024 September 30, 2024.
- (3) Repayment of this debt is dependent upon the timing of principal and interest payments on the underlying private student loans. The date shown represents the final maturity date.
- (4) The fixed to floating-rate senior notes include a rate reset on November 2, 2033, to a floating rate based on compounded SOFR + 3.370%.
- (5) The floating-rate FHLB advances include interest rate terms based on SOFR plus a spread ranging from 16 to 26 basis points as of June 30, 2024 September 30, 2024.

The following table summarizes long-term borrowings maturing over the remainder of this year, over each of the next four years and thereafter (dollars in millions):

	June 30, 2024	September 30, 2024
2024		
2025		
2026		
2027		
2028		
Thereafter		
Total		

As a member of the FHLB of Chicago, the Company has access to both short- and long-term advance structures with maturities ranging from overnight to 30 years. As of June 30, 2024 September 30, 2024, the Company had total committed borrowing capacity of \$4.4 billion \$4.9 billion based on the amount and type of assets pledged, of which the outstanding balance was comprised of \$1.0 billion in long-term advances. As of December 31, 2023, the Company had total committed borrowing capacity of \$3.6 billion based on the amount and type of assets pledged, of which the outstanding balance was comprised of \$1.0 billion in long-term advances. These advances are presented as short- or long-term borrowings on the condensed consolidated statements of financial condition based on the contractual maturity at origination.

Additionally, the Company has access to committed borrowing capacity through private securitizations to support the funding of its credit card loan receivables. As of June 30, 2024, the total commitment of secured credit facilities through private providers was \$3.5 billion, none of which was drawn. As of September 30, 2024 and December 31, 2023, the total commitment of secured credit facilities through private providers was \$3.5 billion, \$750 million of which was outstanding at each of the reporting dates as a short-term advance and presented as short-term borrowings on the condensed consolidated statements of financial condition. Access to the unused portions of the secured credit facilities is subject to the terms of the agreements with each of the providers. The secured credit facilities have various expirations in 2025 and 2026. Borrowings outstanding under each facility bear interest at a margin above the Term Secured Overnight Financing Rate ("SOFR") or the asset-backed commercial paper costs of each provider. The terms of each agreement

provide for a commitment fee to be paid on the unused capacity and include various affirmative and negative covenants, including performance metrics and legal requirements similar to those required to issue any term securitization transaction.

7. Preferred Stock

The table below presents a summary of the Company's non-cumulative perpetual preferred stock that is outstanding at **June 30, 2024** **September 30, 2024** (dollars in millions, except per depositary share amounts):

Series	Series	Description	Initial Issuance Date	Liquidation Preference and Redemption Price per Depositary Share ⁽¹⁾	Per Annum Dividend Rate in effect at June 30, 2024	June 30, 2024	Total Depositary Shares Authorized, Issued and Outstanding December 31, 2023	June 30, 2024	Carrying Value December 31, 2023	Series	Series	Description	Initial Issuance Date	Liquidation Preference and Redemption Price per Depositary Share ⁽¹⁾	Per Annum Dividend Rate in effect at September 30, 2024	September 30, 2024	December 31, 2023	Total Depositary Shares Authorized, Issued and Outstanding September 30, 2024	September 30, 2024	December 31, 2023	Carrying Value December 31, 2023
C ⁽²⁾ (3)(4)																					
D ⁽²⁾ (5)(6)																					
Total Preferred Stock																					

- (1) Redeemable at the redemption price plus declared and unpaid dividends.
- (2) Issued as depositary shares, each representing 1/100th interest in a share of the corresponding series of preferred stock. Each preferred share has a par value of \$0.01.
- (3) Redeemable at the Company's option, subject to regulatory approval, either (i) in whole or in part on any dividend payment date on or after October 30, 2027, or (ii) in whole but not in part, at any time within 90 days following a regulatory capital treatment event (as defined in the certificate of designations for the Series C preferred stock).
- (4) Any dividends declared are payable semi-annually in arrears at a rate of 5.500% per annum until October 30, 2027. Thereafter, dividends declared will be payable quarterly in arrears at a floating rate equal to 3-month Term SOFR plus a spread of 3.338% per annum.
- (5) Redeemable at the Company's option, subject to regulatory approval, either (i) in whole or in part during the three-month period prior to, and including, each reset date (as defined in the certificate of designations for the Series D preferred stock) or (ii) in whole but not in part, at any time within 90 days following a regulatory capital treatment event (as defined in the certificate of designations for the Series D Preferred Stock).
- (6) Any dividends declared are payable semi-annually in arrears at a rate of 6.125% per annum until September 23, 2025, after which the dividend rate will reset every 5 years to a fixed annual rate equal to the 5-year Treasury plus a spread of 5.783%.

8. Accumulated Other Comprehensive Income

Changes in each component of accumulated other comprehensive (loss) income ("AOCI") were as follows (dollars in millions):

	Unrealized Losses on Available-for-Sale Investment Securities, Net of Tax	Losses on Cash Flow Hedges, Net of Tax	Losses on Pension Plan, Net of Tax	AOCI
<u>For the Three Months Ended June 30, 2024</u>				
Balance at March 31, 2024				
Balance at March 31, 2024				
Balance at March 31, 2024				
	Unrealized (Losses) Gains on Available-for-Sale Investment Securities, Net of Tax	(Losses) Gains on Cash Flow Hedges, Net of Tax	Losses on Pension Plan, Net of Tax	AOCI
<u>For the Three Months Ended September 30, 2024</u>				
Balance at June 30, 2024				
Balance at June 30, 2024				
Balance at June 30, 2024				
Net change				
Balance at June 30, 2024				
Balance at September 30, 2024				
<u>For the Three Months Ended June 30, 2023</u>				

<u>For the Three Months Ended June 30, 2023</u>
<u>For the Three Months Ended June 30, 2023</u>
Balance at March 31, 2023
Balance at March 31, 2023
Balance at March 31, 2023
<u>For the Three Months Ended September 30, 2023</u>
<u>For the Three Months Ended September 30, 2023</u>
<u>For the Three Months Ended September 30, 2023</u>
Balance at June 30, 2023
Balance at June 30, 2023
Balance at June 30, 2023
Net change
Balance at June 30, 2023
Balance at September 30, 2023
<u>For the Six Months Ended June 30, 2024</u>
<u>For the Six Months Ended June 30, 2024</u>
<u>For the Six Months Ended June 30, 2024</u>
<u>For the Nine Months Ended September 30, 2024</u>
<u>For the Nine Months Ended September 30, 2024</u>
<u>For the Nine Months Ended September 30, 2024</u>
Balance at December 31, 2023
Balance at December 31, 2023
Balance at December 31, 2023
Net change
Balance at June 30, 2024
Balance at September 30, 2024
<u>For the Six Months Ended June 30, 2023</u>
<u>For the Six Months Ended June 30, 2023</u>
<u>For the Six Months Ended June 30, 2023</u>
<u>For the Nine Months Ended September 30, 2023</u>
<u>For the Nine Months Ended September 30, 2023</u>
<u>For the Nine Months Ended September 30, 2023</u>
Balance at December 31, 2022
Balance at December 31, 2022
Balance at December 31, 2022
Net change
Balance at June 30, 2023

Balance at September 30, 2023

The following table presents each component of other comprehensive income ("OCI") before reclassifications and amounts reclassified from AOCI for each component of OCI before- and after-tax (dollars in millions):

	Before Tax	Before Tax	Tax Benefit (Expense)	Net of Tax	Before Tax	Tax (Expense) Benefit	Net of Tax
For the Three Months Ended June 30, 2024							
For the Three Months Ended September 30, 2024							
Available-for-Sale Investment Securities							
Available-for-Sale Investment Securities							
Available-for-Sale Investment Securities							
Net unrealized holding gains arising during the period							
Net unrealized holding gains arising during the period							
Net unrealized holding gains arising during the period							
Net change							
Net change							
Net change							
Cash Flow Hedges							
Net unrealized gains arising during the period							
Net unrealized gains arising during the period							
Net unrealized gains arising during the period							
Amounts reclassified from AOCI							
Net change							
For the Three Months Ended September 30, 2023							
For the Three Months Ended September 30, 2023							
For the Three Months Ended September 30, 2023							
Available-for-Sale Investment Securities							
Available-for-Sale Investment Securities							
Available-for-Sale Investment Securities							
Net unrealized holding losses arising during the period							
Net unrealized holding losses arising during the period							
Net unrealized holding losses arising during the period							
Net change							
Net change							
Net change							
Cash Flow Hedges							
Net unrealized losses arising during the period							
Net unrealized losses arising during the period							
Net unrealized losses arising during the period							
Amounts reclassified from AOCI							
Net change							
For the Three Months Ended June 30, 2023							
For the Nine Months Ended September 30, 2024							
For the Three Months Ended June 30, 2023							
For the Nine Months Ended September 30, 2024							
For the Three Months Ended June 30, 2023							
For the Nine Months Ended September 30, 2024							
Available-for-Sale Investment Securities							
Available-for-Sale Investment Securities							

Available-for-Sale Investment Securities	
Net unrealized holding losses arising during the period	
Net unrealized holding losses arising during the period	
Net unrealized holding losses arising during the period	
Net unrealized holding gains arising during the period	
Net unrealized holding gains arising during the period	
Net unrealized holding gains arising during the period	
Net change	
Net change	
Net change	
Cash Flow Hedges	
Net unrealized losses arising during the period	
Net unrealized losses arising during the period	
Net unrealized losses arising during the period	
Net unrealized gains arising during the period	
Net unrealized gains arising during the period	
Net unrealized gains arising during the period	
Amounts reclassified from AOCI	
Net change	
<u>For the Six Months Ended June 30, 2024</u>	
<u>For the Nine Months Ended September 30, 2023</u>	
<u>For the Six Months Ended June 30, 2024</u>	
<u>For the Nine Months Ended September 30, 2023</u>	
<u>For the Six Months Ended June 30, 2024</u>	
Available-for-Sale Investment Securities	
Available-for-Sale Investment Securities	
Available-for-Sale Investment Securities	
Net unrealized holding losses arising during the period	
Net unrealized holding losses arising during the period	
Net unrealized holding losses arising during the period	
Net change	
Net change	
Net change	
Cash Flow Hedges	
Net unrealized losses arising during the period	
Net unrealized losses arising during the period	
Net unrealized losses arising during the period	
Amounts reclassified from AOCI	
Net change	
<u>For the Six Months Ended June 30, 2023</u>	
<u>For the Six Months Ended June 30, 2023</u>	
<u>For the Six Months Ended June 30, 2023</u>	
<u>For the Nine Months Ended September 30, 2023</u>	
Available-for-Sale Investment Securities	
Available-for-Sale Investment Securities	
Available-for-Sale Investment Securities	
Available-for-Sale Investment Securities	
Available-for-Sale Investment Securities	
Available-for-Sale Investment Securities	
Available-for-Sale Investment Securities	
Available-for-Sale Investment Securities	

Available-for-Sale Investment Securities
Available-for-Sale Investment Securities
Available-for-Sale Investment Securities
Available-for-Sale Investment Securities
Available-for-Sale Investment Securities
Available-for-Sale Investment Securities
Available-for-Sale Investment Securities
Net unrealized holding losses arising during the period
Net unrealized holding losses arising during the period
Net unrealized holding losses arising during the period
Net change
Net change
Net change
Cash Flow Hedges
Net unrealized losses arising during the period
Net unrealized losses arising during the period
Net unrealized losses arising during the period
Amounts reclassified from AOCI
Net change

9. Income Taxes

The following table presents the calculation of the Company's effective income tax rate (dollars in millions):

For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
2024	2023	2024	2023	2024	2023	2024	2023
				(As Restated)			
Income before income taxes							
Income tax expense							
Effective income tax rate	Effective income tax rate	Effective income tax rate	Effective income tax rate	Effective income tax rate	Effective income tax rate	Effective income tax rate	Effective income tax rate
26.1 %	23.0 %	25.7 %	23.0 %	27.0 %	23.0 %	25.8 %	23.0 %

The effective tax rate increased for the three and **six** nine months ended **June 30, 2024** **September 30, 2024**, as compared to the same periods in 2023, due to the adoption of the proportional amortization method for qualifying tax credit investments effective January 1, 2024, and the recognition of a charge representing potential non-deductible regulatory penalties related to the card product misclassification.

The Company is subject to examination by the Internal Revenue Service and tax authorities in various state, local and foreign tax jurisdictions. The Company's federal income tax filings are open to examinations for the tax years ended December 31, 2020 and forward. The Company regularly assesses the likelihood of additional assessments or settlements in each of the taxing jurisdictions. At this time, the potential change in unrecognized tax benefits is expected to be immaterial over the next 12 months. The Company believes that its reserves are sufficient to cover any tax, penalties and interest that would result from such examinations.

10. Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share ("EPS") (dollars and shares in millions, except per share amounts):

For the Three Months Ended June 30,		For the Six Months Ended June 30,	For the Three Months Ended September 30,		For the Nine Months Ended September 30,				
2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
				(As Restated)					
Numerator									

Net income
Net income
Net income
Preferred stock dividends
Net income available to common stockholders
Income allocated to participating securities
Net income allocated to common stockholders
Denominator
Weighted-average shares of common stock outstanding
Weighted-average shares of common stock outstanding
Weighted-average shares of common stock outstanding
Weighted-average shares of common stock outstanding and common stock equivalents
Weighted-average shares of common stock outstanding and common stock equivalents
Weighted-average shares of common stock outstanding and common stock equivalents
Basic earnings per common share
Basic earnings per common share
Basic earnings per common share
Diluted earnings per common share

Anti-dilutive securities were not material and had no impact on the computation of diluted EPS for the three and **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023.

11. Capital Adequacy

DFS is subject to the capital adequacy guidelines of the Federal Reserve. Discover Bank, the Company's banking subsidiary, is subject to various regulatory capital requirements as administered by the Federal Deposit Insurance Corporation ("FDIC"). Failure to meet minimum capital requirements can result in the initiation of certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could limit the Company's business activities and have a direct material effect on the financial condition and operating results of DFS and Discover Bank. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, DFS and Discover Bank must meet specific risk-based capital requirements and leverage ratios that involve quantitative measures of assets, liabilities and certain off-balance sheet items, as calculated under regulatory guidelines. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

DFS and Discover Bank are subject to regulatory and capital rules issued by the Federal Reserve and FDIC, respectively, under the Basel Committee's December 2010 framework ("Basel III rules"). Under the Basel III rules, DFS and Discover Bank are classified as "standardized approach" entities. Standardized approach entities are defined as U.S. banking organizations with consolidated total assets over \$50 billion but not exceeding \$250 billion and consolidated total on-balance sheet foreign exposure less than \$10 billion.

In accordance with the final rule on the impact of current expected credit losses ("CECL") on regulatory capital, the Company has elected to phase in the impact over three years beginning in 2022. Accordingly, the Company's Common Equity Tier 1 ("CET1") capital ratios are higher than they otherwise would have been. The Company's CET1 capital ratios will continue to be favorably impacted by this election over the phase-in period, which ends December 31, 2024.

As of **June 30, 2024** **September 30, 2024** and December 31, 2023, DFS and Discover Bank met all Basel III minimum capital ratio requirements to which they were subject. DFS and Discover Bank also met the requirements to be considered "well-capitalized" under Regulation Y and prompt corrective action rules, respectively. There have been no conditions or events that management believes have changed DFS' or Discover Bank's category. To be categorized as "well-capitalized", DFS and Discover Bank must maintain minimum capital ratios outlined in the table below.

The following table shows the actual capital amounts and ratios of DFS and Discover Bank and comparisons of each to the regulatory minimum and "well-capitalized" requirements (dollars in millions):

	Actual		Minimum Capital Requirements		Capital Requirements To Be Classified as Well-Capitalized	
	Amount	Ratio ⁽¹⁾	Amount	Ratio	Amount ⁽²⁾	Ratio ⁽²⁾
	(As Restated)	(As Restated)	(As Restated)		(As Restated)	
June 30, 2024						
Total capital (to risk-weighted assets)						
Discover Financial Services	\$ 18,867	14.3 %	\$ 10,582	≥8.0%	\$ 13,228	≥10.0%
Discover Bank	\$ 18,091	13.9 %	\$ 10,435	≥8.0%	\$ 13,044	≥10.0%
Tier 1 capital (to risk-weighted assets)						
Discover Financial Services	\$ 16,746	12.7 %	\$ 7,937	≥6.0%	\$ 7,937	≥6.0%
Discover Bank	\$ 15,243	11.7 %	\$ 7,826	≥6.0%	\$ 10,435	≥8.0%
Tier 1 capital (to average assets)						
Discover Financial Services	\$ 16,746	11.1 %	\$ 6,041	≥4.0%	N/A	N/A
Discover Bank	\$ 15,243	10.2 %	\$ 5,968	≥4.0%	\$ 7,460	≥5.0%
Common Equity Tier 1 (to risk-weighted assets)						
Discover Financial Services	\$ 15,690	11.9 %	\$ 5,953	≥4.5%	N/A	N/A
Discover Bank	\$ 15,243	11.7 %	\$ 5,870	≥4.5%	\$ 8,479	≥6.5%
December 31, 2023						
Total capital (to risk-weighted assets)						
Discover Financial Services	\$ 17,986	13.7 %	\$ 10,471	≥8.0%	\$ 13,088	≥10.0%
Discover Bank	\$ 16,856	13.0 %	\$ 10,352	≥8.0%	\$ 12,939	≥10.0%
Tier 1 capital (to risk-weighted assets)						
Discover Financial Services	\$ 15,872	12.1 %	\$ 7,853	≥6.0%	\$ 7,853	≥6.0%
Discover Bank	\$ 13,910	10.8 %	\$ 7,764	≥6.0%	\$ 10,352	≥8.0%
Tier 1 capital (to average assets)						
Discover Financial Services	\$ 15,872	10.7 %	\$ 5,915	≥4.0%	N/A	N/A
Discover Bank	\$ 13,910	9.5 %	\$ 5,833	≥4.0%	\$ 7,292	≥5.0%
Common Equity Tier 1 (to risk-weighted assets)						
Discover Financial Services	\$ 14,816	11.3 %	\$ 5,890	≥4.5%	N/A	N/A
Discover Bank	\$ 13,910	10.8 %	\$ 5,823	≥4.5%	\$ 8,411	≥6.5%
September 30, 2024						
Total capital (to risk-weighted assets)						
Discover Financial Services	\$ 19,379	14.9 %	\$ 10,407	≥8.0%	\$ 13,009	≥10.0%
Discover Bank	\$ 17,611	13.7 %	\$ 10,266	≥8.0%	\$ 12,832	≥10.0%
Tier 1 capital (to risk-weighted assets)						
Discover Financial Services	\$ 17,373	13.4 %	\$ 7,805	≥6.0%	\$ 7,805	≥6.0%
Discover Bank	\$ 14,877	11.6 %	\$ 7,699	≥6.0%	\$ 10,266	≥8.0%
Tier 1 capital (to average assets)						
Discover Financial Services	\$ 17,373	11.4 %	\$ 6,080	≥4.0%	N/A	N/A
Discover Bank	\$ 14,877	9.9 %	\$ 6,012	≥4.0%	\$ 7,515	≥5.0%
Common Equity Tier 1 (to risk-weighted assets)						
Discover Financial Services	\$ 16,317	12.5 %	\$ 5,854	≥4.5%	N/A	N/A

Discover Bank	\$	14,877	11.6 %	\$	5,775	≥4.5%	\$	8,341	≥6.5%
December 31, 2023									
Total capital (to risk-weighted assets)									
Discover Financial Services	\$	17,399	13.2 %	\$	10,509	≥8.0%	\$	13,137	≥10.0%
Discover Bank	\$	16,409	12.7 %	\$	10,381	≥8.0%	\$	12,976	≥10.0%
Tier 1 capital (to risk-weighted assets)									
Discover Financial Services	\$	15,279	11.6 %	\$	7,882	≥6.0%	\$	7,882	≥6.0%
Discover Bank	\$	13,459	10.4 %	\$	7,786	≥6.0%	\$	10,381	≥8.0%
Tier 1 capital (to average assets)									
Discover Financial Services	\$	15,279	10.3 %	\$	5,915	≥4.0%		N/A	N/A
Discover Bank	\$	13,459	9.2 %	\$	5,833	≥4.0%	\$	7,292	≥5.0%
Common Equity Tier 1 (to risk-weighted assets)									
Discover Financial Services	\$	14,223	10.8 %	\$	5,911	≥4.5%		N/A	N/A
Discover Bank	\$	13,459	10.4 %	\$	5,839	≥4.5%	\$	8,435	≥6.5%

(1) Capital ratios are calculated based on the Basel III standardized approach rules, subject to applicable transition provisions, including CECL transition provisions.

(2) The Basel III rules do not establish well-capitalized thresholds for these measures for bank holding companies. Existing well-capitalized thresholds established in the Federal Reserve's Regulation Y have been included where available.

12. Commitments, Contingencies and Guarantees

In the normal course of business, the Company enters into a number of off-balance sheet commitments, transactions and obligations under guarantee arrangements that expose the Company to varying degrees of risk. The Company's commitments, contingencies and guarantee relationships are described below.

Commitments

Unused Credit Arrangements

At **June 30, 2024** **September 30, 2024**, the Company had unused credit arrangements for loans of approximately **\$232.8 billion** **\$233.7 billion**. Such arrangements arise primarily from agreements with customers for unused lines of credit on certain credit cards and certain other loan products, provided there is no violation of conditions in the related agreements. These arrangements, substantially all of which the Company can terminate at any time and which do not necessarily represent future cash requirements, are periodically reviewed based on account usage, customer creditworthiness, loan qualification and the cost of capital. As the Company's credit card loans are unconditionally cancellable, no liability for expected credit losses is required for unused lines of credit. For all other loans, the Company records a liability for expected credit losses for unfunded commitments, which is presented as part of accrued expenses and other liabilities in the condensed consolidated statements of financial condition.

Contingencies

See Note 13: Litigation and Regulatory Matters for a description of potential liability arising from pending litigation or regulatory proceedings involving the Company.

Guarantees

The Company has obligations under certain guarantee arrangements, including contracts, indemnification agreements and representations and warranties, which contingently require the Company to make payments to the guaranteed party based on changes in an underlying asset, liability or equity security of a guaranteed party, rate or index. Also included as guarantees are contracts that contingently require the Company to make payments to a guaranteed party based on another entity's failure to perform under an agreement. The Company's use of guarantees is disclosed below by type of guarantee.

Securizations Representations and Warranties

As part of the Company's financing activities, the Company provides representations and warranties that certain assets pledged as collateral in secured borrowing arrangements conform to specified guidelines. Due diligence is performed by the Company, which is intended to ensure that asset guideline qualifications are met. If the assets pledged as collateral do not meet certain conforming guidelines, the Company may be required to replace, repurchase or sell such assets. In its credit card securitization activities, the Company would replace nonconforming receivables through the allocation of excess seller's interest or from additional transfers from the unrestricted pool of receivables. If the Company could not add enough receivables to satisfy the requirement, an early amortization (or repayment) of investors' interests would be triggered. In its student loan securitizations, the Company would generally repurchase the loans from the trust at the outstanding principal amount plus interest.

The maximum potential amount of future payments the Company could be required to make would be equal to the current outstanding balances of third-party investor interests in credit card asset-backed securities and the principal amount of any private student loan secured borrowings, plus any unpaid interest for the corresponding secured borrowings. The Company has recorded substantially all of the maximum potential amount of future payments in long-term borrowings on the Company's condensed consolidated statements of financial condition. The Company has not recorded any incremental contingent liability associated with its secured borrowing representations and warranties. Management believes that the probability of having to replace, repurchase or sell assets pledged as collateral under secured borrowing arrangements, including an early amortization event, is low.

Counterparty Settlement Guarantees

Diners Club and DFS Services LLC (on behalf of PULSE) have various counterparty exposures, which are listed below:

- **Merchant Guarantee.** Diners Club has entered into contractual relationships with certain international merchants, which generally include travel-related businesses, for the benefit of all Diners Club licensees. The licensees hold the primary liability to settle the transactions of their customers with these merchants. However, Diners Club retains a counterparty exposure if a licensee fails to meet its financial payment obligation to one of these merchants.
- **ATM Guarantee.** PULSE entered into contractual relationships with certain international ATM acquirers in which DFS Services LLC retains counterparty exposure if an issuer fails to fulfill its settlement obligation.
- **Global Network Alliance Guarantee.** Discover Network, Diners Club and PULSE have entered into contractual relationships with certain international payment networks in which DFS Services LLC retains the counterparty exposure if a network fails to fulfill its settlement obligation.

The maximum potential amount of future payments related to such contingent obligations is dependent upon the transaction volume processed between the time a potential counterparty defaults on its settlement and the time at which the Company disables the settlement of any further transactions for the defaulting party. The Company has some contractual remedies to offset these counterparty settlement exposures (such as letters of credit or pledged deposits), however, there is no limitation on the maximum amount the Company may be liable to pay.

The actual amount of the potential exposure cannot be quantified as the Company cannot determine whether particular counterparties will fail to meet their settlement obligations. In the event all licensees and/or issuers were to become unable to settle their transactions, the Company estimates its maximum potential counterparty exposures to these settlement guarantees would be approximately \$110 million \$120 million as of June 30, 2024 September 30, 2024.

The Company believes that the estimated amounts of maximum potential future payments are not representative of the Company's actual potential loss exposure given Diners Club's and PULSE's insignificant historical losses from these counterparty exposures. As of June 30, 2024 September 30, 2024, the Company had not recorded any contingent liability in the condensed consolidated statements of financial condition for these counterparty exposures and management believes that the probability of any payments under these arrangements is low.

Discover Network Merchant Chargeback Guarantees

The Company operates the Discover Network, issues payment cards and permits third parties to issue payment cards. The Company is contingently liable for certain transactions processed on the Discover Network in the event of a dispute between the payment card customer and a merchant. The contingent liability arises if the disputed transaction involves a merchant or merchant acquirer with whom the Discover Network has a direct relationship. If a dispute is resolved in the customer's favor, the Discover Network will credit or refund the disputed amount to the Discover Network card issuer, who in turn credits its customer's account. The Discover Network will then charge back the disputed amount of the payment card transaction to the merchant or merchant acquirer, where permitted by the applicable agreement, to seek recovery of amounts already paid to the merchant for payment card transactions. If the Discover Network is unable to collect the amount subject to dispute from the merchant or merchant acquirer (e.g., in the event of merchant default or dissolution or after expiration of the time period for chargebacks in the applicable agreement), the Discover Network will bear the loss for the amount credited or refunded to the customer. In most instances, a loss by the Discover Network is unlikely to arise in connection with payments on card transactions because most products or services are delivered when purchased and credits are issued by merchants on returned items in a timely fashion, thus minimizing the likelihood of cardholder disputes with respect to amounts paid by the Discover Network. However, where the product or service is not scheduled to be provided to the customer until a later date following the purchase, the likelihood of a contingent payment obligation by the Discover Network increases. Losses related to merchant chargebacks were not material for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023.

The maximum potential amount of obligations of the Discover Network arising from such contingent obligations is estimated to be the portion of the total Discover Network transaction volume processed to date for which timely and valid disputes may be raised under applicable law and relevant issuer and customer agreements. There is no limitation on the maximum amount the Company may be liable to pay to issuers. However, the Company believes that such amount is not representative of the Company's actual potential loss exposure based on the Company's historical experience. The actual amount of the potential exposure cannot be quantified as the Company cannot determine whether the current or cumulative transaction volumes may include or result in disputed transactions.

The following table summarizes certain information regarding merchant chargeback guarantees (dollars in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Aggregate sales transaction volume ⁽¹⁾	\$ 61,886	\$ 65,850	\$ 123,218	\$ 126,683

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023

Aggregate sales transaction volume ⁽¹⁾	\$	61,166	\$	65,490	\$	184,384	\$	192,173
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(1) Represents transactions processed on the Discover Network for which a potential liability exists that, in aggregate, can differ from credit card sales volume.

The Company did not record any contingent liability in the condensed consolidated financial statements for merchant chargeback guarantees as of **June 30, 2024** **September 30, 2024** and December 31, 2023. The Company mitigates the risk of potential loss exposure by withholding settlement from merchants, obtaining third-party guarantees, or obtaining escrow deposits or letters of credit from certain merchant acquirers or merchants that are considered a higher risk due to various factors such as time delays in the delivery of products or services. As of **June 30, 2024** **September 30, 2024** and December 31, 2023, the Company had escrow deposits and settlement withholdings of \$9 million and \$10 million, respectively, which are recorded in interest-bearing deposit accounts and accrued expenses and other liabilities on the Company's condensed consolidated statements of financial condition.

13. Litigation and Regulatory Matters

In the normal course of business, from time to time, the Company has been named as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. The litigation process is not predictable and can lead to unexpected results. The Company contests liability and/or the amount of damages as appropriate in each pending matter.

The Company has historically offered its customers an arbitration clause in its customer agreements. The arbitration clause allows the Company and its customers to quickly and economically resolve disputes. Additionally, the arbitration clause has in some instances limited the costs of, and the Company's exposure to, litigation. Future legal and regulatory challenges and prohibitions may cause the Company to discontinue its offering and use of such clauses. From time to time, the Company is involved in legal actions challenging its arbitration clause. Bills may be periodically introduced in Congress to directly or indirectly prohibit the use of pre-dispute arbitration clauses.

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding the Company's business including, among other matters, regulatory, accounting, tax and other operational matters. The investigations and proceedings may result in significant adverse judgments, settlements, fines, penalties, injunctions, decreases in regulatory ratings, customer restitution or other relief. These outcomes could materially impact the Company's condensed consolidated financial statements, increase its cost of operations, or limit the Company's ability to execute its business strategies and engage in certain business activities. Certain subsidiaries of the Company are subject to consent orders with the Consumer Financial Protection Bureau ("CFPB") and FDIC, as described below. Pursuant to powers granted under federal banking laws, regulatory agencies have broad and sweeping discretion and may assess civil money penalties, require changes to certain business practices or require customer restitution at any time.

In accordance with applicable accounting guidance, the Company establishes a liability for legal and regulatory matters when those matters create loss contingencies that are both probable and estimable. Except as discussed below regarding the card product misclassification matter, **other** litigation and regulatory settlement-related expenses were immaterial for the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024** and 2023.

There may be an exposure to loss in excess of any amounts accrued. The Company believes the estimate of the aggregate range of reasonably possible losses (meaning the likelihood of losses is more than remote but less than likely), in excess of the amounts that the Company has accrued for legal and regulatory proceedings, is up to **\$140 million** **\$70 million** as of **June 30, 2024** **September 30, 2024**. This estimated range of reasonably possible losses is based on currently available information for those proceedings in which the Company is involved and considers the Company's best estimate of such losses for those matters for which an estimate can be made. It does not represent the Company's maximum potential loss exposure. Various aspects of the legal and regulatory proceedings underlying the estimated range will change from time to time and actual results may vary significantly from the estimate.

The Company's estimated range noted above involves significant judgment, given the varying stages of the proceedings, the existence of numerous yet to be resolved issues, the breadth of the claims (often spanning multiple years and, in some cases, a wide range of business activities), unspecified damages and/or the novelty of the legal issues presented. The outcome of pending matters could adversely affect the Company's reputation and be material to the Company's condensed consolidated financial condition, operating results and cash flows for a particular future period, depending on, among other things, the level of the Company's income for such period.

In July 2015, the Company announced that its subsidiaries, Discover Bank, The Student Loan Corporation and Discover Products Inc. (the "Discover Subsidiaries"), agreed to a consent order with the CFPB with respect to certain private student loan servicing practices (the "2015 Order"). The 2015 Order expired in July 2020. In December 2020, the Discover Subsidiaries agreed to a consent order (the "2020 Order") with the CFPB resolving the agency's investigation into Discover Bank's compliance with the 2015 Order. In connection with the 2020 Order, Discover is required to implement a redress and compliance plan and must pay at least \$10 million in consumer redress to consumers who may have been harmed and has paid a \$25 million civil money penalty to the CFPB.

On September 25, 2023, following the consent of the Board of Directors of Discover Bank, the FDIC issued a consent order (the "2023 Order") to Discover Bank. The 2023 Order addresses shortcomings in Discover Bank's compliance management system for consumer protection laws and related matters. It does not contain any monetary penalties or fines. As part of the 2023 Order, Discover Bank agreed to improve its consumer compliance management system and enhance related corporate governance and enterprise risk management practices, and increase the level of Board oversight of such matters. Discover Bank has been taking significant steps to strengthen the organization's compliance management system and address the other issues identified in the 2023 Order. In addition, Discover added two new independent directors with significant banking experience to the Boards of Discover and Discover Bank in the third quarter of 2023.

Management and the Board are committed to meeting all the requirements of the 2023 Order. Discover Bank is working diligently to complete items required by the 2023 Order. This includes having retained third party consultants to conduct independent reviews and the submission of action plans to the FDIC by the required deadlines for review and feedback. The actions completed to date, taken together with actions previously undertaken to improve and enhance its compliance management system and enhance related

corporate governance, address multiple consent order objectives, however, many provisions require longer term implementation. Depending on regulatory feedback, the timing of approvals and sustainability periods, necessary work is not likely to be completed until at least 2025.

On March 8, 2016, a class-action lawsuit was filed against the Company, other credit card networks, other issuing banks and EMVCo in the U.S. District Court for the Northern District of California (B&R Supermarket, Inc., d/b/a Milam's Market, et al. v. Visa, Inc., et al.) alleging a conspiracy by defendants to shift fraud liability to merchants with the migration to the EMV security standard and chip technology. The plaintiffs assert joint and several liability among the defendants and seek unspecified damages, including treble damages, attorneys' fees, costs and injunctive relief. The Company filed its motion to compel arbitration, motion for summary judgment, On December 6, 2024, Plaintiffs and Daubert challenges on November 30, 2022, and awaits rulings. The Company is not in a position at this time to assess the likely outcome or its exposure, if any, with respect to this matter. However, the Company will seek reached an agreement on the terms of a class wide settlement to defend itself vigorously resolve the claims against all claims asserted the Company. The parties must now negotiate a formal settlement and that settlement must be approved by the plaintiffs, court.

Card Product Misclassification

The Company recorded a liability of \$365 million as of June 30, 2023, within accrued expenses and other liabilities, to provide refunds to merchants, merchant acquirers and other intermediaries as a result of the card product misclassification. Management completed the reclassification of card products in November 2023. As of December 31, 2023 September 30, 2024, the balance of the Company's counterparty restitution liability was \$375 million, \$1.2 billion, reflecting an additional \$11 million accruals for interest on the estimated effect overcharges committed to as part of the prior price tiering on discount and interchange assessments recorded in each of the third and fourth quarters of 2023 and \$12 million of settlement disbursements made through that date. Based on its experience through the first quarter of 2024 with remediation efforts,

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ongoing discussions with its regulators, its Board of Directors and other stakeholders, the pending merger with Capital One counterparty restitution plan approved by the Board of Directors during in the first third quarter and a desire of 2023, additional concessions agreed to advance resolution as part of the matter more quickly to mitigate further risk, class action settlement negotiations through the Company determined it was appropriate to increase its estimate third quarter of total remediation. As a result, the Company increased its liability to approximately \$1.2 billion through a charge to other expense for the three months ended March 31, 2024, to reflect the total amount the Company then believed was probable to be disbursed in relation to the card product misclassification.

2024 and settlement disbursements made year-to-date. As reported in the Company's Current Report on Form 8-K filed on July 3, 2024, on July 1, 2024, the Company and certain of its subsidiaries entered into a settlement agreement to resolve putative class actions filed on behalf of merchants allegedly affected by the card product misclassification. The settlement agreement, which is subject to court approval, would resolve claims by parties affected by

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the card product misclassification (merchants, merchant acquirers and other intermediaries). The Company expects all payments under the settlement agreement to be covered by the \$1.2 billion liability. Substantially all of the liability as of June 30, 2024, represents amounts payable to or on behalf of impacted merchants, merchant acquirers and other intermediaries in settlement of the card product misclassification matter, with \$26 million of that balance representing provision for legal fees and expenses payable to plaintiffs' counsel. On August 27, 2024, plaintiffs moved for preliminary approval of the settlement agreement, and on October 22, 2024, the court entered an order granting preliminary approval. The liability does not include any potential regulatory fines or penalties, or the cost of administering the distribution of funds to affected parties.

The following table summarizes the change in the Company's counterparty restitution liability pertaining to the card product misclassification (dollars in millions):

	For the Six Months Ended June 30,	
	2024	2023
Balance as of beginning of period	\$ 375	\$ —
Provision for expected payments	810	365
Disbursements	(21)	—
Balance as of end of period	\$ 1,164	\$ 365

	For the Nine Months Ended September 30, 2024
Balance at December 31, 2023	\$ 1,159
Provision for refund of overcharges	—
Provision for interest on overcharges	42
Provision for other settlement concessions	76
Disbursements	(76)
Balance at September 30, 2024	\$ 1,201

The Company remains in discussions with its various regulators regarding the card product misclassification. For the three months ended June 30, 2024, the Company recognized a separate charge of approximately \$200 million representing the Company's current estimate of potential penalties to be imposed by its various regulators in relation to this matter. For the three months ended September 30, 2024, the Company recognized an additional charge of approximately \$90 million in respect of such potential penalties. Actual penalties imposed are subject to further discussion with the Company's various regulators and may be more or less than such amount.

In addition, the Company and its subsidiaries have been named as defendants in various lawsuits, including a putative class action on behalf of shareholders and a shareholder derivative action. The Company is also cooperating with a Securities and Exchange Commission an SEC investigation into this the card product misclassification matter. The Company believes that additional losses are probable as a result of these actions and such losses could be material but it is not able to make a reasonable estimate of the amount or range of such losses as of June 30, 2024 September 30, 2024.

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14. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurement*, provides a three-level hierarchy for classifying the inputs to valuation techniques used to measure fair value of financial instruments based on whether the inputs are observable or unobservable. It also requires certain disclosures about those measurements. The three-level valuation hierarchy is as follows:

- *Level 1:* Fair values determined by Level 1 inputs are defined as those that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- *Level 2:* Fair values determined by Level 2 inputs are those that utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active or inactive markets, quoted prices for the identical assets in an inactive market and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The Company evaluates factors such as the frequency of transactions, the size of the bid-ask spread and the significance of adjustments made when considering transactions involving similar assets or liabilities to assess the relevance of those observed prices. If relevant and observable prices are available, the fair values of the related assets or liabilities would be classified as Level 2.
- *Level 3:* Fair values determined by Level 3 inputs are those based on unobservable inputs and include situations where there is little, if any, market activity for the asset or liability being valued. In instances where the inputs used to measure fair value may fall into different levels of the fair value hierarchy, the level in the fair value hierarchy in which the measurements are classified is based on the lowest level input that is significant to the fair value measurement in its entirety. Accordingly, the Company may utilize both observable and unobservable inputs in determining the fair values of financial instruments classified within the Level 3 category.

The Company evaluates the classification of each fair value measurement within the hierarchy at least quarterly.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and involves consideration of factors specific to the asset or liability. Furthermore, certain techniques used to measure fair value involve some degree of judgment and, as a result, are not necessarily indicative of the amounts the Company would realize in a current market exchange.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are as follows (dollars in millions):

	Quoted Price in Active Markets for Identical Assets (Level 1)	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Balance at June 30, 2024									
Balance at September 30, 2024									
Assets									
Assets									
Assets									
Fair value - OCI									
Fair value - OCI									
Fair value - OCI									
U.S. Treasury and U.S. GSE securities									
U.S. Treasury and U.S. GSE securities									
U.S. Treasury and U.S. GSE securities									
Residential mortgage-backed securities - Agency									
Available-for-sale investment securities									
Derivative financial instruments - cash flow hedges ⁽¹⁾									
Derivative financial instruments - cash flow hedges ⁽¹⁾									
Derivative financial instruments - cash flow hedges ⁽¹⁾									
Fair value - Net income									
Fair value - Net income									
Fair value - Net income									
Derivative financial instruments - fair value hedges ⁽¹⁾									
Derivative financial instruments - fair value hedges ⁽¹⁾									
Derivative financial instruments - fair value hedges ⁽¹⁾									
Liabilities									
Liabilities									
Liabilities									
Fair value - OCI									
Fair value - OCI									
Fair value - OCI									
Derivative financial instruments - cash flow hedges ⁽¹⁾									
Derivative financial instruments - cash flow hedges ⁽¹⁾									
Derivative financial instruments - cash flow hedges ⁽¹⁾									
Fair value - Net income									
Fair value - Net income									
Fair value - Net income									
Derivative financial instruments - fair value hedges ⁽¹⁾									
Derivative financial instruments - fair value hedges ⁽¹⁾									
Derivative financial instruments - fair value hedges ⁽¹⁾									
Balance at December 31, 2023									
Balance at December 31, 2023									
Balance at December 31, 2023									
Assets									
Assets									
Assets									
Fair value - OCI									
Fair value - OCI									

Fair value - OCI

U.S. Treasury and U.S. GSE securities

U.S. Treasury and U.S. GSE securities

U.S. Treasury and U.S. GSE securities

Residential mortgage-backed securities -

Agency

Available-for-sale investment securities

Derivative financial instruments - cash flow hedges⁽¹⁾

Derivative financial instruments - cash flow hedges⁽¹⁾

Derivative financial instruments - cash flow hedges⁽¹⁾

Fair value - Net income

Fair value - Net income

Fair value - Net income

Marketable equity securities

Marketable equity securities

Marketable equity securities

Derivative financial instruments - fair value

hedges⁽¹⁾

(1) Derivative instrument carrying values in an asset or liability position are presented as part of other assets or accrued expenses and other liabilities, respectively, in the Company's condensed consolidated statements of financial condition.

Available-for-Sale Investment Securities

Investment securities classified as available-for-sale consist of U.S. Treasury and U.S. GSE securities and RMBS. The fair value estimates of investment securities classified as Level 1, consisting of U.S. Treasury securities, are determined based on quoted market prices for the same securities. The fair value estimates of U.S. GSE securities and RMBS are classified as Level 2 and are valued by maximizing the use of relevant observable inputs, including quoted prices for similar securities, benchmark yield curves and market-corroborated inputs.

The Company validates the fair value estimates provided by pricing services primarily by comparing to valuations obtained through other pricing sources. The Company evaluates pricing variances among different pricing sources to ensure that the valuations utilized are reasonable. The Company also corroborates the reasonableness of the fair value estimates with analysis of trends of significant inputs, such as market interest rate curves. The Company further performs due diligence in understanding the procedures and techniques performed by the pricing services to derive fair value estimates.

At **June 30, 2024** **September 30, 2024**, amounts reported in RMBS reflect U.S. government agency and U.S. GSE obligations issued by Ginnie Mae, Fannie Mae and Freddie Mac with an aggregate par value of **\$434 million** **\$412 million**, a weighted-average coupon of **4.11%** **4.12%** and a weighted-average remaining maturity of four years.

Derivative Financial Instruments

The Company's derivative financial instruments consist of interest rate swaps and foreign exchange forward contracts. These instruments are classified as Level 2 as their fair values are estimated using proprietary pricing models, containing certain assumptions based on readily observable market-based inputs, including interest rate curves, option volatility and foreign currency forward and spot rates. In determining fair values, the pricing models use widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity and the observable market-based inputs. The fair values of the interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates derived from the observable market interest rate curves. The Company considers collateral and master netting agreements that mitigate credit exposure to counterparties in determining the counterparty credit risk valuation adjustment. The fair values of the foreign exchange forward contracts are valued by comparing the contracted forward exchange rate pertaining to the specific contract maturities to the current market exchange rate.

The Company validates the fair value estimates of interest rate swaps primarily through comparison to the fair value estimates computed by the counterparties to each of the derivative transactions. The Company evaluates pricing variances among different pricing sources to ensure that the valuations utilized are reasonable. The Company also corroborates the reasonableness of the fair value estimates with analysis of trends of significant inputs, such as market interest rate curves. The Company performs due diligence in understanding the impact of any changes to the valuation techniques performed by proprietary pricing models before implementation, working closely with the third-party valuation

service and reviewing the service's control objectives at least annually. The Company corroborates the fair value of foreign exchange forward contracts through independent calculation of the fair value estimates.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The Company also has assets that, under certain conditions, are subject to measurement at fair value on a non-recurring basis. These assets include those associated with acquired businesses, including goodwill. For these assets, measurement at fair value in periods subsequent to the initial recognition of the assets may be applicable whenever one is tested for impairment. No impairments were recognized related to these assets during the three and six nine months ended June 30, 2024 September 30, 2024 and 2023.

Financial Instruments Measured at Other Than Fair Value

The following tables disclose the estimated fair value of the Company's financial assets and financial liabilities that are not required to be carried at fair value (dollars in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Carrying Value
Balance at June 30, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Carrying Value
Balance at September 30, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Carrying Value
Assets					
Amortized cost					
Amortized cost					
Amortized cost					
Residential mortgage-backed securities - Agency					
Residential mortgage-backed securities - Agency					
Residential mortgage-backed securities - Agency					
Held-to-maturity investment securities					
Net loan receivables(1)					
Net loan receivables(1)					
Net loan receivables(1)					
Carrying value approximates fair value(2)					
Carrying value approximates fair value(2)					
Carrying value approximates fair value(2)					
Cash and cash equivalents					
Cash and cash equivalents					
Cash and cash equivalents					
Restricted cash					
Accrued interest receivables(3)(4)					
Accrued interest receivables(3)(4)					
Other short-term investments					
Accrued interest receivables(3)(4)					
Liabilities					
Liabilities					
Liabilities					
Amortized cost					
Amortized cost					
Amortized cost					
Time deposits(5)					
Time deposits(5)					
Time deposits(5)					

Short-term borrowings
Long-term borrowings - owed to securitization investors
Long-term borrowings - owed to securitization investors
Long-term borrowings - owed to securitization investors
Other long-term borrowings
Long-term borrowings
Carrying value approximates fair value(2)
Carrying value approximates fair value(2)
Carrying value approximates fair value(2)
Accrued interest payables(3)
Accrued interest payables(3)
Accrued interest payables(3)
Balance at December 31, 2023
Balance at December 31, 2023
Balance at December 31, 2023
Assets
Assets
Assets
Amortized cost
Amortized cost
Amortized cost
Residential mortgage-backed securities - Agency
Residential mortgage-backed securities - Agency
Residential mortgage-backed securities - Agency
Held-to-maturity investment securities
Net loan receivables
Net loan receivables
Net loan receivables
Carrying value approximates fair value(2)
Carrying value approximates fair value(2)
Carrying value approximates fair value(2)
Cash and cash equivalents
Cash and cash equivalents
Cash and cash equivalents
Restricted cash
Accrued interest receivables(3)
Accrued interest receivables(3)
Accrued interest receivables(3)
Liabilities
Liabilities
Liabilities
Amortized cost
Amortized cost
Amortized cost
Time deposits(3)
Time deposits(3)
Time deposits(3)
Short-term borrowings
Long-term borrowings - owed to securitization investors
Long-term borrowings - owed to securitization investors
Long-term borrowings - owed to securitization investors

Other long-term borrowings

Long-term borrowings

Carrying value approximates fair value⁽²⁾

Carrying value approximates fair value⁽²⁾

Carrying value approximates fair value⁽²⁾

Accrued interest payables⁽³⁾

Accrued interest payables⁽³⁾

Accrued interest payables⁽³⁾

- (1) Includes \$10.6 \$8.9 billion in private student loans held-for-sale valued based on the terms of the executed purchase agreement. The carrying value for loans held-for-sale represents the lower of amortized cost or fair value while the carrying value for the loan portfolio is amortized cost, net of the allowance for credit losses.
- (2) The carrying values of these assets and liabilities approximate fair value due to their short-term nature, except as otherwise indicated.
- (3) Accrued interest receivable and payable carrying values are presented as part of other assets and accrued expenses and other liabilities, respectively, in the Company's condensed consolidated statements of financial condition.
- (4) The fair value includes a premium associated with interest to be capitalized on private student loans held-for-sale based on the terms of the executed purchase agreement.
- (5) Excludes deposits without contractually defined maturities for all periods presented.

15. Derivatives and Hedging Activities

The Company uses derivatives to manage its exposure to various financial risks. The Company does not enter into derivatives for trading or speculative purposes. Certain derivatives used to manage the Company's exposure to foreign currency are not designated as hedges and do not qualify for hedge accounting.

Derivatives may give rise to counterparty credit risk, which generally is mitigated through collateral arrangements as described under the sub-heading "— Collateral Requirements and Credit-Risk Related Contingency Features." The Company enters into derivative transactions with established dealers that meet minimum credit criteria established by the Company. All counterparties must be pre-approved before engaging in any transaction with the Company. The Company regularly monitors counterparties to ensure compliance with the Company's risk policies and limits. In determining the counterparty credit risk valuation adjustment for the fair values of derivatives, if any, the Company considers collateral and legally enforceable master netting agreements that mitigate credit exposure to related counterparties.

All derivatives are recorded in other assets at their gross positive fair values and in accrued expenses and other liabilities at their gross negative fair values. See Note 14: Fair Value Measurements for a description of the valuation methodologies used for derivatives. Cash collateral amounts associated with derivative positions that are cleared through an exchange are legally characterized as settlement of the derivative positions. Such collateral amounts are reflected as offsets to the associated derivatives balances recorded in other assets or in accrued expenses and other liabilities. Other cash collateral posted and held balances are recorded in other assets and deposits, respectively, in the condensed consolidated statements of financial condition. Collateral amounts recorded in the condensed consolidated statements of financial condition are based on the net collateral posted or held position for each applicable legal entity's master netting arrangement with each counterparty.

Derivatives Designated as Hedges

Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows arising from changes in interest rates, or other types of forecasted transactions, are considered cash flow hedges. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges.

Cash Flow Hedges

The Company uses interest rate swaps to manage its exposure to variability in cash flows related to changes in interest rates on interest-earning assets and funding instruments. These interest rate swaps qualify for hedge accounting in accordance with ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). At June 30, 2024 September 30, 2024 and December 31, 2023, the Company's outstanding cash flow hedges primarily relate to interest receipts from credit card receivables and had an initial maximum period of five years.

The change in the fair value of derivatives designated as cash flow hedges is recorded in OCI and is subsequently reclassified into earnings in the period that the hedged forecasted cash flows affect earnings. Amounts reported in AOCI related to derivatives at June 30, 2024 September 30, 2024, will be reclassified to interest income and interest expense as interest receipts and payments are accrued on the Company's then outstanding credit card receivables and certain floating-rate debt, respectively. During the next 12 months, the Company estimates it will reclassify \$109 million \$28 million into pretax earnings related to its cash flow hedges.

Fair Value Hedges

The Company is exposed to changes in the fair value of its fixed-rate debt obligations due to changes in interest rates. The Company uses interest rate swaps to manage its exposure to changes in the fair value of certain fixed-rate long-term borrowings, including securitized debt and bank notes, and deposits attributable to changes in the respective benchmark rates. These interest rate swaps qualify as fair value hedges in accordance with ASC 815. Changes in the fair values of both (i) the derivatives and (ii) the hedged long-term borrowings and deposits attributable to the interest-rate risk being hedged are recorded in interest expense and generally provide substantial offset to one another.

Derivatives Not Designated as Hedges

Foreign Exchange Forward Contracts

The Company has foreign exchange forward contracts that are economic hedges and are not designated as accounting hedges. The Company enters into foreign exchange forward contracts to manage foreign currency risk. Changes in the fair value of these contracts are recorded in other income on the condensed consolidated statements of income.

Derivatives Cleared Through an Exchange

Cash variation margin payments on derivatives cleared through an exchange are legally considered settlement payments and are accounted for with corresponding derivative positions as one unit of account and not presented separately as collateral. With settlement payments on derivative positions cleared through this exchange reflected as offsets to the associated derivative asset and liability balances, the fair values of derivative instruments and collateral balances shown are generally reduced.

Derivatives Activity

The following table summarizes the fair value (including accrued interest) and outstanding notional amounts of derivative instruments and related collateral balances (dollars in millions):

	June 30, 2024			December 31, 2023		September 30, 2024				December 31, 2023	
	Notional Amount	Number of Outstanding Derivative Contracts	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Number of Outstanding Derivative Contracts	Derivative Assets	Derivative Liabilities
Derivatives designated as hedges											
Interest rate swaps—cash flow hedge											
Interest rate swaps—cash flow hedge											
Interest rate swaps—cash flow hedge											
Interest rate swaps—fair value hedge											
Derivatives not designated as hedges											
Foreign exchange forward contracts ⁽¹⁾											
Foreign exchange forward contracts ⁽¹⁾											
Foreign exchange forward contracts ⁽¹⁾											
Total gross derivative assets/liabilities ⁽²⁾											
Total gross derivative assets/liabilities ⁽²⁾											
Total gross derivative assets/liabilities ⁽²⁾											
Less: collateral held/posted ⁽³⁾											

Total net
derivative
assets/liabilities

- (1) The foreign exchange forward contracts have notional amounts of EUR 6 million, GBP 6 million, SGD 1 million and INR 1.5 billion as of **June 30, 2024** **September 30, 2024**, and notional amounts of EUR 6 million, GBP 6 million, SGD 1 million, INR 1.1 billion and AUD 2 million as of December 31, 2023.
- (2) In addition to the derivatives disclosed in the table, the Company enters into forward contracts to purchase when-issued mortgage-backed securities and tax exempt single family mortgage revenue bonds as part of its community reinvestment initiatives. At **June 30, 2024** **September 30, 2024**, the Company had **one no** outstanding **contract with a total notional amount of \$13 million and an immaterial fair value, contracts**. At December 31, 2023, the Company had one outstanding contract with a total notional amount of \$35 million and an immaterial fair value.
- (3) Collateral amounts, which consist of cash and investment securities, are limited to the related derivative asset/liability balance and do not include excess collateral received/pledged.

The following amounts were recorded on the statements of financial condition related to cumulative basis adjustments for fair value hedges (dollars in millions):

June 30, 2024				December 31, 2023					
September 30, 2024				December 31, 2023					
Long-term borrowings	Carrying Amount of Hedged Liabilities	Carrying Amount of Hedged Liabilities	Cumulative Amount of Fair Value Hedging Adjustment (Decreasing) the Carrying Amount of Hedged Liabilities ⁽¹⁾	Carrying Amount of Hedged Liabilities	Cumulative Amount of Fair Value Hedging Adjustment (Decreasing) the Carrying Amount of Hedged Liabilities ⁽¹⁾	Carrying Amount of Hedged Liabilities	Cumulative Amount of Fair Value Hedging Adjustment Increasing the Carrying Amount of Hedged Liabilities ⁽¹⁾	Carrying Amount of Hedged Liabilities	Cumulative Amount of Fair Value Hedging Adjustment Increasing/(Decreasing) the Carrying Amount of Hedged Liabilities ⁽¹⁾

- (1) The balance includes **\$8 million** **\$6 million** and \$12 million of cumulative hedging adjustments related to discontinued hedging relationships as of **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively.

The following table summarizes the impact of the derivative instruments on income and indicates where within the condensed consolidated financial statements such impact is reported (dollars in millions):

Location and Amount of (Losses) Gains Recognized on the Condensed Consolidated Statements of Income		Location and Amount of (Losses) Gains Recognized on the Condensed Consolidated Statements of Income		Location and Amount of (Losses) Gains Recognized on the Condensed Consolidated Statements of Income	
Interest Expense	Interest Expense	Interest Expense	Interest Income (Credit Card)	Interest Expense	Other Expense
Interest Expense		Interest Expense			
Interest Expense		Interest Expense			
Deposits		Deposits			
Deposits		Deposits			
Deposits		Deposits			
For the Three Months Ended June 30, 2024					
For the Three Months Ended June 30, 2024					
For the Three Months Ended June 30, 2024					
For the Three Months Ended September 30, 2024					
For the Three Months Ended September 30, 2024					
For the Three Months Ended September 30, 2024					

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

The effects of cash flow and fair value hedging

The effects of cash flow and fair value hedging

The effects of cash flow and fair value hedging

Gains (losses) on cash flow hedging relationships

Gains (losses) on cash flow hedging relationships

Gains (losses) on cash flow hedging relationships

Amounts reclassified from OCI into earnings

Amounts reclassified from OCI into earnings

Amounts reclassified from OCI into earnings

(Losses) gains on fair value hedging relationships

Gains on discontinued cash flow hedging relationships

Gains on discontinued cash flow hedging relationships

Gains on discontinued cash flow hedging relationships

Amounts reclassified from OCI into earnings

Amounts reclassified from OCI into earnings

Amounts reclassified from OCI into earnings

(Losses) gains on fair value hedging relationships

(Losses) gains on fair value hedging relationships

(Losses) gains on hedged items

(Losses) gains on hedged items

(Losses) gains on hedged items

Losses on interest rate swaps

Losses on interest rate swaps

Losses on interest rate swaps

Total losses on fair value hedging relationships

Total losses on fair value hedging relationships

(Losses) gains on fair value hedging relationships

Losses on hedged items

Losses on hedged items

Losses on hedged items

Gains on interest rate swaps

Total losses on fair value hedging relationships

For the Three Months Ended June 30, 2023

For the Three Months Ended September 30, 2023

For the Three Months Ended June 30, 2023

For the Three Months Ended September 30, 2023

For the Three Months Ended June 30, 2023

For the Three Months Ended September 30, 2023

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

The effects of cash flow and fair value hedging

The effects of cash flow and fair value hedging

The effects of cash flow and fair value hedging

Gains (losses) on cash flow hedging relationships

Gains (losses) on cash flow hedging relationships

Gains (losses) on cash flow hedging relationships

Amounts reclassified from OCI into earnings

Amounts reclassified from OCI into earnings

Amounts reclassified from OCI into earnings

Gains (losses) on fair value hedging relationships

Gains (losses) on fair value hedging relationships

Gains (losses) on fair value hedging relationships

Gains on hedged items

Gains on hedged items

Gains on hedged items

Losses on interest rate swaps

Losses on interest rate swaps

Losses on interest rate swaps

Total losses on fair value hedging relationships

Total losses on fair value hedging relationships

Total losses on fair value hedging relationships

Location and Amount of (Losses) Gains Recognized on the
Condensed Consolidated Statements of Income

Location and Amount of (Losses) Gains Recognized on the
Condensed Consolidated Statements of Income

Location and Amount of (Losses) Gains Recognized on the
Condensed Consolidated Statements of Income

	Interest Expense	Interest Expense	Interest Income (Credit Card)	Other Expense
	Interest Expense			
	Interest Expense			
	Deposits			
	Deposits			
	Deposits			
For the Six Months Ended June 30, 2024				
For the Six Months Ended June 30, 2024				
For the Six Months Ended June 30, 2024				
For the Nine Months Ended September 30, 2024				
For the Nine Months Ended September 30, 2024				
For the Nine Months Ended September 30, 2024				

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

The effects of cash flow and fair value hedging

The effects of cash flow and fair value hedging

The effects of cash flow and fair value hedging

Gains (losses) on cash flow hedging relationships

Gains (losses) on cash flow hedging relationships

Gains (losses) on cash flow hedging relationships

Amounts reclassified from OCI into earnings

Amounts reclassified from OCI into earnings

Amounts reclassified from OCI into earnings

(Losses) gains on fair value hedging relationships
Gains on discontinued cash flow hedging relationships
Gains on discontinued cash flow hedging relationships
Gains on discontinued cash flow hedging relationships
Amounts reclassified from OCI into earnings
Amounts reclassified from OCI into earnings
Amounts reclassified from OCI into earnings
(Losses) gains on fair value hedging relationships
(Losses) gains on fair value hedging relationships
(Losses) gains on hedged items
(Losses) gains on hedged items
(Losses) gains on hedged items
Losses on interest rate swaps
Losses on interest rate swaps
Losses on interest rate swaps
Total losses on fair value hedging relationships
Total losses on fair value hedging relationships
(Losses) gains on fair value hedging relationships
Losses on hedged items
Losses on hedged items
Losses on hedged items
Gains (losses) on interest rate swaps
Total losses on fair value hedging relationships
<u>For the Six Months Ended June 30, 2023</u>
<u>For the Nine Months Ended September 30, 2023</u>
<u>For the Six Months Ended June 30, 2023</u>
<u>For the Nine Months Ended September 30, 2023</u>
<u>For the Six Months Ended June 30, 2023</u>
<u>For the Nine Months Ended September 30, 2023</u>

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

Total amounts of income and expense line items presented in the condensed consolidated statements of income, where the effects of fair value or cash flow hedges are recorded

The effects of cash flow and fair value hedging

The effects of cash flow and fair value hedging

The effects of cash flow and fair value hedging

Gains (losses) on cash flow hedging relationships
Gains (losses) on cash flow hedging relationships
Gains (losses) on cash flow hedging relationships
Amounts reclassified from OCI into earnings
Amounts reclassified from OCI into earnings
Amounts reclassified from OCI into earnings
Gains (losses) on fair value hedging relationships
Gains (losses) on fair value hedging relationships
Gains (losses) on fair value hedging relationships
Gains on hedged items
Gains on hedged items
Gains on hedged items
Losses on interest rate swaps

Losses on interest rate swaps
Losses on interest rate swaps
Total losses on fair value hedging relationships
Total losses on fair value hedging relationships
Total losses on fair value hedging relationships

For the impact of the derivative instruments on OCI, see Note 8: Accumulated Other Comprehensive Income.

Collateral Requirements and Credit-Risk Related Contingency Features

The Company has master netting arrangements and minimum collateral posting thresholds with its counterparties for its fair value and cash flow hedge interest rate swaps and foreign exchange forward contracts. The Company has not sought a legal opinion in relation to the enforceability of its master netting arrangements and, as such, does not report any of these positions on a net basis. Collateral is required by either the Company or its subsidiaries or the counterparty depending on the net fair value position of the derivatives held with that counterparty. These collateral receivable or payable amounts are generally not offset against the fair value of these derivatives but are recorded separately in other assets or deposits. Most of the Company's cash collateral amounts relate to positions cleared through an exchange and are reflected as offsets to the associated derivatives balances recorded in other assets and accrued expenses and other liabilities.

The Company also has agreements with certain of its derivative counterparties that contain a provision under which the Company could be declared in default on any of its derivative obligations if the Company defaults on any of its indebtedness, including default where the lender has not accelerated repayment of the indebtedness.

16. Segment Disclosures

The Company manages its business activities in two segments: Digital Banking and Payment Services.

- Digital Banking:* The Digital Banking segment includes Discover-branded credit cards issued to individuals on the Discover Network and other consumer products and services, including private student loans, personal loans, home loans and deposit products. The majority of Digital Banking revenues relate to interest income earned on the segment's loan products. Additionally, the Company's credit card products generate substantially all revenues related to discount and interchange, protection products and loan fee income.
- Payment Services:* The Payment Services segment includes PULSE, an ATM, debit and electronic funds transfer network; Diners Club, a global payments network; and the Company's Network Partners business, which provides payment transaction processing and settlement services on the Discover Network. The majority of Payment Services revenues relate to transaction processing revenue from PULSE and royalty and licensee revenue from Diners Club.

The business segment reporting provided to and used by the Company's CODM is prepared using the following principles and allocation conventions:

- The Company aggregates operating segments when determining reportable segments.
- Corporate overhead is not allocated between segments; all corporate overhead is included in the Digital Banking segment.
- Through its operation of the Discover Network, the Digital Banking segment incurs fixed marketing, servicing and infrastructure costs that are not specifically allocated among the segments, except for an allocation of direct and incremental costs driven by the Company's Payment Services segment.
- The Company's assets are not allocated among the operating segments in the information reviewed by the Company's CODM.
- The revenues of each segment are derived from external sources. The segments do not earn revenue from intercompany sources.
- Income taxes are not specifically allocated between the operating segments in the information reviewed by the Company's CODM.

The following table presents segment data (dollars in millions):

	Digital Banking	Digital Banking	Payment Services	Total	Digital Banking	Payment Services	Total
For the Three Months Ended June 30, 2024							
For the Three Months Ended September 30, 2024							
Interest income							
Interest income							
Interest income							
Credit card loans							

Credit card loans
Credit card loans
Private student loans
Personal loans
Other loans
Other interest income
Total interest income
Interest expense
Net interest income
Provision for credit losses
Other income
Other expense
Income before income taxes
For the Three Months Ended June 30, 2023
For the Three Months Ended June 30, 2023
For the Three Months Ended June 30, 2023
For the Three Months Ended September 30, 2023 (As Restated)
For the Three Months Ended September 30, 2023 (As Restated)
For the Three Months Ended September 30, 2023 (As Restated)
Interest income
Interest income
Interest income
Credit card loans
Credit card loans
Credit card loans
Private student loans
Personal loans
Other loans
Other interest income
Total interest income
Interest expense
Net interest income
Provision for credit losses
Other income
Other expense
Income before income taxes

	Digital Banking	Digital Banking	Payment Services	Total	Digital Banking	Payment Services	Total
For the Six Months Ended June 30, 2024							
For the Nine Months Ended September 30, 2024							
Interest income							
Interest income							
Interest income							
Credit card loans							
Credit card loans							
Credit card loans							
Private student loans							
Personal loans							

Other loans
Other interest income
Total interest income
Interest expense
Net interest income
Provision for credit losses
Other income
Other expense
Income before income taxes
<u>For the Six Months Ended June 30, 2023</u>
<u>For the Six Months Ended June 30, 2023</u>
<u>For the Six Months Ended June 30, 2023</u>
<u>For the Nine Months Ended September 30, 2023 (As Restated)</u>
<u>For the Nine Months Ended September 30, 2023 (As Restated)</u>
<u>For the Nine Months Ended September 30, 2023 (As Restated)</u>
Interest income
Interest income
Interest income
Credit card loans
Credit card loans
Credit card loans
Private student loans
Personal loans
Other loans
Other interest income
Total interest income
Interest expense
Net interest income
Provision for credit losses
Other income
Other expense
Income (loss) before income taxes
Income before income taxes

17. Revenue from Contracts with Customers

ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), generally applies to the sales of any good or service for which no other specific accounting guidance is provided. ASC 606 defines a principles-based model under which revenue from a contract is allocated to the distinct performance obligations within the contract and recognized in income as each performance obligation is satisfied. The Company's revenue that is subject to this model includes discount and interchange, protection products fees, transaction processing revenue and certain amounts classified as other income.

The following table presents revenue from contracts with customers disaggregated by business segment and reconciles revenue from contracts with customers to total other income (dollars in millions):

	Digital Banking	Digital Banking	Payment Services	Total	Digital Banking	Payment Services	Total
<u>For the Three Months Ended June 30, 2024</u>							
<u>For the Three Months Ended September 30, 2024</u>							
Other income subject to ASC 606							
Other income subject to ASC 606							
Other income subject to ASC 606							
Discount and interchange revenue, net ⁽¹⁾							

Discount and interchange revenue, net ⁽¹⁾
Discount and interchange revenue, net ⁽¹⁾
Protection products revenue
Transaction processing revenue
Other income
Total other income subject to ASC 606 ⁽²⁾
Other income not subject to ASC 606
Loan fee income
Loan fee income
Loan fee income
Total other income not subject to ASC 606
Total other income not subject to ASC 606
Total other income not subject to ASC 606
Total other income by operating segment
For the Three Months Ended June 30, 2023
For the Three Months Ended June 30, 2023
For the Three Months Ended June 30, 2023
For the Three Months Ended September 30, 2023 (As Restated)
For the Three Months Ended September 30, 2023 (As Restated)
For the Three Months Ended September 30, 2023 (As Restated)
Other income subject to ASC 606
Other income subject to ASC 606
Other income subject to ASC 606
Discount and interchange revenue, net ⁽¹⁾
Discount and interchange revenue, net ⁽¹⁾
Discount and interchange revenue, net ⁽¹⁾
Protection products revenue
Transaction processing revenue
Other income
Total other income subject to ASC 606 ⁽²⁾
Other income not subject to ASC 606
Loan fee income
Loan fee income
Loan fee income
Gains (losses) on equity investments
Total other income (loss) not subject to ASC 606
Other income
Total other income not subject to ASC 606
Total other income by operating segment

	Digital Banking	Digital Banking	Payment Services	Total	Digital Banking	Payment Services	Total
<u>For the Six Months Ended June 30, 2024</u>							
<u>For the Nine Months Ended September 30, 2024</u>							
Other income subject to ASC 606							
Other income subject to ASC 606							
Other income subject to ASC 606							
Discount and interchange revenue, net ⁽¹⁾							
Discount and interchange revenue, net ⁽¹⁾							
Discount and interchange revenue, net ⁽¹⁾							

Protection products revenue
Transaction processing revenue
Other income
Total other income subject to ASC 606 ⁽²⁾
Other income not subject to ASC 606
Loan fee income
Loan fee income
Loan fee income
Total other income (loss) not subject to ASC 606
Total other income (loss) not subject to ASC 606
Total other income (loss) not subject to ASC 606
Total other income not subject to ASC 606
Total other income not subject to ASC 606
Total other income not subject to ASC 606
Total other income by operating segment
For the Six Months Ended June 30, 2023
For the Six Months Ended June 30, 2023
For the Six Months Ended June 30, 2023
For the Nine Months Ended September 30, 2023 (As Restated)
For the Nine Months Ended September 30, 2023 (As Restated)
For the Nine Months Ended September 30, 2023 (As Restated)
Other income subject to ASC 606
Other income subject to ASC 606
Other income subject to ASC 606
Discount and interchange revenue, net ⁽¹⁾
Discount and interchange revenue, net ⁽¹⁾
Discount and interchange revenue, net ⁽¹⁾
Protection products revenue
Transaction processing revenue
Other income
Total other income subject to ASC 606 ⁽²⁾
Other income not subject to ASC 606
Loan fee income
Loan fee income
Loan fee income
Gains (losses) on equity investments
Other income (loss)
Total other income (loss) not subject to ASC 606
Total other income (loss) by operating segment
Total other income by operating segment

- (1) Net of rewards, including Cashback Bonus rewards, of \$716 million \$779 million and \$788 million \$787 million for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively, and \$1.4 billion \$2.2 billion and \$1.5 billion \$2.3 billion for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively.
- (2) Excludes \$2 million and \$3 million of deposit product fees that are reported within net interest income for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively, and \$4 million \$6 million and \$10 million \$13 million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively.

For a detailed description of the Company's significant revenue recognition accounting policies, see Note 2: Summary of Significant Accounting Policies to the consolidated financial statements in the Company's annual report on Form 10-K 10-K/A for the year ended December 31, 2023.

18. Subsequent Events

The Company has evaluated events and transactions that have occurred subsequent to June 30, 2024 September 30, 2024, and determined that there were no subsequent events that would require recognition or additional disclosure in the condensed consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this quarterly report. This quarterly report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements, which speak to our expected business and financial performance, among other matters, contain words such as "believe," "expect," "anticipate," "intend," "plan," "aim," "will," "may," "should," "could," "would," "likely," "forecast," and similar expressions. Such statements are based on the current beliefs and expectations of our management and are subject to significant risks and uncertainties. Actual results may differ materially from those set forth in the forward-looking statements. These forward-looking statements speak only as of the date of this quarterly report and there is no undertaking to update or revise them as more information becomes available.

The following factors, among others, could cause actual results to differ materially from those set forth in the forward-looking statements: changes in economic variables, such as the availability of consumer credit, the housing market, energy costs, the number and size of personal bankruptcy filings, the rate of unemployment, the levels of consumer confidence and consumer debt and investor sentiment; the impact of current, pending and future legislation, regulation, supervisory guidance and regulatory and legal actions, including, but not limited to, those related to accounting guidance, tax reform, financial regulatory reform, consumer financial services practices, anti-corruption and funding, capital and liquidity; risks related to the proposed merger with Capital One including, among others, (i) failure to complete the merger with Capital One or unexpected delays related to the merger or the inability of the parties to obtain regulatory approvals or satisfy other closing conditions required to complete the merger, (ii) regulatory approvals resulting in the imposition of conditions that could adversely affect the combined company or the expected benefits of the transaction, (iii) diversion of management's attention from ongoing business operations and opportunities, (iv) cost and revenue synergies from the merger may not be fully realized or may take longer than anticipated to be realized, (v) the integration of each party's management, personnel and operations will not be successfully achieved or may be materially delayed or will be more costly or difficult than expected, (vi) deposit attrition, customer or employee loss and/or revenue loss as a result of the announcement of the proposed merger, (vii) expenses related to the proposed merger being greater than expected, and (viii) shareholder litigation that could prevent or delay the closing of the proposed merger or otherwise negatively impact our business and operations; the actions and initiatives of current and potential competitors; our ability to manage our expenses; our ability to successfully achieve card acceptance across our networks and maintain relationships with network participants and merchants; our ability to sustain our card and personal loan growth; our ability to timely complete the **recently announced** sale of our private student loan portfolio, including due to the failure of a closing condition in the agreement to be satisfied, or any unexpected delay in closing the transaction or the occurrence of any event, change or other circumstances that could give rise to the termination of the agreement; our ability to increase or sustain Discover card usage or attract new customers; difficulty obtaining regulatory approval for, financing, closing, transitioning, integrating or managing the expenses of acquisitions of or investments in new businesses, products or technologies; our ability to manage our credit risk, market risk, liquidity risk, operational risk, compliance and legal risk and strategic risk; the availability and cost of funding and capital; access to deposit, securitization, equity, debt and credit markets; the impact of rating agency actions; the level and volatility of equity prices, commodity prices and interest rates, currency values, investments, other market fluctuations and other market indices; losses in our investment portfolio; limits on our ability to pay dividends and repurchase our common stock; limits on our ability to receive payments from our subsidiaries; fraudulent activities or material security breaches of our or others' key systems; our ability to remain organizationally effective; our ability to maintain relationships with merchants; the effect of political, economic and market conditions, geopolitical events, climate change, pandemics and unforeseen or catastrophic events; our ability to introduce new products and services; our ability to manage our relationships with third-party vendors, as well as those with which we have no direct relationship such as our employees' internet service providers; our ability to maintain current technology and integrate new and acquired systems and technology; our ability to collect amounts for disputed transactions from merchants and merchant acquirers; our ability to attract and retain employees; our ability to protect our reputation and our intellectual property; our ability to comply with regulatory requirements; **our ability to remediate the material weakness in our internal control over financial reporting that led to the restatement of our financial statements, and the risk that we may experience additional material weaknesses;** and new lawsuits, investigations or similar matters or unanticipated developments related to current matters. We routinely evaluate and may pursue acquisitions of, investments in or divestitures from businesses, products, technologies, loan portfolios or deposits, which may involve payment in cash or our debt or equity securities.

Additional factors that could cause our results to differ materially from those described below can be found in this section of this quarterly report and in "Risk Factors," "Business," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form **10-K 10-K/A** for the year ended December 31, 2023, which is filed with the Securities and Exchange Commission ("SEC") and available at the SEC's internet site (<https://www.sec.gov>).

Introduction and Overview

Discover Financial Services ("DFS") is a digital banking and payment services company. We provide digital banking products and services and payment services through our subsidiaries. We offer our customers credit card loans, personal loans, home loans and deposit products. We also operate the Discover Network, the PULSE network ("PULSE") and Diners Club International ("Diners Club"), collectively known as the Discover Global Network. The Discover Network processes transactions for Discover-branded credit and debit cards and provides payment transaction processing and settlement services. PULSE operates an electronic funds transfer network, providing financial institutions issuing debit cards on the PULSE network with access to automated teller machines domestically and internationally and merchant acceptance throughout the United States of America ("U.S.") for debit card transactions. Diners Club is a global payments network of licensees, which are generally financial institutions, that issue Diners Club branded credit and charge cards and/or provide card acceptance services.

Our primary revenues consist of interest income earned on loan receivables and fees earned from customers, financial institutions, merchants and issuers. The primary expenses required to operate our business include funding costs (interest expense), credit loss provisions, customer rewards and expenses incurred to grow, manage and service our loan receivables and networks. Our business activities are funded primarily through consumer deposits, securitization of loan receivables and the issuance of unsecured debt.

Quarter Highlights

The highlights below compare results as of and for the three months ended **June 30, 2024** **September 30, 2024**, against results for the same period in the prior year.

- Net income was **\$1.5 billion** **\$870 million**, or **\$6.06** **\$3.32** per diluted share, compared to net income of **\$901 million** **\$586 million**, or **\$3.54** **\$2.21** per diluted share, in the prior year.

- Total loans grew **\$9.7 billion** **\$4.3 billion**, or **8%** **4%**, to **\$127.6 billion** **\$127.0 billion**.
- Credit card loans grew **\$6.1 billion** **\$3.1 billion**, or **7%** **3%**, to **\$100.1 billion** **\$100.5 billion**.
- The net charge-off rate for credit card loans increased **187** **125** basis points to **5.55%** **5.28%** and the delinquency rate for credit card loans over 30 days past due increased **83** **43** basis points to **3.69%** **3.84%**.
- Direct-to-consumer deposits grew **\$10.0 billion** **\$9.1 billion**, or **13%** **11%**, to **\$87.3 billion** **\$90.3 billion**.
- Payment Services transaction volume for the segment was **\$99.3 billion** **\$100.5 billion**, up **11%** **9%**.

Outlook

The outlook below provides our current expectations for our financial results based on market conditions, the regulatory and legal environment and our business strategies. The outlook below incorporates the impacts of the **pending** sale of our private student loan portfolio.

- We expect a decrease in total loans as a result of the **pending** private student loan portfolio sale.
- Net interest margin is expected to increase, in comparison to 2023, driven primarily by higher card yields and the impact from the **sale exit of the private student loan portfolio**. **lending**.
- We expect the total net charge-off rate to increase, in comparison to the prior year, driven primarily by the seasoning of recent vintages with higher delinquencies.
- Excluding card misclassification and merger related costs, total expenses are expected to increase, driven by continued investments in compliance and risk management capabilities and wage growth. We remain committed to managing expenses while continuing to make investments in profitable long-term growth.

Regulatory Environment and Developments

Banking

Capital Standards and Stress Testing

As a bank holding company, DFS is subject to mandatory supervisory stress tests every other year and is required to submit annual capital plans to the Federal Reserve based on forward-looking internal analysis of income and capital levels under baseline and stressful conditions. DFS is also subject to capital buffer requirements, including the Stress Capital Buffer ("SCB"), which requires maintaining regulatory capital levels above a threshold based on the results of supervisory stress tests after accounting for planned dividend payments.

In January 2021, the Federal Reserve finalized regulatory amendments that made targeted changes to the capital planning, regulatory reporting and SCB requirements for firms subject to Category IV standards, including DFS, to be consistent with the Federal Reserve's regulatory tailoring framework. The final rules generally align to instructions the Federal Reserve previously provided to Category IV firms regarding their respective capital plan submissions. The amended rules also provide Category IV firms with the option to submit to supervisory stress tests during off years if they wish for the Federal Reserve to reset the stress test portion of their SCB requirement. The Federal Reserve also revised the scope of application of its existing regulatory guidance for capital planning to align with the tailoring framework. However, the timing and substance of any additional changes to existing guidance or new guidance are uncertain. Moreover, following the failure of three domestic banks during March and April 2023, members of Congress, the President of the United States and various bank regulatory authorities have made public statements indicating a desire for additional prudential regulation for Category IV firms like DFS.

In July 2023, the Federal Reserve, the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") issued a proposal to amend the risk-based capital framework (the "Basel III rules"), which includes replacing the current "advanced approach" with a new expanded risk-based approach. In addition, the proposal introduces new standardized approaches for credit risk, operational risk and credit valuation adjustment risk, and would significantly revise risk-based capital requirements for all banking institutions with assets of \$100 billion or more, including DFS. If adopted, the new requirements would be effective July 1, 2025 with a three-year transition period. **In September 2024, the Federal Reserve Vice Chair for Supervision previewed potential changes to the July 2023 proposal, including no longer subjecting Category IV institutions to the proposed revisions other than the requirement to recognize accumulated other comprehensive income, such as unrealized gains and losses on available-for-sale securities, in regulatory capital. The Federal Reserve, OCC and FDIC have not yet issued any changes to the July 2023 proposal.**

In August 2023, the Federal Reserve, the FDIC and the OCC (the "Agencies") issued a proposal that would require banking institutions in Categories II through IV of the tailoring framework, including DFS, and their insured depository institution subsidiaries with \$100 billion or more in assets such as Discover Bank, to have minimum levels of outstanding long-term debt. Under the proposed rule, a covered banking institution would be required to have a minimum outstanding amount of eligible long-term debt that is at least 6% of the institution's total risk-weighted assets, 2.5% of its total leverage exposure (if it is required to maintain a minimum supplementary leverage ratio) and 3.5% of its average total consolidated assets, whichever is greater. If adopted, banking institutions would have three years to comply with the new requirements, though the Agencies would retain the authority to accelerate or extend the transition period.

While we cannot currently predict the timing or substance of the finalization of these proposals or other regulatory changes, if any such change were adopted, it would likely revise the regulatory tailoring currently applicable to DFS, otherwise tighten the prudential regulatory requirements that would apply to DFS and increase our expenses.

In June 2022, the Federal Reserve released results of the 2022 Comprehensive Capital Analysis and Review ("CCAR") exercise. Based on these results, our SCB was set at 2.5%, the lowest possible requirement, effective October 1, 2022 through September 30, 2023. In accordance with the capital plan rule amendments, we elected not to participate in the 2023 supervisory stress tests, but did submit to the Federal Reserve a capital plan based on a forward-looking internal assessment of income and capital under baseline and stressful conditions. On July 27, 2023, In July 2023, the Federal Reserve disclosed that our SCB was unchanged at 2.5%, effective beginning October 1, 2023 through September 30, 2024. On April 5, 2024, we submitted our 2024 capital plan to the Federal Reserve. On June 26, 2024, the Federal Reserve announced the results of the 2024 CCAR exercise. While Comprehensive Capital Analysis and Review ("CCAR") exercise, followed by the Federal Reserve will not announce release of the final large bank capital requirements on

August 28, 2024. Our new SCB requirements until August, Discover's preliminary SCB has requirement increased to 3.1%. The new SCB would be and is effective from October 1, 2024, through September 30, 2025, subject to potential recalculation, as discussed in the next paragraph.

Under the Basel III rules, a firm must update and resubmit its capital plan under certain circumstances, including a material change in the firm's risk profile, financial condition or corporate structure since its last capital plan submission. On February 19, 2024, Discover and Capital One Financial Corporation ("Capital One") jointly announced that they entered We determined our entry into an agreement and plan of merger (the "Merger" ("Merger Agreement")), under which the companies will combine in an all-stock merger, which we determined with Capital One required us to resubmit our capital plan. We plan and we submitted our an updated capital plan on May 3, 2024 and the . The resubmission process is ongoing. Under the capital plan rule and as a consequence of the resubmission requirement, we must receive prior approval for any dividend or other capital distribution, other than a capital distribution on a newly issued capital instrument, instrument, and the Federal Reserve may recalculate our SCB.

Consumer Financial Services

The Consumer Financial Protection Bureau ("CFPB") regulates consumer financial products and services and examines certain providers of consumer financial products and services, including Discover. The CFPB's authority includes rulemaking, supervisory and enforcement powers with respect to federal consumer protection laws; preventing "unfair, deceptive or abusive acts or practices" ("UDAAP") and ensuring that consumers have access to fair and transparent financial products and services. Historically, the CFPB's policy priorities focused on several financial products of the type we offer (e.g., credit cards and other consumer lending products). In addition, the CFPB is required by statute to undertake certain actions including its biennial review of the consumer credit card market.

The CFPB's priorities have continued to focus on, among other things, increased enforcement of existing consumer protection laws, with a particular focus on fees charged to consumers, UDAAP, fair lending, student lending and servicing, debt collection and credit reporting. Additionally, detection of repeat offenders, such as companies that violate a formal court or agency order, has also become a priority for the CFPB. Director Chopra, in March 2022, identified, as repeat offenders, several companies that have had multiple enforcement actions, including Discover. The CFPB has recently taken action against financial institutions for violating prior enforcement actions. In December 2020, certain of our subsidiaries entered into a consent order with the CFPB regarding identified private student loan servicing practices. See Note 13: Litigation and Regulatory Matters to our condensed consolidated financial statements for more information.

On March 5, 2024, the CFPB issued a final rule that reduces Regulation Z's safe harbor amount for credit card late fees to \$8 and eliminates automatic annual inflation adjustments to that safe harbor amount. The rule is currently under legal challenge, and we continue to monitor legal developments that could impact the implementation of the final rule, which, if implemented, could result in increased cardholder delinquencies and credit losses.

Enhanced regulatory requirements, potential supervisory findings, or enforcement actions and ratings could negatively impact our ability to implement certain consumer-focused enhancements to product features and functionality and business strategies, limit or change our business practices, limit our consumer product offerings, cause us to invest more management time and resources in compliance efforts or limit our ability to obtain related required regulatory approvals. The additional expense, time and resources needed to comply with ongoing or new regulatory requirements may adversely impact the cost of and access to credit for consumers and results of business operations.

Data Security and Privacy

Policymakers at the federal and state levels remain focused on enhancing data security and data breach incident response requirements. Furthermore, These policymakers have proposed and enacted regulations and legislation at various levels of government continue to be proposed and enacted to augment consumer data privacy standards and require companies to assess and/or disclose cybersecurity metrics, risks, opportunities, policies and practices. At the federal level, Discover is subject to the Gramm-Leach-Bliley Act ("GLBA") and its implementing regulations and guidance, which regulate Discover's use and disclosure of our consumers' nonpublic personal information ("NPI"). In July 2023, the SEC adopted rules on Cybersecurity Risk Management, Strategy, Governance and Incident Disclosure. For more information on Discover's cybersecurity program in connection with these rules, see "Item 1C. Cybersecurity" in our annual report on Form 10-K 10-K/A for the year ended December 31, 2023. In April 2024, the Department of Homeland Security proposed regulations to implement the Cyber Incident Reporting for Critical Infrastructure Act of 2022 and will promulgate create new cyber incident and ransom payment reporting requirements for covered entities, such as including entities that own or operate financial services companies, sector infrastructure. Final regulations are expected to be published in late 2025 and become effective in 2026.

At the state level, the California Consumer Privacy Act ("CCPA"), which became effective in 2020, created a broad set of privacy rights and remedies. The California Privacy Rights Act, which became effective in 2023, amended the CCPA, enhanced consumer privacy protections and created a new California Privacy Protection Agency ("CPPA"). The CPPA has proposed additional regulations around cybersecurity, risk assessments and automated decision-making technology that may impact Discover as the proposed regulations move forward in the formal rulemaking process. Other states continue to pass privacy legislation. So far, To date, these laws exempt have contained either data-level exemptions for NPI or entity-level exemptions for financial institutions subject to the GLBA or state banking laws, from their scope, so the impact of these state privacy laws on several Discover businesses is limited. We continue to evaluate the impact of the CCPA, as well as other federal and state privacy laws, on our businesses and other providers of consumer financial services, including laws regulating the capture and use of consumer biometrics. For more information on the impact to Discover of data security and privacy laws on regulation, see "Business — Supervision and Regulation" and "Item 1A. Risk Factors" to our consolidated financial statements in our annual report on Form 10-K 10-K/A for the year ended December 31, 2023.

Environmental, Social and Governance Matters

Environmental, social and governance ("ESG") issues, including climate change, human capital and governance practices, are a significant area of focus by U.S. federal, state and international lawmakers and regulatory agencies, as well as shareholders and other stakeholders. In recent months, there have been substantial legislative and regulatory developments on such issues, including proposed, issued or implemented legislation and rulemakings concerning how companies assess and/or disclose climate and other ESG information, risks, opportunities, policies and practices. For example, in October 2023, three climate-related disclosure bills were signed in California, and in March 2024, the SEC issued a final rule on climate-related disclosures. The potential impacts of these legislative and regulatory requirements are being evaluated at this time (including as a result of ongoing litigation challenging such requirements and the SEC's order staying its final rule on climate-related disclosures pending the completion of judicial review), although we . We expect that these and other emerging and evolving legal and regulatory requirements on ESG issues will result in additional compliance and reporting costs to us.

We us, and we continue to evaluate and assess the potential impact of these legal and regulatory developments.

Segments

We manage our business activities in two segments, Digital Banking and Payment Services, based on the products and services provided. For a detailed description of the operations of each segment, as well as the allocation conventions used in our business segment reporting, see Note 16: Segment Disclosures to our condensed consolidated financial statements.

The following table presents segment data (dollars in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	For the Three Months Ended September 30,		For the Nine Months Ended September 30,			
	2024	2023	2024	2023	2024	2023	2024	2023	
				(As Restated)					
Digital Banking									
Interest income									
Interest income									
Interest income									
Credit card loans									
Credit card loans									
Credit card loans									
Private student loans									
Personal loans									
Other loans									
Other interest income									
Total interest income									
Interest expense									
Net interest income									
Provision for credit losses									
Other income									
Other expense									
Income before income taxes									
Payment Services									
Other income									
Other income									
Other income									
Other expense									
Income before income taxes									
Total income before income taxes									

The following table presents information on transaction volume (in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	For the Three Months Ended September 30,		For the Nine Months Ended September 30,			
	2024	2023	2024	2023	2024	2023	2024	2023	
Network Transaction Volume									
PULSE Network									
PULSE Network									
PULSE Network									

Network Partners
Diners Club ⁽¹⁾
Total Payment Services
Discover Network —
Proprietary ⁽²⁾
Total Network Transaction Volume
Transactions Processed on Networks
Discover Network
Discover Network
Discover Network
PULSE Network
Total Transaction Processed on Networks
Credit Card Volume
Discover Card Volume ⁽³⁾
Discover Card Volume ⁽³⁾
Discover Card Volume ⁽³⁾
Discover Card Sales Volume ⁽⁴⁾

- (1) Diners Club volume is derived from data provided by licensees for Diners Club branded cards issued outside North America and is subject to subsequent revision or amendment.
- (2) Represents gross Discover card sales volume on the Discover Network.
- (3) Represents Discover card activity related to sales net of returns, balance transfers, cash advances and other activity.
- (4) Represents Discover card activity related to sales net of returns.

Digital Banking

Our Digital Banking segment reported pretax income of **\$1.8 billion** **\$1.1 billion** and **\$2.1 billion** **\$3.9 billion**, respectively, for the three and **six nine** months ended **June 30, 2024** **September 30, 2024**, as compared to **\$1.1 billion** **\$676 million** and **\$2.3 billion** **\$3.0 billion**, respectively, for the same periods in 2023.

Net interest income increased for the three and **six nine** months ended **June 30, 2024** **September 30, 2024**, as compared to the same periods in 2023, primarily driven by a higher average level of loan receivables and a higher yield on loans, partially offset by higher funding costs. Interest income increased **for the three and nine months ended September 30, 2024, as compared to the prior year same periods in 2023**, primarily due to a higher average level of loan receivables and yield **expansion and higher market rates**. Interest expense increased compared to the prior year primarily due to a larger funding base and higher funding costs driven by lower coupon maturities and higher market rates. **Also contributing to the increases in interest income and interest expense for the nine months ended September 30, 2024, was higher market rates.**

For the three **and six** months ended **June 30, 2024** **September 30, 2024**, the provision for credit losses decreased as compared to the same **periods period** in 2023, primarily driven by portfolio seasoning. **For the nine months ended September 30, 2024, the provision for credit losses decreased as compared to the same period** in 2023, primarily driven by the reversal of the private student loans allowance due to the loans being classified as held-for-sale, partially offset by the impact of loan growth. For a detailed discussion on provision for credit losses, see "— Loan Quality — Provision and Allowance for Credit Losses."

Total other income **for the Digital Banking segment** increased for the three **and six** months ended **June 30, 2024** **September 30, 2024**, as compared to the same **periods period** in 2023, primarily due to an increase in other income, which was driven by a gain recognized from the first closing of the sale of our private student loan portfolio.

Total other income increased for the nine months ended September 30, 2024, as compared to the same period in 2023, primarily due to increases in other income, net discount and interchange revenue and loan fee income. **Other income increased primarily from a gain recognized from the first closing of the sale of our private student loan portfolio.** The increase in net discount and interchange revenue was driven primarily by lower rewards expense. Loan fee income increased primarily due to a higher volume of late payments.

Total other expense increased for the three **and six** months ended **June 30, 2024** **September 30, 2024**, as compared to the same **periods period** in 2023, primarily due to increases in **other expense, professional fees and employee compensation and benefits**. **Other benefits, information processing and communications and professional fees.** The increase in employee compensation and benefits was driven primarily from higher average salaries and employee retention awards. **Information processing and communications increased primarily from technology investments and accelerated private student loan software depreciation.** The increase in professional fees was driven primarily from increases in recovery fees and consulting supporting the pending merger.

Total other expense increased for the three nine months ended June 30, 2024 increased **September 30, 2024**, as compared to the same period in 2023, primarily due to **a charge** increases in employee compensation and benefits, other expense and professional fees. The increase in employee compensation and benefits was driven primarily by higher average salaries and employee retention awards. Other expense increased primarily from charges for potential regulatory penalties related to the card product **misclassification**. **Along with this charge, other expense for the six months ended June 30, 2024 increased primarily from an increase in the reserve for remediation related to the same misclassification** matter. For information regarding the card product misclassification, see Note 13: Litigation and Regulatory Matters to our condensed consolidated financial statements. Professional fees increased primarily **due to from** increased consulting supporting compliance and risk management **initiatives**. **The increase in employee compensation initiatives and benefits was driven primarily by higher average salaries, the pending merger.**

Discover card sales volume was \$53.5 billion, \$53.4 billion and \$103.6 billion, \$157.0 billion, respectively, for the three and six months ended June 30, 2024, September 30, 2024, which was a decrease of 3.2%, 2.9% and 2.1%, 2.3%, respectively, as compared to the same periods in 2023. This volume decrease was primarily driven by lower new account growth.

Payment Services

Pretax income for the Payment Services segment increased, was relatively flat for the three and six months ended June 30, 2024, September 30, 2024, as compared to the same periods in 2023. Pretax income increased for the nine months ended September 30, 2024, as compared to the same period in 2023, primarily from a favorable legal settlement.

Critical Accounting Estimates

In preparing our consolidated financial statements in conformity with accounting principles generally accepted in the U.S. ("GAAP"), management must make judgments and use estimates and assumptions about the effects of matters that are uncertain. For estimates that involve a high degree of judgment and subjectivity, it is possible that different estimates could reasonably be derived for the same period. For estimates that are particularly sensitive to changes in economic or market conditions, significant changes to the estimated amount from period to period are also possible. Management believes the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts in our consolidated financial statements, the resulting changes could have a material effect on our consolidated results of operations and, in certain cases, could have a material effect on our consolidated financial condition. Management has identified the estimates related to our allowance for credit losses as a critical accounting estimate.

Allowance for Credit Losses

The allowance for credit losses was \$8.5 billion at June 30, 2024, September 30, 2024, which reflects a \$777 million, \$31 million release, build from the amount of the allowance for credit losses at March 31, 2024, June 30, 2024. The allowance for credit losses represents management's estimate of expected credit losses over the remaining expected life of our financial assets measured at amortized cost. Changes in the allowance for credit losses, and in the related provision for credit losses, can materially affect net income.

In estimating the expected credit losses, we use a combination of statistical models and qualitative analysis. There is a significant amount of judgment applied in selecting inputs and analyzing the results produced to estimate the allowance for credit losses. For more information on these judgments and our accounting policies and methodologies used to determine the allowance for credit losses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Loan Quality," Note 4: Loan Receivables and Note 2: Summary of Significant Accounting Policies to our consolidated financial statements in our annual report on Form 10-K, 10-K/A for the year ended December 31, 2023.

One of the key assumptions requiring significant judgment in estimating the current expected credit losses ("CECL") on a quarterly basis is the determination of the macroeconomic forecasts used in the loss forecast models. For the reasonable and supportable loss forecast period, we consider forecasts of multiple economic scenarios that generally include a base scenario with one or more optimistic (upside) or pessimistic (downside) scenarios. These scenarios comprise a variety of macroeconomic variables, including annualized gross domestic product growth and unemployment rate. The scenarios that are chosen each quarter and the amount of weighting given to each scenario depend on a variety of factors including recent economic events, leading economic indicators, views of internal and third-party economists and industry trends. Assumptions about the macroeconomic environment are inherently uncertain and, as a result, actual changes in the allowance for credit losses may be different from the simulated scenario presented below.

To demonstrate the sensitivity of the estimated credit losses to the macroeconomic scenarios, we measured the impact of altering the weighting of macroeconomic scenarios used in our loss forecast. Our allowance for credit losses would increase by approximately \$544 million, \$444 million at June 30, 2024, September 30, 2024 if we applied 100% weight to the most adverse scenario in our sensitivity analysis to reflect continued inflationary pressures, elevated interest rates, a decline in consumer confidence, the influence of geopolitical events and increasing unemployment.

The sensitivity disclosed above is hypothetical. It is difficult to estimate how potential changes in any one factor or input, such as the weighting of macroeconomic forecasts, might affect the overall allowance for credit losses because we consider a variety of factors and inputs in estimating the allowance for credit losses. The macroeconomic scenarios used are constructed with interrelated projections of multiple economic variables and loss estimates are produced that consider the historical correlation of those economic variables with credit losses. The inputs in the macroeconomic scenarios may not change at the same rate and may not be consistent across all geographies or product types, and changes in factors and inputs may be directionally inconsistent, such that improvement in one factor or input may offset deterioration in others. As a result, the sensitivity analysis above does not necessarily reflect the nature and extent of future changes in the allowance for credit losses. It is intended to provide insights into the impact of different judgments about the economy on our modeled loss estimates for the loan portfolio and does not imply any expectation of future losses. Furthermore, the hypothetical increase in our allowance for credit losses for loans does not incorporate the impact of management judgment for qualitative factors applied in the current allowance for credit losses, which may have a positive or negative effect on our actual financial condition and results of operations.

The overall economic environment directly impacts the macroeconomic variables that are used in the loss forecast models. If management used different assumptions about the economic environment in estimating expected credit losses, the impact to the allowance for credit losses could have a material effect on our consolidated financial condition and results of operations. In addition, if we experience significant instability in the economic environment, the uncertainty around the credit loss forecasts may increase, both due to the uncertainty of the economic forecasts and the challenges our models may have in incorporating them.

Earnings Summary

The following table outlines changes in our condensed consolidated statements of income (dollars in millions):

		For the Three Months Ended June 30,				2024 vs. 2023 Increase (Decrease)						For the Six Months Ended			
		2024		2023				\$				%			
		(As Restated)													
Interest income															
Interest income															
Interest income	Interest income	\$ 4,971	\$	\$ 4,290	\$	\$ 681	16	16	%		\$				
Interest expense	Interest expense	1,447	1,113	1,113	334	334	30	30	%						
Net interest income	Net interest income	3,524	3,177	3,177	347	347	11	11	%						
Provision for credit losses	Provision for credit losses	739	1,305	1,305	(566)	(566)	(43)	(43)	%						
Net interest income after provision for credit losses	Net interest income after provision for credit losses	2,785	1,872	1,872	913	913	49	49	%						
Other income	Other income	1,014	701	701	313	313	45	45	%						
Other expense	Other expense	1,729	1,404	1,404	325	325	23	23	%						
Income before income taxes	Income before income taxes	2,070	1,169	1,169	901	901	77	77	%						
Income tax expense	Income tax expense	540	268	268	272	272	101	101	%						
Net income	Net income	\$ 1,530	\$	\$ 901	\$	\$ 629	70	70	%		\$				
Net income allocated to common stockholders	Net income allocated to common stockholders	\$ 1,521	\$	\$ 895	\$	\$ 626	70	70	%		\$				

- The level and composition of other interest-earning assets, including our liquidity portfolio, and interest-bearing liabilities;
- Changes in the interest rate environment, including the levels of interest rates and the relationships among interest rate indices, such as the prime rate, the federal funds rate, the interest rate on reserve balances, and Secured Overnight Financing Rate ("SOFR"); and
- The effectiveness of interest rate swaps in our interest rate risk management program.

Net interest income increased for the three and ~~six~~ **nine** months ended **June 30, 2024** **September 30, 2024**, as compared to the same periods in 2023, primarily driven by a higher average level of loan receivables and a higher yield on loans, partially offset by higher funding costs. Interest income increased **for the three and nine months ended September 30, 2024, as compared to the prior year same periods in 2023**, primarily due to a higher average level of loan receivables and yield **expansion and higher market rates, expansion**. Interest expense increased compared to the prior year primarily due to a larger funding base and higher funding costs driven by lower coupon maturities and higher market rates. **Also contributing to the increases in interest income and interest expense for the nine months ended September 30, 2024, was higher market rates.**

Average Balance Sheet Analysis

(dollars in millions)

	For the Three Months Ended June 30,								For the Three Months Ended September 30,										
	2024				2023				2024				2023						
	Average Balance	Yield/Rate	Interest		Average Balance	Yield/Rate	Interest		Average Balance	Yield/Rate	Interest		Average Balance	Yield/Rate	Interest				
Assets																			
Interest-earning assets																			
Interest-earning assets																			
Interest-earning assets																			
Cash and cash equivalents																			
Cash and cash equivalents																			
Cash and cash equivalents																			
Restricted cash	Restricted cash	590	8.33	8.33 %	12	75	75	10.27	10.27 %	2	Restricted cash	641	5.73	5.73 %	9	238	238	10.65	10.65 %
Investment securities																			
Investment securities																			
Investment securities																			
Loan receivables(1)																			
Credit card loans(2)(3)																			
Credit card loans(2)(3)																			
Credit card loans(2)(3)																			
Private student loans(4)																			
Personal loans																			
Other																			
Total loan receivables																			
Total interest-earning assets																			
Allowance for credit losses																			
Other assets (5)																			

Other assets (5)

Other assets (5)

Total assets(6)

Total assets(6)

Total assets(6)

Liabilities and Stockholders'

Equity

Liabilities and Stockholders'

Equity

Liabilities and Stockholders'

Equity

Interest-bearing liabilities

Interest-bearing liabilities

Interest-bearing liabilities

Interest-bearing deposits

Interest-bearing deposits

Interest-bearing deposits

Time deposits(7)

Time deposits(7)

Time deposits(7)

Money

market

deposits

Other

interest-

bearing

savings

deposits

Total interest-

bearing

deposits

Borrowings

Short-term borrowings

Short-term borrowings

Short-term borrowings 4 5.54 5.54 % NM 2 5.22 5.22 % NM

Securitized borrowings(7)

(8)(9)

Other long-term borrowings(8)

(9)(10)

Securitized borrowings(8)

(9)(10)

Other long-term borrowings(9)

(10)(11)

Total borrowings

Total interest-

bearing liabilities

Other liabilities and stockholders' equity ⁽¹¹⁾
Other liabilities and stockholders' equity ⁽⁵⁾⁽¹²⁾
Total liabilities and stockholders' equity
Total liabilities and stockholders' equity
Total liabilities and stockholders' equity
Net interest income
Net interest income
Net interest income
Net interest margin ^(1,2)
Net yield on interest-earning assets ^(1,3)
Net yield on interest-earning assets ^(1,3)
Net yield on interest-earning assets ^(1,3)
Interest rate spread ^(1,4)
Interest rate spread ^(1,4)
Interest rate spread ^(1,4)
Net interest margin ^(1,3)
Net yield on interest-earning assets ^(1,4)
Net yield on interest-earning assets ^(1,4)
Net yield on interest-earning assets ^(1,4)
Interest rate spread ^(1,5)
Interest rate spread ^(1,5)
Interest rate spread ^(1,5)

	For the Six Months Ended June 30,											
	For the Six Months Ended June 30,											
	For the Six Months Ended June 30,											
	For the Nine Months Ended September 30,											
	2024			2023			2024			2023		
	Average Balance	Yield/Rate	Interest	Average Balance	Yield/Rate	Interest	Average Balance	Yield/Rate	Interest	Average Balance	Yield/Rate	Interest
Assets												
Interest-earning assets												
Interest-earning assets												
Interest-earning assets												
Cash and cash equivalents												
Cash and cash equivalents												



Cash and cash equivalents
Restricted cash
Investment securities
Investment securities
Investment securities
Loan receivables ⁽¹⁾
Credit card loans ⁽²⁾⁽³⁾
Credit card loans ⁽²⁾⁽³⁾
Credit card loans ⁽²⁾⁽³⁾
Private student loans ⁽⁴⁾
Personal loans
Other
Total loan receivables
Total interest-earning assets
Allowance for credit losses
Other assets ⁽⁵⁾
Other assets ⁽⁵⁾
Other assets ⁽⁵⁾
Total assets ⁽⁶⁾
Total assets ⁽⁶⁾
Total assets ⁽⁶⁾
Liabilities and Stockholders' Equity
Liabilities and Stockholders' Equity
Liabilities and Stockholders' Equity
Interest-bearing liabilities
Interest-bearing liabilities
Interest-bearing liabilities
Interest-bearing deposits
Interest-bearing deposits
Interest-bearing deposits
Time deposits ⁽⁷⁾
Time deposits ⁽⁷⁾
Time deposits ⁽⁷⁾
Money market deposits
Other interest-bearing savings deposits
Total interest-bearing deposits
Borrowings
Short-term borrowings
Short-term borrowings
Short-term borrowings
Securitized borrowings ⁽⁷⁾⁽⁸⁾⁽⁹⁾
Other long-term borrowings ⁽⁸⁾⁽⁹⁾⁽¹⁰⁾
Securitized borrowings ⁽⁸⁾⁽⁹⁾⁽¹⁰⁾
Other long-term borrowings ⁽⁹⁾⁽¹⁰⁾⁽¹¹⁾
Total borrowings
Total interest-bearing liabilities
Other liabilities and stockholders' equity ⁽¹¹⁾
Other liabilities and stockholders' equity ⁽⁵⁾⁽¹²⁾
Total liabilities and stockholders' equity
Total liabilities and stockholders' equity
Total liabilities and stockholders' equity

Net interest income
Net interest income
Net interest income
Net interest margin ^(1,2)
Net yield on interest-earning assets ^(1,3)
Net yield on interest-earning assets ^(1,3)
Net yield on interest-earning assets ^(1,3)
Interest rate spread ^(1,4)
Interest rate spread ^(1,4)
Interest rate spread ^(1,4)
Net interest margin ^(1,3)
Net yield on interest-earning assets ^(1,4)
Net yield on interest-earning assets ^(1,4)
Net yield on interest-earning assets ^(1,4)
Interest rate spread ^(1,5)
Interest rate spread ^(1,5)
Interest rate spread ^(1,5)

- (1) Average balances of loan receivables and yield calculations include non-accruing loans. If the non-accruing loan balances were excluded, there would not be a material impact on the amounts reported above.
- (2) Interest income on credit card loans includes \$103 million \$98 million and \$110 million \$121 million of amortization of balance transfer fees for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively, and \$226 million \$324 million and \$215 million \$335 million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively.
- (3) Includes the impact of interest rate swap agreements used to change a portion of floating-rate assets to fixed-rate assets for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023.
- (4) Private student loans were classified as held-for-sale effective June 30, 2024 June 30, 2024.
- (5) The restatement impacts pertaining to the card product misclassification were immaterial to the average balance sheet for the three and nine months ended September 30, 2023. Therefore, the average balance sheets for the prior period presented have not been adjusted for those immaterial impacts.
- (6) The return on average assets, based on net income, was 1.02% 0.57% and 0.66% 0.42% for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively, and 1.22% 2.14% and 1.40% 1.79% for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively.
- (7) Includes the impact of interest rate swap agreements used to change a portion of fixed-rate funding to floating-rate funding for the three and six nine months ended June 30, 2024 September 30, 2024.
- (8) Includes the impact of one terminated derivative formerly designated as a cash flow hedge for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023.
- (9) Includes the impact of interest rate swap agreements used to change a portion of fixed-rate funding to floating-rate funding for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023.
- (10) Includes the impact of terminated derivatives formerly designated as fair value hedges for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023.
- (11) Includes the impact of interest rate swap agreements used to change a portion of floating-rate funding to fixed-rate funding for the three and six nine months ended June 30, 2024 September 30, 2024 and 2023.
- (12) The return on average stockholders' equity, based on net income, was 40% 21% and 26% 17% for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively, and 24% 28% and 27% 24% for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively 2023.
- (13) Net interest margin represents net interest income as a percentage of average total loan receivables.
- (14) Net yield on interest-earning assets represents net interest income as a percentage of average total interest-earning assets.
- (15) Interest rate spread represents the difference between the rate on total interest-earning assets and the rate on total interest-bearing liabilities.

Loan Quality

Loan receivables consist of the following (dollars in millions):			
		June 30, 2024	December 31, 2023
		September 30, 2024	December 31, 2023
Loans held-for-sale			
Loan portfolio			
Credit card loans			
Credit card loans			
Credit card loans			
Other loans			
Private student loans			

Private student loans
Private student loans
Personal loans
Other loans
Total other loans
Total loan portfolio
Total loan receivables
Allowance for credit losses
Net loan receivables

Provision and Allowance for Credit Losses

Provision for credit losses is the expense related to maintaining the allowance for credit losses at an appropriate level to absorb the estimate of credit losses anticipated over the remaining expected life of loan receivables at each period end date. In deriving the estimate of expected credit losses, we consider the collectability of principal, interest and fees associated with our loan portfolio. We also consider expected recoveries of amounts that were either previously charged-off or are expected to be charged-off. Establishing the estimate for expected credit losses requires significant management judgment. The factors that influence the provision for credit losses include:

- Increases or decreases in outstanding loan balances, including:
 - Changes in consumer spending, payment and credit utilization behaviors;
 - The level of new account and loan originations and loan maturities; and
 - Changes in the overall mix of accounts and products within the portfolio;
- The credit quality of the loan portfolio, which reflects our credit granting practices and the effectiveness of collection efforts, among other factors;
- The impact of general economic conditions on the consumer, including national and regional conditions, unemployment levels, bankruptcy trends and interest rate movements;
- The level and direction of historical losses; and
- Regulatory changes or new regulatory guidance.

Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates — Allowance for Credit Losses" and Note 3: Loan Receivables to our condensed consolidated financial statements for more details on how we estimate the allowance for credit losses.

The following tables provide changes in our allowance for credit losses (dollars in millions):

	For the Three Months Ended June 30, 2024					For the Three Months Ended September 30, 2024				
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at March 31, 2024										
Balance at June 30, 2024										
Additions										
Provision for credit losses ⁽¹⁾⁽²⁾										
Provision for credit losses ⁽¹⁾⁽²⁾										
Provision for credit losses ⁽¹⁾⁽²⁾										
Provision for credit losses ⁽¹⁾										
Provision for credit losses ⁽¹⁾										
Provision for credit losses ⁽¹⁾										
Deductions										
Charge-offs										
Charge-offs										
Charge-offs										
Recoveries										
Net charge-offs										
Balance at June 30, 2024										
Balance at June 30, 2024										

Balance at June 30, 2024										
Balance at September 30, 2024										
Balance at September 30, 2024										
Balance at September 30, 2024										
	For the Three Months Ended June 30, 2023									
	For the Three Months Ended June 30, 2023									
	For the Three Months Ended June 30, 2023									
	For the Three Months Ended September 30, 2023									
	For the Three Months Ended September 30, 2023									
	For the Three Months Ended September 30, 2023									
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at March 31, 2023										
Balance at June 30, 2023										
Additions										
Additions										
Additions										
Provision for credit losses ⁽¹⁾										
Provision for credit losses ⁽¹⁾										
Provision for credit losses ⁽¹⁾										
Deductions										
Charge-offs										
Charge-offs										
Charge-offs										
Recoveries										
Net charge-offs										
Balance at June 30, 2023										
Balance at June 30, 2023										
Balance at June 30, 2023										
Balance at September 30, 2023										
Balance at September 30, 2023										
Balance at September 30, 2023										
	For the Six Months Ended June 30, 2024									
	For the Six Months Ended June 30, 2024									
	For the Six Months Ended June 30, 2024									
	For the Nine Months Ended September 30, 2024									
	For the Nine Months Ended September 30, 2024									
	For the Nine Months Ended September 30, 2024									
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at December 31, 2023										
Additions										
Additions										
Additions										
Provision for credit losses ⁽¹⁾⁽²⁾										
Provision for credit losses ⁽¹⁾⁽²⁾										

Provision for credit losses ⁽¹⁾⁽²⁾										
Deductions										
Charge-offs										
Charge-offs										
Charge-offs										
Recoveries										
Net charge-offs										
Balance at June 30, 2024										
Balance at June 30, 2024										
Balance at June 30, 2024										
Balance at September 30, 2024										
Balance at September 30, 2024										
Balance at September 30, 2024										
For the Six Months Ended June 30, 2023										
For the Six Months Ended June 30, 2023										
For the Six Months Ended June 30, 2023										
For the Nine Months Ended September 30, 2023										
For the Nine Months Ended September 30, 2023										
For the Nine Months Ended September 30, 2023										
	Credit	Private	Personal	Other	Total	Credit	Private	Personal	Other	Total
	Card Loans	Student Loans	Loans	Loans	Loans	Card Loans	Student Loans	Loans	Loans	Loans
Balance at December 31, 2022										
Cumulative effect of ASU No. 2022-02 adoption ⁽³⁾										
Balance at January 1, 2023										
Additions										
Provision for credit losses ⁽¹⁾										
Provision for credit losses ⁽¹⁾										
Provision for credit losses ⁽¹⁾										
Deductions										
Charge-offs										
Charge-offs										
Charge-offs										
Recoveries										
Net charge-offs										
Balance at June 30, 2023										
Balance at June 30, 2023										
Balance at June 30, 2023										
Balance at September 30, 2023										
Balance at September 30, 2023										
Balance at September 30, 2023										

(1) Excludes a \$6 million and \$8 million \$31 million adjustment of the liability for expected credit losses on unfunded commitments for the three months ended June 30, 2024 and 2023, respectively, September 30, 2023, and \$40 million and \$25 million \$6 million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively, as the liability is recorded in accrued expenses and other liabilities in our condensed consolidated statements of financial condition. With the transfer of private student loans to the held-for-sale classification as of June 30, 2024, a liability for expected credit losses on unfunded commitments is no longer recorded.

(2) Includes the adjustment to eliminate the allowance for credit losses upon classifying the private student loan portfolio as held-for-sale.

(3) Represents the adjustment to the allowance for credit losses as a result of the adoption of Accounting Standards Update ("ASU") No. 2022-02 on January 1, 2023.

The allowance for credit losses was approximately \$8.5 billion at June 30, 2024 September 30, 2024, which reflects a \$777 million \$31 million release build from March 31, 2024 June 30, 2024 and an \$802 million a \$771 million release from December 31, 2023. The release build in the allowance for credit losses for the three and six months ended June 30, 2024 September 30, 2024, was primarily driven by the impact of loan growth in our loan portfolio. The release in the allowance for credit losses for the nine months ended September 30, 2024, was driven by the reversal of the private student loans allowance due to the loans being classified as held-for-sale, partially offset by the impact of loan growth.

The allowance estimation process begins with a loss forecast that uses certain macroeconomic variables and multiple macroeconomic scenarios among its inputs. In estimating the allowance at June 30, 2024 September 30, 2024, we used a macroeconomic forecast that projected the following amounts: (i) unemployment rate ending 2024 at 4.04% 4.35% and, within our reasonable and supportable period, peaking at 4.08% 4.62% in the fourth third quarter of 2025 and (ii) 2.53% 2.54% growth rate in real gross domestic product in 2024.

In estimating expected credit losses, we considered the uncertainties associated with borrower behavior and payment trends, as well as recent and expected macroeconomic conditions, including those relating to consumer price inflation and the fiscal and monetary policy responses to that inflation. Subsequent to the Federal Reserve raising its federal funds rate target range, real GDP growth and labor market conditions exceeded most economists' expectations, while inflation moderated but remained above the target rate. Federal Reserve officials have suggested that believe trends in inflation and employment are supportive of a less restrictive monetary policy, as indicated by a reduction of the policy rate is likely at its peak for federal funds target range in September 2024 and signaling of further cuts over the current tightening cycle, however, remainder of 2024. However, the timing and magnitude of rate decreases will be dependent on trends in economic data, particularly inflation. Restrictive inflation and labor market conditions, and monetary policy remains restrictive, which typically precedes weaker consumer credit conditions caused by rising unemployment as economic growth slows. While credit performance in our lending portfolios has evolved in line with our expectations, we assessed the prospects for various macroeconomic outcomes in setting our allowance for credit losses.

The forecast period we deemed to be reasonable and supportable was 18 months for all periods presented. The 18 months reasonable and supportable forecast period was deemed appropriate given the current economic conditions. For all periods presented, we determined that a reversion period of 12 months was appropriate for the same reason. We applied a weighted reversion method to provide a more reasonable transition to historical losses for all loan products for all periods presented.

The provision for credit losses is the amount of expense realized after considering the level of net charge-offs in the period and the required amount of allowance for credit losses at the balance sheet date. For the three and six months ended June 30, 2024 September 30, 2024, the provision for credit losses decreased by \$552 million and \$156 million, respectively, \$198 million compared to the same periods period in 2023, primarily driven by portfolio seasoning. For the nine months ended September 30, 2024, the provision for credit losses decreased by \$354 million compared to the same period in 2023, primarily driven by the reversal of the private student loans allowance due to the loans being classified as held-for-sale, partially offset by the impact of loan growth.

Net Charge-offs

Our net charge-offs include the principal amount of losses charged off less principal recoveries and exclude charged-off and recovered interest and fees and fraud losses. Charged-off and recovered interest and fees are recorded in interest income and loan fee income, respectively, which is effectively a reclassification of the provision for credit losses, while fraud losses are recorded in other expense.

The following table presents amounts and rates of net charge-offs of key loan products (dollars in millions):

The following table presents amounts and rates of net charge-offs on key loan products (dollars in millions).																
		For the Three Months Ended June 30,						For the Six Months Ended June 30,								
		2024				2023		2024				2023				
		\$		%		\$		%		\$		%				
Credit card loans	Credit card loans	\$	1,373	5.55	5.55	%	\$	842	3.68	3.68	%	\$	2,784	5.60	5.60	%
Personal loans	Personal loans															
Personal loans	Personal loans															
Personal loans	Personal loans	\$	101	3.98	3.98	%	\$	50	2.28	2.28	%	\$	201	4.00	4.00	%

The net charge-offs and net charge-off rate for credit card loans and personal loans increased for the three and six nine months ended June 30, 2024 September 30, 2024, when compared to the same periods in 2023, primarily driven by portfolio seasoning.

Delinquencies

Delinquencies are an indicator of credit quality at a point in time. A loan balance is considered delinquent when contractual payments on the loan become 30 days past due.

The following table presents the amounts and delinquency rates of key loan products, excluding loans held-for-sale, that are 30 and 90 days or more delinquent, and loan receivables that are not accruing interest regardless of delinquency (dollars in millions):

June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
---------------	-------------------	--------------------	-------------------

	\$		%		\$		%	\$		%	\$
Loans											
30 or more days delinquent											
Credit card loans											
Credit card loans											
Credit card loans	\$ 3,697	3.69	3.69 %		\$ 3,955	3.87	3.87 %	\$ 3,857	3.84	3.84 %	\$ 3,95
Personal loans											
Personal loans											
Personal loans	\$ 159	1.54	1.54 %		\$ 143	1.45	1.45 %	\$ 174	1.66	1.66 %	\$ 14
Total loan portfolio											
Total loan portfolio											
Total loan portfolio	\$ 3,917	3.33	3.33 %		\$ 4,156	3.45	3.45 %	\$ 4,105	3.46	3.46 %	\$ 4,15
Loans											
90 or more days delinquent											
Loans											
90 or more days delinquent											
Loans											
90 or more days delinquent											
Credit card loans											
Credit card loans											
Credit card loans	\$ 1,834	1.83	1.83 %		\$ 1,917	1.87	1.87 %	\$ 1,883	1.87	1.87 %	\$ 1,91
Personal loans											
Personal loans											
Personal loans	\$ 44	0.43	0.43 %		\$ 39	0.40	0.40 %	\$ 47	0.45	0.45 %	\$ 3
Total loan portfolio											
Total loan portfolio											
Total loan portfolio	\$ 1,903	1.62	1.62 %		\$ 1,975	1.59	1.59 %	\$ 1,960	1.65	1.65 %	\$ 1,97
Loans not accruing interest											

Other Expense

The following table represents the components of other expense (dollars in millions):

		For the Three Months Ended June 30,		2024 vs. 2023 Increase (Decrease)		For the Six Months Ended	
		2024	2023	\$	%	2024	2023
		(As Restated)					
Employee compensation and benefits	Employee compensation and benefits	\$ 658	\$ 588	\$ 70	12	\$ 1,296	\$ 1,176
Marketing and business development	Marketing and business development	258	268	(10)	(4)	516	536
Information processing and communications	Information processing and communications	167	150	17	11	334	300
Professional fees	Professional fees	296	216	80	37	592	432
Premises and equipment	Premises and equipment	23	20	3	15	46	40
Other expense	Other expense	327	162	165	102	654	324
Total other expense	Total other expense	\$ 1,729	\$ 1,404	\$ 325	23	\$ 3,458	\$ 2,796

Total other expense increased for the three and six months ended **June 30, 2024** September 30, 2024, as compared to the same periods period in 2023, primarily due to increases in other expense, professional fees and employee compensation and benefits. Other benefits, information processing and communications and professional fees. The increase in employee compensation and benefits was driven primarily from higher average salaries and employee retention awards. Information processing and communications increased primarily from technology investments and accelerated private student loan software depreciation. The increase in professional fees was driven primarily from increases in recovery fees and consulting supporting the pending merger.

Total other expense increased for the **three nine months ended June 30, 2024 increased** September 30, 2024, as compared to the same period in 2023, primarily due to a charge increases in employee compensation and benefits, other expense and professional fees. The increase in employee compensation and benefits was driven primarily by higher average salaries and employee retention awards. Other expense increased primarily from charges for potential regulatory penalties related to the card product misclassification. Along with this charge, other expense for the six months ended June 30, 2024 increased primarily from an increase in the reserve for remediation related to the same misclassification matter. For information regarding the card product misclassification, see Note 13: Litigation and Regulatory Matters to our

condensed consolidated financial statements. Professional fees increased primarily due to from increased consulting supporting compliance and risk management initiatives. The increase in employee compensation initiatives and benefits was driven primarily by higher average salaries, the pending merger.

Income Tax Expense

The following table presents the calculation of the effective income tax rate (dollars in millions):

For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
2024	2023	2024	2023	2024	2023	2024	2023
(As Restated)							

Income																		
before income																		
taxes																		
Income																		
tax expense																		
Effective	Effective							Effective										
income tax rate	income tax rate	26.1	%	23.0	%	25.7	%	23.0	%	income tax rate	27.0	%	23.0	%	25.8	%	23.0	%

The effective tax rate increased for the three and **six** nine months ended **June 30, 2024** **September 30, 2024**, as compared to the same periods in 2023, due to the adoption of the proportional amortization method for qualifying tax credit investments effective January 1, 2024, and the recognition of a charge representing potential non-deductible regulatory penalties related to the card product misclassification.

Liquidity and Capital Resources

Funding and Liquidity

We seek to maintain stable, diversified and cost-effective funding sources and a strong liquidity profile to fund our business and repay or refinance our maturing obligations under normal operating conditions and periods of economic or financial stress. In managing our liquidity risk, we seek to maintain a prudent liability maturity profile and ready access to an ample store of primary and contingency liquidity sources. Our primary funding sources include direct-to-consumer and brokered deposits, public term asset-backed securitizations and other short-term and long-term borrowings. Our primary liquidity sources include a portfolio composed of highly liquid, unencumbered assets, including cash and cash equivalents and investment securities, as well as secured borrowing capacity through private term asset-backed securitizations and Federal Home Loan Bank ("FHLB") advances. In addition, we have unused borrowing capacity at the Federal Reserve discount window, which provides another source of contingency liquidity.

Funding Sources

Deposits

We obtain deposits from consumers directly or through affinity relationships ("direct-to-consumer deposits"). Additionally, we obtain deposits through third-party securities brokerage firms that offer our deposits to their customers ("brokered deposits"). Direct-to-consumer deposit products include savings accounts, certificates of deposit, money market accounts, IRA savings accounts, IRA certificates of deposit and checking accounts. We gather these deposits from retail customers of our bank, many of whom have more than one Discover product. These deposits originate from a large and diverse customer base, and therefore, the majority of these deposit account balances are insured according to the FDIC's insurance limits. Brokered deposit products include certificates of deposit and sweep accounts. In accordance with FDIC guidance, we do not categorize certain retail deposit products such as affinity deposits and deposits generated through certain sweep deposit relationships as brokered for regulatory reporting purposes. At **June 30, 2024** **September 30, 2024**, we had **\$87.3 billion** **\$90.3 billion** of direct-to-consumer deposits and **\$21.1 billion** **\$19.5 billion** of brokered deposits, of which there are **\$93.1 billion** **\$95.7 billion** of deposit balances due in less than one year and **\$15.3 billion** **\$14.1 billion** of deposit balances due in one year or thereafter.

Credit Card Securitization Financing

We securitize credit card receivables as a source of funding. We access the asset-backed securitization market using the Discover Card Master Trust I ("DCMT") and the Discover Card Execution Note Trust ("DCENT"). In connection with our securitization transactions, credit card receivables are transferred to DCMT. DCMT has issued a certificate representing the beneficial interest in its credit card receivables to DCENT. We issue DCENT DiscoverSeries notes in public and private transactions, which are collateralized by the beneficial interest certificate held by DCENT. From time to time, we may add credit card receivables to DCMT to create sufficient funding capacity for future securitizations while managing seller's interest. As of **June 30, 2024** **September 30, 2024**, there were **\$29.0 billion** **\$28.6 billion** of credit card receivables in the trust and no accounts were added to those restricted for securitization investors for the three and **six** nine months ended **June 30, 2024** **September 30, 2024**. We retain significant exposure to the performance of the securitized credit card receivables through holding the seller's interest and subordinated classes of DCENT DiscoverSeries notes. At **June 30, 2024** **September 30, 2024**, we had **\$9.7 billion** **\$9.3 billion** of outstanding public asset-backed securities and **\$2.6 billion** **\$2.5 billion** of outstanding subordinated asset-backed securities that had been issued to our wholly-owned subsidiaries.

The securitization structures include certain features designed to protect investors. The primary feature relates to the availability and adequacy of cash flows in the securitized pool of receivables to meet contractual requirements, the insufficiency of which triggers early repayment of the securities. We refer to this as "economic early amortization," which is based on excess spread levels. Excess spread is the amount by which income received with respect to the securitized credit card receivables during a collection period including interest collections, fees and interchange, exceeds the fees and expenses of DCENT during such collection period, including interest expense, servicing fees and charged-off receivables. In the event of an economic early amortization, which would occur if the excess spread fell below 0% on a three-month rolling average basis, we would be required to repay all outstanding securitized borrowings using available collections received with respect to the securitized credit card receivables. For the three months ended **June 30, 2024** **September 30, 2024**, the DiscoverSeries three-month rolling average excess spread was **14.07%** **14.00%**. The period of ultimate repayment would be determined by the amount and timing of collections received.

Through our wholly-owned indirect subsidiary, Discover Funding LLC, we are required to maintain an interest in a contractual minimum level of receivables in DCMT in excess of the face value of outstanding investors' interests. This minimum interest is referred to as the minimum seller's interest. The required minimum seller's interest in the pool of trust receivables is approximately 7% in excess of the total investors' interests, which includes interests held by third parties as well as those interests held by us. If the level of receivables in DCMT were to fall below the required minimum, we would be required to add receivables from the unrestricted pool of receivables, which would increase the amount of credit card receivables restricted for securitization investors. A decline in the amount of the excess seller's interest could occur if balance repayments and charge-offs exceeded new lending on the securitized accounts or as a result of changes in total outstanding investors' interests. Seller's interest exhibits seasonality as higher receivable balance

repayments tend to occur in the first calendar year quarter. If we could not add enough receivables to satisfy the minimum seller's interest requirement, an early amortization (or repayment) of investors' interests would be triggered.

An early amortization event would impair our liquidity and may require us to utilize our available non-securitization-related contingent liquidity or rely on alternative funding sources, which may or may not be available at the time. We have several strategies we can deploy to prevent an early amortization event. For instance, we could add receivables to DCMT, which would reduce our available borrowing capacity at the Federal Reserve discount window. Alternatively, we could employ structured discounting, which was used effectively in 2009 to bolster excess spread and mitigate early amortization risk.

The following table summarizes expected contractual maturities of the investors' interests in credit card securitizations, excluding those that have been issued to our wholly-owned subsidiaries (dollars in millions):

<u>At June 30, 2024</u>				
<u>At June 30, 2024</u>				
<u>At June 30, 2024</u>		Total	Less Than One Year	One Year and Thereafter
<u>At September 30, 2024</u>				
<u>At September 30, 2024</u>				
<u>At September 30, 2024</u>		Total	Less Than One Year	One Year and Thereafter

Scheduled maturities of borrowings - owed to credit card securitization investors

The "AAA(sf)" and "Aaa(sf)" ratings of the DCENT DiscoverSeries Class A Notes issued to date have been based, in part, on an FDIC rule, which created a safe harbor that provides that the FDIC, as conservator or receiver, will not use its power to disaffirm or repudiate contracts, seek to reclaim or recover assets transferred in connection with a securitization, or recharacterize assets transferred in connection with a securitization as assets of the insured depository institution, provided such transfer satisfies the conditions for sale accounting treatment under previous GAAP. Although the implementation of Financial Accounting Standards Board Accounting Standards Codification Topic 860, *Transfers and Servicing*, no longer qualified certain transfers of assets for sale accounting treatment, the FDIC approved a final rule that preserved the safe-harbor treatment applicable to revolving trusts and master trusts, including DCMT, so long as those trusts would have satisfied the original FDIC safe harbor if evaluated under GAAP pertaining to transfers of financial assets in effect prior to December 2009. However, other legislative and regulatory developments may impact our ability or desire to issue asset-backed securities in the future.

Federal Home Loan Bank Advances

Discover Bank is a member bank of the FHLB of Chicago, one of 11 FHLBs that, along with the Office of Finance, compose the FHLB System. The FHLBs are government-sponsored enterprises of the U.S. ("U.S. GSEs") chartered to improve the availability of funds to support home ownership. As such, senior debt obligations of the FHLBs feature the same credit ratings as U.S. Treasury securities and are considered high-quality liquid assets for bank regulatory purposes. Consequently, the FHLBs benefit from consistent capital market access during nearly all macroeconomic and financial market conditions and low funding costs, which they pass on to their member banks when they borrow advances. Thus, we consider FHLB advances a stable and reliable funding source for Discover Bank for short-term contingency liquidity and long-term asset-liability management.

As a member of the FHLB of Chicago, Discover Bank has access to short- and long-term advance structures with maturities ranging from overnight to 30 years. At June 30, 2024 September 30, 2024, we had total committed borrowing capacity of \$4.4 billion \$4.9 billion based on the amount and type of assets pledged, of which \$1.0 billion of long-term advances were outstanding with the FHLB of Chicago. Under certain stressed conditions, we could pledge our liquidity portfolio securities and borrow against them at a modest reduction to their value.

Other Long-Term Borrowings—Corporate and Bank Debt

The following table provides a summary of Discover Financial Services (Parent Company) and Discover Bank outstanding fixed-rate debt (dollars in millions):

<u>At June 30, 2024</u> <u>September 30, 2024</u>	Principal Amount	
	Outstanding	
Discover Financial Services (Parent Company) fixed-rate senior notes, maturing 2024-2032	\$	3,350
Discover Financial Services (Parent Company) fixed-rate retail notes, maturing 2025-2031	\$	139
Discover Financial Services (Parent Company) fixed to floating-rate senior notes, maturing 2034	\$	1,000
Discover Bank fixed-rate senior bank notes, maturing <u>2024-2030</u> <u>2026-2030</u>	\$	<u>3,550</u> <u>2,800</u>
Discover Bank fixed-rate subordinated bank notes, maturing 2028	\$	500

At June 30, 2024 September 30, 2024, \$694 million \$644 million of interest on our fixed-rate debt is due in less than one year and \$1.9 billion \$1.7 billion of interest is due in one year and thereafter. See Note 6: Long-Term Borrowings to our condensed consolidated financial statements for more information on the maturities of our long-term borrowings.

Short-Term Borrowings

As part of our regular funding strategy, we may, from time to time, borrow short-term funds in the federal funds market or the repurchase ("repo") market through repurchase agreements. Federal funds are short-term, unsecured loans between banks or other financial entities with a Federal Reserve account. Funds borrowed in the repo market are short-term, collateralized loans, usually secured with highly rated investment securities such as U.S. Treasury bills or notes, or mortgage bonds or debentures issued by government agencies or U.S. GSEs. At **June 30, 2024** **September 30, 2024**, there were no outstanding balances in the federal funds market or under repurchase agreements. Additionally, we have access to short-term advance structures through privately placed asset-backed securitizations. At **June 30, 2024** **September 30, 2024**, there were **no \$750 million** of short-term advances outstanding from private asset-backed securitizations.

Additional Funding Sources

Private Asset-Backed Securitizations

We have access to committed borrowing capacity through privately placed asset-backed securitizations. While we may utilize funding from these private securitizations from time to time for normal business operations, their committed nature also makes them a reliable contingency funding source. Therefore, we reserve some undrawn capacity, informed by our liquidity stress test results, for any contingency funding needs. At **June 30, 2024** **September 30, 2024**, we had a total committed capacity of \$3.5 billion, **none \$750 million** of which was drawn. We seek to ensure the stability and reliability of these securitizations by staggering their maturity dates, renewing them well ahead of their scheduled maturity dates and periodically drawing them for operational tests and seasonal funding needs.

Federal Reserve

Discover Bank has access to the Federal Reserve Bank of Philadelphia's discount window. As of **June 30, 2024** **September 30, 2024**, Discover Bank had **\$39.6 billion** **\$46.1 billion** of available borrowing capacity through the discount window based on the amount and type of assets pledged, primarily consumer loans. As of **June 30, 2024** **September 30, 2024**, we had no borrowings outstanding under the discount window and reserve this capacity as a source of contingency liquidity.

Funding Uses

Our primary uses of funds include the extensions of loans and credit to customers, primarily through Discover Bank; the maintenance of sufficient working capital for routine operations; the service of our debt and capital obligations, including interest, principal and dividend payments; and the purchase of investment securities for our liquidity portfolio.

In addition to originating consumer loans to new customers, we also extend credit to existing customers, which primarily arises from agreements for unused lines of credit on certain credit cards and certain other loan products, provided there is no violation of conditions established in the related agreement. At **June 30, 2024** **September 30, 2024**, our unused credit arrangements were approximately **\$232.8 billion** **\$233.7 billion**. These arrangements, substantially all of which we can terminate at any time and which do not necessarily represent future cash requirements, are periodically reviewed based on account usage, customer creditworthiness, loan qualification and the cost of capital.

In the normal course of business, we enter into various contracts for goods and services, such as consulting, outsourcing, data, sponsorships, software licenses, telecommunications and global merchant acceptance, among other things. These contracts are legally binding and specify all significant terms, including any applicable fixed future cash payments.

As of **June 30, 2024** **September 30, 2024**, we have debt obligations, common stock and preferred stock outstanding, for which we incur servicing costs. Refer to "— Funding Sources" and "— Capital" for more information related to our debt obligations and capital service, respectively, and the timing of expected payments.

We assess funding uses and liquidity needs under stressed and normal operating conditions, considering primary uses of funding, such as on-balance sheet loans and contingency uses of funding, such as the need to post additional collateral for derivatives positions. To anticipate funding needs under stress, we conduct liquidity stress tests to assess the impact of idiosyncratic, systemic and hybrid (i.e., idiosyncratic and systemic) scenarios with varying levels of liquidity risk reflecting a range of stress severity. If we determine we have excess cash and cash equivalents above what is required for daily operations, we may invest in highly liquid, unencumbered assets that we expect to be able to convert to cash quickly and with little loss of value using the repo market or other secured borrowing or outright sales.

Guarantees

Guarantees are contracts or indemnification agreements that may require us to make payments to a guaranteed party based on changes in an underlying asset, liability, or equity security of a guaranteed party, rate or index. Also included in guarantees are contracts that may require the guarantor to make payments to a guaranteed party based on another entity's failure to perform under an agreement. Our guarantees relate to transactions processed on the Discover Network and certain transactions processed by PULSE and Diners Club. In the ordinary course of business, we guarantee payment on behalf of subsidiaries relating to contractual obligations with external parties. The activities of the subsidiaries covered by any such guarantees are included in our consolidated financial statements. See Note 12: Commitments, Contingencies and Guarantees to our consolidated financial statements for further discussion regarding our guarantees.

Credit Ratings

Our borrowing costs and capacity in certain funding markets, including those for securitizations and unsecured senior and subordinated debt, may be affected by the credit ratings of DFS, Discover Bank and the securitization trusts. Downgrades in these credit ratings could result in higher interest expense on our unsecured debt and asset

securitizations, as well as higher credit enhancement requirements for both our public and private asset securitizations. In addition to increased funding costs, deterioration in our credit ratings could reduce our borrowing capacity in the unsecured debt and asset securitization capital markets.

The table below reflects our current credit ratings and outlooks:

	Moody's Investors Service ⁽¹⁾	Standard & Poor's	Fitch Ratings
Discover Financial Services			
Senior unsecured debt	Baa2	BBB-	BBB+
Outlook for Discover Financial Services senior unsecured debt	Under Review	Positive	Positive
Discover Bank			
Senior unsecured debt	Baa1	BBB	BBB+
Outlook for Discover Bank senior unsecured debt	Under Review	Positive	Positive
Subordinated debt	Baa1	BBB-	BBB
Discover Card Execution Note Trust (DCENT)			
Class A ⁽²⁾	Aaa(sf)	AAA(sf)	AAA(sf)

(1) On February 20, 2024, following the announcement of the pending merger between Discover and Capital One, Moody's Investors Service placed all long-term ratings and assessments for DFS and Discover Bank under review with direction uncertain.

(2) An "sf" in the rating denotes rating agency identification for structured finance product ratings.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating. A credit rating outlook reflects an agency's opinion regarding the likely rating direction over the medium term, often a period of about a year, and indicates the agency's belief that the issuer's credit profile is consistent with its current rating level at that point in time.

Liquidity

We seek to ensure that we have adequate liquidity to sustain business operations, fund asset growth and satisfy debt obligations under stressed and normal operating conditions. In addition to the funding sources discussed in the previous section, we also maintain highly liquid, unencumbered assets in our liquidity portfolio that we expect to be able to convert to cash quickly and with little loss of value using either the repo market or other secured borrowing or outright sales.

We maintain a liquidity risk and funding management policy, which outlines the overall framework and general principles we follow in managing liquidity risk across our business. The Board of Directors approves the policy and the Asset and Liability Management Committee (the "ALCO") is responsible for its implementation. We seek to balance the trade-offs between maintaining too much liquidity, which may be costly, with having too little liquidity, which could cause financial distress. The ALCO, chaired by our Treasurer, has cross-functional membership and manages liquidity risk centrally. The ALCO monitors the liquidity risk profiles of DFS and Discover Bank and oversees any actions Corporate Treasury may take to ensure that we maintain ready access to our funding sources and sufficient liquidity to meet current and projected needs. In

addition, the ALCO and our Board of Directors regularly review our compliance with our liquidity limits at DFS and Discover Bank, which are established in accordance with the liquidity risk appetite set by our Board of Directors.

We employ a variety of metrics to monitor and manage liquidity. We utilize early warning indicators ("EWIs") to detect emerging liquidity stress events. The EWIs include both idiosyncratic and systemic measures and are monitored daily and reported to the ALCO regularly. A warning from one or more of these indicators triggers prompt review and decision-making by our senior management team and, in certain instances, may lead to the convening of a senior-level response team and activation of our contingency funding plan.

In addition, we conduct liquidity stress tests regularly and ensure contingency funding is in place to address potential liquidity shortfalls. We evaluate a range of stress scenarios that are designed to follow regulatory requirements, including idiosyncratic, systemic and a combination of such events that could impact funding sources and our ability to meet liquidity needs. These scenarios measure the projected liquidity position at DFS and Discover Bank across a range of periods by comparing estimated contingency funding needs to available contingency liquidity.

Our primary contingency liquidity sources include our liquidity portfolio securities, which we could sell, repo or borrow against, and private securitizations with unused borrowing capacity. In addition, we could borrow FHLB advances by pledging securities to the FHLB of Chicago. Moreover, we have unused borrowing capacity with the Federal Reserve discount window, which provides an additional source of contingency liquidity. We seek to maintain sufficient liquidity to satisfy all maturing obligations and fund business operations for at least 12 months in a severe stress environment. In such an environment, we may also take actions to curtail the size of our balance sheet, which would reduce the need for funding and liquidity.

At June 30, 2024 September 30, 2024, our liquidity portfolio was composed of highly liquid, unencumbered assets, including cash and cash equivalents, short-term investments and investment securities. Cash and cash equivalents were primarily deposits with the Federal Reserve. Short-term investments were primarily comprised of Treasury

bills with contractual maturities greater than 90 days but less than one year at the time of acquisition. Investment securities primarily included debt obligations of the U.S. Treasury and U.S. GSEs and residential mortgage-backed securities issued by U.S. government agencies or U.S. GSEs. These investments, nearly all of which are classified as available-for-sale, are considered highly liquid and we expect to have the ability to raise cash by selling them, utilizing repurchase agreements or pledging certain of these investments to access secured funding. The size and composition of our liquidity portfolio may fluctuate based on the size of our balance sheet as well as operational requirements, market conditions and interest rate risk management objectives.

At June 30, 2024 September 30, 2024, our liquidity portfolio and undrawn credit facilities were \$68.8 billion \$77.5 billion, which was \$931 million lower \$7.8 billion higher than the balance at December 31, 2023. Our liquidity portfolio and undrawn credit facilities decreased increased primarily as a result of a decrease an increase in cash and cash equivalents. unused borrowing capacity with the Federal Reserve discount window. During the three and six nine months ended June 30, 2024 September 30, 2024, the average balance of our liquidity portfolio was \$23.7 billion \$23.5 billion and \$24.5 billion \$24.2 billion, respectively. Our liquidity portfolio and undrawn facilities consist of the following (dollars in millions):

	June 30, 2024	December 31, 2023
	September 30, 2024	December 31, 2023
Liquidity portfolio		
Cash and cash equivalents ⁽¹⁾		
Cash and cash equivalents ⁽¹⁾		
Cash and cash equivalents ⁽¹⁾		
Investment securities ⁽²⁾		
Investment securities ⁽²⁾		
Other short-term investments		
Investment securities ⁽²⁾		
Total liquidity portfolio		
Private asset-backed securitizations ⁽³⁾		
Federal Home Loan Bank of Chicago		
Primary liquidity sources		
Federal Reserve discount window ⁽³⁾		
Total liquidity portfolio and undrawn credit facilities		

(1) Cash in the process of settlement and restricted cash are excluded from cash and cash equivalents for liquidity purposes.

(2) Excludes \$442 million \$407 million and \$320 million of U.S. Treasury securities that have been pledged as swap collateral in lieu of cash as of June 30, 2024 September 30, 2024 and December 31, 2023, respectively.

(3) See "— Additional Funding Sources" for additional information.

Bank Holding Company Liquidity

The primary uses of funds at the unconsolidated DFS level include debt service obligations (interest payments and return of principal) and capital service and management activities, including dividend payments on capital instruments and the periodic repurchase of shares of our common stock. Our primary sources of funds at the bank holding company level include the proceeds from the issuance of unsecured debt and capital securities, as well as dividends from our subsidiaries, notably Discover Bank. Under periods of idiosyncratic or systemic stress, the bank holding company could lose or experience impaired access to the capital markets. In addition, our regulators have the discretion to restrict dividend payments from Discover Bank to the bank holding company.

We utilize a measure referred to as Number of Months of Pre-Funding to determine the length of time DFS can meet upcoming funding obligations, including common and preferred stock dividend payments and debt service obligations using existing cash resources. In managing this metric, we structure our debt maturity schedule to manage prudently the amount of debt maturing within a short period. See Note 6: Long-Term Borrowings to our condensed consolidated financial statements for further information regarding our debt.

Capital

Our primary sources of capital are the earnings generated by our businesses and the proceeds from issuances of capital securities. We seek to manage capital to a level and composition sufficient to support our businesses' growth, account for their risks, and meet regulatory requirements, rating agency targets and debt investor expectations. Within these constraints,

we are focused on deploying capital in a manner that provides attractive returns to our stockholders. The level, composition and utilization of capital are influenced by changes in the economic environment, strategic initiatives and legislative and regulatory developments.

Under regulatory capital requirements adopted by the Federal Reserve and the FDIC, DFS, along with Discover Bank, must maintain minimum capital levels. Failure to meet minimum capital requirements can result in the initiation of certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could limit our business activities and have a direct material effect on our financial condition and operating results. We must meet specific capital requirements that involve quantitative measures of assets, liabilities and certain off-balance sheet items, as calculated under regulatory guidance and regulations. Current or future legislative or regulatory reforms, such as those related to

the adoption of the CECL accounting model or those related to the proposed revisions to the Basel Committee's December 2010 framework ("Basel III rules"), may require us to hold more capital and/or adversely impact our capital level. We consider the potential impacts of these reforms in managing our capital position.

DFS and Discover Bank are subject to regulatory capital rules issued by the Federal Reserve and the FDIC, respectively, under the Basel III rules. Under these rules, DFS and Discover Bank are classified as "standardized approach" entities as they are U.S. banking organizations with consolidated total assets over \$50 billion but not exceeding \$250 billion and consolidated total on-balance sheet foreign exposures less than \$10 billion. The Basel III rules require DFS and Discover Bank to maintain minimum risk-based capital and leverage ratios and define what constitutes capital for purposes of calculating those ratios.

In accordance with the final rule on the impact of CECL on regulatory capital, we have elected to phase in the impact over three years, beginning in 2022. By electing this option, our Common Equity Tier 1 ("CET1") capital ratios are higher than they otherwise would have been. The phase-in of the CECL accounting model decreased CET1 by \$1.6 billion as of January 1, 2024. For additional information regarding the risk-based capital and leverage ratios, see Note 11: Capital Adequacy to our condensed consolidated financial statements.

Federal Reserve rules impose limitations on DFS' capital distributions if we do not maintain our risk-based capital ratios above stated regulatory minimum ratios based on the results of supervisory stress tests. We are required to assess whether DFS' planned capital actions are consistent with the effective capital distribution limitations that will apply on a pro-forma basis throughout the planning horizon.

The SCB requirement is institution-specific and is calculated as the greater of (i) 2.5% and (ii) the sum of (a) the difference between DFS' actual CET1 ratio at the beginning of the forecast and the projected minimum CET1 ratio based on the Federal Reserve's models in its nine-quarter Severely Adverse stress scenario, plus (b) the sum of the dollar amount of DFS' planned common stock dividend distributions for each of the fourth through seventh quarters of its nine-quarter capital planning horizon, expressed as a percentage of risk-weighted assets. For Category IV firms, including DFS, the Federal Reserve calculates each firm's SCB biennially in even-numbered calendar years, and did so in 2022. Based on the results of the 2022 CCAR exercise released by the Federal Reserve, our SCB was set at 2.5%, the lowest possible requirement, effective October 1, 2022, through September 30, 2023. In odd-numbered years, each firm subject to Category IV standards that did not opt-in to such year's supervisory stress tests as part of the Federal Reserve's CCAR process receives an adjusted

SCB requirement that is updated to reflect its planned common stock dividends per the firm's annual capital plan. In July 2023, the Federal Reserve disclosed that our SCB requirements to firms subject to Category IV standards that did not opt-in to this year's stress test. Our SCB remains unchanged at 2.5%, effective beginning October 1, 2023 through September 30, 2024. On April 5, 2024, we submitted our 2024 capital plan to the Federal Reserve and on Reserve. On June 26, 2024, the Federal Reserve announced the results of the 2024 CCAR exercise. While exercise, followed by the Federal Reserve will not announce release of the final large bank capital requirements on August 28, 2024. Our new SCB requirements until August, Discover's preliminary SCB has requirement increased to 3.1%. The new SCB would be and is effective from October 1, 2024, through September 30, 2025, subject to potential recalculation as discussed below, herein.

Under the Basel III rules, a firm must update and resubmit its capital plan under certain circumstances, including a material change in the firm's risk profile, financial condition or corporate structure since its last capital plan submission. On February 19, 2024, Discover and We determined our entry into the Merger Agreement with Capital One jointly announced that they entered into a Merger Agreement, under which the companies will combine in an all-stock merger, which we determined required us to resubmit our capital plan. We plan and we submitted our updated capital plan on May 3, 2024 and the . The resubmission process is ongoing. See "— Regulatory Environment and Developments — Banking — Capital Standards and Stress Testing" for additional information.

At June 30, 2024 September 30, 2024, DFS and Discover Bank met the requirements for "well-capitalized" status under the Federal Reserve's Regulation Y and the prompt corrective action rules and corresponding FDIC requirements, respectively, exceeding the regulatory minimums to which they were subject under the applicable rules.

Basel III rules also require disclosures relating to market discipline. This series of disclosures is commonly referred to as "Pillar 3." The objective is to increase the transparency of capital requirements for banking organizations. We are required to make prescribed regulatory disclosures quarterly regarding our capital structure, capital adequacy, risk exposures and risk-weighted assets. We make the Pillar 3 disclosures publicly available on our website in a report called "Basel III Regulatory Capital Disclosures."

We disclose tangible common equity, which represents common equity less goodwill and intangibles. Management believes that common stockholders' equity excluding goodwill and intangibles is meaningful to investors as a measure of our true net asset value. At June 30, 2024 September 30, 2024, tangible common equity is considered to be a non-GAAP financial measure as it is not formally defined by GAAP or codified in the federal banking regulations. Other financial services companies may also disclose this measure and definitions may vary. We advise users of this information to exercise caution in comparing this measure among different companies.

The following table reconciles total common stockholders' equity (a GAAP financial measure) to tangible common equity (dollars in millions):

	June 30, 2024	December 31, 2023
	September 30, 2024	December 31, 2023

(As Restated)

Total common stockholders' equity(1)
Less: goodwill
Tangible common equity
Tangible common equity
Tangible common equity

(1) Total common stockholders' equity is calculated as total stockholders' equity less preferred stock.

Our Board of Directors declared the following common stock dividends during 2024 and 2023:

Declaration Date	Record Date	Payment Date	Dividend per Share
2024			
October 14, 2024	November 21, 2024	December 05, 2024	\$ 0.70
July 15, 2024	August 22, 2024	September 05, 2024	\$ 0.70
April 17, 2024	May 23, 2024	June 06, 2024	0.70
January 16, 2024	February 22, 2024	March 07, 2024	0.70
Total common stock dividends			\$ 2.10 2.80
2023			
October 16, 2023	November 22, 2023	December 07, 2023	\$ 0.70
July 17, 2023	August 24, 2023	September 07, 2023	0.70
April 17, 2023	May 25, 2023	June 08, 2023	0.70
January 17, 2023	February 23, 2023	March 09, 2023	0.60
Total common stock dividends			\$ 2.70

Our Board of Directors declared the following Series C preferred stock dividends during 2024 and 2023:

			Dividend per Depositary	
Declaration Date	Record Date	Payment Date	Share	
<u>2024</u>				
July 15, 2024	October 15, 2024	October 30, 2024	\$	27.50
January 16, 2024	April 15, 2024	April 30, 2024		27.50
Total Series C preferred stock dividends			\$	55.00
<u>2023</u>				
July 17, 2023	October 13, 2023	October 30, 2023	\$	27.50
January 17, 2023	April 14, 2023	May 01, 2023		27.50
Total Series C preferred stock dividends			\$	55.00

Our Board of Directors declared the following Series D preferred stock dividends during 2024 and 2023:

Declaration Date	Record Date	Payment Date	Dividend per Depository	
			Share	
<u>2024</u>				
July 15, 2024	September 06, 2024	September 23, 2024	\$	30.625
January 16, 2024	March 08, 2024	March 25, 2024		30.625
Total Series D preferred stock dividends			\$	61.250
<u>2023</u>				
July 17, 2023	September 08, 2023	September 25, 2023	\$	30.625
January 17, 2023	March 08, 2023	March 23, 2023		30.625
Total Series D preferred stock dividends			\$	61.250

The amount and size of any future dividends and share repurchases will depend on our results of operations, financial condition, capital levels, cash requirements, future prospects, regulatory review and other factors. Under the Merger Agreement with Capital One, quarterly cash dividends on our common stock may not exceed \$0.70 per share

without the prior written consent of Capital One. For additional information on the merger, see Note 1: Background and Basis of Presentation — Pending Merger with Capital One Financial Corporation to our condensed consolidated financial statements. The declaration and payment of future dividends and the amount thereof are otherwise subject to the discretion of our Board of Directors. Holders of our shares of common stock are subject to the prior dividend rights of holders of our preferred stock or the depositary shares representing such preferred stock outstanding. No dividend may be declared or paid or set aside for payment on our common stock if full dividends have not been declared and paid on all outstanding shares of preferred stock in any dividend period. In addition, as noted above, banking laws and regulations and our banking regulators may limit our ability to pay dividends and make share repurchases, including limitations on the extent our banking subsidiary (Discover

Bank) can provide funds to us through dividends, loans or otherwise. Further, current or future regulatory reforms, such as those that propose to alter the Basel III standards, may require us to hold more capital or could adversely impact our capital level. As a result, there can be no assurance that we will declare and pay any dividends or repurchase any shares of our common stock in the future.

Our Board of Directors approved a share repurchase program in April 2023. The program authorized up to \$2.7 billion of share repurchases through June 30, 2024. During the three and nine months ended September 30, 2024, and replaced the prior \$4.2 billion share repurchase program. If and when we repurchase our shares under the program, we may use various methods, including open market purchases, privately negotiated transactions or other purchases, including block trades, accelerated share repurchase transactions, or any combination of such methods. There were no share repurchases during the three and six months ended June 30, 2024. In accordance with the Merger Agreement with Capital One, we have paused share repurchases through the completion of the merger.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, correlations or other market factors will result in losses for an investment position or portfolio. We are exposed to market risk primarily from changes in interest rates.

Interest Rate Risk

We borrow money from various depositors and institutions to provide loans to our customers and invest in other assets and our business. These loans to customers and other assets earn interest, which we use to pay interest on the money borrowed. Our net interest income and, therefore, earnings will be reduced if the interest rate earned on assets increases at a slower pace than the interest rate paid on our borrowings. Changes in interest rates and our competitors' responses to those changes may influence customer payment rates, loan balances or deposit account activity. As a result, we may incur higher funding costs that could decrease our earnings.

Our interest rate risk management policies are designed to measure and manage the potential volatility of earnings that may arise from changes in interest rates by having a portfolio that reflects our mix of variable- and fixed-rate assets and liabilities. To the extent that the repricing characteristics of the assets and liabilities in a particular portfolio are not sufficiently matched, we may utilize interest rate derivative contracts, such as swap agreements, to achieve our objectives. Interest rate swap agreements effectively convert the underlying asset or liability from fixed- to floating-rate or from floating- to fixed-rate. See Note 15: Derivatives and Hedging Activities to our condensed consolidated financial statements for information on our derivatives activity.

We use an interest rate sensitivity simulation to assess our interest rate risk exposure. For purposes of presenting the possible earnings effect of a hypothetical, adverse change in interest rates over the 12 months from our reporting date, we assume that all interest-rate-sensitive assets and liabilities are subject to a hypothetical, immediate 100 basis point change in interest rates relative to market consensus expectations as of the beginning of the period. The sensitivity simulation includes the hypothetical assumption that all relevant types of interest rates would change instantaneously, simultaneously and to the same degree.

Our interest-rate-sensitive assets include our variable-rate loan receivables and certain assets in our liquidity portfolio. We have limitations on our ability to mitigate interest rate risk by adjusting rates on existing balances. Further, competitive actions may limit our ability to increase the rates that we charge to customers for new loans. At June 30, 2024, the majority of our credit card and private student loans charge variable rates. Fixed-rate assets that will mature or otherwise contractually reset to a market-based indexed rate or other fixed-rate prior to the end of the 12-month measurement period are considered to be rate sensitive. The latter category includes certain revolving credit card loans that may be offered at below-market rates for an introductory period, such as balance transfers and special promotional programs, after which the loans will contractually reprice in accordance with our normal market-based pricing structure. For assets with a fixed interest rate that contractually will, or is assumed to, reset to a market-based indexed rate or other fixed rate during the next 12 months, earnings sensitivity is measured from the expected repricing date. In addition, for all interest rate sensitive assets, earnings sensitivity is calculated net of expected credit losses. For purposes of this analysis, expected credit losses are assumed to remain unchanged relative to our baseline expectations over the analysis horizon.

Interest-rate-sensitive liabilities are assumed to be those for which the stated interest rate is not contractually fixed for the next 12 months. Thus, liabilities that vary with changes in a market-based index, such as the federal funds rate or SOFR, which will reset before the end of the next 12 months, or liabilities that have fixed rates at the fiscal period end but will mature and are assumed to be replaced with a market-based indexed rate prior to the end of the next 12 months, are also considered to be rate sensitive. For these fixed-rate liabilities, earnings sensitivity is measured from the expected maturity date.

Net interest income sensitivity simulations require assumptions regarding market conditions, consumer behavior and the growth and composition of our balance sheet. Our view of market conditions utilizes the implied forward interest rate projection at the beginning of our analysis horizon. This view serves as the base for interest rate risk simulations. We apply rate shocks to the base implied forward curve to measure our overall interest rate sensitivity position. Our view of balance sheet composition and growth utilizes our corporate forecast. On at least a quarterly basis, we create a corporate forecast that incorporates receivable growth and seasonality. The appropriate level of funding is projected and utilizes a diverse mix of instruments with issuance based on expected market conditions. At the same time, optimal levels of liquidity are maintained in accordance with internal guidelines. The degree by which our deposit rates change when benchmark interest rates change,

our deposit "beta," is one of the most significant of these assumptions. Assumptions about deposit beta and other matters are inherently uncertain and, as a result, actual earnings may differ from the simulated earnings presented below. Our actual earnings depend on multiple factors including, but not limited to, the direction and timing of changes in interest rates, the movement of short-term interest rates relative to long-term rates, balance sheet composition, competitor actions affecting pricing decisions in our loans and deposits, the mix of promotional balances in our card portfolio, the level of interest charge-offs and recoveries, the influence of loan repayment rates on revolving balances and strategic actions undertaken by our management.

We have taken actions to bring our net interest income sensitivity closer to neutral as the Federal Reserve has slowed its pace of monetary policy tightening and the outlook for near-term U.S. economic growth may be weakening. The following table shows the impacts to net interest income over the following 12-month period that we estimate would result from an immediate and parallel change in interest rates affecting all interest rate sensitive assets and liabilities. At **June 30, 2024** **September 30, 2024**, these numbers include a sale of the private student loan portfolio (dollars in millions):

At June 30, 2024						At December 31, 2023							
At September 30, 2024						At December 31, 2023							
Basis point change	Basis point change												
		\$	%			\$		% change		\$		%	
+100	+100	\$ 82	0.58	0.58	%	\$ 161	1.17	1.17	%	+100	\$ 92	0.65	
-100	-100	\$ (75)	(0.53)	(0.53)	%	\$ (153)	(1.11)	(1.11)	%	-100	\$ (74)	(0.52)	

Given the nature of our loan portfolio, the impact to our net interest income is far more linear across various rate increase or decrease scenarios that would be true for a financial institution with significant rate-sensitive prepayment risk from the exposure to mortgages.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our **interim** Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**"), we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in **Rule Rules** 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our **Chief Executive Officer interim CEO** and **Chief Financial Officer, CFO**, as appropriate to allow timely decisions regarding required disclosure. **Based**

Due to the material weaknesses disclosed within Part II, "Item 9A Controls and Procedures" of the Company's annual report on this evaluation, Form 10-K/A for the year ended December 31, 2023 that led to the restatement of the Company's condensed consolidated historical financial statements, our **Chief Executive Officer interim CEO** and **Chief Financial Officer CFO** concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2024. For additional information see the Explanatory Note and Part II, Item 9A. Controls and Procedures of the Company's annual report on Form 10-K/A for the year ended December 31, 2023 filed on December 23, 2024.

Notwithstanding the conclusion by our interim CEO and CFO that our disclosure controls and procedures were **not** effective as of September 30, 2024, and notwithstanding the **end** material weaknesses in our internal control over financial reporting described in Part II, Item 9A Controls and Procedures of the Company's annual report on Form 10-K/A for the year ended December 31, 2023, our interim CEO and CFO have concluded that the condensed consolidated financial statements as issued in this Quarterly Report on Form 10-Q present fairly, in all material respects, the Company's financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the U.S. ("**GAAP**").

Remediation Plan and Status

As of September 30, 2024, we have made progress against the remediation plan that we previously disclosed under Part II, Item 9A. Controls and Procedures in the Company's annual report on Form 10-K/A for the year ended December 31, 2023. While we believe that our remediation plan is sufficient to remediate the material weaknesses, such a conclusion cannot be reached until applicable controls have been designed, implemented and have operated for a sufficient period **covered by** of time and management has concluded, through testing, that these controls are operating effectively. As of September 30, 2024, this **report** evaluation remains ongoing and we have not yet concluded on remediation.

Changes in Internal Control over Financial Reporting

There Other than as outlined above, **there** have been no changes in our internal control over financial reporting (as such term is defined in Exchange Act **Rule Rules** 13a-15(f) and 15d-15(f)) that occurred during the **period covered by this report** quarter ended **September 30, 2024** that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Glossary of Acronyms

- **ALCO:** Asset and Liability Management Committee
- **AOI:** Accumulated Other Comprehensive Income (Loss)
- **ASC:** Accounting Standards Codification
- **ASU:** Accounting Standards Update
- **ATM:** Automated Teller Machine
- **CCAR:** Comprehensive Capital Analysis and Review
- **CCPA:** California Consumer Privacy Act
- **CECL:** Current Expected Credit Loss
- **CET1:** Common Equity Tier 1
- **CFPB:** Consumer Financial Protection Bureau
- **CODM:** Chief Operating Decision Maker
- **CPPA:** California Privacy Protection Agency
- **DCENT:** Discover Card Execution Note Trust
- **DCMT:** Discover Card Master Trust I
- **DFS:** Discover Financial Services
- **EPS:** Earnings Per Share
- **ESG:** Environmental, Social and Governance
- **EWI:** Early Warning Indicator
- **FASB:** Financial Accounting Standards Board
- **FDIC:** Federal Deposit Insurance Corporation
- **FHLB:** Federal Home Loan Bank
- **GAAP:** Accounting Principles Generally Accepted in the United States
- **GLBA:** Gramm-Leach-Bliley Act
- **NPI:** Nonpublic Personal Information
- **OCC:** Office of the Comptroller of the Currency
- **OCI:** Other Comprehensive Income (Loss)
- **RMBS:** Residential Mortgage-Backed Securities
- **SCB:** Stress Capital Buffer
- **SEC:** Securities and Exchange Commission
- **SOFR:** Secured Overnight Financing Rate
- **UDAAP:** Unfair, Deceptive or Abusive Acts or Practices
- **U.S.:** United States of America
- **U.S. GSE:** Government-sponsored Enterprise of the U.S.
- **VIE:** Variable Interest Entity

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 13: Litigation and Regulatory Matters to our condensed consolidated financial statements for a description of legal proceedings.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K 10-K/A for the year ended December 31, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

In accordance with the Merger Agreement with Capital One, share repurchases have been paused through the completion of the merger. For more information on the pending merger, see Note 1: Background and Basis of Presentation — Pending Merger with Capital One Financial Corporation to our condensed consolidated financial statements.

The following table sets forth information regarding purchases of our common stock related to our share repurchase program and employee transactions made by us or on our behalf during the most recent quarter.

Period	Total Number of Shares		Average Price Paid Per		Total Number of Shares	Maximum Dollar Value of
	Purchased		Share ⁽³⁾		Purchased as Part of Publicly Announced Plan or Program ⁽¹⁾⁽⁴⁾	Shares that may yet be purchased under the Plans or Programs ⁽¹⁾⁽⁴⁾
April 1 - 30, 2024						
Repurchase program ⁽¹⁾⁽⁴⁾	—	\$	—		—	\$ 2,225,091,655
Employee transactions ⁽²⁾	236	\$	126.19		N/A	N/A
May 1 - 31, 2024						
Repurchase program ⁽¹⁾⁽⁴⁾	—	\$	—		—	\$ 2,225,091,655
Employee transactions ⁽²⁾	6,554	\$	124.06		N/A	N/A
June 1 - 30, 2024						
Repurchase program ⁽¹⁾⁽⁴⁾	—	\$	—		—	\$ 2,225,091,655
Employee transactions ⁽²⁾	191,691	\$	130.78		N/A	N/A
Total						
Repurchase program ⁽¹⁾⁽⁴⁾	—	\$	—		—	\$ 2,225,091,655
Employee transactions ⁽²⁾	198,481	\$	130.55		N/A	N/A

Period	Total Number of Shares		Average Price Paid Per	
	Purchased		Share ⁽²⁾	
July 1 - 31, 2024				
Employee transactions ⁽¹⁾	241	\$	130.65	
August 1 - 31, 2024				
Employee transactions ⁽¹⁾	58,227	\$	136.15	
September 1 - 30, 2024				
Employee transactions ⁽¹⁾	2,460	\$	129.90	
Total				
Employee transactions ⁽¹⁾	60,928	\$	135.87	

(1) In April 2023, our Board of Directors approved a share repurchase program authorizing the purchase of up to \$2.7 billion of our outstanding shares of common stock through June 30, 2024. This share repurchase authorization replaced our prior \$4.2 billion share repurchase program.

(2) Reflects shares withheld (under the terms of grants under employee stock compensation plans) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock units or upon the exercise of stock options.

(3) (2) Average price paid per share excludes any excise tax.

(4) In accordance with the Merger Agreement with Capital One, share repurchases have been paused through the completion of the merger. See “— Liquidity and Capital Resources — Capital” for additional information.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

Insider Trading Arrangements

During the period covered by this report, none of the Company's directors or executive officers has adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (each as defined in Item 408 of Regulation S-K under the Securities Exchange Act of 1934, as amended).

Item 6. Exhibits

See "Exhibit Index" for documents filed herewith and incorporated herein by reference.

Exhibit Index	
Exhibit Number	Description
10.1	Amendment No. 5 to Discover Financial Services Change in Control Severance Policy, as amended and restated on May 3, 2024 Employee Stock Purchase Plan, effective August 1, 2024.
10.2	Form Merger Retention Agreement. Letter Agreement, dated as of September 1, 2024, between Discover Financial Services and Hope Mehlman.
10.3	Purchase Amendment to Letter Agreement, dated July 17, 2024 as of November 26, 2024, by and between Discover Bank Financial Services and Santiago Holdings, LP (filed as Exhibit 10.1 to Discover Financial Services' Current Report on Form 8-K filed on July 17, 2024, and incorporated herein by reference thereto). Hope Mehlman.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
101	Interactive Data File — the following financial statements from Discover Financial Services Quarterly Report on Form 10-Q formatted in inline XBRL: (1) Condensed Consolidated Statements of Financial Condition, (2) Condensed Consolidated Statements of Income, (3) Condensed Consolidated Statements of Comprehensive Income, (4) Condensed Consolidated Statements of Changes in Stockholders' Equity, (5) Condensed Consolidated Statements of Cash Flows and (6) Notes to the Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File — the cover page from Discover Financial Services Quarterly Report on Form 10-Q formatted in inline XBRL and contained in Exhibit 101.

Signature

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Discover Financial Services
(Registrant)

By:

/s/ JOHN T. GREENE

John T. Greene
Executive Vice President, Chief Financial Officer

Date: July 31, 2024 December 23, 2024

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Exhibit 10.1

DISCOVER FINANCIAL SERVICES Amendment No. 5 to
CHANGE IN CONTROL SEVERANCE POLICY Discover Financial Services
Employee Stock Purchase Plan

Amended and Restated May 3, 2024

TABLE OF CONTENTS The Discover Financial Services Employee Stock Purchase Plan, as heretofore amended (the “Plan”), is hereby amended in the following respects, effective August 1, 2024:

Page1. Section 2 of the Plan is hereby amended to clarify the classes of individuals who are excluded from participating in the Plan by substituting the following new paragraph for the current second paragraph thereto:

1. Purpose.....	1
2. Effective Date.....	1
3. Definitions.....	2
4. Eligibility.....	7
5. “No right to purchase Common Stock hereunder shall accrue under the Plan on behalf of any person who is not an Eligible Termination Reasons.....	7
6. Non-Eligible Termination Reasons.....	7
7. Change in Control Severance Benefits.....	7
8. Non-competition Agreement and Consideration.....	10
9. Reduction in Payments.....	11
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12. Offsets.....	13
13. Re-employment and Other Employment.....	13
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15. Administration.....	14
16. Amendment or Termination Employee as of the Policy..... first day of a Purchase Period (as defined in Section 3).	14
17. Limitation on Individually Negotiated Severance Arrangements.....	15
18. Miscellaneous.....	15
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For purposes of clarity, and unless otherwise required by Section 423 of the Code, the term Eligible Employee will not include the following, regardless of any subsequent reclassification as an employee by the Company, any governmental agency, or any court:

Rights Under a. employees whose customary employment is for not more than five months in any calendar year (for example, interns and summer associates),

b. any independent contractor,

c. any consultant,

d. any individual performing services for the Employee Retirement Income Security Act (ERISA).....17

Additional Information..... 19

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Exhibit B.....23 Company who has entered into an independent contractor or consultant agreement with the Company,

e. any individual performing services for the Company under a purchase order, a supplier agreement or any other agreement that the Company enters into for services,

f. any individual classified by the Company as contract labor (such as contractors, contract employees, job shoppers), regardless of length of service,

g. any individual whose base wage or salary is not processed for payment by the payroll department(s) or payroll provider(s) of the Company, and

h. any leased employee.

Notwithstanding the foregoing, any employee of a Participating Company who on June 30, 2007, was eligible to participate in the Morgan Stanley Employee Stock Purchase Plan or who, on the Effective Date (as defined in Section 3) would have been so eligible if he or she had

then been employed by Morgan Stanley shall be an Eligible Employee as of the Effective Date.”

2. Section 18 is hereby amended to clarify how changes in the Company’s capital structure will be treated for purposes of the Plan by replacing Section 18 of the Plan in its entirety with the following:

“18.Changes in the Company’s Capital Structure. In the event of any change affecting the number, class, value, or terms of the shares of common stock resulting from a stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of shares of Common Stock other than a regular cash dividend, the maximum number and class of securities which may be purchased under the Plan and the purchase price per security shall be appropriately adjusted by the Board, in a manner it deems equitable, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. For the avoidance of doubt, the Board may not delegate its authority to make adjustments pursuant to this Section. The decision of the Board regarding any such adjustment shall be final, binding and conclusive. If any such adjustment would result in a fractional security being available under the Plan, such fractional security shall be disregarded. The provisions of the Plan shall be binding upon, and inure to the benefit of, all successors of the Company and each participant, including, without limitation, such Participant’s estate and all executors, administrators or trustees thereof, heirs and legatees, and any receiver, trustee in bankruptcy or representative of creditors of such participant. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, will affect, and no adjustment by reason thereof will be made with respect to, the number or price of shares subject to a purchase right.”

1. PurposeExhibit 10.2

EXECUTION COPY – FOR SETTLEMENT PURPOSES ONLY

VIA E-MAIL

September 1, 2024

Hope Mehlman

[address on file]

Dear Hope:

This change in control severance policy letter (the “Policy” “Agreement”) was established by sets forth the terms of the agreement between you and Discover Financial Services a Delaware corporation, (“Discover”) relating to (i) enable your continued employment by Discover to secure for the benefit in light of the Company the services pending acquisition of the Eligible Executives in the event of a Change in Control without concern for whether such executives might be hindered in discharging their duties Discover by the personal uncertainties and risks associated with a Change in Control, by affording such executives the opportunity Capital One Financial Corporation (the “Merger”), pursuant to protect the share value they have helped create as of the date of any Change in Control and (ii) offer income protection to such executives in the event their employment terminates involuntarily or for Good Reason in connection with a Change in Control. The Policy also provides income protection to Eligible Employees who enter into non-competition agreements with the Company following their termination of employment in connection with a Change in Control.

This Policy is a part of the Discover Financial Services Welfare Benefits Plan (“Plan”) and is a “welfare plan” within the meaning of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and shall be construed in a manner consistent with such intent.

This booklet is the Summary Plan Description (“SPD”) for the Policy and describes the Change in Control Severance Benefits offered under the Plan. This SPD explains in easy to understand language the applicable terms of the Policy. Additional SPDs are available for other benefits offered under the Plan, including medical, dental, vision, life, disability, etc. This booklet and certain other documents, including such other SPDs, any applicable insurance contracts, and any other applicable plan documents together make up the official Plan documents. If there is any conflict between the information in the Plan documents and any other materials, including any verbal representation, the Plan documents control.

You should read this SPD carefully and keep it with your other important papers for future reference. We hope you find this information helpful to you and your family.

2. **Effective Date**

This Policy was originally adopted September 21, 2007 (“Effective Date”) and amended and restated effective October 15, 2014. As of May 3, 2024, the Policy is hereby amended and restated as provided herein, effective as of immediately prior to and subject to the closing (the “Closing”) of the transactions contemplated by the Agreement and Plan of Merger dated as of February 19, 2024, by and among the Company, Discover, Capital One, Financial Corporation, and Vega Merger Sub, Inc. certain other parties (the “Merger Agreement”). In

1. **Resignation Date.** Your last day of employment as Chief Legal Officer, General Counsel and Corporate Secretary will occur on the event earlier of the Effective Time as defined in the Merger Agreement is terminated in accordance with its terms or November 29, 2024 (in either case, the “Resignation Date”). During the period through the Resignation Date, you will perform the normal and customary duties related to your roles, including the Closing does not occur, this May 3, 2024 amendment transition of your responsibilities, and restatement shall be void *ab initio* and shall be of no further effect.

3. **Definitions**

The following terms when used in this Policy and capitalized shall have the respective meanings set forth below:

Base Salary means the Eligible Executive's current annualized rate of gross base cash compensation as paid on each regularly scheduled payday for the executive's regular work schedule as of his or her Termination Date. Base Salary shall not include taxable or nontaxable fringe benefits or awards, performance awards, bonus, commission or other incentive pay, or any payments which are not made on each regular payday, regardless of how such payments may be characterized.

Board means the Board of Directors of Discover.

Cause means:

a. any act or omission which constitutes a material breach of an Eligible Executive's obligations to the Company or an Eligible Executive's failure or refusal to perform satisfactorily any duties reasonably required of an Eligible Executive, which breach, failure or refusal (if susceptible to cure) is not corrected (other than failure to correct by reason of an Eligible Executive's incapacity due to Disability) within ten (10) business days after written notification thereof to the Eligible Executive by the Company;

b. any act or omission by an Eligible Executive that constitutes (i) fraud or intentional misrepresentation, (ii) embezzlement, misappropriation or conversion of assets of, or business opportunities considered by, the Company or (iii) any other act which has caused or may reasonably be expected to cause material injury to the interest or business reputation of the Company; or

c. violation by an Eligible Executive of any securities, commodities or banking laws, any rules or regulations issued pursuant to such laws, or rules or regulations of any securities or commodities exchange or association of which the Company is a member or of any policy of the Company relating to compliance with any of the foregoing.

Change in Control means, except as provided otherwise below, the first to occur of any of the following events:

a. except as otherwise provided in clause (c) below, any person (as defined in Section 3(a)(9) of the Exchange Act, as such term is modified in Sections 13(d) and 14(d) of the Exchange Act), other than (i) any employee plan established by the Company, (ii) any group of employees holding shares subject to agreements relating to the voting of such shares, (iii) the Company (as defined in Rule 12b-2 promulgated under the Exchange Act), (iv) an underwriter temporarily holding securities pursuant to an offering of such securities, or (v) a corporation owned, directly or indirectly, by stockholders of Discover in substantially the same proportions as their ownership of Discover, either (x) acquires ownership of stock of Discover that, together with the stock held by such person (not including in the stock owned by such person any stock acquired directly from the Company other than in connection with the acquisition by the Company of a business) constitutes more than fifty percent (50%) of the total fair market value of the stock of Discover (but only if such person did not own more than 50% of the total fair market value of the stock of Discover prior to the acquisition of additional stock), or (y) acquires (or has acquired during the twelve (12)-month period ending on the date of the most recent acquisition by such person) ownership of stock of Discover possessing thirty percent (30%) or more of the total voting power of the stock of Discover (but only if such person did not own 30%

or more of the total voting power of the stock of Discover prior to the acquisition of additional stock and not including in the stock owned by such person any stock acquired directly from the Company other than in connection with the acquisition by the Company);

b. a change in the composition of the Board during any twelve-month period, such that individuals who, as of the Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a member of the Board subsequent to the Effective Date whose election, or nomination for election by Discover's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board;

c. the consummation of a merger or consolidation of Discover with any other corporation or other entity, or the issuance of securities in connection with a merger or consolidation of Discover (or any direct or indirect subsidiary of Discover) pursuant to applicable stock exchange requirements, other than (i) a merger or consolidation which results in the securities of Discover outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least fifty percent (50%) of the combined voting power of the securities of Discover or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of Discover (or similar transaction) in which no person (determined pursuant to clause (a) above) is or becomes the beneficial owner, directly or indirectly, of securities of Discover (not including in the securities beneficially owned by such person any securities acquired directly from the Company other than in connection with the acquisition by the Company of a business) representing thirty percent (30%) or more of the total voting power of the stock of Discover (but only if such person did not own more than 30% or more of the total voting power of the stock of Discover prior to the acquisition of additional securities); or

d. the complete liquidation of Discover or the sale or disposition by Discover of all or substantially all of Discover's assets, other than a sale or disposition by Discover of all or substantially all of Discover's assets to (i) a shareholder of Discover (immediately before the asset transfer) in exchange for or with respect to Discover's stock, (ii) an entity, at least fifty percent (50%) of the total value or voting power of the stock of which is owned, directly or indirectly, either by Discover or by a person or more than one person acting as a group, that owns fifty percent (50%) or more of the total value or voting power of all the outstanding stock of Discover, or (iii) a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of Discover; *provided, however*, that a Change in Control pursuant to this clause (d) shall not be deemed to have occurred unless a person (determined pursuant to clause (a) above) or persons acting as a group acquires (or has acquired during the twelve (12)-month period ending on the date of the most recent acquisition by such person or persons) assets from Discover that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of Discover immediately before such acquisition or acquisitions.

Notwithstanding the foregoing, no Change in Control of Discover shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the beneficial holders of Discover's common stock immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns substantially all of the assets of Discover immediately prior to such transaction or series of transactions.

Change in Control Severance Benefits means the benefits payable to an Eligible Executive pursuant to Section 7 of this Policy.

Code means the United States Internal Revenue Code of 1986, as amended, and the rules, regulations and guidance thereunder.

Committee means the Compensation and Human Capital Committee of the Board or its delegate or successor.

Company means Discover and all Participating Employers, and any successor thereto (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise, including, without limitation, any successor due to a Change in Control) to the business or assets of Discover, except that for purposes of Section 16 hereof, the definition of Change in Control and other provisions where the context so requires, Company means Discover or any such successor thereto.

Competitive Activity means:

a. becoming, or entering into any arrangement as, an employee, officer, partner, member, proprietor, director, independent contractor, consultant, advisor, representative or agent of, or serving in any similar position or capacity with, a Competitor, where an Eligible Executive will be responsible for providing, or managing or supervising others who are providing, services (i) that are similar or substantially related to the services that the Eligible Executive provided to the Company, or (ii) that the Eligible Executive had direct or indirect managerial or supervisory responsibility at the Company, or (iii) that calls for the application of the same or similar specialized knowledge or skills as those utilized by the Eligible Executive in his or her services for the Company, in each such case, at any time during the year preceding the termination of the Eligible Executive's employment with the Company; or

b. either alone or in concert with others, forming, or acquiring a five percent (5%) or greater equity ownership, voting interest or profit participation **Merger** in a Competitor.

Competitor means any corporation, partnership or other entity that engages in (or that owns a significant interest in any corporation, partnership or other entity that engages in) (i) the business of consumer lending, including, without limitation, credit card issuance or electronic payment services or (ii) any other business in which the Eligible Executive has been involved in or had significant knowledge of, which has been conducted by the Company at any time during the Eligible Executive's employment **manner consistent with the Company Discover policies**. For the avoidance of doubt, a competitor of (i) you will receive payment for any entity which results from a corporate transaction involving **accrued and unused vacation through** the Company that constitutes a Change in Control shall be considered a Competitor for purposes of this Policy.

Disability or Disabled means a "permanent and total disability" as defined in Section 22(e)(3) of the Code which may be demonstrated by a determination of disability by the Company's long-term disability insurance carrier or the Social Security Administration.

Director means an individual who is not an Executive Management Committee member and who has the management level designation as a director as reflected in Discover's human resources system of record.

Discover means Discover Financial Services, a Delaware corporation.

Eligible Executive means an Executive Management Committee Member (except as noted below), a Vice President (except as noted below) or any individual who was first hired or promoted to a Director prior to August 1, 2011 with respect to the Company and who remains an Executive Management Committee Member, Vice President or a Director first hired or promoted to a Director prior to August 1, 2011 on the earlier of his or her Termination Resignation Date and the date of a Change in Control or at any time during the six (6) months immediately preceding the occurrence of a Change in Control. Any individual who (i) is first hired or promoted to a Director on or after August 1, 2011 or (ii) is first hired or promoted to an Executive Management Committee Member or a Vice President on or after February 19, 2024 shall not be an Eligible Executive, unless the Company determines that the individual is eligible to participate in the Policy (as may be permitted by the Merger Agreement) and the individual has been so notified in writing.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Executive Management Committee Member means an individual who is a member of Discover's Executive Management Committee.

Good Reason means the occurrence of any of the following upon, or within six (6) months prior to or twenty-four (24) months after the occurrence of a Change in Control of Discover, without the Eligible Executive's prior written consent:

- a. (i) any material diminution in an Eligible Executive's assigned duties, responsibilities and/or authority, including the assignment to an Eligible Executive of any duties, responsibilities or authority inconsistent with the duties, responsibilities and authority assigned to the Eligible Executive immediately prior to such assignment, or (ii) a material diminution in the authority, duties, or responsibilities of the supervisor to whom an Eligible Executive is required to report;
- b. any material reduction in an Eligible Executive's Base Salary, target annual incentive or target long-term incentive opportunity without a substantially similar earnings opportunity in another comparable form;
- c. a material diminution of the budget over which an Eligible Executive has authority;
- d. the Company's requiring an Eligible Executive to be based at a location that (i) is in excess of thirty-five (35) miles from the location of his or her principal job location or office

immediately prior to the Change in Control, or (ii) results in an increase in his or her normal daily commuting time by more than ninety (90) minutes, except for required travel on Company's business to an extent substantially consistent with his or her then present business travel obligations; or

- e. any other action or inaction that constitutes a material breach by the Company of any agreement pursuant to which an Eligible Executive provides services to the Company.

For purposes of this definition, the duties, responsibilities and/or authority assigned to an Eligible Executive shall be deemed to be the greatest of those in effect prior to or after the Change in Control. Unless an Eligible Executive becomes Disabled, the Eligible Executive's right to terminate his or her employment for Good Reason shall not be affected by his or her incapacity due to physical or mental illness. The Eligible Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason. Notwithstanding the foregoing, Good Reason shall not exist unless the Eligible Executive gives the Company written notice thereof within 30 days after its occurrence and the Company shall not have remedied the action within 30 days after such written notice.

Incentive Compensation Plans means the Discover Financial Services Omnibus Incentive Plan and any other similar plan maintained from time to time by the Company.

Participating Employer means Discover and each other corporation that is a member of the same controlled group of corporations (within the meaning of Code Section 414(b)) as Discover, unincorporated trade or business that is under common control with Discover (within the meaning of Code Section 414(c)), organization that is a member of an affiliated service group (within the meaning of Code Section 414(m)) of which the Company is also a member, and entity required to be aggregated with the Company under Code Section 414(o).

Plan Administrator means, with respect to the Policy, the Committee.

Non-competition Benefits means the benefits payable to an Eligible Executive pursuant to Section 8 of this Policy.

Termination Date means the date on which the Eligible Executive's employment with the Company terminates for a reason set forth under Section 5.

Vice President means an individual who is not an Executive Management Committee Member and who has the management level designation of Executive Vice President, Senior Vice President or Vice President as reflected in Discover's human resources system of record on the earlier of his or her Termination Date and the date of a Change in Control or at any time during the six (6) months immediately preceding the occurrence of a Change in Control.

4. **Eligibility**

All Eligible Executives who have been on the Company's payroll prior to the earlier of his or her Termination Date and the date of a Change in Control shall be eligible to receive benefits according to the terms of this Policy.

5. **Eligible Termination Reasons**

An Eligible Executive shall have a right, subject to the terms of this Policy, to Change in Control Severance Benefits and Non-competition Benefits upon termination of the Eligible Executive's employment with the Company during the period commencing six (6) months prior to and ending twenty-four (24) months after the date of the Change in Control of Discover by (i) action by the Company to involuntarily terminate the employment of an Eligible Executive with the Company other than for Cause, (ii) voluntary termination of employment by an Eligible Executive for Good Reason or (iii) termination of employment due to the death or Disability of an Eligible Executive.

6. **Non-Eligible Termination Reasons**

A non-eligible termination reason is any reason for an Eligible Executive's termination of employment by the Company that is not an Eligible Termination Reason described in Section 5.

7. **Change in Control Severance Benefits**

All provisions of this Section shall be subject, without limitation, to the provisions of Sections 10, 11, 12 and 13 hereof.

a. **Change in Control Severance Pay.** If an Eligible Executive is entitled to Change in Control Severance Benefits under this Policy, the Company shall pay the Eligible Executive the following amounts based on the Eligible Executive's position at the time of his or her Termination Date:

1. **Executive Management Committee Members.**

A. An amount equal to 1.5 multiplied by the sum of (i) the Eligible Executive's Base Salary and (ii) the greater of (x) the Eligible Executive's target cash bonus under the Company's Incentive Compensation Plans (or, if no target cash bonus has been established for such executive, the cash bonus amount determined under Section 7(g)) for the year in which the Termination Date occurs and (y) the average cash bonus paid to the Eligible Executive with respect to the three (3) immediately preceding years, or if lesser, the number of years the executive has been employed by the Company, pursuant to the Company's Incentive Compensation Plans.

B. A prorated amount of the Eligible Executive's target cash bonus under the Company's Incentive Compensation Plans (or, if no target cash bonus has been established for such executive, the cash bonus amount determined under Section 7(g)) for the year in which the Termination Date occurs. Such prorated amount shall be equal to the product of (1) the Eligible Executive's target cash bonus for the year in which the Termination Date occurs and (2) the ratio of the number of days elapsed during such year prior to the Termination Date to 365.

2. Vice Presidents.

A. An amount equal to the sum of the Eligible Executive's Base Salary and the greater of (x) the Eligible Executive's target cash bonus under the Company's Incentive Compensation Plans (or, if no target cash bonus has been established for such executive, the cash bonus amount determined under Section 7(g)) for the year in which the Termination Date occurs and (y) the average cash bonus paid to the Eligible Executive with respect to the three (3) immediately preceding years, or if lesser, the number of years the executive has been employed by the Company, pursuant to the Company's Incentive Compensation Plans.

B. A prorated amount of the Eligible Executive's target cash bonus under the Company's Incentive Compensation Plans (or, if no target cash bonus has been established for such executive, the cash bonus amount determined under Section 7(g)) for the year in which the Termination Date occurs. Such prorated amount shall be equal to the product of (1) the Eligible Executive's target cash bonus for the year in which the Termination Date occurs and (2) the ratio of the number of days elapsed during such year prior to the Termination Date to 365.

3. Directors.

A. An amount equal to the sum of the Eligible Executive's Base Salary and the greater of (x) the Eligible Executive's target cash bonus under the Company's Incentive Compensation Plans (or, if no target cash bonus has been established for such executive, the cash bonus amount determined under Section 7(g)) for the year in which the Termination Date occurs and (y) the average cash bonus paid to the Eligible Executive with respect to the three (3) immediately preceding years, or if lesser, the number of years the executive has been employed by the Company, pursuant to the Company's Incentive Compensation Plans.

B. A prorated amount of the Eligible Executive's target cash bonus under the Company's Incentive Compensation Plans (or, if no target cash bonus has been established for such executive, the cash bonus amount determined under Section 7(g)) for the year in which the Termination Date occurs. Such prorated amount shall be equal to the product of (1) the Eligible Executive's target cash bonus for the year in which the Termination Date occurs and (2) the ratio of the number of days elapsed during such year prior to the Termination Date to 365.

b. Continued Health Benefits Coverage. If an Eligible Executive is entitled to Change in Control Severance Benefits under this Policy, to the extent required by law the Company shall give the Eligible Executive and his or her eligible dependents the opportunity to elect continued group health coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended ("COBRA") with respect to all group health plans in which the Eligible Executive and his or her dependents were participating immediately prior to such termination. Provided that the Eligible Executive (and/or his or her dependents) timely elects such coverage, the Company shall as soon as practicable thereafter pay to the Eligible Executive, as an additional Change in Control Severance Benefit, a lump sum approximately equal to the difference in cost between COBRA premiums and active

employee premiums for twenty-four (24) months of coverage, in the case of an Eligible Executive who is an Executive Management Committee Member or Vice President on his or her Termination Date, and twelve (12) months of

coverage, in the case of an Eligible Executive who is a Director on his or her Termination Date, as calculated by the Company in its discretion as of the Termination Date, which payment shall constitute taxable income to the Eligible Executive and which shall be paid in a lump sum on the first date in which the Eligible Executive begins to receive Change in Control Severance Benefits payments under this Policy. An Eligible Executive receiving Change in Control Severance Benefits under this Policy shall not be entitled to receive any other perquisites after such date. Notwithstanding the foregoing, the executive's continued group health coverage under this subsection shall cease as of the date the executive becomes covered by a group health plan of a subsequent employer, to the extent permitted under COBRA.

c. **Equity-Based Awards.** If an Eligible Executive is entitled to Change in Control Severance Benefits under this Policy, all outstanding equity-based awards granted to the Eligible Executive under the Company's Incentive Compensation Plans (including but not limited to grants of nonqualified stock options, stock appreciation rights, restricted stock awards and restricted stock unit and performance awards, but excluding any equity-based awards that include language precluding accelerated vesting in the event of a Change in Control) shall, become fully vested and exercisable or payable in each case, as of the later of the effective date of the Change in Control and the date of the Eligible Executive's Termination Date in the manner as provided in the agreement related thereto, subject to Section 11 hereof.

d. **Outplacement.** If an Eligible Executive is entitled to Change in Control Severance Benefits under this Policy, the Company shall provide outplacement services selected by the Company for a period of twenty-four (24) months, in the case of an Eligible Executive who is an Executive Management Committee Member or Vice President on his or her Termination Date, and twelve (12) months, in the case of an Eligible Executive who is a Director on his or her Termination Date. Under no circumstances shall any Eligible Executive be eligible to receive a cash payment in lieu of outplacement services.

e. **Legal Fees.** If an Eligible Executive makes a claim under Section 19 hereof or commences litigation and as a result thereof, whether by judgment or settlement, becomes entitled to receive benefits in an amount greater than prior to such claim or litigation, the Company shall pay the reasonable legal fees and related expenses incurred by the Eligible Executive in connection with such claim or litigation. Such payment will be made as soon as practicable but no later than the fifteenth (15th) day of the third month of the year following the year in which the judgment or settlement is finalized.

f. **Multiple Positions.** If an Eligible Executive holds more than one of the positions described in the preceding subsections (a), (b), and (d), the Eligible Executive shall be entitled to the benefits under each such subsection relating to the position held by the Eligible Executive which provides the largest amount and no benefits under such subsection relating to a position that provide for lesser amounts.

g. For purposes of this Section 7, if an Eligible Executive's target cash bonus (as a percentage of the Eligible Executive's Base Salary) has not yet been established, the Eligible Executive's target cash bonus shall be the target cash bonus established for a similarly situated Eligible Executive, as determined by the Committee.

8. Non-competition Agreement and Consideration

The provisions of this Section are subject, without limitation, to the provisions of Sections 10, 11, 12 and 13 hereof.

a. **Non-competition Benefits.** If an Eligible Executive who is either an Executive Management Committee Member or a Vice President is eligible for Change in Control Severance Benefits under this Policy, the Eligible Executive shall be given the opportunity to enter into a non-competition agreement with the Company (in a form substantially similar as attached hereto as Exhibit A) upon such Eligible Executive's termination of employment with the Company for a reason set forth under Section 5 hereof. Upon the Company's acceptance of the Eligible Executive's fully executed non-competition agreement, the Eligible Executive shall become entitled to receive the following amounts:

1. **Executive Management Committee Members.** If the Eligible Executive agrees pursuant to such non-competition agreement to refrain from Competitive Activity for a period of eighteen (18) months from his or her Termination Date, the Company shall pay the Eligible Executive an amount equal to 1.5 multiplied by the sum of (i) the Eligible Executive's Base Salary and (ii) the greater of (x) the Eligible Executive's target cash bonus under the Company's Incentive Compensation Plans (or, if no target cash bonus has been established for such executive, the cash bonus amount determined under Section 8(b)) for the year in which the Termination Date occurs and (y) the average cash bonus paid to the Eligible Executive with respect to the three (3) immediately preceding years, or if lesser, the number of years the executive has been employed by the Company, pursuant to the Company's Incentive Compensation Plans. The Company shall pay such amount to the Eligible Executive in accordance with Discover's policy and applicable law; (ii) Discover will reimburse you for your business expenses incurred through the provisions of Section 11 hereof.

2. **Vice Presidents.** If the Eligible Executive agrees pursuant to such non-competition agreement to refrain from Competitive Activity for a period of twelve (12) months from his or her Termination Resignation Date the Company shall pay the Eligible Executive an amount equal to the sum of the Eligible Executive's Base Salary and the greater of (x) the Eligible Executive's target cash bonus under the Company's Incentive Compensation Plans (or, if no target cash bonus has been established for such executive, the cash bonus amount determined under Section 8(b)) for the year in which the Termination Date occurs and (y) the average cash bonus paid to the Eligible Executive with respect to the three (3) immediately preceding years, or if lesser, the number of years the executive has been employed by the Company, pursuant to the Company's Incentive Compensation Plans. The Company shall pay such amount to the Eligible Executive in accordance with the provisions of Section 11 hereof.

b. For purposes of this Section 8, if an Eligible Executive's target cash bonus (as a percentage of the Eligible Executive's Base Salary) has not yet been established, the Eligible Executive's target cash bonus shall be the target cash bonus established for a similarly situated Eligible Executive, as determined by the Committee.

9. Reduction in Payments

a. Effective October 14, 2014, in the event it is determined that any payments or benefits provided by the Company its policies; (iii) you will receive information to or on behalf of an Eligible Executive (whether continue your health coverage pursuant to

the terms of this Policy or otherwise) (any such payments or benefits being referred to in this Section as "Payments"), would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Eligible Executive with respect to such excise tax (such excise tax, together with any such interest COBRA; (iv) you have a previously approved vacation from September 3, 2024 through September 15, 2024; and penalties, collectively referred to herein as the "Excise Tax"), then the Eligible Executive may be subject to a reduction in Payments under this Section 9. If it is determined that any individual would be subject to the Excise Tax, then the Payments shall be reduced to the extent necessary to prevent any portion of the Payments from becoming nondeductible by the Company under Section 280G of the Code or subject to the Excise Tax, but only if, by reason of that reduction, the net after-tax benefit received by such Eligible Executive exceeds the net after-tax benefit such Eligible Executive would receive if no reduction was made. For this purpose, "net after-tax benefit" means (i) the total of all Payments that would constitute "parachute payments" within the meaning of Section 280G of the Code, less (ii) the amount of all federal, state, and local income taxes payable with respect to the Payments calculated at the maximum marginal income tax rate for each year in which the Payments shall be paid to such Eligible Executive (based (v) your resignation on the rate in effect for Resignation Date will be a resignation from all positions that year as set forth in the Code as in effect at the time of the first payment of the Payments), less (iii) the Excise Tax. In the event a reduction is required under this Section 9 as

provided above, the reduction will occur in the following order unless the Eligible Executive elects in writing a different order, provided, however, such election shall be subject to approval which shall not be given if the election does not meet the election requirements necessary to avoid the imposition of the excise tax and penalties under Section 409A of the Code: (x) reduction of cash payments; (y) cancellation of accelerated vesting of equity awards; and (z) reduction of other employee benefits. If acceleration of vesting of compensation from an Eligible Executive's equity awards is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant unless the Eligible Executive elects in writing a different order for the cancellation, provided, however, such election shall be subject to Discover approval which shall not be given if the election does not meet the election requirements necessary to avoid the imposition of the excise tax and penalties under Section 409A of the Code.

b. All determinations required to be made under this Section, including the assumptions to be used in arriving at such determination, shall be made by the independent registered public accounting firm engaged by Discover for general audit purposes as of the day prior to the effective date of the Change in Control (the "Accounting Firm"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Discover shall appoint another nationally recognized independent registered public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). The Accounting Firm shall provide its calculations, together you hold with detailed supporting documentation, to Discover and the Eligible Executive within fifteen (15) calendar days after the date on which the Eligible Executive's right to Payment is triggered (if requested at that time by Discover or the Eligible Executive) or such other time as requested by Discover or the Eligible Executive. All fees and expenses of the Accounting Firm shall be borne solely by Discover. If the Accounting Firm determines that no Excise Tax is payable by the Eligible Executive, it shall furnish the Eligible Executive with a written opinion that no Excise Tax will be imposed. Any good faith determination by the Accounting Firm shall be binding upon Discover and the Eligible Executive.

10. Requirement of Release and Restrictive Covenant

The provision of all Change in Control Severance Benefits and Non-competition Benefits under this Policy is conditioned upon the Eligible Executive timely signing and delivering to Discover an agreement and release with respect to any and all claims the Eligible Executive may have against them, including but not limited to any contract, tort, or wage and hour claims, and any claims under Title VII, the ADEA, the ADA, ERISA, and other federal, state or local laws and containing non-solicitation and similar covenants in a form substantially similar as attached hereto as Exhibit B. No Change in Control Severance Benefits and Non-competition Benefits will commence under this Policy prior to the time such agreement and release becomes irrevocable pursuant to its terms.

11. Method of Payment

If the Company reasonably considers the Eligible Executive to be one of its "specified employees" as defined in Section 409A of the Code on the Eligible Executive's Termination Date, any deferred compensation subject to Section 409A of the Code which is convertible or payable upon the Eligible Executive's Termination Date will not convert to common stock of Discover or be payable until the date that is six (6) months after the Eligible Executive's Termination Date (or date of the Eligible Executive's death, if earlier). In all cases, the payment of Change in Control Severance Benefits, including Discover common stock deliverable under equity-based awards, and Non-competition Benefits under this Policy shall comply with the provisions of Section 409A of the Code to the extent applicable. For the avoidance of doubt, it is intended that any expense reimbursement made under this Policy shall be exempt from Section 409A of the Code. Notwithstanding the foregoing, if any such expense reimbursement is determined to be "deferred compensation" within the meaning of Section 409A of the Code, then (i) the amount of the expense reimbursement during one taxable year shall not affect the amount of the expense reimbursement during any other taxable year, (ii) the expense reimbursement shall be made on or before the last day of the Eligible Executive's taxable year following the year in which the expense was incurred, and (iii) the right to expense reimbursement hereunder shall not be subject to liquidation or exchange for another benefit.

Upon the Company's receipt of a fully executed and non-revocable release as described in Section 10 above, benefits shall become payable to an Eligible Executive on account of a termination will be paid as follows:

Change in Control Severance Benefits payable in cash hereunder will be paid to the Eligible Executive in the form of a lump sum within (60) days after the Eligible Executive's Termination Date.

Non-competition Benefits payable in cash hereunder will be made in the form of substantially equal installments consistent with Discover's executive payroll practice during the period of payment which shall begin to be paid to the Eligible Executive within (60) days after the Eligible Executive's Termination Date.

Shares of Discover common stock deliverable hereunder will be delivered to an Eligible Executive within (60) days after the Eligible Executive's Termination Date.

If an Eligible Executive dies after becoming eligible for Change in Control Severance Benefits, including Discover common stock deliverable under equity-based awards, and Non-competition Benefits and executing an agreement and release but before full receipt of all cash Change in Control Severance Benefits, Discover common stock deliverable under equity-based awards and Non-competition Benefits, the remaining cash Change in Control Severance Benefits and Discover common stock deliverable under equity-based awards with respect to the Eligible Executive will be paid or delivered to his or her estate in one lump sum and no further Non-competition Benefits will be payable under this Policy. If an Eligible Executive dies after becoming eligible for Change in Control Severance Benefits, including Discover common stock deliverable under equity-based awards, and Non-competition Benefits but before executing an agreement and release, the remaining cash Change in Control Severance Benefits and Discover common stock deliverable under equity-based awards with respect to the Eligible Executive will be paid or delivered to his or her estate in one lump sum and no Non-competition Benefits will be payable under this Policy. All payments under this Policy will be net of amounts withheld with respect to taxes, offsets, or other obligations.

12. Offsets

The Company may, in its discretion and to the extent permitted under applicable law, offset against the Eligible Executive's benefits under this Policy any other severance or termination benefits payable to the Eligible Executive by the Company (without regard to whether such amounts are payable in connection with a Change in Control), the value of unreturned property, and any outstanding loan, debt or other amount the Eligible Executive owes to the Company. The Company may recover any overpayment of benefits made to an Eligible Executive or an Eligible Executive's estate under this Policy or, to the extent permitted by applicable law, offset any other overpayment made to the Eligible Executive against any Policy benefits or other amount the Company owes the Eligible Executive or the Eligible Executive's estate.

13. Re-employment and Other Employment

In the event an Eligible Executive is re-employed by the Company prior to the full payment to the Eligible Executive of all Change in Control Severance Benefits or Non-competition Benefits under this Policy, the payment of any Change in Control Severance Benefits or Non-competition Benefits payable with respect to the prior termination will cease immediately and such Change in Control Severance Benefits and Non-competition Benefits shall no longer be payable under this Policy.

Subject to Sections 8 and 10 of this Policy, if an Eligible Executive obtains employment (other than with the Company) while receiving Change in Control Severance Benefits or Non-competition Benefits, the Eligible Executive shall continue to receive any remaining cash Change in Control Severance Benefits and Non-competition Benefits in accordance with the payment schedule then in effect, but, except as otherwise required under applicable law, he or she will no longer be eligible to receive continued benefits under Section 7(b) of this Policy as of the date the executive becomes eligible to receive such benefits under a subsequent employer's benefit programs.

14. Funding

This Policy shall be funded through the creation of a grantor trust. As soon as administratively practicable upon the commencement of a transaction which, if consummated, would result in a Change in Control, but in no event later than the date Discover's shareholders approve any such transaction, the Company shall make a contribution to the trust in an amount equal to the difference between (i) the sum of (a) the excess of the aggregate of all Change in Control Severance Benefits and Non-competition Benefits due under the Policy upon the occurrence of a Change in Control and (b) an additional five percent (5%) of the amount thereof to cover reasonably anticipated expenses of the trust and the legal expenses payable pursuant to Section 7(e) hereof, including, but not limited to, legal expenses of the trust and (ii) the assets, if any, held in the trust as of such date; *provided, however*, that if the Company has not agreed to a transaction within seven (7) months of the date when the trust is funded pursuant to this Section 14 which, when consummated, would result in an actual Change in Control, or if such an agreement is reached but subsequently revoked prior to the consummation of the transaction, such amount shall revert to Discover. Notwithstanding the foregoing, Eligible Executives entitled to benefits hereunder shall have only the rights of general creditors of Discover. In addition, the foregoing shall not apply to individuals who become Eligible Executives on or after February 19, 2024, and such individuals shall have no rights under this Section 14.

15. Administration

This Policy shall be administered by the Committee. For purposes of administering this Policy, all benefit determinations made hereunder, including, but not limited to, the determination of eligibility, the position held by an Eligible Executive and the Base Salary or bonus of an Eligible Executive, shall be determined based on the Eligible Executive's position prior to any event or events that constitute Good Reason.

16. Amendment or Termination of the Policy

Discover reserves the right to amend or terminate this Policy at any time in its sole discretion upon twelve (12) months written notice to the Eligible Executives; *provided, however*, that (i) no modification to this Policy shall be made during the period commencing upon the Effective Date and ending twenty-four (24) months following such date and (ii) no modification to this Policy made during the period commencing six (6) months prior to and ending twenty-four (24) months following a Change in Control shall be effective without the written consent of each affected Eligible Executive. Notwithstanding anything in this Policy to the contrary, Discover reserves the right to amend this Policy at any time as (A) the Committee determines (i) with the advice of counsel to be reasonably necessary to avoid the imposition of the additional tax imposed under Section 409A of the Code or (ii) in the written opinion of counsel to be necessary to comply with applicable law, provided that any such amendment to comply with applicable law shall be made in a manner which as strictly as is possible preserves the original intent of this Policy, and (B) the Chief Executive Officer determines to be reasonably necessary for the administration of this Policy; *provided, however*, that any amendment made pursuant to clause B of this sentence is *de minimis* in nature and does not adversely affect any of the rights or benefits of any Eligible Executive under this Policy.

17. Limitation on Individually Negotiated Severance Arrangements

As of the Effective Date, subject to the terms of the outstanding equity-based awards granted to the Eligible Executive under the Company's Incentive Compensation Plans, this Policy is intended to be the sole source of change in control severance and change in control benefits for Eligible Executives. Absent prior Board approval, no individual agreement shall be entered into with any Eligible Executive or any person being considered for promotion or hire as an Eligible Executive which would provide change in control severance or change in control-type benefits. For the avoidance of doubt, an Eligible Executive who receives change in control severance or change in control benefits under this Policy shall not be entitled to receive severance or benefits under the Discover Financial Services Severance Plan.

18. Miscellaneous

No executive shall vest in any entitlement to or eligibility for benefits under this Policy until he or she has satisfied all requirements for eligibility and the conditions required to receive the benefits specified in this Policy have been satisfied. No interest shall accrue on any benefit to which an Eligible Executive may be entitled under this Policy. No benefits hereunder, whether or not in pay status, shall be subject to any pledge or assignment, and no creditor may attach or garnish any Eligible Executive's Policy benefits. This Policy does not create any contract of employment or right to employment for any period of time. Employment with the Company is at-will, and may be terminated by either the Company or the Eligible Executive at any time for any reason. Amounts shall be payable under this Policy upon the first Change in Control event to occur after the Effective Date and subsequent transactions will not result in a Change in Control event for purposes of this Policy.

19. Review Procedure

Executives eligible to receive benefits under this Policy will be notified of such eligibility as soon as administratively practicable after the events occur which give rise to the provision of Policy benefits. If an executive who believes he or she is eligible to receive Policy benefits does not receive such notice or disagrees with the amount of benefits set forth in such notice, or if an executive is informed that he or she is not eligible for benefits under this Policy, the executive (or his or her legal representative) may file a written claim for benefits with the Company's human resources department or such other body or officer designated by the Committee for this purpose. The written claim must include the facts supporting the claim, the amount claimed, and the executive's name and mailing address.

If the claim is denied in part or in full, Discover's senior human resources executive (or other designated officer or body) will notify the executive by mail no later than 90 days (or 180 days in special circumstances) after receipt of the written claim. The notice of denial will state the specific reasons for the denial, the provisions of the Policy on which the denial is based, a description of any additional information or material required by the Committee to consider the claim if applicable, as well as an explanation as to why such information or material is necessary, an explanation of the Policy's review procedures and the time limits applicable to such procedures, and the executive's right to bring a civil action under ERISA Section 502(a) in the event of an adverse determination upon review.

An executive (or his or her legal representative) may appeal the denial by filing a written appeal with the Committee. The written appeal must be received no later than 60 days after the

executive or legal representative received the notice of denial. During the same 60-day period, the executive or legal representative may have reasonable access to pertinent documents and may submit written comments and supporting documents, records and other materials to the Committee. The Committee will review the appeal and notify the executive or legal representative by mail of its final decision no later than the next regularly scheduled Committee meeting, or if the appeal is received less than 30 days before such meeting, the second regularly scheduled meeting after the Committee receives the written appeal.

Rights Under the Employee Retirement Income Security Act (ERISA)

As a participant in the Policy, an Eligible Executive is entitled to certain rights and protections under ERISA which provides that all Policy participants shall be entitled to:

Receive Information About the Policy and Benefits

The executive may examine, without charge, at the Plan Administrator's office and at other specified locations such as worksites, all documents governing the Policy and a copy of the latest annual report (Form 5500 Series) filed with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.

The executive may obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Policy including copies of the latest annual report (Form 5500 Series) and any updated summary plan description. The administrator may make a reasonable charge for the copies.

The executive may receive a summary of the Policy's annual financial report. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report.

Prudent Actions by Policy Fiduciaries

In addition to creating rights for Policy participants, ERISA imposes duties upon the people who are responsible for the operation of the Policy. The people who operate the Policy, called "fiduciaries" of the Policy, have a duty to do so prudently and in the interest of the Policy participants and beneficiaries. No one, including an executive's employer or any other person, may fire an executive or otherwise discriminate against an executive in any way to prevent such executive from obtaining a welfare benefit or exercising his or her rights under ERISA.

Enforcement of Rights

If an executive's claim for benefits is denied or ignored, in whole or in part, the executive has a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps that can be taken to enforce the above rights. For example, if an executive requests a copy of Policy documents or the latest annual report from the Policy and does not receive them within 30 days, the executive may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials, and pay the executive up to \$110 a day until the executive receives the materials, unless the materials were not sent because of reasons beyond the control of the administrator. If an executive has a claim for benefits which is denied or ignored, in whole or in part, he or she may file suit in a state or Federal Court. If it should happen that the Policy fiduciaries misuse the Policy's money, or if an executive is discriminated against for asserting his or her rights, the executive may seek assistance from the U.S.

Department of Labor, or may file a suit in a Federal court. The court will decide who should pay court costs and legal fees. If the executive is successful the court may order the person the executive has sued to pay these costs and fees. If the executive loses, the court may order the executive to pay these costs and fees, for example, if it finds the executive's claim is frivolous.

Assistance With Questions

An executive who has questions about the Policy should contact the Plan Administrator. If an executive has any questions about this statement or about his or her rights under ERISA, or if the executive needs assistance in obtaining documents from the Plan Administrator, he or she should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in a telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue, NW, Washington, D.C. 20210. The executive may also obtain certain publications about his or her rights and responsibilities under ERISA by calling the publication's hotline of the Employee Benefits Security Administration.

Additional Information

Funding

The Policy is an unfunded welfare arrangement that is self-administered. Effective June 23, 2008, the Plan Administrator approved the adoption of a grantor trust with Wachovia Bank, N.A., as the trustee, solely for the benefit of Discover. Effective March 20, 2010, Wells Fargo Bank, N.A. became the successor to Wachovia Bank, N.A., and effective February 22, 2022, Principal Financial Group became the successor to Wells Fargo Bank, N.A. The principal of the trust and any earnings thereon may be used exclusively to satisfy benefit obligations under the Policy and Discover's general creditors. Participants have no preferred claim on, or any beneficial ownership interest in, any assets of the trust. All trust assets are subject to the claims of Discover's general creditors in the event Discover is insolvent.

Name of Policy

Discover Financial Services Change in Control
Severance Policy

Policy Year

1/1 - 12/31

Type of Policy/Policy Administration

Unfunded welfare plan/self-administered

Policy Number

501

Policy Sponsor

Discover Financial Services
2500 Lake Cook Road
Riverwoods, IL 60015

Sponsor Employer

Identification Number
36-2517428

Plan Administrator

Compensation and Human Capital Committee of the Board of Directors of Discover
Financial Services
c/o Discover Financial Services
Human Resources Department
2500 Lake Cook Road
Riverwoods, IL 60015
(224) 405-3835

Agent for Service of Legal Process

Discover Financial Services
Legal and Compliance Department
2500 Lake Cook Road
Riverwoods, IL 60015

Trustee of Grantor Trust

Principal Financial Group
RE: Discover Financial Services Grantor Trust/Amorie
Anderson
510 N. Valley Mills Dr. Ste. 400
Waco, TX 76710

In addition, service of legal process may be made upon the Plan Administrator or the Trustee.

Exhibit A

FORM OF AGREEMENT

NON-COMPETITION AGREEMENT

[Note: Pursuant to the Discover Financial Services Change in Control Severance Policy, this Agreement applies to VP's and above.]

This Non-Competition Agreement dated as of _____, 20____, ("Agreement") is made by and between Discover Financial Services (the "Company"), and _____ (the "Executive"). In consideration of the promises and mutual agreements contained herein and in the Discover Financial Services Change in Control Severance Policy, as amended and restated as of May 3, 2024 (the "Severance Policy") pursuant to which the Executive is eligible for certain benefits, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by both parties, the parties hereby agree as follows:

1. No Competitive Activity. The Executive hereby acknowledges that, by virtue of the Executive's unique relationship with the Company, the Executive has acquired and had access to trade secrets and other confidential information and has also developed a unique and comprehensive familiarity with the Company and its business, which the Executive would not have otherwise had but for the Executive's employment with the Company, and which the Executive acknowledges are valuable assets of the Company. Accordingly, the Executive agrees that except as expressly authorized by the Company in furtherance of the Executive's employment duties, during the remainder of the Executive's employment with the Company (if any) and for the **[12] [18]**-month period thereafter, the Executive shall not directly or indirectly engage in any Competitive Activity as defined in the Severance Policy. The Executive acknowledges that these obligations are reasonably designed to protect the legitimate business interests of the Company, without unreasonably restricting the Executive's post-employment opportunities. For the purposes of this Agreement, "Company" shall have the same meaning as set forth in the Severance Policy. **[INCLUDE ONLY FOR ATTORNEYS: Notwithstanding anything to the contrary herein, nothing in this Section 1 shall apply to Executive's activities that constitute the practice of law with respect to a Competitor as defined in the Severance Policy. At all times, whether or not the Executive is engaged in activity that constitutes the practice of law, the Executive acknowledges and agrees that the Executive shall be bound by, and shall comply with, any and all applicable codes, rules and canons of professional conduct and/or responsibility (as may be amended from time to time) that are applicable to the Executive's prior professional relationship with the Company as a lawyer for the Company.] affiliates.**

2. Payments and Benefits. Subject Discover hereby agrees to Section 3 of this Agreement pay and the terms and conditions of the Severance Policy (including without limitation Sections 8, 10 and 13) and provided that the Executive complies provide you with the Executive's obligations under this Agreement, following (collectively the Severance Policy and the Release of Claims (as defined in Section 3 below), the Company will provide the Executive with the Non-Competition Benefits defined in the Severance Policy, payment of which will be made in accordance with the terms of the Severance Policy.

3. Condition Precedent. Without modifying or otherwise affecting any term of the Severance Policy, this Agreement will not be effective and the Executive shall not be entitled to receive any Non-Competition Benefits unless and until the Executive executes a valid and enforceable release of claims as set forth in Section 10 of the Severance Policy (a "Release of Claims" "Retention Benefits")**[without revoking it per its terms]**. This Agreement shall be null and void and shall be of no force and effect in the event that the Executive does not execute**[, or revokes,]** a valid and enforceable Release of Claims. :

4.A. Acknowledgment. The Executive acknowledges Subject to your re-execution of this Agreement (without revoking it during the seven days following such re-execution as described in Section 10(B)), with the day after such expiration being referred to herein as the "Second Effective

Date”) releasing claims you may have through the Resignation Date (other than the Excluded Claims (as defined below)) on or within five business days of the Resignation Date, pay you the sum of \$850,000.00 in retention pay (the “Retention Bonus”), payable in a single lump sum, less applicable tax withholdings, on the first payroll date following the Second Effective Date; provided, however, that if the Resignation Date occurs on or earlier than November 29, 2024 and agrees that: the closing of the Merger has occurred on or prior to the Resignation Date, the Retention Bonus shall increase to \$1 million.

i. B. Effective on the Non-Competition Benefits are good and valuable consideration for Effective Date (as defined below), release you from your obligation to repay any portion of (a) the Executive's obligations under Section 1 of this Agreement;

ii. \$330,000 bonus described in the Executive has the right to consider the terms of this Agreement for at least fourteen (14) days; and

iii. the Executive is hereby advised to consult with an attorney before signing this Agreement.

5. **Remedies.** The Executive acknowledges and agrees that a breach of any provision of Section 1 of this Agreement will result in immediate and irreparable harm to the Company for which full damages cannot readily be calculated and for which damages are an inadequate remedy. Accordingly, the Executive agrees that the Company shall be entitled to injunctive relief to prevent any such actual or threatened breach or any continuing breach by the Executive (without posting a bond or other security), without limiting any other remedies that may be available to it. The Executive further agrees to reimburse the Company for all costs and expenditures, including but not limited to reasonable attorneys' fees and court costs, incurred by it in connection with the successful enforcement of its rights under Section 1 of this Agreement.

6. **Assignment.** This Agreement is enforceable by the Company and may be assigned or transferred by the Company to, and shall be binding upon and inure to the benefit of, any parent, affiliate or other related entity first paragraph of the Company or any entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all second page of the assets, stock or business Offer Letter dated December 9, 2022 between you and Discover (the “Offer Letter”), and the Bonus Agreement referred to therein; (b) \$2.6 million of the Company. The Executive may not assign any of the Executive's rights or obligations under this Agreement.

7. **Amendment and Waiver.** This Agreement may not be amended orally and may only be amended by written instrument signed by both parties (subject \$3.1 million bonus paid to Section 10 herein). A waiver by either party hereto of any of its rights or remedies under this Agreement on any occasion shall not be a bar to the exercise of the same right or remedy on any subsequent occasion or of any other right or remedy at any time.

8. **Governing Law.** This Agreement shall be governed by the internal laws of the state of [Illinois], without regard to its conflict of laws rules. Nothing herein shall modify or otherwise affect the Severance Policy. In the event of a conflict between the terms of this Agreement and the Severance Policy, the terms of the Severance Policy shall govern.

9. **Headings and Defined Terms.** The Section headings used herein are for convenience of reference only and are not to be considered in construction of the provisions of this Agreement. Capitalized terms not defined in this Agreement shall have the same meaning set forth in the Severance Policy.

10. **Entire Agreement.** This Agreement, the Severance Policy and the Release of Claims contain the entire agreement between the parties with respect to the subject matter contained herein and supersedes all prior or contemporaneous negotiations, understandings or agreements between the parties, whether written or oral, with respect to such subject matter.

11. **Severability.** The parties agree that in the event any of the prohibitions or restrictions set forth in Section 1 of this Agreement (including without limitation as contained in the definition of Competitive Activity as defined in the Severance Policy) are found by a court of competent jurisdiction to be unreasonable or otherwise unenforceable, it is the purpose and intent of the parties that any such prohibitions or restrictions be deemed modified or limited so that, as modified or limited, such prohibitions or restrictions may be enforced to the fullest extent possible. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of

this Agreement is held to be prohibited by or invalid under applicable law (after any appropriate modification or limitation you pursuant to the foregoing sentence), such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

12. **Counterparts.** This Agreement may be executed in two counterparts, each of which shall be deemed an original, and both of which together shall constitute one and the same instrument.

THE PARTIES ACKNOWLEDGE BY SIGNING BELOW THAT THEY HAVE READ AND UNDERSTAND THE ABOVE AND INTEND TO BE BOUND THEREBY:

[EXECUTIVE]

DISCOVER FINANCIAL SERVICES,

By:

Date:

Position:

Date:

Exhibit B

FORM OF AGREEMENT

AGREEMENT AND GENERAL RELEASE OF CLAIMS¹

(the "Executive") and Discover Financial Services, (the "Company") hereby enter into this Agreement and General Release of Claims ("Agreement") pursuant to, and as a condition third paragraph of the Executive's entitlement to severance benefits under, the Discover Financial Services Change in Control Severance Policy, as amended and restated as of May 3, 2024 (the "Severance Policy"). Any capitalized terms used but not defined herein shall have the meaning set forth in the Severance Policy.

1. **Change in Control Severance Benefits.** Subject to the terms and conditions of this Agreement and the Severance Policy, the Executive will be entitled to the Change in Control Severance Benefits pursuant to and in accordance with the terms second page of the Severance Policy, provided that the Executive signs Offer Letter, and returns this Agreement to the Company within [10] [21] [45] calendar days after (but not before) the effective date of the Executive's termination of employment (the "Termination Date") [and does not revoke this Agreement in accordance with Section 9 below] and that the Executive fully complies with this Agreement. The Executive acknowledges and agrees that the Executive would not be entitled to receive any benefits under the Severance Policy but for the Executive's undertakings in this Agreement.

2. **Confidential Information.** The Executive hereby acknowledges that during the course of the Executive's employment with the Company, the Executive has acquired confidential information and trade secrets of the Company and, in certain situations, of certain third parties who provide information to the Company subject to confidentiality and non-use restrictions. For the purposes of this Agreement, the term "Confidential Information" shall mean all such confidential, trade secret and proprietary information, including without limitation information regarding the Company's business, operations, legal matters and resolution or settlement thereof, internal investigations, customer and employee information and lists, hiring, staffing and compensation practices, studies and analyses, business plans, funding, financing and methods of doing business. The Executive acknowledges and agrees that all Confidential Information is of irreplaceable value to the Company and such third parties. Except as required to perform the Executive's obligations to the Company (including without limitation any post-employment obligations to the Company under this Agreement) or as authorized in writing in advance by the Company, the Executive shall not, at any time, use, disclose, or take any action which may result in the use or disclosure of,

any Confidential Information. Notwithstanding the foregoing, nothing in this section is intended to, and shall not, restrict or limit the Executive from exercising the Executive's protected rights under Section 7 hereof. The Executive agrees that the Executive does not have and shall not assert any claim of ownership or other property interest in any Confidential Information. The Executive agrees to permit the Company to inspect upon the termination of the Executive's employment any material that the Executive seeks to remove from the Company's offices or otherwise retain to determine the presence or absence of any Confidential Information.

Note: This Form of Agreement may be modified as necessary to address any legal requirements necessary to the Company obtaining an effective release of claims under applicable state or local law.

3. Non-solicitation. Except as expressly authorized by the Company in furtherance of the Executive's duties for the Company, the Executive shall not directly or indirectly (through any person, corporation, partnership or any other business entity of any kind):

(a) for ninety (90) days following the Termination Date, solicit, entice away or in any manner attempt to persuade any client or customer, or prospective client or customer of the Company to (i) discontinue or diminish his, her or its relationship or prospective relationship with the Company or (ii) otherwise divert his, her, or its relationship or prospective relationship to any person, corporation, partnership, or other business entity that engages in any line of business in which the Company is engaged. Notwithstanding anything to the contrary herein, the restrictions in this Section 3(a) only apply to clients or customers for whom the Executive performed services or solicited on behalf of the Company or had substantial contact or acquired or had access to Confidential Information or other substantial information relating to such client or customer as a result of the Executive's employment during the [180 days] preceding the date of the notice of the termination of the Executive's employment; and

(b) for 180 days following the Termination Date, hire, solicit, recruit, induce, entice, influence, or encourage any individual employed by the Company on or during the [180 days] preceding the date of the notice of termination of the Executive's employment, whom the Executive supervised (directly or indirectly) or otherwise worked with, or who worked in or with the Executive's business unit, to leave the Company or become hired or engaged by any other person or entity.

4. Return of Company Property. The Executive represents, warrants and covenants, as applicable, that the Executive has returned, or immediately shall return, to the Company all Confidential Information and any other property of the Company or of any third parties in the Executive's possession or control by virtue of the Executive's employment by the Company, including without limitation any Company car, computer or other similar equipment, corporate credit cards, cell phones and other wireless devices, keys, calling cards, and all documents concerning the Company (whether in tangible or electronic format and whether such documents or things contain any Confidential Information) in the Executive's possession, custody, or control.

5. Injunctive Relief. The Executive acknowledges that the obligations contained in Sections 2, 3 and 4 of this Agreement are reasonably designed to protect the legitimate business interests of the Company, without unreasonably restricting the Executive's post-employment opportunities. Without limiting in any way the Company's or the other Released Parties' (as defined below) rights to pursue any other legal or equitable remedies available to any of them, the Executive recognizes and agrees that a breach of any or all of the provisions of Sections 2, 3, or 4 of this Agreement will cause immediate and irreparable harm to the Company and the other Released Parties for which damages cannot be readily calculated and are an inadequate remedy. Accordingly, the Executive acknowledges and agrees that the Company and the other Released Parties shall be entitled (without the need to post any bond or other security) to injunctive relief restraining and enjoining any further actual or threatened breaches by the Executive in addition to any other relief that may be available. The Executive agrees to reimburse the Company and the Released Parties for any costs and expenses (including without limitation, reasonable attorneys' fees) incurred by any of them in connection with the successful enforcement by any of them or their rights under Sections 2, 3 or 4 of this Agreement; provided that for the avoidance of (c) your

relocation assistance paid pursuant to the fourth paragraph of the second page of the Offer Letter and the Relocation Reimbursement/Repayment Agreement referred to therein.

C. Subject to the same conditions described in paragraph (A), on the Second Effective Date, Discover will release you from your obligation to repay the remaining \$500,000 of the bonus described in paragraph (B)(b), so that you will no longer be obligated to repay any portion of such bonus (the "Second Release").

D. Effective on the Effective Date, not assert any right to recoup or "claw back" any portion of your restricted stock units ("RSUs") that have previously vested and been settled by the issuance of shares, based on an assertion that your subsequent employment by Ally Financial Inc. ("Ally") constitutes "Competitive Activity" as defined in the award agreements for your RSUs (the "RSU Agreements").

For avoidance of doubt, the foregoing (i) paragraph (D) above shall not apply with respect if you engage in any Competitive Activity (which does not apply to your employment by Ally), and shall not apply to any violation by you of any other restrictive covenants, including without limitation your engagement in Wrongful Solicitation as defined in the RSU Agreements (in such event, Discover will retain any right it has to claw back your shares as described in paragraph (D)); (ii) if you voluntarily resign prior to the Executive's exercise Resignation Date, you will not be entitled to the Retention Bonus or the Second Release; (iii) if Discover terminates your employment prior to the Resignation Date for any reason, you are entitled to all of the protected rights under Section 7 hereof. Retention Benefits described in this Agreement, the date of termination shall be treated as the Resignation Date, the Second Release shall take effect on the Second Effective Date and the Retention Bonus shall be paid on the first payroll date following the Second Effective Date; provided that if your employment is terminated by Discover for Cause (as defined below), you shall not receive the Retention Bonus and will not be entitled to the Second Release; and (iv) you remain an at-will employee and either party may terminate your employment at any time subject to the consequences set forth herein. For purposes hereof, "Cause" shall mean (i) your willful misconduct that is reasonably likely to materially adversely affect any of the Discover Released Parties or (ii) your willful refusal to perform your material duties which refusal is not cured within a reasonable period following written notice from Discover detailing such refusal.

6.3. **Your Release.** (a) In exchange for the performance of Claims. The Executive, Discover's obligations under this Agreement and the release set forth below in Section 4, you on your own behalf and on behalf of anyone claiming through you (including the Executive or on the Executive's behalf, agrees to and Mehman Released Parties (as defined below)) hereby releases the Company release Discover and the other Discover Released Parties (as defined below) with respect to any and all private claims, whether currently known or unknown, that the Executive you now has, has have, have ever had, or may ever have against the Company Discover and any of the other Discover Released Parties arising from or related to any act, omission, or thing occurring or existing at any time prior to or on the date on which the Executive signs you sign this Agreement. Without limiting the foregoing, the claims you waived and released by the Executive hereunder include, but are not limited to:

(a) to all private claims for or related in any way to the Executive's employment, compensation, other terms and conditions of your employment or the termination from employment with the Company or any other Employer;

(b) thereof, all private claims that were or could have been asserted by the Executive you or on the Executive's behalf: (i) in any federal, state, or local court, commission, or agency; (ii) under any common law theory; or (iii) under any employment, contract, tort, federal, state, or local law, regulation, ordinance, constitutional provision, or executive order; and

(c) all private claims that were or could have been asserted by the Executive or on the Executive's behalf Mehman Released Parties arising under any of the following laws, as amended from time to time: the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 1981, the Americans with Disabilities Act, the Employee Retirement Income Security Act, the Worker Adjustment and Retraining Notification Act, and any and all state and local laws comparable to any of the foregoing laws.

(d) If the Executive was employed by the Company in the State For avoidance of California, and as further consideration for the payments and other benefits provided under this Agreement and the Severance Policy, the Executive also expressly waives and releases all claims the Executive presently may have under the California Fair Employment and Housing Act, the California Labor Code (except the provisions thereof related to workers compensation benefits and claims), any applicable California Industrial Welfare Commission Wage Order, the California Worker Adjustment and Retraining Notification Act, California Business and Professions Code Section 17200 et seq., or any other provisions of the California unfair competition, trade or business practices laws, the California Family Rights Act, the California Occupational Safety and Health Act, any provision of the California Constitution, and Section 1542 of the California Civil Code, which provides as follows:

"A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party."

The consideration offered herein is accepted by the Executive as being in full accord, satisfaction, compromise and settlement of any and all private claims or potential private claims, and the Executive expressly agrees that the Executive is not entitled to and shall not receive any doubt, you waive

further payments, benefits, any right to assert that your resignation from Discover is a termination for "Good Reason" as defined in the RSU Agreements (or any other equity award agreement), or other compensation the Discover Financial Services Change in Control Severance Policy (the "CIC Policy"), or recovery that Discover has any obligation to treat your resignation as being for Good Reason pursuant to the Merger Agreement or otherwise, or that you are entitled to accelerated vesting of any kind from the Company of your equity awards or any of the other Released Parties. In benefits provided by the event of any further proceedings whatsoever based upon any matter released herein, the Company and each of the other Released Parties shall have no further monetary or other obligation of any kind to the Executive, including without limitation any obligation for any costs, expenses and attorneys' fees incurred by or on behalf of the Executive. CIC Policy.

(b) For the purposes of this Agreement, "Released Discover Released Parties" means: (a) the Company (i) Discover and its past, present, and future parents, divisions, subsidiaries, partnerships, affiliates, and other related entities (whether or not they are wholly owned); and (b) (ii) in their official capacities as such, the past, present, and future owners, trustees, fiduciaries, administrators, shareholders, directors, officers, partners, agents, representatives, members, associates, employees, and attorneys of each entity listed in subpart (a) (i) above; and (c) (iii) the predecessors, successors, and assigns of each entity listed in subparts (a) (i) and (b) (ii) above. For avoidance of doubt, the Discover Released Parties include Capital One Financial Corporation, and any person who would be described in subpart (i), (ii) or (iii) if Capital One Financial Corporation were substituted for Discover.

(c) Notwithstanding any provision of the foregoing release to the contrary, by executing this Agreement, the Executive is you are not releasing (collectively with those rights set forth on Annex A, the "Excluded Claims"), as applicable: (i) any claims that cannot be waived by law; (ii) any right your rights of indemnification (including, without limitation, advancement of legal fees and costs) as provided by, and in accordance with, law or the terms of the Company's Discover's by-laws, other plans or agreements, or directors' and officers' or similar liability coverage under a Company Discover insurance policy providing such coverage, as any of such may be amended from time to time; provided that you shall continue to have the same protections and coverage as provided to executive officers following the Resignation Date for your acts or omission while you were employed; (iii) any rights with regard to vested and accrued benefits under Discover's employee benefit plans as defined in the Company's plans Employee Retirement Income Security Act or your vested equity in respect of Company stock or equity awards pursuant to the terms and conditions of the applicable governing documents, including any rights under the Severance Policy; Discover; (iv) any claims for payment of amounts payable under the Company's plans or any agreement with the Company, including the Severance Policy; to enforce this Agreement; or (v) any claims for payment of amounts payable under any applicable workers' compensation or unemployment compensation law.

7. Protected Activity. (d) Notwithstanding anything herein to the contrary, this Agreement does not: not preclude or prohibit you from asserting the protected rights attached hereto in Annex A.

(a) preclude⁴. **Discover Release.** In exchange for the Executive from disclosing or discussing information lawfully acquired about wages, hours, or other terms performance of your obligations hereunder and conditions of employment if used for purposes protected by the release set forth above in Section 7.3, Discover on its own behalf and on behalf of the National Labor Relations Act Discover Released Parties (but only to the extent that such as joining Discover Released Party is claiming through Discover, or forming that Discover otherwise has the authority to bind such Discover Released Party; provided, however, that in the event any such claim is made by a union, engaging in collective bargaining Discover Released Party, your release of the Discover Released Party that makes such claim is null and void) hereby releases you, and your heirs, beneficiaries, administrators, executors, trustees and assigns (collectively, the "Mehlman Released Parties") with respect to any and all claims, whether currently known or engaging in unknown, that it now has, has ever had, or may ever have against you and any of the other concerted activity Mehlman Released Parties arising from or related to any act, omission, or thing occurring or existing at any time prior to or on the date on which Discover signs this Agreement, other than claims based on criminal or fraudulent conduct (which Discover hereby represents that it is not aware of any facts that would give rise to any such claim). In addition, Discover waives and agrees not to pursue any claims it may have against Ally or any of its officers, employees or

agents related to its employment of you. Discover is not releasing any rights to enforce this Agreement. Discover agrees that it will reaffirm this release for claims through the **mutual aid or protection of employees**; Resignation Date by signing below.

(b) [5. **IF IN CALIFORNIA: Approval** prevent the Executive from discussing or disclosing information about unlawful acts in the workplace, such as harassment or discrimination or any other conduct. Discover hereby acknowledges that the Executive has reason all required approvals have been obtained for it to believe is unlawful;] enter into this Agreement.

(c) 6. **Non-Admission.** Nothing in this Agreement is intended to or shall be construed as an admission by either party or any of the Discover Released Parties or Mehlman Released Parties that any of them violated any law, interfered with any right, breached any obligation or otherwise engaged in any improper or illegal conduct with respect to the other party you or otherwise. Each of the parties expressly deny any such illegal or wrongful conduct.

7. **409A.** The Retention Bonus is intended to be exempt from Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended, pursuant to the short-term deferral exception in accordance with the regulations thereunder and will be interpreted consistent with that intent. Each payment made pursuant to this Agreement will be considered a separate payment for purposes of Section 409A. Notwithstanding the foregoing, Discover shall not be responsible for any additional taxes imposed on you pursuant to Section 409A or otherwise.

8. **Acknowledgement.** This Agreement is the entire agreement between you and Discover regarding its subject matter and supersedes all prior arrangements in respect of such subject matter. For purposes of this Agreement, unless the context otherwise requires, references to "Discover" include its subsidiaries and affiliates, and following the Merger, Capital One and its subsidiaries and affiliates. For the avoidance of doubt, the Confidentiality Agreement that you signed at the inception of your employment and the RSU Agreements remain in full force and effect. This Agreement is binding on Discover's successors and assigns, including any successor to Discover such as Capital One (subject to the closing of the Merger). References to Discover in this Agreement include its successors and permitted assigns. This Agreement is personal to you and cannot be assigned to anyone else except that it inures to the benefit of your heirs in the event of your death.

9. **Choice of Law.** This Agreement should be interpreted consistent with the laws of the State of Illinois, without giving effect to its conflicts of laws rules.

10. **Period for Review and Revocation.**

A. **Expiration Date.** This Agreement includes a release of claims under the Age Discrimination in Employment Act. You may take up to 21 days from your receipt of this Agreement to review and consider its terms, and you may use as much or as little of this period of time as you wish prior to reaching a decision regarding the signing of this Agreement. You are hereby advised to consult an attorney with regard to the effect of this Agreement. If you do not sign, date, and return this Agreement within 21 days of receiving it (the "Expiration Date"), the Agreement will not be valid, and you will not receive the Retention Benefits and the releases contained herein shall not be effective. If you do not reaffirm this Agreement within five days after the Resignation Date (but not earlier than the Resignation Date), you will not receive the Retention Bonus.

B. **Revocation Period; Effective Date.** This Agreement may be revoked by you at any time within 7 days after the date you sign it (the "Revocation Period"). The revocation must be in writing sent to the undersigned, and must be sent to Discover before the expiration of the Revocation Period. The "Effective Date" of this Agreement is the day after the Revocation Period expires without it being revoked by you. If you revoke this Agreement, the Agreement will not be valid, and you will not receive the Retention Benefits and the releases contained herein shall not be effective.

You may also revoke the second release contained in this Agreement in the same manner within seven days after you re-affirm it. If you do so, you will not receive the Retention Bonus and will not be entitled to the Second Release, and the releases provided by you and Discover of claims arising after the original date of signing of this Agreement shall not be effective.

[Signatures on Following Page]

Please indicate your agreement to the terms of this Agreement by executing a copy and returning it to me.

Very truly yours,

DISCOVER FINANCIAL SERVICES

By: /s/ J. Michael Shepherd Name: J. Michael Shepherd Title: Interim President and CEO

AGREED AND ACCEPTED:

/s/ Hope Mehlman

Hope Mehlman

Date: September 5, 2024

TO BE SIGNED ON OR WITHIN 5 DAYS AFTER THE RESIGNATION DATE

By signing below, each of the parties hereto re-affirms the release of claims set forth in Sections 3 and 4, as applicable, through the Resignation Date (other than the Excluded Claims).

DISCOVER FINANCIAL SERVICES

By:

Name:

Title:

Hope Mehlman

Date:

Annex A
Protected Rights

This Agreement does not:

(a) prohibit or restrict the Executive you from communicating with, providing information to, responding to any inquiries from, filing a charge with, reporting possible violations of law or regulation to, participating in an investigation conducted by or otherwise cooperating with any governmental entity or self-regulatory authority with jurisdiction over the Company, Discover, or require the Executive you to notify the Company Discover of such activities;

(d) (b) preclude the Executive you from benefiting from class-wide injunctive relief awarded in any fair employment practices case brought by any governmental entity or self-regulatory

authority with jurisdiction over the Company, Discover, provided such relief does not result in the Executive's your receipt of any monetary benefit or substantial equivalent thereof; or

(e) (c) prohibit the Executive you from filing or proceeding with a charge with or participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission, the National Labor Relations Board, or any other federal, state, or local governmental entity or self-regulatory authority with jurisdiction over the Company Discover charged with the investigation and enforcement of any employment laws, although by signing this the Agreement, the Executive agrees you agree and understands understand that she/he is you are waiving her/his your right to individual relief based on claims asserted in such a charge or complaint (provided that nothing herein shall be construed to prevent or limit the Executive you from recovering a bounty or award for providing information to any governmental entity or self-regulatory authority concerning any suspected violation of law).

Notwithstanding the foregoing, the Executive recognizes you recognize that, in connection with the provision of information to any governmental entity or self-regulatory authority with jurisdiction over the Company, the Executive Discover, you must inform such governmental entity or self-regulatory authority that the information the Executive is you are providing is confidential. Furthermore, the Executive is you are not permitted to reveal to any third party, including any governmental entity or self-regulatory authority, information the Executive you came to learn during the Executive's your service to the Company Discover that is protected from disclosure by any applicable privilege, including but not limited to the attorney-client privilege or attorney work product doctrine. The Company Discover does not waive any applicable privileges or the right to continue to protect its privileged attorney-client information, attorney work product, and other privileged information.

Furthermore, the Executive is you are hereby notified that the immunity provisions in Section 1833 of title 18 of the United States Code provide that an individual cannot be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is made (1) in confidence to federal, state or local government officials, either directly or indirectly, or to an attorney, and is solely for the purpose of reporting or investigating a suspected violation of the law, (2) under seal in a complaint or other document filed in a lawsuit or other proceeding, or (3) to the Executive's your attorney in connection with a lawsuit for retaliation for reporting a suspected violation of law (and the trade secret may be used in the court proceedings for such lawsuit) as long as any document containing the trade secret is filed under seal and the trade secret is not disclosed except pursuant to court order.

8. Representations and Warranties. The Executive represents and warrants that: (a) the Executive has not filed or initiated any civil litigation against any of the Released Parties pertaining to private claims; (b) no such proceedings have been initiated against any of the Released Parties on the Executive's behalf; (c) the Executive is the sole owner of the claims that are released in Section 6 above; (d) none of these claims has been transferred or assigned or caused to be transferred or assigned to any other person, firm or other legal entity; and (e) the Executive has the full right and power to grant, execute, and deliver the releases, undertakings, and agreements contained in this Agreement.

9. Acknowledgments. [IF 40 OR OVER: The Executive acknowledges, understands, and agrees that:

(a) The Executive has read and understands the terms and effect of this Agreement;

(b) The Executive releases and waives claims under this Agreement knowingly and voluntarily, in exchange for consideration the Executive is not already entitled to receive; and

(c) This Agreement does not release, waive or discharge any rights or claims that may arise for actions or omissions after the date that the Executive signs this Agreement;

(d) The Executive hereby is and has been advised of the Executive's right to have the Executive's attorney review this Agreement before signing it; [and]

(e) This Agreement includes a release of claims under the Age Discrimination in Employment Act. The Executive has [21] [45] days in which to consider whether to execute this Agreement, and any changes to this agreement will not restart the [21] [45] day review period. The executed Agreement must be returned to _____; and

(f) [IF NOT IN MINNESOTA: Within seven (7) days from the date on which the Executive signs this agreement, the Executive may, at the Executive's sole option, revoke the Agreement upon written notice to _____.]

(g) [IF IN MINNESOTA: If the Executive was employed in Minnesota, the Executive may revoke this Agreement within fifteen (15) days after its final execution by providing a written notice of revocation to _____, on or before the end of the fifteen (15)-day revocation period. The revocation must be delivered by hand or certified mail, return-receipt requested. If delivered by mail, it must be postmarked within the fifteen (15)-day period and properly addressed to _____. The Executive acknowledges and understands that this Agreement is not effective or enforceable until the revocation period has expired.]]

[OR]

Acknowledgments. [IF UNDER 40: The Executive acknowledges, understands, and agrees that:

(a) The Executive has read and understands the terms and effect of this Agreement;

(b) The executive releases and waives claims under this Agreement knowingly and voluntarily, in exchange for consideration the Executive is not already entitled to receive;

(c) This Agreement does not release, waive or discharge any rights or claims that may arise for actions or omissions after the date that the Executive signs this agreement;

(d) The Executive hereby is and has been advised of the Executive's right to have the Executive's attorney review this Agreement before signing it; and]

(e) The Executive has 10 days in which to consider whether to execute this Agreement, and any changes to this Agreement will not restart the 10 day review period. The executed Agreement must be returned to _____; and][.]

(f) [IF IN CALIFORNIA: Within seven (7) days from the date on which the Executive signs this agreement, the Executive may, at the Executive's sole option, revoke the Agreement upon written notice to _____.]

(g) [IF IN MINNESOTA: If the Executive was employed in Minnesota, the Executive may revoke this Agreement within fifteen (15) days after its final execution by providing a written notice of revocation to _____, on or before the end of the fifteen (15)-day revocation period. The revocation must be delivered by hand or certified mail, return-receipt requested. If delivered by mail, it must be postmarked within the fifteen (15)-day period and properly addressed to _____. The Executive acknowledges and understands that this Agreement is not effective or enforceable until the revocation period has expired.]

10. Effective Date of Agreement. [IF UNDER 40 AND NOT IN CALIFORNIA OR MINNESOTA: This Agreement shall become effective and shall be irrevocable on the date that it is fully executed by the parties.] [OR] [IF 40 OR OVER AND/OR IN CALIFORNIA, BUT NOT IN MINNESOTA: This Agreement will become effective and irrevocable after the seven-day revocation period in Section 9(f) above has expired without any revocation of this Agreement.] [OR] [IF IN MINNESOTA: This Agreement will become effective and irrevocable after the fifteen-day revocation period in Section 9(f) above has expired without any revocation of this Agreement.]

11. Non-Admission. Nothing in this Agreement is intended to or shall be construed as an admission by the Company or any of the other Released Parties that any of them violated any law, interfered with any right, breached any obligation or otherwise engaged in any improper or illegal conduct with respect to the Executive or otherwise. The Company and the other Released Parties expressly deny any such illegal or wrongful conduct.

12. Non-Disclosure of This Agreement. Except as required by law or in connection with any legal process between the Executive and the Company or its affiliates, the Executive agrees to not disclose, or cause, or permit to be disclosed in any way the existence or terms of this Agreement, with the exception of the Executive's financial representative or accountants, legal representatives, or spouse (provided that such individuals or entities agree to maintain the confidentiality of this Agreement as set forth herein), or for the purpose of enforcing this Agreement. In addition, the Executive may reveal the existence of this Agreement and terms of material obligations and restrictive covenants to which the Executive is bound to prospective employers and business partners. Notwithstanding the foregoing, nothing in this section is intended to, and shall not, restrict or limit the Executive from exercising the Executive's protected rights under Section 7 hereof.

13. Non-Disparagement and No Entitlement to Employment. The Executive agrees not to engage in conduct that disparages or damages or could disparage or damage the reputation, goodwill, or standing in the community of the Company or any of the other Released Parties or any of their respective businesses, strategic plans, products, practices, policies, directors, or employees. Notwithstanding the foregoing, nothing in this section is intended to, and shall not, restrict or limit the Executive from exercising the Executive's protected rights

under Section 7 hereof. The Executive acknowledges that the Executive has no present or future right to employment with the Company or any of the other Released Parties.

14. Future Cooperation. The Executive agrees to cooperate with and assist the Company in connection with any investigation, regulatory matter, lawsuit or arbitration in which the Company is a subject, target or party and as to which the Executive may have pertinent information. For the avoidance of doubt, the term "cooperation" does not mean that the Executive must provide information that is favorable to the Company; it means only that the Executive will provide information within the Executive's knowledge and possession upon the Company's request. The Executive agrees to be fully available for preparation for hearings, proceedings or litigation and for attendance at any pre-trial discovery and trial sessions. The Company agrees to make reasonable efforts to provide the Executive with reasonable notice in the event the Executive's participation is requested or required. The Company agrees to reimburse reasonable out-of-pocket costs incurred by the Executive as the direct result of such participation, provided that such out-of-pocket costs are supported by appropriate documentation and have prior authorization of the Company. Without in any way limiting the foregoing, the Executive agrees to give written notice to the Company, with as much advance notice as possible (but in any event within two business days of the Executive's receipt) to [Insert name, address and fax number] by facsimile or overnight mail, of any judicial subpoena or lawsuit pertaining to private civil litigation in which the Executive is requested or required to disclose information which relates in any way to the Company or

the Executive's duties for or on behalf of the Company. The Executive agrees to meet with such individual(s) and at such time(s) designated by the Company in advance of giving any such testimony or information. Notwithstanding the foregoing, nothing in this section is intended to, and shall not, restrict or limit the Executive from exercising the Executive's protected rights under Section 7 hereof.

15. **Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law. In the event any of the prohibitions or restrictions set forth in any of Sections 2, 3, or 4 of this Agreement are found by a court of competent jurisdiction to be unreasonable or otherwise unenforceable, it is the purpose and intent of the parties that any such prohibitions or restrictions be deemed modified or limited so that, as modified or limited, such prohibitions or restrictions may be enforced to the fullest extent possible. If any provision of this Agreement is held to be prohibited by or invalid under applicable law (after any appropriate modification or limitation pursuant to the foregoing sentence, as applicable), such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

16. **Section Headings, Amendment, and Choice of Law.** The Section headings used herein are for convenience of reference only and are not to be considered in construction of the provisions of this Agreement. This Agreement may not be amended orally and may only be amended by written instrument signed by both parties. A waiver by either party hereto of any of such party's rights or remedies under this Agreement on any occasion shall not be a bar to the exercise of the same right or remedy on any subsequent occasion or of any other right or remedy at any time. This Agreement shall be construed and interpreted in accordance with the internal laws of the State of [Illinois], without regard to its conflict of law rules.

17. **Assignment.** This Agreement is enforceable by the Company and may be assigned or transferred by the Company to, and shall be binding upon and inure to the benefit of, any affiliate of the Company or any entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets, stock or business of the Company. The Executive may not assign any of the Executive's rights or obligations under this Agreement.

18. **Entire Agreement.** This Agreement together with the Severance Policy [and any non-competition, confidentiality, trade secret, or arbitration agreement between the Executive and the Company] contain the entire agreement between the parties with respect to the subject matter contained herein and supersedes all prior and/or contemporaneous negotiations, understandings or agreements between the parties, whether written or oral, with respect to such subject matter. This Agreement shall continue in full force and effect notwithstanding the termination of the Executive's employment with the Company.

19. **Counterparts.** This Agreement may be executed in counterparts, each of which taken together shall constitute one and the same instrument.

20. [INCLUDE FOR 40 OR OVER GROUP TERMINATION: Table of Ages and Job Titles. The Executive acknowledges and agrees that the Executive received with this Agreement and reviewed a written document specifying, among other things, the job titles (or positions) and ages (or dates of birth) of certain other employees described further in that written document.]

THE PARTIES HAVE READ AND UNDERSTAND THE FOREGOING AND KNOWINGLY AND VOLUNTARILY INTEND TO BE BOUND THERETO:

[EXECUTIVE]

DISCOVER FINANCIAL SERVICES

By:

Dated:

Its:

Dated:

EXECUTION COPY – SECOND RELEASE / AMENDMENT

VIA EMAIL

November 26, 2024

Hope Mehlman

[•] address on file

Dear [•]: Hope:

Following the recent announcement of the merger between Amendment to Agreement Between Hope Mehlman and Discover Financial Services, dated September 5, 2024 (the “Company”) and Capital One Financial Corporation (“Capital One”), we are establishing a Merger Retention Program for a select group “September 5th Agreement”

The parties hereby agree that paragraph 1 of employees. You have been identified the September 5th Agreement is hereby amended to provide that Ms. Mehlman's last day of employment shall be the earlier of the Effective Date as an employee eligible to participate defined in the Merger Retention Program. According to the Agreement or November 30, 2024. All other terms and conditions described in this letter agreement, we are pleased to offer you a retention bonus in the amount of [•] (the “Retention Bonus”).

The Retention Bonus will vest and be paid in two equal installments as long as you continue to be employed full-time through the applicable vesting date, as follows:

- The first retention payment, [•], will vest on the closing date of the merger between the Company and Capital One (the “Merger”) and be paid in a cash lump sum (less all applicable taxes) within thirty days thereafter. September 5th Agreement shall remain unchanged.
- The second retention payment, [•], will vest on the six-month anniversary TO BE SIGNED ON OR WITHIN 5 DAYS AFTER THE RESIGNATION DATE

By signing below, each of the closing date of parties hereto re-affirms the Merger and be paid in a cash lump sum (less all applicable taxes) within thirty days thereafter.

If on or after the closing date of the Merger, but before the payment of either the first retention payment or the second retention payment, the Company terminates your employment for any reason other than for “Cause” (defined below), or you terminate your employment for “Good Reason” (defined below), or you die or become “Disabled” (defined below), the Company will pay you any unpaid portion of the Retention Bonus in a cash lump sum (less all applicable taxes) within sixty days following your termination date (or the date of your death or the date you become Disabled), subject to you (or your personal representative in the case of your death) signing and not revoking a release of claims set forth in Sections 3 and 4, as applicable, through the form attached hereto as Exhibit A. If your employment terminates for any other reason, you will forfeit the right to receive the first retention payment and the second retention payment (each to the extent not yet vested).

Payment of the Retention Bonus (or any portion thereof) is also subject to and in exchange for your full compliance and agreement with the following terms:

1. Unless otherwise prohibited by law, the financial terms and existence of this letter agreement and the Retention Bonus should be kept confidential, but you may share the letter agreement with your immediate family and any legal or financial advisors so long as they agree to keep the information confidential. Nothing in this letter agreement is intended to and does not prevent you from communicating with, providing information to, reporting possible violations of any law or regulation to, participating in an investigation conducted by, or filing a charge with any governmental entity or regulatory authority, including disclosures that are protected under whistleblower provisions of federal law or regulation. In addition, nothing in this letter agreement is intended to and does not prevent you from making any statements or engaging in any other

activities protected by the National Labor Relations Act, the Illinois Equal Pay Act of 2023, or the Defend Trade Secrets Act (as described in Section 6 of this letter agreement).

2. The Retention Bonus will not count toward or be considered in determining payments or benefits under any other plan, program, or agreement of the Company, including for purposes of any severance plan, policy, or agreement, and will not be subject to deferral.
3. This letter agreement does not change your status as an “at-will employee” of the Company, meaning that either you or the Company can terminate the employment relationship at any time.
4. Until the Retention Bonus is paid, the Company reserves the right to modify and/or restrict your eligibility to apply for or work in another role at the Company.
5. This letter agreement is binding on the Company's successors and assigns, including any successor to the Company such as Capital One (subject to the closing of the Merger). References to the Company in this letter agreement include its successors and permitted assigns. This letter agreement is personal to you and cannot be assigned to anyone else.
6. The Retention Bonus is intended to be exempt from Section 409A (“Section 409A”) of the Internal Revenue Code of 1986, as amended, pursuant to the short-term deferral exception in accordance with the regulations thereunder and will be interpreted consistent with that intent. Each payment made pursuant to this letter agreement will be considered a separate payment for purposes of Section 409A.
7. You acknowledge you have access to highly confidential and proprietary information, including but not limited to possible trade secrets. You acknowledge and agree that you understand the written notice below that the Defend Trade Secrets Act, 18 U.S.C. § 1833(b), provides an immunity for the disclosure of a trade secret to report a suspected violation of law and/or in an anti-retaliation lawsuit:
 - a. An individual will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official or to an attorney and solely for the purpose of reporting or investigating a suspected violation of law; or is made in a complaint or other document filed in a lawsuit or other proceeding, if the filing is made under seal.
 - b. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the individual's attorney and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.
8. This letter agreement is the entire agreement between you and the Company regarding its subject matter and supersedes all prior arrangements in respect of such subject matter. For purposes of this letter agreement, unless the context otherwise requires, references to

the “Company” include its subsidiaries and affiliates, and following the Merger, Capital One and its subsidiaries and affiliates.

9. This letter agreement should be interpreted consistent with the laws of the State of Illinois, without giving effect to its conflicts of laws rules, and any dispute will be heard in a court in the State of Illinois.
10. Payment of the Retention Bonus is contingent on the closing of the Merger, and if the Merger does not occur, no Retention Bonus will be paid, and this letter agreement will be null and void.

11. Definitions.

“Cause” means:

- a. any act or omission which constitutes a material breach of your obligations to the Company or your failure or refusal to perform satisfactorily any duties reasonably required of you, which breach, failure, or refusal (if susceptible to cure) is not corrected **Resignation Date** (other than failure to correct by reason of your incapacity due being Disabled) within ten business days after written notification thereof to you by the Company;
- b. any act or omission by you that constitutes (i) fraud or intentional misrepresentation, (ii) embezzlement, misappropriation, or conversion of assets of, or business opportunities considered by, the Company or (iii) any other act which has caused or may reasonably be expected to cause material injury to the interest or business reputation of the Company; or
- c. violation by you of any securities, commodities or banking laws, any rules or regulations issued pursuant to such laws, or rules or regulations of any securities or commodities exchange or association of which the Company is a member or of any policy of the Company relating to compliance with any of the foregoing.

“Disabled” means a “permanent and total disability” as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended, which may be demonstrated by a determination of disability by the Company’s long-term disability insurance carrier or the Social Security Administration.

“Good Reason” means:

- a. any material reduction in your base salary, target annual incentive or target long-term incentive opportunity (it being understood that any one-time increase in the grant date fair value of your 2024 annual long-term incentive award does not constitute an increase in your target long-term incentive opportunity) without a substantially similar earnings opportunity in another comparable form, or

-
- b. the Company requiring you to be based at a location that (i) is in excess of thirty-five miles from the location of your principal job location or office immediately prior to the closing date of the merger, or (ii) results in an increase in your normal daily commuting time by more than ninety minutes, except for required travel on business to an extent substantially consistent with your then present business travel obligations.

Notwithstanding the foregoing, “Good Reason” will not exist unless you give the Company written notice of the existence of subsections (a) or (b) above within thirty days after its occurrence, and the Company does not remedy the action within thirty days after such written notice. Notwithstanding the foregoing, if you are a participant in the Discover Financial Services Change in Control Severance Policy, written notice by you is not required (for purposes of the Discover Financial Services Change in Control Severance Policy) until thirty days following the six-month anniversary of the closing date of the Merger.

* * * * *

The Company recognizes your critical role and appreciates your efforts during this transition period. If you agree to the terms and conditions described in this letter agreement, please complete the Workday acknowledgement and acceptance of this letter agreement within 45 days from the date of this letter. If this letter agreement is not accepted within 45 days, you will not be entitled to the Retention Bonus, and this letter agreement will be null and void.

Sincerely, Excluded Claims).

J. Michael Shepherd Carrie Blair

CEO and President EVP, Chief Human Resources Officer DISCOVER FINANCIAL SERVICES

By: /s/ J. Michael Shepherd

I agree to the terms and conditions in this letter agreement: Name: J. Michael Shepherd

▪ Title: Interim President & CEO

/s/ Hope Mehlman

Hope Mehlman

Exhibit A

FORM OF AGREEMENT

AGREEMENT AND GENERAL RELEASE OF CLAIMS¹

_____ (the "Employee") and Discover Financial Services, (the "Company") hereby enter into this Agreement and General Release of Claims ("Agreement") pursuant to, and as a condition of the Employee's entitlement to a retention bonus under the letter agreement, dated as of _____, between the Employee and the Company (the "Retention Letter"). Any capitalized terms used but not defined herein shall have the meaning set forth in the Retention Letter.

Retention Bonus. Subject to the terms and conditions of this Agreement and the Retention Letter, the Employee will be entitled to the Retention Bonus pursuant to and in accordance with the terms of the Retention Letter, provided that the Employee signs and returns this Agreement to the Company within [10][21] [45] calendar days after (but not before) the effective date of the Employee's termination of employment [and does not revoke this Agreement in accordance with Section 8 below] and that the Employee fully complies with this Agreement. The Employee acknowledges and agrees that the Employee would not be entitled to receive any amounts under the Retention Letter but for the Employee's undertakings in this Agreement.

Confidential Information. The Employee hereby acknowledges that during the course of the Employee's employment with the Company, the Employee has acquired confidential information and trade secrets of the Company and, in certain situations, of certain third parties who provide information to the Company subject to confidentiality and non-use restrictions. For the purposes of this Agreement, the term "Confidential Information" shall mean all such confidential, trade secret and proprietary information, including without limitation information regarding the Company's business, operations, legal matters and resolution or settlement thereof, internal investigations, customer and employee information and lists, hiring, staffing and compensation practices, studies and analyses, business plans, funding, financing and methods of doing business. The Employee acknowledges and agrees that all Confidential Information is of irreplaceable value to the Company and such third parties. Except as required to perform the Employee's obligations to the Company (including without limitation any post-employment obligations to the Company under this Agreement) or as authorized in writing in advance by the Company, the Employee shall not, at any time, use, disclose, or take any action which may result in the use or disclosure of, any Confidential Information. Notwithstanding the foregoing, nothing in this section is intended to, and shall not, restrict or limit the Employee from exercising the Employee's protected rights under Section 6 hereof. The Employee agrees that the Employee does not have and shall not assert any claim of ownership or other property interest in any Confidential Information. The Employee agrees to permit the Company to inspect upon the termination of the Employee's employment any material that the Employee seeks to remove from the Company's offices or otherwise retain to determine the presence or absence of any Confidential Information.

Note: This Form of Agreement may be modified as necessary to address any legal requirements necessary to the Company obtaining an effective release of claims under applicable state or local law.

Return of Company Property. The Employee represents, warrants and covenants, as applicable, that the Employee has returned, or immediately shall return, to the Company all Confidential Information and any other property of the Company or of any third parties in the Employee's possession or control by virtue of the Employee's employment by the Company, including without limitation any Company car, computer or other similar equipment, corporate credit cards, cell phones and other wireless devices, keys, calling cards, and all documents concerning the Company (whether in tangible or electronic format and whether such documents or things contain any Confidential Information) in the Employee's possession, custody, or control.

Injunctive Relief. The Employee acknowledges that the obligations contained in Sections 2 and 3 of this Agreement are reasonably designed to protect the legitimate business interests of the Company, without unreasonably restricting the Employee's post-employment opportunities. Without limiting in any way the Company's or the other Released Parties' (as defined below) rights to pursue any other legal or equitable remedies available to any of them, the Employee recognizes and agrees that a breach of any or all of the provisions of Sections 2 or 3 of this Agreement will cause immediate and irreparable harm to the Company and the other Released Parties for which damages cannot be readily calculated and are an inadequate remedy. Accordingly, the Employee acknowledges and agrees that the Company and the other Released Parties shall be entitled (without the need to post any bond or other security) to injunctive relief restraining and enjoining any further actual or threatened breaches by the Employee in addition to any other relief that may be available. The Employee agrees to reimburse the Company and the Released Parties for any costs and expenses (including without limitation, reasonable attorneys' fees) incurred by any of them in connection with the successful enforcement by any of them or their rights under Sections 2 or 3 of this Agreement; provided that for the avoidance of doubt, the foregoing shall not apply with respect to the Employee's exercise of the protected rights under Section 6 hereof.

Release of Claims. The Employee, and anyone claiming through the Employee or on the Employee's behalf, agrees to and hereby releases the Company and the other Released Parties (as defined below) with respect to any and all private claims, whether currently known or unknown, that the Employee now has, has ever had, or may ever have against the Company and any of the other Released Parties arising from or related to any act, omission, or thing occurring or existing at any time prior to or on the date on which the Employee signs this Agreement. Without limiting the foregoing, the claims waived and released by the Employee hereunder include, but are not limited to:

all private claims for or related in any way to the Employee's employment, compensation, other terms and conditions of employment, or termination from employment with the Company or any other Employer;

all private claims that were or could have been asserted by the Employee or on the Employee's behalf: (i) in any federal, state, or local court, commission, or agency; (ii) under any common law theory; or (iii) under any employment, contract, tort, federal, state, or local law, regulation, ordinance, constitutional provision, or executive order; and all private claims that were or could have been asserted by the Employee or on the Employee's behalf arising under any of the following laws, as amended from

time to time: the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 1981, the Americans with Disabilities Act, the Employee Retirement Income Security Act, the Worker Adjustment and Retraining Notification Act, and any and all state and local laws comparable to any of the foregoing laws.

If the Employee was employed by the Company in the State of California, and as further consideration for the payments and other benefits provided under this Agreement and the Retention Agreement, the Employee also expressly waives and releases all claims the Employee presently may have under the California Fair Employment and Housing Act, the California Labor Code (except the provisions thereof related to workers compensation benefits and claims), any applicable California Industrial Welfare Commission Wage Order, the California Worker Adjustment and Retraining Notification Act, California Business and Professions Code Section 17200 *et seq.*, or any other provisions of the California unfair competition, trade or business practices laws, the California Family Rights Act, the California Occupational Safety and Health Act, any provision of the California Constitution, and Section 1542 of the California Civil Code, which provides as follows:

"A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party."

The consideration offered herein is accepted by the Employee as being in full accord, satisfaction, compromise and settlement of any and all private claims or potential private claims, and the Employee expressly agrees that the Employee is not entitled to and shall not receive any further payments, benefits, or other compensation or recovery of any kind from the Company or any of the other Released Parties. In the event of any further proceedings whatsoever based upon any matter released herein, the Company and each of the other Released Parties shall have no further monetary or other obligation of any kind to the Employee, including without limitation any obligation for any costs, expenses and attorneys' fees incurred by or on behalf of the Employee. For the purposes of this Agreement, "Released Parties" means: (a) the Company and its past, present, and future parents, divisions, subsidiaries, partnerships, affiliates, and other related entities (whether or not they are wholly owned); and (b) in their official capacities as such, the past, present, and future owners, trustees, fiduciaries, administrators, shareholders, directors, officers, partners, agents, representatives, members, associates, employees, and attorneys of each entity listed in subpart (a) above; and (c) the predecessors, successors, and assigns of each entity listed in subparts (a) and (b) above.

Notwithstanding any provision of the foregoing release to the contrary, by executing this Agreement, the Employee is not releasing, as applicable: (i) any claims that cannot be waived by law; (ii) any right of indemnification as provided by, and in accordance with, law or the terms of the Company's by-laws, other plans or agreements, or directors' and officers' liability coverage under a Company insurance policy providing such coverage, as any of such may be amended from time to time; (iii) any rights with regard to vested and accrued benefits under the Company's plans or in respect of Company stock or equity awards pursuant to the terms and conditions of the applicable governing documents, including any rights under any Company severance plan or policy to the extent applicable; (iv) any claims for payment of amounts payable

under the Company's plans or any agreement with the Company, including the Retention Letter; or (v) any claims for payment of amounts payable under any applicable workers' compensation or unemployment compensation law.

Protected Activity. Notwithstanding anything herein to the contrary, this Agreement does not:

preclude the Employee from disclosing or discussing information lawfully acquired about wages, hours, or other terms and conditions of employment if used for purposes protected by Section 7 of the National Labor Relations Act such as joining or forming a union, engaging in collective bargaining or engaging in other concerted activity for the mutual aid or protection of employees;

[IF IN CALIFORNIA: prevent the Employee from discussing or disclosing information about unlawful acts in the workplace, such as harassment or discrimination or any other conduct that the Employee has reason to believe is unlawful;]

prohibit or restrict the Employee from communicating with, providing information to, responding to any inquiries from, filing a charge with, reporting possible violations of law or regulation to, participating in an investigation conducted by or otherwise cooperating with any governmental entity or self-regulatory authority with jurisdiction over the Company, or require the Employee to notify the Company of such activities;

preclude the Employee from benefiting from class-wide injunctive relief awarded in any fair employment practices case brought by any governmental entity or self-regulatory authority with jurisdiction over the Company, provided such relief does not result in the Employee's receipt of any monetary benefit or substantial equivalent thereof; or prohibit the Employee from filing or proceeding with a charge with or participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission, the National Labor Relations Board, or any other federal, state, or local governmental entity or self-regulatory authority with jurisdiction over the Company charged with the investigation and enforcement of any employment laws, although by signing this Agreement, the Employee agrees and understands that she/he is waiving her/his right to individual relief based on claims asserted in such a charge or complaint (provided that nothing herein shall be construed to prevent or limit the Employee from recovering a bounty or award for providing information to any governmental entity or self-regulatory authority concerning any suspected violation of law).

Notwithstanding the foregoing, the Employee recognizes that, in connection with the provision of information to any governmental entity or self-regulatory authority with jurisdiction over the Company, the Employee must inform such governmental entity or self-regulatory authority that the information the Employee is providing is confidential. Furthermore, the Employee is not permitted to reveal to any third party, including any governmental entity or self-regulatory authority, information the Employee came to learn during the Employee's service to the

Company that is protected from disclosure by any applicable privilege, including but not limited to the attorney-client privilege or attorney work product doctrine. The Company does not waive any applicable privileges or the right to continue to protect its privileged attorney-client information, attorney work product, and other privileged information.

Furthermore, the Employee is hereby notified that the immunity provisions in Section 1833 of title 18 of the United States Code provide that an individual cannot be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is made (1) in confidence to federal, state or local government officials, either directly or indirectly, or to an attorney, and is solely for the purpose of reporting or investigating a suspected violation of the law, (2) under seal in a complaint or other document filed in a lawsuit or other proceeding, or (3) to the Employee's attorney in connection with a lawsuit for retaliation for reporting a suspected violation of law (and the trade secret may be used in the court proceedings for such lawsuit) as long as any document containing the trade secret is filed under seal and the trade secret is not disclosed except pursuant to court order.

Representations and Warranties. The Employee represents and warrants that: (a) the Employee has not filed or initiated any civil litigation against any of the Released Parties pertaining to private claims; (b) no such proceedings have been initiated against any of the Released Parties on the Employee's behalf; (c) the Employee is the sole owner of the claims that are released in Section 5 above; (d) none of these claims has been transferred or assigned or caused to be transferred or assigned to any other person, firm or other legal entity; and (e) the Employee has the full right and power to grant, execute, and deliver the releases, undertakings, and agreements contained in this Agreement.

Acknowledgments. **[IF 40 OR OVER:** The Employee acknowledges, understands, and agrees that:

The Employee has read and understands the terms and effect of this Agreement;

The Employee releases and waives claims under this Agreement knowingly and voluntarily, in exchange for consideration the Employee is not already entitled to receive; and

This Agreement does not release, waive or discharge any rights or claims that may arise for actions or omissions after the date that the Employee signs this Agreement;

The Employee hereby is and has been advised of the Employee's right to have the Employee's attorney review this Agreement before signing it; [and]

This Agreement includes a release of claims under the Age Discrimination in Employment Act. The Employee has [21] [45] days in which to consider whether to execute this Agreement, and any changes to this agreement will not restart the [21] [45] day review period. The executed Agreement must be returned to _____; and

[IF NOT IN MINNESOTA: Within seven (7) days from the date on which the Employee signs this agreement, the Employee may, at the Employee's sole option, revoke the Agreement upon written notice to _____.]

[IF IN MINNESOTA: If the Employee was employed in Minnesota, the Employee may revoke this Agreement within fifteen (15) days after its final execution by providing a written notice of revocation to _____]

, on or before the end of the fifteen (15)-day revocation period. The revocation must be delivered by hand or certified mail, return-receipt requested. If delivered by mail, it must be postmarked within the fifteen (15)-day period and properly addressed to _____]

. The Employee acknowledges and understands that this Agreement is not effective or enforceable until the revocation period has expired.]]

[OR]

Acknowledgments. [IF UNDER 40: The Employee acknowledges, understands, and agrees that:

- a. The Employee has read and understands the terms and effect of this Agreement;
- b. The Employee releases and waives claims under this Agreement knowingly and voluntarily, in exchange for consideration the Employee is not already entitled to receive;
- c. This Agreement does not release, waive or discharge any rights or claims that may arise for actions or omissions after the date that the Employee signs this agreement;
- d. The Employee hereby is and has been advised of the Employee's right to have the Employee's attorney review this Agreement before signing it; and]
- e. The Employee has 10 days in which to consider whether to execute this Agreement, and any changes to this Agreement will not restart the 10 day review period. The executed Agreement must be returned to _____ [; and][.]
- f. **[IF IN CALIFORNIA: Within seven (7) days from the date on which the Employee signs this agreement, the Employee may, at the Employee's sole option, revoke the Agreement upon written notice to _____.]**

g. **[IF IN MINNESOTA:** If the Employee was employed in Minnesota, the Employee may revoke this Agreement within fifteen (15) days after its final execution by providing a written notice of revocation to

, on or before the end of the fifteen (15)-day revocation period. The revocation must be delivered by hand or certified mail, return-receipt requested. If delivered by mail, it must be postmarked within the fifteen (15)-day period and properly addressed to

. The Employee acknowledges and understands that this Agreement is not effective or enforceable until the revocation period has expired.]

Effective Date of Agreement. **[IF UNDER 40 AND NOT IN CALIFORNIA OR MINNESOTA:** This Agreement shall become effective and shall be irrevocable on the date

that it is fully executed by the parties.] **[OR] [IF 40 OR OVER AND/OR IN CALIFORNIA, BUT NOT IN MINNESOTA:** This Agreement will become effective and irrevocable after the seven-day revocation period in Section 8(f) above has expired without any revocation of this Agreement.] **[OR] [IF IN MINNESOTA:** This Agreement will become effective and irrevocable after the fifteen-day revocation period in Section 8(f) above has expired without any revocation of this Agreement.]

Non-Admission. Nothing in this Agreement is intended to or shall be construed as an admission by the Company or any of the other Released Parties that any of them violated any law, interfered with any right, breached any obligation or otherwise engaged in any improper or illegal conduct with respect to the Employee or otherwise. The Company and the other Released Parties expressly deny any such illegal or wrongful conduct.

Non-Disclosure of This Agreement. Except as required by law or in connection with any legal process between the Employee and the Company or its affiliates, the Employee agrees to not disclose, or cause, or permit to be disclosed in any way the existence or terms of this Agreement, with the exception of the Employee's financial representative or accountants, legal representatives, or spouse (provided that such individuals or entities agree to maintain the confidentiality of this Agreement as set forth herein), or for the purpose of enforcing this Agreement. In addition, the Employee may reveal the existence of this Agreement and terms of material obligations and restrictive covenants to which the Employee is bound to prospective employers and business partners. Notwithstanding the foregoing, nothing in this section is intended to, and shall not, restrict or limit the Employee from exercising the Employee's protected rights under Section 6 hereof.

Non-Disparagement and No Entitlement to Employment. The Employee agrees not to engage in conduct that disparages or damages or could disparage or damage the reputation, goodwill, or standing in the community of the Company or any of the other Released Parties or any of their respective businesses, strategic plans, products, practices, policies, directors, or employees. Notwithstanding the foregoing, nothing in this section is intended to, and shall not, restrict or limit the Employee from exercising the Employee's protected rights under Section 6 hereof. The Employee acknowledges that the Employee has no present or future right to employment with the Company or any of the other Released Parties.

Future Cooperation. The Employee agrees to cooperate with and assist the Company in connection with any investigation, regulatory matter, lawsuit or arbitration in which the Company is a subject, target or party and as to which the Employee may have pertinent information. For the avoidance of doubt, the term "cooperation" does not mean that the Employee must provide information that is favorable to the Company; it means only that the Employee will provide information within the Employee's knowledge and possession upon the Company's request. The Employee agrees to be fully available for preparation for hearings, proceedings or litigation and for attendance at any pre-trial discovery and trial sessions. The Company agrees to make reasonable efforts to provide the Employee with reasonable notice in the event the Employee's participation is requested or required. The Company agrees to reimburse reasonable out-of-pocket costs incurred by the Employee as the direct result of such participation, provided that such out-of-pocket costs are supported by appropriate documentation and have prior authorization of the Company. Without in any way limiting the foregoing, the Employee agrees to give written notice to the Company, with as much advance notice as possible

(but in any event within two business days of the Employee's receipt) to [Insert name, address and fax number] by facsimile or overnight mail, of any judicial subpoena or lawsuit pertaining to private civil litigation in which the Employee is requested or required to disclose information which relates in any way to the Company or the Employee's duties for or on behalf of the Company. The Employee agrees to meet with such individual(s) and at such time(s) designated by the Company in advance of giving any such testimony or information. Notwithstanding the foregoing, nothing in this section is intended to, and shall not, restrict or limit the Employee from exercising the Employee's protected rights under Section 6 hereof.

Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law. In the event any of the prohibitions or restrictions set forth in any of Sections 2 or 3 of this Agreement are found by a court of competent jurisdiction to be unreasonable or otherwise unenforceable, it is the purpose and intent of the parties that any such prohibitions or restrictions be deemed modified or limited so that, as modified or limited, such prohibitions or restrictions may be enforced to the fullest extent possible. If any provision of this Agreement is held to be prohibited by or invalid under applicable law (after any appropriate modification or limitation pursuant to the foregoing sentence, as applicable), such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

Section Headings, Amendment, and Choice of Law. The Section headings used herein are for convenience of reference only and are not to be considered in construction of the provisions of this Agreement. This Agreement may not be amended orally and may only be amended by written instrument signed by both parties. A waiver by either party hereto of any of such party's rights or remedies under this Agreement on any occasion shall not be a bar to the exercise of the same right or remedy on any subsequent occasion or of any other right or remedy at any time. This Agreement shall be construed and interpreted in accordance with the internal laws of the State of [Illinois], without regard to its conflict of law rules.

Assignment. This Agreement is enforceable by the Company and may be assigned or transferred by the Company to, and shall be binding upon and inure to the benefit of, any affiliate of the Company or any entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets, stock or business of the Company. The Employee may not assign any of the Employee's rights or obligations under this Agreement.

Entire Agreement. This Agreement together with the Retention Letter [and any non-competition, confidentiality, trade secret, or arbitration agreement between the Employee and the Company] contain the entire agreement between the parties with respect to the subject matter contained herein and supersedes all prior and/or contemporaneous negotiations, understandings or agreements between the parties, whether written or oral, with respect to such subject matter. This Agreement shall continue in full force and effect notwithstanding the termination of the Employee's employment with the Company.

Counterparts. This Agreement may be executed in counterparts, each of which taken together shall constitute one and the same instrument.

[INCLUDE FOR 40 OR OVER GROUP TERMINATION: **Table of Ages and Job Titles.** The Employee acknowledges and agrees that the Employee received with this Agreement and reviewed a written document specifying, among other things, the job titles (or positions) and ages (or dates of birth) of certain other employees described further in that written document.]

THE PARTIES HAVE READ AND UNDERSTAND THE FOREGOING AND KNOWINGLY AND VOLUNTARILY INTEND TO BE BOUND THERETO:

[EMPLOYEE]

DISCOVER FINANCIAL SERVICES

By:

Dated:

Its:

Dated:

Date: November 27, 2024

Exhibit 31.1

CERTIFICATION

I, J. Michael Shepherd, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Discover Financial Services (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2024 December 23, 2024

J. Michael Shepherd

Interim Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION

I, John T. Greene, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Discover Financial Services (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2024 December 23, 2024

/s/ JOHN T. GREENE

John T. Greene

Executive Vice President, Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Discover Financial Services (the "Company") on Form 10-Q for the period ended **June 30, 2024** **September 30, 2024**, as filed with the Securities and Exchange Commission (the "Report"), each of J. Michael Shepherd, Interim Chief Executive Officer and President of the Company, and John T. Greene, Executive Vice President and Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **July 31, 2024** **December 23, 2024**

/s/ J. **M****MICHAEL SHEPHERD** **I****CHAEL****S****HEPHERD**

J. Michael Shepherd
Interim Chief Executive Officer and President

Date: **July 31,** **December 23,** 2024

/s/ JOHN T. GREENE

John T. Greene
Executive Vice President, Chief Financial Officer

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

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