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 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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
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	☒	Accelerated Filer	☐
Non-accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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 December 13, 2024, there were 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 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)

	September 30, 2024	December 31, 2023
		(As Restated)
Assets		
Cash and cash equivalents	$ 10,787	$ 11,685
Restricted cash	36	43
Other short-term investments	735	—
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)	14,865	13,655
Loan receivables		
Loans held-for-sale	8,484	—
Loan portfolio	118,509	128,409
Total loan receivables	126,993	128,409
Allowance for credit losses	(8,512)	(9,283)
Net loan receivables	118,481	119,126
Premises and equipment, net	1,085	1,091
Goodwill	255	255
Other assets	5,371	5,858
Total assets	$ 151,615	$ 151,713
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Interest-bearing deposit accounts	$ 108,356	$ 107,493
Non-interest bearing deposit accounts	1,496	1,438
Total deposits	109,852	108,931
Short-term borrowings	750	750
Long-term borrowings	17,427	20,581
Accrued expenses and other liabilities	6,477	7,216
Total liabilities	134,506	137,478
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; 572,469,165 and 570,837,720 shares issued at September 30, 2024 and December 31, 2023, respectively	6	6
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	1,056	1,056
Additional paid-in capital	4,633	4,553
Retained earnings	32,469	29,855
Accumulated other comprehensive income (loss)	17	(225)
Treasury stock, at cost; 321,255,534 and 320,734,860 shares at September 30, 2024 and December 31, 2023, respectively	(21,072)	(21,010)
Total stockholders' equity	17,109	14,235
Total liabilities and stockholders' equity	$ 151,615	$ 151,713

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.

	September 30, 2024	December 31, 2023
Assets		
Restricted cash	$ 36	$ 43
Loans held-for-sale	$ 132	$ —
Loan portfolio	$ 28,643	$ 30,590
Allowance for credit losses allocated to securitized loan receivables	$ (1,334)	$ (1,347)
Other assets	$ 4	$ 3
Liabilities		
Short- and long-term borrowings	$ 9,307	$ 11,743
Accrued expenses and other liabilities	$ 15	$ 19

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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
		(As Restated)		(As Restated)
Interest income				
Credit card loans	$ 4,092	$ 3,726	$ 11,989	$ 10,513
Other loans, including loans held-for-sale	742	653	2,183	1,823
Investment securities	130	120	379	327
Other interest income	148	111	480	314
Total interest income	5,112	4,610	15,031	12,977
Interest expense				
Deposits	1,213	1,061	3,622	2,722
Short-term borrowings	8	2	14	2
Long-term borrowings	236	225	729	622
Total interest expense	1,457	1,288	4,365	3,346
Net interest income	3,655	3,322	10,666	9,631
Provision for credit losses	1,473	1,702	3,709	4,109
Net interest income after provision for credit losses	2,182	1,620	6,957	5,522
Other income				
Discount and interchange revenue, net	363	360	1,121	1,027
Protection products revenue	42	42	126	129
Loan fee income	214	194	619	546
Transaction processing revenue	84	82	262	221
Other income	95	27	357	60
Total other income	798	705	2,485	1,983
Other expense				
Employee compensation and benefits	703	575	2,032	1,788
Marketing and business development	263	283	771	792
Information processing and communications	197	149	527	438
Professional fees	323	281	911	729
Premises and equipment	25	22	68	64
Other expense	277	254	761	540
Total other expense	1,788	1,564	5,070	4,351
Income before income taxes	1,192	761	4,372	3,154
Income tax expense	322	175	1,128	724
Net income	$ 870	$ 586	$ 3,244	$ 2,430
Net income allocated to common stockholders	$ 834	$ 550	$ 3,162	$ 2,351
Basic earnings per common share	$ 3.32	$ 2.21	$ 12.61	$ 9.23
Diluted earnings per common share	$ 3.32	$ 2.21	$ 12.61	$ 9.22

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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
		(As Restated)		(As Restated)
Net income	$ 870	$ 586	$ 3,244	$ 2,430
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on available-for-sale investment securities, net of tax	239	(83)	128	(142)
Unrealized gains (losses) on cash flow hedges, net of tax	176	(20)	114	(92)
Other comprehensive income (loss)	415	(103)	242	(234)
Comprehensive income	$ 1,285	$ 483	$ 3,486	$ 2,196

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		Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
For the Three Months Ended September 30, 2023									
Balance at June 30, 2023 (As Restated)	11	$ 1,056	570,628	$ 6	$ 4,508	$ 29,287	$ (470)	$ (21,005)	$ 13,382
Net income (As Restated)	—	—	—	—	—	586	—	—	586
Other comprehensive loss	—	—	—	—	—	—	(103)	—	(103)
Purchases of treasury stock	—	—	—	—	—	—	—	(4)	(4)
Common stock issued under employee benefit plans	—	—	32	—	3	—	—	—	3
Common stock issued and stock-based compensation expense	—	—	121	—	9	—	—	—	9
Dividends — common stock ($0.70 per share)	—	—	—	—	—	(177)	—	—	(177)
Dividends — Series C preferred stock ($2,750 per share)	—	—	—	—	—	(15)	—	—	(15)
Dividends — Series D preferred stock ($3,062.50 per share)	—	—	—	—	—	(16)	—	—	(16)
Balance at September 30, 2023 (As Restated)	11	$ 1,056	570,781	$ 6	$ 4,520	$ 29,665	$ (573)	$ (21,009)	$ 13,665
For the Three Months Ended September 30, 2024									
Balance at June 30, 2024 (As Restated)	11	$ 1,056	572,265	$ 6	$ 4,603	$ 31,807	$ (398)	$ (21,064)	$ 16,010
Net income	—	—	—	—	—	870	—	—	870
Other comprehensive income	—	—	—	—	—	—	415	—	415
Purchases of treasury stock	—	—	—	—	—	—	—	(8)	(8)
Common stock issued under employee benefit plans	—	—	24	—	3	—	—	—	3
Common stock issued and stock-based compensation expense	—	—	180	—	27	—	—	—	27
Dividends — common stock ($0.70 per share)	—	—	—	—	—	(177)	—	—	(177)
Dividends — Series C preferred stock ($2,750 per share)	—	—	—	—	—	(15)	—	—	(15)
Dividends — Series D preferred stock (3,062.50 per share)	—	—	—	—	—	(16)	—	—	(16)
Balance at September 30, 2024	11	$ 1,056	572,469	$ 6	$ 4,633	$ 32,469	$ 17	$ (21,072)	$ 17,109

See Notes to the Condensed Consolidated Financial Statements.

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
For the Nine Months Ended September 30, 2023									
Balance at December 31, 2022 (As Restated)	11	$ 1,056	569,689	$ 6	$ 4,468	$ 27,758	$ (339)	$ (19,054)	$ 13,895
Cumulative effect of ASU No. 2022-02 adoption	—	—	—	—	—	52	—	—	52
Net income (As Restated)	—	—	—	—	—	2,430	—	—	2,430
Other comprehensive loss	—	—	—	—	—	—	(234)	—	(234)
Purchases of treasury stock	—	—	—	—	—	—	—	(1,955)	(1,955)
Common stock issued under employee benefit plans	—	—	90	—	9	—	—	—	9
Common stock issued and stock-based compensation expense	—	—	1,002	—	43	—	—	—	43
Dividends — common stock ($2.00 per share)	—	—	—	—	—	(513)	—	—	(513)
Dividends — Series C preferred stock ($5,500 per share)	—	—	—	—	—	(31)	—	—	(31)
Dividends — Series D preferred stock ($6,125 per share)	—	—	—	—	—	(31)	—	—	(31)
Balance at September 30, 2023 (As Restated)	11	$ 1,056	570,781	$ 6	$ 4,520	$ 29,665	$ (573)	$ (21,009)	$ 13,665
For the Nine Months Ended September 30, 2024									
Balance at December 31, 2023 (As Restated)	11	$ 1,056	570,838	$ 6	$ 4,553	$ 29,855	$ (225)	$ (21,010)	$ 14,235
Cumulative effect of ASU No. 2023-02 adoption	—	—	—	—	—	(37)	—	—	(37)
Net income	—	—	—	—	—	3,244	—	—	3,244
Other comprehensive income	—	—	—	—	—	—	242	—	242
Purchases of treasury stock	—	—	—	—	—	—	—	(62)	(62)
Common stock issued under employee benefit plans	—	—	80	—	10	—	—	—	10
Common stock issued and stock-based compensation expense	—	—	1,551	—	70	—	—	—	70
Dividends — common stock ($2.10 per share)	—	—	—	—	—	(531)	—	—	(531)
Dividends — Series C preferred stock ($5,500 per share)	—	—	—	—	—	(31)	—	—	(31)
Dividends — Series D preferred stock ($6,125 per share)	—	—	—	—	—	(31)	—	—	(31)
Balance at September 30, 2024	11	$ 1,056	572,469	$ 6	$ 4,633	$ 32,469	$ 17	$ (21,072)	$ 17,109

See Notes to the Condensed Consolidated Financial Statements.

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

	For the Nine Months Ended September 30,	
	2024	2023
		(As Restated)
Cash flows provided by operating activities		
Net income	$ 3,244	$ 2,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,709	4,109
Deferred income taxes	84	(508)
Depreciation and amortization	269	354
Amortization of deferred revenues	(324)	(335)
Net losses on investments and other assets	45	40
Gain related to loans sold	(70)	—
Other, net	60	63
Changes in assets and liabilities:		
Decrease (increase) in other assets	78	(436)
Decrease in accrued expenses and other liabilities	(650)	(30)
Net cash provided by operating activities	6,445	5,687
Cash flows provided by (used for) investing activities		
Purchases of other short-term investments	(734)	—
Maturities of available-for-sale investment securities	1,568	1,431
Purchases of available-for-sale investment securities	(2,480)	(2,627)
Maturities of held-to-maturity investment securities	12	12
Purchases of held-to-maturity investment securities	(35)	(49)
Proceeds from the sale of loans originated for investment	1,554	—
Net change in principal on loans originated for investment	(4,067)	(13,145)
Proceeds from the sale of other investments	2	4
Purchases of other investments	(44)	(60)
Proceeds from sale of premises and equipment	59	—
Purchases of premises and equipment	(205)	(235)
Net cash used for investing activities	(4,370)	(14,669)
Cash flows provided by (used for) financing activities		
Net change in deposits	888	12,348
Proceeds from issuance of securitized debt	—	2,232
Maturities and repayment of securitized debt	(2,486)	(1,489)
Proceeds from issuance of other long-term borrowings	—	523
Maturities and repayments of other long-term borrowings	(751)	(1,808)
Proceeds from issuance of common stock	10	9
Purchases of treasury stock	(62)	(1,937)
Dividends paid on common and preferred stock	(579)	(560)
Net cash (used for) provided by financing activities	(2,980)	9,318
Net (decrease) increase in cash, cash equivalents and restricted cash	(905)	336
Cash, cash equivalents and restricted cash, at the beginning of the period	11,728	8,897
Cash, cash equivalents and restricted cash, at the end of the period	$ 10,823	$ 9,233
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	$ 10,787	$ 9,194
Restricted cash	36	39
Cash, cash equivalents and restricted cash, at the end of the period	$ 10,823	$ 9,233
Supplemental disclosures of non-cash information:		
Net transfers from loans held-for-investment to loans held-for-sale	$ 8,484	$ —

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.

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. The purchase price payable to Discover Bank in the transaction represents a premium to the balances of principal and interest to be capitalized of the private student loan 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/A 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 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):

	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 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 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	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At September 30, 2024				
Available-for-Sale Investment Securities[1]				
U.S. Treasury and U.S. GSE securities	$ 14,058	$ 146	$ (19)	$ 14,185
Residential mortgage-backed securities - Agency	412	—	(7)	405
Total available-for-sale investment securities	$ 14,470	$ 146	$ (26)	$ 14,590
Held-to-Maturity Investment Securities[2]				
Residential mortgage-backed securities - Agency[3]	$ 275	$ 2	$ (17)	$ 260
Total held-to-maturity investment securities	$ 275	$ 2	$ (17)	$ 260
At December 31, 2023				
Available-for-Sale Investment Securities[1]				
U.S. Treasury and U.S. GSE securities	$ 12,971	$ 52	$ (86)	$ 12,937
Residential mortgage-backed securities - Agency	480	—	(15)	465
Total available-for-sale investment securities	$ 13,451	$ 52	$ (101)	$ 13,402
Held-to-Maturity Investment Securities[2]				
Residential mortgage-backed securities - Agency[3]	$ 253	$ —	$ (19)	$ 234
Total held-to-maturity investment securities	$ 253	$ —	$ (19)	$ 234

(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	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At September 30, 2024					
Available-for-Sale Investment Securities					
U.S. Treasury and U.S. GSE securities	31	$ 1,137	$ (2)	$ 2,593	$ (17)
Residential mortgage-backed securities - Agency	30	$ —	$ —	$ 405	$ (7)
At December 31, 2023					
Available-for-Sale Investment Securities					
U.S. Treasury and U.S. GSE securities	105	$ 3,513	$ (13)	$ 3,978	$ (73)
Residential mortgage-backed securities - Agency	31	$ —	$ —	$ 465	$ (15)

There were no proceeds from sales or recognized gains or losses on available-for-sale securities during the three and nine months ended 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 nine months ended 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):

At September 30, 2024	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
Available-for-Sale Investment Securities — Amortized Cost					
U.S. Treasury and U.S. GSE securities	$ 2,193	$ 11,792	$ 73	$ —	$ 14,058
Residential mortgage-backed securities - Agency[(1)]	—	52	106	254	412
Total available-for-sale investment securities	$ 2,193	$ 11,844	$ 179	$ 254	$ 14,470
Held-to-Maturity Investment Securities — Amortized Cost					
Residential mortgage-backed securities - Agency[(1)]	$ —	$ —	$ —	$ 275	$ 275
Total held-to-maturity investment securities	$ —	$ —	$ —	$ 275	$ 275
Available-for-Sale Investment Securities — Fair Values					
U.S. Treasury and U.S. GSE securities	$ 2,183	$ 11,926	$ 76	$ —	$ 14,185
Residential mortgage-backed securities - Agency[(1)]	—	50	105	250	405
Total available-for-sale investment securities	$ 2,183	$ 11,976	$ 181	$ 250	$ 14,590
Held-to-Maturity Investment Securities — Fair Values					
Residential mortgage-backed securities - Agency[(1)]	$ —	$ —	$ —	$ 260	$ 260
Total held-to-maturity investment securities	$ —	$ —	$ —	$ 260	$ 260

(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 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 September 30, 2024 and December 31, 2023, the Company had outstanding investments in these entities of $451 million and $514 million, respectively, and related liabilities for delayed equity contributions of $156 million and $187 million, respectively. During the three and nine months ended September 30, 2024, the Company recognized $15 million and $46 million of amortization, respectively. During the three and nine months ended September 30, 2024 the Company recognized $17 million and $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 nine months ended 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 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):

	September 30, 2024	December 31, 2023
Loans held-for-sale(1)(2)	$ 8,484	$ —
Loan portfolio		
Credit card loans(3)(4)	100,489	102,259
Other loans(1)		
Private student loans(2)	—	10,352
Personal loans	10,438	9,852
Other loans	7,582	5,946
Total other loans	18,020	26,150
Total loan portfolio	118,509	128,409
Total loan receivables	126,993	128,409
Allowance for credit losses	(8,512)	(9,283)
Net loan receivables	$ 118,481	$ 119,126

(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 $372 million, $74 million and $28 million, respectively, at September 30, 2024 and $522 million, $69 million and $21 million, respectively, at December 31, 2023.

(2) At September 30, 2024, the private student loan portfolio was classified as held-for-sale and there were $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 $11.7 billion and $14.8 billion underlying investors' interest in trust debt at September 30, 2024 and December 31, 2023, respectively, and $16.9 billion and $15.6 billion in seller's interest at 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 $726 million and $753 million at September 30, 2024 and December 31, 2023, respectively.

Loans Held-for-Sale

As of September 30, 2024, the Company's private student loans portfolio 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 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 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

	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	$ 80,277	80 %	$ 20,212	20 %	$ 82,238	80 %	$ 20,021	20 %
Personal loans by origination year								
2024	$ 3,915	99 %	$ 37	1 %				
2023	3,533	95 %	192	5 %	$ 5,149	98 %	$ 100	2 %
2022	1,623	91 %	169	9 %	2,604	93 %	187	7 %
2021	588	90 %	67	10 %	1,049	92 %	91	8 %
2020	177	91 %	17	9 %	355	92 %	29	8 %
Prior	100	83 %	20	17 %	247	86 %	41	14 %
Total personal loans	$ 9,936	95 %	$ 502	5 %	$ 9,404	95 %	$ 448	5 %

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):

	September 30, 2024			December 31, 2023		
	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	$ 1,974	$ 1,883	$ 3,857	$ 2,038	$ 1,917	$ 3,955
Personal loans by origination year						
2024	$ 13	$ 3	$ 16			
2023	55	19	74	$ 26	$ 8	$ 34
2022	38	15	53	44	16	60
2021	14	6	20	20	8	28
2020	4	1	5	7	2	9
Prior	3	3	6	7	5	12
Total personal loans	$ 127	$ 47	$ 174	$ 104	$ 39	$ 143

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 September 30, 2024				
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at June 30, 2024	$ 7,591	$ —	$ 793	$ 97	$ 8,481
Additions					
Provision for credit losses[1]	1,327	—	111	35	1,473
Deductions					
Charge-offs	(1,629)	—	(123)	(4)	(1,756)
Recoveries	297	—	17	—	314
Net charge-offs	(1,332)	—	(106)	(4)	(1,442)
Balance at September 30, 2024	$ 7,586	$ —	$ 798	$ 128	$ 8,512

	For the Three Months Ended September 30, 2023				
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at June 30, 2023	$ 6,525	$ 849	$ 622	$ 68	$ 8,064
Additions					
Provision for credit losses[1]	1,518	52	93	8	1,671
Deductions					
Charge-offs	(1,171)	(40)	(76)	—	(1,287)
Recoveries	198	5	14	—	217
Net charge-offs	(973)	(35)	(62)	—	(1,070)
Balance at September 30, 2023	$ 7,070	$ 866	$ 653	$ 76	$ 8,665

	For the Nine Months Ended September 30, 2024				
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at December 31, 2023	$ 7,619	$ 858	$ 722	$ 84	$ 9,283
Additions					
Provision for credit losses[1][2]	4,083	(770)	383	53	3,749
Deductions					
Charge-offs	(4,926)	(100)	(353)	(9)	(5,388)
Recoveries	810	12	46	—	868
Net charge-offs	(4,116)	(88)	(307)	(9)	(4,520)
Balance at September 30, 2024	$ 7,586	$ —	$ 798	$ 128	$ 8,512

	For the Nine Months Ended September 30, 2023				
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at December 31, 2022	$ 5,883	$ 839	$ 595	$ 57	$ 7,374
Cumulative effect of ASU No. 2022-02 adoption[3]	(66)	—	(2)	—	(68)
Balance at January 1, 2023	5,817	839	593	57	7,306
Additions					
Provision for credit losses[1]	3,752	121	211	19	4,103
Deductions					
Charge-offs	(3,101)	(111)	(194)	—	(3,406)
Recoveries	602	17	43	—	662
Net charge-offs	(2,499)	(94)	(151)	—	(2,744)
Balance at September 30, 2023	$ 7,070	$ 866	$ 653	$ 76	$ 8,665

(1) Excludes a $31 million adjustment of the liability for expected credit losses on unfunded commitments for the three months ended September 30, 2023, and $40 million and $6 million for the nine months ended 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 September 30, 2024, which reflects a $31 million build from June 30, 2024, and 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 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 September 30, 2024, the Company used a macroeconomic forecast that projected the following amounts: (i) unemployment rate ending 2024 at 4.35% and, within the Company's reasonable and supportable period, peaking at 4.62% in the third quarter of 2025 and (ii) 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. Federal Reserve officials believe trends in inflation and employment are supportive of a less restrictive monetary policy, as indicated by a reduction of the federal funds target range in September 2024 and signaling of further cuts over the remainder of 2024. However, the timing and magnitude of rate decreases will be dependent on trends in economic data, particularly 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 nine months ended 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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest and fees accrued subsequently charged-off, net of recoveries (recorded as a reduction of interest income)	$ 274	$ 176	$ 831	$ 460
Fees accrued subsequently charged-off, net of recoveries (recorded as a reduction to other income)	$ 61	$ 47	$ 196	$ 134

(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 Nine Months Ended September 30,	
	2024	2023
Credit card loans	$ 4,926	$ 3,101
Personal loans by origination year		
2024	$ 6	
2023	125	$ 5
2022	132	74
2021	56	58
2020	18	26
Prior	16	31
Total personal loans	$ 353	$ 194

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	90 or More Days Delinquent	Total Past Due	90 or More Days Delinquent and Accruing	Total Non-accruing(2)
At September 30, 2024					
Credit card loans	$ 1,974	$ 1,883	$ 3,857	$ 1,845	$ 191
Other loans					
Personal loans	127	47	174	45	12
Other loans	44	30	74	5	79
Total other loans	171	77	248	50	91
Total loan portfolio	$ 2,145	$ 1,960	$ 4,105	$ 1,895	$ 282
At December 31, 2023					
Credit card loans	$ 2,038	$ 1,917	$ 3,955	$ 1,881	$ 197
Other loans					
Personal loans	104	39	143	37	11
Other loans	39	19	58	3	53
Total other loans	143	58	201	40	64
Total loan portfolio	$ 2,181	$ 1,975	$ 4,156	$ 1,921	$ 261

(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 $11 million for the three months ended September 30, 2024 and 2023, respectively, and $26 million and $29 million for the nine months ended 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 September 30, 2024	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2024	For the Nine Months Ended September 30, 2023
Credit card loans[(1)(2)]				
Interest rate reduction	$ 1,028	$ 685	$ 2,619	$ 1,712
Total credit card loans[(3)]	$ 1,028	$ 685	$ 2,619	$ 1,712
% of total class of financing receivables	1.02 %	0.70 %	2.61 %	1.76 %
Personal loans[(1)]				
Payment delay[(4)]	$ 5	$ 4	$ 11	$ 8
Term extension[(5)]	11	9	30	24
Interest rate reduction and payment delay[(4)]	31	21	75	48
Interest rate reduction and term extension[(5)]	12	9	34	22
Total personal loans	$ 59	$ 43	$ 150	$ 102
% of total class of financing receivables	0.57 %	0.45 %	1.44 %	1.07 %

(1) Accrued interest receivable (including unbilled accrued interest receivable for credit card loans) on modified loans to borrowers experiencing financial difficulty, which is presented as part of other assets in the Company's condensed consolidated statements of financial condition, was immaterial at September 30, 2024 and 2023.

(2) Accounts that entered a credit card loan modification program include \$191 million and \$487 million that were converted from revolving line-of-credit arrangements to term loans during the three and nine months ended September 30, 2024, respectively. Accounts that entered a credit card loan modification program include \$120 million and \$302 million that were converted from revolving line-of-credit arrangements to term loans during the three and nine months ended September 30, 2023, respectively.

(3) For settlements, the amortized cost basis is zero at period-end and therefore there is no amount reported for principal forgiveness in the table above. See financial effects table below for principal forgiveness to borrowers experiencing financial difficulty.

(4) The Company defines a payment delay as a temporary reduction in payments below the original contractually required payment amounts (e.g., interest only payments). The Company's credit card loan modification programs do not result in an other than insignificant delay in payment.

(5) The Company defines term extensions as only those modifications for which the maturity date is extended beyond the original contractual maturity date by virtue of a change in terms other than a payment delay as defined above. Modifications to credit card loans are not considered term extensions because credit card loans do not have a fixed repayment term.

The following table provides information on the financial effects of loan modifications to borrowers experiencing financial difficulty, by modification type, made during the period (dollars in millions):

	For the Three Months Ended September 30, 2024	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2024	For the Nine Months Ended September 30, 2023
Credit card loans				
Weighted-average interest rate reduction	14.47 %	13.84 %	14.45 %	13.68 %
Principal forgiven	$ 62	$ 35	$ 166	$ 81
Interest and fees forgiven[(1)]	$ 58	$ 30	$ 160	$ 77
Personal loans				
Weighted-average interest rate reduction	14.01 %	12.30 %	13.62 %	12.01 %
Weighted-average term extension (in months)	39	38	40	38
Payment delay duration (in months)[(2)]	6 to 12	6 to 12	6 to 12	6 to 12

(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.

Loan receivables that have been modified are subject to the same requirements for the accrual of expected credit loss over their expected remaining lives as for unmodified loans. The allowance for credit losses incorporates modeling of historical loss data and thereby captures the higher risk associated with modified loans to borrowers experiencing financial difficulty based on their account attributes.

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)]

	Current	30-89 Days Delinquent	90 or More Days Delinquent
At September 30, 2024			
Credit card loans	$ 2,677	$ 293	$ 222
Personal loans	147	29	6
Total	$ 2,824	$ 322	$ 228
At December 31, 2023			
Credit card loans	$ 1,882	$ 252	$ 196
Personal loans	109	20	4
Total	$ 1,991	$ 272	$ 200

(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 September 30, 2024		For the Nine Months Ended September 30, 2024	
	Defaulted Amount[(1)]	Period-end Amortized Cost Basis	Defaulted Amount[(1)]	Period-end Amortized Cost Basis
Credit card loans				
Interest rate reduction	$ 263	$ 186	$ 658	$ 349
Total credit card loans	$ 263	$ 186	$ 658	$ 349
Personal loans				
Payment delay	$ 1	$ 1	$ 2	$ 1
Term extension	2	2	6	3
Interest rate reduction and payment delay	9	3	23	6
Interest rate reduction and term extension	6	5	15	7
Total personal loans	$ 18	$ 11	$ 46	$ 17

	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	$ 120	$ 96	$ 203	$ 124
Total credit card loans	$ 120	$ 96	$ 203	$ 124
Personal loans				
Payment delay	$ —	$ —	$ 1	$ 1
Term extension	1	1	2	2
Interest rate reduction and payment delay	3	3	4	4
Interest rate reduction and term extension	3	3	3	3
Total personal loans	$ 7	$ 7	$ 10	$ 10

(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.

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/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):

	September 30, 2024	December 31, 2023
Restricted cash	$ 29	$ 36
Investors' interests held by third-party investors	9,250	11,725
Investors' interests held by wholly-owned subsidiaries of Discover Bank	2,459	3,117
Seller's interest	16,934	15,598
Loan receivables[(1)]	28,643	30,440
Allowance for credit losses allocated to securitized loan receivables[(1)]	(1,334)	(1,347)
Net loan receivables	27,309	29,093
Other assets	3	2
Carrying value of assets of consolidated variable interest entities	$ 27,341	$ 29,131

(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 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 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 September 30, 2024
2024	$ 10,208
2025	23,052
2026	4,914
2027	4,521
2028	2,209
Thereafter	1,172
Total	$ 46,076

6. Long-Term Borrowings

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):

	September 30, 2024				December 31, 2023
	Maturity	Interest Rate	Weighted-Average Interest Rate	Outstanding Amount	Outstanding Amount
Securitized Debt					
Fixed-rate asset-backed securities[1]	2025-2026	1.03% - 5.03%	3.55%	$ 8,503	$ 10,003
Floating-rate asset-backed securities	2024	—	—	—	925
Total Discover Card Master Trust I and Discover Card Execution Note Trust				8,503	10,928
Floating-rate asset-backed security[2][3]	2031	9.00%	9.00%	54	65
Total private student loan securitization trust				54	65
Total long-term borrowings - owed to securitization investors				8,557	10,993
Discover Financial Services (Parent Company)					
Fixed-rate senior notes	2024-2032	3.75% - 6.70%	4.68%	3,339	3,336
Fixed-rate retail notes	2025-2031	3.25% - 4.40%	3.82%	138	140
Fixed to floating-rate senior notes[4]	2034	7.96%	7.96%	993	993
Discover Bank					
Fixed-rate senior bank notes[1]	2026-2030	2.70% - 4.65%	3.82%	2,846	3,571
Fixed-rate subordinated bank notes	2028	5.97%	5.97%	506	500
Fixed-rate Federal Home Loan Bank advances	2030	4.77% - 4.82%	4.82%	523	523
Floating-rate Federal Home Loan Bank advances[5]	2024	4.99% - 5.09%	5.09%	525	525
Total long-term borrowings				$ 17,427	$ 20,581

(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 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 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):

	September 30, 2024
2024	$ 1,025
2025	6,174
2026	4,941
2027	1,002
2028	1,452
Thereafter	2,833
Total	$ 17,427

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 September 30, 2024, the Company had total committed borrowing capacity of $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 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 September 30, 2024 (dollars in millions, except per depositary share amounts):

Series	Description	Initial Issuance Date	Liquidation Preference and Redemption Price per Depositary Share[1]	Per Annum Dividend Rate in effect at September 30, 2024	Total Depositary Shares Authorized, Issued and Outstanding		Carrying Value	
					September 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
C[2][3][4]	Fixed-to-Floating Rate	10/31/2017	$ 1,000	5.500 %	570,000	570,000	$ 563	$ 563
D[2][5][6]	Fixed-Rate Reset	6/22/2020	$ 1,000	6.125 %	500,000	500,000	493	493
Total Preferred Stock					1,070,000	1,070,000	$ 1,056	$ 1,056

(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) 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
For the Three Months Ended September 30, 2024				
Balance at June 30, 2024	$ (148)	$ (70)	$ (180)	$ (398)
Net change	239	176	—	415
Balance at September 30, 2024	$ 91	$ 106	$ (180)	$ 17
For the Three Months Ended September 30, 2023				
Balance at June 30, 2023	$ (195)	$ (86)	$ (189)	$ (470)
Net change	(83)	(20)	—	(103)
Balance at September 30, 2023	$ (278)	$ (106)	$ (189)	$ (573)
For the Nine Months Ended September 30, 2024				
Balance at December 31, 2023	$ (37)	$ (8)	$ (180)	$ (225)
Net change	128	114	—	242
Balance at September 30, 2024	$ 91	$ 106	$ (180)	$ 17
For the Nine Months Ended September 30, 2023				
Balance at December 31, 2022	$ (136)	$ (14)	$ (189)	$ (339)
Net change	(142)	(92)	—	(234)
Balance at September 30, 2023	$ (278)	$ (106)	$ (189)	$ (573)

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	Tax (Expense) Benefit	Net of Tax
For the Three Months Ended September 30, 2024			
Available-for-Sale Investment Securities			
Net unrealized holding gains arising during the period	$ 316	$ (77)	$ 239
Net change	$ 316	$ (77)	$ 239
Cash Flow Hedges			
Net unrealized gains arising during the period	$ 200	$ (48)	$ 152
Amounts reclassified from AOCI	31	(7)	24
Net change	$ 231	$ (55)	$ 176
For the Three Months Ended September 30, 2023			
Available-for-Sale Investment Securities			
Net unrealized holding losses arising during the period	$ (111)	$ 28	$ (83)
Net change	$ (111)	$ 28	$ (83)
Cash Flow Hedges			
Net unrealized losses arising during the period	$ (55)	$ 13	$ (42)
Amounts reclassified from AOCI	29	(7)	22
Net change	$ (26)	$ 6	$ (20)
For the Nine Months Ended September 30, 2024			
Available-for-Sale Investment Securities			
Net unrealized holding gains arising during the period	$ 169	$ (41)	$ 128
Net change	$ 169	$ (41)	$ 128
Cash Flow Hedges			
Net unrealized gains arising during the period	$ 38	$ (9)	$ 29
Amounts reclassified from AOCI	112	(27)	85
Net change	$ 150	$ (36)	$ 114
For the Nine Months Ended September 30, 2023			
Available-for-Sale Investment Securities			
Net unrealized holding losses arising during the period	$ (188)	$ 46	$ (142)
Net change	$ (188)	$ 46	$ (142)
Cash Flow Hedges			
Net unrealized losses arising during the period	$ (172)	$ 42	$ (130)
Amounts reclassified from AOCI	50	(12)	38
Net change	$ (122)	$ 30	$ (92)

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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
		(As Restated)		(As Restated)
Income before income taxes	$ 1,192	$ 761	$ 4,372	$ 3,154
Income tax expense	$ 322	$ 175	$ 1,128	$ 724
Effective income tax rate	27.0 %	23.0 %	25.8 %	23.0 %

The effective tax rate increased for the three and nine months ended 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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
		(As Restated)		(As Restated)
Numerator				
Net income	$ 870	$ 586	$ 3,244	$ 2,430
Preferred stock dividends	(31)	(31)	(62)	(62)
Net income available to common stockholders	839	555	3,182	2,368
Income allocated to participating securities	(5)	(5)	(20)	(17)
Net income allocated to common stockholders	$ 834	$ 550	$ 3,162	$ 2,351
Denominator				
Weighted-average shares of common stock outstanding	251	250	251	255
Weighted-average shares of common stock outstanding and common stock equivalents	251	250	251	255
Basic earnings per common share	$ 3.32	$ 2.21	$ 12.61	$ 9.23
Diluted earnings per common share	$ 3.32	$ 2.21	$ 12.61	$ 9.22

Anti-dilutive securities were not material and had no impact on the computation of diluted EPS for the three and nine months ended 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 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)	
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 September 30, 2024, the Company had unused credit arrangements for loans of approximately $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.

Securitizations 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 $120 million as of 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 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 nine months ended 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 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

(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 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 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 nine months ended 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 $70 million as of 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. On December 6, 2024, Plaintiffs and the Company reached an agreement on the terms of a class wide settlement to resolve the claims against the Company. The parties must now negotiate a formal settlement and that settlement must be approved by the court.

Card Product Misclassification

As of September 30, 2024, the balance of the Company's counterparty restitution liability was $1.2 billion, reflecting additional accruals for interest on the overcharges committed to as part of the counterparty restitution plan approved by the Board of Directors in the third quarter of 2023, additional concessions agreed to as part of the class action settlement negotiations through the third quarter of 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 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 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 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 an SEC investigation into 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 September 30, 2024.

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)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Balance at September 30, 2024				
Assets				
Fair value - OCI				
U.S. Treasury and U.S. GSE securities	$ 14,177	$ 8	$ —	$ 14,185
Residential mortgage-backed securities - Agency	—	405	—	405
Available-for-sale investment securities	$ 14,177	$ 413	$ —	$ 14,590
Liabilities				
Fair value - OCI				
Derivative financial instruments - cash flow hedges(1)	$ —	$ 18	$ —	$ 18
Fair value - Net income				
Derivative financial instruments - fair value hedges(1)	$ —	$ 19	$ —	$ 19
Balance at December 31, 2023				
Assets				
Fair value - OCI				
U.S. Treasury and U.S. GSE securities	$ 12,928	$ 9	$ —	$ 12,937
Residential mortgage-backed securities - Agency	—	465	—	465
Available-for-sale investment securities	$ 12,928	$ 474	$ —	$ 13,402
Derivative financial instruments - cash flow hedges(1)	$ —	$ 2	$ —	$ 2
Fair value - Net income				
Marketable equity securities	$ 1	$ —	$ —	$ 1
Derivative financial instruments - fair value hedges(1)	$ —	$ 2	$ —	$ 2

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(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 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 $412 million, a weighted-average coupon of 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 nine months ended 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):

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					
Residential mortgage-backed securities - Agency	$ —	$ 260	$ —	$ 260	$ 275
Held-to-maturity investment securities	$ —	$ 260	$ —	$ 260	$ 275
Net loan receivables[(1)]	$ —	$ 8,878	$ 117,553	$ 126,431	$ 118,481
Carrying value approximates fair value[(2)]					
Cash and cash equivalents	$ 10,787	$ —	$ —	$ 10,787	$ 10,787
Restricted cash	$ 36	$ —	$ —	$ 36	$ 36
Other short-term investments	$ 735	$ —	$ —	$ 735	$ 735
Accrued interest receivables[(3)(4)]	$ —	$ 1,324	$ —	$ 1,324	$ 1,309
Liabilities					
Amortized cost					
Time deposits[(5)]	$ —	$ 46,338	$ —	$ 46,338	$ 46,076
Short-term borrowings	$ —	$ 750	$ —	$ 750	$ 750
Long-term borrowings - owed to securitization investors	$ —	$ 8,448	$ 54	$ 8,502	$ 8,557
Other long-term borrowings	—	9,043	—	9,043	8,870
Long-term borrowings	$ —	$ 17,491	$ 54	$ 17,545	$ 17,427
Carrying value approximates fair value[(2)]					
Accrued interest payables[(3)]	$ —	$ 396	$ —	$ 396	$ 396
Balance at December 31, 2023					
Assets					
Amortized cost					
Residential mortgage-backed securities - Agency	$ —	$ 234	$ —	$ 234	$ 253
Held-to-maturity investment securities	$ —	$ 234	$ —	$ 234	$ 253
Net loan receivables	$ —	$ —	$ 126,940	$ 126,940	$ 119,126
Carrying value approximates fair value[(2)]					
Cash and cash equivalents	$ 11,685	$ —	$ —	$ 11,685	$ 11,685
Restricted cash	$ 43	$ —	$ —	$ 43	$ 43
Accrued interest receivables[(3)]	$ —	$ 1,450	$ —	$ 1,450	$ 1,450
Liabilities					
Amortized cost					
Time deposits[(5)]	$ —	$ 45,333	$ —	$ 45,333	$ 45,240
Short-term borrowings	$ —	$ 750	$ —	$ 750	$ 750
Long-term borrowings - owed to securitization investors	$ —	$ 10,770	$ 65	$ 10,835	$ 10,993
Other long-term borrowings	—	9,469	—	9,469	9,588
Long-term borrowings	$ —	$ 20,239	$ 65	$ 20,304	$ 20,581
Carrying value approximates fair value[(2)]					
Accrued interest payables[(3)]	$ —	$ 421	$ —	$ 421	$ 421

(1) Includes $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 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 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 $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):

	September 30, 2024				December 31, 2023		
	Notional Amount	Number of Outstanding Derivative Contracts	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as hedges							
Interest rate swaps—cash flow hedge	$ 15,000	20	$ —	$ 18	$ 10,650	$ 2	$ —
Interest rate swaps—fair value hedge	$ 15,371	19	—	19	$ 8,650	2	—
Derivatives not designated as hedges							
Foreign exchange forward contracts[(1)]	$ 33	6	—	—	$ 29	—	—
Total gross derivative assets/liabilities[(2)]			—	37		4	—
Less: collateral held/posted[(3)]			—	(37)		—	—
Total net derivative assets/liabilities			$ —	$ —		$ 4	$ —

(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 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 September 30, 2024, the Company had no outstanding 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):

	September 30, 2024		December 31, 2023	
	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)]
Long-term borrowings	$ 15,490	$ 162	$ 8,620	$ —

(1) The balance includes $6 million and $12 million of cumulative hedging adjustments related to discontinued hedging relationships as of 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			
	Interest Expense			
	Deposits	Long-Term Borrowings	Interest Income (Credit Card)	Other Expense
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	$ (1,213)	$ (236)	$ 4,092	$ (277)
The effects of cash flow and fair value hedging				
Gains (losses) on cash flow hedging relationships				
Amounts reclassified from OCI into earnings	$ —	$ 4	$ (48)	$ —
Gains on discontinued cash flow hedging relationships				
Amounts reclassified from OCI into earnings	$ —	$ —	$ —	$ 13
(Losses) gains on fair value hedging relationships				
Losses on hedged items	$ (90)	$ (187)	$ —	$ —
Gains on interest rate swaps	81	145	—	—
Total losses on fair value hedging relationships	$ (9)	$ (42)	$ —	$ —
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	$ (1,061)	$ (225)	$ 3,726	$ (254)
The effects of cash flow and fair value hedging				
Gains (losses) on cash flow hedging relationships				
Amounts reclassified from OCI into earnings	$ —	$ 2	$ (31)	$ —
Gains (losses) on fair value hedging relationships				
Gains on hedged items	$ —	$ 24	$ —	$ —
Losses on interest rate swaps	—	(53)	—	—
Total losses on fair value hedging relationships	$ —	$ (29)	$ —	$ —

	Location and Amount of (Losses) Gains Recognized on the Condensed Consolidated Statements of Income			
	Interest Expense			
	Deposits	Long-Term Borrowings	Interest Income (Credit Card)	Other Expense
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	$ (3,622)	$ (729)	$ 11,989	$ (761)
The effects of cash flow and fair value hedging				
Gains (losses) on cash flow hedging relationships				
Amounts reclassified from OCI into earnings	$ —	$ 9	$ (134)	$ —
Gains on discontinued cash flow hedging relationships				
Amounts reclassified from OCI into earnings	$ —	$ —	$ —	$ 13
(Losses) gains on fair value hedging relationships				
Losses on hedged items	$ (91)	$ (76)	$ —	$ —
Gains (losses) on interest rate swaps	75	(40)	—	—
Total losses on fair value hedging relationships	$ (16)	$ (116)	$ —	$ —
For the Nine 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	$ (2,722)	$ (622)	$ 10,513	$ (540)
The effects of cash flow and fair value hedging				
Gains (losses) on cash flow hedging relationships				
Amounts reclassified from OCI into earnings	$ —	$ 6	$ (56)	$ —
Gains (losses) on fair value hedging relationships				
Gains on hedged items	$ —	$ 111	$ —	$ —
Losses on interest rate swaps	—	(181)	—	—
Total losses on fair value hedging relationships	$ —	$ (70)	$ —	$ —

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	Payment Services	Total
For the Three Months Ended September 30, 2024			
Interest income			
Credit card loans	$ 4,092	$ —	$ 4,092
Private student loans	244	—	244
Personal loans	360	—	360
Other loans	138	—	138
Other interest income	278	—	278
Total interest income	5,112	—	5,112
Interest expense	1,457	—	1,457
Net interest income	3,655	—	3,655
Provision for credit losses	1,473	—	1,473
Other income	669	129	798
Other expense	1,743	45	1,788
Income before income taxes	$ 1,108	$ 84	$ 1,192
For the Three Months Ended September 30, 2023 (As Restated)			
Interest income			
Credit card loans	$ 3,726	$ —	$ 3,726
Private student loans	261	—	261
Personal loans	305	—	305
Other loans	87	—	87
Other interest income	231	—	231
Total interest income	4,610	—	4,610
Interest expense	1,288	—	1,288
Net interest income	3,322	—	3,322
Provision for credit losses	1,702	—	1,702
Other income	575	130	705
Other expense	1,519	45	1,564
Income before income taxes	$ 676	$ 85	$ 761

	Digital Banking		Payment Services		Total	
For the Nine Months Ended September 30, 2024						
Interest income						
Credit card loans	$	11,989	$	—	$	11,989
Private student loans		764		—		764
Personal loans		1,040		—		1,040
Other loans		379		—		379
Other interest income		859		—		859
Total interest income		15,031		—		15,031
Interest expense		4,365		—		4,365
Net interest income		10,666		—		10,666
Provision for credit losses		3,709		—		3,709
Other income		1,901		584		2,485
Other expense		4,929		141		5,070
Income before income taxes	$	3,929	$	443	$	4,372
For the Nine Months Ended September 30, 2023 (As Restated)						
Interest income						
Credit card loans	$	10,513	$	—	$	10,513
Private student loans		768		—		768
Personal loans		831		—		831
Other loans		224		—		224
Other interest income		641		—		641
Total interest income		12,977		—		12,977
Interest expense		3,346		—		3,346
Net interest income		9,631		—		9,631
Provision for credit losses		4,109		—		4,109
Other income		1,650		333		1,983
Other expense		4,220		131		4,351
Income before income taxes	$	2,952	$	202	$	3,154

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	Payment Services	Total
For the Three Months Ended September 30, 2024			
Other income subject to ASC 606			
Discount and interchange revenue, net[1]	$ 337	$ 26	$ 363
Protection products revenue	42	—	42
Transaction processing revenue	—	84	84
Other income	76	19	95
Total other income subject to ASC 606[2]	455	129	584
Other income not subject to ASC 606			
Loan fee income	214	—	214
Total other income not subject to ASC 606	214	—	214
Total other income by operating segment	$ 669	$ 129	$ 798
For the Three Months Ended September 30, 2023 (As Restated)			
Other income subject to ASC 606			
Discount and interchange revenue, net[1]	$ 337	$ 23	$ 360
Protection products revenue	42	—	42
Transaction processing revenue	—	82	82
Other income	2	19	21
Total other income subject to ASC 606[2]	381	124	505
Other income not subject to ASC 606			
Loan fee income	194	—	194
Other income	—	6	6
Total other income not subject to ASC 606	194	6	200
Total other income by operating segment	$ 575	$ 130	$ 705

	Digital Banking	Payment Services	Total
For the Nine Months Ended September 30, 2024			
Other income subject to ASC 606			
Discount and interchange revenue, net(1)	$ 1,044	$ 77	$ 1,121
Protection products revenue	126	—	126
Transaction processing revenue	—	262	262
Other income	112	245	357
Total other income subject to ASC 606(2)	1,282	584	1,866
Other income not subject to ASC 606			
Loan fee income	619	—	619
Total other income not subject to ASC 606	619	—	619
Total other income by operating segment	$ 1,901	$ 584	$ 2,485
For the Nine Months Ended September 30, 2023 (As Restated)			
Other income subject to ASC 606			
Discount and interchange revenue, net(1)	$ 963	$ 64	$ 1,027
Protection products revenue	129	—	129
Transaction processing revenue	—	221	221
Other income	12	59	71
Total other income subject to ASC 606(2)	1,104	344	1,448
Other income not subject to ASC 606			
Loan fee income	546	—	546
Other income (loss)	—	(11)	(11)
Total other income (loss) not subject to ASC 606	546	(11)	535
Total other income by operating segment	$ 1,650	$ 333	$ 1,983

(1) Net of rewards, including Cashback Bonus rewards, of $779 million and $787 million for the three months ended September 30, 2024 and 2023, respectively, and $2.2 billion and $2.3 billion for the nine months ended 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 September 30, 2024 and 2023, respectively, and $6 million and $13 million for the nine months ended 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/A for the year ended December 31, 2023.

18. Subsequent Events

The Company has evaluated events and transactions that have occurred subsequent to 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 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/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 September 30, 2024, against results for the same period in the prior year.

- Net income was $870 million, or $3.32 per diluted share, compared to net income of $586 million, or $2.21 per diluted share, in the prior year.
- Total loans grew $4.3 billion, or 4%, to $127.0 billion.
- Credit card loans grew $3.1 billion, or 3%, to $100.5 billion.
- The net charge-off rate for credit card loans increased 125 basis points to 5.28% and the delinquency rate for credit card loans over 30 days past due increased 43 basis points to 3.84%.
- Direct-to-consumer deposits grew $9.1 billion, or 11%, to $90.3 billion.
- Payment Services transaction volume for the segment was $100.5 billion, up 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 sale of our private student loan portfolio.

- We expect a decrease in total loans as a result of the 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 exit of private student 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 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. 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 Comprehensive Capital Analysis and Review ("CCAR") exercise, followed by the release of the final large bank capital requirements on August 28, 2024. Our new SCB requirement increased to 3.1% 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. We determined our entry into an agreement and plan of merger ("Merger Agreement") with Capital One required us to resubmit our capital plan and we submitted an updated capital plan on May 3, 2024. 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, 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. These policymakers have proposed and enacted regulations and legislation 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/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 create new cyber incident and ransom payment reporting requirements for covered entities, including entities that own or operate financial services 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. To date, these laws have contained either data-level exemptions for NPI or entity-level exemptions for financial institutions subject to the GLBA or state banking laws, 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/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). 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, 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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
		(As Restated)		(As Restated)
Digital Banking				
Interest income				
Credit card loans	$ 4,092	$ 3,726	$ 11,989	$ 10,513
Private student loans	244	261	764	768
Personal loans	360	305	1,040	831
Other loans	138	87	379	224
Other interest income	278	231	859	641
Total interest income	5,112	4,610	15,031	12,977
Interest expense	1,457	1,288	4,365	3,346
Net interest income	3,655	3,322	10,666	9,631
Provision for credit losses	1,473	1,702	3,709	4,109
Other income	669	575	1,901	1,650
Other expense	1,743	1,519	4,929	4,220
Income before income taxes	1,108	676	3,929	2,952
Payment Services				
Other income	129	130	584	333
Other expense	45	45	141	131
Income before income taxes	84	85	443	202
Total income before income taxes	$ 1,192	$ 761	$ 4,372	$ 3,154

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Network Transaction Volume				
PULSE Network	$ 82,573	$ 72,146	$ 243,395	$ 206,422
Network Partners	7,512	9,899	26,693	30,935
Diners Club[1]	10,388	9,723	29,990	28,831
Total Payment Services	100,473	91,768	300,078	266,188
Discover Network — Proprietary[2]	55,184	57,228	162,299	166,153
Total Network Transaction Volume	$ 155,657	$ 148,996	$ 462,377	$ 432,341
Transactions Processed on Networks				
Discover Network	954	964	2,773	2,754
PULSE Network	2,421	2,011	7,146	5,397
Total Transaction Processed on Networks	3,375	2,975	9,919	8,151
Credit Card Volume				
Discover Card Volume[3]	$ 56,593	$ 58,965	$ 166,273	$ 171,868
Discover Card Sales Volume[4]	$ 53,380	$ 54,952	$ 156,999	$ 160,769

(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 $1.1 billion and $3.9 billion, respectively, for the three and nine months ended September 30, 2024, as compared to $676 million and $3.0 billion, respectively, for the same periods in 2023.

Net interest income increased for the three and nine months ended 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 same periods in 2023, primarily due to a higher average level of loan receivables and yield 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.

For the three months ended September 30, 2024, the provision for credit losses decreased as compared to the same 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 increased for the three months ended September 30, 2024, as compared to the same 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 months ended September 30, 2024, as compared to the same period in 2023, primarily due to increases in employee compensation and 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 nine months ended September 30, 2024, as compared to the same period in 2023, primarily due to 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 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 from increased consulting supporting compliance and risk management initiatives and the pending merger**.**

Discover card sales volume was $53.4 billion and $157.0 billion, respectively, for the three and nine months ended September 30, 2024, which was a decrease of 2.9% and 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 was relatively flat for the three months ended September 30, 2024, as compared to the same period 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 September 30, 2024, which reflects a $31 million build from the amount of the allowance for credit losses at 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/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 $444 million at September 30, 2024 if we applied 100% weight to the most adverse scenario in our sensitivity analysis to reflect continued 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 September 30,		2024 vs. 2023 Increase (Decrease)		For the Nine Months Ended September 30,		2024 vs. 2023 Increase (Decrease)	
	2024	2023	$	%	2024	2023	$	%
		(As Restated)				(As Restated)		
Interest income	$ 5,112	$ 4,610	$ 502	11 %	$ 15,031	$ 12,977	$ 2,054	16 %
Interest expense	1,457	1,288	169	13 %	4,365	3,346	1,019	30 %
Net interest income	3,655	3,322	333	10 %	10,666	9,631	1,035	11 %
Provision for credit losses	1,473	1,702	(229)	(13)%	3,709	4,109	(400)	(10)%
Net interest income after provision for credit losses	2,182	1,620	562	35 %	6,957	5,522	1,435	26 %
Other income	798	705	93	13 %	2,485	1,983	502	25 %
Other expense	1,788	1,564	224	14 %	5,070	4,351	719	17 %
Income before income taxes	1,192	761	431	57 %	4,372	3,154	1,218	39 %
Income tax expense	322	175	147	84 %	1,128	724	404	56 %
Net income	$ 870	$ 586	$ 284	48 %	$ 3,244	$ 2,430	$ 814	33 %
Net income allocated to common stockholders	$ 834	$ 550	$ 284	52 %	$ 3,162	$ 2,351	$ 811	34 %

Net Interest Income

The tables that follow this section have been provided to supplement the discussion below and provide further analysis of net interest income, net interest margin and the impact of rate and volume changes on net interest income. Net interest income represents the difference between interest income earned on our interest-earning assets and the interest expense incurred to finance those assets. We analyze net interest income in total by calculating net interest margin (net interest income as a percentage of average total loan receivables) and net yield on interest-earning assets (net interest income as a percentage of average total interest-earning assets). We also separately consider the impact of the level of loan receivables and the related interest yield and the impact of the cost of funds related to each of our funding sources, along with the income generated by our liquidity portfolio, on net interest income.

Our interest-earning assets consist of: (i) cash and cash equivalents primarily related to amounts on deposit with the Federal Reserve Bank of Philadelphia, (ii) restricted cash, (iii) other short-term investments, (iv) investment securities and (v) loan receivables. Our interest-bearing liabilities consist primarily of deposits, both direct-to-consumer and brokered, and long-term borrowings, including amounts owed to securitization investors. The following factors influence net interest income:

- The level and composition of loan receivables, including the proportion of credit card loans to other loans, as well as the proportion of loan receivables bearing interest at promotional rates as compared to standard rates;
- The credit performance of our loans, particularly with regard to charge-offs of finance charges, which reduce interest income;
- The terms of long-term borrowings and certificates of deposit upon initial offering, including maturity and interest rate;
- The interest rates necessary to attract and maintain direct-to-consumer deposits;
- 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 nine months ended 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 same periods in 2023, primarily due to a higher average level of loan receivables and yield 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 September 30,					
	2024			2023		
	Average Balance	Yield/Rate	Interest	Average Balance	Yield/Rate	Interest
Assets						
Interest-earning assets						
Cash and cash equivalents	$ 10,274	5.40 %	$ 139	$ 7,711	5.36 %	$ 104
Restricted cash	641	5.73 %	9	238	10.65 %	7
Investment securities	13,749	3.75 %	130	13,499	3.51 %	120
Loan receivables[1]						
Credit card loans[2][3]	100,290	16.23 %	4,092	95,796	15.43 %	3,726
Private student loans[4]	9,631	10.08 %	244	10,274	10.11 %	261
Personal loans	10,428	13.72 %	360	9,368	12.94 %	305
Other	7,358	7.45 %	138	4,942	6.95 %	87
Total loan receivables	127,707	15.06 %	4,834	120,380	14.44 %	4,379
Total interest-earning assets	152,371	13.35 %	5,112	141,828	12.90 %	4,610
Allowance for credit losses	(8,480)			(8,063)		
Other assets[5]	7,756			7,116		
Total assets[6]	$ 151,647			$ 140,881		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities						
Interest-bearing deposits						
Time deposits[7]	$ 44,604	4.79 %	537	$ 39,795	4.09 %	410
Money market deposits	7,123	4.22 %	75	8,067	4.41 %	90
Other interest-bearing savings deposits	55,559	4.30 %	601	51,744	4.31 %	561
Total interest-bearing deposits	107,286	4.50 %	1,213	99,606	4.23 %	1,061
Borrowings						
Short-term borrowings	—	— %	—	171	5.32 %	2
Securitized borrowings[8][9][10]	9,971	4.81 %	120	11,161	4.60 %	129
Other long-term borrowings[9][10][11]	9,416	5.23 %	124	8,702	4.32 %	96
Total borrowings	19,387	5.02 %	244	20,034	4.49 %	227
Total interest-bearing liabilities	126,673	4.58 %	1,457	119,640	4.27 %	1,288
Other liabilities and stockholders' equity[5][12]	24,974			21,241		
Total liabilities and stockholders' equity	$ 151,647			$ 140,881		
Net interest income			$ 3,655			$ 3,322
Net interest margin[13]		11.38 %			10.95 %	
Net yield on interest-earning assets[14]		9.54 %			9.29 %	
Interest rate spread[15]		8.77 %			8.63 %	

	For the Nine Months Ended September 30,					
	2024			2023		
	Average Balance	Yield/Rate	Interest	Average Balance	Yield/Rate	Interest
Assets						
Interest-earning assets						
Cash and cash equivalents	$ 10,983	5.46 %	$ 449	$ 7,907	5.06 %	$ 299
Restricted cash	596	6.99 %	31	299	6.76 %	15
Investment securities	13,641	3.71 %	379	12,779	3.42 %	327
Loan receivables[1]						
Credit card loans[2][3]	100,062	16.01 %	11,989	92,383	15.21 %	10,513
Private student loans[4]	10,169	10.03 %	764	10,387	9.88 %	768
Personal loans	10,233	13.58 %	1,040	8,760	12.69 %	831
Other	6,809	7.43 %	379	4,396	6.82 %	224
Total loan receivables	127,273	14.87 %	14,172	115,926	14.23 %	12,336
Total interest-earning assets	152,493	13.17 %	15,031	136,911	12.67 %	12,977
Allowance for credit losses	(8,999)			(7,690)		
Other assets[5]	7,806			6,762		
Total assets[6]	$ 151,300			$ 135,983		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities						
Interest-bearing deposits						
Time deposits[7]	$ 44,905	4.71 %	1,584	$ 36,828	3.68 %	1,014
Money market deposits	7,195	4.26 %	229	8,370	4.08 %	255
Other interest-bearing savings deposits	55,707	4.34 %	1,809	50,238	3.87 %	1,453
Total interest-bearing deposits	107,807	4.49 %	3,622	95,436	3.81 %	2,722
Borrowings						
Short-term borrowings	—	— %	—	58	5.32 %	2
Securitized borrowings[8][9][10]	10,579	4.80 %	380	10,353	4.20 %	325
Other long-term borrowings[9][10][11]	9,502	5.10 %	363	9,045	4.39 %	297
Total borrowings	20,081	4.94 %	743	19,456	4.29 %	624
Total interest-bearing liabilities	127,888	4.56 %	4,365	114,892	3.89 %	3,346
Other liabilities and stockholders' equity[5][12]	23,412			21,091		
Total liabilities and stockholders' equity	$ 151,300			$ 135,983		
Net interest income			$ 10,666			$ 9,631
Net interest margin[13]		11.19 %			11.11 %	
Net yield on interest-earning assets[14]		9.34 %			9.40 %	
Interest rate spread[15]		8.61 %			8.78 %	

(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 $98 million and $121 million of amortization of balance transfer fees for the three months ended September 30, 2024 and 2023, respectively, and $324 million and $335 million for the nine months ended 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 nine months ended September 30, 2024 and 2023.
(4) Private student loans were classified as held-for-sale effective 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 0.57% and 0.42% for the three months ended September 30, 2024 and 2023, respectively, and 2.14% and 1.79% for the nine months ended 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 nine months ended September 30, 2024.
(8) Includes the impact of one terminated derivative formerly designated as a cash flow hedge for the three and nine months ended 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 nine months ended September 30, 2024 and 2023.
(10) Includes the impact of terminated derivatives formerly designated as fair value hedges for the three and nine months ended 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 nine months ended September 30, 2024 and 2023.
(12) The return on average stockholders' equity, based on net income, was 21% and 17% for the three months ended September 30, 2024 and 2023, respectively, and 28% and 24% for the nine months ended September 30, 2024 and 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):

	September 30, 2024	December 31, 2023
Loans held-for-sale	$ 8,484	$ —
Loan portfolio		
Credit card loans	100,489	102,259
Other loans		
Private student loans	—	10,352
Personal loans	10,438	9,852
Other loans	7,582	5,946
Total other loans	18,020	26,150
Total loan portfolio	118,509	128,409
Total loan receivables	126,993	128,409
Allowance for credit losses	(8,512)	(9,283)
Net loan receivables	$ 118,481	$ 119,126

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 September 30, 2024				
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at June 30, 2024	$ 7,591	$ —	$ 793	$ 97	$ 8,481
Additions					
Provision for credit losses[1]	1,327	—	111	35	1,473
Deductions					
Charge-offs	(1,629)	—	(123)	(4)	(1,756)
Recoveries	297	—	17	—	314
Net charge-offs	(1,332)	—	(106)	(4)	(1,442)
Balance at September 30, 2024	$ 7,586	$ —	$ 798	$ 128	$ 8,512

	For the Three Months Ended September 30, 2023				
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at June 30, 2023	$ 6,525	$ 849	$ 622	$ 68	$ 8,064
Additions					
Provision for credit losses[1]	1,518	52	93	8	1,671
Deductions					
Charge-offs	(1,171)	(40)	(76)	—	(1,287)
Recoveries	198	5	14	—	217
Net charge-offs	(973)	(35)	(62)	—	(1,070)
Balance at September 30, 2023	$ 7,070	$ 866	$ 653	$ 76	$ 8,665

	For the Nine Months Ended September 30, 2024				
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at December 31, 2023	$ 7,619	$ 858	$ 722	$ 84	$ 9,283
Additions					
Provision for credit losses[1][2]	4,083	(770)	383	53	3,749
Deductions					
Charge-offs	(4,926)	(100)	(353)	(9)	(5,388)
Recoveries	810	12	46	—	868
Net charge-offs	(4,116)	(88)	(307)	(9)	(4,520)
Balance at September 30, 2024	$ 7,586	$ —	$ 798	$ 128	$ 8,512

	For the Nine Months Ended September 30, 2023				
	Credit Card Loans	Private Student Loans	Personal Loans	Other Loans	Total Loans
Balance at December 31, 2022	$ 5,883	$ 839	$ 595	$ 57	$ 7,374
Cumulative effect of ASU No. 2022-02 adoption[3]	(66)	—	(2)	—	(68)
Balance at January 1, 2023	5,817	839	593	57	7,306
Additions					
Provision for credit losses[1]	3,752	121	211	19	4,103
Deductions					
Charge-offs	(3,101)	(111)	(194)	—	(3,406)
Recoveries	602	17	43	—	662
Net charge-offs	(2,499)	(94)	(151)	—	(2,744)
Balance at September 30, 2023	$ 7,070	$ 866	$ 653	$ 76	$ 8,665

(1) Excludes a $31 million adjustment of the liability for expected credit losses on unfunded commitments for the three months ended September 30, 2023, and $40 million and $6 million for the nine months ended 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 September 30, 2024, which reflects a $31 million build from June 30, 2024 and 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 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 September 30, 2024, we used a macroeconomic forecast that projected the following amounts: (i) unemployment rate ending 2024 at 4.35% and, within our reasonable and supportable period, peaking at 4.62% in the third quarter of 2025 and (ii) 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. Federal Reserve officials believe trends in inflation and employment are supportive of a less restrictive monetary policy, as indicated by a reduction of the federal funds target range in September 2024 and signaling of further cuts over the remainder of 2024. However, the timing and magnitude of rate decreases will be dependent on trends in economic data, particularly 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 months ended September 30, 2024, the provision for credit losses decreased by $198 million compared to the same 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):

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2024		2023		2024		2023	
	$	%	$	%	$	%	$	%
Credit card loans	$ 1,332	5.28 %	$ 973	4.03 %	$ 4,116	5.50 %	$ 2,499	3.62 %
Personal loans	$ 106	4.01 %	$ 62	2.63 %	$ 307	4.00 %	$ 151	2.30 %

The net charge-offs and net charge-off rate for credit card loans and personal loans increased for the three and nine months ended 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):

	September 30, 2024		December 31, 2023	
	$	%	$	%
Loans 30 or more days delinquent				
Credit card loans	$ 3,857	3.84 %	$ 3,955	3.87 %
Personal loans	$ 174	1.66 %	$ 143	1.45 %
Total loan portfolio	$ 4,105	3.46 %	$ 4,156	3.45 %
Loans 90 or more days delinquent				
Credit card loans	$ 1,883	1.87 %	$ 1,917	1.87 %
Personal loans	$ 47	0.45 %	$ 39	0.40 %
Total loan portfolio	$ 1,960	1.65 %	$ 1,975	1.59 %
Loans not accruing interest	$ 282	0.23 %	$ 261	0.21 %

The 30-day and 90-day delinquency rates remained relatively stable for credit card loans at September 30, 2024, compared to December 31, 2023. The 30-day and 90-day delinquency rates for personal loans at September 30, 2024, increased compared to December 31, 2023, driven primarily by portfolio seasoning.

Modified and Restructured Loans

For information regarding modified and restructured loans, see Note 3: Loan Receivables to our condensed consolidated financial statements.

Other Income

The following table presents the components of other income (dollars in millions):

	For the Three Months Ended September 30,		2024 vs 2023 Increase		For the Nine Months Ended September 30,		2024 vs. 2023 Increase (Decrease)	
	2024	2023	$	%	2024	2023	$	%
		(As Restated)				(As Restated)		
Discount and interchange revenue, net[1]	$ 363	$ 360	$ 3	1 %	$ 1,121	$ 1,027	$ 94	9 %
Protection products revenue	42	42	—	— %	126	129	(3)	(2)%
Loan fee income	214	194	20	10 %	619	546	73	13 %
Transaction processing revenue	84	82	2	2 %	262	221	41	19 %
Other income	95	27	68	252 %	357	60	297	495 %
Total other income	$ 798	$ 705	$ 93	13 %	$ 2,485	$ 1,983	$ 502	25 %

(1) Net of rewards, including Cashback Bonus rewards, of $779 million and $787 million for the three months ended September 30, 2024 and 2023, respectively, and $2.2 billion and $2.3 billion for the nine months ended September 30, 2024 and 2023, respectively.

Total other income increased for the three months ended September 30, 2024, as compared to the same 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 favorable legal settlement in our Payment Services segment and 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.

Other Expense

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

	For the Three Months Ended September 30,		2024 vs. 2023 Increase (Decrease)		For the Nine Months Ended September 30,		2024 vs. 2023 Increase (Decrease)	
	2024	2023	$	%	2024	2023	$	%
		(As Restated)				(As Restated)		
Employee compensation and benefits	$ 703	$ 575	$ 128	22 %	$ 2,032	$ 1,788	$ 244	14 %
Marketing and business development	263	283	(20)	(7)%	771	792	(21)	(3)%
Information processing and communications	197	149	48	32 %	527	438	89	20 %
Professional fees	323	281	42	15 %	911	729	182	25 %
Premises and equipment	25	22	3	14 %	68	64	4	6 %
Other expense	277	254	23	9 %	761	540	221	41 %
Total other expense	$ 1,788	$ 1,564	$ 224	14 %	$ 5,070	$ 4,351	$ 719	17 %

Total other expense increased for the three months ended September 30, 2024, as compared to the same period in 2023, primarily due to increases in employee compensation and 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 nine months ended September 30, 2024, as compared to the same period in 2023, primarily due to 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 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 from increased consulting supporting compliance and risk management initiatives and 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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
		(As Restated)		(As Restated)
Income before income taxes	$ 1,192	$ 761	$ 4,372	$ 3,154
Income tax expense	$ 322	$ 175	$ 1,128	$ 724
Effective income tax rate	27.0 %	23.0 %	25.8 %	23.0 %

The effective tax rate increased for the three and nine months ended 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 September 30, 2024, we had $90.3 billion of direct-to-consumer deposits and $19.5 billion of brokered deposits, of which there are $95.7 billion of deposit balances due in less than one year and $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 September 30, 2024, there were $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 nine months ended 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 September 30, 2024, we had $9.3 billion of outstanding public asset-backed securities and $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 September 30, 2024, the DiscoverSeries three-month rolling average excess spread was 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):

At September 30, 2024	Total	Less Than One Year	One Year and Thereafter
Scheduled maturities of borrowings - owed to credit card securitization investors	$ 9,253	$ 5,393	$ 3,860

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 September 30, 2024, we had total committed borrowing capacity of $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):

At September 30, 2024		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 2026-2030	$	2,800
Discover Bank fixed-rate subordinated bank notes, maturing 2028	$	500

At September 30, 2024, $644 million of interest on our fixed-rate debt is due in less than one year and $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 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 September 30, 2024, there were $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 September 30, 2024, we had a total committed capacity of $3.5 billion, $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 September 30, 2024, Discover Bank had $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 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 September 30, 2024, our unused credit arrangements were approximately $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 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 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 September 30, 2024, our liquidity portfolio and undrawn credit facilities were $77.5 billion, which was $7.8 billion higher than the balance at December 31, 2023. Our liquidity portfolio and undrawn credit facilities increased primarily as a result of an increase in unused borrowing capacity with the Federal Reserve discount window. During the three and nine months ended September 30, 2024, the average balance of our liquidity portfolio was $23.5 billion and $24.2 billion, respectively. Our liquidity portfolio and undrawn facilities consist of the following (dollars in millions):

	September 30, 2024	December 31, 2023
Liquidity portfolio		
Cash and cash equivalents[1]	$ 9,660	$ 9,815
Other short-term investments	735	—
Investment securities[2]	14,409	13,439
Total liquidity portfolio	24,804	23,254
Private asset-backed securitizations[3]	2,750	2,750
Federal Home Loan Bank of Chicago	3,853	2,551
Primary liquidity sources	31,407	28,555
Federal Reserve discount window[3]	46,118	41,199
Total liquidity portfolio and undrawn credit facilities	$ 77,525	$ 69,754

(1) Cash in the process of settlement and restricted cash are excluded from cash and cash equivalents for liquidity purposes.
(2) Excludes $407 million and $320 million of U.S. Treasury securities that have been pledged as swap collateral in lieu of cash as of 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. 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 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, followed by the release of the final large bank capital requirements on August 28, 2024. Our new SCB requirement increased to 3.1% and is effective from October 1, 2024, through September 30, 2025, subject to potential recalculation as discussed 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. We determined our entry into the Merger Agreement with Capital One required us to resubmit our capital plan and we submitted our updated capital plan on May 3, 2024. The resubmission process is ongoing. See "— Regulatory Environment and Developments — Banking — Capital Standards and Stress Testing" for additional information.

At 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 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):

	September 30, 2024	December 31, 2023
		(As Restated)
Total common stockholders' equity[(1)]	$ 16,053	$ 13,179
Less: goodwill	(255)	(255)
Tangible common equity	$ 15,798	$ 12,924

(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			$ 2.80
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:

Declaration Date	Record Date	Payment Date	Dividend per Depositary Share
2024			
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
2023			
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 Depositary Share
2024			
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
2023			
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.

During the three and nine months ended September 30, 2024, there were no share repurchases. 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 September 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 September 30, 2024, these numbers include a sale of the private student loan portfolio (dollars in millions):

	At September 30, 2024		At December 31, 2023	
Basis point change	**$**	**%**	**$**	**%**
+100	$ 92	0.65 %	$ 161	1.17 %
-100	$ (74)	(0.52)%	$ (153)	(1.11)%

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 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 interim CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Due to the material weaknesses disclosed within 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 that led to the restatement of the Company's condensed consolidated historical financial statements, our interim CEO and 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 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 of time and management has concluded, through testing, that these controls are operating effectively. As of September 30, 2024, this evaluation remains ongoing and we have not yet concluded on remediation.

Changes in Internal Control over Financial Reporting

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 Rules 13a-15(f) and 15d-15(f)) that occurred during the 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
- **AOCI**: 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/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 employee transactions made by us or on our behalf during the most recent quarter.

Period	Total Number of Shares Purchased	Average Price Paid Per 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) 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.

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

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 Employee Stock Purchase Plan, effective August 1, 2024.
10.2	Letter Agreement, dated as of September 1, 2024, between Discover Financial Services and Hope Mehlman.
10.3	Amendment to Letter Agreement, dated as of November 26, 2024, between Discover Financial Services and 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: December 23, 2024

Exhibit 10.1

Amendment No. 5 to
Discover Financial Services
Employee Stock Purchase Plan

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

1. 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:

“No right to purchase Common Stock hereunder shall accrue under the Plan on behalf of any person who is not an Eligible Employee as of the first day of a Purchase Period (as defined in Section 3). 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:

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 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."

Exhibit 10.2

EXECUTION COPY – FOR SETTLEMENT PURPOSES ONLY

VIA E-MAIL
September 1, 2024

Hope Mehlman
[address on file]

Dear Hope:

This letter (the "Agreement") sets forth the terms of the agreement between you and Discover Financial Services ("Discover") relating to your continued employment by Discover in light of the pending acquisition of Discover by Capital One Financial Corporation (the "Merger"), pursuant to the Agreement and Plan of Merger dated as of February 19, 2024, among Discover, Capital One, and certain other parties (the "Merger Agreement").

1. **Resignation Date**. Your last day of employment as Chief Legal Officer, General Counsel and Corporate Secretary will occur on the earlier of the Effective Time as defined in the Merger Agreement 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 transition of your responsibilities, and related to the Merger in a manner consistent with Discover policies. For the avoidance of doubt, (i) you will receive payment for any accrued and unused vacation through the Resignation Date in accordance with Discover's policy and applicable law; (ii) Discover will reimburse you for your business expenses incurred through the Resignation Date in accordance with its policies; (iii) you will receive information to continue your health coverage pursuant to COBRA; (iv) you have a previously approved vacation from September 3, 2024 through September 15, 2024; and (v) your resignation on the Resignation Date will be a resignation from all positions that you hold with Discover and its affiliates.

2. **Payments and Benefits**. Discover hereby agrees to pay and provide you with the following (collectively the "Retention Benefits"):

A. 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 the closing of the Merger has occurred on or prior to the Resignation Date, the Retention Bonus shall increase to $1 million.

B. Effective on the Effective Date (as defined below), release you from your obligation to repay any portion of (a) the $330,000 bonus described in the first paragraph of the second page of the 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 $3.1 million bonus paid to you pursuant to the third paragraph of the second page of the Offer Letter, and (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, (i) paragraph (D) above shall not apply 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 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 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.

3. **Your Release**. (a) In exchange for the performance of 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 Mehlman Released Parties (as defined below)) hereby release Discover and the Discover Released Parties (as defined below) with respect to any and all claims, whether currently known or unknown, that you now have, have ever had, or may ever have against Discover and any of the 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 you sign this Agreement. Without limiting the foregoing, the claims you waived and released hereunder include, but are not limited to all private claims for or related in any way to your employment or the termination thereof, all claims that were or could have been asserted by the you or the Mehlman 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. For avoidance of doubt, you waive

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 the Discover Financial Services Change in Control Severance Policy (the "CIC Policy"), or 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 of your equity awards or any of the benefits provided by the CIC Policy.

(b) For the purposes of this Agreement, "Discover Released Parties" means: (i) Discover and its past, present, and future parents, divisions, subsidiaries, partnerships, affiliates, and other related entities (whether or not they are wholly owned); (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 (i) above; and (iii) the predecessors, successors, and assigns of each entity listed in subparts (i) and (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, 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) 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 Discover's by-laws, other plans or agreements, or directors' and officers' or similar liability coverage under a 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 Employee Retirement Income Security Act or your vested equity in Discover; (iv) any claims to enforce this Agreement; or (v) any claims for payment of amounts payable under any applicable workers' compensation or unemployment compensation law.

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

4. **Discover Release**. In exchange for the performance of your obligations hereunder and the release set forth above in Section 3, Discover on its own behalf and on behalf of the Discover Released Parties (but only to the extent that such Discover Released Party is claiming through Discover, or 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 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 unknown, that it now has, has ever had, or may ever have against you and any of the other 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 Resignation Date by signing below.

5. **Approval**. Discover hereby acknowledges that all required approvals have been obtained for it to enter into this Agreement.

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 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 Discover, or require you to notify Discover of such activities;

(b) preclude 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 Discover, provided such relief does not result in your receipt of any monetary benefit or substantial equivalent thereof; or

(c) prohibit 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 Discover charged with the investigation and enforcement of any employment laws, although by signing the Agreement, you agree and understand that you are waiving 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 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, you recognize that, in connection with the provision of information to any governmental entity or self-regulatory authority with jurisdiction over Discover, you must inform such governmental entity or self-regulatory authority that the information you are providing is confidential. Furthermore, you are not permitted to reveal to any third party, including any governmental entity or self-regulatory authority, information you came to learn during your service to Discover that is protected from disclosure by any applicable privilege, including but not limited to the attorney-client privilege or attorney work product doctrine. 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, 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 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.

Exhibit 10.3

EXECUTION COPY – SECOND RELEASE / AMENDMENT

VIA EMAIL
November 26, 2024

Hope Mehlman
[address on file]

Dear Hope:

Amendment to Agreement Between Hope Mehlman and Discover Financial Services, dated September 5, 2024 (the "September 5th Agreement)

The parties hereby agree that paragraph 1 of 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 defined in the Merger Agreement or November 30, 2024. All other terms and conditions of the September 5th Agreement shall remain unchanged.

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

/s/ Hope Mehlman
Hope Mehlman
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: December 23, 2024

/s/ J. MICHAEL SHEPHERD

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: 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 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: December 23, 2024

/s/ J. MICHAEL SHEPHERD

J. Michael Shepherd
Interim Chief Executive Officer and President

Date: December 23, 2024

/s/ JOHN T. GREENE

John T. Greene
Executive Vice President, Chief Financial Officer