Risk Factors Comparison 2024-02-23 to 2023-02-23 Form: 10-K

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You should carefully consider each of the following risks described below and all of the other information in this annual report on Form 10- K in evaluating us. Our business, financial condition, cash flows and / or results of operations could be materially adversely affected by any of these risks. The trading price of our common stock could decline due to any of these risks. This annual report on Form 10- K also contains forward- looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward- looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this annual report on Form 10- K. See " Special Note Regarding Forward- Looking Statements, " which immediately follows the risks below. Summary The following is a summary of the most important risks that could materially adversely affect our business, financial condition, cash flows and / or results of operations, and should be read together with the more detailed description of risks that follow: • **Merger Related Risks: The merger is subject to a number of risks, including that the required regulatory approvals may not be obtained in a timely manner, if at all, that the merger may be terminated or abandoned by the parties and that it may be more difficult, costly or time consuming than expected to realize, or that the combined company will fail to realize, the anticipated synergies and benefits of the merger. •** Economic ~~and~~ **,** Regulatory **, Enforcement and Litigation** : As a consumer financial services and payment services company, we are subject to risks stemming from ~~new~~ laws and regulations **, compliance therewith and related litigation** and an uncertain economic environment. • Strategic: We must successfully compete against firms that are larger than we are and have more resources than we do as well as firms that are smaller and potentially disruptive to our industry as we manage the unique risks associated with each of our product offerings. • Credit, Market and Liquidity: We must effectively manage our desire to grow our loan portfolio against the risk that those loans will not be repaid, while ensuring that we manage the underlying cost of the funds we use to make those loans and sources of funding we rely on to fund those loans. • Operational and Other Risks: We must remain operationally effective and manage operational and reputational risks such as fraud and cybersecurity, while continuing to monitor and effectively respond to an external environment that may negatively impact the utilization or desirability of our products and services **. Failure to complete the merger with Capital One could negatively affect our stock price and our future business and financial results. If our pending merger with Capital One is not completed for any reason, our ongoing business may be adversely affected and, without realizing any of the benefits of having completed the merger, we would be subject to a number of risks, including the following: • we may experience negative reactions from the financial markets, including negative effects on our stock price; • we may experience negative reactions from our customers and vendors; • we will have incurred substantial expenses and will be required to pay certain costs relating to the merger, including legal, accounting, and other fees, whether or not the merger is completed; • our management team will have devoted substantial time and resources to matters relating to the merger, and would otherwise have devoted their time and resources to other opportunities that may have been beneficial to us, which could cause us to lag competitor advances. In addition, if the Merger Agreement is terminated and we seek another merger or business combination, the market price of our common stock could decline, which could make it more difficult to find a party willing to offer equivalent or more attractive consideration than the consideration Capital One has agreed to provide in the merger.- 27- We will be subject to business uncertainties and contractual restrictions while the merger with Capital One is pending. Uncertainty about the effect of the merger on our employees and customers may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the merger is completed and could cause customers and others that deal with us to seek to change existing business relationships with us. In addition, subject to certain exceptions, we have agreed to operate our business in the ordinary course in all material respects and to refrain from taking certain actions that may adversely affect our ability to consummate the transactions contemplated by the Merger Agreement on a timely basis without the consent of Capital One. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the merger. Employee retention may be particularly challenging during the pendency of the merger, as employees may experience uncertainty about their roles with the surviving corporation following the merger. Shareholder litigation could prevent or delay the closing of our pending merger with Capital One or otherwise negatively affect our business and operations. We may incur additional costs in connection with the defense or settlement of any shareholder lawsuits filed in connection with our pending merger with Capital One. Such litigation could have an adverse effect on our financial condition and results of operations and could prevent or delay the consummation of the merger. We have incurred and are expected to incur substantial costs related to the merger. We have incurred and expect to incur a number of non- recurring costs associated with the merger. These costs include, or will include, legal, financial advisory, accounting, consulting and other advisory fees, retention, severance and employee benefit- related costs, public company filings fees and other regulatory fees, financial printing and other printing costs. Some of these costs are payable by us regardless of whether or not the merger is completed. Because the market price of Capital One common stock may fluctuate, our stockholders cannot be certain of the precise value of the merger consideration they may receive in our pending merger with Capital One. At the time our pending merger with Capital One is completed, each issued and outstanding share of our common stock (other than certain shares held by us or Capital One) will be converted into the right to receive 1. 0192 shares of Capital One common stock. There will be a time lapse between each of the date of the proxy statement / prospectus for the stockholders' meeting to approve the merger, the date on which**

our stockholders vote to approve the merger, and the date on which Discover stockholders entitled to receive shares of Capital One common stock actually receive such shares. The market value of Capital One common stock may fluctuate during these periods as a result of a variety of factors, including general market and economic conditions, changes in our and Capital One' s businesses, operations and prospects, and regulatory considerations. Many of these factors are outside of our and Capital One' s control. The actual value of the shares of Capital One common stock received by our shareholders will depend on the market value of shares of Capital One common stock at the time the merger is completed. This market value may be less or more than the value used to determine the exchange ratio stated in the Merger Agreement. Regulatory approvals may not be received, may take longer than expected, or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the proposed merger with Capital One. Before the merger with Capital One and the subsequent merger of Capital One, National Association and Discover Bank (the " bank merger ") may be completed, various approvals, consents and non-objections must be obtained from the FRB, the OCC and the Delaware State Banking Commissioner. In determining whether to grant these approvals, such regulatory authorities consider a variety of factors, including the regulatory standing of each party. These approvals could be delayed or not obtained at all, including due to an adverse development in either party' s regulatory standing or in any other factors considered by regulators when granting such approvals; governmental, political or community group inquiries, investigations or opposition; or changes in legislation or the political environment generally. The approvals that are granted may impose terms and conditions, limitations, obligations or costs, or place restrictions on the conduct of the combined company' s business or require changes to the terms of the transactions contemplated by the Merger Agreement. There can be no assurance that regulators will not impose any such conditions, limitations, obligations or restrictions and that such conditions, limitations, obligations or restrictions will not have the effect of delaying the completion of any of the transactions contemplated by the Merger Agreement, imposing- 28- additional material costs on or materially limiting the revenues of the combined company following the merger or otherwise reducing the anticipated benefits of the merger if the merger were consummated successfully within the expected timeframe. In addition, there can be no assurance that any such conditions, terms, obligations or restrictions will not result in the delay or abandonment of the merger. Additionally, the completion of the merger is conditioned on the absence of certain orders, injunctions or decrees by any court or regulatory agency of competent jurisdiction that would prohibit or make illegal the completion of any of the transactions contemplated by the Merger Agreement. In addition, despite the parties' commitments to using their reasonable best efforts to comply with conditions imposed by regulators, under the terms of the Merger Agreement, neither us nor Capital One, nor any of their respective subsidiaries, is required to take any action, or commit to take any action, or agree to any condition or restriction, in connection with obtaining the required permits, consents, approvals and authorizations of governmental entities that would reasonably be expected to have a material adverse effect on the combined company and its subsidiaries, taken as a whole, after giving effect to the merger and the bank merger. The Merger Agreement between us and Capital One may be terminated in accordance with its terms and the merger may not be completed. The Merger Agreement is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include, among other things: (i) approval by each of our shareholders and Capital One' s shareholders of certain matters relating to the merger at each company' s respective special meeting; (ii) the receipt of required regulatory approvals, including the approval of the FRB and the OCC; and (iii) the absence of any order, injunction, decree or other legal restraint preventing the completion of the merger, the bank merger or any of the other transactions contemplated by the Merger Agreement or making the completion of the merger, the bank merger or any of the other transactions contemplated by the merger agreement illegal. Each party' s obligation to complete the merger is also subject to certain additional customary conditions, including (a) subject to applicable materiality standards, the accuracy of the representations and warranties of the other party, (b) the performance in all material respects by the other party of its obligations under the Merger Agreement and (c) the receipt by each party of an opinion from its counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368 (a) of the Internal Revenue Code of 1986. These conditions to the closing may not be fulfilled in a timely manner or at all, and, accordingly, the merger may not be completed. In addition, the parties can mutually decide to terminate the Merger Agreement at any time, before or after the requisite shareholder approvals, or we or Capital One may elect to terminate the Merger Agreement in certain other circumstances. Combining us and Capital One may be more difficult, costly or time- consuming than expected, and the combined company may fail to realize the anticipated benefits of the merger. The success of the merger will depend, in part, on the ability to realize the anticipated revenue and cost synergies from combining the businesses of us and Capital One. To realize the anticipated revenue and cost synergies from the merger, we and Capital One must successfully integrate and combine businesses in a manner that permits those revenue and cost synergies to be realized without adversely affecting current revenues and future growth. If we and Capital One are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected. In addition, the revenue and cost synergies of the merger could be less than anticipated, and integration may result in additional and unforeseen expenses. An inability to realize the full extent of the anticipated benefits of the merger and the other transactions contemplated by the Merger Agreement, as well as any delays encountered in the integration process, could have an adverse effect upon the revenues, levels of expenses and operating results of the combined company following the completion of the merger, which may adversely affect the value of the common stock of the combined company following the completion of the merger. We and Capital One have operated and, until the completion of the merger, must continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company' s ongoing businesses or inconsistencies

in standards, controls, procedures and policies that adversely affect the companies' ability to maintain relationships with merchants, merchant acquirers, clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. Integration efforts between the companies may also divert management attention and resources. These integration matters could have an adverse effect- 29- on us during this transition period and for an undetermined period after completion of the merger on the combined company. The combined company may be unable to retain our and / or Capital One personnel successfully after the merger is completed. The success of the merger will depend in part on the combined company' s ability to retain the talent and dedication of key employees currently employed by us and Capital One. It is possible that these employees may decide not to remain with us or Capital One, as applicable, while the merger is pending or with the combined company after the merger is consummated. If we and Capital One are unable to retain key employees, including management, who are critical to the successful integration and future operations of the companies, we and Capital One could face disruptions in operations, loss of existing customers, loss of key information, expertise or know- how and unanticipated additional recruitment costs. In addition, following the merger, if key employees terminate their employment, the combined company' s business activities may be adversely affected, and management' s attention may be diverted from successfully hiring suitable replacements, all of which may cause the combined company' s business to suffer. We and Capital One also may not be able to locate or retain suitable replacements for any key employees who leave either company . Current Economic and Regulatory Environment Economic conditions could have a material adverse effect on our business, results of operations and financial condition. As a provider of consumer financial services, our business, results of operations and financial condition are subject to the U. S. and global economic environment. A customer' s ability and willingness to repay us can be impacted by not only economic conditions but also a customer' s other payment obligations. Economic conditions also can reduce the usage of credit cards in general and the average purchase amount of transactions industry- wide, including our cards, which reduces interest income and transaction fees. We rely heavily on interest income from our credit card business to generate earnings. Our interest income from credit card loans was $ ~~10~~ **14** . ~~6~~ **4** billion for the year ended December 31, ~~2022~~ **2023** , which was ~~80~~ **91** % of net revenues (defined as net interest income plus other income), compared to $ ~~8~~ **10** . ~~7~~ **6** billion for the year ended December 31, ~~2021~~ **2022** , which was ~~72~~ **80** % of net revenues. Economic conditions combined with a competitive marketplace could slow loan growth, resulting in reduced revenue growth from our core digital banking business. Financial regulatory developments have had an impact and will continue to significantly impact the environment for the financial services industry, which could adversely impact our business, results of operations and financial condition. ~~The final rules implementing the tailoring requirements of 2018' s EGRRCPA became effective in December 2019.~~ Under the ~~final rules~~ **enhanced prudential standards that apply to bank holding companies** , DFS is considered a Category IV institution and therefore subject to the least stringent category of **these** ~~enhanced prudential~~ standards for domestic bank holding companies with at least $ 100 billion in total assets. However, many of the core components of the regulations implementing enhanced prudential standards ~~remain in place~~ **continue to apply to DFS** . Since 2020, DFS has been subject to slightly more tailored requirements for capital stress testing, liquidity risk management and resolution planning. ~~Meanwhile~~ **In addition** , **proposed** ~~the majority of the provisions of the Dodd- Frank Act were unchanged -~~ - **changes to the regulatory capital rules issued** by the **federal banking regulators under** ~~EGRRCPA and remain in effect, including provisions governing~~ the ~~practices and oversight of institutions engaged in financial services activities~~ **Basel Committee' s December 2010 framework (the" Basel III rules"), if adopted as proposed, could require us to maintain additional capital** . The impact of the evolving regulatory environment on our business and operations depends upon a number of ~~- 26-~~ factors, including (i) the legislative priorities of the U. S. Congress, (ii) priorities and actions of the Federal Reserve, FDIC and ~~Consumer Financial Protection Bureau ("~~ CFPB ~~")~~ , (iii) implications resulting from our competitors and other marketplace participants and (iv) changing consumer behavior. For additional information regarding bank regulatory matters impacting us, see " Business — Supervision and Regulation. " Regulatory and legislative developments, findings and actions have had and could continue to have a negative impact on our business strategies or require us to: limit, exit or modify our business practices and product offerings; restructure our products in unanticipated ways; invest more management time and resources in compliance efforts; limit the fees we charge for services; impact the value of our assets; or limit our ability to pursue certain innovations and business opportunities and obtain related required regulatory approvals. For additional information regarding bank regulatory limitations on acquisitions and investments, see " Business — Supervision and Regulation — Acquisitions and **- 30-** Investments. " Furthermore, see Note 19: Litigation and Regulatory Matters to our consolidated financial statements for more information on recent matters affecting us. It is possible that any new regulatory measures or legislation may disproportionately affect us due to our size, structure or product offerings, among other things. Compliance expectations and expenditures have steadily and significantly increased for us **,** and the same is true for other financial services firms, ~~and we expect this trend to continue~~ as regulators **have** ~~escalate~~ **escalated** their focus on **the** adequacy of controls to support business operations **. We may have to invest further in risk management, compliance and other functions in response to possible regulatory feedback** . We may face compliance and regulatory risks if we introduce new or changed products and services or enter into new business arrangements with third- party service providers, alternative payment providers, or other industry participants. Heightened regulatory expectations and increased volume of regulatory changes may generate additional expenses or require significant time and resources to maintain compliance. For more information regarding the regulatory environment and developments potentially impacting us, see " Management' s Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments. " Strategic Business Risk We face competition in the credit card market from other consumer financial services providers and we may not be able to compete effectively, which could result in fewer customers and lower account balances and could materially adversely affect our financial condition, cash flows and results of operations. The consumer financial services business is highly competitive. We compete with other consumer financial services providers, including non- traditional providers of financing and payment services such as financial technology firms, based on several factors, including brand, reputation, customer service, product offerings, incentives, pricing, ~~e- commerce and~~ digital **payments** ~~wallet participation~~ and other terms. Competition in credit cards is also based on merchant acceptance and the value provided to the customer by rewards programs and other innovations. Many credit card issuers have instituted rewards programs that are similar to ours and, in some cases, could be viewed as more attractive to customers than our programs. These competitive factors affect our ability to attract and retain customers, increase usage of our products and maximize the revenue generated by our products. In addition, because most domestically- issued credit cards, other than those issued by American Express, are issued on the Visa and MasterCard networks, most other card issuers benefit from the dominant position and marketing and pricing power of Visa and MasterCard. The competitive marketplace could result in slower loan growth, resulting in reduced revenue growth from our core digital banking business. If we are unable to compete successfully, or if competing successfully requires us to take aggressive actions in response to competitors' actions, our financial condition, cash flows and results of operations could be materially adversely affected. We incur considerable costs in competing with other consumer financial services providers and many of our competitors have greater financial resources than we do, which may place us at a competitive disadvantage and negatively affect our financial results. We incur considerable costs in competing with other consumer financial services providers to attract and retain customers and increase usage of our products. A substantial portion of this cost relates to marketing expenditures and rewards programs. Since 2013 our rewards rate, which represents rewards cost divided by Discover Card sales volume, has increased from less than 1 % to 1. ~~41~~ **40** % in ~~2022~~ **2023** . We expect the competitive intensity in the rewards space to continue, which could result in a continued increase in the cost of our rewards programs. Our consumer financial services products compete primarily based on pricing, terms and service. Because of the highly competitive nature of the credit card- issuing business, a primary method of competition among credit card issuers, including us, has been to offer rewards programs, low introductory interest rates, attractive standard purchase rates and balance transfer programs ~~- 27-~~ that offer a favorable annual percentage rate or other financial incentives for a specified length of time on account balances transferred from another credit card. Competition is intense in the credit card industry and customers may frequently switch credit cards or transfer their balances to another card. We expect to continue to invest in initiatives to remain competitive in the consumer financial services industry, including the launch of new cards and features, brand awareness initiatives, targeted marketing, online and mobile enhancements, e- wallet participation, customer service improvements, credit risk management and operations enhancements and infrastructure efficiencies. However, there can be no assurance that any of the costs we incur or incentives we offer to attempt to acquire and maintain accounts and increase usage of our products will be effective. In addition, to the extent that we offer new products, features or services to remain competitive, we may be subject to increased operational or other risks. **- 31-** Furthermore, many of our competitors are larger than we are, have greater financial resources than we do, have more breadth in banking products, have lower funding costs than we have and expect to have and have assets, such as branch locations and co- brand relationships, that may be appealing to certain customers. For example, larger credit card issuers, which have greater resources than we do, may be better positioned to fund appealing rewards, marketing and advertising programs. We may be at a competitive disadvantage as a result of the greater financial resources, diversification and scale of many of our competitors. Our costs directly affect our earnings results. Many factors can influence the amount of our costs, as well as how quickly it may increase. Our ongoing investments in infrastructure **, including technology such as generative artificial intelligence (" AI ")** , which may be necessary to maintain a competitive business, integrate newly- acquired businesses and establish scalable operations, increase our costs. In addition, as our business develops, changes or expands, additional costs can arise as a result of a reevaluation of business strategies, management of outsourced services, asset purchases, structural reorganization, compliance with new laws or regulations or the acquisition of new businesses. If we are unable to manage our costs successfully, our financial results will be negatively affected. The inability to compete against other operators of payment networks and alternative payment providers could result in reduced transaction volume, limited merchant acceptance of our cards, limited issuance of cards on our networks by third parties and materially reduced earnings from our payment services business. We face substantial and increasingly intense competition in the payments industry, both from traditional players and new, emerging alternative payment providers. For example, we compete with other payment networks to attract network partners to issue credit and debit cards and other card products on the Discover, PULSE and Diners Club networks, collectively the Discover Global Network. Competition with other operators of payment networks is generally based on issuer fees, fees paid to networks (including switch fees), merchant acceptance, network size and functionality, technological capabilities and other economic terms. Competition is also based on customer perception of service quality, brand image, reputation and market share. Further, we are facing ongoing competition from alternative payment providers, who may create innovative network or other arrangements with our primary competitors, large merchants or other industry participants, which could adversely impact our costs, transaction volume and ability to grow our business. Many of our competitors are well established, larger than we are and / or have greater financial resources or scale than we do. These competitors have provided financial incentives to card issuers, such as large cash signing bonuses for new programs, funding for and sponsorship of marketing programs and other bonuses. Visa and MasterCard each enjoy greater merchant acceptance and broader global brand recognition than we do. Although we have made progress in merchant acceptance, we have not achieved global market parity with Visa and MasterCard. In addition, Visa and MasterCard have entered into long- term arrangements with many financial institutions that may have the effect of discouraging those institutions from issuing cards on the Discover Network or issuing debit cards on the PULSE network. Some of these arrangements are exclusive, or nearly exclusive, which further limits our ability to conduct material amounts of business with these institutions. If we are unable to remain competitive on issuer fees and other incentives, we may be unable to offer adequate pricing to network partners while maintaining sufficient net revenues. We also face competition as merchants put pressure on transaction fees. Increasing merchant fees or acquirer fees could adversely affect our effort to increase merchant acceptance of credit cards issued on the Discover Global Network and may cause merchant acceptance to decrease. This, in turn, could adversely affect our ability to attract and retain network partners who may seek out more cost- effective alternatives from both traditional and non- traditional payment services providers, which may limit our ability to maintain or grow revenues from our proprietary network. In ~~- 28-~~ addition, competitors' settlements with merchants and related actions, including pricing pressures and / or surcharging, could negatively impact our business practices. Competitor actions related to the structure of merchant and acquirer fees and merchant and acquirer transaction routing strategies have adversely affected and are expected to continue to adversely affect our PULSE network' s business practices, network transaction volume, revenue and prospects for future growth and entry into new product markets. Visa has entered into arrangements with some merchants and acquirers that have, and are expected to continue to have, the effect of discouraging those merchants and acquirers from routing debit transactions to PULSE. In addition, the Dodd- Frank Act' s network participation requirements and competitor actions negatively impact PULSE' s ability to enter into exclusivity arrangements, which affects PULSE' s business practices and may materially adversely affect its network transaction volume and revenue. PULSE has a pending lawsuit against Visa with respect to these competitive concerns. PULSE' s transaction processing revenue was $ **303 million and $** 249 ~~million and $ 227~~ million for the years ended December 31, **2023 and** 2022 ~~and 2021~~ , respectively. **- 32-** American Express is also a strong competitor, with international acceptance, high transaction fees and an upscale brand image. Internationally, American Express competes in the same market segments as Diners Club. We may face challenges in increasing international acceptance on our networks, particularly if third parties that we rely on to issue Diners Club cards, increase card acceptance and market our brands do not perform to our expectations. In addition, if we are unable to maintain sufficient network functionality to be competitive with other networks, or if our competitors develop better data security solutions or more innovative products and services than we do, our ability to retain and attract network partners and maintain or increase the revenues generated by our proprietary card- issuing business or our PULSE business may be materially adversely affected **. Our competitive position could also be affected if we are unable to deploy, in a cost effective and competitive manner, technology such as generative AI** . Additionally, competitors may develop data security solutions, which as a consequence of the competitors' market power, we may be forced to use. In that case, our business may be adversely affected as they may be better positioned to absorb the costs over higher volumes or a larger customer base. Our business depends upon relationships with issuers, merchant acquirers, other payment enablers and licensees, many of whom are financial institutions. The economic and regulatory environment and increased consolidation in the financial services industry decrease our opportunities for new business and may result in the termination of existing business relationships if a business partner is acquired or goes out of business. In addition, as a result of this environment, financial institutions may have decreased interest in engaging in new card issuance opportunities or expanding existing card issuance relationships, which would inhibit our ability to grow our payment services business. We continue to face substantial and intense competition in the payments industry, which impacts our revenue margins, transaction volume and business strategies. If we are unsuccessful in maintaining ~~our international~~ **a strong base of** network ~~business~~ **licensees** and achieving meaningful global card acceptance, we may be unable to ~~grow~~ **achieve long- term success in** our international network business. We continue to make progress toward ~~, but have not completed,~~ achieving **increased** global card acceptance for the Discover Global Network since we acquired the Diners Club network and related assets in 2008. Achieving global card acceptance would allow our customers, including third- party issuers leveraging the network, to use their cards at merchant and ATM locations around the world. Our international network business depends upon the cooperation, support and continuous operation of the network licensees that issue Diners Club cards and that maintain a merchant acceptance network. As is the case for other card payment networks, our Diners Club network does not issue cards or determine the terms and conditions of cards issued by the network licensees. If we are unable to continue our relationships with network licensees or if the network licensees are unable to continue their relationships with merchants, our ability to maintain or increase revenues and to remain competitive would be adversely affected due to the potential deterioration in customer relationships and related demand that could result. If one or more licensees were to experience a significant impairment of their business or were to cease doing business for economic, regulatory or other reasons, we would face the adverse effects of business interruption in a particular market, including loss of volume, acceptance and revenue and exposure to potential reputational risk. If such conditions arise in the future, we may deploy resources and incur expenses in order to sustain network acceptance. Additionally, interruption of network licensee relationships could have an adverse effect on the acceptance of Discover cards when they are used on the Diners Club network outside of North America. The long- term success of our international network business depends upon achieving meaningful global card acceptance, which has included and may continue to include higher overall costs or longer timeframes than anticipated. **Economic and regulatory challenges facing** ~~- 29- The failure to manage~~ the ~~risks of~~ **student lending business could have a negative effect on** our student loan portfolio ~~and the student lending environment could result in our inability to sustain and grow our student loan portfolio~~ . The ~~long- term~~ success of our student loan strategy depends upon our ability to manage the credit risk, pricing, funding, operations, ~~including~~ **expenses and originations wind- down of our student loan business and compliance with** the ~~transition away from London Interbank Offered Rate~~ **December 2020 consent order with the CFPB** (**the** " ~~LIBOR~~ **2020 Order** ") ~~, and expenses of our student loan portfolio, as well as the growth of our student loan originations~~ . Our student loan strategy is also impacted by external factors such as the overall economic environment, ~~a competitive marketplace~~ **changes in interest rates and prepayment rates** and a challenging regulatory environment for private student loans and student loans generally. For more information on the regulatory environment, see " Management' s Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments " and Note 19: Litigation and Regulatory Matters to our consolidated financial statements. **- 33-** There are several challenges to managing ~~and growing~~ our private student loan business ~~in the future~~ , including (i) economic weakness ~~,~~ **;** (ii) new changes ~~from~~ **in** federal and state ~~legislation~~ **laws** or ~~prudential~~ regulations ~~, or~~ **; and (iii)** other government and regulatory focus on higher education costs, student lending **, student loan repayments** and student loan servicing ~~; and (iii) competitive factors, such as competition from non- traditional lenders including financial technology firms~~ . Examples of these challenges include the recent legislative focus on federal student loan debt forgiveness in bankruptcy and **current and anticipated** legislative proposals in a number of states and the District of Columbia imposing new requirements on **private** student loan ~~servicing~~ **lenders and servicers** . These challenges may require us to restructure our private student loan products **and servicing activities** in ways we may not currently anticipate. In addition, changes that adversely affect the private student loan market generally may negatively impact the profitability ~~and growth~~ of our student loan portfolio. **The potential sale of the Discover Student Loan portfolio and transfer of servicing of such loans to a third- party provider may result in disruptions to our business and operations, and no assurances can be made that such sale and / or servicing transfer will be completed or will be as successful as projected or expected. In November 2023, we announced that our Board of Directors authorized our management to explore the sale of the Discover Student Loan portfolio and the transfer of servicing of such loans to a third- party provider. The time and effort associated with pursuing such sale and / or transfer may result in disruption to our businesses and operations and / or diversion of management attention from other business concerns, which could impair our relationships with our current employees, customers and strategic partners. If we are unable to retain key employees, including management, who are critical to overseeing, operating and managing our student loan portfolio and the potential sale and servicing transfer of such loans, we could face disruptions in our operations, issues administering and servicing our student loans, challenges complying with the 2020 Order, loss of key information, expertise or know- how and unanticipated additional recruitment costs. Such sale and / or transfer involves significant risks, execution complexity and uncertainties that could adversely affect our business. These risks, complexities and uncertainties include, among others, (i) the time necessary to evaluate and effect such sale and / or transfer, (ii) the level of interest from buyers or third- party servicers, (iii) the price and other terms upon which buyers are willing to acquire the loans and third- party servicers are willing to service the loans, (iv) our ability to successfully negotiate terms and conditions with buyers and third- party servicers and to satisfy such terms and conditions, (v) buyers' ability to obtain financing to acquire the loans, (vi) a third- party servicer' s ability to successfully onboard the loans, (vii) potential challenges in separating the assets and operations of the Discover Student Loan business from our other businesses, (viii) requirements and impact of the 2020 Order, (ix) our ability to retain the talent and focus of our key employees dedicated to our student loan portfolio, and (x) the ability of the applicable parties to obtain any required regulatory approvals and other necessary third- party consents. Such sale and / or transfer may require our continued involvement, such as through transition service agreements, guarantees, loan repurchase obligations, loan servicing obligations and indemnities or other current or contingent financial obligations and liabilities. Additionally, such sale and / or transfer may expose us to increased information security risk as we provide data and information access to third parties. There is no guarantee that (i) the anticipated benefits of such sale and / or transfer will be realized or (ii) we will be able to effectuate such sale and / or transfer at the prices, times, or volumes we desire, or at all. The inability to realize the full extent of the anticipated benefits, issues related to our ability to fully satisfy any post- sale and / or post- transfer obligations related to the Discover Student Loan portfolio and any delays encountered in such sale and / or transfer process, could have an adverse effect upon our capital position, revenues, levels of expenses, regulatory standing and operating results, which may adversely affect the value of our common stock. Also, our Board of Directors may determine that it is in our best interest ultimately not to complete such sale and / or transfer.** Acquisitions ~~or~~ **,** strategic investments **or divestitures** ~~that we pursue~~ may not be successful and could disrupt our business, harm our financial condition or reduce our earnings. We may consider or undertake strategic acquisitions of, or material investments in, businesses, products, portfolios of loans or technologies in the future **, and we may also divest or explore the sale of businesses, portfolios of loans or technologies from time to time** . We may not be able to identify suitable acquisition or investment candidates, or even if we do identify suitable candidates, they may be difficult to finance ~~,~~ **or** expensive to fund ~~and~~ **. Additionally,** there is no guarantee that we can obtain any necessary regulatory approvals **, obtain any necessary financing** or complete ~~the~~ transactions on terms that are favorable to us **or in a timely manner** . We generally must receive federal regulatory approvals before we can acquire a bank, bank holding company, deposits or certain assets or businesses. For additional information regarding bank regulatory limitations on acquisitions and investments, see " Business — Supervision and Regulation — Acquisitions and Investments. " To the extent we pay the purchase price of any strategic acquisition or investment in cash, it may have an adverse effect on our financial condition. Similarly, if the purchase price is paid with our stock, it may be dilutive to our stockholders. In addition, we may assume liabilities associated with a business acquisition or investment, including unrecorded liabilities that are not discovered at the time of the transaction. The repayment or settlement of those liabilities may have an adverse effect on our financial condition. **Additionally, a divestiture may result in continued financial obligations, such as through transition service agreements, guarantees, indemnities or other current or contingent financial obligations and liabilities, following the transaction. The satisfaction of these continued financial obligations may also have an adverse effect on our financial condition.** We may not be able to successfully integrate ~~the~~ **or disaggregate** personnel, operations, businesses, products, or technologies of an acquisition ~~or~~ **,** investment **or divestiture** . Integration may be particularly challenging if we enter into a line of business ~~that~~ **in which** we have limited experience and **/ or if** the business operates in **(or involves products or technologies in)** a difficult legal, regulatory or competitive environment. We may find that we do not have adequate operations or expertise to manage the new business **, products or technologies** . The integration **or disaggregation** of any acquisition ~~or~~ **,** investment **or divestiture** may divert management' s time and resources from our core business, which could impair our relationships with our current employees, customers and strategic partners and disrupt our operations. Additionally, any acquisition ~~or~~ **,** investment **or divestiture** may expose us to increased information security risk as we integrate new systems that we may not be as familiar with or bring them in line with the requirements of our information security and business continuity programs **or provide data and information access to third parties** . Acquisitions ~~and~~ **,** investments **and divestitures** also may not perform to our expectations for various reasons, including the loss of key personnel, customers or vendors **or changes in the economic or**

regulatory environment . If we fail to integrate acquisitions or investments **, divest businesses** or realize the expected benefits, we may lose the return on these acquisitions ~~or~~ **,** investments **or divestitures** or incur additional transaction costs. As a result, our business, reputation and financial condition may be harmed. Credit, Market and Liquidity Risk The failure to successfully manage credit risk, which may result in high delinquency and charge- off rates, could materially adversely affect our business, profitability and financial condition. As a lender, we are exposed to the risk that our borrowers will be unable or unwilling to repay the principal of, or interest on, loans in accordance with their terms. We seek to grow our loan receivables while maintaining quality credit performance. Our success depends on our ability to manage credit risk while attracting new customers with ~~- 30-~~ profitable usage patterns. We select customers, manage their accounts and establish terms and credit limits using externally developed and proprietary scoring models and other analytical techniques designed to set terms and credit limits to appropriately compensate us for the credit risk we accept, while encouraging customers to use their available credit. The models and approaches we use may not accurately predict future charge- offs due to, among other things, inaccurate assumptions. While we continually seek to improve our assumptions and models, we may make modifications that unintentionally cause them to be less predictive or incorrectly interpret the data produced by these models in setting our credit policies. At December 31, **2023 and** 2022 ~~and 2021~~ , **$ 2. 3 billion, or 1. 76 %, and** $ 1. 3 billion, or 1. 14 ~~%, and $ 800 million, or 0. 85~~ %, of our loan receivables were non- performing (defined as loans over 90 days delinquent and accruing interest, plus loans not accruing interest). Our ability to manage credit risk and avoid high charge- off rates may be adversely affected by household, business, economic and market conditions that may be difficult to predict. When these conditions deteriorate, we may experience reduced demand for credit and increased delinquencies or defaults, including loans which we have securitized and in which we retain a residual interest. The level of nonperforming loans, charge- offs and delinquencies could rise and require additional provision for credit losses. There can be no assurance that our underwriting and portfolio management strategies will permit us to avoid high charge- off levels or that our allowance for credit losses will be sufficient to cover actual losses. A customer' s ability and willingness to repay us can be impacted by changes in their employment status, increases in their payment obligations to other lenders and by restricted availability of credit to consumers generally. Our collection operations may not compete effectively to secure more of customers' diminished cash flow than our competitors. In addition, we may fail to quickly identify customers who are likely to default on their payment obligations and reduce our exposure by closing credit lines and restricting authorizations, which could adversely impact our financial condition and results of operations. Our ability to manage credit risk also may be adversely affected by legal or regulatory changes (such as restrictions on collections, bankruptcy laws, minimum payment regulations and re- age guidance), competitors' actions and consumer behavior, as well as inadequate collections staffing, resources, **- 35-** techniques and models. There can be no assurance that we will be able to grow the loan receivables portfolio in accordance with our strategies or manage credit and other risks associated with the loan products. Our failure to manage credit and other risks may materially adversely affect profitability and the ability to grow the loan receivables portfolio and further diversify the business. Adverse market conditions or an inability to effectively manage our liquidity risk could negatively impact our ability to meet our liquidity and funding needs, which could materially adversely impact our business, results of operations and overall financial condition. We must effectively manage the liquidity risk to which we are exposed. We require liquidity in order to meet cash requirements such as day- to- day operating expenses, extensions of credit on our consumer loans **, satisfaction of deposit liabilities upon withdrawal or maturity** and required payments of principal and interest on our borrowings. Our primary sources of liquidity and funding are payments on our loan receivables, deposits and proceeds from securitization transactions and securities offerings. We may maintain too much liquidity, which can be costly, or we may be too illiquid, which could limit financial flexibility and result in financial distress during a liquidity stress event. Our liquidity portfolio had a balance of approximately $ **23. 3 billion as of December 31, 2023, compared to $** 19. 8 billion as of December 31, 2022 ~~, compared to $ 15. 0 billion as of December 31, 2021~~ . Our total contingent liquidity sources amounted to $ **69. 8 billion as of December 31, 2023, compared to $** 67. 3 billion as of December 31, 2022 ~~, compared to $ 52~~ . **As** ~~9 billion as~~ of December 31, ~~2021~~ **2023** ~~. As of December 31, 2022~~ , our total contingent liquidity sources consisted of $ ~~19~~ **23. 3 billion in our liquidity portfolio, $ 2** . 8 billion ~~in our liquidity portfolio, $ 3. 5 billion~~ of undrawn capacity in private securitizations, $ ~~1~~ **2** . ~~7~~ **6** billion in borrowing capacity with the FHLB of Chicago and $ ~~42~~ **41** . ~~3~~ **2** billion in incremental Federal Reserve discount window capacity. In the event that our current sources of liquidity do not satisfy our needs, we would be required to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit to the financial services industry, new regulatory restrictions and requirements and our credit ratings. Disruptions, uncertainty or volatility in the capital, credit or deposit markets may limit our ability to repay or replace maturing liabilities in a timely manner. As such, we may be forced to delay the acquisition of additional funding or be forced to issue or raise funding at undesirable terms and / or costs, which could decrease profitability and significantly reduce financial flexibility. Further, in disorderly financial markets or for other reasons, it may be difficult or impossible to liquidate some of our investments to meet our liquidity needs. There can be no assurance that significant disruption and volatility in the financial markets will not occur in the future. Likewise, adverse developments with respect to financial institutions and other third parties with whom we maintain important financial relationships could negatively impact our funding and liquidity. If we are unable to ~~- 31-~~ continue to fund our assets through deposits or access capital markets on favorable terms, or if we experience an increase in our borrowing costs or otherwise fail to manage our liquidity effectively, our liquidity, results of operations and financial condition may be materially adversely affected. An inability to accept or maintain deposits in the future could materially adversely affect our liquidity position and our ability to fund our business. A major source of our funds is customer deposits, primarily in the form of savings accounts, certificates of deposits, money market accounts and checking accounts. We obtain deposits from consumers either directly or through affinity relationships and through third- party securities brokerage firms that offer our deposits to their customers. We had $ ~~70~~ **84** . ~~5~~ **0** billion in deposits acquired directly or through affinity relationships and $ ~~21~~ **24** . ~~1~~ **9** billion in deposits originated through securities brokerage firms as of December 31, ~~2022~~ **2023** , compared to $

70 ~~61. 9 billion and $ 10~~ . 5 billion **and $ 21. 1 billion** , respectively, as of December 31, ~~2021~~ **2022** . Our ability to attract and maintain deposits, as well as our cost of funds, has been, and will continue to be, significantly affected by general economic conditions. Competition from other financial services firms that use deposit funding, the rates and services we offer on our deposit products and our ability to maintain a high- quality customer experience may affect deposit renewal rates, costs or availability. Changes we make to the rates offered on our deposit products may affect our profitability (through funding costs) and our liquidity (through volumes raised). In addition, our ability to maintain existing or obtain additional deposits may be impacted by various factors, including factors beyond our control, such as perceptions about our reputation, brand, or financial strength; quality of deposit servicing or branchless banking generally, which could reduce the number of consumers choosing to place deposits with us; third parties continuing or entering into affinity relationships or marketing arrangements with us; disruptions in technology services or the internet, generally; or third- party securities brokerage firms continuing to offer our deposit products. **A severe reputational event at the Company resulting in fines or additional remediation impacts may result in material deposit outflows and limit our ability to attract new deposits.** Furthermore ~~, while there are limitations on withdrawal frequency on certain deposit accounts~~ , customers may withdraw deposits to ensure that their deposits are fully insured or make investments that **- 36-** have a higher yield. If our customers withdraw their deposits, our funding costs may increase, which may reduce our net interest income and net income. Our ability to obtain deposit funding and offer competitive interest rates on deposits is also dependent on capital levels of our bank subsidiary. In certain circumstances, the FDIA prohibits insured banks from accepting brokered deposits (as defined in the FDIA) and applies other restrictions, such as a cap on interest rates we may pay. See " Business — Supervision and Regulation " and Note 17: Capital Adequacy to our consolidated financial statements for more information. While our subsidiary, Discover Bank, met the FDIC' s definition of " well- capitalized " as of December 31, ~~2022~~ **2023** and has no restrictions regarding acceptance of brokered deposits or setting of interest rates, there can be no assurance that it will continue to meet this definition. Additionally, our regulators can adjust the requirements to be " well- capitalized " at any time and have authority to place limitations on our deposit businesses, including the interest rate we pay on deposits. If we are unable to securitize our credit card receivables, it may have a material adverse effect on our liquidity, cost of funds and overall financial condition. We use the securitization of credit card receivables as a significant source of funding as well as for contingent liquidity. The securitization of credit card receivables involves the transfer of credit card receivables to a trust, the transfer of the beneficial interest in those credit card receivables to a second trust through a special purpose entity and the issuance by the second trust of notes to third- party investors collateralized by the beneficial interest in the transferred credit card receivables. Our average level of credit card securitized borrowings from third parties was $ ~~9~~ **10** . ~~0~~ **5** billion and $ 9. ~~5~~ **0** billion for the years ended December 31, **2023 and** 2022 ~~and 2021~~ , respectively. There can be no assurance that we will be able to complete additional credit card securitization transactions if the credit card securitization market experiences significant and prolonged disruption or volatility. Our ability to raise funding through the securitization market also depends, in part, on the credit ratings of the securities we issue from our securitization trusts. If we are not able to satisfy rating agency requirements to confirm the ratings of asset- backed securities issued by our trusts at the time of a new issuance of securities, it could limit our ability to access the securitization markets. Additional factors affecting the extent to which we may securitize our credit card receivables in the future include the overall credit quality of our credit card receivables, the costs of securitizing our credit card receivables, the demand for credit card asset- backed securities and the legal, regulatory, accounting or tax rules affecting securitization transactions and asset- backed securities, generally. A prolonged inability to securitize our credit card receivables, or an increase in the costs of such issuances that would make such activities economically infeasible, may require us to seek alternative funding sources, which may be ~~- 32-~~ less efficient and more expensive than raising capital via securitization transactions and may have a material adverse effect on our liquidity, cost of funds and overall financial condition. The occurrence of events that result in the early amortization of our existing credit card securitization transactions or an inability to delay the accumulation of principal collections for our existing credit card securitization transactions would materially adversely affect our liquidity. Our liquidity and cost of funds would be materially adversely affected by the occurrence of events that could result in the early amortization of our existing credit card securitization transactions. Our credit card securitization transactions are structured as " revolving transactions " that do not distribute to securitization investors their share of monthly principal payments received on the underlying receivables during the revolving period and instead use those principal payments to fund the purchase of new credit card receivables. The occurrence of an " early amortization event " may result in termination of the revolving periods of one or more of our securitization transactions, which would require us to repay the affected outstanding securitized borrowings out of principal collections without regard to the original payment schedule. Early amortization events include, for example, insufficient cash flows in the securitized pool of credit card receivables to meet contractual requirements (i. e., excess spread less than zero) and certain breaches of representations, warranties or covenants in the agreements relating to the securitization transactions. For more information on excess spread, see Note 5: Credit Card and Private Student Loan Securitization Activities to our consolidated financial statements. An early amortization event would negatively impact our liquidity and require us to rely on alternative funding sources, which may or may not be available at the time or may be less efficient and more expensive. An early amortization event also could impact our ability to access the undrawn secured credit facilities that we maintain for contingent liquidity purposes. Additionally, the occurrence of an early amortization event with respect to any of our securitization transactions may adversely impact investor demand for notes issued in our future credit card securitization transactions. **- 37-** Our credit card securitization structure includes a requirement that we accumulate principal collections into a restricted account in the amount of scheduled maturities on a pro rata basis over the 12 months prior to a security' s maturity date. We have the option under our credit card securitization documents to shorten this accumulation period, subject to the satisfaction of certain conditions. Historically, we have exercised this option to shorten the accumulation period to a few months prior to maturity. If we were to determine that the payment rate on the underlying credit card receivables would not support a short accumulation period, we would need to begin accumulating principal cash flows earlier than we have

historically. A lengthening of the accumulation period could negatively impact our liquidity, requiring management to implement mitigating measures. During periods of significant maturity levels, absent management actions, the lengthening of the accumulation period could materially adversely affect our financial condition. A downgrade in the credit ratings of our or our subsidiaries' securities could materially adversely affect our liquidity, results of operations and financial condition. We, along with Discover Bank, are regularly evaluated by the ratings agencies. Their ratings for our long- term debt and other securities, including asset- backed securities issued by our securitization trusts, are based on a number of factors that may change from time to time, including our financial strength as well as factors that may not be within our control. Factors that affect our unsecured credit ratings include, but are not limited to, the macroeconomic environment in which we operate and the credit ratings of the U. S. government, the credit quality and performance of our assets, the amount and quality of our capital, the level and stability of our earnings and the structure and amount of our liquidity. In addition to these factors, the ratings of our asset- backed securities are also based on the quality of the underlying receivables and the credit enhancement structure of the trusts. Downgrades in our ratings, those of Discover Bank or our asset- backed securities could occur at any time and without notice by any of the rating agencies, which could, among other things, materially adversely affect our cost of funds, access to capital and funding and overall financial condition. There can be no assurance that we will be able to maintain our current credit ratings or that our credit ratings will not be lowered or withdrawn. We may not be successful in managing the investments in our liquidity investment portfolio and investment performance may deteriorate due to market fluctuations, which would adversely affect our business and financial condition. We must effectively manage the risks of the investments in our liquidity investment portfolio, which is composed of cash and cash equivalents and high- quality liquid investments. The value of our investments may be adversely affected by market fluctuations including changes in interest rates, prices, prepayment rates, credit risk premiums and overall ~~- 33-~~ market liquidity. Also, investments backed by collateral could be adversely impacted by changes in the value of the underlying collateral. In addition, economic conditions may cause certain of the obligors, counterparties and underlying collateral on our investments to incur losses of their own or default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons, thereby increasing our credit risk exposure to these investments. These risks could result in a decrease in the value of our investments, which could negatively impact our financial condition. These risks could also restrict our access to funding. While the securities in our investment portfolio are currently limited to obligations of high- quality sovereign and government- sponsored issuers, we may choose to expand the range of our investments over time, which may result in greater fluctuations in market value. While we expect these investments to be readily convertible into cash and do not believe they present a material increase to our risk profile or will have a material impact on our risk- based capital ratios, they are subject to certain market fluctuations that may reduce the ability to fully convert them into cash. Changes in the level of interest rates could materially adversely affect our earnings. Changes in interest rates cause our net interest income to increase or decrease, as some of our assets and liabilities carry interest rates that fluctuate with market benchmarks. ~~Benchmark~~ **Through July 2023, short- term** interest rates **continued to** ~~rose~~ **rise** ~~materially during 2022~~ as the Federal Reserve ~~raised its~~ **tightened monetary policy further. Although U. S. economic growth remained strong in 2023, financial market participants and the Federal Reserve Board expect that growth will decelerate in 2024 while inflationary pressures and labor market conditions normalize, leading to potential reductions in the** federal funds target rate range ~~in~~ **throughout the year. The timing** ~~an~~ **and** ~~effort to combat high~~ **pace of interest rate changes is uncertain, however, and will largely depend on trends in** inflation **, employment,** ~~. Financial market participants expect 2023 will be a transitional year for monetary policy~~ and **other** ~~U. S. economic~~ **macroeconomic factors** ~~growth, thus raising uncertainty as to the direction of benchmark interest rates during 2023~~ . Higher interest rates could negatively impact our customers as total debt service payments would increase, impede our ability to grow our consumer lending businesses and increase the cost of our funding, which would put us at a disadvantage as compared to some of our competitors that have less expensive funding sources. **- 38-** Some of our consumer loan receivables bear interest at a fixed rate or do not earn interest and we are not able to increase the rate on those loans to offset any higher cost of funds, which could materially reduce earnings. At the same time, some of our variable- rate loan receivables **are** ~~may be~~ subject to a cap, exposing us to interest- rate risk. In addition, we utilize a combination of fixed- and variable- rate funding from various sources, and we may use derivative instruments to hedge the liabilities. However, timing mismatches between loan receivable growth and funding procurement could expose us to interest- rate risk. ~~Additionally, we have a number of variable- rate student loans, interest rate swaps and capital markets securities with attributes that are either directly or indirectly dependent on LIBOR. In July 2017, the UK Financial Conduct Authority (" FCA ") announced that it would no longer encourage or compel banks to continue to contribute quotes and maintain LIBOR after 2021. In March 2021, the FCA announced the future cessation and loss of representativeness for all LIBOR benchmark settings. While non- U. S. dollar (" USD ") and several less frequently referenced USD LIBOR settings ceased publication immediately after December 31, 2021, commonly referenced USD LIBOR settings will cease publication immediately after June 30, 2023. This future cessation event will trigger fallback provisions in many financial contracts to convert their benchmark index from LIBOR to an alternative rate. In July 2021, the Alternative Reference Rates Committee (" ARRC ") announced its recommendation of forward- looking term rates based on Secured Overnight Financing Rate (" SOFR ") as additional alternative reference rate options. For more information regarding our transition from LIBOR to SOFR, see " Management' s Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments — Banking — London Interbank Offered Rate. "~~ Interest rates may also adversely impact our delinquency and charge- off rates. Many consumer lending products bear interest rates that fluctuate with certain base lending rates published in the market, such as the prime rate and ~~LIBOR~~ **Secured Overnight Financing Rate** . As a result, higher interest rates often lead to higher payment requirements by consumers under obligations to us and other lenders, which may reduce their ability to remain current on their obligations to us and thereby lead to loan delinquencies and additions to our credit loss provision, which could materially adversely affect our earnings. We continually monitor interest rates and have a number of tools, including the composition of our loans and investments, liability terms and interest rate derivatives, to manage our interest rate risk exposure. Changes in market assumptions regarding future interest rates could significantly impact our interest rate risk strategy, our financial position and results of operations. If our interest rate risk management strategies are not appropriately monitored or executed, these activities may not effectively mitigate our interest rate sensitivity or have the desired impact on our results of operations or financial condition. For information related to interest rate risk sensitivities, see " Item 7A — Quantitative and Qualitative Disclosures About Market Risk. " ~~- 34-~~ Our risk management framework and models for managing risks may not be effective in mitigating our risk of loss. Our risk management framework seeks to identify and mitigate risk and appropriately balance risk and return. We have established processes and procedures intended to identify, measure, manage, monitor and report the types of risk to which we are subject, including credit risk, market risk, liquidity risk, operational risk, compliance and legal risk and strategic risk. We seek to monitor and control our risk exposure through a framework of policies, procedures, limits and reporting requirements. Management of our risks in some cases depends upon the use of analytical and / or forecasting models. We use a variety of models to manage and inform decision- making with respect to customers and for the measurement of risk including credit, market and operational risks and for our finance and treasury functions. Models used by Discover can vary in their complexity and are designed to identify, measure and mitigate risks at various levels such as loan- level, portfolio segments, entire portfolios and products. These models use a set of computational rules to generate numerical estimates of uncertain values to be used for assessment of price, financial forecasts and estimates of credit, interest rate, market and operational risk. These models and the quality of their outputs are dependent on the quality and accuracy of the data loaded into the models. To the extent that the quality and integrity of that data is compromised, the models could result in inaccurate forecasts, ineffective risk management practices or inaccurate risk reporting. All models carry some level of uncertainty that introduces risks in the estimates. If the models that we use to mitigate risks are inadequate or do not accurately predict future outcomes, we may incur increased losses. In addition, there may be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated. If our risk management framework and models do not effectively identify or mitigate our risks, we could suffer unexpected losses and our financial condition and results of operations could be materially adversely affected. If the security of our systems, or the systems of third parties we rely upon, is compromised, our business could be disrupted and we may be subject to significant financial exposure, liability and damage to our reputation. Our digital banking and network operations rely heavily on the secure processing, storage and transmission of confidential or sensitive information about us, our customers and third parties with whom we do business. Information security risks for financial institutions have increased and continue to increase in part because of the proliferation of new technologies, the use of the internet and cloud, mobile and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, activists, hackers, terrorist organizations, nation state actors and other external parties. Those parties may also attempt to fraudulently induce employees, customers or other users of our systems (including third parties) to disclose confidential or sensitive information in order to gain access to our data or that of our customers. **- 39-** Our technologies, systems, networks and software, those of other financial institutions and other firms (such as hardware vendors, cloud providers and others), have been, and are likely to continue to be, the target of increasingly frequent cyber- attacks, malicious code, ransomware, denial of service attacks, phishing and other social engineering, other remote access attacks and physical attacks that could result in unauthorized access, misuse, loss, unavailability or destruction of data (including confidential customer information), account takeovers, identity theft and fraud, unavailability of service or other events. These types of threats may derive from human error, fraud or malice on the part of external or internal parties or may result from technological failure or otherwise. Further, our vulnerability to these types of threats may be increased to the extent employees ~~may continue to~~ work remotely **or in** ~~on a more frequent basis with the current trend toward~~ hybrid work arrangements. Despite our efforts to ensure the integrity of our systems through our information security and business continuity programs, we may not be able to anticipate or to implement effective preventive measures against all known and unknown security threats, attacks or breaches or events of these types, especially because the techniques used change frequently and are becoming increasingly more sophisticated or are not recognized until launched or vulnerabilities in software or hardware are unknown or are unable to be entirely addressed even after becoming known, and because: • Security attacks can originate from a wide variety of sources and geographic locations and may be undetected for a period of time. • We rely on many third- party service providers and network participants, including merchants, and, as such, a security breach or cyber- attack affecting one of these third parties could impact us. For example, the financial services industry continues to see attacks against the environments where personal and identifiable ~~- 35-~~ information is handled. For additional information see the risk factor " — Failure to manage our relationships with third- party service providers could result in our revenue or results of operations being materially adversely affected. " • Our customers may use computers and mobile devices that are beyond our security control systems to access our products and services. We are subject to increasing risk related to information and data security as we increase acceptance of the Discover card internationally, expand our suite of online digital banking products, enhance our mobile payment technologies, acquire new or outsource some of our business operations, expand our internal usage of web- based products and applications, and otherwise attempt to keep pace with rapid technological changes in the financial services industry. Our efforts to mitigate this risk increase our expenses. While we continue to invest in our information security defenses (including cybersecurity defenses), if our security systems or those of third parties are penetrated or circumvented such that the confidentiality, integrity or availability of information about us, our customers, transactions processed on our networks or on third- party networks on our behalf or third parties with which we do business is compromised, we could be subject to significant liability that may not be covered by insurance, including significant legal and financial exposure, actions by our regulators, damage to our reputation, or a loss of confidence in the security of our systems, products and services that could materially adversely affect our business. Cyber- attacks that are successful, or are perceived to be successful, in compromising the data or disrupting the services of other peer financial institutions, whether or not we are impacted, could lead to a general loss of customer confidence, which could negatively impact market perception of our products and services. Media reports of attempted cyber- attacks, service disruptions or vulnerabilities in our information systems or security procedures or those of any of the third- party service providers we engage, could cause significant legal and financial exposure, lead to regulatory and legislative intervention and cause an overall negative effect in our business. For additional information on risks in this area, see the risk factors below regarding fraudulent activity, the introduction of new products and services, the use of third parties for outsourcing, technology generally, and laws and regulations addressing consumer privacy and data use and security. If we cannot remain organizationally effective, we will be unable to address the opportunities and challenges presented by our strategy and the increasingly dynamic and competitive economic and regulatory environment. To remain organizationally effective, we must effectively empower, integrate and deploy our management and operational resources and incorporate global and local business, regulatory and consumer perspectives into our decisions and processes. In order to execute on our objective to be the leading consumer bank and payments partner, we must develop and implement innovative and efficient technology solutions and marketing initiatives while effectively managing legal, regulatory, compliance, security, operational and other risks as well as expenses. Examples include the implementation of a broader rollout of our checking product and a structure for a more competitive global network business. If we fail to develop and implement these solutions, we may be unable to expand quickly and the results of our **- 40-** expansion may be unsatisfactory. In addition, if we are unable to make decisions quickly, assess our opportunities and risks, execute our strategy and implement new governance, managerial and organizational processes as needed in this increasingly dynamic and competitive economic and regulatory environment, our financial condition, results of operations, relationships with our business partners, banking regulators, customers and shareholders, and ultimately our prospects for achieving our long- term strategies, may be negatively impacted. We may be unable to increase or sustain Discover credit card usage, which could impair growth in, or lead to diminishing, average balances and total revenue. A key element of our business strategy is to increase the usage of the Discover credit card by our customers, including making it their primary credit card, and thereby increase our revenue from transaction and service fees and interest income. However, our customers' use and payment patterns may change because of social, legal and economic factors, and customers may decide to use debit cards or other payment products instead of credit cards, not increase credit card usage, or pay their balances within the grace period to avoid finance charges. We face challenges from competing card products in our attempts to increase credit card usage by our existing customers. Our ability to increase credit card usage also is dependent on customer satisfaction, which may be adversely affected by factors outside of our control, including competitors' actions and legislative / regulatory changes. Existing legal and regulatory restrictions limit pricing changes that may impact an account throughout its lifecycle, which may reduce our capability to offer lower price promotions to drive account usage and customer engagement. As part of our strategy to increase usage, we have been increasing the number of merchants who accept credit cards issued on the Discover Network. If we are unable to continue increasing merchant acceptance or fail to improve awareness of existing merchant acceptance of our credit ~~- 36-~~ cards, our ability to grow usage of Discover credit cards may be hampered. As a result of these factors, we may be unable to increase or sustain credit card usage, which could impair growth in or lead to diminishing average balances and total revenue. A reduction in the number of large merchants that accept cards on the Discover Network or PULSE network or **in** the rates they pay could materially adversely affect our business, financial condition, results of operations and cash flows. Discover card net transaction dollar volume was concentrated among our top 100 merchants in ~~2022~~ **2023** , with our largest merchant accounting for approximately ~~5~~ **6** % of that net transaction volume. Transaction volume on the PULSE network was also concentrated among the top 100 merchants in ~~2022~~ **2023** , with our largest merchant accounting for approximately ~~19~~ **17** % of PULSE transaction volume. These merchants could seek to negotiate better pricing or other financial incentives by conditioning their continued participation in the Discover Network and / or PULSE network on a change in the terms of their economic participation. Loss of acceptance at our largest merchants would decrease transaction volume, negatively impact our brand and could cause customer attrition. In addition, some of our merchants, primarily our remaining small- and mid- size merchants, are not contractually committed to us for any period of time and may cease to participate in the Discover Network at any time on short notice. Actual or perceived limitations on acceptance of credit cards issued on the Discover Network or debit cards issued on the PULSE network could adversely affect the use of Discover cards by existing customers and the attractiveness of Discover cards to prospective customers. Also, we may have difficulty attracting and retaining network partners if we are unable to add or retain acquirers or merchants who accept cards issued on the Discover or PULSE networks. As a result of these factors, a reduction in the number of our merchants or the rates they pay could materially adversely affect our business, financial condition, results of operations and cash flows. Our business, financial condition and results of operations may be adversely affected by merchants' increasing focus on the fees charged by credit card and debit card networks. Merchant acceptance and fees are critical to the success of both our card- issuing and payment processing businesses. Merchants are concerned with the fees charged by credit card and debit card networks. They seek to negotiate better pricing or other financial incentives as a condition of continued participation in the Discover Network and PULSE network. ~~During the past few years, merchants~~ **Merchants** and their trade groups have filed numerous lawsuits against Visa, MasterCard, American Express and their card- issuing banks, claiming that their practices toward merchants, including issuer fees, violate federal antitrust laws. There can be no assurance that they will not in the future bring legal proceedings against other credit card and debit card issuers and networks, including us. Merchants also may promote forms of payment with lower fees, such as ACH- based payments, or seek to impose surcharges at the point of sale for use of credit or debit cards. Merchant groups have also promoted federal and state legislation that would restrict issuer practices or enhance the ability of merchants, individually or collectively, to negotiate more favorable fees. The heightened focus by **- 41-** merchants on the fees charged by credit card and debit card networks, together with the Dodd- Frank Act and recent industry litigation, which would allow merchants to encourage customers to use other payment methods or cards and may increase merchant surcharging, could lead to reduced transactions on, or merchant acceptance of, Discover Network or PULSE network cards or reduced fees, any of which could adversely affect our business, financial condition and results of operations. Political, economic or other instability in a country or geographic region, or other unforeseen or catastrophic events, could adversely affect our business activities and reduce our revenue. Geopolitical events, natural disasters, extreme weather- related events or other catastrophic events, including terrorist attacks and pandemics, may have a negative effect on our business and infrastructure, including our information technology systems. Climate change may exacerbate certain of these threats, including the frequency and severity of weather- related events and other natural disasters. Our Diners Club network, concentrated primarily on serving the global travel industry, could be adversely affected by a number of factors including international conditions, travel restrictions, pandemics or negative perceptions about the safety of travel that may result in an indefinite decline in consumer or business travel activity. Armed conflict, public health emergencies, natural disasters, political instability or terrorism may have a significant and prolonged negative effect on travel activity and related revenue. Although a regionalized event or condition may primarily affect one of our network participants, it may also affect our overall network and card activity and our resulting revenue. Overall network and card transaction activity may decline as a result of concerns about safety or disease or may be limited because of economic conditions that result in spending, ~~- 37-~~ including on travel, to decline. The impact of such events and other catastrophes on the overall economy may also adversely affect our financial condition or results of operations. Fraudulent activity associated with our products or our networks could cause our brands to suffer reputational damage, the use of our products to decrease and our fraud losses to be materially adversely affected. We are subject to the risk of fraudulent activity associated with merchants, customers and other third parties handling customer information. The ~~risk of~~ fraud **environment** continues to ~~increase~~ **be challenging** for the financial services industry in general. Credit and debit card fraud, identity theft and electronic- transaction related crimes are prevalent and perpetrators are growing ever more sophisticated **. More recently, emerging generative AI capabilities, such as synthetic voice and conversation generation, introduced new fraud risks, especially in the form of identity fraud** . While we have policies and procedures designed to address such risk, there can be no assurance that losses will not occur. Our resources, customer authentication methods and fraud prevention tools may be insufficient to accurately predict, prevent or detect fraud. **Consumer activists and regulators have sought to expand financial institutions' responsibility to hold customers harmless for fraudulent transactions on their accounts.** We incurred fraud losses and other charges of $ **131 million and $** 149 ~~million and $ 92~~ million during the years ended December 31, **2023 and** 2022 ~~and 2021~~ , respectively. Our risk of fraud continues to increase as third parties that handle confidential consumer information suffer security breaches, acceptance of the Discover card grows internationally and we expand our digital banking business and introduce new products and features. Our financial condition, the level of our fraud charge- offs and other results of operations could be materially adversely affected if fraudulent activity were to significantly increase. Furthermore, high- profile fraudulent activity could negatively impact our brand and reputation. In addition, significant increases in fraudulent activity could lead to regulatory intervention (such as mandatory card reissuance) and reputational and financial damage to our brands, which could negatively impact the use of our deposit accounts, cards and networks and thereby have a material adverse effect on our business. Further, fraudulent activity may result in lower license fee revenue from our Diners Club licensees. The financial services and payment services industries are rapidly evolving and we may be unsuccessful in introducing new products or services on a large scale in response to these changes. Technological changes continue to significantly impact the financial services and payment services industries. For example, we may be unsuccessful in deploying new technologies to strengthen our credit underwriting capabilities, enhance the effectiveness of our marketing efforts, ensure acceptance with new payment technologies, enhance customer service, drive efficiencies in back- office functions or reduce fraud. The ~~increasingly~~ competitive mobile, e- wallet and tokenization spaces are expected to continue to bring risks and opportunities to both our digital banking and payment services businesses. The effect of technological changes on our business is both rapid and unpredictable. We depend, in part, on third parties for the development of and access to new technologies. We expect that new services and technologies **- 42-** relating to the payments business will continue to appear in the market and these new services and technologies may be superior to, or render obsolete, the technologies that we currently use in our products and services. Rapidly evolving technologies and new entrants in mobile and emerging payments pose a risk to us both as a card issuer and as a payments business. As a result, our future success may be dependent on our ability to identify and adapt to technological changes and evolving industry standards and to provide payment solutions for our customers, merchants and financial institution customers. The process of developing new products and services or enhancing our existing products and services is complex, costly and uncertain. Difficulties or delays in the development, production, testing and marketing of new products or services may be caused by a number of factors including, among other things, operational, capital and regulatory constraints. The occurrence of such difficulties may affect the success of our products or services. Developing unsuccessful products and services could result in financial losses as well as decreased capital availability. In addition, the new products and services offered may not be adopted by consumers, merchants or financial institution customers. Also, the success of a new product or service may depend upon our ability to deliver it on a large scale, which may require a significant capital investment that we may not be in a position to make. If we are unable to successfully introduce and support new income- generating products and services while also managing our expenses, it may impact our ability to compete effectively and materially adversely affect our business, financial condition and results of operations. We depend on third- party service providers for many aspects of the operation of our business. For example, we depend on third parties for software and systems development, the timely transmission of information across our data ~~- 38-~~ transportation network and for other telecommunications, processing, remittance, technology- related and other services in connection with our digital banking and payment services businesses. If a service provider fails to provide the services that we require or expect, or fails to meet contractual requirements, such as service levels, security requirements or compliance with applicable laws, the failure could negatively impact our business by adversely affecting our ability to process customers' transactions in a secure, consistent, timely and accurate manner, otherwise hampering our ability to serve our customers, or subjecting us to litigation and regulatory risk for poor vendor oversight. Such a failure could adversely affect the perception of the reliability of our networks and services, and the quality of our brands, and could have a materially adverse effect on our reputation, revenues and / or our results of operations. With **remote and** ~~the current trend toward~~ hybrid work arrangements, we have become increasingly dependent on third- party service providers, including those with which we have no direct relationship, such as our employees' internet service providers. If these third- parties experience service disruptions, our operations may be interrupted or negatively impacted. If our key technology platforms become obsolete, or if we experience disruptions, including difficulties in our ability to process transactions, our revenue or results of operations could be materially adversely affected. Our ability to deliver services to our customers and run our business in compliance with applicable laws and regulations may be affected by the functionality of our technology systems. The implementation of technology changes as well as patches and upgrades to maintain current and integrated systems may result in compliance issues and may, at least temporarily, cause disruptions to our business, including, but not limited to, systems interruptions, transaction processing errors and system conversion delays, all of which could have a negative impact on us. In addition, our transaction processing systems and other operational systems may encounter service interruptions at any time due to system or software failure, natural disaster or other reasons. Such services could be disrupted at any of our primary or back- up facilities or our other owned or leased facilities. Third parties to whom we outsource the maintenance and development of certain technological functionality may experience errors or disruptions that could adversely impact us and over which we may have limited control. In addition, there is no assurance that we will be able to sustain our investment in new technology to avoid obsolescence of critical systems and applications. A failure to maintain current technology, systems and facilities or to control third- party risk, could cause disruptions in the operation of our business, which could materially adversely affect our transaction volumes, revenues, reputation and / or our results of operations. If we are unable to recruit, retain and motivate key officers and employees to drive our business, our business could be materially adversely affected. Our success depends, in large part, on our ability to recruit, retain and motivate key officers and employees to manage and grow our business. Our senior management team has significant industry experience and would be **- 43-** difficult to replace. We believe we are in a critical period of competition in the financial services and payments industry. The market for qualified individuals is highly competitive and we may not be able to attract and retain qualified personnel or candidates to replace or succeed members of our senior management team or other key personnel or it may be expensive to do so. We may be subject to restrictions under future legislation or regulation limiting executive compensation. For example, the federal banking agencies have previously issued proposed rulemaking on incentive compensation practices for certain employees at banking organizations, including executives, and may issue additional rules relating to such activities in the future. These requirements could negatively impact our ability to compete with other companies in attracting, hiring and retaining key personnel and offer incentives that motivate our key personnel to perform and may require us to extensively restructure certain of our existing incentive compensation practices. Additionally, the market for individuals with skills in fields such as technology, advanced analytics, digital marketing and payments is increasingly competitive and we may not be able to attract and retain persons with the desired skill set or experience. If we are unable to recruit, retain and motivate key personnel to manage and grow our business well, our business could be materially adversely affected. Merchant defaults may adversely affect our business, financial condition, cash flows and results of operations. As an issuer and merchant acquirer in the U. S. on the Discover Network and as a holder of certain merchant agreements internationally for the Diners Club network, we may be contingently liable for certain disputed credit card sales transactions that arise between customers and merchants. If a dispute is resolved in the customer' s favor, we will cause a credit or refund of the amount to be issued to the customer and charge back the transaction to the merchant or merchant acquirer. If we are unable to collect this amount from the merchant or merchant acquirer, we will bear the loss for the amount credited or refunded to the customer. Where the purchased product or service is not provided until some ~~- 39-~~ later date following the purchase, such as an airline ticket, the likelihood of potential liability increases. Losses related to merchant chargebacks were not material for the years ended December 31, **2023 and** 2022 ~~and 2021~~. Damage to our reputation could negatively affect our business and brand. In recent years, financial services companies have experienced increased reputational risk as consumers protest and regulators scrutinize business and compliance practices of such companies. Maintaining a positive reputation is critical to attracting and retaining customers, investors and employees. Damage to our reputation can therefore cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct; a breach of our or our service providers' cybersecurity defenses; litigation or regulatory outcomes; failing to deliver minimum standards of service and quality; compliance failures; and the activities of customers, business partners and counterparties. Social media also can cause harm to our reputation. By its very nature, social media can reach a wide audience in a very short amount of time, which presents unique corporate communications challenges. Negative or otherwise undesirable publicity generated through unexpected social media coverage can damage our reputation and brand. Negative publicity regarding us, whether or not true, may result in customer attrition and other harm to our business prospects. There has also been increased focus on topics related to environmental, social and corporate governance policies, and criticism of our policies in these areas could also harm our reputation and / or potentially limit our access to some forms of capital or liquidity. We may be unsuccessful in protecting or defending our brands or other intellectual property, or third parties may allege that we are infringing their intellectual property rights. We rely on a multifaceted strategy to protect our intellectual property that takes advantage of protection such as patents, trademarks, copyrights, trade secrets and other restrictions on disclosure of confidential and proprietary information. We develop our intellectual property internally and in some cases license it from third parties. In addition, the Discover, PULSE and Diners Club brands have substantial economic and intangible value. Our success is dependent on our ability to promote and protect these brands and our other intellectual property. Our ability to attract and retain customers is highly dependent upon the external perception of our Company and brands. We strategically license our trademarks to business partners and network participants, some of whom have contractual obligations to promote and develop our brands. For example, the Discover card brand is now being issued by certain Diners Club licensees in their local markets. If our business partners or other third parties do not adhere to contractual standards, engage in improper business practices, or otherwise misappropriate, misuse or diminish the value of our brands or our other intellectual property, we may suffer reputational and financial damage. If we will not be able to adequately protect our brands, our proprietary information and other intellectual property, our business success may be adversely affected. In addition, **- 44-** third parties may allege that our developed or licensed marketing, processes or systems may infringe upon their intellectual property rights. Given the potential risks and uncertainties of such claims, our business could be adversely affected by having to pay significant monetary damages, technology development expenses or licensing fees, and we may have to alter our business practices or be prevented from competing effectively. Laws, regulations and supervisory guidance and practices, or the application thereof, may adversely affect our business, financial condition and results of operations. We must comply with an array of banking, consumer lending and payment services laws and regulations in all jurisdictions in which we operate as described more fully in " Business — Supervision and Regulation **,** " ~~,~~the risk factor entitled" — Financial regulatory developments have and will continue to significantly impact the environment for the financial services industry, which could adversely impact our business, results of operations and financial condition " and " Management' s Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments. " In addition, we are subject to inquiries and enforcement actions from states' attorney general offices and regulation by ~~the Federal~~ **federal regulators** ~~Trade Commission~~ , state banking regulators and the U. S. Department of Justice, as well as the SEC and New York Stock Exchange in our capacity as a public company. We also are subject to the requirements of entities that set and interpret accounting standards (such as the Financial Accounting Standards Board ~~(" FASB ")~~ , the SEC, banking regulators and our independent registered public accounting firm), which may add new requirements or change their interpretations on how standards should be applied. Guidance not yet issued could potentially have a material impact on business lines, as well as how we record and report our financial condition and results of operations, and could have an impact on regulatory capital. ~~- 40-~~ Failure to comply with laws, regulations and standards could lead to adverse consequences such as financial, structural, reputational and operational penalties, including our bank subsidiary being placed in receivership, litigation exposure and disgorgement and fines (as described further below). For example, failure to comply with anti- **terrorism, anti- money laundering, anti-** bribery and anti- corruption laws, including **the USA Patriot Act of 2001,** the U. S. Foreign Corrupt Practices Act and other laws regarding corporate conduct, can expose us and / or individual employees to severe criminal and civil penalties. Legislative, regulatory and tax code changes could impact the profitability of our business activities, alter consumer behavior in ways we did not anticipate, require us to limit or change our business practices or our product offerings, or expose us to additional costs (including increased compliance costs). Significant changes in laws and regulations may have a more adverse effect on our results of operations than on the results of our competitors or may disproportionately benefit our competitors. Current and proposed laws and regulations addressing consumer privacy and data use and security could affect the competitiveness of our products and increase our costs. Legal or regulatory pronouncements relating to consumer privacy, data use and security affect our business. We are subject to a number of laws concerning consumer privacy and data use and security **enacted by U. S. and non- U. S. governmental and regulatory authorities,** such as the European Union' s General Data Protection Regulation **, the GLBA,** and the California Consumer Privacy Act. Due to recent consumer data compromise events in the U. S., which resulted in unauthorized access to millions of customers' data, these areas continue to be a focus of the U. S. Executive Branch and Congress, state legislators and attorneys general and other regulators. Developments in this area, such as new laws, regulations, regulatory guidance, litigation or enforcement actions, could result in new or different requirements on Discover and other card issuers or networks that could increase costs or adversely affect the competitiveness of our credit card or debit card products. See ~~the discussion on recent security developments in~~ " Management' s Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments " for more information. In addition, failure to comply with the privacy and data use and security laws and regulations to which we are subject, including by reason of inadvertent disclosure of confidential information or the failure to provide timely notification of a disclosure, could result in litigation, fines, sanctions, penalties or other adverse consequences and loss of consumer confidence, which could materially adversely affect our results of operations, overall business and reputation. Litigation and regulatory actions could subject us to significant fines, penalties and / or requirements resulting in increased expenses, oversight and reputation risk. Consumer banking and payment services institutions have historically been subject to significant legal actions, both from private and government litigants. In addition to regulatory actions, private ~~litigants~~ **litigation** may include class action lawsuits and commercial, shareholder and patent litigation. Many of these actions have included claims for substantial **- 45-** compensatory, statutory or punitive damages. **We** ~~In addition, we~~ have been **, currently are,** and may again be involved in various actions or proceedings brought by **private litigants as well as** governmental regulatory and enforcement agencies ~~,~~ **. This includes the 2020 Order with the CFPB pursuant to** which **Discover is required to implement a redress and compliance plan in addition to the payment of at least $ 10 million in consumer redress to consumers who may have been harmed and a $ 25 million civil money penalty to the CFPB, and the September 2023 consent order by the FDIC with Discover Bank regarding its compliance management system for consumer protection laws pursuant to which Discover Bank has 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 over such matters. In addition, we may be subject to further actions, including the imposition of additional consent orders, regulatory agreements or civil money penalties, by governmental regulatory and enforcement agencies regarding similar or other issues. Furthermore, issues with or delays in satisfying the requirements of a regulatory action** could ~~cause~~ **affect our progress on others, and failure to satisfy the requirements of a regulatory action on a timely basis could result in additional penalties, enforcement actions, and other negative consequences, including** reputational harm, ~~require~~ **requiring** changes to business activities and product offerings, or **subjecting us to material fines, penalties, customer restitution or other requirements, resulting in increased expenses. Compliance with existing consent orders, and any other consent orders or regulatory actions, as well as the implementation of their**

requirements, may increase our expenses, require us to reallocate resources away from growing our existing businesses, subject us to **business restrictions, negatively impact our capital and liquidity, require us to undergo** significant **changes to** ~~fines, penalties, customer restitution or~~ **our business** ~~other requirements~~ , ~~resulting in increased expenses~~ **operations, products and services, and risk management practices, and expose us to private litigation** . See Note 19: Litigation and Regulatory Matters to our consolidated financial statements for more information on current matters affecting us. Historically, we have offered customers an arbitration clause in agreements to quickly and economically resolve disputes. The arbitration clause has, in some cases, also limited our exposure to consumer class action litigation, while still being able to resolve individual customer disputes. However, there is no guarantee that we will be able to continue to offer arbitration clauses in the future or that we will be successful in enforcing the arbitration clause in court. Legal challenges to the enforceability of these clauses may cause us to discontinue their use. In addition to court enforceability uncertainty, there have been bills pending in the U. S. Congress to directly or indirectly prohibit the use of pre- dispute arbitration clauses in some or all consumer banking products. **Members of Congress have also urged the CFPB to enact rules prohibiting or limiting the use of pre- dispute arbitration clauses.** We may be limited in our ability to pay dividends on and repurchase our stock. We increased our quarterly common stock dividend in ~~2022~~ **2023** to $ 0. ~~60~~ **70** per share, an increase of $ 0. 10 per share from the previous rate of $ 0. ~~50~~ **60** per share and repurchased approximately ~~7~~ **6** . ~~5~~ **8** % of our outstanding common stock under our share repurchase program in ~~2022~~ **2023** . The declaration and payment of future dividends, as well as the amount thereof, are subject to the discretion of our Board of Directors. The amount and size of any future dividends and share repurchases will depend upon regulatory limitations imposed by the Federal Reserve and our results of operations, financial condition, capital levels, cash requirements, future prospects, regulatory review and other factors as further described in " Business — Supervision and Regulation — Capital, Dividends and Share Repurchases. " Holders of our ~~- 41 -~~ 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 on or set aside for payment on our common stock if full dividends have not been declared and paid on all outstanding shares of our preferred stock in any dividend period. Banking laws and regulations and our banking regulators may limit or prohibit our payment of dividends on or our repurchase of our stock at any time. There can be no assurance that we will declare and pay any dividends on or repurchase our stock in the future. We are a holding company and depend on payments from our subsidiaries. Discover Financial Services, our parent holding company, depends on dividends, distributions and other payments from its subsidiaries, particularly Discover Bank, to fund its dividend payments, share repurchases, payments on its obligations, including debt obligations, and to provide funding and capital as needed to its operating subsidiaries. Banking laws and regulations and our banking regulators may limit or prohibit our transfer of funds freely, either to or from our subsidiaries, at any time. These laws, regulations and rules may hinder our ability to access funds that we may need to make payments on our obligations or otherwise achieve strategic objectives. For more information, see " Business — Supervision and Regulation — Capital, Dividends and Share Repurchases. " **- 46-** This annual report on Form 10- K and materials we have filed or will file with the SEC (as well as information included in our other written or oral statements) contain or will contain certain statements that are forward- looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward- looking statements. Words such as " expects, " " anticipates, " " believes, " " estimates, " " forecasts, " and other similar expressions or future or conditional verbs such as " will, " " should, " " would, " and " could, " are intended to identify such forward- looking statements. You should not rely solely on the forward- looking statements and should consider all uncertainties and risks throughout this annual report on Form 10- K, including those described under " Risk Factors. " The statements are only as of the date they are made and we undertake no obligation to update any forward- looking statement. Possible events or factors that could cause results or performance to differ materially from those expressed in our forward- looking statements include the following: • 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 ~~, private student loan~~ and personal loan growth **; • our ability to complete the proposed sale of the Discover Student Loan portfolio** ; • 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; ~~- 42-~~ • losses in our investment portfolio; **- 47-** • 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; • the effect of political, economic and market conditions, geopolitical events, climate change, pandemics and unforeseen or catastrophic events; • our ability to introduce new products or 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 **, including existing consent orders** ; and • new lawsuits, investigations **, consent orders** or similar matters or unanticipated developments related to current matters. We routinely evaluate and may pursue acquisitions of ~~or~~ **,** investments in **or divestitures from** businesses, products, technologies, loan portfolios or deposits, which may involve payment in cash or our debt or equity securities. The foregoing review of important factors should not be construed as exclusive and should be read in conjunction with the other cautionary statements that are included in this annual report on Form 10- K. These factors expressly qualify all subsequent oral and written forward- looking statements attributable to us or persons acting on our behalf. Except for any ongoing obligations to disclose material information as required under U. S. federal securities laws, we do not have any intention or obligation to update forward- looking statements after we distribute this annual report on Form 10- K, whether as a result of new information, future developments or otherwise.- ~~43~~ **48** -