thoughts and takeaways in blue

2022 Annual Report

1. **[Fortune 500 FinTech] Financial Performance**
2. **Consumer Bank Financial Performance**

1.[Fortune 500 FinTech company]: Total Company Performance

- ***Our profit was lower in 2022 vs 2021 because we set aside a lot of money to prep for loan losses and spent a lot on tech and marketing***
- ***These were partially offset by credit card doing well in 2022 and increased revenue from card usage fees since Customers spent more***
- ***Our loans held for investment both showed we lended a lot to borrowers and so these increases reflect positive growth and profitability***
- ***Our charge-off and delinquency rates both increased primarily due to the economic downturn***
- ***Our allowance for credit losses showed we were prepping for the economic shifts ahead of time***

Earnings:

- Our net income decreased by $5.0 billion to $7.4 billion in 2022 compared to 2021 primarily driven by:

Net income represents the total revenue minus all of our expenses, including operating expenses, interest, taxes and other costs, i.e. 'net profit', 'earnings' or 'the bottom line'. This decreased since 2021, but scalable growth and the economy playing big factors as reflected in the following metrics:

  - Higher provision for credit losses primarily driven by a net allowance build across all of our segments due to credit normalization, a modestly worse economic outlook and loan growth, compared to a net allowance release across all of our segments in 2021.

Provision for credit losses represents the amount of money a bank sets aside to cover potential losses on its loans and other credit assets. A higher provision for credit losses driven by a net allowance build means that COF has set aside more money in 2022 to cover potential losses on loans and other credit facilities vs setting aside less money in 2021, i.e. we were preparing lol (and so made less income due to this being set aside as an expense)

  - Higher non-interest expense primarily driven by increased marketing spend, as well as continued investment in technology.

Non-interest expenses represent expenses incurred by a bank in running its operations other than those related to the payment of interest on deposits or borrowing (e.g. salaries, benefits, rent, equipment, marketing). A higher non-interest expense indicates that COF spent more on operating expenses relative to its revenue, i.e. our investments in marketing and tech costs us (less net income but worth it because….)

<u>These drivers were partially offset by:</u>

   - Higher net interest income and net interest margin primarily driven by higher average loan balances in our credit card loan portfolio relative to the movement of other interest-earning assets.

Net interest income represents the difference between a bank's interest income earned from loans and investments and its interest expense paid on deposits and borrowing, i.e. it's a key determinant of bank profitability. Net interest margin represents the difference between the interest income earned on banks loans and the interest expense paid on deposits, divided by interest earning assets. A higher net interest income and a higher net interest margin both indicate that COF generated more revenue from loans compared to the interest expenses we payed on our deposits, i.e. in 2022 credit card did well

   - Higher non-interest income primarily driven by higher net interchange fees due to an increase in purchase volume.

Non-interest income represents the income generated by a bank's non-interest-earning activities, such as fees on services provided to customers, investment gains and misc income. Net interchange fees are fees paid by merchants to banks when a Customer uses a debit or credit card to make a purchase, i.e. a higher non-interest income indicates that those card fees ultimately increased COF revenue due to customers purchasing more

Loans Held for Investment:

- Period-end loans held for investment increased by $35.0 billion to $312.3 billion as of December 31, 2022 from December 31, 2021 primarily driven by growth across all of our segments, including $23.0 billion in Credit Card.

Period-end loans held for investment represent the value of the loans that a bank has made to borrowers and has held on its balance sheet as investments. A higher value of period-end loan held for investment indicates that COF actively lended to borrowers, which is a positive sign of growth and profitability! (FYI this is an industry wide benchmark)

- Average loans held for investment increased by $39.5 billion to $292.2 billion in 2022 compared to 2021 primarily driven by growth across all of our segments, including $17.7 billion in Credit Card.

Average loans held for investment represent the average amount of loans that a bank has held on its balance sheet as investments over a given period. A higher value of average loans held for investment indicates COF actively lended to borrowers, again another sign on growth and profitability (but taking on more credit risk…)!

Net Charge-Off and Delinquency Metrics:

- Our net charge-off rate increased by 48 basis points ("bps") to 1.36% in 2022 compared to 2021 primarily driven by continued credit normalization in our consumer businesses.

Net charge-off rate represents the amount of loans that a bank writes off as uncollectible, relative to the total amount of loans outstanding. A higher net charge-off rate may indicate that COF experienced a higher level of loan losses, i.e. economic downturn impacts – read normalization as preparing for serious delinquencies as credit risks 'normalizes' to pre-pandemic levels

- Our 30+ day delinquency rate increased by 80 bps to 3.21% as of December 31, 2022 from December 31, 2021 primarily driven by continued credit normalization.

Delinquency rate represents the percentage of loans in a bank's portfolio that are past due and have not yet been written off. A higher delinquency rate may indicate that COF experienced a higher level of loan delinquencies, i.e. economic downturn impacts again plus normalization

Allowance for Credit Losses:

- Our allowance for credit losses increased by $1.8 billion to $13.2 billion and our allowance coverage ratio increased by 12 bps to 4.24% as of December 31, 2022 compared to December 31, 2021.

Allowance for credit losses represents an estimation of the amount of potential credit losses that a bank may incur on its loan portfolio. A higher allowance for credit losses may indicate that COF expected a higher level of loan losses, i.e. we prepped for an economic downturn. Sidenote since bank 'runs' are in news - the loan loss reserve is the amount of money that a bank sets aside to cover potential loan losses and a higher allowance may indicate that the bank needs to increase its loan loss reserve to cover potential future losses …

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2. Consumer Banking: Consists of our deposit gathering and lending activities for consumers and small businesses, and national auto lending.

- ***In 2022, we made more money off of our loan portfolio vs what we payed on deposits***
- ***We reduced our overdraft fees which directly reduced our income***
- ***Current economic conditions played a factor increasing the likelihood of loan defaults***
- ***We spent a lot on marketing in 2022 which increased our expenses***
- ***Our deposits increased by $14.2 billion, i.e. we did well with national strategy, lol!***
- ***Credit normalization = prepare for serious delinquencies (economy)***

- **Net Interest Income:** Net interest income increased by $517 million to $9.0 billion in 2022 primarily driven by higher margins in our retail banking business due to the increases in interest rates, partially offset by lower margins in our auto business.

Net interest income represents the difference between a bank's interest income earned from loans and investments and its interest expense paid on deposits and borrowing, i.e. it's a key determinant of bank profitability. A higher net interest income indicates that Consumer Bank generated more revenue from its interest-earning assets compared to the interest expenses we payed on our interest-bearing liabilities, i.e. in 2022 we earned more off of loans which made us more profitable relative to paying out interest on bank deposits

- **Non-Interest Income:** Non-interest income decreased by $85 million to $469 million in 2022 primarily driven by changes to our customer overdraft and non-sufficient funds policies in our retail banking business.

Non-interest income represents the income generated by a bank's non-interest-earning activities, such as fees on services provided to customers, investment gains and misc income. A lower non-interest income indicates that Consumer Bank likely had a decrease in income from fees and other charges, i.e. we reduced our fees (e.g. overdraft) which reduced our income

- **Provision for Credit Losses:** Provision for credit losses increased by $1.7 billion to $1.2 billion in 2022 primarily driven by a net allowance build due to credit normalization, a modestly worse economic outlook and loan growth, compared to a net allowance release in 2021.

Provision for credit losses represents the amount of money a bank sets aside to cover potential losses on its loans and other credit assets. Credit normalization can lead to an increase in provision for credit losses as banks set aside more money to account for potential losses during the transition to more typical levels of credit risk post a heightened or abnormal period (i.e. 'normalizing' to pre pandemic levels). A 'net allowance build' due to credit normalization refers to COF building back up their reserve for losses. A higher provision for credit losses in 2022 may indicate that Consumer Bank experienced hijgher credit losses and/or made underestimations in 2021 (or more likely, indicates that we expect to experience higher credit losses in the future), i.e. economic conditions play a factor in likelihood of loan defaults

- **Non-Interest Expense:** Non-interest expense increased by $601 million to $5.3 billion in 2022 primarily driven by continued investment in technology and increased marketing spend in our retail banking business.

Non-interest expenses represent expenses incurred by a bank in running its operations other than those related to the payment of interest on deposits or borrowing (e.g. salaries, benefits, rent, equipment, marketing). A higher non-interest expense indicates that COF spent more on operating expenses relative to its revenue, which technically could indicate inefficiencies in our operations or lack of cost control (high non-interest expenses = high operational risks), but these expenses increased in 2022 as COF spent a lot of national marketing campaign last year

Loans Held for Investment:

- Period-end loans held for investment increased by $2.3 billion to $79.9 billion aus of December 31, 2022 from December 31, 2021 and average loans held for investment increased by $6.6 billion to $80.4 billion in 2022 compared to 2021 primarily driven by growth in our auto loan portfolio.

Period-end loans represent the total amount of loans outstanding at the end of a reporting period. A growing loan portfolio generates more interest income (the bigger the portfolio, the more interest income is generated, i.e. the first bullet above - profitability increased in 2022 for Consumer Bank) i.e. COAF drove growth in our loan portfolio in 2022

- Deposits:
    - Period-end deposits increased by $14.2 billion at $270.6 billion as of December 31, 2022 from December 31, 2021 primarily driven by our national banking strategy.

Period-end deposits represent the total amount of deposits held by a bank at the end of a reporting period. A growing deposit portfolio may indicate COF has greater access to funding at lower costs, which can be a source of competitive advantage - in 2022 we killed it with national strategy and increased our deposits in the tens of billions

Net Charge-Off and Delinquency Metrics:

- The net charge-off rate increased by 69 basis points to 1.06% in 2022 compared to 2021 primarily driven by continued credit normalization in our auto loan portfolio.

Net charge-off rate represents the amount of loans that a bank writes off as uncollectible, relative to the total amount of loans outstanding. A higher net charge-off rate may indicate that COF experienced a higher level of loan losses, i.e. economic downturn impacts similar to provision of credit losses

- The 30+ day delinquency rate increased by 152 basis points to 6.18% as of December 31, 2022 from December 31, 2021 primarily driven by continued credit normalization in our auto loan portfolio.

Delinquency rate represents the percentage of loans in a bank's portfolio that are past due and have not yet been written off. A higher delinquency rate may indicate that COF experienced a higher level of loan delinquencies, i.e. economic downturn impacts again plus normalization

SOURCES: Financial data - 2022 10-K, Commentary - MsF degree