



Discover Bank

FDIC IDI Rule

Resolution Plan Public Section

December 18, 2014

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Introduction

Pursuant to 12 CFR Section 360.10 (IDI Rule), the Federal Deposit Insurance Corporation (FDIC) requires an insured depository institution with \$50 billion or more in total assets (a covered insured depository institution or CIDI) to submit periodically to the FDIC a plan for the resolution of such institution in the event of its failure. As an insured depository institution with assets in excess of \$50 billion, Discover Bank (Bank) developed this Resolution Plan (also referred to as the CIDI Plan, Resolution Plan, or Plan) to fulfill the IDI Rule requirement.

In addition to the CIDI Plan, Discover Bank's parent, Discover Financial Services (DFS Parent), as a bank holding company with consolidated assets above \$50 billion, is subject to the joint resolution plan final rule (165(d) Rule) issued by the Board of Governors of the Federal Reserve System (Federal Reserve or FRB) and the FDIC that implements the requirements of Section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Therefore, DFS Parent and its subsidiaries (collectively, "Discover" or the "Company") prepared a separate resolution plan (also referred to as the 165(d) Plan) at a consolidated level.

This Plan provides the strategic options that Discover Bank's Board of Directors and senior management ("Management") believe would be available to the FDIC in the unlikely event that the Bank were to enter into resolution proceedings. Specifically, this Plan demonstrates how Discover Bank can be resolved in a manner that ensures depositors have timely access to their insured deposits upon failure of the institution, maximizes the net present value return from the sale or disposition of its assets, and minimizes the amount of any loss realized by the creditors in the resolution, without depleting the Deposit Insurance Fund (DIF).

Consistent with guidance from the FDIC, all financial and other information regarding the Bank in this Plan is taken as of December 31, 2013, unless otherwise indicated.

The information contained in the Resolution Plan, including this public summary, has been prepared in accordance with applicable regulatory requirements and guidance. Any differences in the presentation of information concerning Discover's businesses and operations contained herein relative to how Discover presents such information for other purposes is solely due to the Company's efforts to comply with the rules governing the submission of resolution plans. The information presented herein, including the designation of Material Entities and Core Business Lines, does not, in any way, reflect changes to the Company's organizational structure, business practices, or strategy.

Overview of Discover Bank

Discover Bank is a Delaware state chartered nonmember bank that is a wholly-owned direct subsidiary of Discover Financial Services. Discover Bank is regulated by the FDIC and the Delaware State Bank Commissioner. In addition to serving as Discover Bank's primary federal regulator, the FDIC also insures deposits up to applicable limits. Discover Bank is not a member of the Federal Reserve System. The Bank offers Discover-branded credit cards to individuals and small businesses, as well as student and personal loans¹, and obtains deposits from customers directly or through affinity relationships.

Discover Bank has a single retail branch in Greenwood, Delaware, and operates as a direct bank on a national basis. As a direct bank, Discover Bank offers and services its lending and deposit gathering products and services nationwide primarily through telephone, Internet, and direct mail channels.

At December 31, 2013, Discover Bank had nearly \$78 billion in assets representing 98% of the Company's assets on a consolidated basis. The asset portfolio primarily consists of \$64 billion in net loan receivables, with credit card loans representing over 83% of the loan portfolio and 68% of total assets. The Bank had total liabilities of nearly \$69 billion driven by deposits of nearly \$45 billion. Discover Bank generated \$2.4 billion in net income for the 12-month period ending in December 2013, which represents 99% of the Company's total net income.

Information contained herein speaks only as of the date of this summary or as of December 31, 2013, where indicated. The Company may modify, update, and supersede such information contained in this summary and assumes no obligation or undertaking to update or revise such information as more information becomes available. In addition, this summary contains forward-looking statements. Such statements are based upon the current beliefs and expectations of management of the Company, and are subject to significant risks and uncertainties. Certain factors could cause actual results to differ materially from those set forth in the forward-looking statements. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition

and Results of Operations" in Discover's Annual Report on Form 10-K for the year ended December 31, 2013, and Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2014, which are on file with the Securities and Exchange Commission (SEC) and available at the SEC's website at www.sec.gov.

Summary of Resolution Plan

A. The Names of Material Entities

A Material Entity under the IDI Rule is an entity that is significant to the activities of a Critical Service² or Core Business Line (defined in *Section B*). The Company has identified eight Material Entities. The aggregate percentage of assets, revenue, and net income associated with these eight Material Entities exceeds 95% of Discover's year-end 2013 total assets, revenues, and net income. The Material Entities are described here.

- Discover Financial Services is the parent holding company in the Company's organizational structure and the direct parent of Discover Bank. It is a bank holding company and financial holding company subject to oversight, regulation, and examination by the Federal Reserve.
- Discover Bank is a wholly owned direct subsidiary of Discover Financial Services. The Bank is regulated by the Delaware State Bank Commissioner and the FDIC, which insures deposits up to applicable limits and serves as the Bank's primary federal regulator. Discover Bank originates credit card, personal, and student loans as well as direct-to-consumer deposits and serves as the primary legal entity for the Card Issuing and Deposit Gathering Core Business Lines.
- DFS Services LLC owns and operates the Discover Network and serves as the primary legal entity for the Company's card network business line.
- DFS Corporate Services LLC provides technology, human resources, corporate risk management, internal audit, and other shared services for all of the Company's businesses, including Discover Bank's Core Business Lines.
- Discover Products Inc. provides marketing, customer service, and credit risk management services in support of Discover Bank's Card Issuing and Deposit Gathering Core Business Lines.
- DB Servicing Corporation provides customer service for Card Issuing and Deposit Gathering, finance, and law and compliance services for all business lines, and is the payroll entity for certain Discover executive management.
- Discover Properties LLC owns the real property and office buildings in Riverwoods, Illinois and New Albany, Ohio, which house employees and equipment in support of most of the Company's businesses, including Discover Bank's Core Business Lines.
- Card Securitization Trust provides funding to Discover Bank by issuing asset-backed securities to investors.

B. Description of Core Business Lines

Per the IDI Rule and subsequent regulatory guidance, a Core Business Line means a business line of the CIDI, including associated operations, services, functions, and support, which upon failure would result in a material loss of revenue, profit, or franchise value. The Company has identified two Core Business Lines of Discover Bank for purposes of the IDI Plan.

- Card Issuing—Offers and issues proprietary and affinity/co-branded credit cards to consumers and small businesses.
- Deposit Gathering—Offers deposit products to customers through direct marketing and affinity relationships³.

These Core Business Lines have been identified solely for resolution planning purposes and may differ from the operating segments that the Company uses for management reporting in its periodic reports filed with the SEC.

C. Summary Financial Information Regarding Assets, Liabilities, Capital and Major Funding Sources

For more detailed financial information, please refer to Discover Bank's quarterly call reports filed with the FDIC, which are available on the FDIC's website. In the following exhibit, the summary financial statement for Discover Bank reflects information as of December 31, 2013.

Exhibit 1: Consolidated Statements of Financial Condition (dollars in millions)

Assets

Cash and cash equivalents	6,430
Restricted cash	179
Investment securities:	
Available-for-sale	4,930
Held-to-maturity	60
Total investment securities	4,990
Loan receivables:	
Mortgage loans held for sale, measured at fair value	0
Total loan portfolio	65,547
Total loan receivables	65,547
Allowance for loan losses	(1,631)
Net loan receivables	63,916
Premises and equipment, net	338
Goodwill	0
Intangible assets, net	8
Other assets	2,043
Total assets	77,904

Liabilities and Stockholders' Equity

Deposits:	
Interest-bearing deposit accounts	44,758
Non-interest bearing deposit accounts	182
Total deposits	44,940
Short-term borrowings	1,855
Long-term borrowings	19,429
Accrued expenses and other liabilities	2,700
Total liabilities	68,924
Commitments, contingencies and guarantees	
Stockholders' Equity:	
Common stock	0
Preferred stock	0
Additional paid-in capital	4,588
Retained earnings	4,360
Accumulated other comprehensive loss	32
Treasury stock	0
Total stockholders' equity	8,980
Total liabilities and stockholders' equity	77,904

Capital & Liquidity Management

Discover Bank maintains comprehensive capital and liquidity management programs to ensure that appropriate resources, analytics, governance, and contingencies are in place in order to maintain appropriate levels of capital and liquidity.

Capital Management

Discover Bank's capital management framework is designed to ensure that it maintains sufficient capital commensurate with the inherent risk profile of its businesses and meets all applicable regulatory standards and guidelines as well as external rating agency expectations, under both baseline and stressed conditions. Discover Bank's primary source of capital is earnings generated by its businesses.

Under regulatory capital requirements adopted by the FDIC, Discover Bank must maintain minimum levels of capital. Failure to meet minimum capital requirements can result in the initiation of certain mandatory, and possible additional discretionary, actions by regulators that if undertaken could limit Discover Bank's business activities and have a direct material effect on its financial position and results.

Discover Bank maintains capital ratios significantly above the requirements to meet the well-capitalized status as defined by the regulatory guidelines. The following exhibit provides Discover Bank's consolidated Basel I regulatory capital ratios as of December 31, 2013.

Exhibit 2: Basel I Regulatory Capital Ratios as of 12/31/13

	Actual	Requirements for Well-Capitalized Status
Tier 1 Common Ratio ⁴	13.2%	≥5%
Tier 1 Risk-based Capital Ratio	13.2%	≥6%
Total Risk-based Capital Ratio	15.5%	≥10%
Tier 1 Leverage Ratio	11.6%	≥5%

The reconciliation of Discover Bank's Tier 1 Common capital to the common equity reported under GAAP is presented in the following exhibit.

Exhibit 3: Tier 1 Common Capital Reconciliation as of (dollars in millions) 12/31/13

GAAP total common equity	\$8,980
Less: Goodwill	
Less: Intangibles	(8)
Tangible common equity	8,972
Effect of certain items in accumulated other comprehensive income (loss) excluded from Tier 1 Common capital	(31)
Total Tier 1 Common capital	\$8,941

Funding

Discover Bank seeks to maintain diversified funding sources and a strong liquidity profile in order to fund its businesses and repay or refinance its maturing obligations. In addition, Discover Bank seeks to achieve an appropriate maturity profile and utilize a cost-effective mix of funding sources. Discover Bank's primary funding sources include deposits, sourced directly from consumers or through brokers, term asset-backed securitizations, private asset-backed securitizations, and short and long-term borrowings.

Liquidity Management

Discover Bank's liquidity management program is designed to ensure that it has adequate liquidity to sustain business operations, fund asset growth, and satisfy debt obligations under normal and stress conditions. Discover Bank's risk appetite limits mandate that it maintain adequate on-balance sheet and contingent liquidity to satisfy all maturing obligations and fund business operations for the next 12 months.

At December 31, 2013, Discover Bank's on-balance sheet liquidity portfolio was comprised of cash, cash equivalents, Federal Reserve deposits, and highly liquid investments primarily in US Treasuries, US government agency securities, and agency mortgage-backed securities. The contingent funding sources include undrawn facilities such as private asset-backed conduits and Federal Reserve Discount Window capacity. The following exhibit summarizes Discover Bank's liquidity resources at the end of 2013.

Exhibit 4: Liquidity Resources as of (dollars in millions) 12/31/13

Liquidity Portfolio:	
Cash and Cash Equivalents ⁵	\$6,163
Investment Securities	\$4,930
Total Liquidity Portfolio	\$11,093
Undrawn Credit Facilities:	
Asset-backed Conduit Facilities	\$7,000
Federal Reserve Discount Window	\$14,500
Total Undrawn Credit Facilities	\$21,500
Total Liquidity Portfolio and Undrawn Credit Facilities	\$32,593

These available liquidity resources position Discover Bank to continue operations for several months after a substantial liquidity disruption. Further, these resources enhance Discover Bank's readiness to implement the resolution strategies providing ample funding even in a severe stress scenario.

D. Description of Derivative and Hedging Activities

Discover Bank uses derivatives for the sole purpose of managing its exposure to various financial risks and does not enter into derivatives for trading or speculative purposes. Certain derivatives used to manage Discover Bank's exposure to interest rate movements and other identified risks are not designated as hedges and do not qualify for hedge accounting. All derivatives are recorded on the balance sheet under Other Assets at their gross positive fair values and under Accrued Expenses and Other Liabilities at their gross negative fair values.

Discover Bank uses interest rate swaps to manage its exposure to changes in the fair value of certain fixed rate senior notes, securitized debt and interest-bearing brokered deposits attributable to changes in LIBOR, a benchmark interest rate. The interest rate swaps involve the receipt of fixed rate amounts from the respective counterparties in exchange for Discover Bank making payments of variable rate amounts over the life of the agreements without exchange of the underlying notional amounts. These interest rate swaps qualify as fair value hedges in accordance with ASC Topic 815, Derivatives and Hedging.

Discover Bank also uses interest rate swaps to manage its exposure to changes in interest rates related to future cash flows resulting from credit card loan receivables. Such swaps are designated as cash flow hedges in accordance with ASC 815. Additionally, Discover Bank has a single interest rate swap related to securitized debt associated with the acquisition of The Student Loan Corporation.

The following exhibit summarizes the outstanding notional amounts of derivative instruments as of December 31, 2013 and December 31, 2012.

Exhibit 5: Outstanding Notional Amounts of Derivative Instruments (dollars in millions)

	Notional Amounts	
	2013	2012
Interest Rate Contracts		
Swaps	10,184	10,237
Futures and Forwards	40	0
Total Notional Amount	10,224	10,237

E. Memberships in Material Payment, Clearing, and Settlement Systems

Discover Bank is not a direct member of any of the financial market utilities (FMUs), multilateral systems that provide the essential infrastructure for transferring, clearing, and settling payments, securities, and other financial transactions among financial institutions or between financial institutions and the system. Instead, it relies on correspondent banks such as Bank of New York Mellon, JPMorgan Chase, U.S. Bancorp, and Wells Fargo to clear and settle ACH and Fedwire transactions with merchants, merchant acquirers, and other financial institutions.

F. Description of Foreign Operations

Discover Bank does not directly maintain any foreign operations and has no foreign deposit branches or foreign lending operations.

G. Material Supervisory Authorities

Discover Bank is chartered and regulated by the Delaware State Bank Commissioner, and is also regulated by the FDIC, which insures its deposits up to applicable limits and serves as the bank's primary federal banking regulator. As a large provider of consumer financial services, Discover Bank is subject to the supervision, examination and regulation of the Consumer Financial Protection Bureau (CFPB).

H. Principal Officers

The following exhibit shows information concerning the executive officers of Discover Bank.

Exhibit 6: Executive Officers

Name	Position
David W. Nelms	Chairman and Chief Executive Officer
James J. Roszkowski	President, Discover Bank
Roger C. Hochschild	Chief Operating Officer
R. Mark Graf	Executive Vice President, Head of Finance
Kathryn McNamara Corley	Executive Vice President, General Counsel
Steven E. Cunningham	Senior Vice President, Chief Risk Officer
Carlos Minetti	Executive Vice President, Consumer Banking
Harit Talwar	Executive Vice President, US Cards
James V. Panzarino	Executive Vice President, Chief Credit and Card Operations Officer
Tod J. Gordon	Senior Vice President and Treasurer
Michael F. Rickert	Vice President, Chief Financial Officer and Assistant Treasurer

I. Resolution Planning Corporate Governance Structure and Processes

Resolution Planning is integrated into the enterprise-wide risk management program as a natural extension to the Company's contingency planning efforts. The Audit and Risk Committee of the Board of Directors of DFS Parent (DFS Board of Directors) authorized an executive level risk committee (DFS Risk Committee) to manage all material risks across the Company including resolution planning.

The DFS Risk Committee established the Resolution Planning Steering Committee (Steering Committee) to oversee all aspects of resolution planning for Discover and its subsidiaries, including Discover Bank, and draw upon the necessary organizational resources to develop this Plan and the 165(d) Plan. The Steering Committee consists of the Bank's President, Chief Operating Officer, Head of Finance, General Counsel, Treasurer, as well as the Company's Chief Risk Officer and Chief Information Officer.

The Company formed a Resolution Planning Office (RPO), which is a dedicated resolution planning group in the Corporate Risk Management Department reporting into the Company's Chief Risk Officer. The RPO coordinated firm-wide activities related to the development, maintenance, and filing of the CIDI Plan and the 165(d) Plan. As a central team responsible for the development of the Resolution Plan, the RPO provided frequent updates to the Steering Committee on key assumptions, strategic analysis, resolution strategies, and other elements of the Plan, and received strategic direction from the Steering Committee.

The Bank's resolution planning governance and framework are memorialized in the Company's Resolution Planning Policy, which was approved by both the Discover Bank Board of Directors and DFS Board of Directors. The Bank's Resolution Plan was first reviewed and approved by the Steering Committee and the DFS Risk Committee, and was then reviewed and approved by the Board of Directors of Discover Bank.

J. Description of Material Management Information Systems

Management Information Systems (MIS) at Discover represent all systems and their associated intellectual property and infrastructure, including data centers, used for the reporting of essential management information. Per the 165 (d) Rule, essential management information consists of information related to risk management, accounting, financial, and regulatory reporting.

Several MIS applications are used throughout the Company and Discover Bank to run normal business operations as well as perform the analytics to generate standard and *ad hoc* reports. Discover's Business Technology Group has a set of policies, standards, and procedures to ensure that data and systems are properly developed, maintained, and secured. The Company also maintains detailed business continuity and disaster recovery plans that identify and document the key systems required to support essential business processes.

Discover leveraged its MIS infrastructure to gather financial and operational data used in the preparation of the Resolution Plan. The key data elements pertinent to the Core Business Lines and Material Entities, including financial statements, employees, physical facilities, systems, vendor contracts, counterparties, and service agreements were generated from the internal systems.

K. High-level Description of Resolution Strategy

Consistent with the requirements of the Rules and related regulatory guidance, Discover has developed resolution strategies under the assumption that an idiosyncratic stress event (ISE) has occurred and is the precipitating event for Discover's resolution. Discover's resolution strategies provide for the rapid and orderly resolution of Discover's Material Entities without government intervention or taxpayer support.

Discover Bank would be subject to the FDIC receivership process under the Federal Deposit Insurance Act (FDIA). Discover's resolution strategies assume that Discover Bank would enter into an FDIC receivership proceeding subsequent to the occurrence of the ISE. The resolution strategies that the Company has developed for Discover Bank are intended to achieve maximum value for the receivership, incur the least cost, or no cost, to the FDIC's deposit insurance fund, and ensure access to Discover Bank's deposits within one business day. The options for the resolution of Discover Bank include strategies to maintain Discover Bank as a whole and to transition it to another owner either directly or through an FDIC-controlled bridge bank, or, alternatively, to divide Discover Bank's assets into discrete lots and sell those lots in multiple transactions, with a wind down of any remaining operations.

Conclusion

Management believes that it put forth a feasible Resolution Plan that meets the objectives of the IDI Rule, where Discover Bank can be resolved under the FDIC receivership in a rapid and orderly manner that ensures depositors have timely access to their insured deposits without depleting the DIF, while continuing operations during the period after failure.

Endnotes

- ¹ Student and personal loan businesses are not Core Business Lines for purposes of resolution planning and this Plan.
- ² According to the IDI Rule, Critical Services are those services and operations of the CIDI, such as servicing, information technology support and operations, human resources, and personnel that are necessary to continue the day-to-day operation of the CIDI.
- ³ Brokered certificates of deposits sourced through contractual arrangements with securities brokerage firms are not considered part of the Deposit Gathering business.
- ⁴ The Tier 1 common ratio is Tier 1 common capital divided by risk weighted assets.
- ⁵ Cash-in-process is excluded from cash and cash equivalents for liquidity purposes.