



FDIC IDI Rule

2022 Resolution Plan

Public Section

December 1, 2022

FVN2

Table of Contents

Introduction	3
Summary of Resolution Plan	2
A. Names of Material Entities	2
B. Description of Core Business Lines	3
C. Consolidated Financial Information Regarding Assets, Liabilities, Capital, and Major Funding Sources	3
D. Material Supervisory Authorities	5
E. Principal Officers	5
F. Resolution Planning Corporate Governance Structure and Processes	6
G. Description of Material Management Information Systems	6
Conclusion	6

Introduction

Discover Financial Services (DFS, DFS Parent, Discover, or Company) is a digital banking and payment services company and a bank holding company (BHC) under the Bank Holding Company Act of 1956 that has elected to be treated as a financial holding company under the Gramm-Leach-Bliley Act of 1999. Discover Bank (Bank) is a wholly-owned direct subsidiary of DFS Parent and was chartered under the laws of the State of Delaware in 1911. The Bank is regulated by the Delaware State Bank Commissioner and the Federal Deposit Insurance Corporation (FDIC). In addition to serving as Discover Bank's primary federal regulator, the FDIC also insures deposits up to applicable limits.

Pursuant to 12 CFR § Section 360.10 (the Insured Depository Institution (IDI) Rule), the FDIC requires an IDI with \$50 billion or more in total assets (a Covered Insured Depository Institution or CIDI) to periodically submit to the FDIC a plan for the resolution of such institution in the event of its failure. The IDI Rule is implemented with respect to the Bank through the FDIC's Statement on Resolution Plans for IDIs (June 25, 2021) (the Modified Approach). The Modified Approach applies to IDIs with \$100 billion or more in total assets and extends the resolution plan submission frequency to a three-year cycle. As an IDI with assets in excess of \$100 billion, Discover Bank is a CIDI for the purposes of the IDI Rule and has developed this Resolution Plan (Plan) to fulfill the IDI Rule requirement and the Modified Approach guidance.

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, 2021, 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 the Resolution Plan. 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, home and personal loans¹, and obtains deposits from customers directly or through affinity relationships (Deposit Gathering).

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 use of digital channels, telephone, print materials, email, arrangements with third parties, and direct mail channels.

As of December 31, 2021, Discover Bank had \$108 billion in assets representing 98% of the Company's assets on a consolidated basis. The asset portfolio primarily consists of \$94 billion in loan receivables, with credit card loans representing 79% of the loan portfolio and 69% of total assets. The Bank had total liabilities of \$96 billion, of which deposits accounted for approximately \$75 billion. The Bank earned \$5 billion in net income for the 12-month period ending in December 2021, which represents approximately 94% of the Company's consolidated net income.

¹ Student, home and personal loan businesses are not Core Business Lines for purposes of resolution planning and this Plan.

The Company may modify, update, and supersede any 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 may contain 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, 2021, and Quarterly Reports on Form 10-Q for the quarters ending March 31, 2022, and June 30, 2022, 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. 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. Description of Core Business Lines*). The Company has identified seven Material Entities. The seven Material Entities account for approximately 99% of the Company's assets for Discover's year-end 2021. The Material Entities are described as follows:

- 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. Discover Bank is regulated by the Delaware State Bank Commissioner and the FDIC, which insures deposits up to applicable limits and serves as Discover 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 is a wholly-owned direct subsidiary of Discover Financial Services. DFS Services LLC owns and operates the Discover Network and serves as the primary legal entity for the Card Network.
- DFS Corporate Services LLC is a wholly-owned direct subsidiary of Discover Financial Services. DFS Corporate Services LLC provides business technology, human resources, corporate risk management, internal audit, and other shared services for all businesses, including the Core Business Lines.
- Discover Products Inc. provides customer services for Card Issuing and Deposit Gathering; marketing and credit risk management services in support of Card Issuing and Deposit Gathering as well as Discover's other consumer banking businesses; finance, accounting, treasury, legal, compliance, and security and investigative services for all business lines; and payroll services 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 businesses, including the Core Business Lines.
- Card Securitization Trust provides funding to Discover Bank by issuing asset-backed securities (ABS) to investors.

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.

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 credit cards to consumers through direct mail and digital channels.
- Deposit Gathering—Offers deposit products to customers through direct marketing and affinity relationships.

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

For more detailed financial information, refer to Discover Bank's quarterly Call Reports filed with the FDIC, which are available on the FDIC's website. The following exhibit provides the consolidated statement of financial condition for Discover Bank as of December 31, 2021.

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

Assets	In Millions (US\$)	Liabilities and Equity	In Millions (US\$)
Cash, Cash Equivalents, Restricted Cash and Other Short-term Investments	\$ 11,110	Deposits	\$ 75,446
Investment Securities	\$ 6,904	Short-term Debt	\$ 1,750
Net Loans Receivable	\$ 86,860	Long-term Debt	\$ 14,930
Other Assets	\$ 3,469	Intercompany Borrowings	\$ 500
		Other Accrued Expenses and Other Liabilities	\$ 3,827
		Total Liabilities	\$ 96,453
		Stockholders' Equity	\$ 11,890
Total Assets	\$ 108,343	Total Liabilities and Equity	\$ 108,343

Source: Financial Consolidation and Close. Presented on a GAAP basis.

Capital and 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 credit 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 well above the requirements to meet the well-capitalized status as defined by the regulatory guidelines. The following exhibit provides Discover Bank's consolidated Basel III regulatory capital ratios as of December 31, 2021.

Exhibit 2: Basel III Regulatory Capital Ratios as of 12/31/21

Capital Measure	Actual	Requirements for Well-Capitalized Status
CET1 capital (to risk-weighted assets)	14.7%	≥6.5%
Tier I capital (to risk-weighted assets)	14.7%	≥8.0%
Total capital (to risk-weighted assets)	16.9%	≥10.0%
Tier I capital (to average assets)	12.8%	≥5.0%

The following exhibit shows the computation of Discover Bank's tangible common equity.

Exhibit 3: Tangible Common Equity Computation as of 12/31/21 (dollars in millions)

Total Common Stockholder's Equity	\$ 11,890
Less: Goodwill	—
Less: Intangibles Assets, Net	—
Tangible Common Equity	\$ 11,890

Funding

Discover Bank seeks to maintain stable, diversified, and cost-effective funding sources and a strong liquidity profile in order to fund its businesses and repay or refinance its maturing obligations under both normal operating conditions and periods of economic or financial stress. Discover Bank's primary funding sources include direct-to-consumer and brokered deposits, public term asset-backed securitizations, and other short-term and long-term borrowings.

Liquidity Management

Discover Bank's liquidity management program ensures that the Bank has adequate liquidity to sustain business operations, fund asset growth, and satisfy debt obligations under both normal operating conditions and periods of economic or financial stress. As of December 31, 2021, Discover Bank's on-balance sheet liquidity portfolio comprised cash, cash equivalents, Federal Reserve deposits, and highly liquid investments primarily in US Treasuries, US government agency securities, and US government agency mortgage-backed securities. The contingent funding sources include undrawn facilities such as private asset-backed conduits and the Federal Reserve Discount Window. The following exhibit summarizes Discover Bank's liquidity resources at the end of 2021.

Exhibit 4: Liquidity Resources as of 12/31/21 (dollars in billions)

Liquidity Resources	In Billions (US\$)
Liquidity Portfolio:	
Cash and Cash Equivalents*	\$7.9
Investment Securities	\$6.9
Total Liquidity Portfolio	\$14.8
Undrawn Credit Facilities:	
Asset-backed Conduit Facilities	\$3.5
Federal Home Loan Bank of Chicago	\$0.1
Federal Reserve Discount Window	\$34.3
Total Undrawn Credit Facilities	\$37.9
Total Liquidity Portfolio and Undrawn Credit Facilities	\$52.7

*Does not include \$3.0 billion of DFS Parent MMDA deposited at Discover Bank. Cash-in-process is excluded from cash and cash equivalents for liquidity purposes.

These available liquidity resources position Discover Bank to continue operations for a substantial period of time after a material liquidity disruption. Further, these resources enhance the Company’s ability to implement the resolution strategies.

D. 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).

E. Principal Officers

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

Exhibit 5: Executive Officers

Name	Position
Roger C. Hochschild	Chief Executive Officer
James J. Roszkowski	President, Discover Bank
John T. Greene	Executive Vice President, Head of Finance
Wanjiku J. Walcott*	Executive Vice President, Chief Legal Officer and General Counsel
Carlos Minetti	Executive Vice President, Consumer Banking
Michael E. Roemer	Executive Vice President, Chief Risk Officer
Timothy J. Schmidt	Senior Vice President and Treasurer
Daniel P. Capozzi	Executive Vice President, President, US Cards
Keith E. Toney	Executive Vice President, Data and Analytics
Victoria M. Monahan	Vice President, Branch Manager
Matthew T. Parks	Vice President, CRA Director and Assistant Secretary
Patricia S. Hall	Vice President, Chief Financial Officer and Assistant Treasurer

*EVP, Chief Legal Officer and General Counsel Wanjiku J. Walcott departed the Bank on October 14, 2022. Simon Halfin, currently Vice President and Deputy General Counsel, will serve as Acting General Counsel until a successor is in place.

F. Resolution Planning Corporate Governance Structure and Processes

Discover Bank has established a comprehensive and transparent governance structure consisting of a senior management committee and the Discover Bank Board of Directors that oversee the resolution planning process. The Discover Bank Board provides oversight of the resolution planning process and establishes the foundation for resolution planning. Additionally the Discover Bank Board has established the Resolution Planning Committee (RPC), a senior executive-level committee, to oversee all aspects of resolution planning for Discover Bank and its subsidiaries and to draw upon the necessary organizational resources to develop this Plan. The RPC consists of the following: Bank President, Head of Finance, President US Cards, Chief Human Resources and Administrative Officer, President Consumer Banking, Chief Risk Officer, Data and Analytics Executive, and Treasurer.

The Bank has also formed a Resolution Planning Office (RPO) to manage the resolution planning efforts. The RPO coordinates firm-wide activities related to the development, maintenance, and filing of the Resolution Plan. As a central team responsible for the development of the Resolution Plan, the RPO provides frequent updates to the RPC and the Discover Bank Board on key elements of the Resolution Plan.

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

G. Description of Material Management Information Systems

Management Information Systems (MIS) at Discover represents all systems and their associated intellectual property and infrastructure, including data centers, used for the reporting of essential management information. Pursuant to the IDI Rule and the Modified Approach, essential management information consists of information related to risk management, accounting, and financial and regulatory reporting as well as deposits management, contracts management, human resources management, and asset management.

Several MIS applications are used throughout the Company to run normal business operations as well as perform the analytics to generate standard and ad hoc reports. Discover Bank 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 Bank 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, vendors, and service agreements, were generated from the internal systems.

Conclusion

Management believes that it has put forth a feasible Resolution Plan that meets the objectives of the IDI Rule and the Modified Approach, where Discover Bank can be resolved under FDIC Receivership in a manner that ensures depositors receive timely access to their insured deposits, maximizes the net present value return from the sale or disposition of its assets, and minimizes the amount of any loss realized by creditors, while continuing operations during the period after failure.