

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Discover Financial Services

Point of Contact:	Christopher Greene	RSSD: (For Bank Holding Companies)	3846375
UST Sequence Number:	587	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	1,224,558,000	FDIC Certificate Number: (For Depository Institutions)	5649
CPP/CDCI Funds Repaid to Date:	1,224,558,000	Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	March 13, 2009	City:	Riverwoods
Date Repaid ¹ :	4/21/2010	State:	Illinois

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

Increase lending or reduce lending less than otherwise would have occurred.

Discover's total on-balance sheet loan receivables increased from \$28,062,011,000 as of 3/31/09 to \$52,367,683,000 as of 12/31/09, due primarily to the impact of FAS 166/167 consolidation and to \$53,325,688,000 as of 12/31/10 due to the Student Loan Corp acquisition.

To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).

Increased personal loans and student loans from \$1,920,635,000 as of March 31, 2009 to \$3,660,382,000 as of December 31, 2009 and to \$6,817,792,000 as of December 31, 2010, mainly due to the purchase of student loans as part of the Student Loan Corp acquisition.

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Increase securities purchased (ABS, MBS, etc.).

Empty response box for 'Increase securities purchased (ABS, MBS, etc.).'

Make other investments.

Empty response box for 'Make other investments.'

Increase reserves for non-performing assets.

Discover's allowance for loan loss increased from \$1,971,301,000 as of March 31, 2009 to \$3,855,191,000 as of December 31, 2009, due primarily to the impact of FAS 166/167 consolidation and decreased to \$3,278,024,000 as of December 31, 2010.

Empty response box for 'Increase reserves for non-performing assets.'

Reduce borrowings.

Empty response box for 'Reduce borrowings.'

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Increase charge-offs.

Discover's managed net charge-off rate increased from 6.75% as of March 31, 2009 to 7.70% as of December 31, 2009 and decreased to 7.4 % as of December 31, 2010.

Purchase another financial institution or purchase assets from another financial institution.

Held as non-leveraged increase to total capital.

Receipt of CPP Funds resulted in a non-leveraged increase to total capital and assets.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Despite the strained consumer credit environment, the infusion of CPP funds enabled Discover to avoid having to close or reduce existing credit lines, cease opening new credit card accounts or cease or reduce other lending. The infusion of CPP funds also enabled Discover to avoid potentially having to raise capital through one or more equity or other offerings during a time when there was significant disruption in the capital markets. The elevated cost of capital associated with such an offering could have had a detrimental impact on Discover's shareholders.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

Despite the strained consumer credit environment, the infusion of CPP funds enabled Discover to continue to open credit card accounts for qualified customers and provide increased credit lines for qualifying existing customers. Additionally, Discover increased its total personal and student loan receivables from \$1,920,635,000 as of March 31, 2009 to \$3,660,382,000 as of December 31, 2009 and to \$6,817,792,000 as of December 31, 2010.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

A large, empty rectangular box with a black border, intended for the respondent to provide a detailed description of actions undertaken with the capital infusion of CPP/CDCI funds.