Discover Financial Services
Form 10-K
February 25, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the calendar year ended December 31, 2013

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-33378

DISCOVER FINANCIAL SERVICES
(Exact name of registrant as specified in its charter)

Delaware	36-2517428
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2500 Lake Cook Road, Riverwoods, Illinois 60015	(224) 405-0900
(Address of principal executive offices, including zip code)	(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange
Depositary Shares, each representing 1/40th interest in a share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes S No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No S

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes S No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes S No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. S

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No S

The aggregate market value of the common equity held by non-affiliates of the registrant on the last business day of the registrant’s most recently completed second fiscal quarter was approximately $22,996,337,070.

As of February 14, 2014, there were 470,895,643 shares of the registrant’s Common Stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for its annual stockholders’ meeting to be held on May 7, 2014 are incorporated by reference in Part III of this Form 10-K.

DISCOVER FINANCIAL SERVICES
Annual Report on Form 10-K for the calendar year ended December 31, 2013

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Except as otherwise indicated or unless the context otherwise requires, “Discover Financial Services,” “Discover,” “DFS,” “we,” “us,” “our,” and “the Company” refer to Discover Financial Services and its subsidiaries.
We own or have rights to use the trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to: Discover®, PULSE®, Cashback Bonus®, Discover Cashback Checking℠, Discover® More® Card, Discover it®, Discover® Motiva℠ Card, Discover® Open Road® Card, Discover® Network and Diners Club International®. All other trademarks, trade names and service marks included in this annual report on Form 10-K are the property of their respective owners.

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Part I.

Item 1. Business

Introduction

Discover Financial Services is a direct banking and payment services company. We were incorporated in Delaware in 1960. We are a bank holding company under the Bank Holding Company Act of 1956 as well as a financial holding company under the Gramm-Leach-Bliley Act and therefore are subject to oversight, regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Through our Discover Bank subsidiary, a Delaware state-chartered bank, we offer our customers credit card loans, private student loans, personal loans, home equity loans and deposit products. Through our Discover Home Loans, Inc. subsidiary, we offer our customers home loans. We had $65.8 billion in loan receivables and $28.4 billion in deposits issued through direct-to-consumer channels and affinity relationships at December 31, 2013. Through our DFS Services LLC subsidiary and its subsidiaries, we operate the Discover Network, the PULSE network ("PULSE"), and Diners Club International ("Diners Club"). The Discover Network is a payment card transaction processing network for Discover-branded credit cards and credit, debit and prepaid cards issued by third parties, which we refer to as network partners. PULSE operates an electronic funds transfer network, providing financial institutions issuing debit cards on the PULSE network with access to ATMs domestically and internationally, as well as point-of-sale ("POS") terminals at retail locations throughout the U.S. for debit card transactions. Diners Club is a global payments network of licensees that issue Diners Club branded charge cards and/or provide card acceptance services.

In December 2012, our board of directors approved a change in our fiscal year end from November 30 to December 31 of each year. This fiscal year change was effective January 1, 2013. As a result of the change, we had a one month transition period in December 2012. The audited results for the one month ended December 31, 2012 and the unaudited results for the one month ended December 31, 2011 are included in this report. For further information regarding the one month as of and ended December 31, 2012 and 2011, see Note 26: Transition Period Financial Information to our consolidated financial statements.

Available Information

We make available, free of charge through the investor relations page of our internet site www.discoverfinancial.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Forms 3, 4 and 5 filed by or on behalf of directors and executive officers, and any amendments to those documents filed with or furnished to the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934. These filings are available as soon as reasonably practicable after they are filed with or furnished to the SEC.

In addition, the following information is available on the investor relations page of our internet site: (i) our Corporate Governance Policies; (ii) our Code of Ethics and Business Conduct; and (iii) the charters of the Audit and Risk, Compensation and Leadership Development, and Nominating and Governance Committees of our board of directors. These documents are also available in print without charge to any person who requests them by writing or telephoning our principal executive offices: Discover Financial Services, Office of the Corporate Secretary, 2500 Lake Cook Road, Riverwoods, Illinois 60015, U.S.A., telephone number (224) 405-0900.

Operating Model

We manage our business activities in two segments: Direct Banking and Payment Services. Our Direct Banking segment includes consumer banking and lending products, specifically Discover-branded credit cards issued to individuals and small businesses on the Discover Network and other consumer banking products and services, including private student loans, personal loans, home loans, home equity loans, prepaid cards and other consumer lending and deposit products. Our Payment Services segment includes PULSE, Diners Club and our network partners business, which includes credit, debit and prepaid cards issued on the Discover Network by third parties.

We are principally engaged in providing products and services to customers in the United States, although the royalty and licensee revenue we receive from Diners Club licensees is mainly derived from sources outside of the United States. For quantitative information concerning our geographic distribution, see Note 5: Loan Receivables to our consolidated financial statements, and for quantitative information concerning our royalty revenue, see Note 15: Other Income and Other Expense to our consolidated financial statements.

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Below are descriptions of the principal products and services of each of our reportable segments. For additional financial information relating to our business and our operating segments, see Note 23: Segment Disclosures to our consolidated financial statements.

Direct Banking

Set forth below are descriptions of our credit cards, student loans, personal loans, home loans, home equity loans and deposit products. For additional information regarding the terms and conditions of these products, see "— Product Terms and Conditions."

Credit Cards

We offer credit cards to consumers and small businesses. Our credit card customers are permitted to "revolve" their balances and repay their obligations over a period of time and at an interest rate set forth in their cardmember agreements, which may be either fixed or variable. The interest that we earn on revolving credit card balances makes up approximately 85% of our total interest income. We also charge customers other fees as specified in the cardmember agreements. These fees may include fees for late payments, balance transfer transactions and cash advance transactions.

Our credit card customers' transactions in the U.S. are processed over the Discover Network. Where we have a direct relationship with a merchant, which is the case with respect to our large merchants representing a majority of Discover card sales volume, we receive discount and fee revenue from merchants. Discount and fee revenue is based on pricing that is set forth in contractual agreements with each such merchant and is based on a number of factors including industry practices, special marketing arrangements, competitive pricing levels and merchant size. Where we do not have a direct relationship with a merchant, we receive acquirer interchange and assessment fees from the merchant acquirer that settles transactions with the merchant. The amount of this fee is based on a standardized schedule and can vary based on the type of merchant or type of card (e.g., consumer or business).

Most of our cards offer the Cashback Bonus rewards program, the costs of which we record as a reduction of discount and interchange revenue. See "— Marketing — Rewards/Cashback Bonus" for further discussion of our programs offered.

The following chart* shows the Discover card transaction cycle as processed on the Discover Network:

Student Loans

Our private student loans are available to students attending eligible non-profit four-year undergraduate and graduate schools. We also offer certain post-graduate loans, including bar study and residency loans. We encourage students to borrow responsibly and maximize grants, scholarships and other free financial aid before taking student loans.

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We currently offer fixed and variable rate private student loans originated by Discover Bank. We market our student loans online and through direct mail and e-mail to existing and potential customers. We also work with school financial aid offices to create awareness of our products with students. Students can apply for our student loans online, by phone, or by mail, and we have dedicated staff within our call centers to service student loans. All applicants are encouraged to apply with a creditworthy cosigner, which may improve the likelihood for loan approval and a lower interest rate.

As part of the loan approval process, all of our student loans, except for bar study and residency loans, are certified and disbursed through the school to ensure students do not borrow more than the cost of attendance. Upon graduation, students with variable rate loans are generally eligible to receive a graduation reward. Students may redeem their graduation reward as a credit to the balance of any of their Discover student loans or as a direct deposit to a bank account.

Personal Loans

Our personal loans are unsecured loans with fixed interest rates, terms and payments. These loans are primarily intended to help customers consolidate existing debt, although they can be used for other reasons. We generally market personal loans to our existing credit card customers through direct mail, statement inserts and email. We also market personal loans to non-Discover customers through direct mail. Customers can submit applications via phone, online or through the mail, and can service their accounts online or by phone.

Home Loans and Home Equity Loans

In 2012, we began offering home mortgage loans and related services to help consumers finance home purchases and refinance existing home mortgages. We offer prime variable, fixed-rate conforming, jumbo and Federal Housing Administration ("FHA") loans to qualified applicants. We generally market home loans to existing Discover customers through direct mail, e-mail, statement envelopes and inserts, and advertising on Discover websites. We also market home loans to non-Discover customers through direct mail, internet advertising, including search engine marketing, display banners, internet lead aggregators, rate tables on financial websites, and social media. Consumers can apply for or obtain information about home loans by mail or online, or they can speak directly to a dedicated mortgage banker over the phone. Loans are funded and closed using proceeds principally from borrowings under a third-party warehouse line of credit. Substantially all funded loans and the related loan servicing rights are sold to investors in the secondary market, generally within 30 days of funding. The proceeds from such sales are used to repay borrowings under the warehouse line of credit. In addition to funding loans, we offer escrow and title services to home loan customers. For more information regarding our warehouse line of credit, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Funding Sources — Short-Term Borrowings."

We offer home equity loans to help consumers improve their homes as well as payoff higher interest debt. These loans are fixed term and rate loans that provide consumers the stability of a fixed payment on their obligation while being secured against the equity in their homes. We market this product primarily to existing card customers through a mix of direct mail, internet advertising and email. Non-Discover customers can obtain information regarding Discover home equity products from the internet banner ads on our website and have the ability to apply by calling a personal banker.

Deposits

We obtain deposits from consumers directly or through affinity relationships ("direct-to-consumer deposits") and through third-party securities brokerage firms that offer our deposits to their customers ("brokered deposits"). Our deposit products include certificates of deposit, money market accounts, savings accounts, checking accounts and Individual Retirement Account ("IRA") certificates of deposit. We market our direct-to-consumer deposit products to our existing customer base and other prospective customers through the use of our website, mobile platform, print materials, affinity arrangements with third parties and internet advertising. Customers can apply for, fund, and service their deposit accounts online or via phone, where we have a dedicated staff within our call centers to service deposit accounts. For more information regarding our deposit products, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Funding Sources — Deposits."

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Payment Services
Set forth below are descriptions of PULSE, Diners Club and our network partners business, which includes credit, debit and prepaid cards issued on the Discover Network by third parties.
PULSE Network
Our PULSE network is one of the nation’s leading ATM/debit networks. PULSE links cardholders of approximately 6,000 financial institutions with ATMs and POS terminals located throughout the United States. This includes approximately 4,000 financial institutions with which PULSE has direct relationships and approximately 2,000 additional financial institutions through agreements PULSE has with other debit networks. PULSE also provides cash access at 1.3 million ATMs in over 120 countries.
PULSE's primary source of revenue is transaction fees charged for switching and settling ATM, personal identification number ("PIN") POS debit and signature debit transactions initiated through the use of debit cards issued by participating financial institutions. In addition, PULSE offers a variety of optional products and services that produce income for the network, including signature debit transaction processing, debit card fraud detection and risk mitigation services, and connections to other regional and national electronic funds transfer networks.
When a financial institution joins the PULSE network, debit cards issued by that institution are eligible to be used at all of the ATMs and PIN POS debit terminals that participate in the PULSE network, and the PULSE mark can be used on that institution's debit cards and ATMs. In addition, financial institution participants may sponsor merchants, direct processors and independent sales organizations to participate in the PULSE PIN POS and ATM debit service. A participating financial institution assumes liability for transactions initiated through the use of debit cards issued by that institution, as well as for ensuring compliance with PULSE's operating rules and policies applicable to that institution's debit cards, ATMs and, if applicable, sponsored merchants, direct processors and independent sales organizations.
When PULSE enters into a network-to-network agreement with another debit network, the other network's participating financial institutions' debit cards can be used at terminals in the PULSE network. PULSE does not have a direct relationship with these financial institutions and the other network bears the financial responsibility for transactions of those financial institutions' cardholders and for ensuring compliance with PULSE's operating rules.
Diners Club
Our Diners Club business maintains an acceptance network in over 185 countries and territories through its relationships with over 80 licensees, which are generally financial institutions. We generally do not directly issue Diners Club cards to consumers, but grant our licensees the right to issue Diners Club branded cards and/or provide card acceptance services. Our licensees pay us royalties for the right to use the Diners Club brand, which is our primary source of Diners Club revenues. We also earn revenue from providing various support services to our Diners Club licensees, including processing and settlement of cross border transactions. We also provide a centralized service center and internet services to our licensees.
When Diners Club cardholders use their cards outside the host country or territory of the issuing licensee, transactions are routed and settled over the Diners Club network through its centralized service center. In order to increase merchant acceptance in certain targeted countries and territories, we work with merchant acquirers to offer Diners Club and Discover acceptance to their merchants. These acquirers are granted licenses to market the Diners Club brands to existing and new merchants. As we continue to work toward achieving full card acceptance across our networks, Discover customers are using their cards at an increasing number of merchant and ATM locations that accept Diners Club cards around the world. Diners Club cardholders with cards issued by licensees outside of North America continue to use their cards on the Discover Network in North America and on the PULSE and Diners Club network domestically and internationally.
Network Partners Business
We have agreements related to issuing credit, debit and prepaid cards with a number of other financial institutions or networks for issuance of card products accepted on Discover networks. We refer to these financial institutions or networks as "network partners". We may earn merchant discount or acquirer assessment and fees, net of issuer fees paid, for transactions for network partners who issue cards accepted on Discover networks.

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The following chart* shows the network partner transaction cycle:

* * *

The discussion below provides additional detail concerning the supporting functions of our two segments. The credit card, student loan, personal loan, home loan, home equity loan and deposit products issued through our Direct Banking segment require significant consumer portfolio investments in risk management, marketing, customer service and related technology, whereas the operation of our Payment Services business requires that we invest in the technology to manage risk and service network partners, merchants and merchant acquirer relationships.

Credit Risk Management

Credit risk management is a critical component of our management and growth strategy. Credit risk refers to the risk of loss arising from borrower default when borrowers are unable or unwilling to meet their financial obligations to us. Our credit risk arising from consumer lending products is generally highly diversified across millions of accounts without significant individual exposures. We manage risk primarily according to customer segments and product types. See "— Risk Management" for more information regarding how we define and manage our credit and other risks.

Account Acquisition (New Customers)

We acquire new credit card customers through our marketing efforts, including direct mail, internet, media advertising and merchant or partner relationships, or through unsolicited individual applications. We also acquire new student loan, personal loan and home loan customers through similar targeted marketing efforts, although student and home loan customers may also submit unsolicited individual applications. In all cases, we believe that we have a rigorous process for screening applicants.

To identify credit-worthy prospective customers, our credit risk management team uses proprietary targeting and analytical tools and our marketing team matches output from them with our product offerings. We consider the prospective customer's financial stability, as well as ability and willingness to pay. In order to make the best use of our resources to acquire new accounts, we seek production efficiencies, conduct testing, and aim to continuously improve our product offerings and enhance our targeting and analytical models.

We assess the creditworthiness of each consumer loan applicant through our underwriting process. We evaluate prospective customers' applications using credit information provided by the credit bureaus and other sources. We use credit scoring systems, both externally developed and proprietary, to evaluate consumer and credit bureau data. For our unsecured lending products, we also use experienced credit underwriters to supplement our automated decision-making processes. For our home loan and home equity products, experienced credit underwriters must review and approve each application.

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Upon approval of a customer's application for one of our unsecured lending and home equity products, we assign a specific annual percentage rate ("APR") using an analytical pricing strategy that provides competitive pricing for customers and seeks to maximize revenue on a risk-adjusted basis. For our credit card loans, we also assign a revolving credit line based on risk level and expected return.

Portfolio Management (Existing Customers)

The revolving nature of our credit card loans requires that we regularly assess the credit risk exposure of such accounts. This assessment reflects information relating to the performance of the individual's Discover account as well as information from credit bureaus relating to the customer's broader credit performance. We utilize statistical evaluation models to support the measurement and management of credit risk. At the individual customer level, we use custom risk models together with generic industry models as an integral part of the credit decision-making process. Depending on the duration of the customer's account, risk profile and other performance metrics, the account may be subject to a range of account management treatments, including limits on transaction authorization and increases or decreases in purchase and cash credit limits. Our installment loans are billed according to an amortization schedule that is calculated at the time of the disbursement of the loan and, in the case of student loans, at the time the loan enters repayment.

Customer Assistance

We provide our customers with a variety of tools to proactively manage their accounts, including electronic payment reminders and a website dedicated to customer education, as further discussed under the heading "— Customer Service." These tools are designed to limit a customer's risk of becoming delinquent. When a customer's account becomes delinquent or is at risk of becoming delinquent, we employ a variety of strategies to assist customers in becoming current on their accounts.

All monthly billing statements of accounts with past due amounts include a request for payment of such amounts. Customer assistance personnel generally initiates contact with customers within 30 days after any portion of their balance becomes past due. The nature and the timing of the initial contact, typically a personal call or letter, are determined by a review of the customer's prior account activity and payment habits.

We re-evaluate our collection efforts and consider the implementation of other techniques, including internal collection activities and use of external vendors, as a customer becomes increasingly delinquent. We limit our exposure to delinquencies through controls within our process for authorizing transactions and credit limits and criteria-based account suspension and revocation. In situations involving customers with financial difficulties, we may enter into arrangements to extend or otherwise change payment schedules, lower interest rates and/or waive fees to aid customers in becoming current on their obligations to us. For more information see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Loan Quality — Modified and Restructured Loans."

Marketing

In addition to working with our credit risk management personnel on account acquisition and portfolio management, our marketing group provides other key functions, including product development, management of our Cashback Bonus and other rewards programs, protection product management, and brand and advertising management.

Product Development

In order to attract and retain customers and merchants, we continue to develop new programs, features, and benefits and market them through a variety of channels, including mail, phone and online. Targeted marketing efforts may include balance transfer offers and reinforcement of our Cashback Bonus and other rewards programs. Through the development of a large prospect database, use of credit bureau data and use of a customer contact strategy and management system, we have been able to improve our modeling and customer engagement capabilities, which helps optimize product, pricing and channel selection.

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Rewards / Cashback Bonus

Our cardmembers use several card products that allow them to earn their rewards based on how they want to use credit, as set forth below.

- Discover it card offers 5% Cashback Bonus in categories that change throughout the year up to a quarterly maximum (signing up is required) and 1% Cashback Bonus on all other purchases, as well as other benefits.
- Discover More card offers 5% Cashback Bonus in categories that change throughout the year up to a quarterly maximum (signing up is required) and up to 1% Cashback Bonus* on all other purchases.
- Discover Open Road card offers 2% Cashback Bonus on the first $250 spent in combined gas and restaurant purchases each billing period and up to 1% Cashback Bonus* on all other purchases.
- Discover Motiva card provides customers with Cashback Bonus equal to 5% of their interest charges each month for making on-time payments and up to 1% Cashback Bonus* on all purchases.
- Miles by Discover customers receive two miles for every $1 on the first $3,000 spent in travel and restaurant purchases each year, one mile for every $1 spent thereafter, and one mile for every $1 spent on all other purchases.
- Escape by Discover customers receive two miles for every $1 on all purchases. This card has a $60 annual fee.
- Discover Business card offers 5% Cashback Bonus on the first $2,000 spent in office supply purchases, 2% Cashback Bonus on the first $2,000 spent in gas purchases each year and up to 1% Cashback Bonus** on all other purchases.

* Up to 1% Cashback Bonus is based upon a customer's spending level and type of purchase. Customers earn .25% on their first $3,000 in qualifying purchases and on all purchases made at select warehouse clubs, wholesale distributors, discount stores and their affiliates. Customers earn 1% once their total qualified annual purchases exceed $3,000.

** Up to 1% Cashback Bonus is based upon a customer’s spending level and type of purchase. Customers earn .25% on their first $5,000 in qualifying purchases on all purchases made at select warehouse clubs, wholesale distributors, discount stores and their affiliates. Customers earn 1% on their total qualified annual purchases exceeding $5,000.

Customers can earn 5-20% Cashback Bonus at over 200 online retailers when they shop using their Discover card through our exclusive online shopping portal, ShopDiscover. Customers who are not delinquent or otherwise disqualified may pay with Cashback Bonus by redeeming instantly at select retailers in any dollar amount. They can also redeem their Cashback Bonus for (i) merchant partner gift cards (starting at $20) that add $5 or more to their reward; (ii) Discover gift cards (starting at $20); or (iii) charitable donations to select charities (starting at $20). Cashback Bonus can be redeemed (starting at and in increments of $50) in the form of a statement credit or direct deposit to a bank account.

Miles by Discover customers earn double miles for their purchases made at retailers through ShopDiscover. Escape by Discover customers earn 4 miles for every $1 spent at retailers through ShopDiscover. Miles by Discover customers who are not delinquent or otherwise disqualified may pay with miles by redeeming instantly for select retailers in any amount. Miles can also be redeemed for brand-name merchandise with free shipping starting at 2,000 miles, travel credits starting at 10,000 miles, partner gift cards starting at 1,000 miles, Discover gift cards starting at 5,000 miles, cash in the form of statement credits or direct deposit to a bank account starting at 5,000 miles, or charitable donations starting at 5,000 miles.

Protection Products

We currently service and maintain existing enrollments in the following protection products for our credit card customers. Although we suspended new sales of these products to consumers at the end of 2012, we may resume offering similar products in the future.

- Identity Theft Protection. The most comprehensive identity theft monitoring product we offer includes an initial credit report, credit bureau report monitoring at the three major credit bureaus, prompt alerts to key changes to credit bureau files that help customers spot possible identity theft quickly, internet surveillance to monitor up to 20 credit and debit card numbers on suspicious websites, identity theft insurance up to $25,000 to cover certain out-of-pocket expenses due to identity theft, and access to knowledgeable professionals who can provide information about identity theft issues.

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- Payment Protection. This product allows customers to suspend their payments for up to two years, depending on the qualifying event and product level, when certain hardships occur. While on benefit, customers have no minimum monthly payment, and are not charged interest, late fees, or the fees for the product. This product covers a variety of different events, such as unemployment, disability, natural disasters or other life events, such as marriage or birth of a child. Depending on the product and availability under state laws, outstanding balances up to $10,000 or $25,000, depending on product level are cancelled in the event of death.
- Wallet Protection. This product offers one-call convenience if a customer's wallet is lost or stolen, including requesting cancellation and replacement of the customer's credit and debit cards, monitoring the customer's credit bureau reports at the three major credit bureaus for 180 days and alerting them to key changes to their credit files, providing up to $100 to replace the customer's wallet or purse and, if needed, allowing the customer up to a $1,000 cash advance on his or her Discover card account.
- Credit ScoreTracker. This product offers customers resources that help them understand and monitor their credit scores. Credit ScoreTracker is specifically designed for score monitoring by alerting customers when their score changes, allowing customers to set a target score, and providing resources to help customers understand the factors that may be influencing their scores.

In addition to the protection products above, our credit card customers can purchase online service warranties from our extended warranty provider to protect purchases of new electronics and appliances as well as certain other purchases.

Brand and Advertising Management

We maintain a full-service marketing department charged with delivering integrated mass and direct communications to foster customer engagement with our products and services. Our brand team utilizes consumer insights and market intelligence to define our mass communication strategy, create multi-channel advertising messages and develop marketing partnerships with sponsorship properties. This work is performed in house as well as with a variety of external agencies and vendors.

Customer Service

Our customers can contact our customer service personnel by calling 1-800-Discover. Credit card customers can also manage their accounts online or through applications for certain mobile devices. Our internet and mobile solutions offer a range of benefits, including:

- Online account services that allow customers to customize their accounts, choose how and when they pay their bills, view annual account summaries that assist them with budgeting and taxes, research transaction details, initiate transaction disputes, and chat with or email a customer representative;
- Email and mobile text reminders that help customers avoid fees, keep their accounts secure and track big purchases or returns;
- Money management tools like the Spend Analyzer, Paydown Planner and Purchase Planner; and
- An online portal where customers automatically earn 5-20% Cashback Bonus when they shop at well-known online merchants using their Discover card.

Our student loan, personal loan, home equity and deposit product customers can utilize our online account services to manage their accounts, and to use interactive tools and calculators. For the home loan origination process, we have an online portal for home loan customers to educate themselves on the home loan process, monitor the status of their loans prior to funding, upload documents, and e-sign initial loan documents.

Processing Services

Our processing services cover four functional areas: card personalization/embossing, print/mail, remittance processing and document processing. Card personalization/embossing is responsible for the embossing and mailing of plastic credit cards for new accounts, replacements and reissues, and gift cards. Print/mail specializes in statement and letter printing and mailing for merchants and customers. Remittance processing, currently a function outsourced to third-party vendors, handles account payments and check processing. Document processing handles hard-copy forms, including new account applications.

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Fraud Prevention

We monitor our customers' accounts to prevent, detect, investigate and resolve fraud. Our fraud prevention processes are designed to protect the security of cards, applications and accounts in a manner consistent with our customers' needs to easily acquire and use our products. Prevention systems handle the authorization of application information, verification of customer identity, sales, processing of convenience and balance transfer checks, and electronic transactions.

Each credit card transaction is subject to screening, authorization and approval through a proprietary POS decision system. We use a variety of techniques that help identify and halt fraudulent transactions, including adaptive models, rules-based decision-making logic, report analysis, data integrity checks and manual account reviews. We manage accounts identified by the fraud detection system through technology that integrates fraud prevention and customer service. Strategies are subject to regular review and enhancement to enable us to respond quickly to changing conditions as well as to protect our customers and our business from emerging fraud activity.

Product Terms and Conditions

Credit Cards

The terms and conditions governing our credit card products vary by product and change over time. Each credit card customer enters into a cardmember agreement governing the terms and conditions of the customer's account. Discover card's terms and conditions are generally uniform from state to state. The cardmember agreement permits us, to the extent permitted by law, to change any term of the cardmember agreement, including any finance charge, rate or fee, or add or delete any term of the cardmember agreement, with notice to the customer as required by law. The customer has the right to opt out of certain changes of terms and pay their balance off under the unchanged terms. Each cardmember agreement provides that the account can be used for purchases, cash advances and balance transfers.

Each Discover card account is assigned a credit limit when the account is initially opened. Thereafter, individual credit limits may be increased or decreased from time to time, at our discretion, based primarily on our evaluation of the customer's creditworthiness. We offer various features and services with the Discover card accounts, including the Cashback Bonus rewards programs described under “— Marketing — Rewards/Cashback Bonus.”

All Discover card accounts generally have the same billing structure, though there are some differences between the consumer and business credit cards. We generally send a monthly billing statement to each customer who has an outstanding debit or credit balance. Customers also can waive their right to receive a physical copy of their bill, in which case they will receive email notifications of the availability of their billing statement online. Discover card accounts are grouped into multiple billing cycles for operational purposes. Each billing cycle has a separate billing date, on which we process and bill to customers all activity that occurred in the related accounts during a period of approximately 28 to 32 days that ends on the billing date.

Discover card accounts are assessed periodic finance charges using fixed and/or variable interest rates. Certain account balances, such as balance transfers, may accrue periodic finance charges at lower fixed rates for a specified period of time. Variable rates are indexed to the highest prime rate published in The Wall Street Journal on the last business day of the month. Periodic finance charges are calculated using the daily balance (including current transactions) method, which results in daily compounding of periodic finance charges, subject to a grace period on new purchases. The grace period essentially provides that periodic finance charges are not imposed on new purchases, or any portion of a new purchase, that is paid by the due date on the customer's current billing statement if the customer paid the balance on his or her previous billing statement in full by the due date on that statement. Neither cash advances nor balance transfers are subject to a grace period.

Each customer with an outstanding debit balance on his or her Discover card account must generally make a minimum payment each month. If a customer exceeds his or her credit limit as of the last day of the billing period, we may include all or a portion of this excess amount in the customer's minimum monthly payment. A customer may pay the total amount due at any time. We also may enter into arrangements with delinquent customers to extend or otherwise change payment schedules, and to waive finance charges and/or fees, including re-aging accounts in accordance with regulatory guidance.

In addition to periodic finance charges, we may impose other charges and fees on Discover card accounts, including cash advance transaction fees, late fees where a customer has not made a minimum payment by the required due date, balance transfer fees and returned payment fees. We also charge fees each time we decline to honor a balance transfer check, cash advance check, or other promotional check due to such reasons as insufficient credit availability, delinquency or default.

The Credit Card Accountability Responsibility and Disclosure Act of 2009 (the "CARD Act") required us, beginning February 2011, to review, every six months, certain interest rates that were increased on accounts since January 1, 2009 to determine whether to reduce the interest rate based on the factors that prompted the increase or factors we currently consider in determining interest rates applicable to similar new credit card accounts. The amount of any rate decrease must be determined based upon our reasonable policies and procedures. Any reduced interest rate must be applied to the account not later than 45 days after completion of the review.

Student Loans

The terms and conditions governing our student loans vary by product and are specified in the borrower's promissory note and disclosures. Each borrower signs a promissory note and separately accepts the loan terms during the application process. Student loans feature zero origination fees, fixed or variable interest rates, and a 2% graduation reward for variable rate loans. Student loans have a deferment period during which borrowers are not required to make payments while enrolled in school at least half time. This period begins on the date the loan is first disbursed and ends six to nine months after the borrower ceases to be enrolled in school at least half time. The standard repayment period is 15 to 20 years, depending on the type of student loan. Borrowers can choose to receive electronic communications, in which case they will receive e-mail notifications of the availability of their monthly billing statements online. There is no prepayment penalty, and borrowers may decide whether or not to apply any excess payments toward their next monthly payments and advance their due date.

We calculate interest on a daily basis on the outstanding principal loan balance until the loan is paid in full. The interest rate will never be higher than the maximum allowed by law, as stated in the promissory note and disclosures. If a student loan has a variable interest rate, it is equal to a variable index (e.g., based on the prime rate, LIBOR or T-Bill) plus a fixed margin assigned to the loan during origination. Variable interest rates may adjust quarterly if the index changes. We notify borrowers of any changes in the interest rate as required by law. We may impose other charges, including late charges when a customer has not made a minimum payment by the required due date, and a returned check charge. In certain circumstances, we may offer forbearance periods of up to 12 months over the life of the loan.

Personal Loans

The terms and conditions governing personal loans are set at the time the loan is accepted and generally do not change for the life of the loan. Personal loan account terms and conditions are generally uniform from state to state. All personal loan accounts generally have the same billing structure. Customers receive monthly statements approximately 20 days prior to payment due dates. The statement provides detail on all transactions processed since the last statement was generated, as well as a summary of the current amount due. Customers also can waive their right to receive physical copies of their bills, in which case they will receive email notifications of the availability of their billing statements online. Personal loan accounts are assessed periodic finance charges using simple interest. We may impose other charges, including late charges when a customer has not made a minimum payment by the required due date, and a returned check charge. There is no prepayment penalty for repaying a personal loan balance in full prior to the scheduled maturity date.

Home Loans and Home Equity Loans

We offer prime variable, fixed-rate conforming, jumbo and FHA home loans to qualified applicants. The terms of the loan are set at closing. Substantially all funded loans and the related loan servicing rights are sold to investors in the secondary market, generally within 30 days of funding.

Home equity loans are fixed rate loans that carry a monthly payment over the term of the loan and are secured by a customer's home. The terms of the loan are set at closing. Customers are sent monthly statements 20 days in advance of the payment due date. The statements provide the customer the allocation of any payments made since the last billing date as well as the payment due on the next scheduled payment date. The customer has the ability to view their account information as well as make payments online through the account center. Customers are also subject to additional charges, including late fees and returned payment charges. The customer has the ability to make larger than minimum payments on the loans and early payoffs are not subject to a pre-payment penalty.

Deposits

We offer four main types of deposit products directly to consumers on a national basis: certificates of deposit, savings accounts, money market and checking accounts. All of these deposits are FDIC-insured to the maximum extent permitted by law. Interest is compounded daily and credited to each account on a monthly basis for certificates of deposit, savings accounts and money market accounts, using the daily balance method and daily periodic rates. We do not pay interest on checking account balances, but instead offer cashback rewards for certain transactions. We offer a range of ownership options, including single, joint, trust and custodial. Deposit accounts may be funded through electronic fund transfer, check or wire transfer. Customers may access account servicing through a variety of convenient methods, including online at www.discoverbank.com, mobile and tablet device applications, and by telephone.

Certificates of deposit are offered on a full range of tenors from three months through 10 years with interest rates that are fixed for the full period. We offer automatic renewal along with options on reinvestment or disbursement of interest. There are minimum balance requirements to open accounts and penalties for early withdrawals. Certificates of deposit are offered with interest in multiple tax options. Customers can choose to receive interest either periodically or at maturity. Money market accounts are transactional accounts with minimum balance requirements. Money market account funds may be accessed through electronic fund transfer, checks, wire transfer and debit cards. Savings accounts may be accessed through electronic fund transfer, wire transfer and official checks. Money market accounts and savings accounts have limitations on withdrawal frequency, as required by law. Interest rates on money market accounts and savings accounts are subject to change at any time. Fees apply to some transactions, and availability of funds varies based on product and method of funding.

We also issue certificates of deposit through select contracted brokerage firms. All of these deposits are also FDIC-insured to the maximum extent permitted by law. All settlements occur through the Depository Trust Company. Tenors issued, interest, and commission rates are determined weekly with tenor issuances of five months to ten years. Simple interest is applied to brokered certificates of deposit. At any given time, we may choose to not issue these certificates of deposit or to issue only certain tenors in a given week. Early redemption of these certificates occurs only in the event of death or insanity. We have also entered into several third party agreements which provide structured sweep deposit balances.

Discover Network Operations

We support our merchants through a merchant acquiring model that includes direct relationships with large merchants in the United States and arrangements with merchant acquirers for small- and mid-size merchants. In addition to our U.S.-based merchant acceptance locations, Discover Network cards also are accepted at many locations in Canada, Mexico, the Caribbean, China, Japan and a growing number of countries around the world on the Diners Club network, or through reciprocal acceptance arrangements made with international payment networks. (i.e., network-to-network).

We maintain direct relationships with most of our largest merchant accounts, which enables us to benefit from joint marketing programs and opportunities and to retain the entire discount revenue from the merchants. The terms of our direct merchant relationships are governed by merchant services agreements. These agreements also are accompanied by additional program documents that further define our network functionality and requirements, including operating regulations, technical specifications and dispute rules. To enable ongoing improvements in our network's functionality and in accordance with industry convention, we publish updates to our program documents on a semi-annual basis. Discover card transaction volume was concentrated among our top 100 merchants in the 2013 calendar year with our largest merchant accounting for approximately 8% of total Discover card transaction volume.

In order to increase merchant acceptance, Discover Network services the majority of its small and mid-size merchant portfolios through third-party merchant acquirers to allow such acquirers to offer a comprehensive payments processing package to such merchants. Merchants also can apply to our merchant acquirer partners directly to accept Discover Network cards through the acquirers' integrated payments solutions. Merchant acquirers provide merchants with consolidated servicing for Discover, Visa and MasterCard transactions, resulting in streamlined statements and customer service for merchants, and reduced costs for us. These acquirer partners also perform credit evaluations and screen applications against unacceptable business types and the Office of Foreign Asset Control Specifically

Designated Nationals list.

Discover Network operates systems and processes that seek to ensure data integrity, prevent fraud and ensure compliance with our operating regulations. Our systems evaluate incoming transaction activity to identify abnormalities that require investigation and fraud mitigation. Designated Discover Network personnel are responsible for validating

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compliance with our operating regulations and law, including enforcing our data security standards and prohibitions against illegal or otherwise unacceptable activities. Discover Network is a founding and current member of the Payment Card Industry Security Standards Council, LLC, and is working to expand the adoption of the Council's security standards globally for merchants and service providers that store, transmit or process cardholder data.

Technology

We provide technology systems processing through a combination of owned and hosted data centers and the use of third-party vendors. These data centers support our payment networks, provide customers with access to their accounts, and manage transaction authorizations, among other functions. Discover Network works with a number of vendors to maintain our connectivity in support of POS authorizations. This connectivity also enables merchants to receive timely payment for their Discover Network card transactions.

Our approach to technology development and management involves both third-party and in-house resources. We use third-party vendors for basic technology services (e.g., telecommunications, hardware and operating systems) as well as for processing and other services for our direct banking and payment services businesses. We subject each vendor to a formal approval process to ensure that the vendor can assist us in maintaining a cost-effective and reliable technology platform. We use our in-house resources to build, maintain and oversee some of our technology systems. We believe this approach enhances our operations and improves cost efficiencies.

Seasonality

In our credit card business, we experience fluctuations in transaction volumes and the level of loan receivables as a result of higher seasonal consumer spending and payment patterns around the winter holidays, summer vacations and back-to-school periods. In our student loan business, our loan disbursements peak at the beginning of a school's academic semester or quarter. Although there is a seasonal impact to transaction volumes and the levels of credit card and student loan receivables, seasonal trends have not caused significant fluctuations in our results of operations or credit quality metrics between quarterly and annual periods.

Revenues in our Diners Club business are generally higher in the first half of the year as a result of Diners Club's tiered pricing system where licensees qualify for lower royalty rate tiers as cumulative volume grows during the course of the year.

Competition

We compete with other consumer financial services providers and payment networks on the basis of a number of factors, including brand, reputation, customer service, product offerings, incentives, pricing and other terms. Our credit card business also competes on the basis of reward programs and merchant acceptance. We compete for accounts and utilization with cards issued by other financial institutions (including American Express, Bank of America, Capital One, JPMorgan Chase and Citi) and, to a lesser extent, businesses that issue their own private label cards or otherwise extend credit to their customers. In comparison to our largest credit card competitors, our strengths include cash rewards, conservative portfolio management and strong customer service. Competition based on cash rewards programs, however, has increased in recent years. Our student loan product competes for customers with Sallie Mae and Wells Fargo, as well as other financial institutions that offer student loans. Our personal loan product competes for customers primarily with JPMorgan Chase, Capital One, Wells Fargo and Citi. Our home loan product competes for customers primarily with traditional lending institutions, namely Wells Fargo, Bank of America, JPMorgan Chase and Citi, which operate in multiple distribution channels, including direct to consumer. Our home loan product also faces additional competition from direct lending websites owned and operated by other online lenders that originate the bulk of their loans through their websites or by phone. Our home equity product faces competition primarily from traditional branch lending institutions like Wells Fargo, JP Morgan Chase, US Bank and PNC.

Although our student and personal loan receivables have increased, our credit card receivables continue to represent most of our receivables. The credit card business is highly competitive. Some of our competitors offer a wider variety of financial products than we do, including automobile loans, which may currently position them better among customers who prefer to use a single financial institution to meet all of their financial needs. Some of our competitors enjoy greater financial resources, diversification and scale than we do, and are therefore able to invest more in initiatives to attract and retain customers, such as advertising, targeted marketing, account acquisitions and pricing offerings in interest rates, annual fees, reward programs and low-priced balance transfer programs. In addition, some of our competitors have assets such as branch locations and co-brand relationships that may help them compete more

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effectively. Another competitive factor in the credit card business is the increasing use of debit cards as an alternative to credit cards for purchases.

Because most domestically issued credit cards, other than those issued on the American Express network, are issued on the Visa and MasterCard networks, most other card issuers benefit from the dominant market share of Visa and MasterCard. The former exclusionary rules of Visa and MasterCard limited our ability to attract merchants and credit and debit card issuers, contributing to Discover not being as widely accepted in the U.S. as Visa and MasterCard. Merchant acceptance of the Discover card has increased in the past several years, both in the number of merchants enabled for acceptance and the number of merchants actively accepting Discover. We continue to make investments in expanding Discover and Diners Club acceptance in key international markets where an acceptance gap exists.

In our payment services business, we compete with other networks for volume and to attract network partners to issue credit, debit and prepaid cards on the Discover, PULSE and Diners Club networks. We generally compete on the basis of customization of services and various pricing strategies, including incentives and rebates. We also compete on the basis of issuer fees, fees paid to networks (including switch fees), merchant acceptance, network functionality, customer perception of service quality, brand image, reputation and market share. The Diners Club and Discover networks' primary competitors are Visa, MasterCard and American Express, and PULSE's network competitors include Visa's Interlink, MasterCard's Maestro and First Data's STAR. American Express is a particularly strong competitor to Diners Club as both cards target international business travelers. As the payments industry continues to evolve, we are also facing increasing competition from new entrants to the market, such as online networks, telecom providers and other alternative payment providers, which leverage new technologies and a customer's existing deposit and credit card accounts and bank relationships to create payment or other fee-based solutions.

In our direct-to-consumer deposits business, we have acquisition and servicing capabilities similar to other direct competitors, including USAA, Ally Financial, American Express, Capital One (360), Sallie Mae and Barclays. We also compete with traditional banks and credit unions that source deposits through branch locations. We seek to differentiate our deposit product offerings on the basis of brand reputation, convenience, customer service and value.

For more information regarding the nature of and the risks we face in connection with the competitive environment for our products and services, see "Risk Factors — Strategic Business Risks."

Intellectual Property

We use a variety of methods, such as trademarks, patents, copyrights and trade secrets, to protect our intellectual property. We also place appropriate restrictions on our proprietary information to control access and prevent unauthorized disclosures. Our Discover, PULSE and Diners Club brands are important assets, and we take steps to protect the value of these assets and our reputation.

Employees

As of January 31, 2014, we employed approximately 14,128 individuals.

Risk Management

The understanding, identification and management of risk are important elements to our success. Accordingly, we maintain a comprehensive risk management program to identify, measure, monitor, evaluate, manage and report on the principal risks we assume in conducting our activities. These risks include credit, market, liquidity, operational, compliance and legal, and strategic risks.

Enterprise Risk Management Principles

Our enterprise risk management philosophy is to ensure that all relevant risks inherent in our business activities are appropriately identified, measured, monitored, evaluated, managed and reported. Our enterprise risk management philosophy is expressed through six key principles that guide our approach to risk management: comprehensiveness, accountability, independence, defined risk appetite and strategic limits, risk and control self assessment, and transparency.

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Comprehensiveness

We seek to maintain a comprehensive framework for managing risk enterprise wide, including policies, risk management processes, monitoring and reporting. Our framework is designed to be comprehensive with respect to our reporting segments and their control and support functions, and it extends across all risk types.

Accountability

We structure accountability along the principles of risk management execution, oversight and independent validation. Our business units hold primary accountability for management of the risks to which their businesses are exposed. Our principles apply across all businesses and risk types.

Independence

We maintain independent risk and control functions including our corporate risk management, law and compliance, and internal audit departments. Our Chief Risk Officer, who leads our corporate risk management department, is appointed by our board of directors and is accountable for providing an independent perspective on the risks to which we are exposed; how well management is identifying, assessing and managing risk; and the capabilities we have to manage risk across the enterprise.

Defined Risk Appetite and Strategic Limits

Our board of directors approves a risk appetite and strategic limit framework, which establishes an acceptable level of risk taking, considering desired financial returns and other objectives. To that end, management sets, maintains and enforces policies, as well as limits and escalation triggers that are consistent with our risk appetite and strategic limits framework.

Control Assessment

We test control effectiveness in a variety of ways. Our Risk and Control Self Assessment (RCSA) program is designed to identify, self-assess, monitor and report risks and controls in our products, processes and systems, and is an integral part of our risk management framework. As an enterprise risk management process, our overarching risk categories and related definitions are incorporated into the RCSA, and the risk governance structure is utilized for RCSA reporting. The entire process is subject to audit by our internal audit department with reporting to our Risk Committee and the Audit and Risk Committee of our board of directors.

Transparency

Our risk management framework seeks to provide transparency of exposures and outcomes and is core to our risk culture and operating style. We provide transparency through our risk committee structure, processes for escalating risk incidents, and risk reporting at each level, including quarterly reports to our Risk Committee and the Audit and Risk Committee of our board of directors.

Risk Management Roles and Responsibilities

Our governance structure is based on the principle that each line of business is responsible for managing risks inherent in its business with appropriate corporate oversight. Our board of directors, the Audit and Risk Committee of our board of directors, our Risk Committee, our Chief Executive Officer and senior executive officers, our corporate risk management department, our law and compliance department, and our internal audit department provide oversight at various levels.

Board of Directors

Our board of directors is responsible for: (i) approval of certain risk management policies, (ii) approval of our risk appetite and strategic limit framework, (iii) oversight of our strategic plan, and (iv) appointment of our Chief Risk Officer.

Audit and Risk Committee of our Board of Directors

The Audit and Risk Committee of our board of directors reviews reports from management on our enterprise-wide risk management program. The Committee also reviews with management the framework for assessing and

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managing our risk exposures and the steps management has taken to monitor and control such risk exposures. The Committee also reviews reports from management on the status of and changes to risk exposures, policies, procedures and practices.

Risk Committee

Our Risk Committee is an executive management-level committee, authorized by the Audit and Risk Committee of our board of directors and chaired by our Chief Risk Officer, that provides a forum for our senior management team to review and discuss credit, market, liquidity, operational, legal and compliance, and strategic risks across the company and for each business unit. Risk Committee membership consists of all members of our Executive Committee. The Committee regularly provides reports of our Chief Risk Officer to the Audit and Risk Committee of our board of directors on risks and risk management. Our Risk Committee has formed a number of sub-committees to assist it in carrying out its responsibilities. These committees, made up of representatives from senior levels of management, escalate issues to our Risk Committee as necessary. These risk management committees include the Asset/Liability Management Committees (Discover Financial Services and Discover Bank), the Capital Planning Committee, the Counterparty Credit Committee, the Discover Bank Credit Committee, the New Initiatives Committee, the Operational Risk Committee, and the Compliance Committee.

Chief Executive Officer

Our Chief Executive Officer is ultimately responsible for our risk management. In that capacity, our Chief Executive Officer establishes our risk management culture and ensures the business operates in accordance with it. Our Chief Risk Officer reports to our Chief Executive Officer.

Senior Executive Officers

Our senior executive officers are responsible for ensuring their business units operate within established risk appetite limits. They are also responsible for identifying risks; explicitly considering risk when developing strategic plans, budgets and new products; and implementing appropriate risk controls when pursuing business strategies and objectives. Senior executive officers also coordinate with our corporate risk management department to produce relevant, sufficient, accurate and timely risk reporting that is consistent with the processes and methodology established by our corporate risk management department. In addition, our senior executive officers are responsible for ensuring that sufficient financial resources and qualified personnel are deployed to manage the risks inherent in our business activities.

Chief Risk Officer

Our Chief Risk Officer chairs our Risk Committee and manages our corporate risk management department. Our Chief Risk Officer is responsible for establishing and implementing standards for the identification, management and measurement of risk on an enterprise-wide basis, as well as for monitoring and reporting such risks.

Corporate Risk Management

Our corporate risk management department is led by our Chief Risk Officer and supports business units by providing objective oversight of our risk profile and ensuring risks are managed as defined by policy. Our corporate risk management department also provides risk management tools and policies, and aggregates and reports our risks to our board of directors, the Audit and Risk Committee of our board of directors and our Risk Committee.

Law and Compliance Department

Our law and compliance department is responsible for establishing and maintaining a compliance program that includes compliance risk identification, assessment, policy development, monitoring, testing, training and reporting activities. Through collaboration with business units, our law and compliance department incorporates a commitment to compliance in our day-to-day activities. Our Chief Compliance Officer reports to our General Counsel.

Internal Audit Department

Our internal audit department is responsible for performing periodic, independent reviews and testing of compliance with our risk management policies and standards, performing assessments of the design and operating

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effectiveness of these policies and standards, and validating that all risk management controls are functioning as intended. The head of our internal audit department reports to the Audit and Risk Committee of our board of directors.

Risk Appetite and Strategic Limit Structure

Our risk appetite and strategic limit structure establishes the amount of risk, on a broad level, that we are willing to accept in pursuit of shareholder value. It reflects our risk management philosophy and, in turn, influences our culture and operating style. Our determination of risk appetite and strategic limits is directly linked to our strategic planning process and is consistent with our aspirations and mission statement. Risk appetite expressions and strategic limits are categorized by risk type, cascade through our committees and business units, and are incorporated into business decisions, reporting and day-to-day business discussions. Our risk appetite expressions and strategic limits also serve as tools to preclude business activities that are inconsistent with our long-term goals.

Management and our corporate risk management department monitor approved limits and escalation triggers to ensure that the business is operating within the expressed risk appetite and strategic limits. Risk limits are monitored and reported on to various risk committees and our board of directors, as appropriate. Through ongoing monitoring of risk exposures, management is able to identify appropriate risk response and mitigation strategies in order to react dynamically to changing conditions.

Risk Categories

Our risk management program is organized around six major risk categories: credit risk, market risk, liquidity risk, operational risk, compliance and legal risk, and strategic risk. We evaluate the potential impact of a risk event on the company by assessing the financial impact, the impact to our reputation, the legal and regulatory impact, and the client/customer impact. In addition, we have established various policies to help govern these risks.

Credit Risk

Credit risk arises from the potential that a borrower or counterparty will fail to perform on an obligation. Our credit risk includes consumer credit risk and counterparty credit risk. Consumer credit risk is primarily incurred by issuing loans to consumers. Counterparty credit risk is incurred through a number of activities including settlement, certain marketing programs, treasury and asset/liability management, network incentive programs, vendor relationships and insurers.

The Discover Bank Credit Committee oversees consumer credit risk and responsibilities include: (i) establishing consumer credit risk philosophy and tolerance; (ii) establishing procedures for implementing and ensuring compliance with risk identification, measurement, monitoring, and management policies and procedures for consumer credit risk management; and (iii) reviewing, on a periodic basis, aggregate risk exposures and efficacy of risk measurement, monitoring and management policies and procedures within the credit risk management department.

Our Counterparty Credit Committee oversees counterparty credit risk. Our Counterparty Credit Committee's responsibilities include: (i) establishing an enterprise-wide approach to counterparty credit risk management through a program for the identification, measurement, management and reporting of counterparty credit risks; (ii) providing oversight for controls, limits, thresholds and governance processes related to our ongoing management of counterparty credit risks; (iii) reviewing our enterprise-wide portfolio of counterparty risks and ensuring those risks remain within our tolerances; and (iv) approving acceptance of and limits for counterparties that represent significant exposure to us.

Market Risk

Market risk is the risk to our financial condition resulting from adverse movements in market rates or prices, such as interest rates, foreign exchange rates, credit spreads or equity prices. We are exposed to various types of market risk, in particular interest rate risk and other risks that arise through the management of our investment portfolio. The Asset/Liability Management Committee oversees market risk exposure. Responsibilities of the committee include: (i) maintaining oversight and responsibility for all risks associated with the asset/liability management process, including risks associated with liquidity and funding, market risk and our investment portfolio; and (ii) recommending limits to be included in our risk appetite and limit structure.

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Liquidity Risk

Liquidity risk is the potential that we will be unable to meet our obligations as they come due because of an inability to obtain adequate funding or liquidate assets without significantly lowering market prices because of inadequate market depth or market disruptions. Liquidity risk exposures are overseen by our Asset/Liability Management Committee. The responsibilities of our Asset/Liability Management Committee are described above.

Operational Risk

Operational risk arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud or external events will result in reputational harm or losses. Operational risk also arises from model risk, which is the potential that we will incur a financial loss, make incorrect business decisions or cause damage to our reputation as a result of: (i) errors in financial and decision model design and development, (ii) misapplication of financial or decision models, or (iii) errors in the financial and decision model production process. We further differentiate operational risk into the following sub-categories: theft and fraud; employment practices and workplace safety; customer, products and business practices; technology; physical asset and data security; processing; financial and reporting; and external provider.

Operational risk exposures are managed through a combination of business line management and enterprise-wide oversight. Enterprise-wide oversight is provided through our Operational Risk Committee. Responsibilities of our Operational Risk Committee include: (i) establishing and communicating operational risk policies, tolerance and philosophy; (ii) establishing procedures for implementing our operational risk measurement, monitoring and management policies; and (iii) reviewing aggregate risk exposures and the efficacy of our risk identification, measurement, monitoring and management policies and procedures, and related controls within our business units. In addition, model risk is managed through a model governance process and models are subject to independent validation.

Compliance and Legal Risk

Compliance risk is the operational risk of legal or regulatory sanctions, financial loss or damage to reputation resulting from failure to comply with laws, regulations, rules, other regulatory requirements, or codes of conduct and other standards of self-regulatory organizations applicable to us. Legal risk arises from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect our operations or condition. These risks are inherent in all of our businesses. Both compliance and legal risk are subsets of operational risk but are recognized together as a separate and complementary risk category by us given their importance and the specific capabilities and resources we deploy to manage these risk types effectively.

Compliance and legal risk exposures are actively and primarily managed by our business units in conjunction with our law and compliance department. Our compliance program governs the management of compliance risk. Our Compliance Committee oversees our compliance and legal risk management. Our law and compliance department provides independent oversight for all of our compliance and legal risk management activities. Our law and compliance department coordinates with our corporate risk management department for the management of compliance and legal risks by reporting and escalating material incidents, completing risk and control self-assessments, and monitoring and reporting key risk indicators.

Strategic Risk

Strategic risk can arise from adverse business decisions, improper implementation of decisions, unanticipated economic events, failure to anticipate and respond to industry changes (including legislative and regulatory changes), failure to create and maintain a competitive business model, and failure to attract and profitably serve customers. Our Executive Committee actively manages strategic risk through the development, implementation and oversight of our business strategies, including the development of budgets and business plans. Our business units take and are accountable for managing strategic risk in pursuit of their objectives. In addition, the assessment of strategic risk is an important consideration of various sub-committees of our Risk Committee. For example, the strategic and other risks associated with new products or services are reviewed and reported on by our New Initiatives Committee.

Our corporate risk management department also plays an important role in the management of strategic risk by: (i) overseeing the objective setting and strategic planning processes from a risk perspective, to gain comfort that strategic risks have been adequately considered in the setting of objectives and development of strategies;

(ii) providing an independent risk perspective to the new initiatives process; and (iii) assessing if there is effective alignment of

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management's proposed long-term strategic objectives with the risk appetite and strategic limits approved by our board of directors.

Capital Planning

Our capital planning and capital adequacy assessment process is designed to ensure capital adequacy against identified risks. Our Capital Planning Committee, which is chaired by our Chief Financial Officer, oversees the development of our strategic capital plans. Our plans are reviewed and approved by our board of directors. We submit an annual capital plan to the Federal Reserve as further described in "— Supervision and Regulation — Capital, Dividends and Share Repurchases" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital."

Risk Management Review of Compensation

We believe in a pay for performance philosophy which considers performance across the company, business segments and individual performance, as appropriate, and the long-term interests of our shareholders and the safety and soundness of the company. We design compensation to be competitive relative to our peers to attract, retain and motivate our employees. In addition to being competitive in the markets in which we compete for talent and encouraging employees to achieve objectives set out by our management, our compensation programs are designed to balance an appropriate mix of compensation components to align the interests of employees with the long-term interests of shareholders and the safety and soundness of the company.

The design and administration of our compensation programs provide incentives that appropriately balance risk and financial results in a manner that does not incentivize employees to take imprudent risks, is compatible with effective controls and enterprise-wide risk management, and is supported by strong corporate governance, including oversight by our board of directors and the Compensation and Leadership Development Committee of our board of directors.

Supervision and Regulation

General

Our operations are subject to extensive regulation, supervision and examination under U.S. federal, state and foreign laws and regulations. As a bank holding company under the Bank Holding Company Act of 1956 and a financial holding company under the Gramm-Leach-Bliley Act, we are subject to the supervision, examination and regulation of the Federal Reserve. As a large provider of consumer financial services, we are subject to the supervision, examination and regulation of the Consumer Financial Protection Bureau (the "CFPB").

We operate two banking subsidiaries, each of which is in the United States. Discover Bank, our main banking subsidiary, offers credit card loans, student loans, personal loans and home equity loans as well as certificates of deposit, savings and checking accounts and other types of deposit accounts. Discover Bank is chartered and regulated by the Office of the Delaware State Bank Commissioner (the "Delaware Commissioner"), and is also regulated by the Federal Deposit Insurance Corporation (the "FDIC"), which insures its deposits up to applicable limits and serves as the bank's primary federal banking regulator. Our other bank, Bank of New Castle, is also chartered and regulated by the Delaware Commissioner and insured and regulated by the FDIC.

Bank Holding Company Regulation

Permissible activities for a bank holding company include those activities that are so closely related to banking as to be a proper incident thereto, such as consumer lending and other activities that have been approved by the Federal Reserve by regulation or order. Certain servicing activities are also permissible for a bank holding company if conducted for or on behalf of the bank holding company or any of its affiliates. Impermissible activities for bank holding companies include activities that are related to commerce such as retail sales of nonfinancial products.

A financial holding company and the non-bank companies under its control are permitted to engage in activities considered financial in nature, incidental to financial activities, or complementary to financial activities, if the Federal Reserve determines that such activities pose no risk to the safety or soundness of depository institutions or the financial system in general. Being a financial holding company under the Gramm-Leach-Bliley Act requires that the depository institutions that we control meet certain criteria, including capital, management and Community Reinvestment Act requirements. In addition, under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act") enacted in July 2010, we are required to meet certain capital and management criteria to maintain our status as a

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financial holding company. If we or our depository institutions were to fail to continue to meet the criteria for financial holding company status, we could, depending on which requirements we failed to meet, face restrictions on new financial activities or acquisitions and/or be required to discontinue existing activities that are not generally permissible for bank holding companies.

Federal Reserve regulations and the Federal Deposit Insurance Act, as amended by the Reform Act, require that bank holding companies serve as a source of strength to each subsidiary bank and commit resources to support each subsidiary bank. This support may be required at times when a bank holding company may not be able to provide such support without adversely affecting its ability to meet other obligations.

The Reform Act addresses risks to the economy and the payments system, especially those posed by large systemically significant financial firms. Bank holding companies with $50 billion or more in total consolidated assets, including Discover, are considered systemically significant under the Reform Act and are subject to heightened prudential standards to be established by the Federal Reserve. The Reform Act could have a significant impact on us by, for example, requiring us to limit or change our business practices, limiting our ability to pursue business opportunities, requiring continued investments of management time and resources in compliance efforts, limiting fees we can charge for services, requiring us to meet more stringent capital, liquidity and leverage ratio requirements, increasing costs, restricting our ability to access the securitization markets for our funding, impacting the value of our assets, or otherwise adversely affecting our businesses. For more information regarding the Reform Act, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments" and “Risk Factors."

Capital, Dividends and Share Repurchases

We, Discover Bank and Bank of New Castle are subject to capital adequacy guidelines adopted by federal banking regulators, which include maintaining minimum capital and leverage ratios for capital adequacy and higher ratios to be deemed "well-capitalized." As a bank holding company, we are required to maintain Tier 1 and total capital equal to at least 4% and 8% of our total risk-weighted assets, respectively. We are also required to maintain a minimum "leverage ratio" (Tier 1 capital to adjusted total assets) of 4% to 5%, depending upon criteria defined and assessed by the Federal Reserve. Further, under the Federal Reserve's annual capital plan requirements, we are required to demonstrate that under stress scenarios we will maintain a Tier 1 common ratio (meaning the ratio of Tier 1 common capital to total risk-weighted assets) above 5%. At December 31, 2013, Discover Financial Services met all requirements to be deemed "well-capitalized." For related information regarding our bank subsidiaries, see "— FDIA" below.

Current or future legislative or regulatory initiatives may require us to hold more capital in the future. In June 2013, the Federal Reserve, Office of the Comptroller of the Currency (the "OCC") and the FDIC finalized rules to implement the provisions of the Basel III regulatory capital reforms that would be applicable to us and Discover Bank. The final rules include new minimum and "well-capitalized" risk-based capital and leverage ratios, effective January 1, 2015, and refine the definition of what constitutes "capital" for purposes of calculating those ratios. Beginning this year, we are subject to the final rules issued by the Federal Reserve and the FDIC implementing the stress test requirements under the Reform Act. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments — Capital, Liquidity and Funding."

There are various federal and state law limitations on the extent to which our banking subsidiaries can provide funds to us through dividends, loans or otherwise. These limitations include minimum regulatory capital requirements, federal and state banking law requirements concerning the payment of dividends out of net profits or surplus, and general federal and state regulatory oversight to prevent unsafe or unsound practices. In general, federal and applicable state banking laws prohibit, without first obtaining regulatory approval, insured depository institutions, such as our banking subsidiaries, from making dividend distributions if such distributions are not paid out of available earnings or would cause the institution to fail to meet applicable capital adequacy standards. For more information, see "— FDIA" below.

Additionally, we are required to submit an annual capital plan to the Federal Reserve that includes an assessment of our expected uses and sources of capital over the planning horizon. In January 2014, we submitted our capital plan to be reviewed by the Federal Reserve under the enhanced standards applied under the Federal Reserve's Comprehensive Capital Analysis and Review, or CCAR, program. Therefore, the Federal Reserve now applies enhanced standards to our capital plan submissions, including evaluation based on results of supervisory stress tests and

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enhanced documentation and process standards. Our ability to make capital distributions, including our ability to pay dividends or repurchase shares of our common stock, will be subject to the Federal Reserve's review and non-objection of the actions that we proposed in our annual capital plan.

For more information, including additional conditions and limits on our ability to pay dividends and repurchase our stock, see "Risk Factors — We may be limited in our ability to pay dividends on and repurchase our stock" and "— We are a holding company and depend on payments from our subsidiaries," "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital" and Note 18: Capital Adequacy to our consolidated financial statements.

FDIA

The Federal Deposit Insurance Act (the "FDIA") imposes various requirements on insured depository institutions. For example, the FDIA requires, among other things, the federal banking agencies to take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements. The FDIA sets forth the following five capital tiers: "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors that are established by regulation. At December 31, 2013, Discover Bank and Bank of New Castle met all applicable requirements to be deemed "well-capitalized." As noted above, recently-issued Federal Reserve rules and additional future rulemaking, including with respect to implementation of Basel III, have altered and in the future could further alter the capital adequacy framework for Discover.

The FDIA also prohibits any depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit a capital restoration plan. For a capital restoration plan to be acceptable, among other things, the depository institution's parent holding company must guarantee that the institution will comply with the capital restoration plan.

If a depository institution fails to submit an acceptable capital restoration plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

Each of our banking subsidiaries may also be held liable by the FDIC for any loss incurred, or reasonably expected to be incurred, due to the default of the other U.S. banking subsidiary and for any assistance provided by the FDIC to the other U.S. banking subsidiary that is in danger of default.

The FDIA prohibits insured banks from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is "well-capitalized," or it is "adequately capitalized" and receives a waiver from the FDIC. A bank that is "adequately capitalized" and that accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. There are no such restrictions under the FDIA on a bank that is "well-capitalized." As of December 31, 2013, Discover Bank and Bank of New Castle each met the FDIC's definition of a "well-capitalized" institution for purposes of accepting brokered deposits. An inability to accept brokered deposits in the future could materially adversely impact our funding costs and liquidity. For more information, see “Risk Factors — An inability to accept or maintain deposits in the future could materially adversely affect our liquidity position and our ability to fund our business.”

The FDIA also affords FDIC-insured depository institutions, such as Discover Bank and Bank of New Castle, the ability to "export" favorable interest rates permitted under the laws of the state where the bank is located. Discover Bank and Bank of New Castle are both located in Delaware and, therefore, charge interest on loans to out-of-state borrowers at rates permitted under Delaware law, regardless of the usury limitations imposed by the state laws of the borrower's residence. Delaware law does not limit the amount of interest that may be charged on loans of the type offered by Discover Bank or Bank of New Castle. This flexibility facilitates the current nationwide lending activities of Discover Bank and Bank of New Castle.

The FDIA subjects Discover Bank to deposit insurance assessments. Under the Reform Act, in order to bolster the reserves of the Deposit Insurance Fund, the minimum reserve ratio set by the FDIC was increased to 1.35%. The FDIC set a reserve ratio of 2%, 65 basis points above the statutory minimum. The FDIC also amended its deposit insurance

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regulations with two changes. First, the FDIC implemented a provision of the Reform Act that changed the assessment base for deposit insurance premiums from one based on domestic deposits to one based on average consolidated total assets minus average tangible equity. Second, the FDIC revised the risk-based assessment system for all large insured depository institutions (generally, institutions with at least $10 billion in total assets, including Discover Bank) to one based on a scorecard method. Further increases may occur in the future. The Reform Act removed the statutory cap for the reserve ratio, leaving the FDIC free to set a cap in the future.

Acquisitions and Investments

Since we are a bank holding company, and Discover Bank and Bank of New Castle are insured depository institutions, we are subject to banking laws and regulations that limit the types of acquisitions and investments that we can make. In addition, certain permitted acquisitions and investments that we seek to make are subject to the prior review and approval of our banking regulators, including the Federal Reserve and FDIC. Our banking regulators have broad discretion on whether to approve proposed acquisitions and investments. In deciding whether to approve a proposed acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, our financial condition, and our future prospects, including current and projected capital ratios and levels; the competence, experience, and integrity of our management and our record of compliance with laws and regulations; the convenience and needs of the communities to be served, including our record of compliance under the Community Reinvestment Act; and our effectiveness in combating money laundering. Therefore, results of supervisory activities of the banking regulators, including examination results and ratings, can impact whether regulators approve proposed acquisitions and investments. For information on the challenging regulatory environment, see "Risk Factors."

In addition, certain acquisitions of our voting stock may be subject to regulatory approval or notice under U.S. federal or Delaware state law. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our stock in excess of the amount that can be acquired without regulatory approval under the Change in Bank Control Act, the Bank Holding Company Act and the Delaware Change in Bank Control provisions, which prohibit any person or company from acquiring control of us without, in most cases, the prior written approval of each of the FDIC, the Federal Reserve and the Delaware Commissioner.

Consumer Financial Services

The relationship between us and our U.S. customers is regulated extensively under federal and state consumer protection laws. Federal laws include the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Gramm-Leach-Bliley Act, the CARD Act and the Reform Act. These and other federal laws, among other things, prohibit unfair, deceptive and abusive trade practices, require disclosures of the cost of credit, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, require safe and sound banking operations, restrict our ability to raise interest rates, and subject us to substantial regulatory oversight. State and, in some cases, local laws also may regulate in these areas, as well as in the areas of collection practices, and may provide other additional consumer protections. Moreover, our U.S. subsidiaries are subject to the Servicemembers Civil Relief Act, which protects persons called to active military service and their dependents from undue hardship resulting from their military service. The Servicemembers Civil Relief Act applies to all debts incurred prior to the commencement of active duty (including credit card and other open-end debt) and limits the amount of interest, including service and renewal charges and any other fees or charges (other than bona fide insurance) that is related to the obligation or liability.

Violations of applicable consumer protection laws can result in significant potential liability in litigation by customers, including civil monetary penalties, actual damages, restitution and attorneys' fees. Federal banking regulators, as well as state attorneys general and other state and local consumer protection agencies, also may seek to enforce consumer protection requirements and obtain these and other remedies. Further violations may cause federal banking regulators to deny, or delay approval of, potential acquisitions and investments. See "— Acquisitions and Investments."

The CARD Act was enacted in 2009, but most of the requirements became effective in 2010. The CARD Act made numerous amendments to the Truth in Lending Act, requiring us to make fundamental changes to many of our business practices, including marketing, underwriting, pricing and billing. The CARD Act's restrictions on our ability to increase interest rates on existing balances to respond to market conditions and credit risk ultimately limit our ability to extend credit to new customers and provide additional credit to current customers. Other CARD Act restrictions have resulted and will continue to result in reduced interest income and loan fee income.

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The Reform Act established the CFPB, which regulates consumer financial products and services and certain financial services providers, including Discover. The CFPB is authorized to prevent “unfair, deceptive or abusive acts or practices” and ensure consistent enforcement of laws so that all consumers have access to markets for consumer financial products and services that are fair, transparent and competitive. The CFPB has rulemaking and interpretive authority under the Reform Act and other federal consumer financial services laws, as well as broad supervisory, examination and enforcement authority over large providers of consumer financial products and services, such as Discover. In addition, the CFPB has an online complaint system that allows consumers to log complaints with respect to the products we offer. The system could inform future agency decisions with respect to regulatory, enforcement or examination focus. There continues to be uncertainty as to how the CFPB's strategies and priorities will impact our businesses and our results of operations going forward. For more information, see "Risk Factors — There continues to be uncertainty as to how the Consumer Financial Protection Bureau's priorities and actions will impact our business." and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments — Consumer Financial Services."

We are subject to additional laws and regulations affecting mortgage lenders. We conduct our mortgage lending business through two subsidiaries: Discover Bank (for our home equity loans) and Discover Home Loans, Inc. (for our conventional refinances and purchase transactions), which is a state-licensed mortgage lender. Federal, state and, in some instances, local laws regulate mortgage lending activities. These laws generally regulate the manner in which lending and lending-related activities are marketed or made available, including advertising and other consumer disclosures, payments for services and recordkeeping requirements. These laws include the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act and various state laws. State laws often restrict the amount of interest and fees that may be charged by a mortgage lender, or otherwise regulate the manner in which mortgage lenders operate or advertise. The CFPB has indicated that the mortgage industry is an area of supervisory focus and that it will concentrate its examination and rulemaking efforts on the variety of mortgage-related topics required under the Reform Act, including the steering of consumers to less favorable products, discrimination, abusive or unfair lending practices, predatory lending, origination disclosures, minimum mortgage underwriting standards, mortgage loan origination compensation and servicing practices. The CFPB has published several final rules impacting the mortgage industry. For more information, see “Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments — Consumer Financial Services — Mortgage Lending.”

Most states require licenses for non-bank lenders, such as Discover Home Loans, to solicit or make loans, and require the licensure or registration of certain individual employees engaged in mortgage loan origination activities. In 2008, Congress mandated that all states adopt certain minimum standards for the licensing of individuals involved in mortgage lending, and all state legislatures and state agencies have adopted and are implementing additional licensing, continuing education, and similar requirements on mortgage lenders and their employees. Compliance with existing and any new requirements may render it more difficult to operate or may raise our internal costs. As noted above, Discover Home Loans is subject to examination and supervision by state mortgage regulatory agencies, as well as the CFPB, the Federal Reserve and other federal agencies, and may incur substantial cost in preparing for and responding to regulatory examinations and investigations.

Payment Networks

We operate the Discover and PULSE networks, which deliver switching and settlement services to financial institutions and other program participants for a variety of ATM, POS and other electronic banking transactions. These operations are regulated by certain federal and state banking, privacy and data security laws. Moreover, the Discover and PULSE networks are subject to examination under the oversight of the Federal Financial Institutions Examination Council, an interagency body composed of the federal bank regulators and the National Credit Union Association. In addition, as our payments business has expanded globally through Diners Club, we are subject to government regulation in countries in which our networks operate or our cards are used, either directly or indirectly through regulation affecting Diners Club network licensees. Changes in existing federal, state or international regulation could increase the cost or risk of providing network services, change the competitive environment, or otherwise materially adversely affect our operations. The legal environment regarding privacy and data security is particularly dynamic, and any unpermitted disclosure of confidential customer information could have a material adverse impact on our business, including loss of consumer confidence.

The Reform Act contains several provisions that are relevant to the business practices, network transaction volume, revenue, and prospects for future growth of PULSE, our debit card network business. The Reform Act requires that merchants control the routing of debit transactions, and that interchange fees received by certain payment card

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issuers on debit card transactions be “reasonable and proportional” to the issuer's cost in connection with such transactions, as determined by the Federal Reserve. The Reform Act also requires the Federal Reserve to restrict debit card networks and issuers from requiring debit card transactions to be processed solely on a single payment network or two or more affiliated networks, or from requiring that transactions be routed over certain networks. For information regarding implementation of these provisions and potential impacts on our debit card business, see “Risk Factors — Legislative and regulatory reforms related to the debit card market have had a significant impact on our PULSE network business. The changing debit card environment has adversely impacted and we expect that it may continue to adversely impact PULSE's ability to compete for transaction volume." and “Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments — Payment Networks.”

Money Laundering & Terrorist Financing Prevention Program

We maintain an enterprise-wide program designed to comply with all applicable anti-money laundering and anti-terrorism laws and regulations, including the Bank Secrecy Act and the USA PATRIOT Act of 2001. This program includes policies, procedures, training and other internal controls designed to mitigate the risk of money laundering or terrorist financing posed by our products, services, customers and geographic locale. These controls include procedures and processes to detect and report suspicious transactions, perform customer due diligence, and meet all recordkeeping and reporting requirements related to particular transactions involving currency or monetary instruments. The program is coordinated by a compliance officer and undergoes an annual independent audit to assess its effectiveness. Our program is typically reviewed on an annual basis by federal banking regulators. The FDIC is completing its annual anti-money laundering/Bank Secrecy Act examination of Discover Bank and has notified the company of certain potential program deficiencies. See Note 20: Litigation and Regulatory Matters to our consolidated financial statements for more information. Violations and deficiencies related to anti-money laundering and anti-terrorism laws and regulations may cause federal banking regulators to deny, or delay approval of, potential acquisitions and investments. See "— Acquisitions and Investments."

Sanctions Programs

We have a program designed to comply with applicable economic and trade sanctions programs, including those administered and enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control. These sanctions are usually targeted against foreign countries, terrorists, international narcotics traffickers and those believed to be involved in the proliferation of weapons of mass destruction. These regulations generally require either the blocking of accounts or other property of specified entities or individuals, but they may also require the rejection of certain transactions involving specified entities or individuals. We maintain policies, procedures and other internal controls designed to comply with these sanctions programs.

Executive Officers of the Registrant

Set forth below is information concerning our executive officers, each of whom is a member of our Executive Committee.

Name	Age	Position
David W. Nelms	52	Chairman and Chief Executive Officer
Roger C. Hochschild	49	President and Chief Operating Officer
R. Mark Graf	49	Executive Vice President and Chief Financial Officer
Kathryn McNamara Corley	53	Executive Vice President, General Counsel and Secretary
Steven E. Cunningham	44	Senior Vice President, Chief Risk Officer
Carlos M. Minetti	51	Executive Vice President, President - Consumer Banking

Diane E. Offereins	56	Executive Vice President, President - Payment Services
James V. Panzarino	61	Executive Vice President, Chief Credit and Card Operations Officer
R. Douglas Rose	45	Senior Vice President, Chief Human Resources Officer
Glenn P. Schneider	52	Senior Vice President, Chief Information Officer
Harit Talwar	53	Executive Vice President, President - U.S. Cards

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David W. Nelms has served as our Chairman since January 2009 and our Chief Executive Officer since 2004, and was also our Chairman from 2004 until our spin-off from Morgan Stanley in 2007. He was our President and Chief Operating Officer from 1998 to 2004. Prior to joining us, Mr. Nelms worked at MBNA America Bank from 1990 to 1998, most recently as Vice Chairman. Mr. Nelms holds a Bachelor's of Science degree in Mechanical Engineering from the University of Florida and an M.B.A. from Harvard Business School.

Roger C. Hochschild has served as President and Chief Operating Officer since 2004, and was Executive Vice President, Chief Marketing Officer from 1998 to 2001. From 2001 to 2004, Mr. Hochschild was Executive Vice President, Chief Administrative Officer and Chief Strategic Officer of our former parent Morgan Stanley.

Mr. Hochschild holds a Bachelor's degree in Economics from Georgetown University and an M.B.A. from the Amos Tuck School at Dartmouth College.

R. Mark Graf has served as Executive Vice President and Chief Financial Officer since April 2011. He was also Chief Accounting Officer until December 2012. Prior to joining us, Mr. Graf was an investment advisor with Aquiline Capital Partners, a private equity firm specializing in investments in the financial services industry. From 2006 to 2008, Mr. Graf was a partner at Barrett Ellman Stoddard Capital. Mr. Graf was Executive Vice President and Chief Financial Officer for Fifth Third Bank from 2004 to 2006, after having served as its Treasurer from 2001 to 2004. He holds a Bachelor's degree from the Wharton School of the University of Pennsylvania.

Kathryn McNamara Corley has served as Executive Vice President, General Counsel and Secretary since February 2008. Prior thereto, she served as Senior Vice President, General Counsel and Secretary since 1999. Prior to becoming General Counsel, Ms. Corley was Managing Director for our former parent Morgan Stanley's global government and regulatory relations. Ms. Corley holds a Bachelor's degree in Political Science from the University of Southern California and a J.D. from George Mason University School of Law.

Steven E. Cunningham has served as Senior Vice President and Chief Risk Officer since May 2013. He is also responsible for the Comprehensive Capital Analysis and Review and Resolution Planning program offices. Prior thereto, Mr. Cunningham served as Senior Vice President and Treasurer since 2010. Prior to joining us, Mr. Cunningham was the Chief Financial Officer for Harley Davidson Financial Services from 2009 to 2010. From 2000 to 2009 he served in several financial and treasury roles with Capital One Financial, including Chief Financial Officer of the company’s banking and auto finance segments. From 1991 to 2000, Mr. Cunningham was at the FDIC in the Atlanta and Washington, D.C. offices. He holds a Bachelor's degree in finance from the University of Alabama and a M.B.A. from The George Washington University.

Carlos Minetti has served as Executive Vice President, President of Consumer Banking since February 2014. Prior thereto, he served as Executive Vice President, President - Consumer Banking and Operations since April 2010, Executive Vice President, Cardmember Services and Consumer Banking from September 2006 through March 2010, and Executive Vice President, and Chief Risk Officer for Cardmember Services and Risk Management from January 2001 through August 2006. Prior to joining us, Mr. Minetti worked in card operations and risk management for American Express from 1987 to 2000, most recently as Senior Vice President. Mr. Minetti holds a Bachelor's of Science degree in Industrial Engineering from Texas A & M University and an M.B.A. from the University of Chicago.

Diane E. Offereins has served as Executive Vice President, President - Payment Services since April 2010. Prior thereto, she served as Executive Vice President, Payment Services since December 2008 and Executive Vice President and Chief Technology Officer since 1998. In addition, she was appointed to oversee the PULSE network in 2006. From 1993 to 1998, Ms. Offereins was at MBNA America Bank, most recently as Senior Executive Vice President. Ms. Offereins holds a Bachelor's of Business Administration degree in Accounting from Loyola University.

James V. Panzarino has served as Executive Vice President and Chief Credit and Card Operations Officer since February 2014. Prior thereto, he served as Executive Vice President and Chief Credit Risk Officer from 2009 to 2013. Prior thereto, he served as Senior Vice President and Chief Credit Risk Officer from 2006 to 2009, and Senior Vice President, Cardmember Assistance, from 2003 to 2006. Prior to joining us, Mr. Panzarino was Vice President of External Collections and Recovery at American Express from 1998 to 2002. Mr. Panzarino holds a Bachelor's degree in Business Management and Communication from Adelphi University.

R. Douglas Rose has served as Senior Vice President and Chief Human Resources Officer since April 2013. Prior thereto, he served as Vice President, Human Resources at United Airlines from May 2009 to March 2013. He was also Senior Vice President, Human Resources at Capital One and a Human Resources consultant for Hewitt Associates. Mr.

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Rose holds a Bachelor's degree from the University of Pennsylvania and a Master's degree from the University of Michigan.

Glenn P. Schneider has served as Senior Vice President and Chief Information Officer since December 2008. From 2003 to 2008, he was Senior Vice President, Application Development, and from 1998 to 2003, he served as Vice President, Marketing Applications. Mr. Schneider joined us in 1993 and prior thereto worked for Kemper Financial Services as a Programmer. He holds a Bachelor's degree in Economics/Computer Science and a minor in Statistics from Northern Illinois University.

Harit Talwar has served as Executive Vice President, President - U.S. Cards since April 2010. Prior thereto, he served as Executive Vice President, Card Programs and Chief Marketing Officer since December 2008 and Executive Vice President, Discover Network since December 2003. From 2000 to 2003, Mr. Talwar was Managing Director for our international business. Mr. Talwar held a number of positions at Citigroup from 1985 to 2000, most recently as Country Head, Consumer Banking Division, Poland. Mr. Talwar holds a B.A. Hons degree in Economics from Delhi University in India and an M.B.A. from the Indian Institute of Management, Ahmedabad.

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Item 1A. Risk Factors

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.

Current Economic and Regulatory Environment

Economic conditions have had and could have a material adverse effect on our business, results of operations and financial condition.

While certain economic conditions in the United States have shown signs of improvement, economic growth has been slow and uneven as consumers continue to be affected by high unemployment rates and depressed housing values. In addition, the economic and financial challenges in Europe and globally may continue to impact economic recovery generally and the financial services industry. A prolonged period of slow economic growth or a significant deterioration in economic conditions would likely affect the ability and willingness of customers to pay amounts owed to us. A customer's ability to repay us also can be negatively impacted by increases in their payment obligations to other lenders under mortgage, credit card and other consumer loans. We believe that we are experiencing generally historical lows in our delinquency and charge-off rates and that these rates will be increasing over time. In addition, if economic conditions worsen, these rates may increase more than expected. The over 30 days delinquent rate was 1.64% at December 31, 2013, down from 1.69% and 2.29% at December 31, 2012 and November 30, 2011, respectively. The full-year net charge-off rate was 1.98% for the 2013 calendar year, down from 2.29% and 3.97% for the 2012 and 2011 fiscal years, respectively. Growth in our loan portfolio led us to increase our allowance for loan losses in the second half of 2013. We expect further increases in our allowance for loan losses in 2014, which will negatively impact our net income compared to 2011 through 2013, when reserve releases significantly contributed to our net income.

Poor economic conditions not only affect the ability and willingness of customers to pay amounts owed to us, increasing delinquencies, charge-offs and allowance for loan losses as described above, but 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 net interest income from credit card loans was $6.0 billion for the 2013 calendar year, which was 73% of revenues (defined as net interest income plus other income), compared to $5.8 billion for the 2012 fiscal year, which was 75% of revenues, and $5.7 billion for the 2011 fiscal year, which was 80% of revenues. In the event of another economic downturn, we may have to consider expense-reduction initiatives in order to offset our inability to generate increased interest and fee income due to existing legal and regulatory limitations on increasing interest and fees. Slow economic recovery combined with a competitive marketplace could result in Discover being unable to grow loans, resulting in reduced revenue from its core direct banking business.

The regulatory environment for the financial services industry is being significantly impacted by financial regulatory reform initiatives, which may adversely impact our business, results of operations and financial condition.

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act") contains comprehensive provisions governing the practices and oversight of financial institutions and other participants in the financial markets. The Reform Act regulates large systemically significant financial firms, including us, through a variety of measures, including increased capital and liquidity requirements, limits on leverage, and enhanced supervisory authority. The Reform Act also established a new financial industry regulator, the Consumer Financial Protection Bureau (the "CFPB"), and new requirements for debit card transactions, which impact our core businesses and are described in other risk factors below related to consumer financial services, payment services, risk management practices, and capital and liquidity. Additional legislative or regulatory action that may impact our business may result from the multiple studies mandated under the Reform Act.

The evolving regulatory environment causes uncertainty with respect to the manner in which we conduct our businesses and requirements that may be imposed by our regulators. Regulators have implemented and continue to propose new regulations and issue supervisory guidance and have been increasing their examination and enforcement

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action activities. The FDIC is completing its annual anti-money laundering/Bank Secrecy Act examination of Discover Bank and has notified the company of certain potential program deficiencies, and the CFPB is investigating certain student loan servicing practices of Discover Bank. See Note 20: Litigation and Regulatory Matters to our consolidated financial statements for more information. We expect that regulators will continue taking formal enforcement actions against financial institutions in addition to addressing supervisory concerns through non-public supervisory actions or findings. We are unable to predict the nature, extent or impact of any additional changes to statutes or regulations, including the interpretation, implementation or enforcement thereof, which may occur in the future.

The impact of the evolving regulatory environment on our business and operations depends upon a number of factors including final implementing regulations, guidance and interpretations of the regulatory agencies, supervisory priorities and actions, the actions of our competitors and other marketplace participants, and the behavior of consumers. The evolving regulatory environment could require us to limit or change our business practices, limit our product offerings, require continued investment of management time and resources in compliance efforts, limit fees we can charge for services, require us to meet more stringent capital, liquidity and leverage ratio requirements, increase costs, restrict our ability to access the securitization markets for our funding, impact the value of our assets, or otherwise adversely affect our businesses. The regulatory environment and enhanced examination and supervisory expectations and scrutiny can also potentially impact our ability to pursue business opportunities and obtain required regulatory approvals for potential investments and acquisitions. For additional information see "Business — Supervision and Regulation — Acquisitions and Investments."

Compliance and other regulatory requirements and expenditures have increased significantly for Discover and other financial services firms, and we expect them to continue to increase as regulators adopt new rules, interpret existing rules and increase their scrutiny of financial institutions, including controls and operational processes. We may face additional compliance and regulatory risk to the extent that we enter into new lines of business or new business arrangements with third-party service providers, alternative payment providers or other industry participants, including providers or participants that may not be regulated financial institutions. The additional expense, time and resources needed to comply with ongoing regulatory requirements may adversely impact our business and results of operations. In addition, regulatory findings and ratings could negatively impact our business strategies.

There continues to be uncertainty as to how the Consumer Financial Protection Bureau's priorities and actions will continue to impact our business.

The CFPB, which commenced operations in July 2011, has a large budget and staff, and broad authority with respect to the products that we offer, as further described in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments." There continues to be significant uncertainty as to how the agency's regulatory, supervisory, examination and enforcement strategies and priorities will impact our business and our results of operations going forward. In September 2012, Discover Bank entered into a consent order with the FDIC and CFPB with respect to the marketing of our protection products, which required us to provide refunds of approximately $200 million to eligible customers, pay a $14 million civil monetary penalty and enhance our business processes. Several of our other products, including credit cards, student loans and home loans, are areas of focus by the CFPB. The CFPB is currently investigating certain student loan servicing practices of Discover Bank. See Note 20: Litigation and Regulatory Matters to our consolidated financial statements for more information. Although we have committed significant resources to enhancing our compliance programs, changes in regulatory expectations, interpretations or practices could increase the risk of enforcement actions, fines, penalties and customer restitution. Actions by the CFPB could result in requirements to alter our products and services that would make our products less attractive to consumers and impair our ability to offer them profitably. Future actions by the CFPB or other regulators that discourage the use of products we offer or steer consumers to other products or services could result in reputational harm and a loss of customers. Should the CFPB change regulations adopted in the past by other regulators, or modify past regulatory guidance, our compliance costs and litigation exposure could increase. Our consumer class action litigation exposure could increase if the CFPB exercises its authority to limit or ban pre-dispute arbitration clauses. A preliminary report on arbitration agreements issued by the CFPB expressed concerns about these agreements that may signal the agency is contemplating taking such steps.

Legislative and regulatory initiatives related to the student loan market may have a significant impact on our ability to profitably grow our student loan portfolio.

We have invested in the growth of our private student loan portfolio, including through the acquisition of The Student Loan Corporation in December 2010 and the acquisition of additional private student loans from Citi in

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September 2011. Our total student loans have grown from $1.0 billion at November 30, 2010 to $8.1 billion at December 31, 2013. There is significant legislative and regulatory focus on the student loan market, including by the CFPB, as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments." This regulatory focus has resulted in an increase in supervisory examinations of the company related to student loans. The CFPB is currently investigating certain student loan servicing practices of Discover Bank. See Note 20: Litigation and Regulatory Matters to our consolidated financial statements for more information. Regulators, Congress or the Administration may take actions that impact the student loan market in the future. Any such actions could cause us to restructure our private student loan business in ways that we may not currently anticipate. The possible impact of heightened scrutiny of the student loan market and its participants, including any resulting legislative and regulatory initiatives, is uncertain and may adversely impact the profitability and growth of our private student loan portfolio.

Legislative and regulatory reforms related to the debit card market, as well as competitors' responses to these reforms, have had a significant impact on our PULSE network business. The changing debit card environment has adversely impacted and we expect that it may continue to adversely impact PULSE's ability to compete for transaction volume. The Reform Act contains several provisions impacting the debit card market as further described in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments." The changing debit card environment, including competitor actions related to merchant and acquirer transaction routing strategies, has adversely affected and may continue to adversely affect our PULSE network's business practices, network transaction volume, revenue, and prospects for future growth. We continue to face competitive challenges from the new merchant and acquirer transaction routing strategies implemented by large competing networks following the issuance of the regulations related to debit routing and fees. We are closely monitoring these strategies in order to assess their impact on our business and on competition in the marketplace. The U.S. Department of Justice is examining some of these competitor pricing strategies. In addition, the Reform Act's network participation requirements impact PULSE's ability to enter into exclusivity arrangements, which affect PULSE's current business practices and may materially adversely affect its network transaction volume and revenue. Our transaction processing revenue was $192 million for the calendar year ended December 31, 2013 and $218 million and $180 million for the fiscal years ended November 30, 2012 and 2011, respectively. While we are still assessing all of our options for responding to these developments, they have adversely impacted PULSE and we expect that they may continue to adversely impact our ability to compete for issuer participation and merchant and acquirer routing, negatively impacting PULSE transaction volume growth.

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 on the basis of a number of factors, including brand, reputation, customer service, product offerings, incentives, pricing and other terms. Competition in credit cards is also based on merchant acceptance and the value provided to the customer by rewards programs. Many credit card issuers have instituted rewards programs that are similar to ours, and, in some cases, are 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, combined with slow economic recovery, could result in Discover being unable to grow loans, resulting in reduced revenue from its core direct 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 expenses 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 expenses in competing with other consumer financial services providers to attract and retain customers and increase usage of our products. A substantial portion of these expenses relates to marketing

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expenditures. We incurred expenses of $717 million in the 2013 calendar year and $603 million and $537 million in the 2012 and 2011 fiscal years, respectively, for marketing and business development. Our consumer financial services products compete primarily on the basis of 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 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. This type of competition has adversely affected credit card yields, and customers may frequently switch credit cards or transfer their balances to another card. There can be no assurance that any of the expenses we incur or incentives we offer to attempt to acquire and maintain accounts and increase usage of our products will be effective.

Furthermore, many of our competitors are larger than we are, have greater financial resources than we do, have more breadth in consumer banking products, and/or have lower funding and operating costs than we have and expect to have, and have assets such as branch locations and co-brand relationships, that may help them compete more effectively. 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 expenses directly affect our earnings results. Many factors can influence the amount of our expenses, as well as how quickly they may increase. Our ongoing investments in infrastructure, which may be necessary to maintain a competitive business, integrate newly-acquired businesses, and establish scalable operations, may increase our expenses. In addition, as our business develops, changes or expands, additional expenses 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 integration of newly-acquired businesses. If we are unable to successfully manage our expenses, our financial results will be negatively affected.

We face competition from other operators of payment networks and alternative payment providers, and we may not be able to compete effectively, which 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.

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. Competition with other operators of payment networks is generally based on issuer fees, fees paid to networks (including switch fees), merchant acceptance, network functionality and other economic terms. Competition also is based on customer perception of service quality, brand image, reputation and market share. Further, we are facing increased competition from alternative payment providers, who may create innovative network arrangements with our primary competitors 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 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 have been in existence for more than 40 years and 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 credit 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 Network and may cause merchant acceptance to decrease. This, in turn, could adversely affect our ability to attract network partners and our ability to maintain or grow revenues from our proprietary network. In addition, competitor's settlements with merchants and related actions, including pricing pressures and/or surcharging, could negatively impact our business practices. The Reform Act, which gives merchants control of the routing of debit transactions, has

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influenced the competitive environment for the PULSE network. For more information, see the risk factor above addressing legislative and regulatory reforms related to the debit card market.

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. Additionally, competitors may develop data security solutions which, as a consequence of the competitors' market power, we may be forced to use. As a result, those competitors could subject the company to adverse restrictions and our business may be adversely affected.

Our business depends upon relationships with issuers, merchant acquirers and licensees, which are generally 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. In the fourth quarter of 2013, we received notice that certain contracts related to one third-party issuing relationship will be terminated, effective mid-2014. This loss will have a meaningful impact on our network partners volume and payment services segment profits, but we do not anticipate it to be material to our overall profitability.

If we are unsuccessful in maintaining the Diners Club network and achieving full card acceptance across our networks, we may be unable to sustain and grow our international network business.

In 2008, we acquired the Diners Club network, brand, trademarks, employees, and license agreements. We have made significant progress toward, but have not completed, achieving full card acceptance across the Diners Club network, the Discover Network and PULSE. This would allow Discover customers to use their cards at merchant and ATM locations that accept Diners Club cards around the world and would allow Diners Club customers to use their cards on the Discover Network in North America and on the PULSE network both domestically and internationally.

The Diners Club business also depends upon our ability to maintain the full operability of the Diners Club network for existing Diners Club cardholders, network licensees and merchants. Citigroup continues to own and operate network licensees generating a significant share of the Diners Club network sales volume. Citigroup has been reducing assets outside its core businesses, including certain Diners Club businesses, by selling its ownership interest. If Citigroup were to discontinue its support of a significant number of, or key, Diners Club network licensees, we may face difficulty maintaining and growing our international network. This could adversely affect the acceptance of Discover cards when they are used outside of North America.

The Diners Club business depends upon the cooperation and support 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, Diners Club does not issue cards or determine the terms and conditions of cards issued by the network licensees, with the exception of the Diners Club Italy issuing business, which we acquired in the second quarter. This is the responsibility of each licensee. Further, unlike the Discover Network, we have only a small number of direct merchant and direct merchant acquiring relationships in the Diners Club network. Instead, we rely on network licensees located outside the United States to help us sustain and grow our international business. As a result of a number of factors, including any difficulties in achieving full card acceptance across our networks, network licensees may choose not to renew the license agreements with us when their terms expire. In addition, the increasingly competitive marketplace for cross-border issuance and acceptance of credit cards may result in lower participation fees for the Diners Club network. Many of the merchants in the acceptance network, primarily small and mid-size merchants, may not be contractually committed to the network licensees for any period of time and may cease to participate in the Diners Club network at any time on short notice. 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. Interruption of these relationships might also have an adverse effect on the acceptance of Discover cards when they are used on the Diners Club network outside of North America.

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We depend on the continuous operation of our licensees. 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. As previously disclosed, we have been working with our European Diners Club licensees with regard to their ability to maintain financing sufficient to support business operations. For example, we acquired Diners Club Italy and we provided financial assistance to facilitate the purchase of our Slovenian licensee by a European bank. These transactions resulted in a charge to earnings of approximately $40 million in the second quarter of 2013. Certain other Diners Club licensees continue to face financial difficulties, due in large part to the challenging European credit market. Going forward, we may provide other forms of support, which may include additional loans, facilitating transfer of ownership, or acquiring assets or licensees, which may cause us to incur additional losses.

We rely upon numerous other network partners for merchant acceptance for existing Diners Club customers. We completed rerouting merchant transactions for foreign Diners Club cards transacting in North America from the MasterCard acceptance network to the Discover Network in 2011. If we are unable to continue to offer acceptable North American merchant acceptance to Diners Club customers, we may experience decreased transaction volume, which would reduce our revenues. Also, as we have nonamortizable intangible assets that resulted from the purchase of Diners Club, if we are unable to maintain or increase revenues due to the reasons described above, we may be exposed to an impairment loss that, when recognized, could have a material adverse impact on our consolidated financial condition and results of operations. The long-term success of our acquisition of Diners Club depends upon achieving full card acceptance across our networks, which could include higher overall costs or longer timeframes than anticipated. If we are unable to successfully achieve full card acceptance across our networks, we may be unable to achieve the synergies we anticipate and to grow our business internationally.

The success of our student loan strategy depends upon our ability to manage the risks of our student loan portfolio and the student lending environment. If we fail to do so, we may be unable to sustain and grow our student loan portfolio.

In December 2010, we purchased The Student Loan Corporation and, in September 2011, we purchased additional private student loans from Citibank. The acquisitions significantly increased the size of our private student loan portfolio, which has grown from $1.0 billion at November 30, 2010 to $7.3 billion at November 30, 2011 to $7.8 billion at December 31, 2012 and $8.1 billion at December 31, 2013. The long-term success of our student loan strategy depends upon our ability to manage the credit risk, pricing, funding, operations and expenses of a larger student loan portfolio, as well as grow student loan originations. Our student loan strategy is also impacted by external factors such as a poor economic environment, a challenging regulatory environment and a competitive marketplace. The CFPB is currently investigating certain student loan servicing practices of Discover Bank. See Note 20: Litigation and Regulatory Matters to our consolidated financial statements for more information. Slow economic recovery combined with government and regulatory focus on student lending and competitive factors, such as the need to offer fixed interest rates, may present challenges to managing and growing our private student loan business in the future, and could cause us to restructure our private student loan product in ways that 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 success of our mortgage business acquisition depends upon our ability to maintain the operations, integrate and manage the risks of this business, and to successfully market, originate and sell mortgage loans. If we are unable to do so, the profitability of our mortgage business would be adversely affected.

In June 2012, we purchased, through our subsidiary Discover Home Loans, substantially all of the operating and related assets of Home Loan Center, a subsidiary of Tree.com, adding a residential mortgage component to our direct banking business. We are now originating residential mortgages for sale in the secondary mortgage markets on a servicing-released basis. As we continue to integrate this new business, we could experience operational interruptions that could damage relationships with customers, vendors and secondary market investors, any or all of which could negatively impact our business and results of operations. Additionally, if we are unable to retain employees, especially those in key management positions, our business and results of operations could be negatively affected.

The long-term success of our mortgage business depends upon our ability to market, originate, fund and sell Discover mortgage loans. Our mortgage loan origination volume will be largely dependent on our ability to offer competitively priced, desirable loan products under the Discover brand and our ability to attract qualified prospective borrowers. Consumers may be hesitant to originate a mortgage with us due to our recent entry into the industry. Our origination volumes also may be affected by certain external factors outside our control, including adverse economic conditions, such as higher long-term interest rates, high unemployment and depressed housing values, which may result in some consumers delaying new home purchases or refinances. We expect refinance mortgage loan volume to continue to comprise a substantial, but decreasing percentage of overall mortgage loan volume for our business in the near term. In 2013, mortgage rates rose sharply, which has led to a significant decrease in refinance activity within the mortgage industry. This puts pressure on our business to continue to develop our purchase mortgage capability to replace some of the lost refinance volume. Historically, direct-to-consumer businesses have been more successful in the refinance business and less successful in the purchase market, and there is a risk that we will not be successful in developing a scalable direct-to-consumer purchase mortgage origination business. An inability to attract customers in the purchase market would lead to fewer loan originations, which would adversely affect our ability to grow the business and would result in reduced earnings.

We use third parties to assist us in attracting prospective mortgage borrowers, and our origination volumes may be affected by their ability to successfully attract such borrowers and provide leads to us. We purchase leads from Tree.com pursuant to an agreement related to the acquisition of the Home Loan Center business, which expires this year. If the volume of leads available for us to purchase from Tree.com were significantly reduced and we could not substitute with purchases from other market providers, our origination volume may be negatively impacted, which would adversely affect our results of operations.

Our success also will depend upon relationships with financial intermediaries, including secondary market purchasers, to which we expect to sell eligible mortgages on a servicing-released basis, and our warehouse lender, which provides funding from the time we fund a customer's mortgage until it is sold to a secondary market purchaser. The secondary mortgage markets, as well as the availability of mortgage financing, have experienced disruptions resulting from reduced investor demand for mortgage loans (including the government-sponsored enterprises, Fannie Mae and Freddie Mac) and mortgage-backed securities and increased investor yield requirements for those loans and securities. Most of the market liquidity in the mortgage industry is provided, either directly or indirectly, by government sponsored entities or government agencies. Any attempts to shift market liquidity to private capital sources could impose risk to the mortgage industry to the extent that changes reduce the capacity of available funding. In addition, our recent entry into the mortgage industry, as well as continued concern about the stability of the housing market and the strength of counterparties generally, could result in fewer opportunities to sell our loans in the secondary market and servicing rights on attractive terms. If we are unable to sell our loans in the secondary market or are unable to sell servicing, we could incur additional credit risk and losses. If we are unable to retain the warehouse facility we use to fund our mortgage originations or if the costs associated therewith become unattractive, funding costs and liquidity could be adversely impacted. Furthermore, when we sell the rights to service loans we originate, we expose ourselves to the risk that borrowers will be dissatisfied with their experience with the servicer and will attribute that dissatisfaction to us.

We employ various economic hedging strategies in an attempt to mitigate the interest rate risk and other risks inherent in a mortgage loan commitment. Our hedging activities include entering into derivative instruments. Poorly designed strategies or improperly executed transactions could fail to mitigate our risks and losses, or even increase our risks and losses beyond what they would have been had we not used such hedging strategies.

The mortgage industry is under scrutiny from regulatory agencies, legislation regarding the secondary mortgage market is under consideration by Congress, and our mortgage business is subject to examination and supervision by state mortgage regulatory agencies, as well as the CFPB, the Federal Reserve and other federal agencies, as further described in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments." We may incur substantial cost in preparing for and responding to regulatory examinations and investigations. Failure to comply with applicable laws and regulatory requirements may result in, among other things, suspension or revocation of, or inability to renew, required licenses or registrations, loss of approval status, administrative enforcement actions and fines, refunds or restitution to borrowers, inability to enforce loans we make, loan repurchase or indemnification obligations, private lawsuits, class actions, cease and desist orders, civil and criminal liability, an inability to maintain or enter into new arrangements with secondary mortgage market purchasers or warehouse lenders and reputational risk. Further, the Reform Act and regulatory scrutiny have led to new regulations and regulatory guidance impacting the mortgage industry, and may lead to additional regulations and guidance in the future, which may impact the financial results and prospects for our mortgage business. For example, recent regulatory changes capping points and fees on certain types of mortgages may reduce our origination volume. The long-term success of our mortgage business depends upon our ability to manage our expenses and risks. If we are unable to build scale as planned, we may face difficulty maintaining profitability. We may also incur additional expenses and risks if we are unable to successfully address and manage the regulatory and counterparty risks described above or the potential effects of government involvement in the mortgage industry.

We may experience unanticipated losses as a result of mortgage loan repurchase and indemnification obligations under agreements with secondary market purchasers.

We may be required to repurchase mortgage loans that have been sold to secondary market purchasers in the event there are breaches of certain representations and warranties contained within the sales agreements, such as improper underwriting, fraud, or other origination defects. We also may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, and the amount of such losses could exceed the repurchase amount of the related loans. In connection with the sale of loans to certain secondary market purchasers, we also expect to refund premiums paid by secondary market purchasers in instances where the borrower prepays the loan within a specified period of time. We would need to find alternative purchasers for, or arrange with a third party to service, any loans that we are unable to sell or are required to repurchase.

Consequently, we are exposed to credit risk, and potentially funding risk, associated with sold loans due to the risk we may be required to repurchase these loans. We establish reserves in our consolidated financial statements for potential losses related to the risk of having to repurchase mortgage loans we have sold. The adequacy of the reserves and the ultimate amount of losses incurred will depend on, among other things, the actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rate of claimants, actual recoveries on the collateral and macroeconomic conditions. Adverse macroeconomic conditions, including high unemployment and depressed housing values, have resulted in missed mortgage payments and foreclosures, negatively impacting the credit performance of mortgages. While the U.S. housing market has experienced some price appreciation in 2013, the increases have been uneven and have not returned to pre-recession levels. A worsening of these conditions would likely exacerbate the adverse effects of these market conditions on the credit performance of mortgages in general. Due to uncertainties relating to these factors, the reserves we establish may not be adequate and losses incurred could adversely affect our financial condition and results of operations.

Credit, Market and Liquidity Risk

Our business depends on our ability to manage our credit risk, and failing to manage this risk successfully may result in high charge-off rates, which would materially adversely affect our business, profitability and financial condition.

Our success depends on our ability to manage our credit risk while attracting new customers with profitable usage patterns. We select our customers, manage their accounts and establish terms and credit limits using proprietary scoring models and other analytical techniques that are 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 we may incorrectly interpret the data produced by these models in setting our credit policies.

Our ability to manage credit risk and avoid high charge-off rates may be adversely affected by economic conditions that may be difficult to predict, such as the recent financial crisis. We believe that we are experiencing generally historical lows in our delinquency and charge-off rates and that these rates will be increasing over time. In addition, if economic conditions worsen, these rates may increase more than expected. The full-year net charge-off rate was 1.98% in the 2013 calendar year, down from the full-year net charge-off rate of 2.29% and 3.97% in the 2012 and 2011 fiscal years, respectively. At December 31, 2013 and 2012, and November 30, 2011, $634 million, or 0.96%, $615 million, or 0.98% and $718 million, or 1.25%, respectively, of our loan receivables were non-performing (defined as loans over 90 days delinquent and accruing interest plus loans not accruing interest). We remain subject to conditions in the consumer credit environment. 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 loan losses will be sufficient to cover actual losses.

A customer's ability to repay us can be negatively impacted by increases in their payment obligations to other lenders under mortgage, credit card and other consumer loans. Such changes can result from increases in base lending rates or structured increases in payment obligations, and could reduce the ability of our customers to meet their payment obligations to other lenders and to us. In addition, a customer's ability to repay us can be negatively impacted by the restricted availability of credit to consumers generally, including reduced and closed lines of credit. Customers with insufficient cash flow to fund daily living expenses and lack of access to other sources of credit may be more likely to increase their card usage and ultimately default on their payment obligations to us, resulting in higher credit losses in our portfolio. Our collection operations may not compete effectively to secure more of customers' diminished cash flow than our competitors. In addition, we may not identify customers who are likely to default on their payment obligations to us quickly 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 bankruptcy laws, minimum payment regulations and re-age guidance), competitors' actions and consumer behavior, as well as inadequate collections staffing, techniques, models and performance of vendors such as collection agencies.

We continue to expand our marketing of our personal, private student loan and home loan products, including the launch of a new home equity loan product in late 2013. Our personal and private student loan portfolios grew to $4.2 billion and $8.1 billion, respectively, at December 31, 2013, compared to $3.3 billion and $7.8 billion, respectively, at December 31, 2012, and $2.6 billion and $7.3 billion, respectively, at November 30, 2011. We have less experience in these areas as compared to our traditional credit card lending business, and there can be no assurance that we will be able to grow these products in accordance with our strategies, manage our credit and other risks associated with these products, or generate sufficient revenue to cover our expenses in these markets. Our failure to manage our credit and other risks may materially adversely affect our profitability and our ability to grow these products, limiting our ability to further diversify our 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 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 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 and limit financial flexibility, or we may be too illiquid, which could result in financial distress during a liquidity stress event. Our liquidity portfolio had a balance of approximately $11.1 billion as of December 31, 2013, compared to $8.3 billion as of December 31, 2012 and $8.5 billion as of November 30, 2011. Our total contingent liquidity sources as of December 31, 2013 amounted to $32.6 billion (consisting of $11.1 billion in our liquidity portfolio, $14.5 billion in incremental Federal Reserve discount window capacity, and $7.0 billion of undrawn capacity in private securitizations), compared to $25.6 billion at December 31, 2012 and $26.2 billion at November 30, 2011.

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, such as the volatility experienced in the capital and credit markets during the financial crisis, may limit our ability to repay or replace maturing liabilities in a timely manner. As such, we may be forced to delay raising funding or be forced to issue or raise funding at undesirable terms and/or costs, which could decrease profitability and significantly reduce financial flexibility. Regulations such as the liquidity coverage ratio (LCR), as part of the Basel III accord, may increase pricing and impact funding availability and are described more fully in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments." 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.

While market conditions have stabilized and, in many cases, improved, there can be no assurance that significant disruption and volatility in the financial markets will not occur in the future. For example, recent concerns regarding U.S. debt and budget matters have caused uncertainty in U.S. financial markets. A failure to raise the U.S. debt limit and/or a downgrade of U.S. debt ratings in the future could, in addition to causing economic and financial market disruptions, materially adversely affect the market value of the U.S. government and U.S. agency securities that we hold. Further, a collapse of a financial institution or a downgrade in the debt ratings of another country of systemic importance can have repercussions across the global financial system, negatively impacting the U.S. economy, Discover and Discover's customers. 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 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, operating results, financial results and 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.

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 $28.4 billion in deposits acquired directly or through affinity relationships and $16.4 billion in deposits originated through securities brokerage firms as of December 31, 2013, compared to $28 billion and $14.1 billion, respectively, as of December 31, 2012 and $26.2 billion and $13.3 billion, respectively, as of November 30, 2011. Competition from other financial services firms that use deposit funding and the rates and services we offer on our deposit products 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 factors, including factors beyond our control, such as perceptions about our financial strength, quality of deposit servicing or online banking generally, which could reduce the number of consumers choosing to make deposits with us, third parties continuing or entering into affinity relationships with us, or third-party securities brokerage firms offering our deposit products.

Our ability to obtain deposit funding and offer competitive interest rates on deposits is also dependent on capital levels of our bank subsidiaries. The Federal Deposit Insurance Act (the "FDIA") prohibits insured banks, including our subsidiary Discover Bank, from accepting brokered deposits (as defined in the FDIA) or offering interest rates on any deposits significantly higher than the prevailing rate in its normal market area or nationally (depending upon where the deposits are solicited), unless (1) it is "well-capitalized" or (2) it is "adequately capitalized" and receives a waiver from the FDIC. A bank that is "adequately capitalized" may not pay an interest rate on any deposit, including direct-to-consumer deposits, in excess of 75 basis points over the national rate published by the FDIC. There are no such restrictions on a bank that is "well-capitalized." As of December 31, 2013, we had brokered deposits (as defined in the FDIA) of $16.4 billion. While Discover Bank met the FDIC's definition of “well-capitalized” as of December 31, 2013, there can be no assurance that it will continue to meet this definition. For a comparison of Discover Bank's capital ratios to the “well-capitalized” capital requirements, see Note 18: Capital Adequacy to our consolidated financial statements. 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 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, which involves the transfer of receivables to a trust and the issuance by the trust of beneficial interests to third-party investors, as a significant source of funding. Our average level of credit card securitized borrowings from third parties was $14.3 billion for the 2013 calendar year and $14.6 billion and $13.5 billion for the 2012 and 2011 fiscal years, respectively. Although the securitization market for credit cards has been re-established since the financial crisis, there can be no assurance that there will not be future disruptions in the market. 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 maintain the ratings of asset-backed securities issued by our trusts, it could limit our ability to access the securitization markets. Additional factors affecting the extent to which we will securitize our credit card receivables in the future include the overall credit quality of our receivables, the costs of securitizing our receivables, and the legal, regulatory, accounting and tax requirements governing securitization transactions. For example, the Basel Committee on Banking Supervision recently proposed changes to the rules for banks’ calculation of credit risk capital requirements for exposures to securitization transactions. The timing and impact of these proposed rules are unclear at this time, but they could impact the pricing and/or volume of our asset-backed securities issuances. A prolonged inability to securitize our credit card receivables, or an increase in the costs of such issuances, may have a material adverse effect on our liquidity, cost of funds and overall financial condition.

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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 in our credit card securitization trusts would materially adversely affect our liquidity.

Our liquidity would be materially adversely affected by the occurrence of events that could result in the early amortization of our existing credit card securitization transactions. Credit card securitizations are normally structured as "revolving transactions" that do not distribute to securitization investors their share of monthly principal payments on the receivables during the revolving period, and instead use those principal payments to fund the purchase of new receivables. The occurrence of "early amortization events" may result in termination of the revolving periods 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. Our average level of credit card securitized borrowings was $14.3 billion for the 2013 calendar year and $14.6 billion and $13.5 billion for the 2012 and 2011 fiscal years, respectively. Early amortization events include, for example, insufficient cash flows in the securitized pool of 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. For more information on excess spread, see Note 6: Credit Card and 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.

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, including reaffirmation from each of the rating agencies of the security's required rating. Historically, we have exercised this option to shorten the accumulation period to one month prior to maturity. If we were to determine that the payment rate on the underlying receivables would not support a one-month accumulation period, or if one or more of the rating agencies were to require an accumulation period of longer than one month, we would need to begin accumulating principal cash flows earlier than we have historically. A lengthening of the accumulation period would 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 securities could materially adversely affect our business and financial condition.

We, along with Discover Bank, are regularly evaluated by the ratings agencies, and 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, including our financial strength as well as factors that may not be within our control. The credit ratings of the securities issued by our securitization trusts are regularly evaluated by the rating agencies. The ratings of our asset-backed securities are based on a number of factors, including the quality of the underlying receivables and the credit enhancement structure of the trusts. Downgrades in our ratings or those of our trusts could 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 comprised of cash and cash equivalents and high quality, liquid investments. Our liquidity portfolio was $11.1 billion at December 31, 2013. Our investments may be adversely affected by market fluctuations including changes in interest rates, prices, prepayment rates, credit risk premiums and overall 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. Further, we may choose new investments, 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 and our interest expense to increase or decrease, as certain of our assets and liabilities carry interest rates that fluctuate with market benchmarks. External factors such as tapering of the Federal Reserve Stimulus program may cause interest rates to increase. The inability of the Federal Reserve to adjust monetary policy in a timely manner after a prolonged period of injecting liquidity into the economy could result in a steep increase in domestic inflation and a resulting need to rapidly increase interest rates. Tighter Federal Reserve monetary policy and rising interest rates would increase the cost of borrowing for consumers, businesses and governments. Higher interest rates could negatively impact Discover's customers as total debt service payments would increase, impede Discover's ability to grow its consumer lending businesses, and increase cost of funding, which would put Discover at a disadvantage as compared to competitors that have less expensive sources of funding.

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 mitigate any higher cost of funds, which could materially reduce earnings. At the same time, our variable rate loan receivables, which are based on the prime market benchmark rate, may not change at the same rate as our floating rate borrowings or may be subject to a cap, subjecting us to basis risk. The majority of our floating rate borrowings and interest rate derivatives are generally based on the one-month LIBOR rate. If the one-month LIBOR rate were to increase without a corresponding increase in the prime rate, our earnings would be negatively impacted. In addition to asset securitizations, we also utilize deposits as a significant source of funds. The majority of our existing certificates of deposit bear interest at fixed rates that do not fluctuate with market benchmarks, and we use derivative instruments to hedge the fixed rates associated with some of these certificates of deposit. However, new deposit issuances are subject to fluctuations in interest rates. Certificates of deposit we issue directly to consumers are subject to early withdrawal penalties, which may not mitigate early withdrawal behavior in a rising interest rate environment.

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. 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 loan loss provision, which could materially adversely affect our earnings.

We continually monitor interest rates and have a number of tools including composition of 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 methods 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 "Quantitative and Qualitative Disclosures About Market Risk."

We may be limited in our ability to pay dividends on and repurchase our stock.

In the 2013 calendar year, we increased our quarterly common stock dividend to $0.20 per share and repurchased approximately 5% of our outstanding common stock under our share repurchase program. 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 our results of operations, financial condition, capital levels, cash requirements, future prospects, regulatory approval and other factors. Holders of our 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, and if full dividends have not been declared and paid on all outstanding shares of preferred stock in any dividend period, no dividend may be declared or paid or set aside for payment on our common stock. Banking laws and regulations and our banking regulators may limit our ability to pay dividends and make share repurchases. For example, our ability to make capital distributions, including our ability to pay dividends or repurchase shares of our stock, is subject to the Federal Reserve's review and non-objection of our annual capital plan. In certain circumstances, we will not be able to make a capital distribution unless the Federal Reserve has approved such distribution. Further, current or future regulatory initiatives may require us to hold more capital in the future. There can be no assurance that we will declare and pay any dividends on our common stock or our preferred stock or repurchase any shares of our stock in the future.

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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 to fund dividend payments, share repurchases, payments on its obligations, including debt obligations, and to provide funding and capital as needed to its operating subsidiaries. Regulatory and other legal restrictions may limit our ability to transfer funds freely, either to or from our subsidiaries. In particular, some of our subsidiaries are subject to laws and regulations that authorize regulatory bodies to block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances. These laws, regulations and rules may hinder our ability to access funds that we may need to make payments on our obligations. Furthermore, as a bank holding company, we may become subject to a prohibition or to limitations on our ability to pay dividends or repurchase our stock as described above. The Federal Reserve and the FDIC have the authority to prohibit or to limit the payment of dividends by the banking organizations they supervise, including us and our bank subsidiaries. For more information, see "Business — Supervision and Regulation — Capital, Dividends and Share Repurchases."

Operational and Other Risk

Our framework and models for managing risks may not be effective in mitigating our risk of loss.

Our risk management framework seeks to mitigate risk and appropriately balance risk and return. We have established processes and procedures intended to identify, measure, monitor and report the types of risk to which we are subject, including credit risk, market risk, liquidity risk, operational risk, legal and compliance 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. If the models that we use to mitigate these risks are inadequate, 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 our security systems, or those of third parties, containing information about us, our customers or third parties with which we do business, are compromised, we may be subject to liability and damage to our reputation.

Our direct banking and network operations rely heavily on the secure processing, storage and transmission of confidential information about us, our customers and third parties with which we do business. Information security risks for financial institutions have increased and are continuing to increase, in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, activists, hackers and other external parties. Our technologies, systems, networks and software, and those of other financial institutions, have been and are likely to continue to be the target of cyber attacks, malicious code, computer viruses, denial of service attacks, social engineering and physical attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential customer information), account takeovers, 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 accidental technological failure. 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 security breaches or events of these types, especially because the techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources. As we rely on many third-party service providers and network participants, a security breach or cyber attack affecting one of these third parties could impact us through no fault of our own. Further, to access our products and services, our customers may use computers and mobile devices that are beyond our security control systems.

We are subject to increasingly more risk related to security systems as we increase acceptance of the Discover card internationally, expand our suite of online direct banking products, enhance our mobile payment technologies, acquire new or outsource some of our business operations, and expand our internal usage of web-based products and applications. If our security systems or those of third parties are penetrated or circumvented such that the confidentiality, integrity and availability of information about us, our customers, transactions processed on our networks 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.

We may be unable to increase or sustain Discover 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 card by our customers, including making it their primary 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 to increase card usage, or to pay the 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 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 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 cards, our ability to grow usage of Discover 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.

Our transaction volume is concentrated among large merchants, and a reduction in the number of, or rates paid by, large merchants that accept cards on the Discover Network or PULSE network could materially adversely affect our business, financial condition, results of operations and cash flows.

Discover card transaction volume was concentrated among our top 100 merchants in 2013, with our largest merchant accounting for approximately 8% of that transaction volume. Transaction volume on the PULSE network was also concentrated among the top 100 merchants in 2013, with our largest merchant accounting for approximately 17% of PULSE transaction volume. These merchants could seek to negotiate better pricing or other financial incentives by continuing to participate in the Discover Network and/or PULSE network only on the condition that we change 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. At the same time, we are subject to pricing pressure from network partners, who generally have a greater ability than merchants to negotiate higher interchange fees. 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 and 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 the Discover card to prospective new customers. Also, we may have difficulty attracting and retaining network partners if we are unable to add and 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, or rates paid by, our merchants 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 the increasing focus of merchants 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 to continued participation in the Discover Network and PULSE network. During the past few years, 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 merchants on the fees charged by credit card and debit card networks, together with the Reform Act and recent U.S. Department of Justice settlements with Visa and MasterCard, 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.

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Political, economic or other instability in a country or geographic region, or other unforeseen or catastrophic events, could adversely affect our international business activities and reduce our revenue.

Natural disasters or other catastrophic events, including terrorist attacks, may have a negative effect on our business and infrastructure, including our information technology systems. Our Diners Club network, concentrated on primarily serving the global travel industry, could be adversely affected by international conditions that may result in a decline in consumer or business travel activity. Armed conflict, public health emergencies, natural disasters or terrorism may have a significant 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 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. Our fraud losses have been increasing and we incurred losses of $110 million, $93 million and $72 million for the calendar year ended December 31, 2013 and the fiscal years ended November 30, 2012 and 2011, respectively. Credit and debit card fraud, identity theft and related crimes are prevalent and perpetrators are growing ever more sophisticated. Our resources and fraud prevention tools may be insufficient to accurately predict and prevent fraud. The risk of fraud continues to increase for the financial services industry in general. Additionally, our risk of fraud continues to increase as acceptance of the Discover card grows internationally and we expand our direct banking business. 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. 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 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.

The financial services and payment services industries experience constant and significant technological changes, such as continuing development of technologies in the areas of smart cards, radio frequency and proximity payment devices, electronic commerce and mobile commerce, among others. The effect of technological changes on our business is unpredictable. We depend, in part, on third parties for the development of and access to new technologies. We expect that new services and technologies 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 Discover both as a card issuer and to the 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.

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, and 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 attractive to consumers and merchant and financial institution customers. Also, 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 maintain new income-generating products and services, it may impact our ability to compete effectively and materially adversely affect our business and earnings.

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We rely on third parties to deliver services. If we face difficulties managing our relationships with third-party service providers, our revenue or results of operations could be materially adversely affected.

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 transportation network, and for other telecommunications, processing, remittance and technology-related services in connection with our direct 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 or compliance with applicable laws, the failure could negatively impact our business by adversely affecting our ability to process customers' transactions in a 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 materially adversely affect our revenues and/or our results of operations.

We rely on technology to deliver services. If 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 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.

Merchant defaults may adversely affect our business, financial condition, cash flows and results of operations.

As an issuer and merchant acquirer in the United States 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 later date following the purchase, such as an airline ticket, the likelihood of potential liability increases. For the calendar year ended December 31, 2013 and the fiscal years ended November 30, 2012 and 2011 losses related to merchant chargebacks were not material.

Our success is dependent, in part, upon our executive officers and other key employees. If we are unable to recruit, retain and motivate key officers and employees to manage our business well, our business could be materially adversely affected.

Our success depends, in large part, on our ability to retain, recruit and motivate key officers and employees to manage our business. Our senior management team has significant industry experience and would be 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. We may be subject to restrictions under future legislation or regulation limiting executive compensation. For example, the federal banking agencies issued guidance on incentive compensation policies at banking organizations and the Reform Act imposes additional disclosures and restrictions on compensation. These restrictions could negatively impact our ability to compete with other companies in recruiting and retaining key personnel and could impact our ability to offer incentives that motivate our key personnel to perform. If we are unable to recruit, retain and motivate key personnel to manage our business well, our business could be materially adversely affected.

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Damage to our reputation could damage our business.
Recently, financial services companies have been experiencing increased reputational risk as consumers protest and regulators scrutinize practices of such companies to maintain or increase business and revenues. Maintaining a positive reputation is critical to our 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, 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 can also cause harm to our reputation. By its very nature, social media can reach a wide audience in a very short amount of time, which makes it difficult to control the message. Negative or 'wrong' type of publicity generated through unexpected social media coverage can damage Discover's reputation and brand. Negative publicity regarding us, whether or not true, may result in customer attrition and other harm to our business prospects.
We may be unsuccessful in promoting and protecting our brands or protecting our other intellectual property, or third parties may allege that we are infringing their intellectual property rights.
The Discover, PULSE and Diners Club brands have substantial economic and goodwill 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. Our brands are licensed for use 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 do not adhere to contractual standards, engage in improper business practices, or otherwise misappropriate, use 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 ourselves, our overall business success may be adversely affected. In addition, third parties may allege that our marketing, processes or systems may infringe 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 or licensing fees, and we may have to alter our business practices.
Acquisitions or strategic investments that we pursue may not be successful and could disrupt our business, harm our financial condition or reduce our earnings.
In the past three years, Discover has been expanding its business beyond credit cards both organically and through acquisitions. We may consider or undertake additional strategic acquisitions of, or material investments in, businesses, products, portfolios of loans or technologies in the future. 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, expensive to fund and there is no guarantee that we can obtain any necessary regulatory approvals or complete the transactions on terms that are favorable to us. 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 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, and the repayment or settlement of those liabilities may have an adverse effect on our financial condition.
We may not be able to successfully integrate the personnel, operations, businesses, products, or technologies of an acquisition or investment. Integration may be particularly challenging if we enter into a line of business in which we have limited experience and the business operates 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. The integration of any acquisition or investment 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.
Acquisitions and investments also may not perform to our expectations for various reasons, including the loss of key personnel, customers or vendors. If we fail to integrate acquisitions or investments or realize the expected benefits, we may lose the return on these acquisitions or investments or incur additional transaction costs, and our business,

reputation and financial condition may be harmed as a result.

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 and consumer lending laws and regulations in all of the jurisdictions in which we operate. As a bank holding company, we are subject to oversight, regulation and examination by the Federal Reserve, including scrutiny of our risk management program; business strategy, earnings, capital and cash flow; anti-money laundering program; and examination of our non-bank businesses, including Discover Network, PULSE and Diners Club, and their relationships with our banking subsidiaries. Our banking subsidiaries are subject to regulation and regular examinations by the FDIC, the Delaware Commissioner and the CFPB. To the extent that states enact requirements that differ from federal standards or state officials and courts adopt interpretations of federal consumer laws that differ from those adopted by the CFPB, we may face increased inquiries and enforcement actions from state attorney general offices. In addition, we are subject to regulation by the Federal 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.

From time to time, these regulations and regulatory agencies have required us to alter certain of our operating practices, and may require us to do the same in the future. Our ability to execute our business strategies through acquisitions or the introduction of new products or pricing may be impaired or delayed as a result of regulatory review or failure to obtain required regulatory approvals. Various federal and state regulators have broad discretion to impose restrictions and requirements on our company, subsidiaries and operations, including restrictions on capital actions such as increasing dividends. U.S. federal laws, such as the CARD Act, and state consumer protection laws and rules, limit the manner and terms on which we may offer and extend credit. We have had class action lawsuits filed against us alleging that we have violated various federal and state laws, such as the Truth in Lending Act and the Telephone Consumer Protection Act. We are subject to capital, funding and liquidity requirements prescribed by statutes, regulations and orders, including initiatives that will require us to hold higher levels of capital to support our businesses. We also are subject to the requirements of accounting standard setters and those who interpret the accounting standards (such as the FASB, the SEC, banking regulators and our independent registered public accounting firm), who may add new requirements or change their interpretations on how standards should be applied, such as the proposed accounting standards related to calculation of loan loss reserves, potentially materially impacting how we record and report our financial condition and results of operations. Discover Bank also is subject to FDIC increases in deposit insurance assessments or additional special assessments, which could adversely affect our results of operations and financial condition. The Reform Act has removed the statutory cap for the reserve ratio, leaving the FDIC free to set a cap in the future.

In addition, regulation of the payments industry, including regulation applicable to us, merchant acquirers and our other business partners and customers, has expanded significantly in recent years and is the subject of increasing global regulatory focus, which may result in costly new compliance burdens being imposed on us and our customers and lead to increased costs and decreased payments volume and revenues. The Reform Act includes provisions governing debit and credit card network businesses. Various U.S. federal and state regulatory agencies and state legislatures have considered new legislation or regulations relating to restrictions regarding fees charged to merchants and acquirers, as well as additional charges for premium payment card transactions, and other restrictions related to identity theft, privacy, data security and marketing that could have a direct effect on us and our merchant and financial institution customers. Internationally, we are subject to government regulation in countries in which our networks operate or our cards are used, either directly or indirectly through regulation affecting Diners Club network licensees. We, our Diners Club licensees and Diners Club customers are subject to laws and regulations that affect the payments industry in many countries in which our cards are used. We are subject to anti-corruption laws and regulations, including the U.S. Foreign Corrupt Practices Act and other laws, that prohibit the making or offering of improper payments.

Failure to comply with laws and regulations could lead to adverse consequences such as financial, structural, reputational and operational penalties, including receivership, litigation exposure and fines (as described further below). Failure to comply with anti-corruption and other laws can expose us and/or individual employees to potentially severe criminal and civil penalties. Legislative and regulatory changes could impact the profitability of our business activities, require us to limit or change our business practices or our product offerings, and 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 larger, more diversified competitors. For additional recent legislative and regulatory developments that may affect our business, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Environment and Developments."

Current and proposed regulation addressing consumer privacy and data use and security could inhibit the number of payment cards issued and increase our costs.

Regulatory pronouncements relating to consumer privacy, data use and security affect our business. In the United States, we are subject to a number of laws concerning consumer privacy and data use and security. We are subject to the Federal Trade Commission's and the banking regulators' information safeguard rules under the Gramm-Leach-Bliley Act. The rules require that financial institutions (including us) develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution's size and complexity, the nature and scope of the financial institution's activities, and the sensitivity of any customer information at issue. The United States has experienced a heightened legislative and regulatory focus on privacy and data security, including requiring consumer notification in the event of a data breach. In addition, most states have enacted security breach legislation requiring varying levels of consumer notification in the event of certain types of security breaches, and several other states are considering similar legislation.

Regulation of privacy, data use and security may cause an increase in the costs to issue payment cards and/or may decrease the number of our cards that we or third parties issue. New regulations in these areas also may increase our costs to comply with such regulations, which could negatively impact our earnings. 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, could result in 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.

In 2013, and at the beginning of 2014, various reports were issued by several major retailers with respect to unauthorized access to payment card and other data of millions of customers. As a result, members of Congress and state legislators have expressed an interest in investigating the incident and possibly enacting legislation to address future data security breaches. These recent developments could result in the imposition of requirements on Discover or other card issuers or networks that could increase costs or adversely affect the competitiveness of our credit card or debit card products. It is too early to know the final form any such legislation would take, if any such legislation will become law, or the impact such law would have on Discover.

Litigation and regulatory actions could subject us to significant fines, penalties and/or requirements resulting in increased expenses.

Businesses in the credit card industry have historically been subject to significant legal actions, including class action lawsuits and commercial, shareholder and patent litigation. Many of these actions have included claims for substantial compensatory, statutory or punitive damages. While we have historically relied on our arbitration clause in agreements with customers to limit our exposure to consumer class action litigation, there can be no assurance that we will continue to be successful in enforcing our arbitration clause in the future. Legal challenges to the enforceability of these clauses have led most card issuers, and may cause us, to discontinue their use. There have been bills pending in Congress to directly or indirectly prohibit the use of pre-dispute arbitration clauses. Also, the Reform Act authorized the CFPB to conduct a study on pre-dispute arbitration clauses and, based on the study, potentially limit or ban arbitration clauses. A preliminary report on arbitration agreements issued by the CFPB expressed concerns about these agreements that may signal the agency is contemplating taking such steps. Further, we are involved in pending legal actions challenging our arbitration clause. In addition, we have been and may again be involved in various actions or proceedings brought by governmental regulatory agencies, which could harm our reputation, require us to limit our business activities and product offerings, or subject us to significant fines, penalties, customer restitution or other requirements, resulting in increased expenses. See Note 20: Litigation and Regulatory Matters to our consolidated financial statements for more information.

Special Note Regarding Forward-Looking Statements

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" 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

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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 financial regulatory reform, consumer financial services practices, anti-corruption and funding, capital and liquidity;
- the actions and initiatives of current and potential competitors;
- our ability to manage our expenses;
- our ability to successfully achieve full card acceptance across our networks and maintain relationships with network participants;
- our ability to sustain and grow our private student loan and mortgage loan products;
- our ability to manage our credit risk, market risk, liquidity risk, operational risk, legal and compliance risk, and strategic risk;
- the availability and cost of funding and capital;
- access to deposit, securitization, equity, debt and credit markets;
- losses as a result of mortgage loan repurchase and indemnification obligations to secondary market purchasers;
- 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;
- losses in our investment portfolio;
- 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 key systems;
- our ability to increase or sustain Discover card usage or attract new customers;
- our ability to maintain relationships with merchants;
- the effect of political, economic and market conditions, geopolitical events and unforeseen or catastrophic events;
- our ability to introduce new products or services;
- our ability to manage our relationships with third-party vendors;
- our ability to maintain current technology and integrate new and acquired systems;
- 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;
- difficulty obtaining regulatory approval for, financing, closing, transitioning, integrating or managing the expenses of acquisitions of or investments in new businesses, products or technologies; and
- new lawsuits, investigations or similar matters or unanticipated developments related to current matters.

We routinely evaluate and may pursue acquisitions of or investments in businesses, products, technologies, loan portfolios or deposits, which may involve payment in cash or our debt or equity securities.

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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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We have ten principal properties located in nine states in the United States. As of January 31, 2014, we owned four principal properties, which included our corporate headquarters, two call centers and a processing center, and we leased six principal properties, which included two call centers, our PULSE headquarters, two Discover Home Loans offices and a Student Loan Corporation office. The call centers, processing center and Student Loan Corporation offices largely support our Direct Banking segment; the PULSE headquarters is used by our Payment Services segment; the Discover Home Loans offices support our mortgage business; and our corporate headquarters is used by both our Direct Banking and Payment Services segments. Each of our call centers and our processing center are operating at and being utilized to a reasonable capacity. We believe our principal facilities are both suitable and adequate to meet our current and projected needs. We also have ten leased offices, seven of which are located outside the United States, that are used to support our Diners Club operations, and one leased office that supports our Direct Banking segment.

Item 3. Legal Proceedings

For a description of legal proceedings, see Note 20: Litigation and Regulatory Matters to our consolidated financial statements.

Item 4. Mine Safety Disclosures

None.

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Part II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Market Prices and Dividends

Our common stock is traded on the New York Stock Exchange ("NYSE") (ticker symbol DFS). The approximate number of record holders of our common stock as of February 14, 2014 was 63,899.

The following table sets forth the quarterly high and low sales prices of a share of our common stock as reported by the NYSE and the cash dividends we declared per share of our common stock during the quarter and one month indicated:

	Stock Price High	Low	Cash Dividends Declared
Quarter Ended:			
February 29, 2012	$30.69	$22.84	$ 0.10
May 31, 2012	$34.75	$29.62	$ 0.10
August 31, 2012	$39.23	$30.48	$ 0.10
November 30, 2012	$41.87	$37.00	$ 0.10
One Month Ended:			
December 31, 2012	$42.08	$37.36	$ 0.14
Quarter Ended:			
March 31, 2013	$45.38	$37.24	—
June 30, 2013	$49.71	$42.12	$ 0.20
September 30, 2013	$53.36	$46.93	$ 0.20
December 31, 2013	$56.20	$48.40	$ 0.20

In the one month ended December 31, 2012, we increased our common stock dividend from $0.10 per share to $0.14 per share. In the second quarter of 2013, we increased our quarterly common stock dividend from $0.14 per share to $0.20 per share and maintained a $0.20 per share dividend for each of the third and fourth quarters of 2013. Although we expect to continue our policy of paying regular cash dividends, we cannot assure that we will do so in the future. For more information, including conditions and limits on our ability to pay dividends, see "Business — Supervision and Regulation — Capital, Dividends and Share Repurchases," "Risk Factors — We may be limited in our ability to pay dividends on and repurchase our stock" and "— We are a holding company and depend on payments from our subsidiaries," "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital" and Note 18: Capital Adequacy to our consolidated financial statements.

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Issuer Purchases of Equity Securities

The table below sets forth information regarding purchases of our common stock related to our share repurchase program and employee transactions that were made by us or on our behalf during the three months ended December 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program(1)	Maximum Dollar Value of Shares that may yet be purchased under the Plans or Programs(1)
October 1 - 31, 2013				
Repurchase program(1)	2,459,378	$51.17	2,459,378	$1,551,442,150
Employee transactions(2)	1,423	$50.93	N/A	N/A
November 1 - 30, 2013				
Repurchase program(1)	2,050,225	$52.04	2,050,225	$1,444,743,151
Employee transactions(2)	2,890	$50.77	N/A	N/A
December 1 - 31, 2013				
Repurchase program(1)	2,108,112	$53.22	2,108,112	$1,332,543,673
Employee transactions(2)	82	$57.20	N/A	N/A
Total				
Repurchase program(1)	6,617,715	$52.09	6,617,715	$1,332,543,673
Employee transactions(2)	4,395	$50.94	N/A	N/A

(1) On March 14, 2013, our board of directors approved a share repurchase program authorizing the repurchase of up to $2.4 billion of our outstanding shares of common stock. This program expires on March 31, 2015 and may be terminated at any time.

(2) Reflects shares withheld (under the terms of grants under employee stock compensation plans) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock units or upon the exercise of stock options.

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Stock Performance Graph

The following graph compares the cumulative total stockholder return (rounded to the nearest whole dollar) of our common stock, the S&P 500 Stock Index and the S&P 500 Financials Index for the period from November 30, 2008 through December 31, 2013. The graph assumes an initial investment of $100 on November 30, 2008. The cumulative returns include stock price appreciation and assume full reinvestment of dividends. This graph does not forecast future performance of our common stock.

	Discover Financial Services	S&P 500 Index	S&P 500 Financials Index
November 30, 2008	$100.00	$100.00	$100.00
November 30, 2009	$152.02	$122.25	$115.93
November 30, 2010	$180.10	$131.72	$114.23
November 30, 2011	$235.27	$139.13	$101.48
November 30, 2012	$414.98	$158.01	$124.51
December 31, 2012(1)	$383.87	$159.13	$130.18
December 31, 2013	$562.15	$206.23	$173.41

(1) In 2013, the Company changed fiscal years creating a one month transition period in December 2012.

Item 6. Selected Financial Data

The following table presents our selected financial data and operating statistics. The statement of income data for the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012 and the statement of financial condition data as of December 31, 2013 and 2012 have been derived from our audited consolidated financial statements included elsewhere in this annual report on Form 10-K. The statement of financial condition data as of November 30, 2012, 2011, 2010 and 2009, and the statement of income data for the fiscal years ended November 30, 2010 and 2009 have been derived from audited consolidated financial statements not included elsewhere in this annual report on Form 10-K.

Selected financial data shown below for fiscal year ended November 30, 2009 has not been retrospectively adjusted to reflect a change in accounting principle as a result of the consolidation of the securitization trusts and therefore continues to reflect the accounting standards that were applicable during that historical period.

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Discover Financial Services
Selected Financial Data

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30, 2012	2011	2010	2009[1]	For the One Month Ended December 31, 2012
	(dollars in millions, except per share amounts)					
Statement of Income Data:						
Interest income	$7,064	$6,703	$6,345	$6,146	$3,145	$595
Interest expense	1,146	1,331	1,485	1,583	1,251	103
Net interest income	5,918	5,372	4,860	4,563	1,894	492
Other income[2]	2,306	2,281	2,205	2,095	4,840	200
Revenue net of interest expense	8,224	7,653	7,065	6,658	6,734	692
Provision for loan losses	1,086	848	1,013	3,207	2,362	178
Other expense	3,194	3,052	2,541	2,182	2,251	240
Income before income tax expense	3,944	3,753	3,511	1,269	2,121	274
Income tax expense	1,474	1,408	1,284	504	845	104
Net income[2]	$2,470	$2,345	$2,227	$765	$1,276	$170
Net income allocated to common stockholders	$2,414	$2,318	$2,202	$668	$1,207	$168
Statement of Financial Condition Data (as of):						
Loan receivables[3]	$65,771	$61,017	$57,670	$49,181	$23,625	$62,598
Total assets	$79,340	$75,283	$69,117	$61,130	$46,021	$73,491
Total stockholders' equity	$10,809	$9,778	$8,242	$6,457	$8,436	$9,873
Allowance for loan losses	$1,648	$1,725	$2,205	$3,304	$1,759	$1,788
Long-term borrowings	$20,474	$19,729	$18,287	$17,706	$2,428	$17,666
Per Share of Common Stock:						
Basic EPS from continuing operations	$4.97	$4.47	$4.06	$1.23	$2.39	$0.34
Diluted EPS from continuing operations	$4.96	$4.46	$4.06	$1.22	$2.38	$0.34
Weighted average shares outstanding (000's)	485,492	518,428	541,813	544,058	504,540	497,881
Weighted average shares outstanding (fully diluted) (000's)	486,861	519,620	542,626	548,760	507,907	498,994
Dividends declared per share of common stock	$0.60	$0.40	$0.20	$0.08	$0.12	$0.14
Common stock dividend payout ratio	12.07 %	8.95 %	4.92 %	6.52 %	5.02 %	41.48 %
Ratios:						
Return on average total equity	24 %	26 %	30 %	12 %	17 %	21 %
Return on average assets	3 %	3 %	3 %	1 %	3 %	1 %
Average stockholders' equity to average total assets	14 %	13 %	12 %	11 %	18 %	11 %

(1)

Amounts as of and for the fiscal year ended November 30, 2009 do not include securitized loans, as these loans were consolidated upon a change in accounting principal on December 1, 2009.

(2) The fiscal year ended November 30, 2009 includes $1.9 billion pretax ($1.2 billion after tax) of income related to the Visa and MasterCard antitrust litigation settlement, which is included in our Direct Banking segment. Additionally, the fiscal year ended November 30, 2009 includes $1.9 billion securitization income on a pre-FASB Statement No. 166 "Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140" and pre-FASB Statement No. 167 "Amendments to FASB Interpretation No. 46(R)" basis.

(3) In 2011 we acquired $3.1 billion of student loan receivables acquired with the SLC acquisition in December 2010 and $2.4 billion of student loan receivables acquired from Citibank, N.A. in September 2011.

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The loan receivables information shown below is provided on both a GAAP basis and a "non-GAAP as-adjusted" basis for fiscal year 2009. The non-GAAP as-adjusted basis assumes that the trusts used in our securitization activities were consolidated into our financial results. For an explanation as to why management believes that the non-GAAP as-adjusted numbers are useful to investors and for a reconciliation of these numbers, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Reconciliations of GAAP to Non-GAAP As-Adjusted Data."

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30,				For the One Month Ended December 31, 2012
		2012	2011	2010	2009[1]	
	(dollars in millions)					
Selected Statistics:						
Total Loan Receivables						
GAAP information:						
Loan receivables	$65,771	$61,017	$57,670	$49,181	$23,625	$62,598
Average loan receivables	$61,820	$58,043	$53,260	$50,203	$26,553	$61,877
Interest yield	11.28 %	11.38 %	11.78 %	12.13 %	11.31 %	11.21 %
Net principal charge-off rate	1.98 %	2.29 %	3.97 %	7.53 %	7.45 %	2.19 %
Delinquency rate (over 30 days)	1.64 %	1.75 %	2.29 %	3.87 %	4.92 %	1.69 %
Delinquency rate (over 90 days)	0.77 %	0.83 %	1.14 %	2.02 %	2.58 %	0.82 %
Non-GAAP as-adjusted information:						
Loan receivables - Non-GAAP as-adjusted	N/A	N/A	N/A	N/A	$50,854	N/A
Average loan receivables - Non-GAAP as-adjusted	N/A	N/A	N/A	N/A	$51,130	N/A
Interest yield - Non-GAAP as adjusted	N/A	N/A	N/A	N/A	12.40 %	N/A
Net principal charge-off rate - Non-GAAP as-adjusted	N/A	N/A	N/A	N/A	7.77 %	N/A
Delinquency rate (over 30 days) - Non-GAAP as-adjusted	N/A	N/A	N/A	N/A	5.31 %	N/A
Delinquency rate (over 90 days) - Non-GAAP as-adjusted	N/A	N/A	N/A	N/A	2.78 %	N/A
Total Credit Card Loan Receivables						
GAAP information						
Credit card loan receivables	$53,150	$49,642	$46,972	$45,502	$20,230	$51,135
Average credit card loan receivables	$49,816	$47,301	$45,522	$45,911	$24,267	$50,494
Interest yield	12.00 %	12.16 %	12.42 %	12.71 %	11.69 %	11.92 %
Net principal charge-off rate	2.21 %	2.62 %	4.47 %	8.02 %	7.87 %	2.47 %
Delinquency rate (over 30 days)	1.72 %	1.86 %	2.38 %	4.02 %	5.52 %	1.79 %
Delinquency rate (over 90 days)	0.84 %	0.91 %	1.19 %	2.11 %	2.92 %	0.90 %
Non-GAAP as-adjusted information:						
Credit card loan receivables - Non-GAAP as-adjusted	N/A	N/A	N/A	N/A	$47,459	N/A
Average credit card loan receivables - Non-GAAP as-adjusted	N/A	N/A	N/A	N/A	$48,844	N/A
Interest yield - Non-GAAP as-adjusted	N/A	N/A	N/A	N/A	12.63 %	N/A
Net principal charge-off rate - Non-GAAP as-adjusted	N/A	N/A	N/A	N/A	8.00 %	N/A

Delinquency rate (over 30 days) - Non-GAAP as-adjusted	N/A	N/A	N/A	N/A	5.60 %	N/A
Delinquency rate (over 90 days) - Non-GAAP as-adjusted	N/A	N/A	N/A	N/A	2.94 %	N/A
Personal loans						
GAAP information						
Personal loan receivables	$4,191	$3,272	$2,648	$1,878	$1,394	$3,296
Average personal loan receivables	$3,706	$2,944	$2,228	$1,593	$1,224	$3,290
Interest yield	12.52 %	12.35 %	11.94 %	11.41 %	11.38 %	12.43 %
Net principal charge-off rate	2.13 %	2.33 %	3.02 %	5.72 %	5.53 %	2.52 %
Delinquency rate (over 30 days)	0.70 %	0.76 %	0.87 %	1.57 %	2.17 %	0.77 %
Delinquency rate (over 90 days)	0.21 %	0.23 %	0.28 %	0.57 %	0.71 %	0.23 %
Private Student Loans (excluding PCI)						
GAAP information						
Private student loan receivables	$3,969	$3,000	$2,069	$999	$580	$3,072
Average private student loan receivables	$3,561	$2,557	$1,637	$827	$364	$3,021
Interest yield	7.07 %	7.20 %	7.04 %	5.75 %	4.73 %	7.22 %
Net principal charge-off rate	1.30 %	0.73 %	0.48 %	0.33 %	0.05 %	0.81 %
Delinquency rate (over 30 days)	1.66 %	1.07 %	0.63 %	0.50 %	0.13 %	1.22 %
Delinquency rate (over 90 days)	0.46 %	0.27 %	0.14 %	0.14 %	0.03 %	0.29 %

(1) Amounts under "GAAP information" as of and for the fiscal year ended November 30, 2009 do not include securitized loans, as these loans were consolidated upon a change in accounting principal on December 1, 2009.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this annual report on Form 10-K. Some of the information contained in this discussion and analysis constitutes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this annual report on Form 10-K particularly under "Risk Factors" and "Special Note Regarding Forward-Looking Statements," which immediately follows "Risk Factors." Unless otherwise specified, references to Notes to our consolidated financial statements are to the Notes to our audited consolidated financial statements as of December 31, 2013 and 2012 and for calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012.

Introduction and Overview

Discover Financial Services is a direct banking and payment services company. Through our Discover Bank subsidiary, we offer our customers credit card loans, private student loans, personal loans, home equity loans and deposit products. Through our Discover Home Loans, Inc. subsidiary, we offer our customers home loans. Through our DFS Services LLC subsidiary and its subsidiaries, we operate the Discover Network, the PULSE network ("PULSE") and Diners Club International ("Diners Club"). The Discover Network is a payment card transaction processing network for Discover-branded credit cards and credit, debit and prepaid cards issued by third parties, which we refer to as network partners. PULSE operates an electronic funds transfer network, providing financial institutions issuing debit cards on the PULSE network with access to ATMs domestically and internationally, as well as point-of-sale terminals at retail locations throughout the U.S. for debit card transactions. Diners Club is a global payments network of licensees, which are generally financial institutions, that issue Diners Club branded credit cards and/or provide card acceptance services.

Our primary revenues consist of interest income earned on loan receivables and fees earned from customers, merchants and issuers. The primary expenses required to operate our business include funding costs (interest expense), loan loss provisions, customer rewards, and expenses incurred to grow, manage and service our loan receivables and networks. Our business activities are funded primarily through consumer deposits, securitization of loan receivables and the issuance of unsecured debt.

Change in Fiscal Year

On December 3, 2012, our board of directors approved a change in our fiscal year end from November 30 to December 31 of each year. This fiscal year change was effective January 1, 2013. As a result of the change, we had a one month transition period in December 2012. The audited results for the one month ended December 31, 2012 and the unaudited results for the one month ended December 31, 2011 are included in this report.

Change in Accounting Principle Related to Off-Balance Sheet Securitizations

Beginning with the first quarter of 2010, we have included the trusts used in our securitization activities in our consolidated financial results in accordance with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140 ("Statement No. 166") (codified under the FASB Accounting Standards Codification ("ASC") Topic 860, Transfers and Servicing) and Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretations No. 46(R) ("Statement No. 167") (codified under ASC Topic 810, Consolidation), which were effective for us on December 1, 2009, the beginning of our 2010 fiscal year.

Under Statement No. 166, the trusts used in our securitization transactions are no longer exempt from consolidation. Statement No. 167 prescribes an ongoing assessment of our involvement in the activities of the trusts and our rights or obligations to receive benefits or absorb losses of the trusts that could be potentially significant in order to determine whether those entities will be required to be consolidated in our financial statements. Based on our assessment, we concluded that we are the primary beneficiary of the Discover Card Master Trust I ("DCMT") and the Discover Card Execution Note Trust ("DCENT") (the "trusts") and accordingly, we began consolidating the trusts on December 1, 2009. Using the carrying amounts of the trust assets and liabilities as prescribed by Statement No. 167, we recorded a $21.1 billion increase in total assets, a $22.4 billion increase in total liabilities and a $1.3 billion decrease in stockholders' equity (comprised of a $1.4 billion decrease in retained earnings offset by an increase of

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$0.1 billion in accumulated other comprehensive income). The significant adjustments to our statement of financial condition upon adoption of Statements No. 166 and 167 are outlined below:

- Consolidation of $22.3 billion of securitized loan receivables and the related debt issued from the trusts to third-party investors;
- Reclassification of $4.6 billion of certificated retained interests classified as investment securities to loan receivables;
- Recording of a $2.1 billion allowance for loan losses, not previously required under GAAP, for the newly consolidated and reclassified credit card loan receivables;
- Derecognition of the remaining $0.1 billion value of the interest-only strip receivable, net of tax, recorded in amounts due from asset securitization and reclassification of the remaining $1.6 billion of amounts due from asset securitization to restricted cash, loan receivables and other assets; and
- Recording of net deferred tax assets of $0.8 billion, largely related to establishing an allowance for loan losses on the newly consolidated and reclassified credit card loan receivables.

Beginning with the first quarter of 2010, our results of operations no longer reflect securitization income, but instead report interest income, net charge-offs and certain other income associated with all securitized loan receivables and interest expense associated with debt issued from the trusts to third-party investors in the same line items in our results of operations as non-securitized credit card loan receivables and corporate debt. Additionally, we no longer record initial gains on new securitization activity since securitized credit card loans no longer receive sale accounting treatment. Also, there are no gains or losses on the revaluation of the interest-only strip receivable as that asset is not recognizable in a transaction accounted for as a secured borrowing. Because our securitization transactions are being accounted for under the new accounting rules as secured borrowings rather than asset sales, the cash flows from these transactions are presented as cash flows from financing activities rather than as cash flows from operating or investing activities. Notwithstanding this accounting treatment, our securitizations are structured to legally isolate the receivables from Discover Bank, and we would not expect to be able to access the assets of our securitization trusts, even in insolvency, receivership or conservatorship proceedings. We do, however, continue to have the rights associated with our retained interests in the assets of these trusts.

Reconciliations of GAAP to Non-GAAP As-Adjusted Data

To enable the reader to better understand our financial information by reflecting period-over-period data on a consistent basis, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report presents our financial information as of December 31, 2013 and 2012 and for calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012. Where necessary, we have also provided certain information as of and for the fiscal year ended November 30, 2009 on a non-GAAP as-adjusted basis. Management believes the non-GAAP as-adjusted financial information is useful to investors as it aligns with the financial information used in management's decision-making process and in evaluating the business.

The non-GAAP as-adjusted amounts related to Statement No. 167 show how our financial data would have been presented if the trusts used in our securitization activities were consolidated into our financial statements for historical periods prior to fiscal year 2010.

The following tables display a reconciliation between GAAP and non-GAAP as-adjusted amounts that reflect the full impact the consolidation of our trusts would have had if we had adopted Statement No. 167 retrospectively.

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Loan Receivables Data and Reconciliation
(dollars in millions)

	As of and for the Fiscal Year Ended November 30, 2009
Total Loan Receivables	
Loan portfolio	
GAAP	$23,625
Adjustments for Statement No. 167	27,229
Non-GAAP As-Adjusted	$50,854
Loan receivables	
GAAP	$23,625
Adjustments for Statement No. 167	27,229
Non-GAAP As-Adjusted	$50,854
Allowance for loan losses (beginning of period)	
GAAP	$1,375
Adjustments for Statement No. 167	1,379
Non-GAAP As-Adjusted	$2,754
Provision for loan losses	
GAAP	$2,362
Adjustments for Statement No. 167	2,761
Non-GAAP As-Adjusted	$5,123
Charge-offs	
GAAP	$(2,166)
Adjustments for Statement No. 167	(2,208)
Non-GAAP As-Adjusted	$(4,374)
Recoveries	
GAAP	$187
Adjustments for Statement No. 167	212
Non-GAAP As-Adjusted	$399
Net charge-offs	
GAAP	$(1,979)
Adjustments for Statement No. 167	(1,996)
Non-GAAP As-Adjusted	$(3,975)
Allowance for loan losses (end of period)	
GAAP	$1,758
Adjustments for Statement No. 167	2,144
Non-GAAP As-Adjusted	$3,902
Net charge-offs %	
GAAP	7.45%

Adjustments for Statement No. 167	0.32	
Non-GAAP As-Adjusted	7.77	%

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	As of and for the Fiscal Year Ended November 30, 2009	
Total Loan Receivables (continued)		
Loans not accruing interest		
GAAP	$190	
Adjustments for Statement No. 167	248	
Non-GAAP As-Adjusted	$438	
Delinquency rate (Over 30 Days)		
GAAP	4.92	%
Adjustments for Statement No. 167	0.39	
Non-GAAP As-Adjusted	5.31	%
Delinquency rate (Over 90 Days)		
GAAP	2.58	%
Adjustments for Statement No. 167	0.20	
Non-GAAP As-Adjusted	2.78	%
Delinquency rate (Loans not accruing interest)		
GAAP	0.80	%
Adjustments for Statement No. 167	0.06	
Non-GAAP As-Adjusted	0.86	%
Discover Card		
Total Discover Card Loans		
GAAP	$19,826	
Adjustments for Statement No. 167	27,229	
Non-GAAP As-Adjusted	$47,055	
Total Credit Card Loans		
Loan receivables		
GAAP	$20,230	
Adjustments for Statement No. 167	27,229	
Non-GAAP As-Adjusted	$47,459	

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	As of and for the Fiscal Year Ended November 30, 2009	
Total Credit Card Loans (continued)		
Allowance for loan losses (beginning of period)		
GAAP	$1,318	
Adjustments for Statement No. 167	1,379	
Non-GAAP As-Adjusted	$2,697	
Charge-offs		
GAAP	$(2,097	)
Adjustments for Statement No. 167	(2,207	)
Non-GAAP As-Adjusted	$(4,304	)
Recoveries		
GAAP	$186	
Adjustments for Statement No. 167	212	
Non-GAAP As-Adjusted	$398	
Net charge-offs		
GAAP	$(1,911	)
Adjustments for Statement No. 167	(1,995	)
Non-GAAP As-Adjusted	$(3,906	)
Allowance for loan losses (end of period)		
GAAP	$1,647	
Adjustments for Statement No. 167	2,145	
Non-GAAP As-Adjusted	$3,792	
Net charge-offs %		
GAAP	7.87	%
Adjustments for Statement No. 167	0.13	
Non-GAAP As-Adjusted	8.00	%
Delinquencies (over 30 Days)		
GAAP	$1,117	
Adjustments for Statement No. 167	1,540	
Non-GAAP As-Adjusted	$2,657	
Delinquencies (over 90 Days)		
GAAP	$699	
Adjustments for Statement No. 167	694	
Non-GAAP As-Adjusted	$1,393	
Delinquency Rate (over 30 days)		
GAAP	5.52	%
Adjustments for Statement No. 167	0.08	
Non-GAAP As-Adjusted	5.60	%

Delinquency Rate (over 90 days)		
GAAP	2.92	%
Adjustments for Statement No. 167	0.02	
Non-GAAP As-Adjusted	2.94	%
Restructured loans [(A)]		
GAAP	$73	
Adjustments for Statement No. 167	145	
Non-GAAP As-Adjusted	$218	
Delinquency Rate (Restructured Loans)		
GAAP	0.31	%
Adjustments for Statement No. 167	0.15	
Non-GAAP As-Adjusted	0.46	%

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Average Balance Sheet Reconciliation
(dollars in millions)

	For the Fiscal Year Ended November 30, 2009	
Total average loan receivables		
GAAP	$26,553	
Adjustments for Statement No. 167	24,577	
Non-GAAP As-Adjusted	$51,130	
Total loans interest yield		
GAAP	11.31	%
Adjustments for Statement No. 167	1.09	
Non-GAAP As-Adjusted	12.40	%
Total average credit card loan receivables		
GAAP	$24,267	
Adjustments for Statement No. 167	24,577	
Non-GAAP As-Adjusted	$48,844	
Credit card interest yield		
GAAP	11.69	%
Adjustments for Statement No. 167	0.94	
Non-GAAP As-Adjusted	12.63	%

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2013 Highlights

- Net income was $2.5 billion compared to $2.3 billion in the fiscal year ended November 30, 2012.
- Total loans grew $3.2 billion, or 5%, from the prior year to $65.8 billion
  - Credit card loans grew $2.0 billion, or 4%, to $53.2 billion in 2013. Discover card sales volume increased 4% from the fiscal year ended November 30, 2012.
- Credit card loan delinquencies over 30 days past due decreased 14 basis points compared to the fiscal year ended November 30, 2012 to 1.72%. The credit card net charge-offs rate declined 41 basis points to 2.21% in comparison to the fiscal year ended November 30, 2012.
- Our capital market activities included issuances of approximately $4.7 billion in public credit card asset-backed securities. Discover Bank issued $1.7 billion in senior bank notes.
- Payment Services pretax income was down $101 million from the fiscal year ended November 30, 2012 to $80 million. Transaction dollar volume for the segment was $196.5 billion, a decrease of 1% from the fiscal year ended November 30, 2012.
- We repurchased approximately 27 million shares of common stock for $1.3 billion, reducing our number of shares outstanding by 5%.

2012 and 2011 Highlights

- We began offering residential mortgage loans through Discover Home Loans following our June 2012 acquisition of substantially all of the operating and related assets of Home Loan Center, a subsidiary of Tree.com, Inc.
- We repurchased 34 million shares, or approximately 6%, of our outstanding common stock for $1.2 billion during the fiscal year ended November 30, 2012.
- During the 2012 fiscal year, our capital market activities included issuances of approximately $5.4 billion in public credit card asset-backed securitizations and a $560 million preferred stock issuance. We also completed two private debt exchange offers involving an aggregate $822 million of outstanding debt.
- In September 2011, we acquired approximately $2.4 billion of private student loans from Citi.
- Our revenues were unfavorably impacted in 2011 by the implementation of certain provisions of the Credit CARD Act of 2009, which included limitations on our ability to reprice accounts, the elimination of overlimit fees and a reduction in the amount of standard late fees.

Outlook

Investments in marketing have contributed to our receivables growth and we are focused on continuing this trend with new account acquisitions, through the Discover it® card, and through wallet share gains with existing customers. We are also targeting solid growth and strong returns in our private student and personal loan portfolios. The expansion of our direct banking products remains a priority as we continue to diversify the offerings to our customers, as evidenced by the launch of home equity loans and Discover Cashback Checking in 2013.

Our credit outlook for 2014 remains relatively stable and net interest margin is expected to remain elevated. Loan loss reserve releases contributed to our overall profitability in 2013, but we do not expect to receive a similar benefit in 2014. Funding costs are expected to remain at low levels over the next year as we benefit from the interest rate environment and replace higher-priced time deposits with lower-cost borrowings.

Our Diners Club business experienced challenges in 2013 due to financial difficulties faced by certain licensees in the European market and the impact on our financial results from providing support to these licensees. Although we believe that we have put the most significant challenges behind us, we may provide additional support in the future, including loans, facilitating transfer of ownership, or acquiring assets or licensees, which may cause us to incur losses.

PULSE volumes were flat year-over-year due in part to the changing debit environment, including competitor actions related to merchant and acquirer pricing and transaction routing strategies. We plan to continue to respond to this intensely competitive environment by expanding our focus to target volume historically run across signature debit networks. In the fourth quarter of 2013, we received notice that certain contracts related to one third-party issuing relationship will be terminated, effective mid-2014. This loss will have a significant impact on Network Partners volume and profits, but we do not anticipate it to be material to our overall profitability. While we expect that the payment services environment will remain challenging in 2014, we continue to lay the groundwork to drive future volume and profits for the segment.

Regulatory Environment and Developments

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Reform Act”) contains comprehensive provisions governing the practices and oversight of financial institutions and other participants in the financial markets. The Reform Act regulates large systemically significant financial firms, including us, through a variety of measures, including increased capital and liquidity requirements, limits on leverage, and enhanced supervisory authority. The Reform Act also established a new financial regulator, the Consumer Financial Protection Bureau (the “CFPB”), and new requirements for debit card transactions, which impact our core businesses. Additional legislative or regulatory action that may impact our business may result from the multiple studies mandated under the Reform Act. The evolving regulatory environment causes uncertainty with respect to the manner in which we conduct our businesses and requirements that may be imposed by our regulators. Regulators have implemented and continue to propose new regulations and supervisory guidance and have been increasing their examination and enforcement action activities. The FDIC is completing its annual anti-money laundering/Bank Secrecy Act examination of Discover Bank and has notified the company of certain potential program deficiencies, and the CFPB is investigating certain student loan servicing practices of Discover Bank. See Note 20: Litigation and Regulatory Matters to our consolidated financial statements for more information. We expect that regulators will continue taking formal enforcement actions against financial institutions in addition to addressing supervisory concerns through non-public supervisory actions or findings. We are unable to predict the nature, extent or impact of any additional changes to statutes or regulations, including the interpretation, implementation or enforcement thereof that may occur in the future.

The impact of the evolving regulatory environment on our business and operations depends upon a number of factors including final implementing regulations, guidance and interpretations of the regulatory agencies, supervisory priorities and actions, the actions of our competitors and other marketplace participants, and the behavior of consumers. The evolving regulatory environment could require us to limit or change our business practices, limit our product offerings, require continued investment of management time and resources in compliance efforts, limit fees we can charge for services, require us to meet more stringent capital, liquidity and leverage ratio requirements, increase costs, restrict our ability to access the securitization markets for our funding, impact the value of our assets, or otherwise adversely affect our businesses. The regulatory environment and enhanced examination and supervisory expectations and scrutiny can also potentially impact our ability to pursue business opportunities and obtain required regulatory approvals for potential investments and acquisitions. For additional information see "Business — Supervision and Regulation — Acquisitions and Investments."

Compliance and other regulatory requirements and expenditures have increased significantly for Discover and other financial services firms, and we expect them to continue to increase as regulators adopt new rules, interpret existing rules and increase their scrutiny of financial institutions, including controls and operational processes. We may face additional compliance and regulatory risk to the extent that we enter into new lines of business or new business arrangements with third-party service providers, alternative payment providers or other industry participants, including providers or participants that may not be regulated financial institutions. The additional expense, time and resources needed to comply with ongoing regulatory requirements may adversely impact our business and results of operations. In addition, regulatory findings and ratings could negatively impact our business strategies.

Consumer Financial Services

The CFPB regulates consumer financial products and services and certain financial services providers, including Discover. The CFPB is authorized to prevent “unfair, deceptive or abusive acts or practices” and ensure consistent enforcement of laws so that all consumers have access to markets for consumer financial products and services that are fair, transparent and competitive. The agency has rulemaking and interpretive authority under the Reform Act and other federal consumer financial services laws, as well as broad supervisory, examination and enforcement authority over large providers of consumer financial products and services, such as Discover. The agency is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, request data and promote the availability of financial services to underserved consumers and communities. Several of our products, including credit cards, student loans and home loans, are areas of focus by the CFPB. See " — Student Loans" below.

The CFPB has an online complaint system that allows consumers to log complaints with respect to the products we offer. The CFPB also collects detailed account level information from large financial institutions, including Discover, about credit cards and other products. The complaint system and the agency's analysis of account data could inform future agency decisions with respect to regulatory, enforcement or examination focus, and influence consumers' attitudes about doing business with Discover. There continues to be significant uncertainty as to how the agency’s regulatory, supervisory, examination and enforcement strategies and priorities will impact our business.

The Reform Act authorizes state officials to enforce regulations issued by the CFPB and to enforce the Act's general prohibition against unfair, deceptive or abusive practices, and makes it more difficult than in the past for federal financial regulators to declare state laws that differ from federal standards to be preempted. To the extent that states enact requirements that differ from federal standards or state officials and courts adopt interpretations of federal consumer laws that differ from those adopted by the CFPB, we may be required to alter or cease offering products or services in some jurisdictions, which would increase compliance costs and reduce our ability to offer the same products and services to consumers nationwide, and we may be subject to a higher risk of state enforcement actions.

Credit Cards

Legislation has been introduced in Congress that would overturn a U.S. Supreme Court decision holding that interest rates and other terms of bank-issued credit cards are subject to the law of the state in which the bank is located, and not the laws of the states in which cardholders reside. The enactment of this legislation would potentially allow states to impose different interest rate limitations or other limitations on credit card and other loans, which could reduce our interest income and increase our operating expenses. Similar legislation in past Congresses has not become law, and we do not presently anticipate that the bills will be enacted.

The CFPB is required by the Credit CARD Act of 2009 (the “Act”) to issue a biennial report on the impact of the Act. The 2013 report, issued in October, identified “possible areas of concern” about credit card issuer practices that “warrant further scrutiny by the CFPB.” They include the adequacy of disclosures that are made online, whether disclosures about credit card rewards and grace periods are clear and transparent, and whether additional actions are warranted to protect consumers who purchase “add on products” such as identity theft protection and credit score monitoring. It is unclear how the CFPB intends to address these concerns (e.g., through rulemaking, supervisory guidance or enforcement proceedings) and whether its actions will affect Discover. In November 2013, the CFPB released a broad preliminary document seeking information about potential regulatory changes, including additional requirements for creditors collecting their own debts.

Student Loans

There is significant legislative and regulatory focus on the student loan market, including by the CFPB. This regulatory focus has resulted in an increase in supervisory examinations of the company related to student loans. The CFPB is currently investigating certain student loan servicing practices of Discover Bank. See Note 20: Litigation and Regulatory Matters to our consolidated financial statements for more information.

The Reform Act created a “Private Education Ombudsman” within the CFPB to help resolve complaints about private student loans. An October 2012 report by the Ombudsman recommended that Congress identify opportunities to expand the availability of loan modification and refinance options for student loan borrowers. It also recommended that regulators assess whether efforts to correct problems in mortgage servicing could be applied to improve student loan servicing. Legislation to facilitate the refinancing of private student loans was introduced in both the House and Senate in 2013. We are unable to assess the likelihood of its enactment or its impact on our student lending business. Separately, federal regulatory guidance was issued in July 2013 that encouraged student lenders to facilitate ways to help student borrowers experiencing difficulty making payments. The CFPB's Ombudsman’s October 2013 Report identified similar concerns and others, including a number of concerns related to loan servicing practices. Legislation to address these and other concerns related to student loan servicing practices was introduced in December 2013. The enactment of this legislation may increase the complexity and expense of servicing student loans. The potential impact of these areas of focus on Discover is unclear.

A July 2012 report by the CFPB and the U.S. Department of Education on private student lending reviewed the use in private student loan underwriting of “cohort default rates” (average loan default rate for students at a college as reported by the Department of Education). The report concluded that the general reliance on cohort default rates for loan eligibility for students at specific schools may raise a threshold fair lending concern, requiring an analysis of a business need for using this information and whether it could be met by other techniques. Like other private student lenders, we utilize cohort default rates in determining the eligibility of individual schools to participate in our lending program. We do not use cohort default rates for underwriting individual students' applications.

The report also recommended that Congress re-assess the current standard for discharging private student loans in bankruptcy. Legislation has been proposed in past Congresses, and reintroduced in the current Congress, that would make it easier to discharge private student loan debt in bankruptcy by repealing the current requirement that this relief is available only to those for whom repaying such loans would be an "undue hardship." It is uncertain whether this legislation will be enacted into law, but we believe that our underwriting practices and the high percentage of our loans that have cosigners reduce potential risk to our business if the current legislative proposals were to become law. Congress or the Administration may take additional actions that impact the student loan market in the future, which could cause us to restructure our private student loan product in ways that we may not currently anticipate.

In August 2013, the President signed the Bipartisan Student Loan Certainty Act of 2013, which changed how federal student loan interest rates are determined. The bill links federal student loan rates to the federal 10-year Treasury rate, plus a small margin. The new rates are retroactive, effective for all loans disbursed on or after July 1, 2013. This new rate structure may impact certain segments of the private student loan market.

Mortgage Lending

The CFPB has indicated that the mortgage industry is an area of supervisory focus and that it will concentrate its examinations and rulemaking efforts on the variety of mortgage-related topics required under the Reform Act including steering consumers to less favorable products, discrimination, abusive or unfair lending practices, predatory lending, origination disclosures, minimum mortgage underwriting standards, mortgage loan origination compensation and servicing practices. The CFPB recently published several final rules impacting the mortgage industry, including rules related to ability-to-repay, mortgage servicing and mortgage loan originator compensation. The ability-to-repay rule makes lenders liable if they fail to assess ability to repay under a prescribed test but also creates a safe harbor for so-called "qualified mortgages." The "qualified mortgages" standards include a tiered cap structure that places limits on the total amount of certain fees that can be charged on a loan, a 43% cap on debt-to-income (i.e., total monthly payments on debt to monthly gross income), exclusion of interest-only products and other requirements. The 43% debt-to-income cap does not apply for the first seven years the rule is in effect for loans that are eligible for sale to Fannie Mae or Freddie Mac or eligible for government guarantee through the Federal Housing Administration (the "FHA") or the Veterans Administration. Failure to comply with the ability-to-repay rule may result in possible CFPB enforcement action and special statutory damages plus actual, class action and attorney fee damages, all of which a borrower may claim in defense of a foreclosure action at any time. It is uncertain what the ultimate impact of these requirements will be on our mortgage business. The mortgage servicing rule, which directly affects only our home equity business at this time, includes modifications to statement requirements, forced place insurance rules and loss mitigation activities.

In addition, the Federal Reserve and other federal agencies have issued a proposed rule under the Reform Act that would exempt "qualified residential mortgages" from the Reform Act requirement that the securitizer of assets retain an economic interest in a portion of the assets. The final definition of what constitutes a "qualified residential mortgage" may impact the pricing and depth of the secondary mortgage market. At this time, we cannot predict the final content of proposed rules issued by the regulatory agencies or the impacts they might have on our business practices or financial results.

Congress has been considering legislation that could significantly affect the single family housing finance market in the United States. These proposals, among other things, would wind down the government-sponsored enterprises, Fannie Mae and Freddie Mac to which we currently sell our mortgages, and would encourage the growth of private sector entities to provide liquidity to the mortgage market. Congress or regulators may also take action to further restrict the availability of FHA loan products in order to shrink the FHA's presence in the mortgage market. The bills have bipartisan support, but prospects for enactment, as well as any effect on our business and financial results, are uncertain at this time.

Payment Networks

The Reform Act contains several provisions impacting the debit card market. The changing debit card environment, including competitor actions related to merchant and acquirer pricing and transaction routing strategies, has adversely affected and may continue to adversely affect our PULSE network's business practices, network transaction volume, revenue, and prospects for future growth. First, the Reform Act generally requires that interchange fees paid to or charged by payment card issuers on debit card and certain prepaid transactions be “reasonable and proportional" to the issuer's cost in connection with such transactions, as determined in accordance with regulations promulgated by the Federal Reserve, and also prohibits debit and prepaid card networks and issuers from requiring debit and prepaid card transactions to be processed solely on a single payment network, or two or more affiliated payment networks. The Federal Reserve issued final implementing regulations on these statutory requirements in June 2011, most of which became effective in October 2011 or April 2012.

In July 2013, a U.S. District Court for the District of Columbia judge held that the Federal Reserve's debit interchange regulation did not appropriately implement the statutory requirements. The matter is currently under consideration by the court of appeals. The ultimate impact of the resolution of this matter will depend on whether and how the Federal Reserve amends its regulations, which could go beyond the specific issues addressed by the court, as well as the actions of marketplace participants. Changes in the debit card market resulting from this matter could affect PULSE's business practices, transaction volume, revenue, and prospects for future growth.

We continue to face competitive challenges from the new merchant and acquirer pricing and transaction routing strategies implemented by large competing networks following the issuance of the regulations related to debit routing and fees. We are closely monitoring these strategies in order to assess their impact on our business and on competition in the marketplace. The U.S. Department of Justice is examining some of these competitor pricing strategies. In addition, the Reform Act's network participation requirements impact PULSE's ability to enter into exclusivity arrangements, which affect PULSE's current business practices and may materially adversely affect its network transaction volume and revenue.

In July 2013, the European Commission issued a proposal for regulation of interchange fees assessed for card-based payment transactions occurring across the borders of European Union member states and other card network business practices. The proposal, if enacted, would reduce the fees that card issuers can receive for consumer debit and credit card transactions. Corporate cards are not subject to the proposal. At this time, we cannot predict whether or when any such regulation might be adopted and, if adopted the extent of the impact that it would have on the business practices or revenues of our Diners Club network licensees in Europe.

In 2013, and at the beginning of 2014, various reports were issued by several major retailers with respect to unauthorized access to payment card and other data of millions of customers. As a result, members of Congress and state legislators have expressed an interest in investigating the incident and possibly enacting legislation to address future data security breaches. These recent developments could result in the imposition of requirements on Discover or other card issuers or networks that could increase costs or adversely affect the competitiveness of our credit card or debit card products. It is too early to know if any such legislation will become law, the final form any such legislation would take, or the impact such law would have on Discover.

Capital, Liquidity and Funding

Regulatory Capital Requirements

In July 2013, the Federal Reserve issued final rules related to regulatory capital requirements, and then each of the Office of the Comptroller of the Currency (the "OCC") and the Federal Deposit Insurance Corporation (the "FDIC") issued virtually identical rules, with the FDIC issuing an interim final rule (collectively referred to as the "final rules"). The final rules adopt with revisions the proposed rules that the agencies approved last year. Key reforms include increased requirements for both the quantity and quality of capital held by banking organizations so that they are more capable of absorbing losses and withstanding periods of financial distress, and the establishment of alternative standards of creditworthiness in place of credit ratings. Consistent with the proposed rules, the final rules implement Basel III regulatory capital reforms and changes required by the Reform Act, substantially amending the regulatory risk-based capital rules applicable to banking organizations, including Discover Financial Services and Discover Bank. "Basel III" refers to a series of consultative documents and related rules text released by the Basel Committee on Banking Supervision, which include significant changes to bank capital, leverage and liquidity requirements. The FDIC's comment period on its interim final rule ended in September 2013. Compliance with the final rules is required beginning January 1, 2015 for most banking organizations, including Discover Financial Services and Discover Bank. Compliance is required one year earlier for the largest banking organizations.

The final rules include new risk-based capital and leverage ratios and refine the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to Discover Financial

Services and Discover Bank under the final rules, beginning January 1, 2015, will be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The new

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capital level requirements to be “well capitalized” under the final rules will be: (i) a common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 risk-based capital ratio of 8%; (iii) a total risk-based capital ratio of 10%; and (iv) a Tier 1 leverage ratio of 5%. The final rules allow an agency to require a banking organization to hold a greater amount of regulatory capital than otherwise is required under the final rules, if the agency determines that the regulatory capital held by the banking organization is not commensurate with its credit, market, operational, or other risks. The agencies stated that in exercising this authority they expect to consider the size, complexity, risk profile, and scope of operations of the banking organization, and whether any public benefits would be outweighed by risk to the banking organization or to the financial system.

The final rules establish a “capital conservation buffer” of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. These levels and the transition period are consistent with the proposed rules. A banking organization will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below any of the minimum capital requirements, including the buffer amount.

Based on our current capital composition and levels, we believe that we would be in compliance with the requirements as set forth in the final rules if they were presently in effect.

There is significant legislative and regulatory focus on capital matters. We are not able to predict the final form of any additional legislative or regulatory initiatives that will be adopted or whether any adopted legislation or final regulatory initiatives will require us to hold higher amounts of capital or reconfigure our capital structure, which could significantly impact our return on equity, financial condition, operations, capital position and ability to pursue business opportunities.

Stress Test Requirements

In October 2012, the Federal Reserve issued final rules implementing the stress test requirements under the Reform Act for bank holding companies with $50 billion or more in total consolidated assets, including Discover. Under the final rule, the Federal Reserve will conduct annual supervisory stress tests for the 19 bank holding companies that participated in the 2009 Supervisory Capital Assessment Program and subsequent Comprehensive Capital Analysis and Reviews (“CCAR BHCs”) and will publish the results of such stress tests in March each year. In addition, the CCAR BHCs are required to conduct their own stress tests twice per year and publish the results of these company-run stress tests in March and September each year. Bank holding companies like Discover that have $50 billion or more in total consolidated assets, but are not CCAR BHCs, are subject to these requirements beginning this year.

In October 2012, the FDIC also issued final rules implementing the stress test requirements under the Reform Act for state nonmember banks with $50 billion or more in total consolidated assets, like our subsidiary, Discover Bank. The FDIC’s stress test rule is similar to the Federal Reserve’s stress test rule, except that in general it requires large banks like Discover Bank to comply with stress test requirements under the same timeline as required for the CCAR BHCs. However, the FDIC reserved authority in the final rule to permit subsidiary banks of non-CCAR BHCs, such as Discover Bank, to delay the application of the requirements of the final rule on a case-by-case basis. We sought and obtained FDIC approval to delay the application of certain stress test requirements to Discover Bank to align with the Federal Reserve stress test requirements that apply to us. In this regard, Discover Bank is required to comply with the requirements for the publication of stress test results in 2014.

Capital Plan Review

In January 2014, we submitted our annual capital plan to be reviewed by the Federal Reserve under the enhanced standards applied to the capital plans of CCAR BHCs under the Federal Reserve’s 2013 Comprehensive Capital Analysis and Review, or CCAR, program. Therefore, the Federal Reserve is applying enhanced standards to our capital plan submissions, including evaluation based on results of supervisory stress tests and enhanced documentation and process standards. Our ability to make capital distributions, including our ability to pay dividends or repurchase shares of our common stock, will be subject to the Federal Reserve’s review and non-objection of the actions that we have proposed this year in our annual capital plan.

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Resolution Plans

Under Federal Reserve and FDIC rules implementing Section 165(d) of the Reform Act, bank holding companies with $50 billion or more in consolidated assets (including us) and certain other financial companies are required to submit a resolution plan (or so-called "living will") to the FDIC, the Federal Reserve, and the Financial Stability Oversight Council for their rapid and orderly liquidation in the event of material financial distress or failure. In addition, under a separate FDIC rule, an insured depository institution with $50 billion or more in total assets, such as Discover Bank, is required to submit to the FDIC periodic contingency plans for resolution in the event of the institution's failure. Under these rules, we submitted the initial resolution plans for us and Discover Bank in December 2013. We and Discover Bank are required to update these plans annually and, in certain circumstances, more frequently. Failure to provide resolution plans that satisfy regulatory requirements may result in imposition of more stringent capital, leverage, or liquidity requirements, growth restrictions or ordered divestiture of assets and operations.

Liquidity Ratio Requirements

In October 2013, the Federal Reserve issued a notice of proposed rulemaking that would require large banking organizations to maintain a minimum liquidity coverage ratio. The proposal applies to large internationally active banks (bank holding companies with more than $250 billion in total assets or more than $10 billion in on-balance sheet foreign exposure). Additionally, the Federal Reserve proposed the implementation of a modified liquidity coverage ratio for bank holding companies with over $50 billion in total assets, such as Discover. The proposal includes a transition period for conformance with the new requirements going into effect on January 1, 2015, and full compliance required by January 1, 2017. We are not able to predict whether this proposal will be adopted, or in what form, and are currently assessing the impact of the proposal on Discover. Comments on the proposal were due on January 31, 2014.

Securitizations

In August 2013, the SEC, the FDIC, the Federal Reserve and certain other prudential banking regulators re-proposed regulations that would mandate risk retention for securitizations, including credit card securitizations. The re-proposed regulations would generally require that the sponsor of a securitization retain, unhedged, a minimum of 5% of the fair value of the securitized assets and for revolving master trusts would permit that retained risk to be held in the form of a seller's interest in an amount equal to not less than 5% of the unpaid principal balance of the asset-backed securities held by investors. Discover Bank cannot at this time predict whether its seller's interest in its securitization trusts and other existing risk retention mechanisms will satisfy the final regulatory requirements, whether structural changes would be necessary, or whether any failure of the seller's interest to qualify would alter Discover Bank's interest in conducting securitization transactions in the future. Comments on the re-proposed rule were due on October 30, 2013. Although it is unclear when the final rules will be promulgated, compliance with the final rules will be required one year after publication for securitization transactions collateralized by residential mortgages and two years after publication for all other securitization transactions.

In December 2013, the Basel Committee on Banking Supervision proposed changes to the rules for banks' calculation of credit risk capital requirements for exposures to securitization transactions. The timing and impact of these proposed rules are unclear at this time, but they could impact the pricing and/or volume of our asset-backed securities issuances.

Recent Reform Act Related Developments

In February 2014, the Federal Reserve issued a final rule that implements certain of the enhanced prudential standards required to be established under Section 165 of the Reform Act. We are reviewing the requirements of the final rule and their impact on the company. The final rule establishes a number of enhanced prudential standards for large U.S. bank holding companies and foreign banking organizations to help increase the resiliency of their operations. For U.S. bank holding companies (BHCs) with total consolidated assets of $50 billion or more, such as Discover, it incorporates as an enhanced prudential standard previously issued capital planning and stress testing requirements and imposes enhanced liquidity requirements and enhanced risk management requirements. U.S. bank holding companies subject to the rule will need to comply by January 1, 2015.

The final rule requires the establishment of a stand-alone board-level risk committee that must be chaired by an independent director and meet at least quarterly, and requires the committee to approve and periodically review the risk management policies of the BHC and oversee the operation of the BHC's risk management framework. The final

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rule also requires BHCs such as Discover to appoint a chief risk officer to implement enterprise-wide risk management practices. The chief risk officer is required to report to both the committee and the chief executive officer.

The final rule requires the establishment of a liquidity risk framework and describes the roles and responsibilities of the BHC's board of directors, risk committee and senior management. The final rule requires that the BHC’s board of directors: (i) approve the BHC’s liquidity risk tolerance at least annually; (ii) receive and review information at least semi-annually to determine whether the BHC is operating in accordance with the established liquidity risk tolerance; and (iii) approve and periodically review the liquidity risk management strategies, policies and procedures established by senior management. The final rule also requires large BHCs such as Discover to perform liquidity stress testing monthly and to incorporate in its stress tests a minimum of three stress scenarios over a minimum of four stress periods (overnight, 30-day, 90-day and one-year). Large BHCs like Discover are required under the final rule to hold highly liquid assets (a "buffer") sufficient to meet the BHC's projected net stressed cash flow needs over the 30-day planning horizon of a liquidity stress test under each of the three stress scenarios.

In December 2013, regulators finalized the rule implementing Section 619 of the Reform Act, commonly referred to as the Volcker Rule, which contains certain prohibitions and restrictions on the ability of "banking entities" to engage in proprietary trading and sponsor or invest in "covered funds." We do not currently engage in any of the activities that are prohibited by the final rule and, therefore, do not believe it will have a material impact on our business. However, we will need to establish the compliance program prescribed by the final rule.

Results of Operations

The discussion below provides a summary of our results of operations for the calendar year ended December 31, 2013 compared to our results of operations for the fiscal years ended November 30, 2012 and 2011. The discussion also provides information about our loan receivables as of December 31, 2013 compared to December 31, 2012 and November 30, 2011. In certain tables, quantitative information about our loan receivables as of November 30, 2009 are also shown on a non-GAAP as-adjusted basis. For a reconciliation of GAAP to non-GAAP as-adjusted financial data, see "— Reconciliations of GAAP to Non-GAAP As-Adjusted Data."

Segments

We manage our business activities in two segments: Direct Banking and Payment Services. In compiling the segment results that follow, our Direct Banking segment bears all overhead costs that are not specifically associated with a particular segment and all costs associated with Discover Network marketing, servicing and infrastructure, with the exception of an allocation of direct and incremental costs driven by our Payment Services segment.

Direct Banking

Our Direct Banking segment includes Discover-branded credit cards issued to individuals and small businesses and other consumer products and services, including private student loans, personal loans, home loans, home equity loans, prepaid cards and other consumer lending and deposit products. The majority of Direct Banking revenues relate to interest income earned on the segment’s loan products. Additionally, our credit card products generate substantially all of our revenues related to discount and interchange, protection products and loan fee income.

Payment Services

Our Payment Services segment includes PULSE, an automated teller machine, debit and electronic funds transfer network; Diners Club, a global payments network; and our network partner business, which includes credit, debit and prepaid cards issued on the Discover Network by third parties. This segment also includes the business operations of Diners Club Italy, which primarily consist of issuing Diners Club charge cards. The majority of Payment Services revenues relate to transaction processing revenue from PULSE and royalty and licensee revenue (included in other income) from Diners Club.

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The following table presents segment data (dollars in millions):

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30, 2012	2011	For the One Month Ended December 31, 2012
Direct Banking				
Interest income				
Credit card	$5,978	$5,751	$5,654	$510
Private student loans	252	184	115	18
PCI student loans	272	303	225	24
Personal loans	464	363	266	34
Other	98	102	85	9
Total interest income	7,064	6,703	6,345	595
Interest expense	1,146	1,331	1,485	103
Net interest income	5,918	5,372	4,860	492
Provision for loan losses	1,069	848	1,013	178
Other income	1,976	1,939	1,907	169
Other expense	2,961	2,891	2,409	224
Income before income tax expense	3,864	3,572	3,345	259
Payment Services				
Provision for loan losses	17	—	—	—
Other income	330	342	298	31
Other expense	233	161	132	16
Income before income tax expense	80	181	166	15
Total income before income tax expense	$3,944	$3,753	$3,511	$274

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The following table presents information on transaction volume (in millions):

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30, 2012	2011	For the One Month Ended December 31, 2012
Network Transaction Volume				
PULSE Network	$159,805	$159,944	$140,119	$14,133
Network Partners	9,808	8,754	7,533	885
Diners Club[(1)]	26,867	28,644	29,275	2,274
Total Payment Services	196,480	197,342	176,927	17,292
Discover Network—Proprietary[(2)]	113,791	109,014	103,527	10,987
Total Volume	$310,271	$306,356	$280,454	$28,279
Transactions Processed on Networks				
Discover Network	1,947	1,844	1,722	183
PULSE Network	4,187	4,321	3,824	357
Total	6,134	6,165	5,546	540
Credit Card Volume				
Discover Card Volume[(3)]	$118,594	$114,213	$108,087	$11,384
Discover Card Sales Volume[(4)]	$109,957	$105,454	$100,138	$10,657

(1) Diners Club volume is derived from data provided by licensees for Diners Club branded cards issued outside North America and is subject to subsequent amendment.
(2) Represents gross proprietary sales volume on the Discover Network.
(3) Represents Discover card activity related to net sales, balance transfers, cash advances and other activity.
(4) Represents Discover card activity related to net sales.

Direct Banking

For the Calendar Year Ended December 31, 2013 compared to the Fiscal Year Ended November 30, 2012

Our Direct Banking segment reported pretax income of $3.9 billion for the calendar year ended December 31, 2013, as compared to pretax income of $3.6 billion for the fiscal year ended November 30, 2012.

Loan receivables totaled $65.8 billion at December 31, 2013, which was up from $62.6 billion at December 31, 2012, due to growth in credit card loans and other loan portfolios partially offset by a decrease in purchased credit-impaired ("PCI") loans balances. The growth in credit card loans was due to growth in customers with revolving balances combined with a continued improvement in the net principal charge-off rate. The growth within the other loans portfolio was primarily attributable to organic growth in personal and private student loans. Discover card sales volume was $110.0 billion for the calendar year ended December 31, 2013, which was an increase of 4% as compared to the fiscal year ended November 30, 2012. This increase was driven primarily by continued growth in our active customer base combined with seasonal promotional programs driving incremental sales.

Net interest margin increased for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012. This was primarily driven by decreased funding costs and growth in loan receivables, partially offset by lower yields on total loan receivables. The decrease in loan receivable yields was driven by growth in credit card promotional balances and a decline in higher rate balances, partially offset by growth in non-promotional revolving balances.

Interest income increased during the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012 primarily due to higher average balances of credit card loans, personal loans and private student loans resulting from growth across these products combined with lower credit card loan interest charge-offs. The increase in interest income from these products was partially offset by a decrease in yield on credit card loan receivables along with a decrease in PCI student loan volume.

Interest expense declined during the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012 primarily due to lower funding costs resulting from maturities of higher interest borrowings and deposits that were replaced with borrowings and deposits paying lower interest rates.

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At December 31, 2013, our delinquency rate for credit card loans over 30 days past due was 1.72% as compared to 1.79% at December 31, 2012, reflective of continuing trends of strong credit performance. For the calendar year ended December 31, 2013, our net charge-off rate on credit cards declined to 2.21%, as compared to 2.62% for the fiscal year ended November 30, 2012. An increase in reserve requirements partially offset by a decline in the level of net charge-offs led to an increase in the provision for loan losses for the calendar year ended December 31, 2013, as compared to the fiscal year ended November 30, 2012. For a more detailed discussion on provision for loan losses, see "—Loan Quality—Provision and Allowance for Loan Losses."

Total other income increased for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012 primarily due to an increase in discount and interchange revenue, which was driven by an increase in sales volume. Gain on sale of mortgage loans also increased, reflecting a full year of activity for the calendar year ended December 31, 2013 as compared to a partial year of activity for the fiscal year ended November 30, 2012, due to the acquisition and integration of assets of Home Loan Center in June of 2012. The overall increase in other income was partially offset by a decrease in protection fee revenue reflecting lower sales volume related to these products as we have implemented changes in our offer strategies, which reduced selling over the last few years and which ceased at the end of 2012. Loan fee income also decreased due to lower levels of delinquencies which resulted in a lower level of loan fees being generated. Additionally, the increase was partially offset by decrease in refinance mortgage loan volume due to increasing interest rates during 2013.

Total other expense increased for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012 primarily due to an increase in employee compensation costs driven by increased headcount. Marketing and business development costs also increased due to growth initiatives. Higher information processing and communication expenses also contributed to the increase as a result of higher software maintenance, licenses, and technology expenses due to growth initiatives. The overall expense increase was partially offset by legal expenses associated with the consent order that Discover Bank entered into with the FDIC and CFPB, for which there was no equivalent impact in 2013.

For the Fiscal Year Ended November 30, 2012 compared to the Fiscal Year Ended November 30, 2011

Our Direct Banking segment reported pretax income of $3.6 billion for the fiscal year ended November 30, 2012, as compared to pretax income of $3.3 billion for the fiscal year ended November 30, 2011.

Loan receivables totaled $61.0 billion at November 30, 2012, which was up from $57.7 billion at November 30, 2011, due to growth in the credit card loans and other loans portfolios. The growth within the other loans portfolio was primarily attributable to personal loans and private student loans. Discover card sales volume was $105.5 billion for the fiscal year ended November 30, 2012, an increase of 5% as compared to the same period in 2011. This growth was driven primarily by an increase in the number of existing customers using their Discover card.

Net interest margin increased for the fiscal year ended November 30, 2012 as compared to the same period in 2011. This was driven by improved funding rates on our deposit products, partially offset by lower yields on credit cards and growth in private student loans, which generate a lower yield as compared to our other products. There was an increase in interest income relating to credit card loan receivables largely driven by a higher average level of loans which was partially offset by lower yield. Lower yields were driven by growth in loans offered at a promotional rate as well as the receivable repricing restrictions imposed by the CARD Act. There was also an increase in interest income related to student and personal loans during the fiscal year ended November 30, 2012 as compared to the same period in 2011. The increase in interest income on PCI loans was due to the acquisition of additional loans on September 30, 2011 (see Note 5: Loan Receivables to our consolidated financial statements), while the increases in interest income on personal and private student loans were attributable to organic growth in these portfolios. Interest expense declined in the fiscal year ended November 30, 2012, as compared to the same period in 2011, as maturities of deposits bearing higher interest rates were replaced by funding from deposits that bear a lower interest rate.

At November 30, 2012, our delinquency rate for credit card loans over 30 days past due was 1.86% as compared to 2.38% at November 30, 2011, reflective of continuing trends of strong credit performance. For the fiscal year ended November 30, 2012, our net charge-off rate on credit cards declined to 2.62%, as compared to 4.47% for the same period in 2011. A decline in the level of net charge-offs and lower reserve requirements led to a decrease in the provision for loan losses for the fiscal year ended November 30, 2012, as compared to the same period in 2011. For a more detailed discussion on provision for loan losses, see "—Loan Quality—Provision and Allowance for Loan Losses."

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Total other income increased for the fiscal year ended November 30, 2012 as compared to the same period in 2011 primarily due to revenue related to the acquisition and integration of the assets of Home Loan Center in the third quarter of 2012 (see Note 3: Business Combinations to our consolidated financial statements). This included a net gain on the origination and sale of loans as well as a net gain on the related interest rate lock commitments and forward delivery contracts. Furthermore, there was a $26 million gain on investment due to the liquidation of a minority interest in an equity investment. These increases in other income were partially offset by higher Cashback Bonus rewards earned by our customers compared to the prior year, which resulted in a decrease to net discount and interchange revenue. Additionally, revenues from protection products and loan fees decreased from the prior year. Protection product revenue was lower than the prior year, reflecting the impact of changes in our offer strategies, which reduced selling over the last few years and ceased at the end of 2012. The decrease in revenue from loan fees was primarily attributable to lower levels of late fee income due to improved credit quality. In addition, revenue from the Student Loan Corporation ("SLC") transition services agreement decreased from the prior year. Finally, the inclusion of the impact of the bargain purchase gain related to the acquisition of SLC in the first quarter of 2011 resulted in a $7 million gain. There was not a similar gain in the current year.

Total other expense increased for the fiscal year ended November 30, 2012 as compared to the same period in 2011 primarily due to legal expenses associated with the FDIC and CFPB matter. Reserves for legal and regulatory matters increased by $196 million for the fiscal year ended November 30, 2012 as compared to the fiscal year ended November 30, 2011. Higher compensation costs also contributed to the increase in total other expense due to increased headcount to support our business growth, including the acquisition of the assets of Home Loan Center. Approximately $29 million of goodwill was recorded in this acquisition, which could be subject to impairment if we cannot adapt our business model to adjust for increases in interest rates. In addition, marketing and business development expenses increased due to growth initiatives. Finally, the increase in other expense was driven by higher incentive payments related to merchant global acceptance.

Payment Services

For the Calendar Year Ended December 31, 2013 compared to the Fiscal Year Ended November 30, 2012

Our Payment Services segment reported pretax income of $80 million for the calendar year ended December 31, 2013, down $101 million as compared to the fiscal year ended November 30, 2012, primarily as the result of an increase in other expense and to a lesser extent a decrease in other income. The increase in other expense was primarily due to an increase in expenses attributable to support of our Diners Club network and in employee compensation reflecting an increase in headcount. The decrease in other income was primarily driven by a decrease in transaction processing revenue reflecting the impact of merchant rerouting and lower rates.

Transaction dollar volume decreased $862 million for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012, primarily driven by a reduction in Diners Club volume due to the impact of currency exchange rates, partially offset by an increase in Network Partners volume. We anticipate pressure on our Network Partners business as we received notice that certain contracts related to one third-party issuing relationship will be terminated, effective mid-2014. This loss will have a significant impact on Network Partners volume and profits, but we do not anticipate it to be material to our overall profitability.

As previously disclosed, we have been working with our European Diners Club licensees with regard to their ability to maintain financing sufficient to support business operations. For example, we have provided loans to certain licensees that have an outstanding balance of approximately $36 million at December 31, 2013. We have undrawn commitments to lend these licensees up to an additional $19 million as of December 31, 2013, subject to collateral requirements stated in the individual agreements. During 2013, we acquired Diners Club Italy, which included $34 million of receivables, and we provided financial assistance to facilitate the purchase of our Slovenian licensee by a European bank. These transactions resulted in a charge to earnings of approximately $40 million in the second quarter of 2013. Additionally, we increased reserves by $15 million related to the loans to certain European Diners Club licensees, discussed above, due to liquidity concerns. There were no similar acquisitions, asset write downs or allowances in the prior year periods.

As described above, our Diners Club business experienced challenges in 2013 due to financial difficulties faced by certain licensees in the European market and the impact on our financial results from providing support to these licensees. We may provide additional support in the future, including loans, facilitating transfer of ownership, or acquiring assets or licensees, which may cause us to incur losses. We could also experience additional impairments on loans to our other licensees in the future. In addition, Diners Club has $151 million of non-amortizable intangible assets at December 31, 2013. To the extent that we are unable to maintain Diners Club revenues at appropriate levels, we may be exposed to an impairment loss on these assets that, when recognized, could have a material adverse impact on our results of operations. The licensees that we currently consider to be of concern accounted for less than 5% of Diners Club revenues during the calendar year ended December 31, 2013.

For the Fiscal Year Ended November 30, 2012 compared to the Fiscal Year Ended November 30, 2011

Our Payment Services segment reported pretax income of $181 million for the fiscal year ended November 30, 2012, up $15 million as compared to the same period during 2011, primarily as the result of a greater number of point-of-sale transactions on the PULSE network. Total other expense increased primarily due to higher incentive payments related to merchant global acceptance. Increased employee compensation expense driven by headcount also contributed to the increase in total other expense, as well as higher information processing costs primarily related to increased software maintenance and depreciation expense.

Transaction dollar volume increased $20 billion for the fiscal year ended November 30, 2012 as compared to the fiscal year ended November 30, 2011, primarily driven by increased PULSE point-of-sale volume. The number of transactions on the PULSE network increased by 13% for the fiscal year ended November 30, 2012, as compared to the same period in 2011.

Critical Accounting Estimates

In preparing our consolidated financial statements in conformity with GAAP, management must make judgments and use estimates and assumptions about the effects of matters that are uncertain. For estimates that involve a high degree of judgment and subjectivity, it is possible that different estimates could reasonably be derived for the same period. For estimates that are particularly sensitive to changes in economic or market conditions, significant changes to the estimated amount from period to period are also possible. Management believes the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts in our consolidated financial statements, the resulting changes could have a material effect on our consolidated results of operations and, in certain cases, could have a material effect on our consolidated financial condition. Management has identified the estimates related to our allowance for loan losses, the accrual of credit card customer rewards cost, the evaluation of goodwill and other nonamortizable intangible assets for potential impairment, the accrual of income taxes, and estimates of future cash flows associated with purchased credit-impaired loans as critical accounting estimates.

Allowance for Loan Losses

We base our allowance for loan losses on several analyses that help us estimate incurred losses as of the balance sheet date. This estimate considers uncollectible principal, interest and fees reflected in the loan receivables. While our estimation process includes historical data and analysis, there is a significant amount of judgment applied in selecting inputs and analyzing the results produced to determine the allowance. We use a migration analysis to estimate the likelihood that a loan will progress through the various stages of delinquency. Management also estimates loss emergence by using other analyses to estimate losses incurred from non-delinquent accounts. The considerations in these analyses include past performance, risk management techniques applied to various accounts, historical behavior of different account vintages, economic conditions, recent trends in delinquencies, bankruptcy filings, account collection management, policy changes, account seasoning, loan volume and amounts, payment rates, and forecasting uncertainties. Given the same information, others may reach different reasonable estimates.

If management used different assumptions in estimating incurred net loan losses, the impact to the allowance for loan losses could have a material effect on our consolidated financial condition and results of operations. For example, a 10% change in management's estimate of incurred net loan losses could have resulted in a change of approximately $165 million in the allowance for loan losses at December 31, 2013, with a corresponding change in the provision for loan losses. See "— Loan Quality" and Note 2: Summary of Significant Accounting Policies to our consolidated financial statements for further details about our allowance for loan losses.

Customer Rewards Cost

We offer our customers various reward programs, including the Cashback Bonus reward program pursuant to which we offer certain customers a reward equal to a percentage of their purchase amounts based on the type and volume of the customer's purchases. The liability for customer rewards is included in accrued expenses and other liabilities in our consolidated statements of financial condition. We compute our rewards liability on an individual customer basis and it is accumulated as qualified customers make progress toward earning a reward through their

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ongoing purchase activity or other defined actions. The liability is adjusted for expected forfeitures of accumulated rewards. In determining the forfeiture estimate, we consider historical rewards redemption and forfeiture behavior, the level of recent customer purchase activity and the terms of the current rewards programs. We generally recognize reward costs as a reduction of discount and interchange revenue in the consolidated statements of income.

If management used a different estimate of forfeitures, our consolidated statement of financial condition and results of operations could have differed. For example, a 100 basis point decrease in the estimated forfeiture rate as of December 31, 2013 could have resulted in an increase in accrued expenses and other liabilities of approximately $13 million. The corresponding increase in rewards cost would have been reflected as a decrease in discount and interchange revenue. See "— Other Income" and Note 2: Summary of Significant Accounting Policies to our consolidated financial statements for further details about customer rewards cost.

Goodwill

We recognize goodwill when the purchase price of an acquired business exceeds the total of the fair values of the acquired net assets. As required by GAAP, we test goodwill for impairment annually, or more often if indicators of impairment exist. In evaluating goodwill for impairment, management must estimate the fair value of the reporting unit(s) to which the goodwill relates. Because market data concerning acquisitions of comparable businesses typically are not readily obtainable, other valuation techniques such as earnings multiples and cash flow models are used in estimating the fair values of these reporting units. In applying these techniques, management considers historical results, business forecasts, market and industry conditions and other factors. We may also consult independent valuation experts where needed in applying these valuation techniques. The valuation methodologies we use involve assumptions about business performance, revenue and expense growth, capital expenditures, discount rates and other assumptions that are judgmental in nature.

During the fourth quarter of 2013, the Company changed the date of its annual goodwill impairment test from June 1 to October 1. This goodwill impairment test date change was applied prospectively beginning on October 1, 2013 and had no effect on the consolidated financial statements.

At December 31, 2013, we had goodwill of $284 million. If economic conditions deteriorate or other events adversely impact the assumptions used by management in these valuations, we may be exposed to an impairment loss that, when recognized, could have a material impact on our consolidated financial condition and results of operations. At December 31, 2013, based on the annual impairment testing performed, there was no impairment recorded on any reporting unit.

Other Nonamortizable Intangible Assets

We recognized certain other nonamortizable intangible assets in our acquisition of the Diners Club business. As required by GAAP, we test other nonamortizable intangible assets for impairment annually, or more often if indicators of impairment exist. Because market data concerning acquisitions of intangible assets is not readily available, management evaluates nonamortizable intangible assets for potential impairment by estimating their fair values using discounted cash flow models. In applying these techniques, management considers historical results, business forecasts, market and industry conditions and other factors. We may also consult independent valuation experts where needed in applying these valuation techniques. The valuation methodologies we use involve assumptions about business performance, revenue and expense growth, discount rates and other assumptions that are judgmental in nature.

During the fourth quarter of 2013, the Company changed the date of its annual impairment test for nonamortizable intangible assets from June 1 to October 1. No impairment charges were identified during the impairment tests conducted at June 1, 2013 and October 1, 2013.

At December 31, 2013, we had nonamortizable intangibles of $155 million. If economic conditions deteriorate or other events adversely impact the assumptions used by management in these valuations, we may be exposed to an impairment loss that, when recognized, could have a material impact on our consolidated financial condition and results of operations. At December 31, 2013, based on the annual impairment testing performed, there was no impairment recorded on any nonamortizable intangible asset.

Income Taxes

We are subject to the income tax laws of the jurisdictions where we have business operations, primarily the United States, its states and municipalities. We must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and must also make estimates about when in the future certain items will affect taxable income in the various taxing jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. We regularly evaluate the likelihood of assessments in each of the taxing jurisdictions resulting from current and subsequent years' examinations, and tax reserves are established as appropriate.

Changes in the estimate of income taxes can occur due to tax rate changes, interpretations of tax laws, the status and resolution of examinations by the taxing authorities, and newly enacted laws and regulations that impact the relative merits of tax positions taken. When such changes occur, the effect on our consolidated financial condition and results of operations can be significant. See Note 16: Income Taxes to our consolidated financial statements for additional information about income taxes.

Purchased Credit-Impaired Loans

The estimate of expected future cash flows on purchased credit-impaired loans determines the amount of interest income we can recognize in future periods and impacts whether a loan loss reserve must be established for these loans. We re-evaluate, by pool, the amount and timing of expected cash flows quarterly using updated loan portfolio characteristics as well as assumptions regarding expected borrower default and prepayment behavior. Because estimates of expected future cash flows on PCI loans involve assumptions and significant judgment, it is reasonably possible that others could derive different estimates than ours for the same periods. In addition, changes in estimates from one period to the next can have a significant impact on our consolidated financial condition and results of operations. A decrease in expected cash flows involving an increase in estimated credit losses would result in an immediate charge to earnings for the recognition of a loan loss provision. Increases or decreases in expected cash flows related solely to changes in estimated prepayments or to changes in variable interest rate indices would result in prospective yield adjustments over the remaining life of the loans. An increase in expected cash flows due to a reduction in expected credit losses would result first in the reversal of any previously established loan loss reserve on PCI loans through an immediate credit to earnings and then, if needed, a prospective adjustment to yield over the remaining life of the loans.

If management used a different estimate of expected borrower defaults, our consolidated statement of financial condition and results of operations could have differed. For example, a 10% increase in the expected borrower default rate of each PCI loan pool as of December 31, 2013 could have resulted in an additional impairment of up to $19 million. This impairment would have been reflected as an increase in provision for loan losses and a decrease in the carrying value of the PCI loans. The accounting and estimates used in our calculations are discussed further in Note 5: Loan Receivables to our consolidated financial statements.

Earnings Summary

The following table outlines changes in our consolidated statements of income for the periods presented (dollars in millions):

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30, 2012	2011	For the One Month Ended December 31, 2012	Calendar Year 2013 vs. Fiscal Year 2012 increase (decrease) $	%	Fiscal Year 2012 vs. Fiscal Year 2011 increase (decrease) $	%
Interest income	$7,064	$6,703	$6,345	$595	$361	5%	$358	6%
Interest expense	1,146	1,331	1,485	103	(185)	(14)%	(154)	(10)%
Net interest income	5,918	5,372	4,860	492	546	10%	512	11%
Provision for loan losses	1,086	848	1,013	178	238	28%	(165)	(16)%
Net interest income after provision for loan losses	4,832	4,524	3,847	314	308	7%	677	18%
Other income	2,306	2,281	2,205	200	25	1%	76	3%

Other expense	3,194	3,052	2,541	240	142	5	%	511	20	%
Income before income tax expense	3,944	3,753	3,511	274	191	5	%	242	7	%
Income tax expense	1,474	1,408	1,284	104	66	5	%	124	10	%
Net income	$2,470	$2,345	$2,227	$170	$125	5	%	$118	5	%

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Net Interest Income

The tables that follow this section have been provided to supplement the discussion below and provide further analysis of net interest income, net interest margin and the impact of rate and volume changes on net interest income. Net interest income represents the difference between interest income earned on our interest-earning assets and the interest expense incurred to finance those assets. We analyze net interest income in total by calculating net interest margin (net interest income as a percentage of average total loan receivables) and net yield on interest-bearing assets (net interest income as a percentage of average total interest-earning assets). We also separately consider the impact of the level of loan receivables and the related interest yield and the impact of the cost of funds related to each of our funding sources, along with the income generated by our liquidity portfolio, on net interest income.

Our interest-earning assets consist of: (i) cash and cash equivalents, which includes amounts on deposit with the Federal Reserve, highly rated certificates of deposit, and triple-A rated government mutual funds, (ii) restricted cash, (iii) other short-term investments, (iv) investment securities and (v) loan receivables. Our interest-bearing liabilities consist primarily of deposits, both direct-to-consumer and brokered, and long-term borrowings, including amounts owed to securitization investors. Net interest income is influenced by the following:

- The level and composition of loan receivables, including the proportion of credit card loans to other loans, as well as the proportion of loan receivables bearing interest at promotional rates as compared to standard rates;
- The credit performance of our loans, particularly with regard to charge-offs of finance charges, which reduce interest income;
- The terms of long-term borrowings and certificates of deposit upon initial offering, including maturity and interest rate;
- The level and composition of other interest-bearing assets and liabilities, including our liquidity portfolio;
- Changes in the interest rate environment, including the levels of interest rates and the relationships among interest rate indices, such as the prime rate, the Federal Funds rate and the London Interbank Offered Rate ("LIBOR");
- The effectiveness of interest rate swaps in our interest rate risk management program; and
- The difference between the carrying amount and future cash flows expected to be collected on PCI loans.

For the Calendar Year Ended December 31, 2013 compared to the Fiscal Year Ended November 30, 2012

Net interest margin increased for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012 primarily driven by decreased funding costs and growth in loan receivables, partially offset by lower yields on loan receivables. The decrease in loan receivable yields was driven by growth in credit card promotional balances and a decline in higher rate balances, partially offset by growth in customers with revolving balances.

Interest income increased during the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012 primarily due to higher interest income from credit card loans, personal loans and private student loans resulting from growth across these products combined with lower credit card loan interest charge-offs. The increase in interest income from these products was partially offset by a decrease in yield on credit card loan receivables along with a decrease in PCI student loan balances.

Interest income on other interest-earning assets, which largely relates to investment income on our liquidity portfolio, decreased during the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012 due to lower levels of liquidity. This decrease was partially offset by higher interest rates from a continued shift in the mix of our liquidity portfolio to higher yielding investments. Interest expense declined during the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012 primarily due to the combination of deposits bearing higher interest rates maturing and being replaced by deposits bearing lower interest rates and maturities of borrowings and certain asset-backed securities.

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For the Fiscal Year Ended November 30, 2012 compared to the Fiscal Year Ended November 30, 2011

Net interest margin increased for the fiscal year ended November 30, 2012 as compared to the same period in 2011. This increase was primarily due to improved funding rates on our deposit products, partially offset by lower yields on credit cards and growth in private student loans, which have lower yields as compared to other products.

Interest income increased during the fiscal year ended November 30, 2012, as compared to the same period in 2011, primarily due to higher interest income across all of our loan products. The increase in interest income on credit card loans was driven by higher average levels of loans and lower interest charge-offs, offset in part by a decline in yield. The decrease in yield was due to the combination of higher levels of loans being offered at a promotional rate, as well as the receivable repricing restrictions under the CARD Act. The increase in interest income on private student loans was due to organic growth in our student loan receivables. Interest income on our PCI student loans increased due to the acquisition of additional PCI private student loans on September 30, 2011 (see Note 5: Loan Receivables to our consolidated financial statements), partially offset by a decrease in yield due to the lower yield on the acquired PCI student loans. Interest income on personal loans also increased due to growth in the portfolio, combined with an increase in the yield.

Interest income on other interest-earning assets, which largely relates to investment income on our liquidity portfolio, increased during the fiscal year ended November 30, 2012, primarily due a continued shift in the mix of our liquidity portfolio to higher yielding investments, and higher average levels of liquidity. Interest expense declined in the fiscal year ended November 30, 2012, as compared to 2011, primarily due to deposits bearing higher interest rates maturing and being replaced by deposits bearing lower interest rates.

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Average Balance Sheet Analysis
(dollars in millions)

	Calendar Year Ended December 31, 2013			Fiscal Year Ended November 30, 2012			2011			One Month Ended December 31, 2012		
	Average Balance	Rate	Interest	Average Balance	Rate	Interest	Average Balance	Rate	Interest	Average Balance	Rate	Interest
Assets												
Interest-earning assets:												
Cash and cash equivalents	$5,557	0.25 %	$14	$5,074	0.27 %	$14	$3,920	0.24 %	$10	$2,704	0.25 %	$—
Restricted cash	704	0.10 %	1	924	0.15 %	2	1,180	0.14 %	2	1,400	0.11 %	—
Other short-term investments	—	NM	—	—	NM	—	153	1.07 %	1	—	NM	—
Investment securities	5,190	1.42 %	74	6,437	1.24 %	80	5,660	1.05 %	59	6,247	1.34 %	7
Loan receivables(1):												
Credit card(2)(3)	49,816	12.00 %	5,978	47,301	12.16 %	5,751	45,522	12.42 %	5,654	50,494	11.92 %	510
Personal loans	3,706	12.52 %	464	2,944	12.35 %	363	2,228	11.94 %	266	3,290	12.43 %	35
Federal student loans(4)	—	NM	—	121	1.64 %	2	754	1.58 %	12	—	NM	—
Private student loans	3,561	7.07 %	252	2,557	7.20 %	184	1,637	7.04 %	115	3,021	7.22 %	18
PCI student loans	4,434	6.13 %	272	4,998	6.06 %	303	3,105	7.25 %	225	4,724	5.96 %	24
Mortgage loans held for sale	216	3.47 %	7	96	1.10 %	1	—	NM	—	310	3.05 %	1
Other	87	3.00 %	2	26	11.98 %	3	14	2.95 %	1	38	5.24 %	—
Total loan receivables	61,820	11.28 %	6,975	58,043	11.38 %	6,607	53,260	11.78 %	6,273	61,877	11.21 %	588
Total interest-earning assets	73,271	9.64 %	7,064	70,478	9.51 %	6,703	64,173	9.89 %	6,345	72,228	9.73 %	595
Allowance for loan losses	(1,639)			(1,948)			(2,710)			(1,725)		
Other assets	4,348			4,032			3,791			4,234		
Total assets	$75,980			$72,562			$65,254			$74,737		
Liabilities and Stockholders' Equity												
Interest-bearing liabilities:												
Interest-bearing deposits:												
Time deposits(5)	$27,718	2.02 %	559	$27,033	2.61 %	706	$25,478	3.34 %	850	$27,849	2.29 %	54
Money market deposits(6)	5,719	0.87 %	50	5,413	0.92 %	50	4,656	1.23 %	57	5,368	0.88 %	4

Other interest-bearing savings deposits	9,428	0.95 %	89	8,638	1.03 %	89	5,996	1.33 %	80	8,864	1.00 %	7
Total interest-bearing deposits[7]	42,865	1.63 %	698	41,084	2.06 %	845	36,130	2.73 %	987	42,081	1.84 %	65
Borrowings:												
Short-term borrowings	199	1.57 %	3	89	1.32 %	1	128	0.10 %	—	283	1.36 %	—
Securitized borrowings[5][6]	16,297	1.74 %	284	16,979	1.95 %	331	15,968	2.10 %	335	16,998	1.80 %	26
Other long-term borrowings[5]	2,609	6.18 %	161	2,017	7.62 %	154	2,468	6.58 %	163	1,733	7.82 %	12
Total borrowings	19,105	2.35 %	448	19,085	2.55 %	486	18,564	2.68 %	498	19,014	2.34 %	38
Total interest-bearing liabilities	61,970	1.85 %	1,146	60,169	2.21 %	1,331	54,694	2.71 %	1,485	61,095	1.99 %	103
Other liabilities and stockholders' equity	14,010			12,393			10,560			13,642		
Total liabilities and stockholders' equity	$75,980			$72,562			$65,254			$74,737		
Net interest income			$5,918			$5,372			$4,860			$492
Net interest margin[8]		9.57 %			9.25 %			9.13 %			9.39 %	
Net yield on interest-bearing assets[9]		8.08 %			7.62 %			7.57 %			8.05 %	
Interest rate spread[10]		7.79 %			7.30 %			7.18 %			7.74 %	

(1) Average balances of loan receivables include non-accruing loans, which are included in the yield calculations. If the non-accruing loan balances were excluded, there would not be a material impact on the amounts reported above.

(2) Interest income on credit card loans includes $171 million, $179 million, $225 million and $13.9 million of amortization of balance transfer fees for the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, respectively.

(3) Includes the impact of interest rate swap agreements used to change a portion of certain floating-rate credit card loan receivables to fixed-rate.

(4) Includes federal student loans held for sale.

(5) Includes the impact of interest rate swap agreements used to change a portion of fixed-rate funding to floating-rate funding.

(6) Includes the impact of interest rate swap agreements used to change a portion of floating-rate funding to fixed-rate funding.

(7) Includes the impact of FDIC insurance premiums and special assessments, and all periods reflect management's product allocation methodology as of fourth quarter 2011.

(8) Net interest margin represents net interest income as a percentage of average total loan receivables.

(9) Net yield on interest-bearing assets represents net interest income as a percentage of average total interest-earning assets.

(10) Interest rate spread represents the difference between the rate on total interest-earning assets and the rate on total interest-bearing liabilities.

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Rate/Volume Variance Analysis[1]
(dollars in millions)

	Calendar Year Ended December 31, 2013 vs. Fiscal Year Ended November 30, 2012			Fiscal Year Ended November 30, 2012 vs. Fiscal Year Ended November 30, 2011		
	Volume	Rate	Total	Volume	Rate	Total
Increase/(decrease) in net interest income due to changes in:						
Interest-earning assets:						
Cash and cash equivalents	$1	$(1)	$—	$3	$1	$4
Restricted cash	—	(1)	(1)	—	—	—
Other short-term investments	—	—	—	(1)	—	(1)
Investment securities	(17)	11	(6)	9	12	21
Loan receivables:						
Credit card	302	(75)	227	218	(121)	97
Personal loans	96	5	101	88	9	97
Federal student loans	(2)	—	(2)	(10)	—	(10)
Private student loans	71	(3)	68	66	3	69
PCI student loans	(34)	3	(31)	120	(42)	78
Mortgage loans held for sale	2	4	6	1	—	1
Other	3	(4)	(1)	—	2	2
Total loan receivables	438	(70)	368	483	(149)	334
Total interest income	422	(61)	361	494	(136)	358
Interest-bearing liabilities:						
Interest-bearing deposits:						
Time deposits	18	(165)	(147)	49	(193)	(144)
Money market deposits	3	(3)	—	9	(16)	(7)
Other interest-bearing savings deposits	8	(8)	—	30	(21)	9
Total interest-bearing deposits	29	(176)	(147)	88	(230)	(142)
Borrowings:						
Short-term borrowings	2	—	2	—	1	1
Securitized borrowings	(13)	(34)	(47)	20	(24)	(4)
Other long-term borrowings	40	(33)	7	(32)	23	(9)
Total borrowings	29	(67)	(38)	(12)	—	(12)
Total interest expense	58	(243)	(185)	76	(230)	(154)
Net interest income	$364	$182	$546	$418	$94	$512

(1) The rate/volume variance for each category has been allocated on a consistent basis between rate and volume variances between the calendar year ended December 31, 2013, fiscal year ended November 30, 2012 and fiscal year ended November 30, 2011 based on the percentage of the rate or volume variance to the sum of the two absolute variances.

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Loan Quality

Loan receivables consist of the following (dollars in millions):

	December 31,		November 30,			
	2013	2012	2012	2011	2010	2009 (Non-GAAP As-Adjusted[1])
Mortgage loans held for sale	$148	$355	$322	$—	$—	$ —
Student loans held for sale	—	—	—	714	788	—
Loan portfolio:						
Credit card loans:						
Discover card	52,952	50,929	49,436	46,748	45,244	47,055
Discover business card	198	206	206	224	258	404
Total credit card loans	53,150	51,135	49,642	46,972	45,502	47,459
Other loans:						
Personal loans	4,191	3,296	3,272	2,648	1,878	1,394
Federal student loans	—	—	—	—	—	1,353
Private student loans	3,969	3,072	3,000	2,069	999	580
Other	135	38	37	17	14	68
Total other loans	8,295	6,406	6,309	4,734	2,891	3,395
PCI student loans[2]	4,178	4,702	4,744	5,250	—	—
Total loan portfolio	65,623	62,243	60,695	56,956	48,393	50,854
Total loan receivables	65,771	62,598	61,017	57,670	49,181	50,854
Allowance for loan losses	(1,648)	(1,788)	(1,725)	(2,205)	(3,304)	(3,902)
Net loan receivables	$64,123	$60,810	$59,292	$55,465	$45,877	$ 46,952

(1) Discover card loan balances and the allowance for loan losses for 2009 are presented on a non-GAAP as-adjusted basis. No adjustments have been made to any other loan product. See reconciliation in "— Reconciliations of GAAP to Non-GAAP As-Adjusted Data."

(2) Represents purchased credit-impaired private student loans (see Note 5: Loan Receivables to our consolidated financial statements).

Provision and Allowance for Loan Losses

Provision for loan losses is the expense related to maintaining the allowance for loan losses at an appropriate level to absorb the estimated probable losses in the loan portfolio at each period end date. Factors that influence the provision for loan losses include:

- The impact of general economic conditions on the consumer, including unemployment levels, bankruptcy trends and interest rate movements;
- Changes in consumer spending and payment behaviors;
- Changes in our loan portfolio, including the overall mix of accounts, products and loan balances within the portfolio and maturation of the loan portfolio;
- The level and direction of historical and anticipated loan delinquencies and charge-offs;
- The credit quality of the loan portfolio, which reflects, among other factors, our credit granting practices and effectiveness of collection efforts; and
- Regulatory changes or new regulatory guidance.

In calculating the allowance for loan losses, we estimate probable losses separately for segments of the loan portfolio that have similar risk characteristics. We use a migration analysis to estimate the likelihood that a loan will progress through the various stages of delinquency. We use other analyses to estimate losses incurred from non-delinquent accounts which adds to the identification of loss emergence. We use these analyses together as a basis for determining our allowance for loan losses.

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The allowance for loan losses was $1.6 billion at December 31, 2013, which reflects a $140 million reserve release over the amount of the allowance for loan losses at December 31, 2012. The reserve release, which primarily related to credit card loan receivables, was driven by continuing favorability in delinquencies resulting in lower charge-offs, both contractual and bankruptcy, which resulted in lower estimated losses. At December 31, 2012, the allowance for loan losses was $1.8 billion, which reflects a $63 million increase in reserves as compared to the amount of the allowance for loan losses at November 30, 2012. The reserve increase was driven by an increase in projected charge-offs in the month of December which related to loan growth. At November 30, 2012, the allowance for loan losses was $1.7 billion, which reflects a $480 million reserve release over the amount of the allowance for loan losses at November 30, 2011, driven by favorability in credit performance of the portfolio and a continuation of a declining trend in net charge-offs.

The provision for loan losses is the amount of expense realized after considering the level of net charge-offs in the period and the required amount of allowance for loan losses at the balance sheet date. For the calendar year ended December 31, 2013, the provision for loan losses increased by $238 million, or 28%, as compared to the fiscal year ended November 30, 2012. The increase was due to lower levels of reserve releases during the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012, as discussed above, partially offset by a decrease in net charge-offs. For the one month ended December 31, 2012, the provision for loan losses was $178 million, which included a reserve build of $63 million. This reserve build was due to an increase in the forecast for net charge-offs due to loan growth. For the fiscal year ended November 30, 2012, a reduction in reserve requirements led to a decrease in the provision for loan losses of $165 million, or 16%. For the fiscal year ended November 30, 2011, the provision decreased $2.2 billion.

At December 31, 2013, the level of the allowance related to personal loans increased as compared to December 31, 2012 due to loan growth and continued seasoning of the portfolio. The level of allowance attributable to student loans for the same period increased, primarily due to a PCI student loan impairment recorded as a result of revisions to credit loss assumptions for the underlying loans. In addition, the allowance related to student loans increased due to growth and continued seasoning of the portfolio. "Seasoning" refers to the maturing of a loan portfolio as, in general, loans do not begin to show signs of credit deterioration or default until they have been in repayment for some period of time. For student loans, payments are not required while the borrower is still in school; therefore, this loan portfolio matures at a slower pace than our other loan portfolios. The level of allowance related to other loans for the same period increased by $16 million driven primarily by provision charges on a small number of loans to Diners Club licensees. At November 30, 2012, the allowance related to personal loans and private student loans increased $15 million and $20 million as compared to November 30, 2011, respectively. These increases were attributable to growth in the respective portfolios along with continued seasoning of the private student loan portfolio.

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The following tables provide changes in our allowance for loan losses for the periods presented (dollars in millions):

	For the Calendar Year Ended December 31, 2013				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$1,613	$99	$75	$1	$1,788
Additions:					
Provision for loan losses	893	92	84	17	1,086
Deductions:					
Charge-offs	(1,604)	(86)	(48)	(1)	(1,739)
Recoveries	504	7	2	—	513
Net charge-offs	(1,100)	(79)	(46)	(1)	(1,226)
Balance at end of period	$1,406	$112	$113	$17	$1,648

	For the One Month Ended December 31, 2012				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$1,554	$97	$73	$1	$1,725
Additions:					
Provision for loan losses	165	9	4	—	178
Deductions:					
Charge-offs	(146)	(8)	(2)	—	(156)
Recoveries	40	1	—	—	41
Net charge-offs	(106)	(7)	(2)	—	(115)
Balance at end of period	$1,613	$99	$75	$1	$1,788

	For the Fiscal Year Ended November 30, 2012				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$2,070	$82	$53	$—	$2,205
Additions:					
Provision for loan losses	724	84	39	1	848
Deductions:					
Charge-offs	(1,817)	(73)	(19)	—	(1,909)
Recoveries	577	4	—	—	581
Net charge-offs	(1,240)	(69)	(19)	—	(1,328)
Balance at end of period	$1,554	$97	$73	$1	$1,725

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The following tables provide changes in our allowance for loan losses for the periods presented (dollars in millions):

	For the Fiscal Year Ended November 30, 2011				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$3,209	$76	$18	$1	$3,304
Additions:					
Provision for loan losses	897	73	42	1	1,013
Deductions:					
Charge-offs	(2,615)	(69)	(7)	(2)	(2,693)
Recoveries	579	2	—	—	581
Net charge-offs	(2,036)	(67)	(7)	(2)	(2,112)
Balance at end of period	$2,070	$82	$53	$—	$2,205

	For the Fiscal Year Ended November 30, 2010				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$1,648	$95	$14	$1	$1,758
Additions:					
Addition to allowance related to securitized receivables (1)	2,144	—	—	—	2,144
Provision for loan losses	3,126	72	8	1	3,207
Deductions:					
Charge-offs related to loans sold	(25)	—	—	—	(25)
Charge-offs	(4,154)	(92)	(4)	(1)	(4,251)
Recoveries	470	1	—	—	471
Net charge-offs	(3,684)	(91)	(4)	(1)	(3,780)
Balance at end of period	$3,209	$76	$18	$1	$3,304

	For the Year Ended November 30, 2009(2) (Non-GAAP As-Adjusted)				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$2,697	$52	$4	$1	$2,754
Additions:					
Provision for loan losses	5,001	111	11	—	5,123
Deductions:					
Charge-offs	(4,304)	(69)	(1)	—	(4,374)
Recoveries	398	1	—	—	399
Net charge-offs	(3,906)	(68)	(1)	—	(3,975)
Balance at end of period	$3,792	$95	$14	$1	$3,902

(1) On December 1, 2009, upon adoption of the Financial Accounting Standards Board (“FASB”) Statements No. 166 and 167, we recorded $2.1 billion allowance for loan losses related to newly consolidated and reclassified credit card loan receivables.

(2) Information related to credit card and total loans for 2009 is presented on an adjusted basis. No adjustments have been made for personal loans, federal and private student loans or other loans. See reconciliation in "—Reconciliations of GAAP to Non-GAAP As-Adjusted Data."

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Net Charge-offs

Our net charge-offs include the principal amount of losses charged off less principal recoveries and exclude charged-off interest and fees, recoveries of interest and fees and fraud losses. Charged-off and recovered interest and fees are recorded in interest and loan fee income, respectively, which is effectively a reclassification of the provision for loan losses, while fraud losses are recorded in other expense. Credit card loan receivables are charged off at the end of the month during which an account becomes 180 days contractually past due. Closed-end consumer loan receivables are generally charged-off at the end of the month during which an account becomes 120 days contractually past due. Generally, customer bankruptcies and probate accounts are charged-off at the end of the month 60 days following the receipt of notification of the bankruptcy or death but not later than the 180-day or 120-day contractual time frame.

The following table presents amounts and rates of net charge-offs of key loan products (dollars in millions):

	For the Calendar Year Ended December 31, 2013		For the Fiscal Years Ended November 30, 2012		2011		2010		2009 (Non-GAAP As-Adjusted[1])		For the One Month Ended December 31, 2012	
	$	%	$	%	$	%	$	%	$	%	$	%
Credit card loans	$1,100	2.21 %	$1,240	2.62 %	$2,036	4.47 %	$3,684	8.02 %	$3,906	8.00 %	$106	2.47 %
Personal loans	$79	2.13 %	$69	2.33 %	$67	3.02 %	$91	5.72 %	$68	5.53 %	$7	2.52 %
Private student loans (excluding PCI[(2)])	$46	1.30 %	$19	0.73 %	$7	0.48 %	$4	0.33 %	$1	0.05 %	$2	0.81 %

(1) Information related to credit card loan receivables for 2009 is presented on a non-GAAP as-adjusted basis. No adjustments have been made for personal loan or private student loan receivables. See reconciliation in "—Reconciliations of GAAP to Non-GAAP As-Adjusted Data."

(2) Charge-offs for PCI loans did not result in a charge to earnings during any of the years presented and are therefore excluded from the calculation. See Note 5: Loan Receivables to our consolidated financial statements for more information regarding the accounting for charge-offs on PCI loans.

The net charge-off rate on our credit card loan receivables decreased 41 basis points for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012. The decrease in the net charge-off rate for credit card loan receivables was driven by lower net charge-offs due to the continuing trend of low delinquencies combined with higher receivables balances. The net charge-off rate on our personal loan receivables declined by 20 basis points for the same period due to growth in the personal loan portfolio. The net charge-off rate on our private student loans excluding PCI loans increased 57 basis points due to a larger portion of the portfolio entering repayment.

The net charge-off rate on our credit card loan receivables decreased 185 basis points for the fiscal year ended November 30, 2012 as compared to the fiscal year ended November 30, 2011. The decrease in net charge-offs was attributable to an overall improvement in credit quality. Net charge-offs for private student loans increased slightly from prior fiscal year due to the seasoning of the portfolio as well as more loans entering repayment.

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Delinquencies

Delinquencies are an indicator of credit quality at a point in time. A loan balance is considered delinquent when contractual payments on the loan become 30 days past due.

The following table presents the amounts and delinquency rates of key loan products that are 30 and 90 days or more delinquent, loan receivables that are not accruing interest, regardless of delinquency and restructured loans (dollars in millions):

	Calendar Year Ended December 31, 2013		Fiscal Year Ended November 30,						Fiscal Year Ended November 30, 2009 (Non-GAAP As-Adjusted[1])		One Month Ended December 31, 2012	
			2012		2011		2010					
	$	%	$	%	$	%	$	%	$	%	$	%
Loans 30 days delinquent or more:												
Credit card loans	$912	1.72 %	$925	1.86 %	$1,117	2.38 %	$1,831	4.02 %	$2,657	5.60 %	$917	1.79 %
Personal loans	$29	0.70 %	$25	0.76 %	$22	0.87 %	$29	1.57 %	$30	2.17 %	$26	0.77 %
Private student loans (excluding PCI loans[2])	$66	1.66 %	$32	1.07 %	$13	0.63 %	$5	0.50 %	$—	0.13 %	$37	1.22 %
Loans 90 days delinquent or more:												
Credit card loans	$447	0.84 %	$451	0.91 %	$560	1.19 %	$958	2.11 %	$1,393	2.94 %	$460	0.90 %
Personal loans	$8	0.21 %	$8	0.23 %	$7	0.28 %	$11	0.57 %	$10	0.71 %	$8	0.23 %
Private student loans (excluding PCI loans[2])	$18	0.46 %	$8	0.27 %	$3	0.14 %	$1	0.14 %	$—	0.03 %	$9	0.29 %
Loans not accruing interest	$200	0.33 %	$198	0.35 %	$207	0.40 %	$326	0.67 %	$438	0.86 %	$192	0.33 %
Restructured loans:												
Credit card loans[3]	$1,123	2.11 %	$1,332	2.68 %	$1,217	2.59 %	$305	0.67 %	$218	0.46 %	$1,309	2.56 %
Personal loans[4]	$31	0.74 %	$21	0.64 %	$8	0.29 %	$—	— %	$—	— %	$21	0.65 %
Private student loans(excluding PCI loans[2])[5]	$28	0.71 %	$15	0.50 %	$5	0.26 %	$—	— %	$—	— %	$16	0.53 %

(1) Information related to credit card loan receivables for 2009 is presented on a non-GAAP as-adjusted basis. No adjustments have been made for personal loan or private student loan receivables. See reconciliation in "—Reconciliations of GAAP to Non-GAAP As-Adjusted Data."

(2) Excludes PCI loans which are accounted for on a pooled basis. Since a pool is accounted for as a single asset with a single composite interest rate and aggregate expectation of cash flows, the past-due status of a pool, or that of the individual loans within a pool, is not meaningful. Because we are recognizing interest income on a pool of loans, it

is all considered to be performing.

(3) Restructured loans include $43 million, $54 million, $56 million, $38 million, $35 million and $10.0 million at December 31, 2013 and 2012 and November 30, 2012, 2011, 2010, and 2009, respectively, that are also included in loans over 90 days delinquent or more.

(4) Restructured loans include $2 million, $2 million and $1 million at December 31, 2013, December 31, 2012 and November 30, 2012, respectively, that are also included in loans over 90 days delinquent or more.

(5) Restructured loans include $3 million, $2 million and $2 million at December 31, 2013, December 31, 2012 and November 30, 2012, respectively, that are also included in loans over 90 days delinquent or more.

Both credit card and personal loan receivables 30-day and 90-day delinquency rates at December 31, 2013 decreased slightly as compared to December 31, 2012 due to continuing favorable economic factors. The delinquency rates for private student loan balances at December 31, 2013 increased as compared to December 31, 2012 due to the seasoning of our loan portfolio as more loans have entered repayment. Restructured credit card loans at December 31, 2013 decreased compared to December 31, 2012 due to continued improvement in customer credit performance.

At December 31, 2012, both credit card and personal loan receivables 30-day and 90-day delinquency rates, as well as the student loan 90-day delinquency rate, were relatively flat as compared to November 30, 2012. The 30-day delinquency rates for private student loan balances at December 31, 2012 increased as compared to November 30, 2012 due to the seasoning of our loan portfolio and as more loans have entered repayment. Loan receivables not accruing interest and restructured loans at December 31, 2012 were relatively flat compared to November 30, 2012.

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Maturities and Sensitivities of Loan Receivables to Changes in Interest Rates

Our loan portfolio had the following maturity distribution[(1)] at December 31, 2013 (dollars in millions):

	Due One Year or Less	Due After One Year Through Five Years	Due After Five Years	Total
Credit card loans	$15,435	$28,150	$9,565	$53,150
Personal loans	1,098	2,927	166	4,191
Private student loans (excluding PCI)	81	598	3,290	3,969
PCI private student loans	321	1,335	2,522	4,178
Other loans	63	19	53	135
Total loan portfolio	$16,998	$33,029	$15,596	$65,623

(1) Because of the uncertainty regarding loan repayment patterns, the above amounts have been calculated using contractually required minimum payments. Historically, actual loan repayments have been higher than such minimum payments and, therefore, the above amounts may not necessarily be indicative of our actual loan repayments.

At December 31, 2013, approximately $33.5 billion of our loan portfolio due after one year had interest rates tied to an index and approximately $15.1 billion were fixed rate loans.

Modified and Restructured Loans

We have loan modification programs that provide for temporary or permanent hardship relief for our credit card loans to borrowers experiencing financial difficulties. The temporary hardship program primarily consists of a reduced minimum payment and an interest rate reduction, both lasting for a period no longer than 12 months. The permanent modification program involves changing the structure of the loan to a fixed payment loan with a maturity no longer than 60 months and reducing the interest rate on the loan. The permanent modification programs do not normally provide for the forgiveness of unpaid principal, but may allow for the reversal of certain unpaid interest or fee assessments. We also make loan modifications for customers who request financial assistance through external sources, such as a consumer credit counseling agency program. These loans continue to be subject to the original minimum payment terms and do not normally include waiver of unpaid principal, interest or fees. For additional information regarding the accounting treatment for these loans as well as amounts recorded in the financial statements related to these loans, see Note 5: Loan Receivables to our consolidated financial statements.

For student loan borrowers, in certain situations we offer payment forbearance to borrowers who are experiencing temporary financial difficulties and are willing to resume making payments. When a delinquent borrower is granted a second forbearance period, we classify these loans as troubled debt restructurings.

For personal loan customers, in certain situations we offer various payment programs, including temporary and permanent programs. The temporary programs normally consist of a reduction of the minimum payment for a period of no longer than 12 months with a final balloon payment required at the end of the loan term and in certain circumstances reducing the interest rate on the loan. The permanent program involves changing the terms of the loan in order to pay off the outstanding balance over the new term for a period no longer than four years and also in certain circumstances reducing the interest rate on the loan. The total term may not exceed nine years. We also allow loan modifications for customers who request financial assistance through external sources, similar to our credit card customers discussed above. Payments are modified based on the new terms agreed upon with the credit counseling agency. Personal loans included in temporary and permanent programs are accounted for as troubled debt restructurings.

Borrower performance after using payment programs or forbearance is monitored and we believe the programs help to prevent defaults and are useful in assisting customers experiencing financial difficulties. We plan to continue to use payment programs and forbearance and, as a result, we expect to have additional loans classified as troubled debt restructurings in the future.

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Other Income

The following table presents the components of other income for the periods presented (dollars in millions):

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30, 2012	2011	For the One Month Ended December 31, 2012	2013 Calendar Year vs. 2012 Fiscal Year increase (decrease) $	%	2012 Fiscal Year vs. 2011 Fiscal Year increase (decrease) $	%
Discount and interchange revenue[1]	$ 1,126	$1,035	$1,084	$ 82	$91	9 %	$(49)	(5)%
Protection products	350	409	428	33	(59)	(14)%	(19)	(4)%
Loan fee income	320	325	338	29	(5)	(2)%	(13)	(4)%
Transaction processing revenue	192	218	180	18	(26)	(12)%	38	21 %
Gain (loss) on investments	5	26	(4)	2	(21)	(81)%	30	NM
Gain on origination and sale of mortgage loans	144	105	—	17	39	37 %	105	NM
Other income	169	163	179	19	6	4 %	(16)	(9)%
Total other income	$ 2,306	$2,281	$2,205	$ 200	$25	1 %	$76	3 %

(1) Net of rewards, including Cashback Bonus rewards, of $1 billion, $1 billion, $879 million and $123 million for the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, respectively.

Discount and Interchange Revenue

Discount and interchange revenue includes discount revenue and acquirer interchange net of interchange paid to network partners. We earn discount revenue from fees charged to merchants with whom we have entered into card acceptance agreements for processing credit card purchase transactions. We earn acquirer interchange revenue from merchant acquirers on all Discover Network card transactions and certain Diners Club transactions made by credit card customers at merchants with whom merchant acquirers have entered into card acceptance agreements for processing credit card purchase transactions. We incur an interchange cost to card issuing entities that have entered into contractual arrangements to issue cards on the Discover Network and on certain transactions on the Diners Club network. This cost is contractually established and is based on the card issuing organization's transaction volume and is reported as a reduction to discount and interchange revenue. We offer our customers various reward programs, including the Cashback Bonus reward program, pursuant to which we pay certain customers a percentage of their purchase amounts based on the type and volume of the customer's purchases. Reward costs are recorded as a reduction to discount and interchange revenue.

Discount and interchange revenue increased for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012, driven by higher sales volume. Discount and interchange revenue decreased for the fiscal year ended November 30, 2012 as compared to the fiscal year ended November 30, 2011, driven primarily by an increase in promotional Cashback Bonus rewards earned by our customers. This increase in rewards exceeded the increase in gross discount and interchange revenue, which was attributable to higher sales volume.

Protection Products

We earn revenue related to fees received for providing ancillary products and services, including payment protection and identity theft protection services, to customers. The amount of revenue recorded is generally based on either a percentage of a customer's outstanding balance or a flat fee and is recognized as earned.

Protection product revenue decreased for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012, as well as for the fiscal year ended November 30, 2012 as compared to the fiscal year ended November 30, 2011 reflecting lower sales volume related to these products as we have implemented changes in our offer strategies, which reduced selling over the last few years and which ceased at the end of 2012.

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Loan Fee Income

Loan fee income consists primarily of fees on credit card loans and includes late, cash advance, and other miscellaneous fees. Loan fee income decreased slightly for both the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012, and for the fiscal year ended November 30, 2012 as compared to the fiscal year ended November 30, 2011. Lower levels of delinquencies resulted in a lower volume of loan fees being generated during the calendar year ended December 31, 2013 and the fiscal year ended November 30, 2012. This decrease was partially offset by fewer late fee charge-offs as overall net charge-offs declined due to a decrease in our credit card delinquency rates.

Transaction Processing Revenue

Transaction processing revenue represents switch fees charged to financial institutions and merchants for processing ATM, debit and point-of-sale transactions over the PULSE network, as well as various participation and membership fees. Switch fees are charged on a per transaction basis. Transaction processing revenue decreased for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012, reflecting the impact of merchant rerouting and lower rates. Transaction processing revenue increased for the fiscal year ended November 30, 2012, as compared to the fiscal year ended November 30, 2011, primarily due to higher PULSE transaction volumes partially offset by increased business development costs and customer incentive payments.

Gain (Loss) on Investments

Gain (loss) on investments includes realized gains and losses on the sale of investments, as well as any write-downs of investment securities to fair value when the decline in fair value is considered other than temporary. Gain (loss) on investments for the calendar year ended December 31, 2013 was mainly comprised of gains on U.S. Treasury and Agency Securities and other equity investments. Gain (loss) on investment securities for the fiscal year ended November 30, 2012 was comprised almost entirely of a gain of $26 million related to the liquidation of a minority interest in an equity investment. There was no similar benefit recognized in 2011.

Gain on Origination and Sale of Mortgage Loans

Gain on sale of mortgage loans consists of the net gain on the origination and sale of loans as well as the net gain on the related interest rate lock commitments and the net gain or loss on forward delivery contracts. Gain on sale of mortgage loans increased for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012, due to a full year of activity for the calendar year ended December 31, 2013 as compared to only a partial year of activity for the fiscal year ended November 30, 2012. The increase was partially offset by decrease in refinance mortgage loan volume due to increasing interest rates during 2013. The partial year of activity for the fiscal year ended November 30, 2012 resulted from the acquisition and integration of the assets of Home Loan Center in June of 2012.

Other Income

Other income includes royalty revenues earned by Diners Club, merchant fees, revenue from the transition services agreement related to the acquisition of SLC, revenue from merchants related to reward programs, revenues from network partners and other miscellaneous revenue items.

Other income was relatively flat for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012. Other income decreased for the fiscal year ended November 30, 2012 as compared to the fiscal year ended November 30, 2011 as revenue from the SLC transition services agreement decreased from the prior year. Additionally, the inclusion of the impact of the bargain purchase gain related to the acquisition of SLC in the first quarter of 2011 resulted in a $7 million gain, for which there was no equivalent impact in 2012. These decreases were offset by increases in revenues from merchant rewards programs.

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Other Expense

The following table represents the components of other expense for the periods presented (dollars in millions):

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30, 2012	2011	For the One Month Ended December 31, 2012	2013 Calendar Year vs. 2012 Fiscal Year increase (decrease) $	%	2012 Fiscal Year vs. 2011 Fiscal Year increase (decrease) $	%
Employee compensation and benefits	$ 1,164	$1,048	$914	$ 87	$116	11 %	$134	15 %
Marketing and business development	717	603	537	51	114	19 %	66	12 %
Information processing and communications	333	289	264	25	44	15 %	25	9 %
Professional fees	410	432	415	34	(22)	(5)%	17	4 %
Premises and equipment	82	76	71	8	6	8 %	5	7 %
Other expense	488	604	340	35	(116)	(19)%	264	78 %
Total other expense	$ 3,194	$3,052	$2,541	$ 240	$142	5 %	$511	20 %

Total other expense increased $142 million for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012 primarily due to higher employee compensation costs driven by growth in overall headcount along with a full year of operating activity of the Home Loan Center assets. Additionally, marketing and business development costs increased due to growth initiatives. Higher information processing and communications related expenses also contributed to the increase in other expense mainly related to increased software maintenance, licenses, and technology expenses due to growth initiatives. Other expense decreased primarily due to legal expenses associated with the consent order that Discover Bank entered into with the FDIC and CFPB, for which there was no equivalent impact in 2013.

Total other expense increased $511 million for the fiscal year ended November 30, 2012 as compared to the fiscal year ended November 30, 2011 primarily due to legal expenses associated with the consent order referenced above. Litigation-related expenses, included in other expenses, were $218 million for the fiscal year ended November 30, 2012 as compared to $22 million for the fiscal year ended November 30, 2011. The increase in total other expense was also driven by higher employee compensation costs from increased headcount, which was partially related to the acquisition of the assets of Home Loan Center. In addition, marketing and business development expenses increased due to growth initiatives. Higher incentive payments related to merchant global acceptance also contributed to the increase in total other expense.

Income Tax Expense

The following table reconciles our effective tax rate to the U.S. federal statutory income tax rate:

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30, 2012	2011	For the One Month Ended December 31, 2012
U.S. federal statutory income tax rate	35.0 %	35.0 %	35.0 %	35.0 %
U.S. state, local and other income taxes, net of U.S. federal income tax benefits	2.2	2.9	2.4	3.2
Valuation allowance - capital loss	—	—	(0.6)	—
Other	0.2	(0.4)	(0.2)	(0.1)
Effective income tax rate	37.4 %	37.5 %	36.6 %	38.1 %

Income tax expense increased $66 million, or 4.7%, for the calendar year ended December 31, 2013 as compared to the fiscal year ended November 30, 2012, reflecting an increase in pretax income. The effective tax rate

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decreased 0.1% for the calendar year ended December 31, 2013 from 37.5% for the fiscal year ended November 30, 2012 as a result of a decrease in state income tax rates offset by the impact of the Diners Club Italy acquisition. Income tax expense increased $124 million, or 9.7%, for the fiscal year ended November 30, 2012 as compared to the fiscal year ended November 30, 2011, reflecting an increase in pretax income. The effective tax rate increased 0.9% for the fiscal year ended November 30, 2012 from 36.6% for the fiscal year ended November 30, 2011. The higher rate in the 2012 fiscal year reflects the release of a valuation allowance that was previously established on the capital loss generated from the sale of the Goldfish business unit, a decrease in uncertain state tax positions and the settlement of certain state examinations that were recorded in the 2011 fiscal year. There were no similar benefits in the 2012 fiscal year.

Liquidity and Capital Resources

Funding and Liquidity

We seek to maintain diversified funding sources and a strong liquidity profile in order to fund our business and repay or refinance our maturing obligations. In addition, we seek to achieve an appropriate maturity profile and utilize a cost-effective mix of funding sources. Our 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.

Funding Sources

Deposits

We offer deposit products to customers through two channels: (i) through direct marketing, internet origination and affinity relationships ("direct-to-consumer deposits"); and (ii) indirectly through contractual arrangements with securities brokerage firms ("brokered deposits"). Direct-to-consumer deposits include certificates of deposit, money market accounts, online savings and checking accounts and IRA certificates of deposit, while brokered deposits include certificates of deposit and sweep accounts.

At December 31, 2013, we had $28.4 billion of direct-to-consumer deposits and $16.4 billion of brokered deposits. Maturities of our certificates of deposit range from one month to ten years, with a weighted average maturity of 22 months.

The following table summarizes deposits by contractual maturity as of December 31, 2013 (dollars in millions):

	Total	Three Months or Less	Over Three Months Through Six Months	Over Six Months Through Twelve Months	Over Twelve Months	Indeterminate
Certificates of deposit in amounts less than $100,000(1)	$21,211	$1,537	$2,961	$4,602	$12,111	$ —
Certificates of deposit in amounts of $100,000 to less than $250,000(1)	4,860	670	573	1,305	2,312	—
Certificates of deposit in amounts of $250,000(1)or greater	1,180	181	118	278	603	—
Savings deposits, including money market deposit accounts(2)	17,515	—	—	—	—	17,515
Total interest-bearing deposits	$44,766	$2,388	$3,652	$6,185	$15,026	$ 17,515

(1) $100,000 represents the basic insurance amount previously covered by the FDIC. Effective July 21, 2010, the basic insurance per depositor was permanently increased to $250,000.

(2) Represents deposits with no contractual maturity, except for structured sweep deposits associated with agreements entered into with third parties.

Credit Card Securitization Financing

We use the securitization of credit card receivables as an additional source of funding. We access the asset-backed securitization market using the Discover Card Master Trust I ("DCMT") and the Discover Card Execution Note Trust ("DCENT"), through which we issue asset-backed securities both publicly and through private transactions. We retain significant exposure to the performance of trust assets through holdings of the seller's interest and subordinated security classes of DCMT and DCENT.

The securitization structures include certain features designed to protect investors. The primary feature relates to the availability and adequacy of cash flows in the securitized pool of receivables to meet contractual requirements, the insufficiency of which triggers early repayment of the securities. We refer to this as "economic early amortization," which is based on excess spread levels. Excess spread is the amount by which income received by a trust during a collection period, including interest collections, fees and interchange, exceeds the fees and expenses of the trust during such collection period, including interest expense, servicing fees and charged-off receivables. In the event of an economic early amortization, which would occur if the excess spread fell below 0% on a three-month rolling average basis, we would be required to repay the affected outstanding securitized borrowings using available collections received by the trust (the period of ultimate repayment would be determined by the amount and timing of collections received). An early amortization event would negatively impact our liquidity, and require us to utilize our available non-securitization related contingent liquidity or rely on alternative funding sources, which may or may not be available at the time. As of December 31, 2013, the three-month rolling average excess spread was 14.17%.

Another feature of our securitization structure, which is applicable only to the notes issued from DCENT, is a reserve account funding requirement in which, in limited circumstances, excess cash flows generated by the transferred loan receivables are held at the trust. This funding requirement is triggered when DCENT's three-month average excess spread rate decreases to below 4.50%, with increasing funding requirements as excess spread levels decline below preset levels to 0%. See Note 6: Credit Card and Student Loan Securitization Activities to our consolidated financial statements for additional information regarding the structures of DCMT and DCENT and for tables providing information concerning investors' interests and related excess spreads at December 31, 2013.

We have the right to remove a random selection of accounts, which would serve to decrease the amount of credit card loan receivables restricted for securitization investors, subject to certain requirements including that the minimum seller's interest is still met. In third quarter 2013, receivable accounts were randomly selected and removed from credit card loan receivables restricted for securitization investors in the amount of $3 billion to reduce excess seller's interest. The removal freed up the accounts to be pledged at the Federal Reserve discount window, allowing us to increase our borrowing capacity. We satisfied all requirements, including the minimum seller's interest requirement, in order to complete the account removal. For additional information regarding the seller's interest requirement, see Note 6: Credit Card and Student Loan Securitization Activities to our consolidated financial statements.

At December 31, 2013, we had $14.7 billion of outstanding public asset-backed securities, $500 million of outstanding private asset-backed securitizations and $5.0 billion of outstanding asset-backed securities that had been issued to our wholly-owned subsidiaries.

The following table summarizes expected contractual maturities of the investors' interests in credit card securitizations excluding those that have been issued to our wholly-owned subsidiaries at December 31, 2013 (dollars in millions):

	Total	Less Than One Year	One Year Through Three Years	Four Years Through Five Years	After Five Years
Scheduled maturities of long-term borrowings—owed to credit card securitization investors	$15,194	$4,290	$6,355	$3,549	$1,000

The triple-A rating of DCENT Class A Notes issued to date has been based, in part, on an FDIC rule which created a safe harbor that provides that the FDIC, as conservator or receiver, will not, using its power to disaffirm or repudiate contracts, seek to reclaim or recover assets transferred in connection with a securitization, or recharacterize them as assets of the insured depository institution, provided such transfer satisfies the conditions for sale accounting treatment under previous GAAP. Although the implementation of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 860, Transfers and Servicing), no longer qualified certain transfers of assets for sale accounting treatment, the FDIC approved a final rule that preserved the safe-harbor treatment applicable to revolving trusts and master trusts, including DCMT, so long as those trusts would have satisfied the original FDIC safe harbor if evaluated under GAAP pertaining to transfers of financial assets in effect prior to December 1, 2009. Other legislative and regulatory developments may, however, impact our ability and/or desire to issue asset-backed securities in the future.

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Corporate and Bank Debt
At December 31, 2013, the Parent Company had $1.3 billion in principal amount of senior notes outstanding. Discover Bank had $1.8 billion in principal amount of senior notes (issued during the first, third and fourth quarters of the 2013 calendar year) and $700 million in principal amount of subordinated notes outstanding.
At December 31, 2013, our senior notes are comprised of a $400 million issuance due in June 2017, a $78 million issuance due in July 2019, a $322 million issuance due in April 2022 and a $500 million issuance due in November 2022. The senior notes require us to offer to repurchase the notes at a price equal to 101% of their aggregate principal amount plus accrued and unpaid interest in the event of a change of control involving us and a corresponding ratings downgrade to below investment grade. Discover Bank’s senior notes are comprised of a $750 million issuance due February 2018 and a total issuance of $1 billion due August 2023. Discover Bank's subordinated notes are comprised of a $200 million issuance due in November 2019 and a $500 million issuance due in April 2020. For more information, see Note 10: Long-Term Borrowings to our consolidated financial statements.
Other Long-Term Borrowings—Student Loans
At December 31, 2013, we had $1.9 billion of remaining principal balance outstanding on securitized debt assumed as part of the SLC acquisition. Principal and interest payments on the underlying student loans will reduce the balance of these secured borrowings over time.
Short-Term Borrowings
We utilize a $225 million warehouse line of credit as a form of short-term borrowings. This line of credit is used for the sole purpose of funding consumer residential mortgage loans that are held for sale. The warehouse line of credit had an outstanding balance of $140 million as of December 31, 2013. In addition, we may access short-term borrowings through the Federal Funds market or through repurchase agreements. At December 31, 2013, there were no outstanding balances under the Federal Funds market or repurchase agreements.
Additional Funding Sources
Private Asset-Backed Securitizations
We have access to committed undrawn capacity through privately placed asset-backed securitizations. Under these arrangements, we had used $500 million of capacity and had undrawn capacity of $7.0 billion at December 31, 2013.
Federal Reserve
Discover Bank has access to the Federal Reserve Bank of Philadelphia’s discount window. As of December 31, 2013, Discover Bank had $14.5 billion of available capacity through the discount window based on the amount and type of assets pledged. We have no borrowings outstanding under the discount window as of December 31, 2013.
Credit Ratings
Our borrowing costs and capacity in certain funding markets, including securitizations and senior and subordinated debt, may be affected by the credit ratings of DFS, Discover Bank and the securitization trusts. Downgrades in these credit ratings could result in higher interest expense on our unsecured debt and asset securitizations, as well as potentially higher fees related to borrowings under our lines of credit. In addition to increased funding costs, deterioration in credit ratings could reduce our borrowing capacity in the unsecured debt and asset securitization capital markets.
We also have agreements with certain of our derivative counterparties that contain provisions that require DFS and Discover Bank to maintain an investment grade credit rating from specified major credit rating agencies. Because the credit rating of DFS did not meet the specified thresholds, we had posted $4 million of collateral with our counterparties at December 31, 2013. Discover Bank's credit rating met specified thresholds set by its counterparties. However, if Discover Bank’s credit rating is reduced by one ratings notch, Discover Bank would be required to post additional collateral, which, as of December 31, 2013, would have been $103 million.

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A credit rating is not a recommendation to buy, sell or hold securities, may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating. The credit ratings are summarized in the following table:

	Moody's Investors Service	Standard & Poor's	Fitch Ratings
Senior Unsecured Debt			
Discover Financial Services	Ba1	BBB-	BBB
Discover Bank	Baa3	BBB	BBB
Outlook for Senior Unsecured Debt	Stable	Positive	Stable
Subordinated Debt			
Discover Bank	Ba1	BBB-	BBB-
Discover Card Master Trust I			
Class A[(1)]	Aaa(sf)	AAA(sf)	AAAsf
Class B[(1)]	A1(sf)	AA+(sf)	AAsf
Discover Card Execution Note Trust			
Class A[(1)]	Aaa(sf)	AAA(sf)	AAAsf
Class B[(1)]	A1(sf)	AA+(sf)	AA-sf
Class C	N/A[(2)]	N/A[(2)]	N/A[(2)]

(1) An "sf" in the rating denotes rating agency identification for structured finance product ratings.
(2) All Class C notes are currently held by subsidiaries of Discover Bank and, therefore, are not publicly rated.

Liquidity

We seek to ensure that we have adequate liquidity to sustain business operations, fund asset growth and satisfy debt obligations under normal and stress conditions both at the parent company and on a consolidated basis. In addition to the funding sources discussed above, we also maintain highly liquid unencumbered assets in our investment portfolio. We employ a variety of metrics to monitor and manage liquidity. Regular liquidity stress testing and contingency funding planning is performed as part of our liquidity management process. We evaluate a range of stress scenarios including company specific and systemic events that could impact funding sources and our ability to meet liquidity needs. These scenarios measure the liquidity position over a two-year horizon by analyzing the stress on liquidity versus the ability to generate contingent liquidity. We maintain contingent funding sources, including our liquidity portfolio, private securitizations with unused capacity and Federal Reserve discount window capacity, which we could utilize to satisfy liquidity needs during such stress events. We expect to be able to satisfy all maturing obligations and fund business operations during the next 12 months by utilizing the funding sources that are currently available to us.

We maintain policies outlining the overall framework and general principles for managing liquidity risk across our business, which is the responsibility of our Asset and Liability Management Committee (the "ALCO"). We seek to balance the trade-offs between maintaining too much liquidity, which may be costly, with having too little liquidity that could cause financial distress. Liquidity risk is centrally managed by the ALCO, which is chaired by our Treasurer and has cross-functional membership. The ALCO monitors positions and determines any actions that may need to be taken.

At December 31, 2013, our liquidity portfolio was comprised of cash and cash equivalents and high quality, liquid investment securities. Cash and cash equivalents were primarily in the form of deposits with the Federal Reserve. Investment securities primarily included debt obligations of the U.S. Treasury and U.S. government agencies and residential mortgage-backed securities issued by U.S. government agencies. These investments are considered highly liquid, and we have the ability to raise cash by utilizing repurchase agreements, pledging certain of these investments to access the secured funding markets or selling them. The level and mix of our liquidity portfolio may fluctuate based upon the level of expected maturities of our funding sources as well as operational requirements and market conditions.

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At December 31, 2013, our liquidity portfolio and undrawn credit facilities were $32.6 billion, which was $7.0 billion higher than the balance at December 30, 2012. During the calendar year ended December 31, 2013, the average balance of our liquidity portfolio was $11.1 billion.

	December 31,	
	2013	2012
	(dollars in millions)	
Liquidity portfolio		
Cash and cash equivalents(1)	$6,193	$2,187
Investment securities(2)	4,922	6,145
Total liquidity portfolio	11,115	8,332
Undrawn credit facilities(3)		
Private asset-backed securitizations	7,000	6,750
Federal Reserve discount window(4)	14,500	10,487
Total undrawn credit facilities	21,500	17,237
Total liquidity portfolio and undrawn credit facilities	$32,615	$25,569

(1) Cash-in-process is excluded from cash and cash equivalents for liquidity purposes.
(2) Excludes $9 million of U.S. Treasury securities that have been pledged as swap collateral in lieu of cash as of December 31, 2013.
(3) See "—Funding Sources—Additional Funding Sources" for additional information.
(4) Excludes $5 million and $146 million of investments accounted for in the liquidity portfolio that were pledged to the Federal Reserve as of December 31, 2013 and 2012, respectively.

Capital

Our primary sources of capital are from the earnings generated by our businesses and common and preferred stock issuances in the capital markets. We seek to manage capital to a level and composition sufficient to support the risks of our businesses, meet regulatory requirements, meet rating agency targets and support future business growth. Within these constraints, we are focused on deploying capital in a manner that provides attractive returns to our stockholders. The level, composition and utilization of capital are influenced by changes in the economic environment, strategic initiatives, and legislative and regulatory developments.

Under regulatory capital requirements adopted by the FDIC, the Federal Reserve and other bank regulatory agencies, we, along with Discover Bank, must maintain minimum levels of capital. Failure to meet minimum capital requirements can result in the initiation of certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could limit our business activities and have a direct material effect on our financial position and results. We must meet specific capital guidelines that involve quantitative measures of assets and liabilities as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Our capital adequacy assessment also includes tax and accounting considerations in accordance with regulatory guidance. We maintain a substantial deferred tax asset on our balance sheet, and we include this asset when calculating our regulatory capital levels. However, for regulatory capital purposes, deferred tax assets that are dependent on future taxable income are currently limited to the lesser of: (i) the amount of deferred tax assets we expect to realize within one year of the calendar quarter-end date, based on our projected future taxable income for that year; or (ii) 10% of the amount of our Tier 1 capital. At December 31, 2013, no portion of our deferred tax asset was disallowed for regulatory capital purposes.

At December 31, 2013, Discover Financial Services and Discover Bank met the requirements for "well-capitalized" status, exceeding the regulatory minimums to which they were subject under Basel I.

Current or future legislative or regulatory initiatives may require us to hold more capital in the future. In July 2013, the Federal Reserve, OCC and the FDIC finalized rules to implement the provisions of the Basel III regulatory capital reforms that will be applicable to us and Discover Bank. The final rules include new minimum and "well-capitalized" risk-based capital and leverage ratios, effective January 1, 2015, and refine the definition of what constitutes "capital" for purposes of calculating those ratios. In October 2012, the Federal Reserve and the FDIC issued final rules implementing the stress test requirements under the Reform Act, which we will be subject to beginning this year. For additional information, see "— Regulatory Environment and Developments."

Additionally, we are required to submit an annual capital plan to the Federal Reserve that includes an assessment of our expected uses and sources of capital over the planning horizon. In 2013, we submitted a capital plan to the Federal Reserve under the Federal Reserve 2013 Capital Plan Review, or CapPR, program, which included planned dividends and share repurchases. On March 14, 2013, we received non-objection from the Federal Reserve with respect to our proposed capital actions through March 31, 2014.In January 2014, we submitted our annual capital plan to be reviewed by the Federal Reserve under the enhanced standards applied to the capital plans of CCAR BHCs under the Federal Reserve's 2013 Comprehensive Capital Analysis and Review, or CCAR, program. Therefore, the Federal Reserve is applying enhanced standards to our capital plan submissions, including evaluation based on results of supervisory stress tests and enhanced documentation and process standards. Our ability to make capital distributions, including our ability to pay dividends or repurchase shares of our common stock, will be subject to the Federal Reserve's review and non-objection of the actions that we have proposed this year in our annual capital plan.

We recently declared a quarterly cash dividend on our common stock of $0.20 per share, payable on February 20, 2014 to holders of record on February 6, 2014, which is consistent with the dividend amount that we paid in each of the second, third and fourth quarters. We also recently declared a quarterly cash dividend on our preferred stock of $16.25 per share, equal to $0.40625 per depositary share, payable on March 3, 2014 to holders of record on February 14, 2014, which was the same amount paid on our preferred stock in each of the four quarters.

On March 14, 2013, our board of directors approved a two-year share repurchase program authorizing the repurchase of up to $2.4 billion of our outstanding shares of common stock. The program expires on March 31, 2015, and may be terminated at any time. This program replaced the prior $2 billion program, which had nearly $600 million of remaining authorization. During the calendar year ended December 31, 2013, we repurchased approximately 27 million shares, or 5%, of our outstanding common stock for $1.3 billion. We expect to continue to make share repurchases under our repurchase program from time to time based on market conditions and other factors, subject to legal and regulatory requirements and restrictions. Share repurchases under the program may be made through a variety of methods, including open market purchases, privately negotiated transactions or other purchases, including block trades, accelerated share repurchase transactions, or any combination of such methods. Any share repurchases after March 31, 2014 will be subject to receiving Federal Reserve non-objection with respect to our proposed capital actions through March 31, 2015.

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 our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors. Holders of our 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, and if full dividends have not been declared and paid on all outstanding shares of preferred stock in any dividend period, no dividend may be declared or paid or set aside for payment on our common stock. In addition, as noted above, banking laws and regulations and our banking regulators may limit our ability to pay dividends and make share repurchases, including limitations on the extent to which our banking subsidiaries can provide funds to us through dividends, loans or otherwise. Further, also noted above, current or future regulatory initiatives may require us to hold more capital in the future. There can be no assurance that we will declare and pay any dividends or repurchase any shares of our common stock in the future. For more information, including conditions and limits on our ability to pay dividends and repurchase our stock, see "Business — Supervision and Regulation — Capital, Dividends and Share Repurchases," "Risk Factors — We may be limited in our ability to pay dividends on and repurchase our stock" and "— We are a holding company and depend on payments from our subsidiaries" and Note 18: Capital Adequacy to our consolidated financial statements.

Certain Off-Balance Sheet Arrangements

Guarantees

Guarantees are contracts or indemnification agreements that contingently require us to make payments to a guaranteed party based on changes in an underlying asset, liability, or equity security of a guaranteed party, rate or index. Also included in guarantees are contracts that contingently require the guarantor to make payments to a guaranteed party based on another entity's failure to perform under an agreement. Our guarantees relate to transactions processed on the Discover Network and certain transactions processed by PULSE and Diners Club. See Note 19: Commitments, Contingencies and Guarantees to our consolidated financial statements for further discussion regarding our guarantees.

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Contractual Obligations and Contingent Liabilities and Commitments

In the normal course of business, we enter into various contractual obligations that may require future cash payments. Contractual obligations at December 31, 2013 included deposits, long-term borrowings, operating and capital lease obligations, interest payments on fixed rate debt, purchase obligations and other liabilities. Our future cash payments associated with our contractual obligations as of December 31, 2013 are summarized below (dollars in millions):

		Payments Due By Period			
	Total	Less Than One Year	One Year Through Three Years	Four Years Through Five Years	More Than Five Years
Deposits[(1)(2)]	$44,959	$29,934	$9,776	$3,889	$1,360
Borrowings[(3)]	20,473	4,289	6,355	4,712	5,117
Capital lease obligations	1	1	—	—	—
Operating leases	58	15	21	15	7
Interest payments on fixed rate debt	1,636	282	533	388	433
Purchase obligations[(4)]	610	359	198	43	10
Other liabilities[(5)]	224	41	52	31	100
Total contractual obligations	$67,961	$34,921	$16,935	$9,078	$7,027

(1) Deposits do not include interest payments because payment amounts and timing cannot be reasonably estimated as certain deposit accounts have early withdrawal rights and the option to roll interest payments into the balance.

(2) Deposits due in less than one year include deposits with indeterminate maturities.

(3) See Note 10: Long-Term Borrowings to our consolidated financial statements for further discussion. Total future payment of interest charges for the floating rate notes is estimated to be $892 million as of December 31, 2013, utilizing the current interest rates as of that date.

(4) Purchase obligations for goods and services include payments under, among other things, consulting, outsourcing, data, advertising, sponsorship, software license, telecommunications agreements and global acceptance contracts. Purchase obligations also include payments under rewards program agreements with merchants. Purchase obligations at December 31, 2013 reflect the minimum purchase obligation under legally binding contracts with contract terms that are both fixed and determinable. These amounts exclude obligations for goods and services that already have been incurred and are reflected on our consolidated statement of financial condition.

(5) Other liabilities include our expected future contributions to our pension and postretirement benefit plans, the contingent liability associated with our equity method securities and a commitment to purchase certain when-issued mortgage-backed securities under an agreement with the Delaware State Housing Authority as part of our community reinvestment initiatives.

As of December 31, 2013 our consolidated statement of financial condition reflects a liability for unrecognized tax benefits of $629 million, and approximately $118 million of accrued interest and penalties. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, the estimated income tax obligations about which there is uncertainty, as addressed in ASC Topic 740, Income Taxes (guidance formerly provided by FASB Interpretation No. 48), have been excluded from the contractual obligations table. See Note 16: Income Taxes to our consolidated financial statements for further information concerning our tax obligations.

We extend credit for consumer and commercial loans, primarily arising from agreements with customers for unused lines of credit on certain credit cards, provided there is no violation of conditions established in the related agreement. At December 31, 2013, our unused commitments were $162.8 billion. These commitments, substantially all of which we can terminate at any time and which do not necessarily represent future cash requirements, are periodically reviewed based on account usage and customer creditworthiness. In addition, in the ordinary course of business, we guarantee payment on behalf of subsidiaries relating to contractual obligations with external parties. The activities of the subsidiaries covered by any such guarantees are included in our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, correlations or other market factors will result in losses for a position or portfolio. We are exposed to market risk primarily from changes in interest rates.
Interest Rate Risk
We borrow money from a variety of depositors and institutions in order to provide loans to our customers, as well as invest in other assets and our business. These loans and other assets earn interest, which we use to pay interest on the money borrowed. Our net interest income and, therefore, earnings, will be negatively affected if the interest rate earned on assets increases at a slower pace than increases to the interest rate we owe on our borrowings. Changes in interest rates and competitor responses to those changes may influence customer payment rates, loan balances or deposit account activity. We may face higher-cost alternative sources of funding as a result, which has the potential to decrease earnings.
Our interest rate risk management policies are designed to measure and manage the potential volatility of earnings that may arise from changes in interest rates by having a financing portfolio that reflects the mix of variable and fixed rate assets. To the extent that asset and related financing repricing characteristics of a particular portfolio are not matched effectively, we may utilize interest rate derivative contracts, such as swap agreements, to achieve our objectives. Interest rate swap agreements effectively convert the underlying asset or liability from fixed to floating rate or from floating to fixed rate. See Note 22: Derivatives and Hedging Activities to our consolidated financial statements for information on our derivatives activity.
We use an interest rate sensitivity simulation to assess our interest rate risk exposure. For purposes of presenting the possible earnings effect of a hypothetical, adverse change in interest rates over the 12-month period from our reporting date, we assume that all interest rate sensitive assets and liabilities will be impacted by a hypothetical, immediate 100 basis point increase in interest rates as of the beginning of the period. The sensitivity is based upon the hypothetical assumption that all relevant types of interest rates that affect our results would increase instantaneously, simultaneously and to the same degree.
Our interest rate sensitive assets include our variable rate loan receivables and the assets that make up our liquidity portfolio. We have restrictions on our ability to mitigate interest rate risk by adjusting rates on existing balances. At December 31, 2013, the majority of our credit card and student loans were at variable rates. Assets with rates that are fixed at period end but which will mature, or otherwise contractually reset to a market-based indexed rate or other fixed rate prior to the end of the 12-month period, are considered to be rate sensitive. The latter category includes certain credit card loans that may be offered at below-market rates for an introductory period, such as balance transfers and special promotional programs, after which the loans will contractually reprice in accordance with our normal market-based pricing structure. For purposes of measuring rate sensitivity for such loans, only the effect of the hypothetical 100 basis point change in the underlying market-based indexed rate or other fixed rate has been considered rather than the full change in the rate to which the loan would contractually reprice. For assets that have a fixed interest rate at the fiscal period end but which contractually will, or are assumed to, reset to a market-based indexed rate or other fixed rate during the next 12 months, earnings sensitivity is measured from the expected repricing date. In addition, for all interest rate sensitive assets, earnings sensitivity is calculated net of expected loan losses.
Interest rate sensitive liabilities are assumed to be those for which the stated interest rate is not contractually fixed for the next 12-month period. Thus, liabilities that vary with changes in a market-based index, such as Federal Funds or LIBOR, which will reset before the end of the 12-month period, or liabilities whose rates are fixed at the fiscal period end but which will mature and are assumed to be replaced with a market-based indexed rate prior to the end of the 12-month period, also are considered to be rate sensitive. For these fixed rate liabilities, earnings sensitivity is measured from the expected repricing date.
Assuming an immediate 100 basis point increase in the interest rates affecting all interest rate sensitive assets and liabilities at December 31, 2013, we estimate that net interest income over the following 12-month period would increase by approximately $136 million, or 2%. Assuming an immediate 100 basis point increase in the interest rates affecting all interest rate sensitive assets and liabilities at December 31, 2012, we estimated that net interest income over the following 12-month period would increase by approximately $41 million, or 1%. The increase in net interest income sensitivity is due to actions we have taken to position our balance sheet for future rate increases, which included swapping floating-rate borrowings to fixed rate borrowings in the second and third quarters of 2013 calendar

year. We have not provided an estimate of any impact on net interest income of a decrease in interest rates as many of our interest rate sensitive assets and liabilities are tied to interest rates that are already at or near their minimum levels (i.e., Prime and LIBOR) and, therefore, could not materially decrease further.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Discover Financial Services
Riverwoods, IL

We have audited the internal control over financial reporting of Discover Financial Services (the "Company") as of December 31, 2013 based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition, and related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows as of and for the year ended December 31, 2013 of the Company and our report dated February 24, 2014 expressed an unqualified opinion on those financial statements.

Chicago, Illinois
February 24, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Discover Financial Services
Riverwoods, IL

We have audited the accompanying consolidated statements of financial condition of Discover Financial Services (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the calendar year ended December 31, 2013, the fiscal years ended November 30, 2012 and 2011, and the one-month period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Discover Financial Services at December 31, 2013 and 2012, and the results of their operations and their cash flows for the calendar year ended December 31, 2013, the fiscal years ended November 30, 2012 and 2011, and the one-month period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

Chicago, Illinois
February 24, 2014

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DISCOVER FINANCIAL SERVICES
Consolidated Statements of Financial Condition

	December 31, 2013	2012
	(dollars in millions, except share amounts)	
Assets		
Cash and cash equivalents	$6,554	$2,584
Restricted cash	182	290
Investment securities:		
Available-for-sale (amortized cost of $4,900 and $6,031 at December 31, 2013 and December 31, 2012, respectively)	4,931	6,145
Held-to-maturity (fair value of $58 and $89 at December 31, 2013 and December 31, 2012, respectively)	60	87
Total investment securities	4,991	6,232
Loan receivables:		
Mortgage loans held for sale, measured at fair value	148	355
Loan portfolio:		
Credit card	53,150	51,135
Other	8,295	6,406
Purchased credit-impaired loans	4,178	4,702
Total loan portfolio	65,623	62,243
Total loan receivables	65,771	62,598
Allowance for loan losses	(1,648)	(1,788)
Net loan receivables	64,123	60,810
Premises and equipment, net	654	538
Goodwill	284	286
Intangible assets, net	185	189
Other assets	2,367	2,562
Total assets	$79,340	$73,491
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing deposit accounts	$44,766	$42,077
Non-interest bearing deposit accounts	193	136
Total deposits	44,959	42,213
Short-term borrowings	140	327
Long-term borrowings	20,474	17,666
Accrued expenses and other liabilities	2,958	3,412
Total liabilities	68,531	63,618
Commitments, contingencies and guarantees (Notes 16, 19, and 20)		
Stockholders' Equity:		
Common stock, par value $0.01 per share; 2,000,000,000 shares authorized; 555,349,629 and 553,350,975 shares issued at December 31, 2013 and December 31, 2012, respectively	5	5
Preferred stock, par value $0.01 per share; 200,000,000 shares authorized; 575,000 shares issued or outstanding and aggregate liquidation preference of $575 at December 31, 2013 and December 31, 2012, respectively	560	560
Additional paid-in capital	3,687	3,598
Retained earnings	9,611	7,472

Accumulated other comprehensive loss	(68)	(72)
Treasury stock, at cost; 83,105,578 and 55,489,104 shares at December 31, 2013 and December 31, 2012, respectively	(2,986)	(1,690)
Total stockholders’ equity	10,809	9,873
Total liabilities and stockholders’ equity	$79,340	$73,491

The table below presents the carrying amounts of certain assets and liabilities of Discover Financial Services’ consolidated variable interest entities (VIEs) which are included in the consolidated statements of financial condition above. The assets in the table below include those assets that can only be used to settle obligations of the consolidated VIEs. The liabilities in the table below include third party liabilities of consolidated VIEs only, and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts for which creditors have recourse to the general credit of Discover Financial Services.

	December 31,	
	2013	2012
	(dollars in millions)	
Assets		
Restricted cash	$179	$280
Credit card loan receivables	$31,112	$34,782
Purchased credit-impaired loans	$2,248	$2,539
Allowance for loan losses allocated to securitized loan receivables	$(861)	$(1,110)
Other assets	$34	$29
Liabilities		
Long-term borrowings	$16,986	$15,933
Accrued interest payable	$9	$11

See Notes to Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Consolidated Statements of Income

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30, 2012	2011	For the One Month Ended December 31, 2012
	(dollars in millions, except per share amounts)			
Interest income:				
Credit card loans	$5,978	$5,751	$5,654	$510
Other loans	997	856	619	78
Investment securities	74	80	59	7
Other interest income	15	16	13	—
Total interest income	7,064	6,703	6,345	595
Interest expense:				
Deposits	698	845	987	65
Short-term borrowings	3	1	—	—
Long-term borrowings	445	485	498	38
Total interest expense	1,146	1,331	1,485	103
Net interest income	5,918	5,372	4,860	492
Provision for loan losses	1,086	848	1,013	178
Net interest income after provision for loan losses	4,832	4,524	3,847	314
Other income:				
Discount and interchange revenue, net	1,126	1,035	1,084	82
Protection products revenue	350	409	428	33
Loan fee income	320	325	338	29
Transaction processing revenue	192	218	180	18
Gain (loss) on investments	5	26	(4)	2
Gain on origination and sale of mortgage loans	144	105	—	17
Other income	169	163	179	19
Total other income	2,306	2,281	2,205	200
Other expense:				
Employee compensation and benefits	1,164	1,048	914	87
Marketing and business development	717	603	537	51
Information processing and communications	333	289	264	25
Professional fees	410	432	415	34
Premises and equipment	82	76	71	8
Other expense	488	604	340	35
Total other expense	3,194	3,052	2,541	240
Income before income tax expense	3,944	3,753	3,511	274
Income tax expense	1,474	1,408	1,284	104
Net income	$2,470	$2,345	$2,227	$170
Net income allocated to common stockholders	$2,414	$2,318	$2,202	$168
Basic earnings per common share	$4.97	$4.47	$4.06	$0.34
Diluted earnings per common share	$4.96	$4.46	$4.06	$0.34

See Notes to the Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Consolidated Statements of Comprehensive Income

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30, 2012	2011	For the One Month Ended December 31, 2012
	(dollars in millions)			
Net income	$2,470	$2,345	$2,227	$170
Other comprehensive income (loss), net of taxes				
Unrealized (loss) gain on available-for-sale investment securities, net of tax	(52)	19	47	(3)
Unrealized gain (loss) on cash flow hedges, net of tax	10	(4)	5	—
Unrealized pension and post-retirement plan gain (loss), net of tax	45	(38)	(21)	6
Foreign currency translation adjustments, net of tax	1	—	—	—
Other comprehensive income (loss)	4	(23)	31	3
Comprehensive income	$2,474	$2,322	$2,258	$173

See Notes to the Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Consolidated Statements of Changes in Stockholders’ Equity

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders’ Equity
	Shares	Amount	Shares	Amount					
	(dollars in millions, shares in thousands)								
Balance at November 30, 2010	—	$ —	547,128	$ 5	$ 3,435	$ 3,126	$ (83)	$ (26)	$ 6,457
Net income	—	—	—	—	—	2,227	—	—	2,227
Other comprehensive income	—	—	—	—	—	—	31	—	31
Purchases of treasury stock	—	—	—	—	—	—	—	(436)	(436)
Common stock issued under employee benefit plans	—	—	54	—	1	—	—	—	1
Common stock issued and stock-based compensation expense	—	—	2,567	—	72	—	—	—	72
Dividends—common stock ($0.20 per share)	—	—	—	—	—	(110)	—	—	(110)
Balance at November 30, 2011	—	$ —	549,749	$ 5	$ 3,508	$ 5,243	$ (52)	$ (462)	$ 8,242
Net income	—	—	—	—	—	2,345	—	—	2,345
Other comprehensive loss	—	—	—	—	—	—	(23)	—	(23)
Purchases of treasury stock	—	—	—	—	—	—	—	(1,216)	(1,216)
Common stock issued under employee benefit plans	—	—	54	—	2	—	—	—	2
Common stock issued and stock-based compensation expense	—	—	3,246	—	83	—	—	—	83
Dividends—common stock ($0.40 per share)	—	—	—	—	—	(210)	—	—	(210)
Dividends—Series B preferred stock ($8.13 per share)	—	—	—	—	—	(5)	—	—	(5)
Issuance of Series B preferred stock, net of issuance costs	575	560	—	—	—	—	—	—	560
Balance at November 30, 2012	575	$ 560	553,049	$ 5	$ 3,593	$ 7,373	$ (75)	$ (1,678)	$ 9,778
Net income	—	—	—	—	—	170	—	—	170

Other comprehensive income	—	—	—	—	—	—	3	—	3
Purchases of treasury stock	—	—	—	—	—	—	—	(12)	(12)
Common stock issued and stock-based compensation expense	—	—	302	—	5	—	—	—	5
Dividends—common stock ($0.14 per share)	—	—	—	—	—	(71)	—	—	(71)
Balance at December 31, 2012	575	$ 560	553,351	$ 5	$ 3,598	$ 7,472	$ (72)	$ (1,690)	$ 9,873
Net income	—	—	—	—	—	2,470	—	—	2,470
Other comprehensive income	—	—	—	—	—	—	4	—	4
Purchases of treasury stock	—	—	—	—	—	—	—	(1,296)	(1,296)
Common stock issued under employee benefit plans	—	—	66	—	3	—	—	—	3
Common stock issued and stock-based compensation expense	—	—	1,933	—	86	—	—	—	86
Dividends—common stock ($0.60 per share)	—	—	—	—	—	(294)	—	—	(294)
Dividends—Series B preferred stock ($65.00 per share)	—	—	—	—	—	(37)	—	—	(37)
Balance at December 31, 2013	575	$ 560	555,350	$ 5	$ 3,687	$ 9,611	$ (68)	$ (2,986)	$ 10,809

See Notes to the Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Consolidated Statements of Cash Flows

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30, 2012	2011	For the One Month Ended December 31, 2012
	(dollars in millions)			
Cash flows from operating activities				
Net income	$2,470	$2,345	$2,227	$170
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses	1,086	848	1,013	178
Deferred income taxes	322	146	232	(12)
Depreciation and amortization on premises and equipment	111	95	90	9
Amortization of deferred revenues	(193)	(204)	(255)	(16)
Other depreciation and amortization	223	172	156	15
Accretion of accretable yield on acquired loans	(272)	(303)	(225)	(24)
(Gain) loss on investments	(5)	(26)	4	(2)
Loss on equity method and other investments	18	11	5	1
Loss on premises and equipment	8	—	3	—
Gain on origination and sale of loans	(144)	(104)	(5)	(17)
Stock-based compensation expense	59	47	44	3
Gain on purchase of business	—	—	(7)	—
Proceeds from sale of mortgage loans originated for sale	4,160	1,798	—	378
Net principal disbursed on mortgage loans originated for sale	(3,805)	(2,021)	—	(392)
Changes in assets and liabilities:				
Increase in other assets	(252)	(112)	(22)	(68)
(Decrease) increase in accrued expenses and other liabilities	(269)	349	338	(1)
Net cash provided by operating activities	3,517	3,041	3,598	222
Cash flows from investing activities				
Maturities of other short-term investments	—	—	375	—
Maturities and sales of available-for-sale investment securities	1,423	1,783	1,327	112
Purchases of available-for-sale investment securities	(325)	(1,816)	(2,400)	(132)
Maturities of held-to-maturity investment securities	29	11	18	1
Purchases of held-to-maturity investment securities	(2)	(51)	(2)	—
Proceeds from sale of student loans held for sale	—	269	29	—
Net principal disbursed on loans originated for investment	(3,915)	(4,085)	(3,958)	(1,599)
Purchases of loan receivables	(136)	(490)	(3,165)	(27)
Purchase of net assets of a business	—	(49)	—	—
Purchase of business, net of cash acquired	—	—	(401)	—
Purchases of other investments	(114)	(65)	(109)	(4)
Proceeds from sale of other investments	—	—	—	17
Decrease (increase) in restricted cash	108	(1,057)	284	2,054
Proceeds from sale of premises and equipment	—	1	3	—
Purchases of premises and equipment	(231)	(144)	(111)	(13)
Net cash (used for) provided by investing activities	(3,163)	(5,693)	(8,110)	409

Cash flows from financing activities				
Net (decrease) increase in short-term borrowings	(231)	234	50	43
Proceeds from issuance of securitized debt	4,650	5,850	3,700	—
Maturities and repayment of securitized debt	(3,638)	(3,752)	(5,744)	(2,066)
Proceeds from issuance of other long-term borrowings	1,744	—	—	—
Repayment of long-term borrowings and bank notes	—	(13)	(362)	—
Payment of contingent consideration for purchase of net assets of a business, at fair value	(9)	—	—	—
Premium paid on debt exchange	—	(291)	—	—
Proceeds from issuance of common stock	13	26	23	2
Purchases of treasury stock	(1,296)	(1,216)	(436)	(12)
Net increase in deposits	2,782	2,539	5,142	65
Proceeds from issuance of preferred stock	—	560	—	—
Dividends paid on common and preferred stock	(399)	(209)	(110)	(5)
Net cash provided by (used for) financing activities	3,616	3,728	2,263	(1,973)
Net increase (decrease) in cash and cash equivalents	3,970	1,076	(2,249)	(1,342)
Cash and cash equivalents, at beginning of period	2,584	2,850	5,099	3,926
Cash and cash equivalents, at end of period	$6,554	$3,926	$2,850	$2,584
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest expense	$975	$1,203	$1,342	$81
Income taxes, net of income tax refunds	$1,348	$1,301	$906	$(1)
Non-cash investing and financing transactions:				
Initial fair value of contingent consideration paid for purchase of net assets of a business	$—	$8	$—	$—
Assumption of debt by buyer related to loans sold	$—	$425	$—	$—
Assumption of SLC debt	$—	$—	$2,921	$—

See Notes to the Consolidated Financial Statements.

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Notes to the Consolidated Financial Statements

1. Background and Basis of Presentation

Description of Business

Discover Financial Services ("DFS" or the "Company") is a direct banking and payment services company. The Company is a bank holding company under the Bank Holding Company Act of 1956 as well as a financial holding company under the Gramm-Leach-Bliley Act and therefore is subject to oversight, regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Through its Discover Bank subsidiary, a Delaware state-chartered bank, the Company offers its customers credit card loans, private student loans, personal loans, home equity loans and deposit products. Through its Discover Home Loans, Inc. subsidiary, the Company offers its customers home loans. Through its DFS Services LLC subsidiary and its subsidiaries, the Company operates the Discover Network, the PULSE network ("PULSE"), and Diners Club International ("Diners Club"). The Discover Network is a payment card transaction processing network for Discover branded credit cards and credit, debit and prepaid cards, issued by third parties, which the Company refers to as network partners. PULSE operates an electronic funds transfer network, providing financial institutions issuing debit cards on the PULSE network with access to ATMs domestically and internationally, as well as point-of-sale terminals at retail locations throughout the U.S. for debit card transactions. Diners Club is a global payments network of licensees that issue Diners Club branded charge cards and/or provide card acceptance services.

The Company's business segments are Direct Banking and Payment Services. The Direct Banking segment includes consumer banking and lending products, specifically Discover branded credit cards issued to individuals and small businesses on the Discover Network and other consumer products and services, including private student loans, personal loans, home loans, home equity loans, prepaid cards and other consumer lending and deposit products. The majority of Direct Banking revenues relate to interest income earned on the segment's loan products. Additionally, the Company's credit card products generate substantially all revenues related to discount and interchange, protection products and loan fee income.

The Payment Services segment includes PULSE, Diners Club and the Company's network partners business, which includes credit, debit and prepaid cards issued on the Discover Network by third parties. This segment also includes the business operations of Diners Club Italy, which primarily consist of issuing Diners Club charge cards. The majority of Payment Services revenues relate to transaction processing revenue from PULSE and royalty and licensee revenue (included in other income) from Diners Club.

Change in Fiscal Year End

On December 3, 2012, the Company's board of directors approved a change in the Company's fiscal year end from November 30 to December 31 of each year. This fiscal year change was effective January 1, 2013. As a result of the change, the Company had a one month transition period in December 2012. The audited results for the one month ended December 31, 2012 and the unaudited results for the one month ended December 31, 2011 are included in this report in Note 26: Transition Period Financial Information.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. The Company believes that the estimates used in the preparation of the consolidated financial statements are reasonable. Actual results could differ from these estimates. Beginning with the 2012 Form 10-K, the Company began reporting all dollar amounts in millions. In certain circumstances, this change in rounding resulted in prior year disclosures being removed. Certain prior period amounts have been reclassified to conform to current period presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The Company's policy is to consolidate all entities in which it owns more than 50% of the outstanding voting stock

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unless it does not control the entity. However, the Company did not have a controlling voting interest in any entity other than its wholly-owned subsidiaries in the periods presented in the accompanying consolidated financial statements.

It is also the Company's policy to consolidate any variable interest entity for which the Company is the primary beneficiary, as defined by GAAP. On this basis, the Company consolidates the Discover Card Master Trust I and the Discover Card Execution Note Trust as well as three student loan securitization trusts acquired in 2010. The Company is deemed to be the primary beneficiary of each of these trusts since it is, for each, the trust servicer and the holder of both the residual interest and the majority of the most subordinated interests. Because of those involvements, the Company has, for each trust, i) the power to direct the activities that most significantly impact the economic performance of the trust, and ii) the obligation (or right) to absorb losses (or receive benefits) of the trust that could potentially be significant. The Company has determined that it was not the primary beneficiary of any other variable interest entity during the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 or one month ended December 31, 2012.

For investments in any entities in which the Company owns 50% or less of the outstanding voting stock but in which the Company has significant influence over operating and financial decisions, the Company applies the equity method of accounting. In cases where the Company's equity investment is less than 20% and significant influence does not exist, such investments are carried at cost.

Recently Issued Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-01, Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. This standard will permit a reporting entity to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under this new method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). This treatment will replace the effective yield method currently permitted for certain investments of this kind. The Company has not historically utilized the effective yield method, and as a result, implementation of this ASU will not impact the Company’s accounting for its investments in qualified affordable housing projects unless a subsequent election is made to apply it. In addition to establishing the conditions under which the proportional amortization method can be used, the ASU calls for additional disclosures that will enable the reader to understand the nature of the investment and the effect of its measurement and related tax credits on the company’s financial position and results of operations. The new guidance is effective for annual reporting periods beginning after December 15, 2014 and interim periods within those periods, with early adoption permitted. The standard will require additional disclosure about the nature of the Company's affordable housing investments, but unless the Company subsequently decides to elect the new accounting model, the new guidance will have no effect on the Company’s financial condition, results of operations or cash flows.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents is defined by the Company as cash on deposit with banks, including time deposits and other highly liquid investments, with maturities of 90 days or less when purchased. Cash and cash equivalents included $719 million and $797 million of cash and due from banks and $5.8 billion and $1.8 billion of interest-earning deposits in other banks at December 31, 2013 and 2012, respectively.

Restricted Cash

Restricted cash includes cash for which the Company's ability to withdraw funds at any time is contractually limited. Restricted cash is generally designated for specific purposes arising out of certain contractual or other obligations.

Investment Securities

At December 31, 2013, investment securities consisted of U.S. Treasury and U.S. government agency obligations, mortgage-backed securities issued by government agencies, debt instruments issued by states and political subdivisions of states and credit card asset-backed securities issued by other institutions. Investment securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are reported at amortized cost.

All other investment securities are classified as available-for-sale, as the Company does not hold investment securities for trading purposes. Available-for-sale investment securities are reported at fair value with unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income included in stockholders' equity. The Company estimates the fair value of available-for-sale investment securities pursuant to the guidance in ASC Topic 820, Fair Value Measurements and Disclosures ("ASC 820") as more fully discussed in Note 21: Fair Value Measurements and Disclosures. The amortized cost for each held-to-maturity and available-for-sale investment security is adjusted for amortization of premiums or accretion of discounts, as appropriate. Such amortization or accretion is included in interest income. The Company evaluates its unrealized loss positions for other-than-temporary impairment in accordance with GAAP applicable for investments in debt and equity securities. Realized gains and losses and other-than-temporary impairments related to investment securities are determined at the individual security level and are reported in other income.

Mortgage Loans Held for Sale

Mortgage loans held for sale consist of residential first mortgage loans that are secured by residential real estate throughout the United States. The Company originates all of its residential real estate loans with the intent to sell them in the secondary market on a servicing-released basis and classifies them as held for sale at the time of origination. The Company includes mortgage loans held for sale in total loan receivables and carries these assets at fair value pursuant to an optional fair value measurement election. Changes in fair value are recorded through revenue prior to the sale of the loans to investors. The gain or loss on the sale of loans is recognized on the date the loans are sold and is based on the difference between the sale proceeds received and the carrying value of the loans, adjusted for the impact of the related hedges (see "— Financial Instruments Used for Asset and Liability Management" and Note 22: Derivatives and Hedging Activities for further discussion of mortgage-related hedging activities and see Note 21: Fair Value Measurements and Disclosures for further discussion on estimating fair value for mortgage loans held for sale). The Company recognizes interest income on these loans separately from changes in their fair value.

Loan Receivables

Loan receivables consist of credit card receivables and other loans and include purchased credit-impaired ("PCI") loans as well as loans held for sale. Loan receivables also include unamortized net deferred loan origination fees and costs (also see "— Loan Interest and Fee Income"). Credit card loan receivables include consumer credit card loan receivables and business credit card loan receivables. Credit card loan receivables are reported at their principal amounts outstanding and include uncollected billed interest and fees and are reduced for unearned revenue related to balance transfer fees (also see "— Loan Interest and Fee Income"). Other loans consist of student loans, personal loans and other loans and are reported at their principal amounts outstanding. With the exception of mortgages, the Company's loan receivables are deemed to be held for investment at origination or acquisition because management has the intent and ability to hold them for the foreseeable future.

PCI loans are loans acquired at prices which reflected a discount related to deterioration in individual loan credit quality since origination. The Company's PCI loans are comprised entirely of private student loans acquired during the 2011 fiscal year. These loans are accounted for pursuant to ASC Subtopic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality.

The PCI student loans were aggregated into pools based on common risk characteristics at the time of their acquisition. Loans were grouped primarily on the basis of origination date as loans originated in a particular year generally reflect the application of common origination strategies and/or underwriting criteria. Each pool is accounted for as a single asset and each has a single composite interest rate, total contractual cash flows and total expected cash flows.

Interest income on PCI loans is recognized on the basis of expected cash flows rather than contractual cash flows. The total amount of interest income recognizable on a pool of PCI loans (i.e., its accretable yield) is the difference between the carrying amount of the loan pool and the future cash flows expected to be collected without regard to whether the expected cash flows represent principal or interest collections. Interest is recognized on an effective yield basis over the life of the loan pool.

The initial estimates of the fair value of the PCI student loans included the impact of expected credit losses, and therefore, no allowance for loan loss was recorded as of the purchase dates. The difference between contractually required cash flows and cash flows expected to be collected, as measured at the acquisition dates, is not permitted to be accreted. Charge-offs are absorbed by this non-accretable difference and do not result in a charge to earnings.

The estimate of cash flows expected to be collected is evaluated each reporting period to ensure it reflects management's latest expectations of future credit losses and borrower prepayments, and interest rates in effect in the current period. To the extent expected credit losses increase after the acquisition dates, the Company will record an allowance for loan losses through the provision for loan losses, which will reduce net income. Changes in expected cash flows related to changes in prepayments or interest rate indices for variable rate loans generally are recorded prospectively as adjustments to interest income.

To the extent that a significant increase in cash flows due to lower expected losses is deemed probable, the Company will first reverse any previously established allowance for loan losses and then increase the amount of remaining accretable yield. The increase to yield would be recognized prospectively over the remaining life of the loan pool. An increase in the accretable yield would reduce the remaining non-accretable difference available to absorb subsequent charge-offs. Disposals of loans, which may include sales of loans or receipt of payments in full from the borrower or charge-offs, result in removal of the loans from their respective pools.

Cash flows associated with loans that are originated or acquired with the intent to sell are included in cash flows from operating activities. Cash flows associated with loans originated or acquired for investment are classified as cash flows from investing activities, regardless of a subsequent change in intent.

Delinquent Loans

The entire balance of an account is contractually past due if the minimum payment is not received by the specified date on the customer's billing statement. Delinquency is reported on loans that are 30 days or more past due.

Credit card loans are charged off at the end of the month during which an account becomes 180 days past due. Closed-end consumer loan receivables are charged off at the end of the month during which an account becomes 120 days contractually past due. Customer bankruptcies and probate accounts are charged off at the end of the month 60 days following the receipt of notification of the bankruptcy or death, but not later than the 180-day or 120-day time frame described above. Receivables associated with alleged or potential fraudulent transactions are adjusted to their net realizable value upon receipt of notification of such fraud through a charge to other expense and are subsequently written off at the end of the month 90 days following notification, but not later than the contractual 180-day or 120-day time frame described above. The Company's charge-off policies are designed to comply with guidelines established by the Federal Financial Institutions Examination Council (“FFIEC”).

The practice of re-aging an account also may affect loan delinquencies and charge-offs. A re-age is intended to assist delinquent customers who have experienced financial difficulties but who demonstrate both an ability and willingness to repay. Accounts meeting specific criteria are re-aged when the Company and the customer agree on a temporary repayment schedule that may include concessionary terms. With re-aging, the outstanding balance of a delinquent account is returned to a current status. Customers may also qualify for a workout re-age when either a longer term or permanent hardship exists. The Company's re-age practices are designed to comply with FFIEC guidelines.

Allowance for Loan Losses

The Company maintains an allowance for loan losses at a level that is appropriate to absorb probable losses inherent in the loan portfolio. The estimate of probable incurred losses considers uncollectible principal, interest and fees reflected in the loan receivables. The allowance is evaluated monthly for appropriateness and is maintained through an adjustment to the provision for loan losses. Charge-offs of principal amounts of loans outstanding are deducted from the allowance and subsequent recoveries of such amounts increase the allowance.

The Company calculates its allowance for loan losses by estimating probable losses separately for classes of the loan portfolio with similar loan characteristics, which generally results in segmenting the portfolio by loan product type. For its credit card loan receivables, the Company bases its allowance for loan loss on several analyses that help estimate incurred losses as of the balance sheet date. While the Company's estimation process includes historical data and analysis, there is a significant amount of judgment applied in selecting inputs and analyzing the results produced by the models to determine the allowance. The Company uses a migration analysis to estimate the likelihood that a loan will progress through the various stages of delinquency. The Company uses other analyses to estimate losses incurred on non-delinquent accounts. The considerations in these analyses include past performance, risk management techniques applied to various accounts, historical behavior of different account vintages, economic conditions, recent trends in delinquencies, bankruptcy filings, account collection management, policy changes, account seasoning, loan

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volume and amounts, payment rates, and forecasting uncertainties. The Company does not evaluate credit card loans for impairment on an individual basis, but instead estimates its allowance for credit card loan losses on a pooled basis, which includes loans that are delinquent and/or no longer accruing interest.

For its other loans, the Company considers historical and forecasted estimates of incurred losses in estimating the related allowance for loan losses. The Company also considers other factors, such as current economic conditions, recent trends in delinquencies and bankruptcy filings, account collection management, policy changes, account seasoning, loan volume and amounts, payment rates and forecasting uncertainties. Similar to credit card loans, the Company estimates its allowance for personal and student loan losses on a pooled basis, which includes loans that are delinquent and/or no longer accruing interest.

As part of certain collection strategies, the Company may modify the terms of loans to customers experiencing financial hardship. Temporary and permanent modifications on credit card loans, certain grants of student loan forbearance and certain short and long-term modifications to personal loans are considered troubled debt restructurings and are accounted for in accordance with ASC Subtopic 310-40, Troubled Debt Restructuring by Creditors. With respect to student loans, the Company does not anticipate significant shortfalls in collections on the contractual amounts due from borrowers using a first forbearance period as the historical performance of these borrowers is not significantly different from the overall portfolio. However, when a delinquent borrower is granted a second forbearance period, the forbearance is considered a troubled debt restructuring.

Loan receivables, other than PCI loans, that have been modified under a troubled debt restructuring are evaluated separately from the pools of receivables that are subject to the collective analyses described above. Loan receivables modified in a troubled debt restructuring are recorded at their present values with impairment measured as the difference between the loan balance and the discounted present value of cash flows expected to be collected. Changes in the present value are recorded in the provision for loan losses. All of the Company's troubled debt restructurings, which are evaluated collectively on an aggregated (by loan type) basis, have a related allowance for loan losses.

Premises and Equipment, net

Premises and equipment, net, are stated at cost less accumulated depreciation and amortization, which is computed using the straight-line method over the estimated useful lives of the assets. Buildings are depreciated over a period of 39 years. The costs of leasehold improvements are capitalized and depreciated over the lesser of the remaining term of the lease or the asset's estimated useful life, typically ten years. Furniture and fixtures are depreciated over a period of five to ten years. Equipment is depreciated over three to ten years. Capitalized leases, consisting of computers and processing equipment, are depreciated over three and six years, respectively. Maintenance and repairs are immediately expensed, while the costs of improvements are capitalized.

Purchased software and capitalized costs related to internally developed software are amortized over their useful lives of three to ten years. Costs incurred during the application development stage related to internally developed software are capitalized in accordance with ASC Subtopic 350-40, Intangibles - Goodwill and Other: Internal Use Software. Pursuant to that guidance, costs are expensed as incurred during the preliminary project stage and post implementation stage. Once the capitalization criteria as defined in GAAP have been met, external direct costs incurred for materials and services used in developing or obtaining internal-use computer software and payroll and payroll-related costs for employees who are directly associated with the internal-use computer software project (to the extent those employees devoted time directly to the project) are capitalized. Amortization of capitalized costs begins when the software is ready for its intended use. Capitalized software is included in premises and equipment, net in the Company's consolidated statements of financial condition. See Note 7: Premises and Equipment for further information about the Company's premises and equipment.

Goodwill

Goodwill is recorded as part of the Company's acquisitions of businesses when the purchase price exceeds the fair value of the net tangible and separately identifiable intangible assets acquired. The Company's goodwill is not amortized, but rather is subject to an impairment test at the reporting unit level annually, or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, pursuant to ASC Topic 350, Intangibles - Goodwill and Other. The Company's reported goodwill relates to PULSE, acquired in 2005, and to the Home Loan Center mortgage origination business acquired in 2012.

The Company's goodwill impairment analysis is a two-step test. In the first step, the fair value of the reporting unit is

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compared to its carrying value. If the fair value of the reporting unit exceeds its carrying value including goodwill, goodwill is not impaired. If the carrying value including goodwill exceeds its fair value, goodwill is potentially impaired and the second step of the test becomes necessary. In the second step, the implied fair value of goodwill is derived and compared to the carrying amount of goodwill. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the sum of the fair values of all identifiable assets less the liabilities associated with the reporting unit. If the carrying value of goodwill allocated to the reporting unit exceeds its implied fair value, an impairment charge is recorded for the excess.

Historically, the Company’s policy was to perform the annual impairment test of goodwill as of June 1 of each year. The 2013 annual impairment test was conducted in accordance with this policy and identified no impairment. During the fourth quarter of 2013, the Company changed the date of its annual goodwill impairment test to October 1. The change in goodwill impairment testing date is deemed a change in accounting principle which management determined to be preferable under the circumstances. The change was made to better align with the timing of its annual and long-term planning process, which is a significant element in the testing process. Due to the change in the Company’s fiscal year end from November 30 to December 31, the change from June 1 to October 1 also enhances the ability of the Company to obtain carrying values for use in the testing process by using the beginning of a fiscal quarter.

In connection with the change in date of the annual goodwill impairment test, the Company performed a goodwill impairment test on October 1, 2013, and no impairment charge was identified. This change did not delay, accelerate, or avoid a goodwill impairment charge. The goodwill impairment tests on June 1, 2013 and October 1, 2013 were performed such that a period greater than 12 months did not elapse between test dates. The change in the annual goodwill impairment testing date was applied prospectively beginning on October 1, 2013 and had no effect on the consolidated financial statements. This change was not applied retrospectively as it is impracticable to do so because retrospective application would have required the application of significant estimates and assumptions without the use of hindsight.

Intangible Assets

The Company's identifiable intangible assets consist of both amortizable and nonamortizable intangible assets. The Company's amortizable intangible assets consist primarily of acquired customer relationships and certain trade name intangibles. All of the Company's amortizable intangible assets are carried at net book value and are amortized over their estimated useful lives. The amortization periods approximate the periods over which the Company expects to generate future net cash inflows from the use of these assets. The Company's policy is to amortize intangibles in a manner that reflects the pattern in which the projected net cash inflows to the Company are expected to occur, where such pattern can be reasonably determined, as opposed to the straight-line basis. This method of amortization typically results in a greater portion of the intangible asset being amortized in the earlier years of its useful life.

All of the Company's amortizable intangible assets, as well as other amortizable or depreciable long-lived assets such as premises and equipment, are subject to impairment testing when events or conditions indicate that the carrying value of an asset may not be fully recoverable from future cash flows. A test for recoverability is done by comparing the asset's carrying value to the sum of the undiscounted future net cash inflows expected to be generated from the use of the asset over its remaining useful life. Impairment exists if the sum of the undiscounted expected future net cash inflows is less than the carrying amount of the asset. Impairment would result in a write-down of the asset to its estimated fair value. The estimated fair values of these assets are based on the discounted present value of the stream of future net cash inflows expected to be derived over the remaining useful lives of the assets. If an impairment write-down is recorded, the remaining useful life of the asset will be evaluated to determine whether revision of the remaining amortization or depreciation period is appropriate.

The Company's nonamortizable intangible assets consist of the international transaction processing rights and brand-related intangibles included in the acquisition of Diners Club as well as the trade names acquired in The Student Loan Corporation acquisition. These assets are deemed to have indefinite useful lives and are therefore not subject to amortization. All of the Company's nonamortizable intangible assets are subject to a test for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. As required by GAAP, if the carrying value of a nonamortizable intangible asset is in excess of its fair value, the asset must be written down to its fair value through the recognition of an impairment charge to earnings. In contrast to amortizable intangibles, there is no test for recoverability associated with the impairment test for nonamortizable intangible assets.

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During the fourth quarter of 2013, the Company changed the date of its annual impairment test for nonamortizable intangible assets from June 1 to October 1 to coincide with the change in the Company's goodwill impairment test date. The Company performed impairment tests at June 1, 2013 and October 1, 2013, and as such a period greater than 12 months did not elapse between test dates. No impairment charges were identified during the impairment tests conducted at June 1, 2013 and October 1, 2013.

Stock-based Compensation

The Company measures the cost of employee services received in exchange for an award of stock-based compensation based on the grant-date fair value of the award. The cost is recognized over the requisite service period, except for awards granted to retirement-eligible employees, which are fully expensed by the grant date. No compensation cost is recognized for awards that are subsequently forfeited.

Advertising Costs

The Company expenses advertising costs as incurred. Television advertising costs are expensed in the period in which the advertising is first aired. Advertising costs are recorded in marketing and business development and were $208 million, $172 million, $150 million and $17 million for the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, respectively.

Income Taxes

Income tax expense is provided for using the asset and liability method, under which deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and income tax bases of assets and liabilities using currently enacted tax rates. Deferred tax assets are recognized when their realization is determined to be more likely than not, in accordance with the accounting guidance. Uncertain tax positions are measured at the highest amount of tax benefit for which realization is judged to be more likely than not. Tax benefits that do not meet these criteria are unrecognized tax benefits. See Note 16: Income Taxes for more information about the Company's income taxes.

Financial Instruments Used for Asset and Liability Management

The Company utilizes derivative financial instruments to manage its various exposures to changes in fair value of certain assets and liabilities, variability in future cash flows arising from changes in interest rates, or other types of forecasted transactions, and changes in foreign exchange rates. All derivatives are carried at their estimated fair values on the Company’s consolidated statements of financial condition. Derivatives having positive net fair values, inclusive of net accrued interest receipts or payments, are recorded in other assets. Derivatives with negative net fair values, inclusive of net accrued interest payments or receipts, are recorded in accrued expenses and other liabilities. The methodologies used to estimate the fair values of these derivative financial instruments are described in Note 21: Fair Value Measurements and Disclosures. Collateral receivable or payable amounts associated with derivatives are not offset against the fair value of these derivatives, but are recorded separately in other assets or deposits, respectively. Certain of these instruments are designated and qualify for hedge accounting in accordance ASC Topic 815, Derivatives and Hedging. Under cash flow hedge accounting, the effective portion of the change in the fair value of these derivative instruments is recognized in other comprehensive income. The change in fair value of these derivative instruments relating to the ineffective portion is recognized immediately in other income. Amounts accumulated in other comprehensive income are reclassified to earnings in the period during which the hedged items affect income. For a net investment hedge, the effective portion of changes in the fair value of the derivatives is reported in other comprehensive income as part of the cumulative translation adjustment. The ineffective portion of the change in fair value of the derivatives, if any, is recognized directly in earnings. Amounts are reclassified out of accumulated other comprehensive income into earnings when the hedged net investment is either sold or substantially liquidated. Under fair value hedge accounting, changes in both (i) the fair values of the derivative instruments and (ii) the fair values of the hedged items relating to the risks being hedged, including net differences, if any (i.e., ineffectiveness), are recorded in interest expense. Certain other derivatives are not designated as hedges and do not qualify for hedge accounting; changes in the fair value of these derivatives are recorded in other income. These transactions are discussed in more detail in Note 22: Derivatives and Hedging Activities.

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Accumulated Other Comprehensive Income
The Company records unrealized gains and losses on available-for-sale securities, changes in the fair value of cash flow hedges, and certain pension and foreign currency translation adjustments in other comprehensive income ("OCI") on an after-tax basis where applicable. Details of other comprehensive income, net of tax, are presented in the statement of comprehensive income, and a rollforward of accumulated other comprehensive income ("AOCI") is presented in the statement of changes in stockholders' equity and Note 14: Accumulated Other Comprehensive Income.
Significant Revenue Recognition Accounting Policies
Loan Interest and Fee Income
Interest on loans is comprised largely of interest on credit card loans and is recognized based upon the amount of loans outstanding and their contractual interest rate. Interest on credit card loans is included in loan receivables when billed to the customer. The Company accrues unbilled interest revenue each month from a customer's billing cycle date to the end of the month. The Company applies an estimate of the percentage of loans that will revolve in the next cycle in the estimation of the accrued unbilled portion of interest revenue that is included in accrued interest receivable on the consolidated statements of financial condition. Interest on other loan receivables is accrued monthly in accordance with their contractual terms and recorded in accrued interest receivable, which is included in other assets, in the consolidated statements of financial condition. Interest related to purchased credit-impaired loans is discussed in Note 5: Loan Receivables.
The Company recognizes fees (except annual fees, balance transfer fees and certain product fees) on loan receivables in interest income or loan fee income as the fees are assessed. Annual fees, balance transfer fees and certain product fees are recognized in interest income or loan fee income ratably over the periods to which they relate. Balance transfer fees are accreted to interest income over the life of the related balance. As of December 31, 2013 and 2012, deferred revenues related to balance transfer fees, recorded as a reduction of loan receivables, were $37 million and $34 million, respectively. Loan fee income consists of fees on credit card loans and includes annual, late, returned check, cash advance and other miscellaneous fees and is reflected net of waivers and charge-offs.
Pursuant to ASC Subtopic 310-20, Receivables - Nonrefundable Fees and Other Costs, direct loan origination costs on credit card loans are deferred and amortized on a straight-line basis over a one-year period and recorded in interest income from credit card loans. Direct loan origination costs on other loan receivables are deferred and amortized over the life of the loan using the interest method and is recorded in interest income from other loans. As of December 31, 2013 and 2012, the remaining unamortized deferred costs related to loan origination were $43 million and $29 million, respectively, and were recorded in loan receivables.
The Company accrues interest and fees on loan receivables until the loans are paid or charged off, except in instances of customer bankruptcy, death or fraud, where no further interest and fee accruals occur following notification. Payments received on nonaccrual loans are allocated according to the same payment hierarchy methodology applied to loans that are accruing interest. When loan receivables are charged off, unpaid accrued interest and fees are reversed against the income line items in which they were originally recorded in the consolidated statements of income. Charge-offs and recoveries of amounts which relate to capitalized interest on student loans are treated as principal charge-offs and recoveries, affecting the provision for loan losses rather than interest income. The Company considers uncollectible interest and fee revenues in assessing the adequacy of the allowance for loan losses.
Discount and Interchange Revenue
The Company earns discount revenue from fees charged to merchants with whom the Company has entered into card acceptance agreements for processing credit card purchase transactions. We earn acquirer interchange revenue from merchant acquirers on all Discover Network, Diners Club and PULSE transactions made by credit and debit cardholders at merchants with whom merchant acquirers have entered into card acceptance agreements for processing payment card transactions. The Company pays issuer interchange to network partners who have entered into contractual arrangements to issue cards on the Company's networks as compensation for risk and other operating costs. The discount revenue or acquirer interchange is recognized as revenue, net of any associated issuer interchange cost, at the time the transaction is captured.
Customer Rewards

The Company offers its customers various reward programs, including the Cashback Bonus reward program, pursuant to which the Company pays certain customers a reward equal to a percentage of their credit card purchase amounts based on the type and volume of the customer's purchases. The liability for customer rewards, which is included in accrued expenses and other liabilities on the consolidated statements of financial condition, is estimated on an individual customer basis and is accumulated as qualified customers make progress toward earning the reward through their ongoing credit card purchase activity or other defined actions. In determining the appropriate liability for customer rewards, the Company estimates forfeitures of rewards accumulated but not redeemed based on historical account closure and charge-off experience, actual customer credit card purchase activity and the terms of the rewards program. In accordance with ASC Subtopic 605-50, Revenue Recognition: Customer Payments and Incentives (“ASC 605-50”), the Company recognizes customer rewards costs as a reduction of the related revenue, if any. In instances where a reward is not associated with a revenue-generating transaction, such as when a reward is given for opening an account, the reward cost is recorded as an operating expense. For the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, rewards costs, adjusted for estimated forfeitures, amounted to $1.0 billion, $1.0 billion, $879 million and $123 million, respectively. At both December 31, 2013 and 2012, the liability for customer rewards, adjusted for estimated forfeitures, was $1.1 billion, which is included in accrued expenses and other liabilities on the consolidated statements of financial condition.

Protection Products

The Company earns revenue related to fees received for marketing products or services that are ancillary to the Company's credit card and personal loans, including payment protection products and identity theft protection services, to the Company's customers. The amount of revenue recorded is based on the terms of the agreements and contracts with the third parties that provide these services. The Company recognizes this income over the customer agreement or contract period as earned.

Transaction Processing Revenue

Transaction processing revenue represents fees charged to financial institutions and merchant acquirers/processors for processing ATM and debit point-of-sale transactions over the PULSE network and is recognized at the time the transactions are processed. Transaction processing revenue also includes network participant revenue earned by PULSE related to fees charged for maintenance, support, information processing and other services provided to financial institutions, processors and other participants in the PULSE network. These revenues are recognized in the period that the related transactions occur or services are rendered.

Royalty and Licensee Revenue

The Company earns revenue from licensing fees for granting the right to use the Diners Club brand and processing fees for providing various services to Diners Club licensees, which are referred to together as royalty and licensee revenue. Royalty revenue is recognized in the period that the cardholder volume used to calculate the royalty fee is generated. Processing fees are recognized in the month that the services are provided. Royalty and licensee revenue is included in other income on the consolidated statements of income.

Incentive Payments

The Company makes certain incentive payments under contractual arrangements with financial institutions, Diners Club licensees, merchants, acquirers and certain other customers. In accordance with ASC 605-50, these payments are generally classified as contra-revenue unless a specifically identifiable benefit is received by the Company in consideration for the payment and the fair value of such benefit is reasonably estimable and measurable. If no such benefit is identified, then the entire payment is classified as contra-revenue, and included in other income in the consolidated statements of income in the line item where the related revenues are recorded. If the payment gives rise to an asset because it is expected to directly or indirectly contribute to future net cash inflows, it is deferred and recognized over the expected benefit period. The unamortized portion of the deferred incentive payments included in other assets on the consolidated statements of financial condition was $23 million and $41 million at December 31, 2013 and 2012, respectively.

3. Business Combinations

Acquisition of Diners Club Italia S.r.l. ("Diners Club Italy") and Dinit d.o.o. ("Dinit")

On May 21, 2013, through its Discover Financial Services (UK) Limited subsidiary, the Company acquired Diners Club Italy and its wholly-owned subsidiary Dinit to support business operations and the Company's global payments strategy. The cash consideration paid for the acquisition was one euro. Subsequent to the purchase, a capital infusion of

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approximately €45 million (approximately $58 million) was executed primarily to settle outstanding debt. The primary assets acquired as part of the purchase were charge card receivables of approximately $34 million, which were recorded in the Payment Services segment. Since the acquisition date, the results of operations and cash flows from Diners Club Italy and Dinit have been included in the Company's consolidated results of operations and cash flows.

Acquisition of the net assets of Home Loan Center, Inc.

On June 6, 2012, through its Discover Home Loans, Inc. subsidiary, the Company acquired substantially all of the operating and related assets and certain liabilities of Home Loan Center, Inc. ("Home Loan Center"), a subsidiary of Tree.com, Inc., adding a residential mortgage lending component to the Company's direct banking business. In exchange for the net assets acquired, the Company paid an aggregate of $49 million, including payments made prior to the closing that were applied to the closing price. A portion of such amount is being held in escrow pending Home Loan Center's ability to discharge certain contingent liabilities related to loans previously sold to secondary market investors. These contingent liabilities were not assumed by the Company. During the second quarter of the 2013 calendar year, an additional $10 million of purchase price due on the first anniversary of the closing was paid as certain conditions were satisfied. Since the acquisition date, the results of operations and cash flows of Discover Home Loans, Inc. have been included in the Company's consolidated results of operations and cash flows.

4. Investments

The Company’s investment securities consist of the following (dollars in millions):

	December 31,		November 30,	
	2013	2012	2012	2011
U.S. Treasury securities(1)	$2,058	$2,460	$2,463	$2,564
U.S. government agency securities	1,561	2,233	2,237	2,795
States and political subdivisions of states	15	34	34	41
Other securities:				
Credit card asset-backed securities of other issuers	6	151	159	300
Corporate debt securities(2)	—	—	75	450
To-be-announced investment securities(3)	—	—	—	50
Residential mortgage-backed securities - Agency(4)	1,351	1,354	1,253	6
Total other securities	1,357	1,505	1,487	806
Total investment securities	$4,991	$6,232	$6,221	$6,206

(1) Includes $9 million of U.S. Treasury securities that have been pledged as swap collateral in lieu of cash as of December 31, 2013.

(2) Amount represents corporate debt obligations issued under the Temporary Liquidity Guarantee Program (TLGP) that are guaranteed by the Federal Deposit Insurance Corporation (FDIC).

(3) The Company’s to-be-announced investment securities are forward contracts for regular-way purchases of government agency mortgage-backed securities. They are accounted for as investment securities rather than as derivative instruments. These contracts are for the purchase of mortgage-backed securities with a stated coupon and original term to maturity but for which the specific underlying mortgage loans are not known at the inception of the contract or at the end of the reporting period.

(4) Consists of residential mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

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The amortized cost, gross unrealized gains and losses, and fair value of available-for-sale and held-to-maturity investment securities are as follows (dollars in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2013				
Available-for-Sale Investment Securities(1)				
U.S. Treasury securities	$2,030	$27	$—	$2,057
U.S. government agency securities	1,535	26	—	1,561
Credit card asset-backed securities of other issuers	6	—	—	6
Residential mortgage-backed securities - Agency	1,329	—	(22)	1,307
Total available-for-sale investment securities	$4,900	$53	$(22)	$4,931
Held-to-Maturity Investment Securities(2)				
U.S. Treasury securities(3)	$1	$—	$—	$1
States and political subdivisions of states	15	—	(1)	14
Residential mortgage-backed securities - Agency(4)	44	—	(1)	43
Total held-to-maturity investment securities	$60	$—	$(2)	$58
At December 31, 2012				
Available-for-Sale Investment Securities(1)				
U.S. Treasury securities	$2,413	$46	$—	$2,459
U.S. government agency securities	2,187	46	—	2,233
Credit card asset-backed securities of other issuers	149	2	—	151
Residential mortgage-backed securities - Agency	1,282	20	—	1,302
Total available-for-sale investment securities	$6,031	$114	$—	$6,145
Held-to-Maturity Investment Securities(2)				
U.S. Treasury securities(3)	$1	$—	$—	$1
States and political subdivisions of states	34	—	—	34
Residential mortgage-backed securities - Agency(4)	52	2	—	54
Total held-to-maturity investment securities	$87	$2	$—	$89

(1) Available-for-sale investment securities are reported at fair value.
(2) Held-to-maturity investment securities are reported at amortized cost.
(3) Amount represents securities pledged as collateral to a government-related merchant for which transaction settlement occurs beyond the normal 24-hour period.
(4) Amounts represent residential mortgage-backed securities that were classified as held-to-maturity as they were entered into as a part of the Company's community reinvestment initiatives.

The following table provides information about investment securities with aggregate gross unrealized losses and the length of time that individual investment securities have been in a continuous unrealized loss position as of December 31, 2013. Aggregate gross unrealized losses on investment securities were not material as of December 31, 2012 (dollars in millions):

	Number of Securities in a Loss Position	Less than 12 months		More than 12 months	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013					
Available-for-Sale Investment Securities					
Residential mortgage-backed securities - Agency	23	$1,097	$(20)	$48	$(2)

Held-to-Maturity Investment Securities					
State and political subdivisions of states	4	$8	$(1)	$3	$—
Residential mortgage-backed securities - Agency	2	$40	$(1)	$—	$—

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During the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, the Company received $733 million, $1.8 billion, $1.3 billion and $113 million, respectively, of proceeds related to maturities, redemptions, or liquidation of investment securities. For the calendar year ended December 31, 2013, these proceeds primarily resulted from $220 million maturities of U.S. government agency securities, $273 million maturities of residential mortgage-backed securities and $144 million maturities of credit card asset-backed securities of other issuers. For the fiscal year ended November 30, 2012, the proceeds primarily resulted from $757 million maturities of U.S. government agency securities, $388 million maturities of U.S. Treasury securities and $370 million maturities of corporate debt securities. For the fiscal year ended November 30, 2011, $843 million of these proceeds related to maturities of credit card asset-backed securities of other issuers and for the one month ended December 31, 2012, $75 million of these proceeds related to maturities of corporate debt securities.

The Company records gains and losses on investment securities in other income when investments are sold or liquidated, when the Company believes an investment is other than temporarily impaired prior to the disposal of the investment, or in certain other circumstances. Proceeds from the sales of available-for-sale investment securities, comprised of U.S. Treasury securities and U.S. government agency securities, were $719 million during the calendar year ended December 31, 2013. The Company recognized gains on sales of available-for-sale investment securities of $2 million, which were calculated using the specific identification method and were recorded entirely in earnings. There were no gains or losses related to other than temporary impairments during the calendar year ended December 31, 2013. There were no gains or losses related to either other than temporary impairments or sales of investment securities during the fiscal year ended November 30, 2012 and one month ended December 31, 2012. During the fiscal year ended November 30, 2011, the Company recorded $2 million of other than temporary impairment ("OTTI") on held to maturity securities, which was recorded entirely in earnings. There were no gains or losses related to sales of investment securities during the fiscal year ended November 30, 2011.

The Company records unrealized gains and losses on its available-for-sale investment securities in other comprehensive income. For the calendar year ended December 31, 2013, the Company recorded net unrealized losses of $82 million ($52 million after tax) in other comprehensive income. For the fiscal years ended November 30, 2012 and 2011, the Company recorded net unrealized gains of $30 million and $75 million ($19 million and $47 million after tax), respectively, in other comprehensive income. For the one month ended December 31, 2012, the Company recorded net unrealized losses of $5 million ($3 million after tax) in other comprehensive income.

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Maturities and weighted average yields of available-for-sale debt securities and held-to-maturity debt securities at December 31, 2013 are provided in the tables below (dollars in millions):

	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
Available-for-Sale—Amortized Cost[1]					
U.S. Treasury securities	$709	$1,321	$—	$—	$2,030
U.S. government agency securities	508	1,027	—	—	1,535
Credit card asset-backed securities of other issuers	6	—	—	—	6
Residential mortgage-backed securities - Agency	—	—	401	928	1,329
Total available-for-sale investment securities	$1,223	$2,348	$401	$928	$4,900
Held-to-Maturity—Amortized Cost[2]					
U.S. Treasury securities	$1	$—	$—	$—	$1
State and political subdivisions of states	—	—	—	15	15
Residential mortgage-backed securities - Agency	—	—	—	44	44
Total held-to-maturity investment securities	$1	$—	$—	$59	$60
Available-for-Sale—Fair Values[1]					
U.S. Treasury securities	$711	$1,346	$—	$—	$2,057
U.S. government agency securities	511	1,050	—	—	1,561
Credit card asset-backed securities of other issuers	6	—	—	—	6
Residential mortgage-backed securities - Agency	—	—	398	909	1,307
Total available-for-sale investment securities	$1,228	$2,396	$398	$909	$4,931
Held-to-Maturity—Fair Values[2]					
U.S. Treasury securities	$1	$—	$—	$—	$1
State and political subdivisions of states	—	—	—	14	14
Residential mortgage-backed securities - Agency	—	—	—	43	43
Total held-to-maturity investment securities	$1	$—	$—	$57	$58

(1) Available-for-sale investment securities are reported at fair value.
(2) Held-to-maturity investment securities are reported at amortized cost.

	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
Available-for-Sale—Weighted Average Yields[1]					
U.S Treasury securities	0.65 %	1.45 %	— %	— %	1.17 %
U.S government agency securities	0.92 %	1.72 %	— %	— %	1.46 %
	12.83 %	— %	— %	— %	12.83 %

Credit card asset-backed securities of other issuers										
Residential mortgage-backed securities - Agency	—	%	—	%	1.44	%	1.96	%	1.80	%
Total available-for-sale investment securities	0.82	%	1.57	%	1.44	%	1.96	%	1.45	%
Held-to-Maturity—Weighted Average Yields										
U.S. Treasury securities	0.08	%	—	%	—	%	—	%	0.08	%
State and political subdivisions of states	—	%	4.27	%	—	%	4.68	%	4.67	%
Residential mortgage-backed securities	—	%	—	%	—	%	3.27	%	3.27	%
Total held-to-maturity investment securities	0.08	%	4.27	%	—	%	3.63	%	3.60	%

(1) The weighted average yield for available-for-sale investment securities is calculated based on the amortized cost.

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The following table presents interest on investment securities (dollars in millions):

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30,		For the One Month Ended December 31, 2012
		2012	2011	
Taxable interest	$73	$78	$57	$7
Tax exempt interest	1	2	2	—
Total income from investment securities	$74	$80	$59	$7

Other Investments

As a part of the Company's community reinvestment initiatives, the Company has made equity investments in certain limited partnerships and limited liability companies that finance the construction and rehabilitation of affordable rental housing, as well as stimulate economic development in low to moderate income communities. These investments are accounted for using the equity method of accounting, and are recorded within other assets, and the related commitment for future investments is recorded in accrued expenses and other liabilities within the statement of financial condition. The portion of each investment's operating results allocable to the Company is recorded in other expense within the consolidated statement of income. The Company earns a return primarily through the receipt of tax credits allocated to the affordable housing projects and the community revitalization projects. These investments are not consolidated as the Company does not have a controlling financial interest in the entities. As of December 31, 2013 and 2012, the Company had outstanding investments in these entities of $308 million and $259 million, respectively, and related contingent liabilities of $52 million and $79 million, respectively.

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5. Loan Receivables

The Company has three portfolio segments: credit card loans, other loans and purchased credit-impaired ("PCI") student loans.

The Company's classes of receivables within the three portfolio segments are depicted in the table below (dollars in millions):

	December 31, 2013	December 31, 2012
Mortgage loans held for sale[(1)]	$148	$355
Loan portfolio:		
Credit card loans:		
Discover card[(2)]	52,952	50,929
Discover business card	198	206
Total credit card loans	53,150	51,135
Other loans:		
Personal loans	4,191	3,296
Private student loans	3,969	3,072
Other	135	38
Total other loans	8,295	6,406
Purchased credit-impaired loans[(3)]	4,178	4,702
Total loan portfolio	65,623	62,243
Total loan receivables	65,771	62,598
Allowance for loan losses	(1,648)	(1,788)
Net loan receivables	$64,123	$60,810

(1) Substantially all mortgage loans held for sale are pledged as collateral against the warehouse line of credit used to fund consumer residential loans.

(2) Amounts include $20.2 billion and $18.8 billion underlying investors' interest in trust debt at December 31, 2013 and 2012, respectively, and $10.9 billion and $16.0 billion in seller's interest at December 31, 2013 and 2012, respectively. The decrease in the seller's interest from December 31, 2012 to December 31, 2013 is due in part to the removal of randomly-selected accounts from the credit card loan receivables restricted for securitization investors in order to reduce excess seller's interest. See Note 6: Credit Card and Student Loan Securitization Activities for further information.

(3) Amounts include $2.2 billion and $2.5 billion of loans pledged as collateral against the notes issued from the Student Loan Corporation ("SLC") securitization trusts at December 31, 2013 and 2012, respectively. See Note 6: Credit Card and Student Loan Securitization Activities. Of the remaining $2.0 billion and $2.2 billion at December 31, 2013 and 2012, respectively, that were not pledged as collateral, approximately $22 million and $17 million represent loans eligible for reimbursement through an indemnification claim, respectively. Discover Bank must purchase such loans from the trust before a claim may be filed.

Credit Quality Indicators

The Company regularly reviews its collection experience (including delinquencies and net charge-offs) in determining its allowance for loan losses. Credit card and closed-end consumer loan receivables are placed on nonaccrual status upon receipt of notification of the bankruptcy or death of a customer or suspected fraudulent activity on an account. Upon completion of the fraud investigation, non-fraudulent credit card and closed-end consumer loan receivables may resume accruing interest.

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Information related to the delinquent and non-accruing loans in the Company's loan portfolio, which excludes loans held for sale, is shown below by each class of loan receivables except for PCI student loans, which is shown under the heading "— Purchased Credit-Impaired Loans" (dollars in millions):

	30-89 Days Delinquent	90 or More Days Delinquent	Total Past Due	90 or More Days Delinquent and Accruing	Total Non-accruing[1]
At December 31, 2013					
Credit card loans:					
Discover card[2]	$464	$445	$909	$406	$ 154
Discover business card	1	2	3	2	1
Total credit card loans	465	447	912	408	155
Other loans:					
Personal loans[3]	21	8	29	8	5
Private student loans (excluding PCI)[4]	48	18	66	18	—
Other	1	2	3	—	40
Total other loans (excluding PCI)	70	28	98	26	45
Total loan receivables (excluding PCI)	$535	$475	$1,010	$434	$ 200
At December 31, 2012					
Credit card loans:					
Discover card[2]	$455	$458	$913	$407	$ 183
Discover business card	2	2	4	2	1
Total credit card loans	457	460	917	409	184
Other loans:					
Personal loans[3]	18	8	26	7	4
Private student loans (excluding PCI)[4]	28	9	37	7	2
Other	—	1	1	—	2
Total other loans (excluding PCI)	46	18	64	14	8
Total loan receivables (excluding PCI)	$503	$478	$981	$423	$ 192

(1) The Company estimates that the gross interest income that would have been recorded in accordance with the original terms of non-accruing credit card loans was $29 million, $32 million, $45 million and $3 million for the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, respectively. The Company does not separately track the amount of gross interest income that would have been recorded in accordance with the original terms of loans. This amount was estimated based on customers' current balances and most recent interest rates.

(2) Consumer credit card loans that are 90 or more days delinquent and accruing interest include $41 million and $52 million of loans accounted for as troubled debt restructurings at December 31, 2013 and 2012, respectively.

(3) Personal loans that are 90 or more days delinquent and accruing interest include $2 million of loans accounted for as troubled debt restructurings at both December 31, 2013 and 2012, respectively.

(4) Private student loans that are 90 or more days delinquent and accruing interest include $3 million and $2 million of loans accounted for as troubled debt restructurings at December 31, 2013 and 2012.

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Net Charge-offs

The Company's net charge-offs include the principal amount of loans charged off less principal recoveries and exclude charged-off interest and fees, recoveries of interest and fees and fraud losses. Charged-off and recovered interest and fees are recorded in interest income and loan fee income, respectively, which is effectively a reclassification of the loan loss provision, while fraud losses are recorded in other expense. Credit card loan receivables are charged off at the end of the month during which an account becomes 180 days contractually past due. Personal loans and private student loans, which are closed-end consumer loan receivables are generally charged off at the end of the month during which an account becomes 120 days contractually past due. Generally, customer bankruptcies and probate accounts are charged off at the end of the month 60 days following the receipt of notification of the bankruptcy or death but not later than the 180-day or 120-day contractual time frame.

Information related to the net charge-offs in the Company's loan portfolio, which excludes loans held for sale, is shown below by each class of loan receivables except for PCI student loans, which is shown under the heading "— Purchased Credit-Impaired Loans" (dollars in millions):

	For the Calendar Year Ended December 31, 2013			For the Fiscal Years Ended November 30, 2012			2011			For the One Month Ended December 31, 2012		
	Net Charge-offs	Net Charge-off Rate		Net Charge-offs	Net Charge-off Rate		Net Charge-offs	Net Charge-off Rate		Net Charge-offs	Net Charge-off Rate	
Credit card loans:												
Discover card	$1,096	2.21	%	$1,233	2.62	%	$2,018	4.46	%	$106	2.48	%
Discover business card	4	2.05	%	7	3.36	%	18	7.27	%	—	2.08	%
Total credit card loans	1,100	2.21	%	1,240	2.62	%	2,036	4.47	%	106	2.47	%
Other loans:												
Personal loans	79	2.13	%	69	2.33	%	67	3.02	%	7	2.52	%
Private student loans (excluding PCI)	46	1.30	%	19	0.73	%	7	0.48	%	2	0.81	%
Other	1	1.96	%	—	0.10	%	2	9.27	%	—	—	%
Total other loans (excluding PCI)	126	1.67	%	88	1.52	%	76	1.65	%	9	1.61	%
Net charge-offs as a percentage of total loans (excluding PCI)	$1,226	2.14	%	$1,328	2.50	%	$2,112	4.21	%	$115	2.37	%
Net charge-offs as a percentage of total loans (including PCI)	$1,226	1.98	%	$1,328	2.29	%	$2,112	3.97	%	$115	2.19	%

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As part of credit risk management activities, on an ongoing basis the Company reviews information related to the performance of a customer's account with the Company as well as information from credit bureaus, such as FICO or other credit scores, relating to the customer's broader credit performance. FICO scores are generally obtained at origination of the account and are refreshed monthly or quarterly thereafter to assist in predicting customer behavior. Historically, the Company has noted that a significant proportion of delinquent accounts have FICO scores below 660. The following table provides the most recent FICO scores available for the Company's customers as a percentage of each class of loan receivables:

	Credit Risk Profile by FICO Score	
	660 and Above	Less than 660 or No Score
At December 31, 2013		
Discover card	83 %	17 %
Discover business card	92 %	8 %
Personal loans	97 %	3 %
Private student loans (excluding PCI)[(1)]	95 %	5 %
At December 31, 2012		
Discover card	83 %	17 %
Discover business card	91 %	9 %
Personal loans	97 %	3 %
Private student loans (excluding PCI)[(1)]	95 %	5 %

(1) PCI loans are discussed under the heading "— Purchased Credit-Impaired Loans."

For private student loans, additional credit risk management activities include monitoring the amount of loans in forbearance. Forbearance allows borrowers experiencing temporary financial difficulties and willing to make payments the ability to temporarily suspend payments. Eligible borrowers have a lifetime cap on forbearance of 12 months. At December 31, 2013 and 2012, there were $110 million and $183 million of private student loans, including PCI, in forbearance, respectively. In addition, at December 31, 2013 and 2012, there were 1.9% and 3.4% of private student loans in forbearance as a percentage of student loans in repayment and forbearance, respectively. At December 31, 2012, the dollar amount of loans in forbearance and loans in forbearance as a percentage of private student loans in repayment and forbearance were higher due to administrative forbearances that were offered to certain customers impacted by Hurricane Sandy.

Allowance for Loan Losses

The Company maintains an allowance for loan losses at an appropriate level to absorb probable losses inherent in the loan portfolio. The Company considers the collectibility of all amounts contractually due on its loan receivables, including those components representing interest and fees. Accordingly, the allowance for loan losses represents the estimated uncollectible principal, interest and fee components of loan receivables. The allowance is evaluated monthly and is maintained through an adjustment to the provision for loan losses. Charge-offs of principal amounts of loans outstanding are deducted from the allowance and subsequent recoveries of such amounts increase the allowance. Charge-offs of loan balances representing unpaid interest and fees result in a reversal of interest and fee income, respectively, which is effectively a reclassification of provision for loan losses.

The Company bases its allowance for loan losses on several analyses that help estimate incurred losses as of the balance sheet date. While the Company's estimation process includes historical data and analysis, there is a significant amount of judgment applied in selecting inputs and analyzing the results produced by the models to determine the allowance. The Company uses a migration analysis to estimate the likelihood that a loan will progress through the various stages of delinquency. The Company uses other analyses to estimate losses incurred on non-delinquent accounts. The considerations in these analyses include past performance, risk management techniques applied to various accounts, historical behavior of different account vintages, economic conditions, recent trends in delinquencies, bankruptcy filings, account collection management, policy changes, account seasoning, loan volume and amounts, payment rates, and forecasting uncertainties. The Company primarily estimates its allowance for loan losses on a pooled basis, which includes loans that are delinquent and/or no longer accruing interest and/or certain loans that have defaulted from a loan modification program, as discussed below under the section entitled "— Impaired Loans

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and Troubled Debt Restructurings." Certain other loans, including non-performing Diners Club licensee loans, are individually evaluated for impairment.

The following tables provide changes in the Company's allowance for loan losses for the calendar year ended December 31, 2013, one month period ended December 30, 2012 and fiscal years ended November 30, 2012 and 2011 (dollars in millions):

	For the Calendar Year Ended December 31, 2013				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$1,613	$99	$75	$1	$1,788
Additions:					
Provision for loan losses	893	92	84	17	1,086
Deductions:					
Charge-offs	(1,604)	(86)	(48)	(1)	(1,739)
Recoveries	504	7	2	—	513
Net charge-offs	(1,100)	(79)	(46)	(1)	(1,226)
Balance at end of period	$1,406	$112	$113	$17	$1,648

	For the One Month Ended December 31, 2012				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$1,554	$97	$73	$1	$1,725
Additions:					
Provision for loan losses	165	9	4	—	178
Deductions:					
Charge-offs	(146)	(8)	(2)	—	(156)
Recoveries	40	1	—	—	41
Net charge-offs	(106)	(7)	(2)	—	(115)
Balance at end of period	$1,613	$99	$75	$1	$1,788

	For the Fiscal Year Ended November 30, 2012				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$2,070	$82	$53	$—	$2,205
Additions:					
Provision for loan losses	724	84	39	1	848
Deductions:					
Charge-offs	(1,817)	(73)	(19)	—	(1,909)
Recoveries	577	4	—	—	581
Net charge-offs	(1,240)	(69)	(19)	—	(1,328)
Balance at end of period	$1,554	$97	$73	$1	$1,725

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The following tables provide changes in the Company's allowance for loan losses for the calendar year ended December 31, 2013, one month period ended December 30, 2012 and fiscal years ended November 30, 2012 and 2011 (dollars in millions):

	For the Fiscal Year Ended November 30, 2011				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$3,209	$76	$18	$1	$3,304
Additions:					
Provision for loan losses	897	73	42	1	1,013
Deductions:					
Charge-offs	(2,615)	(69)	(7)	(2)	(2,693)
Recoveries	579	2	—	—	581
Net charge-offs	(2,036)	(67)	(7)	(2)	(2,112)
Balance at end of period	$2,070	$82	$53	$—	$2,205

Net charge-offs of principal are recorded against the allowance for loan losses, as shown in the table above. Information regarding net charge-offs of interest and fee revenues on credit card and other loans is as follows (dollars in millions):

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30,		For the One Month Ended December 31, 2012
		2012	2011	
Interest and fees accrued subsequently charged off, net of recoveries (recorded as a reduction of interest income)	$280	$345	$589	$26
Fees accrued subsequently charged off, net of recoveries (recorded as a reduction to other income)	$59	$67	$106	$5

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The following tables provide additional detail of the Company's allowance for loan losses and recorded investment in its loan portfolio (which excludes loans held for sale) by impairment methodology (dollars in millions):

	Credit Card	Personal Loans	Student Loans	Other Loans	Total
At December 31, 2013					
Allowance for loan losses evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$1,218	$109	$76	$1	$1,404
Evaluated for impairment in accordance with ASC 310-10-35(1)(2)	188	3	9	16	216
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	28	—	28
Allowance for loan losses	$1,406	$112	$113	$17	$1,648
Recorded investment in loans evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$52,027	$4,160	$3,941	$56	$60,184
Evaluated for impairment in accordance with ASC 310-10-35(1)(2)	1,123	31	28	79	1,261
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	4,178	—	4,178
Total recorded investment	$53,150	$4,191	$8,147	$135	$65,623
At December 31, 2012					
Allowance for loan losses evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$1,433	$95	$71	$1	$1,600
Evaluated for impairment in accordance with ASC 310-10-35(1)(2)	180	4	4	—	188
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	—	—	—
Allowance for loan losses	$1,613	$99	$75	$1	$1,788
Recorded investment in loans evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$49,826	$3,275	$3,056	$38	$56,195
Evaluated for impairment in accordance with ASC 310-10-35(1)(2)	1,309	21	16	—	1,346
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	4,702	—	4,702
Total recorded investment	$51,135	$3,296	$7,774	$38	$62,243

(1) Loan receivables evaluated for impairment in accordance with ASC 310-10-35 include credit card loans, personal loans and student loans collectively evaluated for impairment in accordance with ASC Subtopic 310-40, Receivables, which consists of modified loans accounted for as troubled debt restructurings. Other loans are individually evaluated for impairment and generally do not represent troubled debt restructurings.

(2) The unpaid principal balance of credit card loans was $0.9 billion and $1.1 billion at December 31, 2013 and 2012 respectively. The unpaid principal balance of personal loans was $31 million and $21 million at December 31, 2013 and 2012, respectively. The unpaid principal balance of student loans was $26 million and $15 million at December 31, 2013 and 2012, respectively. All loans accounted for as troubled debt restructurings have a related allowance for loan losses.

Troubled Debt Restructurings

Permanent and certain temporary modification programs for credit card loans as well as loans that defaulted or graduated from modification programs, certain grants of student loan forbearance and certain modifications to personal loans as well as those that defaulted or graduated from modification programs are considered troubled debt restructurings and are accounted for in accordance with ASC Subtopic 310-40, Troubled Debt Restructurings by Creditors. Generally loans included in a loan modification program are considered to be individually impaired and are accounted for as troubled debt restructurings. The Company has both internal and external loan modification programs that provide relief to credit card and personal loan borrowers who are experiencing financial hardship. The internal loan modification programs include both temporary and permanent programs.

For credit card customers, the temporary hardship program primarily consists of a reduced minimum payment and an interest rate reduction, both lasting for a period no longer than 12 months. The permanent workout program involves changing the structure of the loan to a fixed payment loan with a maturity no longer than 60 months and reducing the interest rate on the loan. The permanent modification program does not normally provide for the forgiveness of unpaid principal, but may allow for the reversal of certain unpaid interest or fee assessments. The Company also makes loan modifications for customers who request financial assistance through external sources, such

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as a consumer credit counseling agency program (referred to here as external programs). These loans typically receive a reduced interest rate but continue to be subject to the original minimum payment terms and do not normally include waiver of unpaid principal, interest or fees.

To assist student loan borrowers who are experiencing temporary financial difficulties but are willing to resume making payments, the Company may offer forbearance periods of up to 12 months over the life of the loan. The Company does not anticipate significant shortfalls in the contractual amount due for borrowers using a first forbearance period as the historical performance of these borrowers is not significantly different from the overall portfolio. However, when a delinquent borrower is granted a second forbearance period, the forbearance is considered a troubled debt restructuring.

For personal loan customers, the Company offers two temporary programs which normally consist of a reduction of the minimum payment for a period of no longer than 12 months with a final balloon payment required at the end of the loan term. In addition, the temporary APR reduction program also provides an interest rate reduction for up to 12 months. The permanent modification programs involve changing the terms of the loan in order to pay off the outstanding balance over the new term for a period no longer than 4 years. The total term, including both the original and renegotiated terms, generally does not exceed 9 years. The Company offers another permanent modification program which modifies the interest rate along with the term of the loan. The Company also allows loan modifications for personal loan customers who request financial assistance through external sources, similar to credit card customers discussed above. Payments are modified based on the new terms agreed upon with the credit counseling agency. Personal loans modified through temporary and permanent internal programs are accounted for as troubled debt restructurings.

Loans classified as troubled debt restructurings are recorded at their present value with impairment measured as the difference between the loan balance and the discounted present value of cash flows expected to be collected. Consistent with the Company’s measurement of impairment of modified loans on a pooled basis, the discount rate used for credit card loans in internal programs is the average current annual percentage rate applied to non-impaired credit card loans, which approximates what would have applied to the pool of modified loans prior to impairment. The discount rate used for credit card loans in external programs reflects a rate that is consistent with rates offered to lower risk cardmembers. For student and personal loans, the discount rate used is the average contractual rate prior to modification.

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Interest income from loans accounted for as troubled debt restructurings is accounted for in the same manner as other accruing loans. Cash collections on these loans are allocated according to the same payment hierarchy methodology applied to loans that are not in such programs. Additional information about modified loans classified as troubled debt restructurings is shown below (dollars in millions):

	Average recorded investment in loans	Interest income recognized during period loans were impaired(1)	Gross interest income that would have been recorded with original terms(2)
For the Calendar Year Ended December 31, 2013			
Credit card loans			
Modified credit card loans(3)	$269	$49	$3
Internal programs	$468	$9	$66
External programs	$463	$36	$11
Personal loans	$26	$3	$1
Student loans(4)	$22	$2	N/A
For the Fiscal Year Ended November 30, 2012			
Credit card loans			
Modified credit card loans(3)	$255	$48	N/A
Internal programs	$557	$17	$73
External programs	$603	$51	$9
Personal loans	$16	$2	N/A
Student loans(4)	$10	$1	N/A
For the Fiscal Year Ended November 30, 2011			
Credit card loans			
Modified credit card loans(3)	$276	$48	N/A
Internal programs	$537	$21	$65
External programs	$715	$62	$10
Personal loans	$7	$1	N/A
Student loans(4)	$5	$—	N/A
For the One Month Ended December 31, 2012			
Credit card loans			
Modified credit card loans(3)	$281	$4	$—
Internal programs	$509	$1	$6
External programs	$530	$4	$1
Personal loans	$21	$—	N/A
Student loans(4)	$16	$—	N/A

(1) The Company does not separately track interest income on loans in modification programs. Amounts shown are estimated by applying an average interest rate to the average loans in the various modification programs.

(2) The Company does not separately track the amount of gross interest income that would have been recorded if the loans in modification programs had not been restructured and interest had instead been recorded in accordance with the original terms. Amounts shown are estimated by applying the difference between the average interest rate earned on non-impaired credit card loans and the average interest rate earned on loans in the modification programs to the average loans in the modification programs.

(3) This balance is considered impaired, but is excluded from the internal and external program amounts reflected in this table. Represents credit card loans that were modified in troubled debt restructurings, but that have subsequently reverted back to the loans' pre-modification payment terms either due to noncompliance with the terms of the modification or successful completion of a temporary modification program.

(4) Student loan customers who have been granted a forbearance are not given interest rate reductions.

In order to evaluate the primary financial effects that resulted from credit card loans entering into a loan modification program during the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, the Company quantified the amount by which interest and fees

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were reduced during the periods. During the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, the Company forgave approximately $40 million, $44 million, $64 million and $3 million, respectively, of interest and fees as a result of accounts entering into a credit card loan modification program.

The following table provides information on loans that entered a loan modification program during the period (dollars in millions):

	For the Calendar Year Ended December 31, 2013		For the Fiscal Years Ended November 30, 2012		2011		For the One Month Ended December 31, 2012	
	Number of Accounts	Balances	Number of Accounts	Balances	Number of Accounts	Balances	Number of Accounts	Balances
Accounts that entered a loan modification program during the period:								
Credit card:								
Internal programs	40,653	$256	50,946	$345	68,738	$480	3,078	$19
External programs	35,020	$189	40,530	$227	52,705	$310	2,614	$14
Personal loans	2,178	$27	1,555	$20	410	$5	120	$2
Student loans	877	$17	470	$11	262	$5	60	$2

The following table presents the carrying value of loans that experienced a payment default during the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012 that had been modified in a troubled debt restructuring during the 15 months preceding the end of each period (dollars in millions):

	For the Calendar Year Ended December 31, 2013		For the Fiscal Years Ended November 30, 2012		2011		For the One Month Ended December 31, 2012	
	Number of Accounts	Aggregated Outstanding Balances Upon Default	Number of Accounts	Aggregated Outstanding Balances Upon Default	Number of Accounts	Aggregated Outstanding Balances Upon Default	Number of Accounts	Aggregated Outstanding Balances Upon Default
Troubled debt restructurings that subsequently defaulted:								
Credit card (1)(2):								
Internal programs	9,186	$ 57	15,703	$ 106	18,354	$ 131	945	$ 6
External programs	8,481	$ 36	8,543	$ 40	11,974	$ 62	722	$ 3
Personal loans(2)	284	$ 3	343	$ 4	17	$ —	22	$ —
Student loans(3)	628	$ 12	172	$ 4	19	$ 1	42	$ 1

(1) The outstanding balance upon default is the loan balance at the end of the month prior to default. Terms revert back to the pre-modification terms for customers who default from a temporary program and charging privileges remain revoked.

(2) A customer defaults from a modification program after two consecutive missed payments.

(3) Student loan defaults have been defined as loans that are 60 or more days delinquent.

Of the account balances that defaulted as shown above for the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, approximately 40%, 46%, 40% and

39%, respectively, of the total balances were charged off at the end of the month in which they defaulted. For accounts that have defaulted from a loan modification program and have not subsequently charged off, the balances are included in the allowance for loan loss analysis discussed above under "— Allowance for Loan Losses."

Purchased Credit-Impaired Loans

Purchased loans with evidence of credit deterioration since origination for which it is probable that not all contractually required payments will be collected are considered impaired at acquisition and are reported as PCI loans. The private student loans acquired in the SLC transaction as well as the additional private student loan portfolio

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acquired from Citibank comprise the Company’s only PCI loans at December 31, 2013 and 2012. Total PCI student loans had an outstanding balance of $4.6 billion and $5.2 billion, including accrued interest, and a related carrying amount of $4.2 billion and $4.7 billion, as of December 31, 2013 and 2012, respectively.

The following table provides changes in accretable yield for the acquired loans for the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012 (dollars in millions):

	For the Calendar Year Ended December 31, 2013	For the Fiscal Years Ended November 30, 2012	2011	For the One Month Ended December 31, 2012
Balance at beginning of period	$2,072	$2,580	$—	$2,096
Acquisition of the Student Loan Corporation	—	—	1,920	—
Acquisition of the additional private student loan portfolio from Citibank	—	—	855	—
Accretion into interest income	(272)	(303)	(225)	(24)
Other changes in expected cash flows	(220)	(181)	30	—
Balance at end of period	$1,580	$2,096	$2,580	$2,072

Periodically the Company updates the estimate of cash flows expected to be collected based on management's latest expectations of future credit losses, borrower prepayments and certain other assumptions that affect cash flows. The Company recorded a $28 million provision expense during the calendar year ended December 31, 2013 due to higher expected future losses for one of its pools. The allowance for PCI loan losses at December 31, 2013 was $28 million. Additionally, changes to other cash flow assumptions resulted in a decrease in accretable yield related to expected life of the loans for the calendar year ended December 31, 2013 and fiscal year ended November 30, 2012 and increase in accretable yield for the fiscal year ended November 30, 2011. There was no impact on accretable yield as a result of changes in cash flow assumptions for the one month ended December 31, 2012. Changes to accretable yield are recognized prospectively as an adjustment to yield over the remaining life of the pools.

At December 31, 2013, the 30 or more days delinquency and 90 or more days delinquency rates on PCI student loans (which includes loans not yet in repayment) were 2.33% and 0.80%, respectively. At December 31, 2012, the 30 or more days delinquency and 90 or more days delinquency rates on PCI student loans (which includes loans not yet in repayment) were 2.68% and 0.86%, respectively. These rates include private student loans that are greater than 120 days delinquent that are covered by an indemnification agreement or insurance arrangements through which the Company expects to recover a substantial portion of the loan. The net charge-off rate on PCI student loans for the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012 was 1.36%, 1.41%, 1.34% and 1.53%, respectively.

Mortgage Loans Held for Sale

The Company originates all of its residential real estate loans with the intent to sell them in the secondary market. Loans held for sale consist primarily of residential first mortgage loans that are secured by residential real estate throughout the United States. Mortgage loans are funded through a warehouse line of credit and are recorded at fair value. Changes in the fair value of mortgage loans are recorded through other income prior to the sale of the loans to investors. The gain or loss on the sale of loans is recognized on the date the loans are sold and is based on the difference between the sale proceeds received and the carrying value of the loans, adjusted for the impact of the related hedges. See Note 22: Derivatives and Hedging Activities for further discussion of the mortgage loan related hedging activities. The Company sells its loans on a servicing released basis in which the Company gives up the right to service the loans.

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The following table provides a summary of the initial unpaid principal balance of mortgage loans sold by type of loan for the calendar year ended December 31, 2013, fiscal year ended November 30, 2012 and one month ended December 31, 2012 (dollars in millions):

	For the Calendar Year Ended December 31, 2013			For the Fiscal Year Ended November 30, 2012			For the One Month Ended December 31, 2012		
	Amount	%		Amount	%		Amount	%	
Conforming[1]	$2,721	67.77	%	$1,213	70.28	%	$218	60.06	%
FHA[2]	1,290	32.13		513	29.72		145	39.94	
Jumbo[3]	4	0.10		—	—		—	—	
Total	$4,015	100.00	%	$1,726	100.00	%	$363	100.00	%

(1) Conforming loans are loans that conform to Government Sponsored Enterprises guidelines.
(2) FHA loans are loans that are insured by the Federal Housing Administration and are typically made to borrowers with low down payments. The initial loan amount must be within certain limits.
(3) Jumbo loans are loans with an initial amount larger than the limits set by a Government Sponsored Enterprise.

The following table represents the loans held for sale by type of loan as of December 31, 2013 and 2012 (dollars in millions):

	December 31, 2013			2012		
	Amount	%		Amount	%	
Conforming[1]	$136	91.89	%	$177	49.86	%
FHA[2]	11	7.43		178	50.14	
Jumbo[3]	1	0.68		—	—	
Total	$148	100.00	%	$355	100.00	%

(1) Conforming loans are loans that conform to Government Sponsored Enterprises guidelines.
(2) FHA loans are loans that are insured by the Federal Housing Administration and are typically made to borrowers with low down payments. The initial loan amount must be within certain limits.
(3) Jumbo loans are loans with an initial amount larger than the limits set by a Government Sponsored Enterprise.

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Geographical Distribution of Loans

The Company originates credit card loans throughout the United States. The geographic distribution of the Company's credit card loan receivables was as follows (dollars in millions):

	December 31,					
	2013			2012		
	$	%		$	%	
California	$4,548	8.5	%	$4,442	8.7	%
Texas	4,299	8.1		4,090	8.0	
New York	3,649	6.9		3,457	6.8	
Florida	3,064	5.8		2,949	5.8	
Illinois	2,998	5.6		2,903	5.7	
Pennsylvania	2,823	5.3		2,703	5.3	
Ohio	2,324	4.4		2,233	4.4	
New Jersey	2,002	3.8		1,940	3.8	
Michigan	1,575	3.0		1,537	3.0	
Georgia	1,546	2.9		1,499	2.9	
Other States	24,322	45.7		23,382	45.6	
Total credit card loans	$53,150	100.0	%	$51,135	100.0	%

The Company originates personal loans, student loans, other loans and PCI loans throughout the United States. The table below does not include mortgage loans held for sale. The geographic distribution of personal, student, other and PCI loan receivables was as follows (dollars in millions):

	December 31,					
	2013			2012		
	$	%		$	%	
New York	$1,679	13.4	%	$1,614	14.5	%
California	1,167	9.4		1,039	9.4	
Pennsylvania	939	7.5		877	7.9	
Illinois	696	5.6		612	5.5	
Texas	637	5.1		542	4.9	
New Jersey	630	5.1		570	5.1	
Massachusetts	508	4.1		463	4.2	
Michigan	482	3.9		436	3.9	
Ohio	481	3.9		418	3.8	
Florida	479	3.8		419	3.8	
Other States	4,775	38.2		4,118	37.0	
Total other loans (including PCI loans)	$12,473	100.0	%	$11,108	100.0	%

6. Credit Card and Student Loan Securitization Activities

Credit Card Securitization Activities

The Company accesses the term asset securitization market through the Discover Card Master Trust I (“DCMT”) and the Discover Card Execution Note Trust (“DCENT”), which are trusts into which credit card loan receivables are transferred (or, in the case of DCENT, into which beneficial interests in DCMT are transferred) and from which beneficial interests are issued to investors.

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The DCENT debt structure consists of four classes of securities (DiscoverSeries Class A, B, C and D notes), with the most senior class generally receiving a triple-A rating. In this structure, in order to issue senior, higher rated classes of notes, it is necessary to obtain the appropriate amount of credit enhancement, generally through the issuance of junior, lower rated or more highly subordinated classes of notes, the majority of which are held by wholly-owned subsidiaries of Discover Bank. The DCMT structure consists of Class A, triple-A rated certificates and Class B, single-A rated certificates held by third parties. Credit enhancement is provided by the subordinated Class B certificates, cash collateral accounts, and more subordinated Series 2009-CE certificates that are held by a wholly-owned subsidiary of Discover Bank. The credit-related risk of loss associated with trust assets as of the balance sheet date to which the Company is exposed through the retention of these subordinated interests is fully captured in the allowance for loan losses recorded by the Company.

The Company's credit card securitizations are accounted for as secured borrowings and the trusts are treated as consolidated subsidiaries of the Company. The Company's retained interests in the assets of the trusts, principally consisting of investments in DCMT certificates and DCENT notes held by subsidiaries of Discover Bank, constitute intercompany positions which are eliminated in the preparation of the Company's consolidated statements of financial condition.

Upon transfer of credit card loan receivables to the trust, the receivables and certain cash flows derived from them become restricted for use in meeting obligations to the trusts' creditors. Further, the transferred credit card loan receivables are owned by the trust and are not available to third party creditors of the Company. The trusts have ownership of cash balances that also have restrictions, the amounts of which are reported in restricted cash. Investment of trust cash balances is limited to investments that are permitted under the governing documents of the trusts and which have maturities no later than the related date on which funds must be made available for distribution to trust investors. With the exception of the seller's interest in trust receivables, the Company's interests in trust assets are generally subordinate to the interests of third-party investors and, as such, may not be realized by the Company if needed to absorb deficiencies in cash flows that are allocated to the investors in the trusts' debt. The carrying values of these restricted assets, which are presented on the Company's consolidated statement of financial condition as relating to securitization activities, are shown in the table below (dollars in millions):

	December 31,	
	2013	2012
Cash collateral accounts	$59	$93
Collections and interest funding accounts	31	91
Restricted cash	90	184
Investors' interests held by third-party investors	15,190	13,768
Investors' interests held by wholly owned subsidiaries of Discover Bank	5,024	5,038
Seller's interest	10,898	15,976
Loan receivables[(1)]	31,112	34,782
Allowance for loan losses allocated to securitized loan receivables[(1)]	(833)	(1,110)
Net loan receivables	30,279	33,672
Other	34	29
Carrying value of assets of consolidated variable interest entities	$30,403	$33,885

(1) The Company maintains its allowance for loan losses at an amount sufficient to absorb probable losses inherent in all loan receivables, which includes all loan receivables in the trusts. Therefore, credit risk associated with the transferred receivables is fully reflected on the Company's balance sheet in accordance with GAAP.

The debt securities issued by the consolidated trusts are subject to credit, payment and interest rate risks on the transferred credit card loan receivables. To protect investors, the securitization structures include certain features that could result in earlier-than-expected repayment of the securities. The primary investor protection feature relates to the availability and adequacy of cash flows in the securitized pool of receivables to meet contractual requirements. Insufficient cash flows would trigger the early repayment of the securities. This is referred to as the "economic early amortization" feature.

Investors are allocated cash flows derived from activities related to the accounts comprising the securitized pool of receivables, the amounts of which reflect finance charges billed, certain fee assessments, allocations of merchant discount and interchange, and recoveries on charged-off accounts. From these cash flows, investors are reimbursed for

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charge-offs occurring within the securitized pool of receivables and receive a contractual rate of return and Discover Bank is paid a servicing fee as servicer. Any cash flows remaining in excess of these requirements are reported to investors as excess spread. An excess spread rate of less than 0% for a contractually specified period, generally a three-month average, would trigger an economic early amortization event. In such an event, the Company would be required to seek immediate sources of replacement funding. Apart from the restricted assets related to securitization activities, the investors and the securitization trusts have no recourse to the Company’s other assets or the Company's general credit for a shortage in cash flows.

The Company is required to maintain a contractual minimum level of receivables in the trust in excess of the face value of outstanding investors’ interests. This excess is referred to as the minimum seller’s interest requirement. The required minimum seller’s interest in the pool of trust receivables, which is included in credit card loan receivables restricted for securitization investors, is set at approximately 7% in excess of the total investors’ interests (which includes interests held by third parties as well as those certificated interests held by the Company). If the level of receivables in the trust was to fall below the required minimum, the Company would be required to add receivables from the unrestricted pool of receivables, which would increase the amount of credit card loan receivables restricted for securitization investors. A decline in the amount of the excess seller’s interest could occur if balance repayments and charge-offs exceeded new lending on the securitized accounts or as a result of changes in total outstanding investors’ interests. Seller's interest is impacted by seasonality as higher balance repayments tend to occur in the first calendar year quarter. If the Company could not add enough receivables to satisfy the requirement, an early amortization (or repayment) of investors’ interests would be triggered. We retain significant exposure to the performance of trust assets through holdings of the seller's interest and subordinated security classes of DCMT and DCENT. In addition, the Company has the right to remove a random selection of accounts, which would serve to decrease the amount of credit card loan receivables restricted for securitization investors, subject to certain requirements including that the minimum seller's interest is still met. In 2013, accounts were randomly selected to be removed from credit card loan receivables restricted for securitization investors in the amount of $3 billion to reduce excess seller's interest. The removal freed up the accounts to be pledged at the Federal Reserve discount window, allowing the Company to increase its borrowing capacity. The Company satisfied all requirements, including the minimum seller's interest requirement, in order to complete the account removal.

Another feature of the Company’s credit card securitization structure that is designed to protect investors’ interests from loss, which is applicable only to the notes issued from DCENT, is a reserve account funding requirement in which excess cash flows generated by the transferred loan receivables are held at the trust. This funding requirement is triggered when DCENT’s three-month average excess spread rate decreases to below 4.5%, with increasing funding requirements as excess spread levels decline below preset levels to 0%.

In addition to performance measures associated with the transferred credit card loan receivables or the inability to add receivables to satisfy the seller's interest requirement, there are other events or conditions which could trigger an early amortization event, such as non-payment of principal at expected maturity. As of December 31, 2013, no economic or other early amortization events have occurred.

The tables below provide information concerning investors’ interests and related excess spreads at December 31, 2013 (dollars in millions):

	Investors’ Interests[(1)]	# of Series Outstanding
Discover Card Master Trust I	$918	2
Discover Card Execution Note Trust (DiscoverSeries notes)	19,296	37
Total investors’ interests	$20,214	39

(1) Investors’ interests include third-party interests and subordinated interests held by wholly-owned subsidiaries of Discover Bank.

	3-Month Rolling Average Excess Spread[(1)]

Group excess spread percentage	14.17	%
DiscoverSeries excess spread percentage	14.15	%

(1) DCMT certificates refer to the higher of the Group excess spread or their applicable series excess spread (not shown) and DiscoverSeries notes refer to the higher of the Group or DiscoverSeries excess spread in assessing whether an economic early amortization has been triggered.

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The Company continues to own and service the accounts that generate the loan receivables held by the trusts. Discover Bank receives servicing fees from the trusts based on a percentage of the monthly investor principal balance outstanding. Although the fee income to Discover Bank offsets the fee expense to the trusts and thus is eliminated in consolidation, failure to service the transferred loan receivables in accordance with contractual requirements could lead to a termination of the servicing rights and the loss of future servicing income, net of related expenses.

Student Loan Securitization Activities

The Company's student loan securitizations are accounted for as secured borrowings and the trusts are treated as consolidated subsidiaries of the Company. Trust receivables underlying third-party investors' interests are recorded in purchased credit-impaired loans, and the related debt issued by the trusts is reported in long-term borrowings. The assets of the Company's consolidated VIEs are restricted from being sold or pledged as collateral for other borrowings and the cash flows from these restricted assets may be used only to pay obligations of the trust.

Currently there are three trusts from which securities were issued to investors. Principal payments on the long-term secured borrowings are made as cash is collected on the underlying loans that are used as collateral on the secured borrowings. The Company does not have access to cash collected by the securitization trusts until cash is released in accordance with the trust indenture agreements and, for certain securitizations, no cash will be released to the Company until all outstanding trust borrowings have been repaid. Similar to the credit card securitizations, the Company continues to own and service the accounts that generate the student loan receivables held by the trusts and receives servicing fees from the trusts based on either a percentage of the principal balance outstanding or a flat fee per borrower. Although the servicing fee income offsets the fee expense related to the trusts, failure to service the transferred loan receivables in accordance with contractual requirements could lead to a termination of the servicing rights.

Under terms of all the trust arrangements, the Company has the option, but not the obligation, to provide financial support to the trusts, but has never provided such support. A substantial portion of the credit risk associated with the securitized loans has been transferred to third parties under private credit insurance or indemnification arrangements.

The carrying values of these restricted assets, which are presented on the Company's consolidated statements of financial condition as relating to securitization activities, are shown in the table below (dollars in millions):

	December 31,	
	2013	2012
Restricted cash	$89	$96
Student loan receivables	2,248	2,539
Allowance for loan losses allocated to securitized loan receivables(1)	(28)	—
Net student loan receivables	2,220	2,539
Carrying value of assets of consolidated variable interest entities	$2,309	$2,635

(1) The Company maintains its allowance for loan losses at an amount sufficient to absorb probable losses inherent in all loan receivables, which includes all loan receivables in the trusts. Therefore, credit risk associated with the transferred receivables is fully reflected on the Company's balance sheet in accordance with GAAP.

7. Premises and Equipment

A summary of premises and equipment, net is as follows (dollars in millions):

	December 31, 2013	December 31, 2012
Land	$43	$42
Buildings and improvements	547	517
Capitalized equipment leases	2	2
Furniture, fixtures and equipment	735	640
Software	391	414
Premises and equipment	1,718	1,615
Less: Accumulated depreciation	(829)	(764)
Less: Accumulated amortization of software	(235)	(313)
Premises and equipment, net	$654	$538

Depreciation expense, including amortization of assets recorded under capital leases, was $65 million, $63 million, $60 million and $6 million for the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, respectively. Amortization expense on capitalized software was $41 million, $32 million, $30 million and $3 million for the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, respectively.

8. Goodwill and Intangible Assets

Goodwill

As of December 31, 2013 and 2012, the Company had goodwill of $284 million and $286 million, respectively. In 2012, $31 million of goodwill was recorded in connection with its acquisition of substantially all of the operating and related assets and certain liabilities of Home Loan Center (see Note 3: Business Combinations), which was allocated to the Direct Banking segment. In 2013, a $2 million adjustment was recorded to reduce goodwill as a result of the finalization of purchase accounting for this acquisition. Additionally, the Company has goodwill of $255 million resulting from its previous acquisition of PULSE, which was allocated to the Payment Services segment.

The Company conducted its annual goodwill impairment test on June 1, 2013 and 2012, at which times management concluded that there was no impairment to goodwill. During the fourth quarter of 2013, the Company changed the date of its annual goodwill impairment test to October 1 and performed an additional impairment test which also resulted in management's conclusion that there was no impairment to goodwill. Additional information regarding the change in the annual goodwill impairment testing date is discussed in Note 2: Summary of Significant Accounting Policies.

Intangible Assets

The Company's amortizable intangible assets resulted from various acquisitions. The May 2013 acquisition of Diners Club Italy, which is part of the Payment Services segment, resulted in the recognition of amortizable intangible assets primarily related to customer relationships. The June 2012 acquisition of Home Loan Center, which is part of the Direct Banking segment, resulted in the recognition of amortizable intangible assets related to proprietary software, non-compete agreements and marketing agreements. The December 2010 acquisition of SLC, which is part of the Direct Banking segment, resulted in the recognition of an amortizable intangible asset relating to acquired customer relationships. The 2005 acquisition of PULSE, which is part of the Payment Services segment, resulted in the recognition of amortizable intangible assets relating to acquired customer relationships and trade name intangibles. Acquired customer relationships for Diners Club Italy consist of those relationships in existence between Diners Club Italy and their customers that have a Diners Club charge card as valued at the date of the acquisition. Acquired customer relationships for SLC consist of those relationships in existence between SLC and the numerous students that carry student loan balances, while for PULSE they consist of those relationships in existence between PULSE and the numerous financial institutions that participate in its network, as valued at the date of the respective acquisition.

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Non-amortizable intangible assets consist of trade name intangibles recognized in the acquisition of SLC, along with international transaction processing rights and trade name intangibles recognized in the acquisition of Diners Club in June 2008. During the fourth quarter of 2013, the Company changed the date of its annual impairment test for non-amortizable intangible assets from June 1 to October 1 to coincide with the change in the Company's goodwill impairment test date. No impairment charges were identified during the impairment tests conducted at June 1, 2013 and 2012 or October 1, 2013.

The following table summarizes the Company's intangible assets (dollars in millions):

		December 31, 2013			2012		
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortizable intangible assets:							
Customer relationships	13.7 years	$78	$ 60	$18	$72	$ 52	$20
Trade name and other	25 years	8	2	6	8	2	6
Proprietary software	7 years	6	2	4	6	1	5
Non-compete agreements	3 years	2	1	1	2	—	2
Marketing agreements and other	13 months	6	5	1	4	3	1
Total amortizable intangible assets		100	70	30	92	58	34
Non-amortizable intangible assets:							
Trade names	N/A	132	—	132	132	—	132
International transaction processing rights	N/A	23	—	23	23	—	23
Total non-amortizable intangible assets		155	—	155	155	—	155
Total intangible assets		$255	$ 70	$185	$247	$ 58	$189

Amortization expense related to the Company's intangible assets was $12 million, $11 million, $8 million and $1 million for the calendar year ended December 31, 2013, fiscal years ended November 30, 2012 and 2011 and one month ended December 31, 2012, respectively.

The following table presents expected intangible asset amortization expense for the next five years based on intangible assets at December 31, 2013 (dollars in millions):

Year	Amount
2014	$9
2015	$5
2016	$4
2017	$3
2018	$3

9. Deposits

The Company offers its deposit products to customers through two channels: (i) through direct marketing, internet origination and affinity relationships (“direct-to-consumer deposits”); and (ii) indirectly through contractual arrangements with securities brokerage firms (“brokered deposits”). Direct-to-consumer deposits include certificates of deposit, money market accounts, online savings and checking accounts and IRA certificates of deposit, while brokered deposits include certificates of deposit and sweep accounts.

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As of December 31, 2013 and 2012, the Company had approximately $28.4 billion and $28.0 billion, respectively, of direct-to-consumer deposits and approximately $16.4 billion and $14.1 billion, respectively, of brokered deposits.
A summary of interest-bearing deposit accounts is as follows (dollars in millions):

	December 31,	
	2013	2012
Certificates of deposit in amounts less than $100,000[(1)]	$21,211	$21,070
Certificates of deposit from amounts of $100,000[(1)] to less than $250,000[(1)]	4,860	5,508
Certificates of deposit in amounts of $250,000[(1)] or greater	1,180	1,280
Savings deposits, including money market deposit accounts	17,515	14,219
Total interest-bearing deposits	$44,766	$42,077
Average annual interest rate	1.57 %	1.74 %

(1) $100,000 represents the basic insurance amount previously covered by the FDIC. Effective July 21, 2010, the basic insurance per depositor was permanently increased to $250,000.

At December 31, 2013, certificates of deposit maturing over the next five years, and thereafter were as follows (dollars in millions):

Year	Amount
2014	$12,226
2015	$6,301
2016	$3,475
2017	$2,198
2018	$1,691
Thereafter	$1,360

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10. Long-Term Borrowings

Long-term borrowings consist of borrowings and capital leases having original maturities of one year or more. The following table provides a summary of the Company's long-term borrowings and weighted average interest rates on balances outstanding at period end (dollars in millions):

	December 31, 2013			2012				
	Outstanding	Interest Rate		Outstanding	Interest Rate		Interest Rate Terms	Maturity
Securitized Debt								
Fixed rate asset-backed securities								
Principal value (including discount of $1 at December 31, 2013 and December 31, 2012)	$5,549	1.86	%	$4,549	2.87	%	Various fixed rates	Various February 2015 - July 2019
Fair value adjustment[1]	5			6				
Book value	5,554			4,555				
Floating rate asset-backed securities	9,140	0.46	%	8,468	0.50	%	1-month LIBOR (2) + 8 to 58 basis points	Various February 2014 - October 2018
Floating rate asset-backed securities	500	0.44	%	750	0.64	%	Commercial Paper rate + 30 basis points	March 2014
Total Discover Card Master Trust I and Discover Card Execution Note Trust	15,194			13,773				
Floating rate asset-backed securities (including discount of $129 and $173 at December 31, 2013 and December 31, 2012, respectively)	1,005	0.48	%	1,199	0.56	%	3-month LIBOR (2) + 12 to 45 basis points	Various January 2019 - July 2036 (3)
Floating rate asset-backed securities (including discount of $3 at December 31, 2013 and December 31, 2012)	434	4.25	%	528	4.25	%	Prime rate + 100 basis points	June 2031 (3)
Floating rate asset-backed securities (including premium of $1 and $2 at December 31, 2013 and December 31, 2012, respectively)	105	4.00	%	126	4.00	%	Prime rate + 75 basis points	July 2042 (3)
Floating rate asset-backed securities (including premium of $3 and $5 at December 31, 2013 and December 31, 2012, respectively)	248	3.66	%	307	3.71	%	1-month LIBOR (2) + 350 basis points	July 2042 (3)
Total SLC Private Student Loan Trusts	1,792			2,160				
Total long-term borrowings – owed to securitization investors	16,986			15,933				
Discover Financial Services (Parent Company)								

Fixed rate senior notes due 2017							
Principal value	400	6.45	%	400	6.45	%	Fixed	June 2017
Fair value adjustment[1]	13			21				
Book value	413			421				
Fixed rate senior notes due 2019	78	10.25	%	78	10.25			