



**DISCOVER FINANCIAL SERVICES REPORTS FOURTH QUARTER NET INCOME OF \$687 MILLION  
OR \$2.03 PER DILUTED SHARE**

Fourth Quarter Results			
	2018	2017	YOY Change
Total loans EOP (in billions)	\$90.5	\$84.2	7%
Total revenue net of interest expense (in millions)	\$2,807	\$2,614	7%
Total net charge-off rate	3.08%	2.85%	23 bps
Net income (in millions)	\$687	\$387	78%
Diluted EPS	\$2.03	\$0.99	105%

**Riverwoods, IL, January 24, 2019** - Discover Financial Services (NYSE: DFS) today reported net income of \$687 million or \$2.03 per diluted share for the fourth quarter of 2018, as compared to \$387 million or \$0.99 per diluted share for the fourth quarter of 2017. The company's return on equity for the fourth quarter of 2018 was 25%. Net income in the fourth quarter of 2017 included non-recurring charges of \$189 million resulting from actions taken by the company in connection with the Tax Cuts and Jobs Act. These charges had the effect of reducing diluted earnings per share by \$0.52 in 2017.

Commenting on the company's results, Roger Hochschild, CEO and president of Discover, said, "Our disciplined focus on delivering profitable growth continued to drive solid operating performance and strong returns in the fourth quarter. For the full year, our results were characterized by robust returns even as credit normalization continued, and our ongoing investments in technology and global merchant acceptance will enhance customer experience, scale, and overall performance. We believe these initiatives will set us up for continued growth and industry-leading returns going forward."

**Segment Results:**

**Direct Banking**

Direct Banking pretax income of \$874 million increased by \$4 million from the prior year driven by higher net interest income, largely offset by an increase in the provision for loan losses and higher operating expenses.

Total loans ended the quarter at \$90.5 billion, up 7% compared to the prior year. Credit card loans ended the quarter at \$72.9 billion, up 8% from the prior year. Personal loans increased \$80 million, or 1%, from the prior year. Private student loans increased \$205 million, or 2%, year-over-year, and grew \$652 million, or 9%, excluding purchased student loans.

Net interest income increased \$181 million, or 9%, from the prior year, driven by loan growth and net interest margin expansion. Net interest margin was 10.35%, up 7 basis points versus the prior year. Card yield was 13.20%, an increase of 41 basis points from the prior year as a result of increases in the prime rate, partially offset by a change in portfolio mix and higher interest charge-offs. Interest expense as a percent of total loans increased 61 basis points from the prior year, primarily as a result of higher market rates.

Other income increased \$9 million, or 2%, from the prior year, driven by higher discount and interchange revenue.

The 30+ day delinquency rate for credit card loans was 2.43%, up 15 basis points from the prior year and 11 basis points from the prior quarter. The credit card net charge-off rate was 3.23%, up 20 basis points from the prior year and 9 basis points from the prior quarter. The student loan net charge-off rate, excluding PCI loans, was 1.05%, down 29 basis points from the prior year. The personal loans net charge-off rate of 4.49% increased by 87 basis points from the prior year. Net charge-off rates were generally higher because of supply-driven credit normalization and the seasoning of recent years' loan growth.



Provision for loan losses of \$800 million increased \$122 million from the prior year due to higher net charge-offs and a higher reserve build. The reserve build for the fourth quarter of 2018 was \$120 million, compared to a reserve build of \$94 million in the fourth quarter of 2017.

Expenses increased \$64 million from the prior year due to incremental investments to enhance global merchant acceptance, marketing expenses and information processing. Marketing expenses increased as a result of higher investment in brand and digital marketing. Information processing increased due to investments in infrastructure and analytic capabilities.

### **Payment Services**

Payment Services pretax income was \$23 million in the quarter, down \$6 million from the prior year, driven by higher expense investment to support business growth and infrastructure, partially offset by higher revenue driven by transaction volume growth.

Payment Services transaction dollar volume was \$60.5 billion, up 12% versus the prior year. PULSE transaction dollar volume was up 11% year-over-year, which reflects the impact of new issuers on the network as well as strong growth from existing issuers. Network Partners volume increased by 43% from the prior year driven by AribaPay.

### **Share Repurchases**

During the fourth quarter of 2018, the company repurchased approximately 6.7 million shares of common stock for \$466 million. Shares of common stock outstanding declined by 2.1% from the prior quarter.

### **Conference Call and Webcast Information**

The company will host a conference call to discuss its fourth quarter results on Thursday, January 24, 2019, at 4:00 p.m. Central time. Interested parties can listen to the conference call via a live audio webcast at <https://investorrelations.discover.com>.

### **About Discover**

Discover Financial Services (NYSE: DFS) is a direct banking and payment services company with one of the most recognized brands in U.S. financial services. Since its inception in 1986, the company has become one of the largest card issuers in the United States. The company issues the Discover card, America's cash rewards pioneer, and offers private student loans, personal loans, home equity loans, checking and savings accounts and certificates of deposit through its direct banking business. It operates the Discover Global Network, comprised of Discover Network, with millions of merchant and cash access locations; PULSE, one of the nation's leading ATM/debit networks; and Diners Club International, a global payments network with acceptance in 190 countries and territories. For more information, visit [www.discover.com/company](http://www.discover.com/company).

### **Contacts:**

#### **Investors:**

Craig Stroom, 224-405-5923  
[craigstroom@discover.com](mailto:craigstroom@discover.com)

#### **Media:**

Jon Drummond, 224-405-1888  
[jondrummond@discover.com](mailto:jondrummond@discover.com)



A financial summary follows. Financial, statistical, and business related information, as well as information regarding business and segment trends, is included in the financial supplement filed as Exhibit 99.2 to the company's Current Report on Form 8-K filed today with the Securities and Exchange Commission ("SEC"). Both the earnings release and the financial supplement are available online at the SEC's website (<http://www.sec.gov>) and the company's website (<https://investorrelations.discover.com>).

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements, which speak to our expected business and financial performance, among other matters, contain words such as "believe," "expect," "anticipate," "intend," "plan," "aim," "will," "may," "should," "could," "would," "likely," and similar expressions. Such statements are based upon the current beliefs and expectations of the company's management and are subject to significant risks and uncertainties. Actual results may differ materially from those set forth in the forward-looking statements. These forward-looking statements speak only as of the date of this press release, and there is no undertaking to update or revise them as more information becomes available.

The following factors, among others, could cause actual results to differ materially from those set forth in the forward-looking statements: 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 tax reform, financial regulatory reform, consumer financial services practices, anti-corruption, and funding, capital and liquidity; the actions and initiatives of current and potential competitors; the company's ability to manage its expenses; the company's ability to successfully achieve card acceptance across its networks and maintain relationships with network participants; the company's ability to sustain and grow its non-card products; difficulty obtaining regulatory approval for, financing, closing, transitioning, integrating or managing the expenses of acquisitions of or investments in new businesses, products or technologies; the company's ability to manage its credit risk, market risk, liquidity risk, operational risk, compliance and legal risk, and strategic risk; the availability and cost of funding and capital; access to deposit, securitization, equity, debt and credit markets; 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 the company's investment portfolio; limits on the company's ability to pay dividends and repurchase its common stock; limits on the company's ability to receive payments from its subsidiaries; fraudulent activities or material security breaches of key systems; the company's ability to remain organizationally effective; the company's ability to increase or sustain Discover card usage or attract new customers; the company's ability to maintain relationships with merchants; the effect of political, economic and market conditions, geopolitical events and unforeseen or catastrophic events; the company's ability to introduce new products or services; the company's ability to manage its relationships with third-party vendors; the company's ability to maintain current technology and integrate new and acquired systems; the company's ability to collect amounts for disputed transactions from merchants and merchant acquirers; the company's ability to attract and retain employees; the company's ability to protect its reputation and its intellectual property; and new lawsuits, investigations or similar matters or unanticipated developments related to current matters. The company routinely evaluates and may pursue acquisitions of or investments in businesses, products, technologies, loan portfolios or deposits, which may involve payment in cash or the company's debt or equity securities.

Additional factors that could cause the company's results to differ materially from those described in the forward-looking statements can be found under "Risk Factors," "Business - Competition," "Business - Supervision and Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the company's Annual Report on Form 10-K for the year ended December 31, 2017, and "Management's Discussion & Analysis of Financial Condition and Results of Operations" in the company's Quarterly Report on Form 10-Q for the quarters ended March 31, 2018, June 30, 2018, and September 30, 2018, which are filed with the SEC and available at the SEC's internet site (<http://www.sec.gov>).