



## **DISCOVER FINANCIAL SERVICES REPORTS THIRD QUARTER RESULTS: NET INCOME OF \$180 MILLION AND EARNINGS PER SHARE OF \$.37**

**Riverwoods, IL, Sept. 25, 2008** - Discover Financial Services (NYSE: DFS) today reported net income for the third quarter of 2008 of \$180 million, or \$.37 per share, as compared to \$202 million, or \$.42 per share, in the third quarter of 2007. Income from continuing operations was \$179 million, or \$.37 per share, as compared to \$244 million, or \$.51 per share, in the third quarter of 2007.

### **Third Quarter Highlights**

- Managed loans grew 6% from last year to \$50 billion; Discover Card sales grew 5% to \$25 billion.
- Revenue net of interest expense increased 8% from last year, 14% on a managed basis, while expenses decreased 2%.
- The third-quarter managed net charge-off rate was 5.20% and the managed over 30 days delinquency rate was 3.85%.
- The company added reserves in excess of charge-offs of \$113 million.
- The Third-Party Payments segment volume grew 48% to \$35 billion, including \$5 billion of Diners Club International volume. The company completed its acquisition of Diners Club International on June 30, 2008.

“While the consumer credit environment and funding costs continue to be challenging, Discover’s results demonstrate the underlying quality of our customer base and reflect our disciplined loan underwriting process and multi-channel funding strategy,” said David Nelms, chief executive officer of Discover Financial Services. “Card sales volume and receivables grew this quarter as our cardmembers took advantage of the value provided by our various Discover products and programs.” Nelms added, “The acquisition of Diners Club International, completed this quarter, has quickly added to the already strong results of our Third-Party Payments segment.”

### **Segment Results (Managed Basis):**

#### **U.S. Card**

Managed loans grew to \$50 billion, up 6% from last year, reflecting growth in both credit card and installment loan receivables. Total Discover Card volume was up 5% year over year, driven by a 5% increase in sales volume, as well as an 11% increase in balance transfer volume.

The managed over 30 days delinquency rate of 3.85% was up 4 basis points from the second quarter of 2008, and 69 basis points from last year. The managed net charge-off



rate increased to 5.20% for the third quarter of 2008, up 21 and 154 basis points, respectively, from last quarter and last year.

Pretax income was \$245 million in the third quarter of 2008, down 36% from the third quarter of 2007.

- Managed net interest income increased \$180 million, or 19%, an improvement of 116 basis points, reflecting widening net interest margins benefiting from lower cost of funds and amortization of balance transfer fees previously included in loan fee revenue.
- Provision for loan losses increased \$336 million, or 80%, due to higher net charge-offs and a \$113 million charge to increase loan loss reserves related to owned loan growth in the quarter, as well as a higher reserve rate.
- Expenses decreased \$20 million, or 3%.

### **Third-Party Payments**

The Third-Party Payments segment produced strong transaction volume of \$35 billion, up 48% from last year, reflecting the impact of new issuers, increased volumes from existing issuers and the addition of July and August Diners Club International volume of \$5 billion. Diners Club International volume is derived from data provided by licensees and is subject to subsequent revision or amendment.

Pretax income of \$29 million was up \$19 million from the third quarter of 2007. Diners Club International contributed \$7 million to the segment's pretax income.

- Revenue increased \$25 million, or 84%, due to increased volumes and fee revenues, as well as a \$12 million contribution from Diners Club International.
- Expenses increased \$6 million, or 30%, including \$5 million in Diners Club International expenses.

### **Discontinued Operations**

Discontinued operations represent the company's Goldfish business in the United Kingdom which was sold to Barclays Bank PLC on March 31, 2008. In the third quarter of 2008, the company recognized income from discontinued operations, net of tax, of \$1 million versus a loss of \$42 million in the third quarter of 2007.

### **Balance Sheet and Liquidity**

The company increased cash liquidity by \$1.2 billion since May 2008 to \$9.6 billion. Funding growth during the quarter was achieved principally through our deposit channels as deposit balances grew \$2 billion in the quarter, including \$1 billion in growth from the direct to consumer channel.

Tangible equity was \$5.5 billion at August 31, 2008, or 11.2% of net managed receivables.



## **Dividend Declaration/Stock Repurchase Program**

On September 16, 2008, the company declared a cash dividend of \$.06 per share, payable on Oct. 22, 2008, to stockholders of record at the close of business on Oct. 1, 2008. No stock repurchases were conducted under the stock repurchase program during the third quarter.

## **Conference Call and Webcast Information**

The company will host a conference call to discuss its third quarter results on Thursday, September 25, 2008, at 10 a.m. Central time. Interested parties can listen to the conference call via a live audio webcast at <http://investorrelations.discoverfinancial.com>.

## **About Discover Financial Services**

Discover Financial Services (NYSE: DFS) is a leading credit card issuer and electronic payment services company with one of the most recognized brands in U.S. financial services. The company operates the Discover Card, America's cash rewards pioneer. Since its inception in 1986, the company has become one of the largest card issuers in the United States. Its payments businesses consist of the 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 185 countries and territories. For more information, visit [www.discoverfinancial.com](http://www.discoverfinancial.com).

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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. Both the earnings release and the Financial Supplement are available online in the Investor Relations section at [www.discoverfinancial.com](http://www.discoverfinancial.com).

Financial information presented on a managed basis assumes that loans that have been securitized were not sold and presents financial information regarding these loans in a manner similar to the presentation of financial information regarding loans that have not been sold. Management believes it is useful for investors to consider the credit performance of the entire managed loan portfolio to understand the quality of loan originations and the related



credit risks inherent in the owned portfolio and retained interests in securitization. For more information, and a detailed reconciliation, please refer to the schedule titled "Reconciliation of GAAP to Managed Data" attached to this press release.

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of Discover Financial Services' 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: the actions and initiatives of current and potential competitors; our ability to manage credit risks and securitize our receivables at acceptable rates and under sale accounting treatment; changes in economic variables, such as the number and size of personal bankruptcy filings, the rate of unemployment and the levels of consumer confidence and consumer debt; the level and volatility of equity prices, commodity prices and interest rates, currency values, investments, other market fluctuations and other market indices; the availability and cost of funding and capital; access to U.S. debt and deposit markets; losses in our investment portfolio; the ability to increase or sustain Discover Card usage or attract new cardmembers and introduce new products or services; our ability to attract new merchants and maintain relationships with current merchants; our ability to successfully integrate the Diners Club International network and maintain relationships with network participants; material security breaches of key systems; unforeseen and catastrophic events; our reputation; the potential effects of technological changes; the effect of political, economic and market conditions and geopolitical events; unanticipated developments relating to lawsuits, investigations or similar matters; the impact of current, pending and future legislation, regulation and regulatory and legal actions, including the Federal Reserve Board's proposed amendments limiting certain credit card practices; our ability to attract and retain employees; the ability to protect our intellectual property; the impact of our separation from Morgan Stanley; the impact of any potential future acquisitions; investor sentiment; and the restrictions on our operations resulting from indebtedness incurred during our separation from Morgan Stanley.

Additional factors that could cause Discover Financial Services' results to differ materially from those described in the forward-looking statements can be found under "Part I. Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended November 30, 2007 and "Part II. Other Information – Item 1A. Risk Factors" in the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2008, filed with the SEC and available at the SEC's internet site (<http://www.sec.gov>).