



**DISCOVER FINANCIAL SERVICES REPORTS RECORD FIRST QUARTER
NET INCOME OF \$465 MILLION OR \$0.84 PER DILUTED SHARE**

INCREASES THE QUARTERLY DIVIDEND TO \$0.06 PER SHARE

Riverwoods, IL, March 22, 2011 – Discover Financial Services (NYSE: DFS) today reported net income for the first quarter of 2011 of \$465 million, as compared to a net loss of \$104 million for the first quarter of 2010.

First Quarter Highlights

- Discover card sales volume was \$24 billion in the quarter, an increase of 7% from the prior year.
- The company acquired The Student Loan Corporation, adding student loans with a fair value of \$3.1 billion to its private student loan portfolio. Total loans grew 3% year over year, including the student loan acquisition.
- Credit quality continued to improve as the credit card net charge-off rate declined sequentially 99 basis points to 5.96%, and credit card loans over 30 days delinquent declined 47 basis points to 3.59%.
- Payment Services had record pretax income of \$43 million, up 16% from the prior year. Transaction volume for the segment was \$43 billion in the quarter, an increase of 21% from the prior year.
- The company declared a first quarter dividend of \$0.06 per share, representing a restoration of the dividend to the pre-financial crisis level.

"Our results this quarter represented record earnings for any first quarter in Discover's history, driven by on-going improvements in credit performance and accelerating growth in Discover card sales as well as third party payments volumes," said David Nelms, chairman and chief executive officer of Discover. "I am optimistic that our additional student loan capabilities, additional marketing investments and the gradually improving economy will further contribute to profitable loan growth in the future."

Segment Results:

Direct Banking

Direct Banking pretax income of \$677 million in the first quarter of 2011 was an \$885 million improvement from the first quarter of 2010. Pretax income included \$30 million related to The Student Loan Corporation.

Total loans ended the quarter at \$51.7 billion, up 3% compared to the prior year, reflecting the acquisition of \$3.1 billion in private student loans partially offset by a decline in credit card loans. Credit card loans ended the quarter at \$44.3 billion, a 3% decline from the prior year, driven by an increase in the payment rate partially offset by a 7% year over year increase in Discover card sales volume.

Net interest margin increased 21 basis points from the prior year to 9.22%, principally due to a decrease in funding related costs, which resulted in a \$25 million increase in net interest income. Net interest income increased \$46 million from the prior quarter, primarily driven by an increase in total loan balances related to the student loan acquisition.

The delinquency rate for credit card loans over 30 days past due declined to 3.59%, an improvement of 180 basis points from the prior year, and 47 basis points from the prior quarter. The credit card net



charge-off rate decreased to 5.96% for the first quarter of 2011, down 304 basis points from the prior year and 99 basis points from the prior quarter.

Provision for loan losses of \$418 million decreased \$969 million from the prior year, driven by lower charge-offs and a reduction in the allowance for loan losses. Improvement in the outlook for credit performance over the next 12 months led to a reduction in the loan loss reserve rate, which resulted in a reserve release of \$271 million in the first quarter of 2011 versus a reserve build of \$305 million in the first quarter of 2010.

Other income increased \$6 million, or 1%, from the prior year. The increase reflects a purchase gain of \$16 million and transition services revenue related to the acquisition of The Student Loan Corporation. This was partially offset by a decline in late fees and the discontinuance of overlimit fees beginning in February 2010.

Expenses were up \$115 million, or 26%, from the prior year, reflecting increased marketing and advertising spending, higher compensation expense and costs related to The Student Loan Corporation acquisition. The first quarter of 2010 included a \$23 million benefit related to a dispute settlement.

Payment Services

Payment Services pretax income of \$43 million in the quarter was up \$6 million, or 16%, from the prior year driven principally by an \$11 million increase in revenues.

Payment Services dollar volume was a record \$43.2 billion for the first quarter, up 21% from the prior year, driven by higher PULSE, Diners Club International and third-party issuer volume. The number of transactions on the PULSE network increased 29%.

Effective Tax Rate

The company's effective tax rate declined to 35.4%, reflecting the resolution of a number of state tax matters.

Dividends

The company's board declared a cash dividend of \$0.06 per share of common stock, payable on April 21, 2011, to stockholders of record at the close of business on April 7, 2011.

Conference Call and Webcast Information

The company will host a conference call to discuss its first quarter results on Tuesday, March 22, 2011, at 4:00 p.m. Central time. Interested parties can listen to the conference call via a live audio webcast at <http://investorrelations.discoverfinancial.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 operates the [Discover card](#), America's cash rewards pioneer, and offers personal and student loans, online savings accounts, certificates of deposit and money market accounts through its [Discover Bank](#) subsidiary. Its payment businesses consist 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 more than 185 countries and territories. For more information, visit 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 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 (<http://investorrelations.discoverfinancial.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 and the levels of consumer confidence and consumer debt, and investor sentiment; the impact of current, pending and future legislation, regulation and regulatory and legal actions, including new laws and rules related to financial regulatory reform, new laws and rules limiting or modifying certain credit card practices, new laws and rules affecting securitizations, funding and liquidity, and bank holding company regulations and supervisory guidance; 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 private student loan business; the company's ability to manage its 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; 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; restrictions on the company's operations resulting from financing transactions; the company's ability to increase or sustain Discover card usage or attract new customers; the company's ability to attract new merchants and maintain relationships with current merchants; the effect of political, economic and market conditions, geopolitical events and unforeseen or catastrophic events; fraudulent activities or material security breaches of key systems; the company's ability to introduce new products or services; the company's ability to sustain its investment in new technology and manage its relationships with third-party vendors; 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; difficulty obtaining regulatory approval for, financing, 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. 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 November 30, 2010, which is filed with the SEC and available at the SEC's internet site (<http://www.sec.gov>).