DISCOVER
FINANCIAL SERVICES

# DISCOVER FINANCIAL SERVICES REPORTS THIRD QUARTER RESULTS: NET INCOME OF $577 MILLION AND EARNINGS PER SHARE OF $1.07

**Riverwoods, IL, Sept. 17, 2009** - Discover Financial Services (NYSE: DFS) today reported net income for the quarter ended Aug. 31, 2009 of $577 million, up $397 million from the third quarter of 2008, and diluted EPS of $1.07, up $0.70 from the third quarter of 2008. Net income for the third quarter of 2009 includes approximately $287 million (after-tax) related to the Visa/MasterCard antitrust litigation settlement.

## Highlights

- Managed[1] loans of $51 billion were relatively unchanged from the prior quarter.
- Managed net yield on loan receivables rose to 9.90%.
- Discover Card sales volume declined 7% from the prior year to $23 billion.
- The third-quarter managed net charge-off rate rose to 8.39%.
- The company re-entered the securitization market which drove a $2 billion decline in on-balance sheet loans and a release of loan loss reserves.
- Deposit balances originated through direct-to-consumer and affinity relationships surpassed $10 billion, an increase of $2 billion from the prior quarter.
- Total company expenses were down 14% from the prior year.
- Third-Party Payments segment volume was $36 billion, a 2% increase from the prior year.

"I am very pleased with Discover's results this quarter, which were characterized by solid revenue growth, better than expected credit performance, continued reduction of expenses and our re-entry into the capital markets," said David Nelms, Discover's chairman and chief executive officer. "While maintaining a very cautious view of credit due to the mixed signals in the US economy, we continue to invest for future growth as we build our brand and global payments networks."

[1] All references herein to financial information presented on a managed basis assume 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, see the schedule titled "Reconciliation of GAAP to Managed Data" attached to this press release.

**Segment Results (Managed Basis):**

**U.S. Card**

Pretax income was $913 million in the third quarter of 2009 as compared to $245 million for the third quarter of 2008.

Managed loans ended the quarter at $51 billion, up 1% compared to the prior year, as lower cardmember payments and growth in both student and personal loans were largely offset by lower balance transfer activity and sales volume. Sales volume declined 7% compared to the prior year, reflecting lower gas prices and a general decline in consumer spending, but increased 6% from the prior quarter, primarily as a result of seasonal growth. Balance transfer volume declined 84% and 76% from the prior year and prior quarter, respectively, as the company further reduced its marketing of promotional rate balance transfer offers.

Net yield on loan receivables rose to 9.90%, an increase of 95 basis points from the prior year and 64 basis points from the prior quarter. The increases reflect the impact of higher interest rates on standard balances and a substantial reduction in promotional rate balances. The increase over the prior year is partially offset by higher interest charge-offs. In addition, the second quarter of 2009 included a $16 million charge related to an industry-wide FDIC special assessment which had the effect of reducing second quarter net yield by 12 basis points.

The managed net charge-off rate increased to 8.39% for the third quarter of 2009, up 319 basis points and 60 basis points from the prior year and the prior quarter, respectively, as consumer bankruptcies and unemployment continued to rise. The over 30 days delinquency rate on managed loans was 5.10%, up 125 basis points from the prior year primarily due to the economic downturn, and up 2 basis points from the second quarter of 2009. The managed net charge-off rate for the fourth quarter of 2009 is expected to be between 8.5% and 9%.

Provision for loan losses increased $170 million, or 23%, from the prior year due to higher net charge-offs. The allowance for loan losses increased $873 million from the prior year, but decreased $154 million from the prior quarter. The increase from the prior year reflects a reserve addition related to a 278 basis point increase in the reserve rate and a $3 billion increase in on-balance sheet loans due to maturing securitizations. The decrease from the prior quarter reflects a $2 billion decline in the level of on-balance sheet loans in the quarter as a result of securitization activities.

Other income increased $573 million from the prior year, including $472 million related to the Visa/MasterCard antitrust litigation settlement and a $69 million favorable revaluation of the interest-only strip receivable compared to a $34 million unfavorable revaluation in the prior year.

Expenses decreased $96 million, or 16%, from the prior year, reflecting reduced marketing, lower headcount and the impact of other cost containment initiatives.

## Third-Party Payments

The Third-Party Payments segment transaction volume of $36 billion was up 2% from the prior year, as the inclusion of a full quarter of Diners Club International volume was partially offset by lower sales volume from third-party issuers and a 1% decrease in PULSE volumes. The third quarter 2008 transaction volume included two months of volume related to Diners Club International, which was acquired on June 30, 2008.

Pretax income of $27 million was down $1 million from the prior year. Segment expenses include a higher level of international marketing investments, partially offset by the impact of cost containment initiatives. In addition, segment revenues and expenses were impacted by the inclusion of a full quarter of Diners Club International results.

## Capital Markets Activity

During the quarter, the company raised approximately $534 million through a common stock offering and issued debt of $400 million. The company's securitization trust issued $1.5 billion of asset-backed securities through the TALF program and the company completed a number of actions to adjust the credit enhancement structure of the securitization trusts.

## Dividends

The company's board declared a cash dividend of $0.02 per share of common stock, payable on Oct. 22, 2009, to stockholders of record at the close of business on Oct. 1, 2009.

## Conference Call and Webcast Information

The company will host a conference call to discuss its third quarter results on Thursday, Sept. 17, 2009, 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

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. 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 student and personal loans, as well as savings products such as certificates of deposit and money market accounts. Its payments 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 185 countries and territories. For more information, visit www.discoverfinancial.com.

**Contacts:**

**Investors:**
Craig Streem, 224-405-3575
craigstreem@discover.com

**Media:**
Jon Drummond, 224-405-1888
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. Both the earnings release and the Financial Supplement are available online at 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 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 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; 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. equity, debt and deposit markets; the ability to manage our liquidity risk; 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 achieve interoperability among our networks 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 new laws and rules limiting or modifying certain credit card practices and legislation related to government programs to stabilize the financial markets; our ability to attract and retain employees; the ability to protect our intellectual property; the impact of any potential future acquisitions; investor sentiment; resolution of our dispute with Morgan Stanley; and the restrictions on our operations resulting from financing transactions.

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, 2008 and under “Part II. Item 1A. Risk Factors” in the Company’s Quarterly Report on Form 10-Q for the quarters ended February 28, 2009 and May 31, 2009, which are filed with the SEC and available at the SEC's internet site (http://www.sec.gov).