



**DISCOVER FINANCIAL SERVICES REPORTS FOURTH QUARTER  
NET INCOME OF \$350 MILLION OR \$0.64 PER DILUTED SHARE**

**Riverwoods, IL, Dec. 16, 2010** – Discover Financial Services (NYSE: DFS) today reported net income for the fourth quarter of 2010 of \$350 million, as compared to net income of \$353 million for the fourth quarter of 2009. The results for the prior year included approximately \$285 million (after tax) related to the Visa/MasterCard antitrust litigation settlement.

Full year 2010 net income was \$765 million, as compared to \$1.3 billion for the full year 2009 which included \$1.2 billion (after-tax) related to the Visa/MasterCard antitrust litigation settlement.

#### **Fourth Quarter Highlights**

- Discover card sales volume was \$23 billion in the quarter, an increase of 6% from the prior year.
- Net interest margin of 9.28% improved 12 basis points as compared to the prior quarter, reflecting the sale of lower yielding federal student loans.
- Credit performance continued to improve, with net charge-offs down \$103 million from the prior quarter and a net charge-off rate for the fourth quarter of 6.58%. The delinquency rate for loans over 30 days past due was 3.89%, with delinquent balances declining \$181 million in the quarter.
- The outlook for continuing improvement in credit performance led to a \$414 million release of loan loss reserves.
- Payment Services processed record transaction volume in the quarter of \$40.4 billion with profit before tax up 32% from the prior year.
- Deposit balances originated through direct-to-consumer and affinity relationships grew \$1.5 billion in the quarter to \$20.6 billion.

"The sustained and significant improvement in the credit performance of the Discover card portfolio led to another very strong earnings performance this quarter," said David Nelms, chairman and chief executive officer of Discover. "We continue to invest in marketing and business development in all of our businesses, which contributed to another quarter of growth in Discover Card spending, as well as record transaction volumes in our third-party credit and debit network businesses. We look forward to capitalizing on the opportunities ahead of us in 2011, including our acquisition of The Student Loan Corporation as we strengthen our competitive position in private student loans."

#### **Segment Results:**

##### **Direct Banking**

*The discussion that follows compares amounts reported for the fourth quarter of 2010 to 2009 on an "as-adjusted" basis<sup>1</sup>.*

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<sup>1</sup> The company adopted Statement of Financial Accounting Standards No. 166 and 167, on Dec. 1, 2009, which amended ASC Section 860 and 810, resulting in the inclusion of its credit card securitization trusts in its consolidated financial results beginning with the first quarter of 2010. In order to provide more meaningful historical comparisons for analyzing data, schedules have been prepared to reflect the results for 2009 on an "as-adjusted" basis. The as-adjusted basis assumes that the trusts used in the company's securitization activities were consolidated into the financial results for 2009. The as-adjusted basis also excludes from results income received in connection with the company's settlement of its antitrust litigation with Visa and MasterCard in 2009. All references to financial information on an "as-adjusted" basis reflect these adjustments. For more information, and a detailed reconciliation, see the schedule titled "Reconciliation of GAAP to As Adjusted Data" attached to this press release.



The table below reconciles the 2009 as-adjusted amounts with the relevant measure on an as reported basis where appropriate, and shows the comparable 2010 U.S. GAAP results.

	Quarter Ended November 30, 2009 Managed - As Reported	Adjustments	Quarter Ended November 30, 2009 As Adjusted	Quarter Ended November 30, 2010 GAAP
Credit Card Interest Yield	12.75%	0.01%	12.76%	12.68%
Net Interest Margin	9.37%	0.01%	9.38%	9.28%
Other Income	\$924	(\$434)	\$490	\$404
Provision for Loan Losses	\$989	\$269	\$1,258	\$383
Direct Banking Income Before Taxes	\$546	(\$673)	(\$127)	\$554
Allowance for Loan Losses	\$1,758	\$2,144	\$3,902	\$3,304
Reserve Rate	7.44%	0.43%	7.87%	6.87%

Direct Banking pretax income of \$554 million in the fourth quarter of 2010 was a \$681 million improvement from the fourth quarter of 2009, as adjusted.

Discover card sales volume grew 6% from the prior year, the fourth consecutive quarter of year-over-year growth. Credit card loans were \$45.2 billion, essentially unchanged from the prior quarter and down \$2.3 billion from the prior year, driven by a reduction in promotional rate balances and an increase in the payment rate.

Total loans ended the quarter at \$48.8 billion, down 4% compared to the prior year reflecting a decline in credit card loans as well as the previously disclosed \$1.5 billion sale of federal student loans. The company classified the remaining \$800 million in federal student loan balances as held for sale in the fourth quarter of 2010 in anticipation of selling them in 2011.

Net interest margin was 9.28%, a decrease of 10 basis points from the prior year as adjusted and up 12 basis points from the prior quarter. The decrease from the prior year primarily reflects the impact of legislative changes on credit card yield partially offset by lower interest charge-offs. Net interest margin was up from the prior quarter reflecting the impact of the sale of lower rate federal student loans partially offset by the impact of legislative changes and a higher level of promotional rate balances.

The delinquency rate for loans over 30 days past due declined to 3.89%, an improvement of 142 basis points from the prior year, and 27 basis points from the prior quarter. The net charge-off rate decreased to 6.58% for the fourth quarter of 2010, down 185 basis points from the prior year and 60 basis points from the prior quarter.

Provision for loan losses of \$383 million decreased \$876 million from the prior year, as adjusted, driven by lower charge-offs and a reduction in the allowance for loan losses. Improvement in the outlook for credit performance over the next twelve months led to a reduction in the loan loss reserve rate, which resulted in a reserve release of \$414 million in the fourth quarter of 2010 versus a reserve build of \$195 million in the fourth quarter of 2009.

Other income decreased \$87 million, or 18% from the prior year as adjusted. The decline was primarily due to lower late fees, the discontinuance of overlimit fees beginning in February 2010 and a \$28 million charge related to federal student loans classified as held for sale.

Expenses were up \$49 million, or 9%, from the prior year, reflecting increased marketing and advertising spending as well as costs related to The Student Loan Corporation acquisition.



## Payment Services

Payment Services pretax income of \$31 million in the quarter was up \$8 million, or 32%, from the prior year. Revenues were up \$9 million, reflecting increased volumes from new and existing clients, as well as higher margins from transactions on the PULSE ATM/Debit network.

Payment Services dollar volume was a record \$40.4 billion for the fourth quarter, up 21% from the prior year, driven by higher PULSE and third-party issuer volume. The number of transactions on the PULSE network increased 33%.

## Dividends

The company's board declared a cash dividend of \$0.02 per share of common stock, payable on Jan. 20, 2011, to stockholders of record at the close of business on Dec. 29, 2010.

## Conference Call and Webcast Information

The company will host a conference call to discuss its fourth quarter results on Thursday, Dec. 16, 2010, at 10:00 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 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](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 filed as Exhibit 99.2 to the company's 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 limiting or modifying certain credit card practices, new laws and rules affecting securitizations, funding and liquidity, new laws and rules related to financial regulatory reform, and bank holding company regulations and supervisory guidance; restrictions on the company's operations resulting from financing transactions; the actions and initiatives of current and potential competitors; the company's ability to successfully achieve card acceptance across its networks and maintain relationships with network participants; 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; 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 financing, transitioning, integrating or managing the expenses of new businesses, products or technologies; the company's ability to maintain relationships with schools; 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. The company's upcoming acquisition of The Student Loan Corporation ("SLC") is subject to closing conditions including, among others, the approval of the transaction by SLC's stockholders and the closing of SLC's asset sale transactions. For additional information regarding the acquisition, see the company's Current Report on Form 8-K filed with the SEC on September 17, 2010.

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" 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, 2009 and Quarterly Reports on Form 10-Q for the quarters ended February 28, 2010, May 31, 2010 and August 31, 2010, which are filed with the SEC and available at the SEC's internet site (<http://www.sec.gov>).