

Discover Financial Services Reports First Quarter Net Income of \$666 Million or \$1.82 Per Diluted Share
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Discover Financial Services (NYSE: DFS) today reported net income of \$666 million or \$1.82 per diluted share for the first quarter of 2018, as compared to \$564 million or \$1.43 per diluted share for the first quarter of 2017. The company's return on equity for the first quarter of 2018 was 25%.

First Quarter Highlights

- Total loans grew \$6.9 billion (9%) from the prior year to \$82.7 billion.
- Credit card loans grew \$5.8 billion (10%) to \$65.6 billion, on Discover card sales volume of \$30.9 billion.
- Total net charge-off rate, excluding purchased credit-impaired ("PCI") loans, increased 48 basis points from the prior year to 3.17% and the total 30+ day delinquency rate excluding PCI loans increased 26 basis points from the prior year to 2.23%.
- Consumer deposits grew \$4.2 billion (11%) from the prior year to \$41.3 billion.
- Payment Services transaction dollar volume was \$56.1 billion, up 19% from the prior year.

"Our performance this quarter was characterized by robust loan and revenue growth reflecting the strength of the Discover franchise as we continued to invest in product and service enhancements," said David Nelms, chairman and CEO of Discover. "I'm proud of our strong return on equity of 25%. In addition, this is the first full quarter reflecting the benefits of tax reform which, combined with share repurchases, led to a 27% year-over-year increase in earnings per share."

Segment Results:

Direct Banking

Direct Banking pretax income of \$811 million in the quarter declined by \$13 million from the prior year driven by an increase in the provision for loan losses and higher operating expenses, partially offset by higher revenue.

Total loans ended the quarter at \$82.7 billion, up 9% compared to the prior year. Credit card loans ended the quarter at \$65.6 billion, up 10% from the prior year. Personal loans increased \$644 million (10%) from the prior year. Private student loans increased \$234 million (3%) year-over-year, and grew \$727 million (11%), excluding purchased student loans.

Net interest income increased \$208 million (11%) from the prior year, driven by loan growth and a higher net interest margin. Net interest margin was 10.23%, up 16 basis points from the prior year. Card yield was 12.85%, an increase of 20 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 23 basis points from the prior year, primarily as a result of higher market rates.

Other income increased \$19 million (5%) from the prior year, driven by higher discount and interchange revenue.

The delinquency rate for credit card loans 30+ days past due was 2.33%, up 27 basis points from the prior year and 5 basis points from the prior quarter. The credit card net charge-off rate for the first quarter was 3.32%, up 48 basis points from the prior year and 29 basis points from the prior quarter. The student loan net charge-off rate, excluding PCI loans, was 1.17%, up 34 basis points from the prior year. The personal loans net charge-off rate of 4.03% 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 loan growth from the last few years.

Provision for loan losses of \$751 million increased \$157 million from the prior year due to higher net charge-

offs and a higher reserve build. The reserve build for the first quarter of 2018 was \$116 million, compared to a reserve build of \$107 million in the first quarter of 2017.

Expenses increased \$83 million from the prior year as a result of higher employee compensation and marketing expenses. Additionally, we expanded investments to build financial literacy, support diversity and inclusion, and strengthen the communities in which we operate. Employee compensation increased as a result of higher staffing levels and higher average salaries. Marketing expenses increased as a result of higher account acquisition costs and brand advertising.

Payment Services

Payment Services pretax income was \$45 million in the quarter, up \$1 million from the prior year, primarily driven by higher transaction processing and interchange revenue offset by a reserve release in the first quarter of 2017.

Payment Services transaction dollar volume was \$56.1 billion, up 19% versus the prior year. PULSE transaction dollar volume was up 20% year-over-year primarily driven by merchant and acquirer routing decisions. Diners Club volume increased 14% year-over-year driven by continued strength of newer franchise relationships. Network Partners volume increased by 24% from the prior year driven by AribaPay.

Share Repurchases

During the first quarter of 2018, the company repurchased approximately 7.5 million shares of common stock for \$584 million. Shares of common stock outstanding declined by 1.8% from the prior quarter.

Conference Call and Webcast Information

The company will host a conference call to discuss its first quarter results on Thursday, April 26, 2018, 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 Network, with millions of retail 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.

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, which is filed with the SEC and available at the SEC's internet site (<http://www.sec.gov>).

DISCOVER FINANCIAL SERVICES

(unaudited, in millions, except per share statistics)

	Quarter Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
EARNINGS SUMMARY			
Interest Income	\$2,569	\$2,556	\$2,278
Interest Expense	469	436	386
Net Interest Income	2,100	2,120	1,892
Discount/Interchange Revenue	646	717	596
Rewards Cost	392	434	363
Discount and Interchange Revenue, net	254	283	233
Protection Products Revenue	53	54	58
Loan Fee Income	96	96	89
Transaction Processing Revenue	43	43	39
Other Income	29	18	28
Total Other Income	475	494	447
Revenue Net of Interest Expense	2,575	2,614	2,339
Provision for Loan Losses	751	679	586
Employee Compensation and Benefits	405	411	363
Marketing and Business Development	185	213	168
Information Processing & Communications	82	80	80
Professional Fees	155	189	147

Premises and Equipment	26	26	25
Other Expense	115	117	102
Total Other Expense	968	1,036	885
Income Before Income Taxes	856	899	868
Tax Expense	190	512	304
Net Income	\$666	\$387	\$564
Net Income Allocated to Common Stockholders	\$646	\$359	\$551

PER SHARE STATISTICS

Basic EPS	\$1.82	\$0.99	\$1.43
Diluted EPS	\$1.82	\$0.99	\$1.43
Common Stock Price (period end)	\$71.93	\$76.92	\$68.39
Book Value per share	\$30.93	\$30.43	\$29.46

SEGMENT- INCOME BEFORE INCOME TAXES

Direct Banking	\$811	\$870	\$824
Payment Services	45	29	44
Total	\$856	\$899	\$868

BALANCE SHEET SUMMARY

Total Assets	\$101,967	\$100,087	\$94,795
Total Liabilities	91,096	89,195	83,530
Total Equity	10,871	10,892	11,265
Total Liabilities and Stockholders' Equity	\$101,967	\$100,087	\$94,795

TOTAL LOAN RECEIVABLES

Ending Loans ^{1, 2}	\$82,744	\$84,248	\$75,853
Average Loans ^{1, 2}	\$83,254	\$81,802	\$76,185

Interest Yield	12.21%	12.14%	11.94%
Gross Principal Charge-off Rate	3.74%	3.45%	3.25%
Gross Principal Charge-off Rate excluding PCI Loans ³	3.84%	3.54%	3.37%
Net Principal Charge-off Rate	3.09%	2.85%	2.60%
Net Principal Charge-off Rate excluding PCI Loans ³	3.17%	2.92%	2.69%
Delinquency Rate (over 30 days) excluding PCI Loans ³	2.23%	2.20%	1.97%
Delinquency Rate (over 90 days) excluding PCI Loans ³	1.06%	0.99%	0.92%
Gross Principal Charge-off Dollars	\$769	\$711	\$611
Net Principal Charge-off Dollars	\$635	\$583	\$489
Net Interest and Fee Charge-off Dollars	\$136	\$119	\$106
Loans Delinquent Over 30 Days ³	\$1,800	\$1,806	\$1,445
Loans Delinquent Over 90 Days ³	\$855	\$815	\$675

Allowance for Loan Loss (period end)	\$2,736	\$2,621	\$2,264
Reserve Change Build/(Release) ⁴	\$116	\$96	\$97
Reserve Rate	3.31%	3.11%	2.98%
Reserve Rate excluding PCI Loans ³	3.35%	3.15%	3.04%

CREDIT CARD LOANS

Ending Loans	\$65,577	\$67,291	\$59,757
Average Loans	\$65,983	\$64,791	\$60,122
Interest Yield	12.85%	12.79%	12.65%
Gross Principal Charge-off Rate	4.08%	3.73%	3.61%

Net Principal Charge-off Rate	3.32%	3.03%	2.84%
Delinquency Rate (over 30 days)	2.33%	2.28%	2.06%
Delinquency Rate (over 90 days)	1.18%	1.12%	1.03%
Gross Principal Charge-off Dollars	\$663	\$612	\$535
Net Principal Charge-off Dollars	\$540	\$496	\$422
Loans Delinquent Over 30 Days	\$1,529	\$1,532	\$1,233
Loans Delinquent Over 90 Days	\$777	\$751	\$616
Allowance for Loan Loss (period end)	\$2,252	\$2,147	\$1,892
Reserve Change Build/(Release)	\$105	\$56	\$102
Reserve Rate	3.43%	3.19%	3.17%
Total Discover Card Volume	\$34,327	\$38,574	\$32,406
Discover Card Sales Volume	\$30,850	\$35,339	\$29,134
Rewards Rate	1.27%	1.23%	1.25%

NETWORK VOLUME

PULSE Network	\$43,158	\$42,386	\$36,066
Network Partners	4,553	3,280	3,661
Diners Club International ⁵	8,390	8,373	7,382
Total Payment Services	56,101	54,039	47,109
Discover Network - Proprietary	32,382	36,267	29,859
Total	<u>\$88,483</u>	<u>\$90,306</u>	<u>\$76,968</u>

¹ Total Loans includes Home Equity and other loans.

² Purchased Credit Impaired ("PCI") loans are loans that were acquired in which a deterioration in credit quality occurred between the origination date and the acquisition date. These loans were initially recorded at fair value and accrete interest income over the estimated lives of the loans as long as cash flows are reasonably estimable, even if the loans are contractually past due. PCI loans are private student loans and are included in total loan receivables.

³ Excludes PCI loans (described above) which are accounted for on a pooled basis. Since a pool is accounted for as a single asset with a single composite interest rate and aggregate expectation of cash flows, the past-due status of a pool, or that of the individual loans within a pool, is not meaningful. Because the Company is recognizing interest income on a pool of loans, it is all considered to be performing.

⁴ Allowance for loan loss includes the net change in reserves on PCI pools having no remaining non-accretable difference which does not impact the reserve change build/(release) in provision for loan losses.

⁵ Volume is derived from data provided by licensees for Diners Club branded cards issued outside of North America and is subject to subsequent revision or amendment.

Note: See Glossary for definitions of financial terms in the financial supplement which is available online at the SEC's website (<http://www.sec.gov>) and the Company's website (<http://investorrelations.discoverfinancial.com>).

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