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Discover Financial Services
Form 10-Q
May 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-33378

DISCOVER FINANCIAL SERVICES

(Exact name of registrant as specified in its charter)

Delaware

36-2517428

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2500 Lake Cook Road,
Riverwoods, Illinois 60015

(224) 405-0900

(Address of principal executive offices, including zip code) (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90

days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 27, 2018, there were 348,977,139 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

DISCOVER FINANCIAL SERVICES

Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018

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Except as otherwise indicated or unless the context otherwise requires, "Discover Financial Services," "Discover," "DFS," "we," "us," "our," and "the Company" refer to Discover Financial Services and its subsidiaries.

We own or have rights to use the trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to: Discover[®], PULSE[®], Cashback Bonus[®], Discover Cashback Checking[®], Discover it[®], Freeze ItSM, College Covered[®], and Diners Club International[®]. All other trademarks, trade names and service marks included in this quarterly report on Form 10-Q are the property of their respective owners.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

DISCOVER FINANCIAL SERVICES

Condensed Consolidated Statements of Financial Condition

	March 31, 2018	December 31, 2017
	(unaudited)	
	(dollars in millions, except share amounts)	
Assets		
Cash and cash equivalents	\$17,011	\$ 13,306
Restricted cash	87	81
Investment securities (includes \$1,340 and \$1,395 at fair value at March 31, 2018 and December 31, 2017, respectively)	1,543	1,568
Loan receivables		
Loan receivables	82,744	84,248
Allowance for loan losses	(2,736)	(2,621)
Net loan receivables	80,008	81,627
Premises and equipment, net	848	825
Goodwill	255	255
Intangible assets, net	162	163
Other assets	2,053	2,262
Total assets	\$101,967	\$ 100,087
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing deposit accounts	\$60,530	\$ 58,165
Non-interest bearing deposit accounts	600	599
Total deposits	61,130	58,764
Long-term borrowings	26,244	26,326
Accrued expenses and other liabilities	3,722	4,105
Total liabilities	91,096	89,195
Commitments, contingencies and guarantees (Notes 8, 11 and 12)		
Stockholders' Equity:		
Common stock, par value \$0.01 per share; 2,000,000,000 shares authorized; 564,510,213 and 563,497,702 shares issued at March 31, 2018 and December 31, 2017, respectively	6	6
Preferred stock, par value \$0.01 per share; 200,000,000 shares authorized; 5,700 shares issued and outstanding and aggregate liquidation preference of \$570 at March 31, 2018 and December 31, 2017	563	563
Additional paid-in capital	4,068	4,042
Retained earnings	17,211	16,687
Accumulated other comprehensive loss	(139)	(152)
Treasury stock, at cost; 213,093,774 and 205,577,507 shares at March 31, 2018 and December 31, 2017, respectively	(10,838)	(10,254)
Total stockholders' equity	10,871	10,892
Total liabilities and stockholders' equity	\$101,967	\$ 100,087

The table below presents the carrying amounts of certain assets and liabilities of Discover Financial Services' consolidated variable interest entities ("VIEs"), which are included in the condensed consolidated statements of

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financial condition above. The assets in the table below include those assets that can only be used to settle obligations of the consolidated VIEs. The liabilities in the table below include third-party liabilities of consolidated VIEs only and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts for which creditors have recourse to the general credit of Discover Financial Services.

	March 31, December 31,	
	2018	2017
	(unaudited)	
	(dollars in millions)	
Assets		
Restricted cash	\$87	\$ 81
Loan receivables	\$29,894	\$ 31,781
Allowance for loan losses allocated to securitized loan receivables	\$(1,006)	\$ (998)
Other assets	\$6	\$ 5
Liabilities		
Long-term borrowings	\$16,385	\$ 16,536
Accrued expenses and other liabilities	\$17	\$ 16

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES

Condensed Consolidated Statements of Income

	For the Three Months Ended March 31, 2018 2017 (unaudited) (dollars in millions, except per share amounts)	
Interest income		
Credit card loans	\$2,090	\$1,876
Other loans	417	367
Investment securities	7	7
Other interest income	55	28
Total interest income	2,569	2,278
Interest expense		
Deposits	262	191
Long-term borrowings	207	195
Total interest expense	469	386
Net interest income	2,100	1,892
Provision for loan losses	751	586
Net interest income after provision for loan losses	1,349	1,306
Other income		
Discount and interchange revenue, net	254	233
Protection products revenue	53	58
Loan fee income	96	89
Transaction processing revenue	43	39
Other income	29	28
Total other income	475	447