Discover Financial Services
Form 10-Q
August 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

o 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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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. o

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

As of July 27, 2018, there were 342,658,270 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 June 30, 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 It℠, 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

	June 30, 2018 (unaudited)	December 31, 2017
	(dollars in millions, except share amounts)	
Assets		
Cash and cash equivalents	$15,289	$ 13,306
Restricted cash	630	81
Investment securities (includes $1,296 and $1,395 at fair value at June 30, 2018 and December 31, 2017, respectively)	1,522	1,568
Loan receivables		
Loan receivables	84,789	84,248
Allowance for loan losses	(2,828)	(2,621)
Net loan receivables	81,961	81,627
Premises and equipment, net	874	825
Goodwill	255	255
Intangible assets, net	162	163
Other assets	2,058	2,262
Total assets	$102,751	$ 100,087
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing deposit accounts	$61,068	$ 58,165
Non-interest bearing deposit accounts	615	599
Total deposits	61,683	58,764
Long-term borrowings	26,252	26,326
Accrued expenses and other liabilities	3,927	4,105
Total liabilities	91,862	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; 564,557,895 and 563,497,702 shares issued at June 30, 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 June 30, 2018 and December 31, 2017	563	563
Additional paid-in capital	4,089	4,042
Retained earnings	17,787	16,687
Accumulated other comprehensive loss	(162)	(152)
Treasury stock, at cost; 220,657,224 and 205,577,507 shares at June 30, 2018 and December 31, 2017, respectively	(11,394)	(10,254)
Total stockholders' equity	10,889	10,892
Total liabilities and stockholders' equity	$102,751	$ 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 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.

	June 30, 2018	December 31, 2017
	(unaudited)	
	(dollars in millions)	
Assets		
Restricted cash	$630	$ 81
Loan receivables	$30,151	$ 31,781
Allowance for loan losses allocated to securitized loan receivables	$(1,020)	$ (998)
Other assets	$6	$ 5
Liabilities		
Long-term borrowings	$16,365	$ 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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(unaudited) (dollars in millions, except per share amounts)			
Interest income				
Credit card loans	$2,139	$1,916	$4,229	$3,792
Other loans	421	379	838	746
Investment securities	6	7	13	14
Other interest income	70	36	125	64
Total interest income	2,636	2,338	5,205	4,616
Interest expense				
Deposits	287	199	549	390
Long-term borrowings	220	201	427	396
Total interest expense	507	400	976	786
Net interest income	2,129	1,938	4,229	3,830
Provision for loan losses	742	640	1,493	1,226
Net interest income after provision for loan losses	1,387	1,298	2,736	2,604
Other income				
Discount and interchange revenue, net	263	278	517	511
Protection products revenue	50	56	103	114
Loan fee income	95	83	191	172
Transaction processing revenue	42	42	85	81
Other income	24	22	53	50
Total other income	474	481	949	928
Other expense				
Employee compensation and benefits	400	367	805	730
Marketing and business development	224	192	409	360
Information processing and communications	86	77	168	157
Professional fees	161	156	316	303
Premises and equipment	24	23	50	48
Other expense	89	97	204	199
Total other expense	984	912	1,952	1,797
Income before income tax expense	877	867	1,733	1,735
Income tax expense	208	321	398	625
Net income	$669	$546	$1,335	$1,110
Net income allocated to common stockholders	$663	$532	$1,309	$1,083
Basic earnings per common share	$1.91	$1.41	$3.73	$2.83
Diluted earnings per common share	$1.91	$1.40	$3.72	$2.83
Dividends declared per common share	$0.35	$0.30	$0.70	$0.60

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Comprehensive Income

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(unaudited)			
	(dollars in millions)			
Net income	$669	$546	$1,335	$1,110
Other comprehensive income, net of taxes				
Unrealized (loss) gain on available-for-sale investment securities, net of tax	(1)	—	(8)	1
Unrealized gain on cash flow hedges, net of tax	7	5	26	10
Unrealized pension and post-retirement plan gain, net of tax	—	—	1	—
Other comprehensive income	6	5	19	11
Comprehensive income	$675	$551	$1,354	$1,121

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Changes in Stockholders' Equity

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	(unaudited)								
	(dollars in millions, shares in thousands)								
Balance at December 31, 2016	575	$ 560	562,414	$ 5	$ 3,962	$ 15,130	$ (161)	$ (8,173)	$ 11,323
Net income	—	—	—	—	—	1,110	—	—	1,110
Other comprehensive income	—	—	—	—	—	—	11	—	11
Purchases of treasury stock	—	—	—	—	—	—	—	(970)	(970)
Common stock issued under employee benefit plans	—	—	40	—	3	—	—	—	3
Common stock issued and stock-based compensation expense	—	—	988	1	32	—	—	—	33
Dividends — common stock	—	—	—	—	—	(232)	—	—	(232)
Dividends — preferred stock	—	—	—	—	—	(19)	—	—	(19)
Balance at June 30, 2017	575	$ 560	563,442	$ 6	$ 3,997	$ 15,989	$ (150)	$ (9,143)	$ 11,259
Balance at December 31, 2017	6	$ 563	563,498	$ 6	$ 4,042	$ 16,687	$ (152)	$ (10,254)	$ 10,892
Cumulative effect of ASU No. 2018-02 adoption	—	—	—	—	—	29	(29)	—	—
Net income	—	—	—	—	—	1,335	—	—	1,335
Other comprehensive income	—	—	—	—	—	—	19	—	19
Purchases of treasury stock	—	—	—	—	—	—	—	(1,140)	(1,140)
Common stock issued under employee benefit plans	—	—	45	—	3	—	—	—	3
Common stock issued and stock-based compensation expense	—	—	1,015	—	44	—	—	—	44
Dividends — common stock	—	—	—	—	—	(248)	—	—	(248)
Dividends — preferred stock	—	—	—	—	—	(16)	—	—	(16)
Balance at June 30, 2018	6	$ 563	564,558	$ 6	$ 4,089	$ 17,787	$ (162)	$ (11,394)	$ 10,889

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Cash Flows

	For the Six Months Ended June 30,	
	2018	2017
	(unaudited) (dollars in millions)	
Cash flows from operating activities		
Net income	$1,335	$1,110
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Provision for loan losses	1,493	1,226
Deferred income taxes	(137)	(46)
Depreciation and amortization	216	188
Amortization of deferred revenues and accretion of accretable yield on acquired loans	(198)	(195)
Net loss on investments and other assets	22	27
Other, net	44	33
Changes in assets and liabilities:		
Decrease in other assets	190	3
Decrease in accrued expenses and other liabilities	(141)	(314)
Net cash provided by operating activities	2,824	2,032
Cash flows from investing activities		
Maturities of available-for-sale investment securities	86	104
Maturities of held-to-maturity investment securities	9	7
Purchases of held-to-maturity investment securities	(62)	(36)
Net principal disbursed on loans originated for investment	(1,639)	(1,550)
Proceeds from returns of investment	—	14
Purchases of other investments	(5)	(23)
Purchases of premises and equipment	(118)	(103)
Net cash used for investing activities	(1,729)	(1,587)
Cash flows from financing activities		
Proceeds from issuance of securitized debt	2,184	2,952
Maturities and repayment of securitized debt	(2,337)	(2,651)
Proceeds from issuance of other long-term borrowings	844	1,050
Maturities and repayment of other long-term borrowings	(753)	(401)
Proceeds from issuance of common stock	3	2
Purchases of treasury stock	(1,140)	(970)
Net increase in deposits	2,900	858
Dividends paid on common and preferred stock	(264)	(251)
Net cash provided by financing activities	1,437	589
Net increase in cash, cash equivalents and restricted cash	2,532	1,034
Cash, cash equivalents and restricted cash, at beginning of period	13,387	12,009
Cash, cash equivalents and restricted cash, at end of period	$15,919	$13,043
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$15,289	$12,950
Restricted cash	630	93
Cash, cash equivalents and restricted cash, at end of period	$15,919	$13,043

See Notes to the Condensed Consolidated Financial Statements.

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Notes to the Condensed Consolidated Financial Statements
(unaudited)

1. Background and Basis of Presentation

Description of Business

Discover Financial Services ("DFS" or the "Company") is a direct banking and payment services company. The Company is a bank holding company under the Bank Holding Company Act of 1956 as well as a financial holding company under the Gramm-Leach-Bliley Act and therefore is subject to oversight, regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company provides direct banking products and services and payment services through its subsidiaries. The Company offers its customers credit card loans, private student loans, personal loans, home equity loans and deposit products. The Company also operates the Discover Network, the PULSE network ("PULSE") and Diners Club International ("Diners Club"). The Discover Network processes transactions for Discover-branded credit and debit cards and provides payment transaction processing and settlement services. PULSE operates an electronic funds transfer network, providing financial institutions issuing debit cards on the PULSE network with access to ATMs domestically and internationally, as well as point-of-sale terminals at retail locations throughout the U.S. for debit card transactions. Diners Club is a global payments network of licensees, which are generally financial institutions, that issue Diners Club branded charge cards and/or provide card acceptance services.

The Company's business activities are managed in two segments, Direct Banking and Payment Services, based on the products and services provided. For a detailed description of the operations of each segment, as well as the allocation conventions used in business segment reporting, see Note 15: Segment Disclosures.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments which are necessary for a fair presentation of the results for the interim period. All such adjustments are of a normal, recurring nature. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the condensed consolidated financial statements. The Company believes that the estimates used in the preparation of the condensed consolidated financial statements are reasonable. Actual results could differ from these estimates. These interim condensed consolidated financial statements should be read in conjunction with the Company's 2017 audited consolidated financial statements filed with the Company's annual report on Form 10-K for the year ended December 31, 2017.

Recently Issued Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The ASU permits, but does not require, issuers to reclassify into retained earnings any tax effects that are stranded in accumulated other comprehensive income ("AOCI") as a result of the change in the statutory federal tax rate enacted by the Tax Cuts and Jobs Act of 2017 ("TCJA"). Tax effects that are stranded in AOCI for other reasons, such as prior changes in tax law or changes in a valuation allowance, may not be reclassified directly through retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company early adopted the ASU as of April 1, 2018, resulting in a reclassification from AOCI to retained earnings that did not have a material impact to the Company's financial statements. See Note 7: Accumulated Other Comprehensive Income for additional details on the impact of adopting of this standard. The Company's policy is to adjust the tax effects of a component of AOCI in the same period in which the item is sold or otherwise derecognized, or when the carrying value of the item is remeasured.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The purpose of this ASU is to simplify the test for goodwill impairment by eliminating

Step 2 of the current impairment test. Under the current rules, if the reporting unit's carrying value exceeds its fair value (Step 1), goodwill impairment is measured as the difference between the carrying value of goodwill and its implied fair value. To compute the implied fair value of goodwill under Step 2, an entity has to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure

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that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under the new standard, the Company will perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The Company should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments in this ASU apply to the Company's annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments in this ASU apply on a prospective basis. All of the Company's recorded goodwill is associated with its PULSE debit business. This ASU has no impact on cash flows, and its adoption is not expected to have any impact on the Company's condensed consolidated financial condition or results of operations because the estimated fair value of the PULSE reporting unit is well in excess of its carrying value. The Company did not early adopt this standard, but is still evaluating whether it will prior to the 2020 effective date.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU replaces the incurred loss model with the current expected credit loss ("CECL") approach. For loans carried at amortized cost, the allowance for loan losses will be based on management's current estimate of all expected credit losses over the remaining contractual term of the loans. Upon the origination of a loan, the Company will have to record its estimate of all expected credit losses on that loan through an immediate charge to earnings. Updates to that estimate each period will be recorded through provision expense. The CECL estimate is to be based on historical experience, current conditions and reasonable and supportable forecasts. No specific method for estimating credit loss is mandated, permitting companies to use judgment in selecting the approach that is most appropriate in their circumstances.

The CECL approach is expected to affect the Company's allowance for loan losses as a result of: (1) encompassing expected losses, not simply those deemed to be already incurred, (2) extending the loss estimate period over the entire life of the loan, and (3) reclassification of the credit loss component of the purchased credit-impaired ("PCI") loan portfolio out of loan carrying value and into the allowance for loan losses. All loans carried at amortized cost, including PCI loans and loans modified in a troubled debt restructuring ("TDR") will be measured under the CECL approach. Existing specialized measurement guidance for PCI loans, which the ASU refers to as purchased credit-deteriorated ("PCD"), and TDRs will be eliminated, although certain separate disclosure guidance will be retained. Measurement of credit impairment of available-for-sale debt securities will generally remain unchanged under the new rules, but any such impairment will be recorded through an allowance, rather than a direct write-down of the security.

The ASU is effective beginning January 1, 2020, with early adoption permitted no sooner than January 1, 2019. Management is not considering early adoption at this time. On the date of adoption, the allowance for loan losses will be adjusted to the CECL estimate for loans held at that date with an offsetting adjustment to retained earnings. Additionally, the carrying value of PCD loans will be increased through an offsetting addition to the allowance for loan losses for the CECL estimate on those loans. The CECL allowance will be re-evaluated in subsequent periods and adjusted through provision expense as needed. The Company is actively engaged in cross-functional implementation efforts and planning for loss modeling requirements consistent with lifetime expected loss estimates. The Company has also been involved in efforts to identify and resolve various implementation issues specific to the application of the standard to credit card receivables. Adoption of the standard has the potential to materially impact stockholders' equity and regulatory capital as well as the Company's financial condition and results of operations. The extent of the impact upon adoption will likely depend on the characteristics of the Company's loan portfolio and economic conditions at that date, as well as forecasted conditions thereafter.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance will require lessees to capitalize most leases on their balance sheet whereas under current GAAP only capital leases are recognized on the lessee's balance sheet. Leases which today are identified as capital leases will generally be identified as financing leases under the new guidance but otherwise their accounting treatment will remain relatively unchanged. Leases identified today as operating leases will generally remain in that category under the new standard, but both a right-of-use asset and a liability for remaining lease payments will now be required to be recognized on the balance sheet for this type of lease. The manner in which expenses associated with all leases are reported on the income statement will remain mostly unchanged. Lessor accounting also remains substantially unchanged by the new standard. The new guidance will become effective for the Company on January 1, 2019, and management does not expect it to have a material impact on the condensed consolidated financial statements.

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2. Investments

The Company’s investment securities consist of the following (dollars in millions):

	June 30, 2018	December 31, 2017
U.S. Treasury securities[1]	$ 674	$ 672
States and political subdivisions of states	—	1
Residential mortgage-backed securities - Agency[2]	848	895
Total investment securities	$ 1,522	$ 1,568

(1) Includes $32 million and $48 million of U.S. Treasury securities pledged as swap collateral as of June 30, 2018 and December 31, 2017, respectively.
(2) Consists of residential mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

The amortized cost, gross unrealized gains and losses, and fair value of available-for-sale and held-to-maturity investment securities are as follows (dollars in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At June 30, 2018				
Available-for-Sale Investment Securities[1]				
U.S. Treasury securities	$ 675	$ —	$ (1)	$ 674
Residential mortgage-backed securities - Agency	639	—	(17)	622
Total available-for-sale investment securities	$ 1,314	$ —	$ (18)	$ 1,296
Held-to-Maturity Investment Securities[2]				
Residential mortgage-backed securities - Agency[3]	$ 226	$ —	$ (4)	$ 222
Total held-to-maturity investment securities	$ 226	$ —	$ (4)	$ 222
At December 31, 2017				
Available-for-Sale Investment Securities[1]				
U.S. Treasury securities	$ 675	$ —	$ (3)	$ 672
Residential mortgage-backed securities - Agency	728	1	(6)	723
Total available-for-sale investment securities	$ 1,403	$ 1	$ (9)	$ 1,395
Held-to-Maturity Investment Securities[2]				
States and political subdivisions of states	$ 1	$ —	$ —	$ 1
Residential mortgage-backed securities - Agency[3]	172	1	(1)	172
Total held-to-maturity investment securities	$ 173	$ 1	$ (1)	$ 173

(1) Available-for-sale investment securities are reported at fair value.
(2) Held-to-maturity investment securities are reported at amortized cost.
(3) Amounts represent residential mortgage-backed securities that were classified as held-to-maturity as they were entered into as a part of the Company's community reinvestment initiatives.

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The following table provides information about investment securities with aggregate gross unrealized losses and the length of time that individual investment securities have been in a continuous unrealized loss position (dollars in millions):

	Number of Securities in a Loss Position	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	More than 12 months Fair Value	More than 12 months Unrealized Losses
At June 30, 2018					
Available-for-Sale Investment Securities					
U.S. Treasury securities	1	$—	$ —	$674	$ (1)
Residential mortgage-backed securities - Agency	31	$509	$ (12)	$113	$ (5)
Held-to-Maturity Investment Securities					
Residential mortgage-backed securities - Agency	85	$126	$ (2)	$52	$ (2)
At December 31, 2017					
Available-for-Sale Investment Securities					
U.S. Treasury securities	1	$—	$ —	$672	$ (3)
Residential mortgage-backed securities - Agency	27	$457	$ (3)	$132	$ (3)
Held-to-Maturity Investment Securities					
Residential mortgage-backed securities - Agency	45	$56	$ —	$38	$ (1)

There were no losses related to other-than-temporary impairments and no proceeds from sales or recognized gains and losses on available-for-sale securities during the three and six months ended June 30, 2018 and 2017. See Note 7: Accumulated Other Comprehensive Income for unrealized gains and losses on available-for-sale securities during the three and six months ended June 30, 2018 and 2017.

Maturities of available-for-sale debt securities and held-to-maturity debt securities are provided in the following table (dollars in millions):

	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
At June 30, 2018					
Available-for-Sale Investment Securities—Amortized Cost					
U.S. Treasury securities	$ 675	$ —	$ —	$ —	$675
Residential mortgage-backed securities - Agency(1)	—	90	498	51	639
Total available-for-sale investment securities	$ 675	$ 90	$ 498	$ 51	$1,314
Held-to-Maturity Investment Securities—Amortized Cost					
Residential mortgage-backed securities - Agency(1)	$ —	$ —	$ —	$ 226	$226
Total held-to-maturity investment securities	$ —	$ —	$ —	$ 226	$226
Available-for-Sale Investment Securities—Fair Values					
U.S. Treasury securities	$ 674	$ —	$ —	$ —	$674
Residential mortgage-backed securities - Agency(1)	—	88	484	50	622
Total available-for-sale investment securities	$ 674	$ 88	$ 484	$ 50	$1,296
Held-to-Maturity Investment Securities—Fair Values					
Residential mortgage-backed securities - Agency(1)	$ —	$ —	$ —	$ 222	$222
Total held-to-maturity investment securities	$ —	$ —	$ —	$ 222	$222

(1) Maturities of residential mortgage-backed securities are reflective of the contractual maturities of the investment.

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Other Investments

As a part of the Company's community reinvestment initiatives, the Company has made equity investments in certain limited partnerships and limited liability companies that finance the construction and rehabilitation of affordable rental housing, as well as stimulate economic development in low to moderate income communities. These investments are accounted for using the equity method of accounting and are recorded within other assets. The related commitment for future investments is recorded in accrued expenses and other liabilities within the condensed consolidated statements of financial condition. The portion of each investment's operating results allocable to the Company reduces the carrying value of the investments and is recorded in other expense within the condensed consolidated statements of income. The Company further reduces the carrying value of the investments by recognizing any amounts that are in excess of future net tax benefits in other expense. The Company earns a return primarily through the receipt of tax credits allocated to the affordable housing projects and the community revitalization projects. These investments are not consolidated as the Company does not have a controlling financial interest in the entities. As of June 30, 2018 and December 31, 2017, the Company had outstanding investments in these entities of $275 million and $297 million, respectively, and related contingent liabilities of $63 million and $66 million, respectively. Of the above outstanding equity investments, the Company had $271 million and $288 million of investments related to affordable housing projects as of June 30, 2018 and December 31, 2017, respectively, which had $63 million and $66 million related contingent liabilities, respectively.

3. Loan Receivables

The Company has three loan portfolio segments: credit card loans, other loans and PCI loans.

The Company's classes of receivables within the three portfolio segments are depicted in the following table (dollars in millions):

	June 30, 2018	December 31, 2017
Loan receivables		
Credit card loans[(1)]	$67,812	$ 67,291
Other loans		
Personal loans	7,304	7,374
Private student loans	7,260	7,076
Other	571	423
Total other loans	15,135	14,873
PCI loans[(2)]	1,842	2,084
Total loan receivables	84,789	84,248
Allowance for loan losses	(2,828)	(2,621)
Net loan receivables	$81,961	$ 81,627

(1) Amounts include carrying values of $21.1 billion and $21.2 billion in underlying investors’ interest in trust debt at June 30, 2018 and December 31, 2017, respectively, and $8.4 billion and $9.9 billion in seller's interest at June 30, 2018 and December 31, 2017, respectively. See Note 4: Credit Card and Student Loan Securitization Activities for additional information.

(2) Amounts include carrying values of $669 million and $762 million in loans pledged as collateral against the notes issued from the Student Loan Corporation ("SLC") securitization trusts at June 30, 2018 and December 31, 2017, respectively. See Note 4: Credit Card and Student Loan Securitization Activities for additional information.

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Credit Quality Indicators

The Company regularly reviews its collection experience (including delinquencies and net charge-offs) in determining its allowance for loan losses.

Information related to the delinquent and non-accruing loans in the Company's loan portfolio is shown below by each class of loan receivables except for PCI student loans, which is shown under the heading "— Purchased Credit-Impaired Loans" (dollars in millions):

	30-89 Days Delinquent	90 or More Days Delinquent	Total Past Due	90 or More Days Delinquent and Accruing	Total Non-accruing(1)
At June 30, 2018					
Credit card loans(2)	$ 723	$ 743	$1,466	$ 681	$ 204
Other loans					
Personal loans(3)	74	30	104	29	11
Private student loans (excluding PCI)(4)	106	46	152	45	10
Other	1	2	3	—	19
Total other loans (excluding PCI)	181	78	259	74	40
Total loan receivables (excluding PCI)	$ 904	$ 821	$1,725	$ 755	$ 244
At December 31, 2017					
Credit card loans(2)	$ 781	$ 751	$1,532	$ 693	$ 203
Other loans					
Personal loans(3)	73	30	103	28	10
Private student loans (excluding PCI)(4)	134	33	167	33	2
Other	3	1	4	—	18
Total other loans (excluding PCI)	210	64	274	61	30
Total loan receivables (excluding PCI)	$ 991	$ 815	$1,806	$ 754	$ 233

(1) The Company estimates that the gross interest income that would have been recorded in accordance with the original terms of non-accruing credit card loans was $10 million and $9 million for the three months ended June 30, 2018 and 2017, respectively, and $19 million and $17 million for the six months ended June 30, 2018 and 2017, respectively. The Company does not separately track the amount of gross interest income that would have been recorded in accordance with the original terms of loans. This amount was estimated based on customers' current balances and most recent interest rates.

(2) Credit card loans that are 90 or more days delinquent and accruing interest include $85 million and $72 million of loans accounted for as TDRs at June 30, 2018 and December 31, 2017, respectively.

(3) Personal loans that are 90 or more days delinquent and accruing interest include $5 million of loans accounted for as TDRs at June 30, 2018 and December 31, 2017.

(4) Private student loans that are 90 or more days delinquent and accruing interest include $7 million and $5 million of loans accounted for as TDRs at June 30, 2018 and December 31, 2017, respectively.

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Information related to the net charge-offs in the Company's loan portfolio is shown below by each class of loan receivables except for PCI student loans, which is shown under the heading "— Purchased Credit-Impaired Loans" (dollars in millions):

	For the Three Months Ended June 30,					
	2018			2017		
	Net Charge-offs	Net Charge-off Rate[1]		Net Charge-offs	Net Charge-off Rate[1]	
Credit card loans	$555	3.34	%	$445	2.94	%
Other loans						
Personal loans	72	3.97	%	54	3.18	%
Private student loans (excluding PCI)	21	1.16	%	20	1.15	%
Other	1	0.34	%	1	0.30	%
Total other loans	94	2.48	%	75	2.14	%
Net charge-offs (excluding PCI)	$649	3.18	%	$520	2.79	%
Net charge-offs (including PCI)	$649	3.11	%	$520	2.71	%

	For the Six Months Ended June 30,					
	2018			2017		
	Net Charge-off Dollars	Net Charge-off Rate[1]		Net Charge-off Dollars	Net Charge-off Rate[1]	
Credit card loans	$1,095	3.33	%	$867	2.89	%
Other loans						
Personal loans	145	4.00	%	105	3.17	%
Private student loans (excluding PCI)	43	1.17	%	34	0.99	%
Other	1	0.23	%	3	1.79	%
Total other loans	189	2.50	%	142	2.08	%
Net charge-offs (excluding PCI)	$1,284	3.18	%	$1,009	2.74	%
Net charge-offs (including PCI)	$1,284	3.10	%	$1,009	2.65	%

(1) Net charge-off rate represents net charge-off dollars (annualized) divided by average loans for the reporting period.

As part of credit risk management activities, on an ongoing basis, the Company reviews information related to the performance of a customer’s account with the Company as well as information from credit bureaus, such as FICO or other credit scores, relating to the customer’s broader credit performance. FICO scores are generally obtained at origination of the account and are refreshed monthly or quarterly thereafter to assist in predicting customer behavior. Historically, the Company has noted that a significant portion of delinquent accounts have FICO scores below 660.

The following table provides the most recent FICO scores available for the Company’s customers as a percentage of each class of loan receivables:

	Credit Risk Profile by FICO Score			
	660 and Above		Less than 660 or No Score	
At June 30, 2018				
Credit card loans	82	%	18	%
Personal loans	95	%	5	%

Private student loans (excluding PCI)[(1)]	94	%	6	%
At December 31, 2017				
Credit card loans	82	%	18	%
Personal loans	95	%	5	%
Private student loans (excluding PCI)[(1)]	95	%	5	%

(1) PCI loans are discussed under the heading "— Purchased Credit-Impaired Loans."

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For private student loans, additional credit risk management activities include monitoring the amount of loans in forbearance. Forbearance allows borrowers experiencing temporary financial difficulties and willing to make payments, the ability to temporarily suspend payments. Eligible borrowers have a lifetime cap on forbearance of 12 months. At June 30, 2018 and December 31, 2017, there were $40 million and $29 million, respectively, of private student loans, including PCI, in forbearance, representing 0.7% and 0.5%, respectively, of total student loans in repayment and forbearance.

Allowance for Loan Losses

The following tables provide changes in the Company's allowance for loan losses (dollars in millions):

	For the Three Months Ended June 30, 2018				
	Credit Card	Personal Loans	Student Loans(1)	Other	Total
Balance at beginning of period	$2,252	$ 301	$ 170	$ 13	$2,736
Additions					
Provision for loan losses	637	84	22	(1)	742
Deductions					
Charge-offs	(684)	(80)	(24)	(1)	(789)
Recoveries	129	8	3	—	140
Net charge-offs	(555)	(72)	(21)	(1)	(649)
Other(2)	—	—	(1)	—	(1)
Balance at end of period	$2,334	$ 313	$ 170	$ 11	$2,828

	For the Three Months Ended June 30, 2017				
	Credit Card	Personal Loans	Student Loans(1)	Other	Total
Balance at beginning of period	$1,892	$ 207	$ 156	$ 9	$2,264
Additions					
Provision for loan losses	533	82	23	2	640
Deductions					
Charge-offs	(561)	(61)	(22)	(1)	(645)
Recoveries	116	7	2	—	125
Net charge-offs	(445)	(54)	(20)	(1)	(520)
Balance at end of period	$1,980	$ 235	$ 159	$ 10	$2,384

(1) Includes both PCI and non-PCI private student loans.
(2) Net change in reserves on PCI pools having no remaining non-accretable difference.

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The following tables provide changes in the Company's allowance for loan losses (dollars in millions):

	For the Six Months Ended June 30, 2018				
	Credit Card	Personal Loans	Student Loans(1)	Other	Total
Balance at beginning of period	$2,147	$ 301	$ 162	$ 11	$2,621
Additions					
Provision for loan losses	1,282	157	53	1	1,493
Deductions					
Charge-offs	(1,347)	(161)	(49)	(1)	(1,558)
Recoveries	252	16	6	—	274
Net charge-offs	(1,095)	(145)	(43)	(1)	(1,284)
Other(2)	—	—	(2)	—	(2)
Balance at end of period	$2,334	$ 313	$ 170	$ 11	$2,828

	For the Six Months Ended June 30, 2017				
	Credit Card	Personal Loans	Student Loans(1)	Other	Total
Balance at beginning of period	$1,790	$ 200	$ 158	$ 19	$2,167
Additions					
Provision for loan losses	1,057	140	35	(6)	1,226
Deductions					
Charge-offs	(1,096)	(118)	(39)	(3)	(1,256)
Recoveries	229	13	5	—	247
Net charge-offs	(867)	(105)	(34)	(3)	(1,009)
Balance at end of period	$1,980	$ 235	$ 159	$ 10	$2,384

(1) Includes both PCI and non-PCI private student loans.
(2) Net change in reserves on PCI pools having no remaining non-accretable difference.

Net charge-offs of principal are recorded against the allowance for loan losses, as shown in the preceding table. Information regarding net charge-offs of interest and fee revenues on credit card and other loans is as follows (dollars in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Interest and fees accrued subsequently charged off, net of recoveries (recorded as a reduction of interest income)	$110	$ 87	$219	$171
Fees accrued subsequently charged off, net of recoveries (recorded as a reduction to other income)	$28	$ 23	$55	$45

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The following tables provide additional detail of the Company's allowance for loan losses and recorded investment in its loan portfolio by impairment methodology (dollars in millions):

	Credit Card	Personal Loans	Student Loans(1)	Other Loans	Total
At June 30, 2018					
Allowance for loans evaluated for impairment as					
Collectively evaluated for impairment in accordance with ASC 450-20	$2,074	$ 276	$ 121	$ 4	$2,475
Evaluated for impairment in accordance with ASC 310-10-35(2)(3)	260	37	22	7	326
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	27	—	27
Total allowance for loan losses	$2,334	$ 313	$ 170	$ 11	$2,828
Recorded investment in loans evaluated for impairment as					
Collectively evaluated for impairment in accordance with ASC 450-20	$66,114	$ 7,174	$ 7,099	$ 516	$80,903
Evaluated for impairment in accordance with ASC 310-10-35(2)(3)	1,698	130	161	55	2,044
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	1,842	—	1,842
Total recorded investment	$67,812	$ 7,304	$ 9,102	$ 571	$84,789
At December 31, 2017					
Allowance for loans evaluated for impairment as					
Collectively evaluated for impairment in accordance with ASC 450-20	$1,921	$ 269	$ 112	$ 4	$2,306
Evaluated for impairment in accordance with ASC 310-10-35(2)(3)	226	32	21	7	286
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	29	—	29
Total allowance for loan losses	$2,147	$ 301	$ 162	$ 11	$2,621
Recorded investment in loans evaluated for impairment as					
Collectively evaluated for impairment in accordance with ASC 450-20	$65,975	$ 7,263	$ 6,939	$ 370	$80,547
Evaluated for impairment in accordance with ASC 310-10-35(2)(3)	1,316	111	137	53	1,617
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	2,084	—	2,084
Total recorded investment	$67,291	$ 7,374	$ 9,160	$ 423	$84,248

(1) Includes both PCI and non-PCI private student loans.

(2) Loan receivables evaluated for impairment in accordance with ASC 310-10-35 include credit card loans, personal loans and student loans collectively evaluated for impairment in accordance with ASC Subtopic 310-40, Receivables, which consists of modified loans accounted for as TDRs. Other loans are individually evaluated for impairment and generally do not represent TDRs.

(3) The unpaid principal balance of credit card loans was $1.5 billion and $1.1 billion at June 30, 2018 and December 31, 2017, respectively. The unpaid principal balance of personal loans was $130 million and $109 million at June 30, 2018 and December 31, 2017, respectively. The unpaid principal balance of student loans was $161 million and $135 million at June 30, 2018 and December 31, 2017, respectively. All loans accounted for as TDRs have a related allowance for loan losses.

Troubled Debt Restructurings

The Company has internal loan modification programs that provide relief to credit card, personal loan and student loan borrowers who may be experiencing financial hardship. The Company continually evaluates new programs to determine which of them meet the definition of a TDR. The internal loan modification programs include both temporary and permanent programs, which vary by product. External loan modification programs are also available for credit card and personal loans. Temporary and permanent modifications on credit card and personal loans, as well as temporary modifications on student loans and certain grants of student loan forbearance, result in the loans being considered individually impaired. In addition, loans that defaulted or graduated from modification programs or forbearance are considered to be individually impaired.

For credit card customers, the Company offers temporary hardship programs consisting of an interest rate reduction and in some cases a reduced minimum payment, both lasting for a period no longer than 12 months. The permanent workout program involves changing the structure of the loan to a fixed payment loan with a maturity no longer than 60 months and

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reducing the interest rate on the loan. The permanent modification program does not normally provide for the forgiveness of unpaid principal, but may allow for the reversal of certain unpaid interest or fee assessments. The Company also makes permanent loan modifications for customers who request financial assistance through external sources, such as a consumer credit counseling agency program. These loans typically receive a reduced interest rate but continue to be subject to the original minimum payment terms and do not normally include waiver of unpaid principal, interest or fees. Modified credit card loans that are deemed to meet the definition of TDRs includes loans in both temporary and permanent programs.

For personal loan customers, in certain situations the Company offers various payment programs, including temporary and permanent programs. The temporary programs normally consist of a reduction of the minimum payment for a period of no longer than 12 months with the option of a final balloon payment required at the end of the loan term or an extension of the maturity date with the total term not exceeding nine years. Further, in certain circumstances the interest rate on the loan is reduced. The permanent program involves changing the terms of the loan in order to pay off the outstanding balance over a longer term and also in certain circumstances reducing the interest rate on the loan. Similar to the temporary programs, the total term may not exceed nine years. The Company also allows permanent loan modifications for customers who request financial assistance through external sources, similar to the credit card customers discussed above. Payments are modified based on the new terms agreed upon with the credit counseling agency. Personal loans included in temporary and permanent programs are accounted for as TDRs.

To assist student loan borrowers who are experiencing temporary financial difficulties but are willing to resume making payments, the Company may offer hardship forbearance or programs that include payment deferral, temporary payment reduction, temporary interest rate reduction or extended terms. A modified loan typically meets the definition of a TDR based on the cumulative length of the concession period and an evaluation of the credit quality of the borrower, based on FICO scores.

The Company monitors borrower performance after using payment programs or forbearance and the Company believes the programs help to prevent defaults and are useful in assisting customers experiencing financial difficulties. The Company plans to continue to use payment programs and forbearance and, as a result, expects to have additional loans classified as TDRs in the future.

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Additional information about modified loans classified as TDRs is shown below (dollars in millions):

	Average recorded investment in loans	Interest income recognized during period loans were impaired[1]	Gross interest income that would have been recorded with original terms[2]
For the Three Months Ended June 30, 2018			
Credit card loans[3]	$ 1,604	$ 41	$ 32
Personal loans	$ 125	$ 3	$ 2
Private student loans	$ 153	$ 3	$ —
For the Three Months Ended June 30, 2017			
Credit card loans[3]	$ 1,137	$ 25	$ 22
Personal loans	$ 90	$ 3	$ 1
Private student loans	$ 107	$ 1	$ —
For the Six Months Ended June 30, 2018			
Credit card loans[3]	$ 1,507	$ 75	$ 58
Personal loans	$ 120	$ 6	$ 3
Private student loans	$ 147	$ 6	$ —
For the Six Months Ended June 30, 2017			
Credit card loans[3]	$ 1,122	$ 50	$ 42
Personal loans	$ 87	$ 5	$ 2
Private student loans	$ 101	$ 3	$ —

(1) The Company does not separately track interest income on loans in modification programs. Amounts shown are estimated by applying an average interest rate to the average loans in the various modification programs.

(2) The Company does not separately track the amount of additional gross interest income that would have been recorded if the loans in modification programs had not been restructured and interest had instead been recorded in accordance with the original terms. Amounts shown are estimated by applying the difference between the average interest rate earned on non-impaired loans and the average interest rate earned on loans in the modification programs to the average loans in the modification programs.

(3) Includes credit card loans that were modified in TDRs, but are no longer enrolled in a TDR program due to noncompliance with the terms of the modification or due to successful completion of a program after which charging privileges may be reinstated based on customer-level evaluation. The average balance of credit card loans that were no longer enrolled in a TDR program was $397 million and $324 million, respectively, for the three months ended June 30, 2018 and 2017, and $391 million and $317 million, respectively, for the six months ended June 30, 2018 and 2017.

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In order to evaluate the primary financial effects that resulted from credit card loans entering into a loan modification program during the three and six months ended June 30, 2018 and 2017, the Company quantified the amount by which interest and fees were reduced during the periods. During the three months ended June 30, 2018 and 2017, the Company forgave approximately $11 million and $10 million, respectively, of interest and fees as a result of accounts entering into a credit card loan modification program. During the six months ended June 30, 2018 and 2017, the Company forgave approximately $23 million and $21 million, respectively, of interest and fees as a result of accounts entering into a credit card loan modification program.

The following table provides information on loans that entered a loan modification program during the period (dollars in millions):

	For the Three Months Ended June 30,			
	2018		2017	
	Number of Accounts	Balances	Number of Accounts	Balances
Accounts that entered a loan modification program during the period				
Credit card loans	56,003	$ 363	26,078	$ 157
Personal loans	1,836	$ 23	1,430	$ 18
Private student loans	1,046	$ 21	1,003	$ 18

	For the Six Months Ended June 30,			
	2018		2017	
	Number of Accounts	Balances	Number of Accounts	Balances
Accounts that entered a loan modification program during the period				
Credit card loans	116,058	$ 743	56,971	$ 338
Personal loans	3,964	$ 52	2,993	$ 36
Private student loans	1,952	$ 37	2,020	$ 35

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The following table presents the carrying value of loans that experienced a payment default during the period that had been modified in a TDR during the 15 months preceding the end of each period (dollars in millions):

	For the Three Months Ended June 30,			
	2018		2017	
	Number of Accounts	Aggregated Outstanding Balances Upon Default	Number of Accounts	Aggregated Outstanding Balances Upon Default
TDRs that subsequently defaulted				
Credit card loans[(1)(2)]	8,970	$ 49	8,049	$ 43
Personal loans[(2)]	637	$ 8	341	$ 4
Private student loans[(3)]	204	$ 3	184	$ 3

	For the Six Months Ended June 30,			
	2018		2017	
	Number of Accounts	Aggregated Outstanding Balances Upon Default	Number of Accounts	Aggregated Outstanding Balances Upon Default
TDRs that subsequently defaulted				
Credit card loans[(1)(2)]	17,784	$ 96	16,215	$ 87
Personal loans[(2)]	1,212	$ 16	648	$ 8
Private student loans[(3)]	475	$ 8	369	$ 6

(1) Terms revert back to the pre-modification terms for customers who default from a temporary program and charging privileges remain revoked in most cases.

(2) For credit card loans and personal loans, a customer defaults from a modification program after two consecutive missed payments. The outstanding balance upon default is generally the loan balance at the end of the month prior to default.

(3) For student loans, defaults have been defined as loans that are 60 or more days delinquent. The outstanding balance upon default is generally the loan balance at the end of the month prior to default.

Of the account balances that defaulted as shown above for the three months ended June 30, 2018 and 2017, approximately 34% and 39%, respectively, of the total balances were charged off at the end of the month in which they defaulted. Of the account balances that defaulted as shown above for the six months ended June 30, 2018 and 2017, approximately 36% and 39%, respectively, of the total balances were charged off at the end of the month in which they defaulted. For accounts that have defaulted from a loan modification program and have not been subsequently charged off, the balances are included in the allowance for loan loss analysis discussed above under "—Allowance for Loan Losses."

Purchased Credit-Impaired Loans

Purchased loans with evidence of credit deterioration since origination for which it is probable that not all contractually required payments will be collected are considered impaired at acquisition and are reported as PCI loans. The private student loans acquired in the SLC transaction, as well as the additional acquired private student loan portfolio comprise the Company’s only PCI loans at June 30, 2018 and December 31, 2017. Total PCI student loans had an outstanding balance of $1.9 billion and $2.2 billion, including accrued interest, and a related carrying amount of $1.8 billion and $2.1 billion as of June 30, 2018 and December 31, 2017, respectively.

The following table provides changes in accretable yield for the acquired loans during each period (dollars in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	$633	$755	$669	$796
Accretion into interest income	(36)	(40)	(72)	(81)
Other changes in expected cash flows	11	10	11	10
Balance at end of period	$608	$725	$608	$725

Periodically, the Company updates the estimate of cash flows expected to be collected based on management's latest expectations of future net credit losses, borrower prepayments and certain other assumptions that affect cash flows. No

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provision expense was recorded during the three and six months ended June 30, 2018 and 2017. The allowance for PCI loan losses at June 30, 2018 and December 31, 2017 was $27 million and $29 million, respectively. For the three and six months ended June 30, 2018 and 2017, the increase in accretable yield was primarily driven by increases in rates on variable rate loans during the first half of 2018 and 2017. Changes to accretable yield are recognized prospectively as an adjustment to yield over the remaining life of the pools.

At June 30, 2018, the 30 or more days delinquency and 90 or more days delinquency rates on PCI student loans (which include loans not yet in repayment) were 2.61% and 0.64%, respectively. At December 31, 2017, the 30 or more days delinquency and 90 or more days delinquency rates on PCI student loans (which include loans not yet in repayment) were 3.24% and 0.93%, respectively. These rates include private student loans that are greater than 120 days delinquent that are covered by an indemnification agreement or insurance arrangements through which the Company expects to recover a substantial portion of the loan. The net charge-off rate on PCI student loans was 0.31% and 0.64% for the three months ended June 30, 2018 and 2017, respectively, and 0.66% and 0.58% for the six months ended June 30, 2018 and 2017, respectively.

4. Credit Card and Student Loan Securitization Activities

The Company’s securitizations are accounted for as secured borrowings and the related trusts are treated as consolidated subsidiaries of the Company. For a description of the Company’s principles of consolidation with respect to VIEs, see Note 1: Background and Basis of Presentation of the Company’s annual report on Form 10-K for the year ended December 31, 2017.

Credit Card Securitization Activities

The Company accesses the term asset securitization market through the Discover Card Master Trust I (“DCMT”) and the Discover Card Execution Note Trust (“DCENT”). Credit card loan receivables are transferred into DCMT and beneficial interests in DCMT are transferred into DCENT. DCENT issues debt securities to investors that are reported in long-term borrowings.

The DCENT debt structure consists of four classes of securities (DiscoverSeries Class A, B, C and D notes), with the most senior class generally receiving a triple-A rating. In order to issue senior, higher rated classes of notes, it is necessary to obtain the appropriate amount of credit enhancement, generally through the issuance of junior, lower rated or more highly subordinated classes of notes. The subordinated classes are held by wholly-owned subsidiaries of Discover Bank. The Company is exposed to credit-related risk of loss associated with trust assets as of the balance sheet date through the retention of these subordinated interests. The estimated probable incurred loss is included in the allowance for loan losses estimate.

The Company’s retained interests in the assets of the trusts, consisting of investments in DCENT notes held by subsidiaries of Discover Bank, constitute intercompany positions, which are eliminated in the preparation of the Company’s condensed consolidated statements of financial condition.

Upon transfer of credit card loan receivables to the trust, the receivables and certain cash flows derived from them become restricted for use in meeting obligations to the trusts’ creditors. Further, the transferred credit card loan receivables are owned by the trust and are not available to third-party creditors of the Company. The trusts have ownership of cash balances, the amounts of which are reported in restricted cash. With the exception of the seller’s interest in trust receivables, the Company’s interests in trust assets are generally subordinate to the interests of third-party investors and, as such, may not be realized by the Company if needed to absorb deficiencies in cash flows that are allocated to the investors in the trusts’ debt. Apart from the restricted assets related to securitization activities, the investors and the securitization trusts have no recourse to the Company’s other assets or the Company's general credit for a shortage in cash flows.

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The carrying values of these restricted assets, which are presented on the Company's condensed consolidated statements of financial condition as relating to securitization activities, are shown in the following table (dollars in millions):

	June 30, 2018	December 31, 2017
Restricted cash	$579	$ 26
Investors' interests held by third-party investors	15,975	16,025
Investors' interests held by wholly-owned subsidiaries of Discover Bank	5,129	5,133
Seller's interest	8,378	9,861
Loan receivables[(1)]	29,482	31,019
Allowance for loan losses allocated to securitized loan receivables[(1)]	(1,020)	(998)
Net loan receivables	28,462	30,021
Other	6	5
Carrying value of assets of consolidated variable interest entities	$29,047	$ 30,052

(1) The Company maintains its allowance for loan losses at an amount sufficient to absorb probable losses inherent in all loan receivables, which includes all loan receivables in the trusts. Therefore, credit risk associated with the transferred receivables is fully reflected on the Company's balance sheet in accordance with GAAP.

The debt securities issued by the consolidated trusts are subject to credit, payment and interest rate risks on the transferred credit card loan receivables. To protect investors in the securities, there are certain features or triggering events that could cause an early amortization of the debt securities, including triggers related to the impact of the performance of the trust receivables on the availability and adequacy of cash flows to meet contractual requirements. As of June 30, 2018, no economic or other early amortization events have occurred.

The Company continues to own and service the accounts that generate the loan receivables held by the trusts. Discover Bank receives servicing fees from the trusts based on a percentage of the monthly investor principal balance outstanding. Although the fee income to Discover Bank offsets the fee expense to the trusts and thus is eliminated in consolidation, failure to service the transferred loan receivables in accordance with contractual requirements could lead to a termination of the servicing rights and the loss of future servicing income, net of related expenses.

Student Loan Securitization Activities

Student loan trust receivables underlying third-party investors' interests are recorded in PCI loans and the related debt issued by the trusts is reported in long-term borrowings. The assets of the trusts are restricted from being sold or pledged as collateral for other borrowings and the cash flows from these restricted assets may be used only to pay obligations of the trusts. With the exception of the trusts' restricted assets, the trusts and investors have no recourse to the Company's other assets or the Company's general credit for a shortage in cash flows.

Currently there are two trusts from which securities were issued to investors. Principal payments on the long-term secured borrowings are made as cash is collected on the underlying loans that are used as collateral on the secured borrowings. The Company does not have access to cash collected by the securitization trusts until cash is released in accordance with the trust indenture agreements. Similar to the credit card securitizations, the Company continues to own and service the accounts that generate the student loan receivables held by the trusts and receives servicing fees from the trusts based on either a percentage of the principal balance outstanding or a flat fee per borrower. Although the servicing fee income offsets the fee expense related to the trusts and thus is eliminated in consolidation, failure to service the transferred loan receivables in accordance with contractual requirements could lead to a termination of the servicing rights and the loss of future servicing income, net of related expenses.

Under terms of all the trust arrangements, the Company has the option, but not the obligation, to provide financial support to the trusts, but has never provided such support. A substantial portion of the credit risk associated with the securitized loans has been transferred to third parties under private credit insurance or indemnification arrangements.

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The carrying values of these restricted assets, which are presented on the Company's condensed consolidated statements of financial condition as relating to securitization activities, are shown in the following table (dollars in millions):

	June 30, 2018	December 31, 2017
Restricted cash	$ 51	$ 55
Student loan receivables	669	762
Carrying value of assets of consolidated variable interest entities	$ 720	$ 817

5. Deposits

The Company offers its deposit products to customers through two channels: (i) through direct marketing, internet origination and affinity relationships ("direct-to-consumer deposits"); and (ii) indirectly through contractual arrangements with securities brokerage firms ("brokered deposits"). Direct-to-consumer deposits include certificates of deposit, money market accounts, online savings and checking accounts and IRA certificates of deposit, while brokered deposits include certificates of deposit and sweep accounts.

The following table provides a summary of interest-bearing deposit accounts (dollars in millions):

	June 30, 2018	December 31, 2017
Certificates of deposit in amounts less than $100,000	$23,740	$ 23,768
Certificates of deposit in amounts $100,000 or greater[1]	6,258	5,984
Savings deposits, including money market deposit accounts	31,070	28,413
Total interest-bearing deposits	$61,068	$ 58,165

(1) Includes $1.5 billion and $1.4 billion in certificates of deposit equal to or greater than $250,000, the Federal Deposit Insurance Corporation ("FDIC") insurance limit, as of June 30, 2018 and December 31, 2017, respectively.

The following table summarizes certificates of deposit in amounts of $100,000 or greater by contractual maturity (dollars in millions):

Maturity Period	June 30, 2018
Three months or less	$880
Over three months through six months	826
Over six months through twelve months	1,932
Over twelve months	2,620
Total	$6,258

The following table summarizes certificates of deposit maturing over the remainder of this year, over each of the next four years, and thereafter (dollars in millions):

Year

	June 30, 2018
2018	$6,672
2019	9,097
2020	5,095
2021	3,573
2022	2,298
Thereafter	3,263
Total	$29,998

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6. Long-Term Borrowings

Long-term borrowings consist of borrowings having original maturities of one year or more. The following table provides a summary of the Company's long-term borrowings and weighted-average interest rates on outstanding balances (dollars in millions):

	June 30, 2018				December 31, 2017
	Maturity	Interest Rate	Weighted-Average Interest Rate	Outstanding Amount	Outstanding Amount
Securitized Debt					
Fixed-rate asset-backed securities(1)	2018-2024	1.39%-3.03%	1.92%	$ 9,472	$ 8,888
Floating-rate asset-backed securities(2)(3)	2018-2024	2.30%-2.67%	2.50%	6,362	7,038
Total Discover Card Master Trust I and Discover Card Execution Note Trust				15,834	15,926
Floating-rate asset-backed securities(4)(5)(6)	2031-2036	2.65%-5.75%	3.97%	531	610
Total SLC Private Student Loan Trusts				531	610
Total long-term borrowings - owed to securitization investors				16,365	16,536
Discover Financial Services (Parent Company)					
Fixed-rate senior notes	2019-2027	3.75%-10.25%	4.25%	2,726	2,710
Fixed-rate retail notes	2018-2031	2.85%-4.60%	3.73%	348	302
Discover Bank					
Fixed-rate senior bank notes(1)	2018-2026	2.60%-4.25%	3.37%	6,115	6,080
Fixed-rate subordinated bank notes	2019-2020	7.00%-8.70%	7.49%	698	698
Total long-term borrowings				$ 26,252	$ 26,326

(1) The Company uses interest rate swaps to hedge portions of these long-term borrowings against changes in fair value attributable to changes in London Interbank Offered Rate ("LIBOR"). Use of these interest rate swaps impacts carrying value of the debt. See Note 14: Derivatives and Hedging Activities.

(2) Discover Card Execution Note Trust floating-rate asset-backed securities include issuances with the following interest rate terms: 1-month LIBOR + 23 to 60 basis points as of June 30, 2018.

(3) The Company uses interest rate swaps to manage its exposure to changes in interest rates related to future cash flows resulting from interest payments on a portion of these long-term borrowings. There is no impact on debt carrying value from use of these interest rate swaps. See Note 14: Derivatives and Hedging Activities.

(4) SLC Private Student Loan Trusts floating-rate asset-backed securities include issuances with the following interest rate terms: 3-month LIBOR + 30 to 45 basis points and Prime rate + 100 basis points as of June 30, 2018.

(5) Repayment of this debt is dependent upon the timing of principal and interest payments on the underlying student loans. The dates shown represent final maturity dates.

(6) Includes $216 million of senior notes maturing in 2031 and $315 million of senior and subordinated notes maturing in 2036 as of June 30, 2018.

The following table summarizes long-term borrowings maturing over the remainder of this year, over each of the next four years, and thereafter (dollars in millions):

Year	June 30, 2018
2018	$2,773
2019	5,993
2020	4,688
2021	1,564
2022	2,784
Thereafter	8,450
Total	$26,252

The Company has access to committed borrowing capacity through private securitizations to support the funding of its credit card loan receivables. As of June 30, 2018, the total commitment of secured credit facilities through private providers was $6.0 billion, none of which was drawn as of June 30, 2018. Access to the unused portions of the secured credit facilities is subject to the terms of the agreements with each of the providers, which have various expirations in calendar years 2019

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through 2020. Borrowings outstanding under each facility bear interest at a margin above LIBOR or the asset-backed commercial paper costs of each individual conduit provider. The terms of each agreement provide for a commitment fee to be paid on the unused capacity and include various affirmative and negative covenants, including performance metrics and legal requirements similar to those required to issue any term securitization transaction.

7. Accumulated Other Comprehensive Income

Changes in each component of AOCI were as follows (dollars in millions):

	Unrealized Loss on Available-for-Sale Investment Securities, Net of Tax	Gain (Loss) on Cash Flow Hedges, Net of Tax	Loss on Pension Plan, Net of Tax	AOCI
For the Three Months Ended June 30, 2018				
Balance at March 31, 2018	$ (12)	$ 29	$ (156)	$ (139)
Cumulative effect of ASU No. 2018-02 adoption[(1)]	(1)	3	(31)	(29)
Net change	(1)	7	—	6
Balance at June 30, 2018	$ (14)	$ 39	$ (187)	$ (162)
For the Three Months Ended June 30, 2017				
Balance at March 31, 2017	$ (2)	$ (8)	$ (145)	$ (155)
Net change	—	5	—	5
Balance at June 30, 2017	$ (2)	$ (3)	$ (145)	$ (150)
For the Six Months Ended June 30, 2018				
Balance at December 31, 2017	$ (5)	$ 10	$ (157)	$ (152)
Cumulative effect of ASU No. 2018-02 adoption[(1)]	(1)	3	(31)	(29)
Net change	(8)	26	1	19
Balance at June 30, 2018	$ (14)	$ 39	$ (187)	$ (162)
For the Six Months Ended June 30, 2017				
Balance at December 31, 2016	$ (3)	$ (13)	$ (145)	$ (161)
Net change	1	10	—	11
Balance at June 30, 2017	$ (2)	$ (3)	$ (145)	$ (150)

(1) Represents the adjustment to AOCI as a result of adoption of ASU No. 2018-02 in the second quarter of 2018. See Note 1: Background and Basis of Presentation for additional information.

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The following table presents each component of other comprehensive income (loss) ("OCI") before reclassifications and amounts reclassified from AOCI for each component of OCI before- and after-tax (dollars in millions):

	Before Tax	Tax Benefit (Expense)	Net of Tax
For the Three Months Ended June 30, 2018			
Available-for-Sale Investment Securities			
Net unrealized holding loss arising during the period	$(1)	$ —	$(1)
Net change	$(1)	$ —	$(1)
Cash Flow Hedges			
Net unrealized gain arising during the period	$10	$ (2)	$8
Amounts reclassified from AOCI	(1)	—	(1)
Net change	$9	$ (2)	$7
For the Three Months Ended June 30, 2017			
Cash Flow Hedges			
Net unrealized gain arising during the period	$3	$ (1)	$2
Amounts reclassified from AOCI	3	—	3
Net change	$6	$ (1)	$5
For the Six Months Ended June 30, 2018			
Available-for-Sale Investment Securities			
Net unrealized holding loss arising during the period	$(10)	$ 2	$(8)
Net change	$(10)	$ 2	$(8)
Cash Flow Hedges			
Net unrealized gain arising during the period	$34	$ (8)	$26
Net change	$34	$ (8)	$26
Pension Plan			
Unrealized gain arising during the period	$1	$ —	$1
Net change	$1	$ —	$1
For the Six Months Ended June 30, 2017			
Available-for-Sale Investment Securities			
Net unrealized holding gain arising during the period	$2	$ (1)	$1
Net change	$2	$ (1)	$1
Cash Flow Hedges			
Net unrealized gain arising during the period	$9	$ (4)	$5
Amounts reclassified from AOCI	8	(3)	5
Net change	$17	$ (7)	$10

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8. Income Taxes

The following table presents the calculation of the Company's effective income tax rate (dollars in millions, except effective income tax rate):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Income before income tax expense	$877	$867	$1,733	$1,735
Income tax expense	$208	$321	$398	$625
Effective income tax rate	23.7 %	37.1 %	23.0 %	36.0 %

Income tax expense decreased $113 million and $227 million, respectively, for the three and six months ended June 30, 2018, as compared to the same periods in 2017. The effective tax rates decreased 13.4% and 13.0%, respectively, for the three and six months ended June 30, 2018 as compared to the same periods in 2017. The decrease in rates is primarily due to a reduction in the U.S. federal statutory income tax rate from 35% to 21% offset by other effects of TCJA. For the six months ended June 30, 2018, the effective tax rate was also favorably impacted by the resolution of certain tax matters.

The Company is subject to examination by the Internal Revenue Service ("IRS") and tax authorities in various state, local and foreign tax jurisdictions. The Company regularly assesses the likelihood of additional assessments or settlements in each of the taxing jurisdictions resulting from these and subsequent years' examinations. The IRS is currently examining the years 2011-2015. At this time, the potential change in unrecognized tax benefits is not expected to be significant over the next 12 months. The Company believes that its reserves are sufficient to cover any tax, penalties and interest that would result from such examinations.

9. Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share ("EPS") (in millions, except per share amounts):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator				
Net income	$669	$546	$1,335	$1,110
Preferred stock dividends	—	(10)	(16)	(19)
Net income available to common stockholders	669	536	1,319	1,091
Income allocated to participating securities	(6)	(4)	(10)	(8)
Net income allocated to common stockholders	$663	$532	$1,309	$1,083
Denominator				
Weighted-average shares of common stock outstanding	348	379	351	382
Weighted-average shares of common stock outstanding and common stock equivalents	348	379	351	382
Basic earnings per common share	$1.91	$1.41	$3.73	$2.83
Diluted earnings per common share	$1.91	$1.40	$3.72	$2.83

There were no anti-dilutive securities on the computation of diluted EPS for the three and six months ended June 30, 2018 and 2017.

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10. Capital Adequacy

The Company is subject to the capital adequacy guidelines of the Federal Reserve, and Discover Bank, the Company's main banking subsidiary, is subject to various regulatory capital requirements as administered by the FDIC. Failure to meet minimum capital requirements can result in the initiation of certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial position and results of the Company and Discover Bank. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Discover Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items, as calculated under regulatory guidelines. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.