



2015 Barclays Americas Select Franchise Conference

Mark Graf  
EVP & Chief Financial Officer  
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# Notice

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The following slides are part of a presentation by Discover Financial Services (the "Company") and are intended to be viewed as part of that presentation. No representation is made that the information in these slides is complete.

Throughout these materials, direct-to-consumer deposits are referred to as DTC deposits. DTC deposits include deposit products that we offer to customers through direct marketing, internet origination and affinity relationships. DTC deposits include certificates of deposits, money market accounts, online savings and checking accounts, and IRA certificates of deposit.

The information provided herein includes certain non-GAAP financial measures. The reconciliations of such measures to the comparable GAAP figures are included at the end of this presentation, which is available on the Company's website at [www.discover.com](http://www.discover.com) and the SEC's website.

The presentation contains forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made, which reflect management's estimates, projections, expectations or beliefs at that time, and which are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of certain risks and uncertainties that may affect the future results of the Company, please see "Special Note Regarding Forward-Looking Statements," "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, 2014 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 which is filed with the SEC and available at the SEC's website ([www.sec.gov](http://www.sec.gov)). The Company does not undertake to update or revise forward-looking statements as more information becomes available.

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<sup>SM</sup>, Discover® Network and Diners Club International®. All other trademarks, trade names and service marks included in this presentation are the property of their respective owners.

# Positioned as the leading U.S. direct bank & payments partner

## Direct Banking (98% of DFS Pre-Tax Profit)



### U.S. Card Issuing

- \$53Bn in card receivables
- \$116Bn card sales volume
- Leading cash rewards program
- 1 in 4 U.S. households



### Deposits and Lending

- \$29Bn direct-to-consumer deposits
- Cashback checking
- \$14Bn personal loans and private student loans
- Home loan originations
- Home equity installment loans

## Payment Services (2% of DFS Pre-Tax Profit)



- \$165Bn volume
- 3,700+ issuers



- \$27Bn volume
- 80+ licensees
- 185+ countries / territories



### Network Partners

- \$10Bn volume
- 10+ network alliances

#### Note(s)

Balances as of March 31, 2015; pre-tax profit and volume based on the trailing four quarters ending 1Q15; direct-to-consumer deposits includes affinity deposits

# Executive Summary

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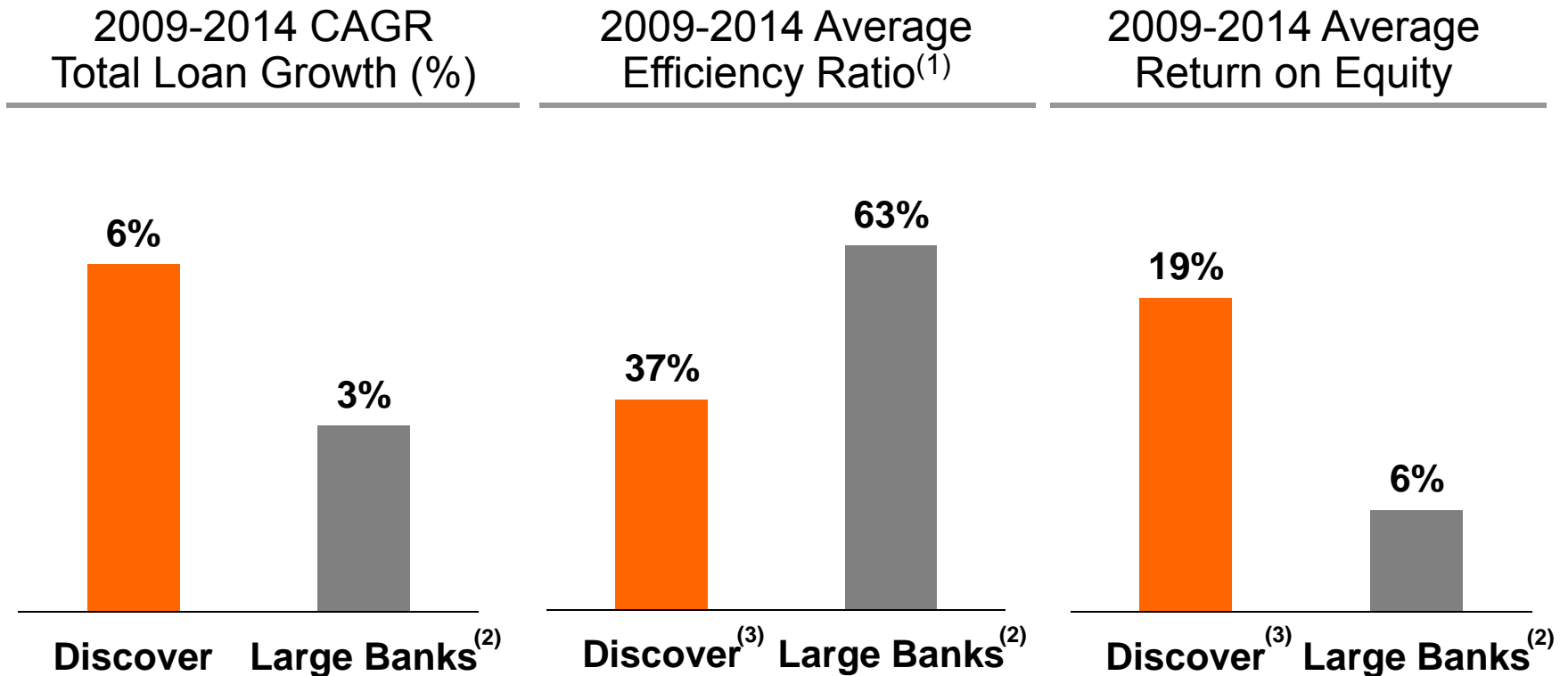
Attractive business model with a solid record of success

- Delivering strong card growth
  - Driven by more new accounts, wallet share gain, industry low attrition rate and great credit results<sup>(1)</sup>
  - Aided by proprietary network impact on brand, acceptance and rewards
- Utilizing consumer unsecured lending and marketing capabilities to grow non-card assets
- Leveraging a payments partnership strategy to position the business for growth
- Creating shareholder value through effective capital management

**Note(s)**

1. Argus Information and Advisory Services, LLC used for attrition rate data

# U.S. Direct Banking – Faster loan growth, better efficiencies and higher returns



Source SNL, regulatory reports; Discover

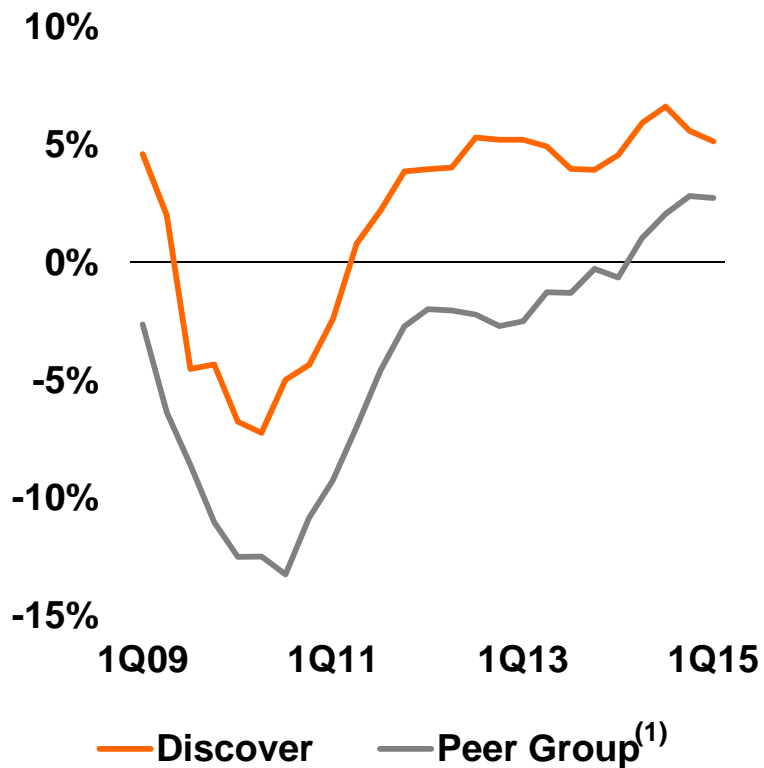
**Note(s)**

1. Non-interest expense divided by total revenue (net interest income and noninterest income)
2. Bank holding companies participating in the 2015 Comprehensive Capital Analysis and Review (CCAR); excludes Synchrony Financial, Santander Holdings USA, Goldman Sachs, BMO Financial, HSBC USA and Deutsche Bank from some metrics due to limited information; excludes Discover
3. 2009 adjusted to exclude \$1.4 billion (\$0.9 billion after taxes) Visa and MasterCard settlement

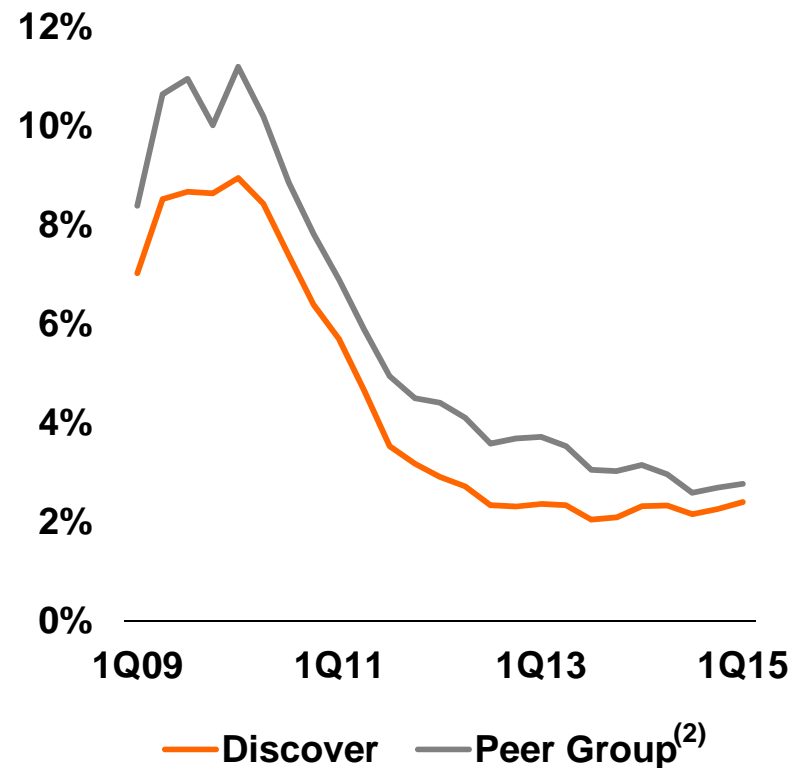
# U.S. Card -

## Outperforming peers in loan growth and credit performance

Card Loan Growth (%YOY)



Card Net Charge-off Rate (%)



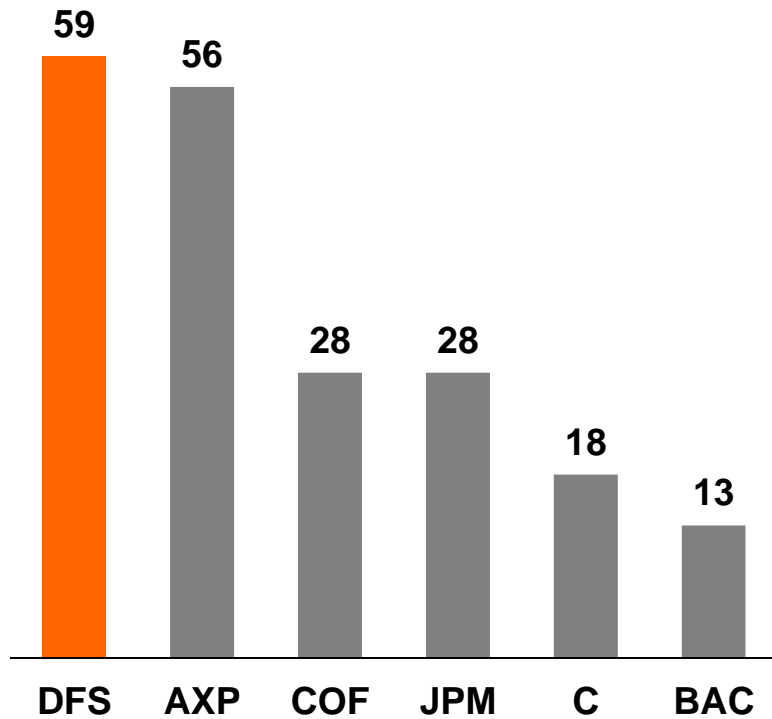
Source Public company data

Note(s)

1. Includes weighted average card loan growth for American Express (U.S. Card), Bank of America (U.S. Card), Capital One (U.S. Card adjusted for portfolio acquisitions and divestitures and excludes installment loans), Citi (Citi-branded Cards N.A.), JPMorgan Chase (Card Services) and Wells Fargo (Consumer Credit Card 1Q12-1Q15)
2. Weighted average rate; includes U.S. card net charge-off rates for American Express (U.S. Card), Bank of America (U.S. Card), Capital One (U.S. Card), Citi (Citi-branded Cards N.A.), JPMorgan Chase (Card Services) and Wells Fargo (1Q11-1Q15)

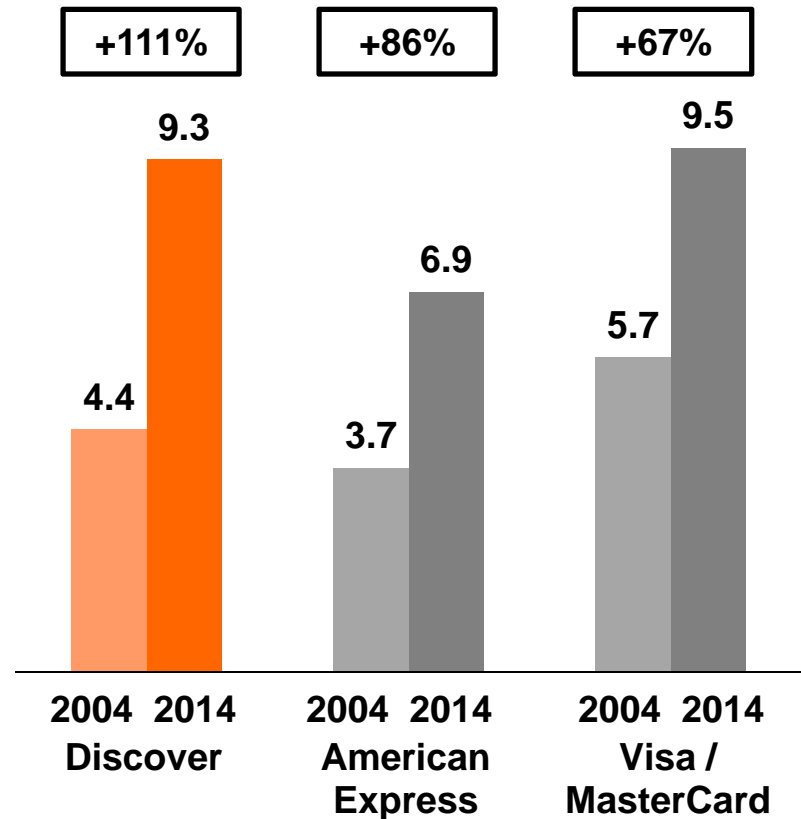
# Proprietary network drives brand recognition and increasing acceptance

2014 Average Unaided U.S. Card Brand Awareness



Source 2014 Millward Brown Brand Tracking Study

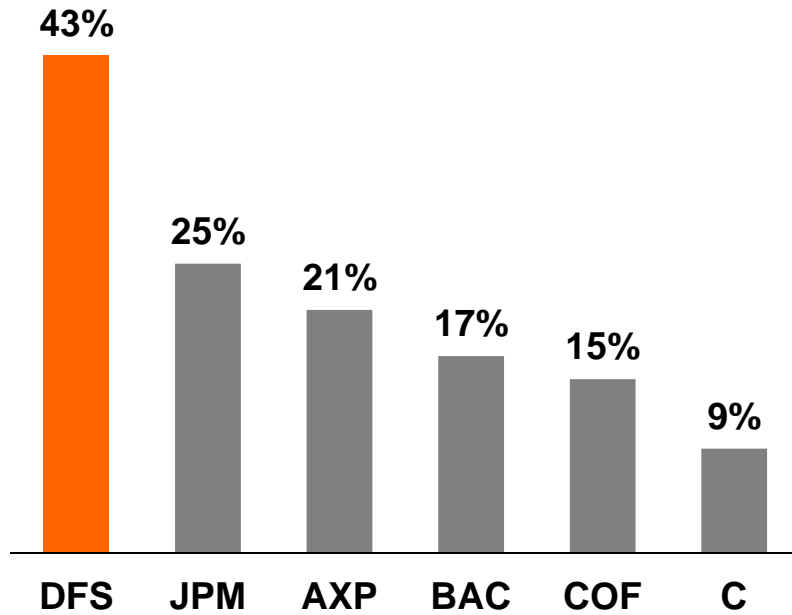
U.S. Acceptance



Source The Nilson Report, February 2005 and February 2015 issues

# Leveraging the Discover Network to be a leader in cash rewards

Cash Rewards Household Penetration<sup>(1)</sup>



Indexed Merchant-Funded Rewards<sup>(2)</sup>



Source 2014 Consumer Payment Strategies Research Program, TNS

**Note(s)**

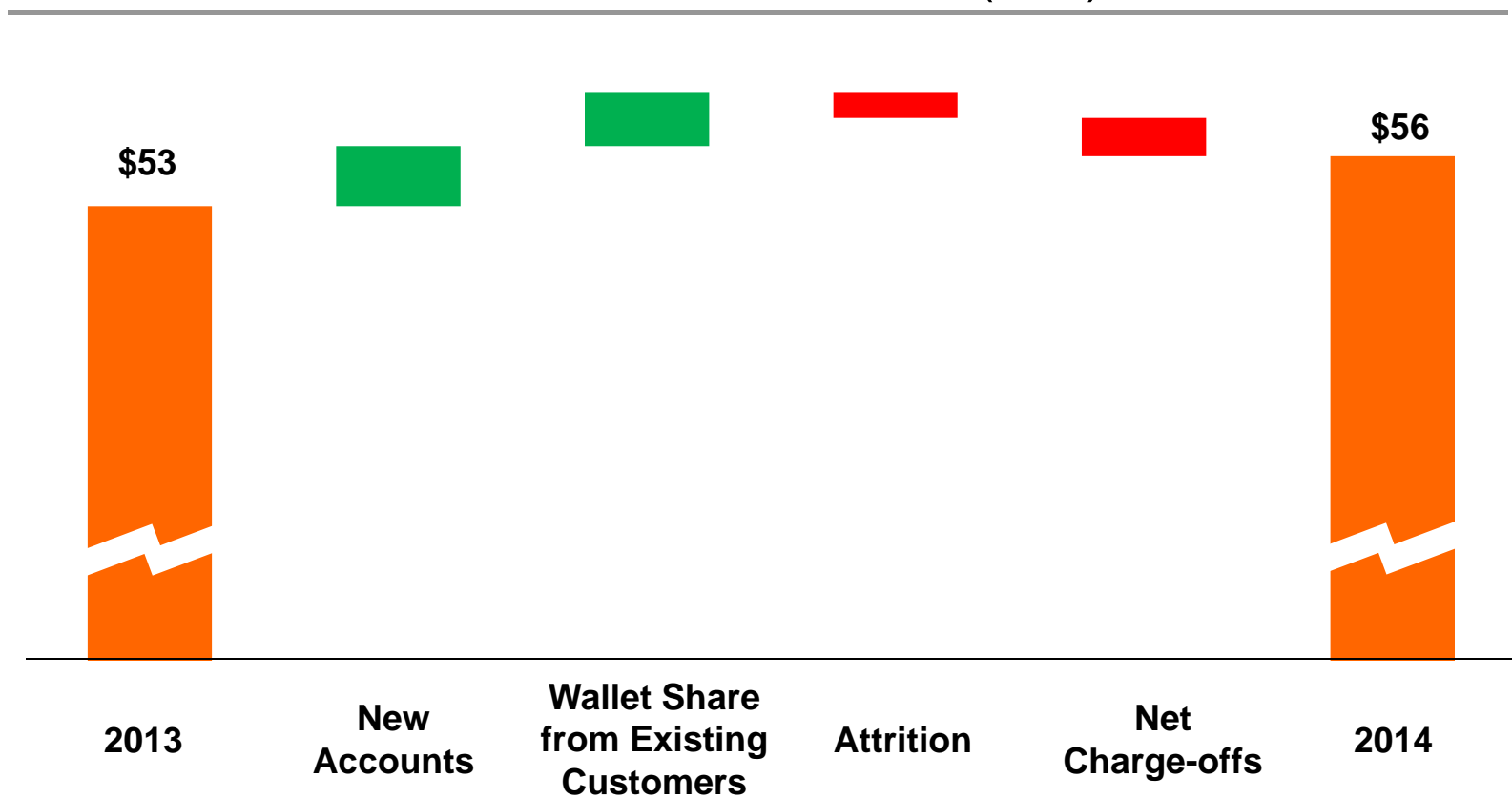
1. The ratio of ownership of a Discover card to total U.S. household ownership of a cashback rewards card based on survey results
2. Rewards value divided by Discover card sales volume indexed to 100; includes Discover Deals, estimated point-of-sale coupons, CBB offers, statement credits and gift card redemptions



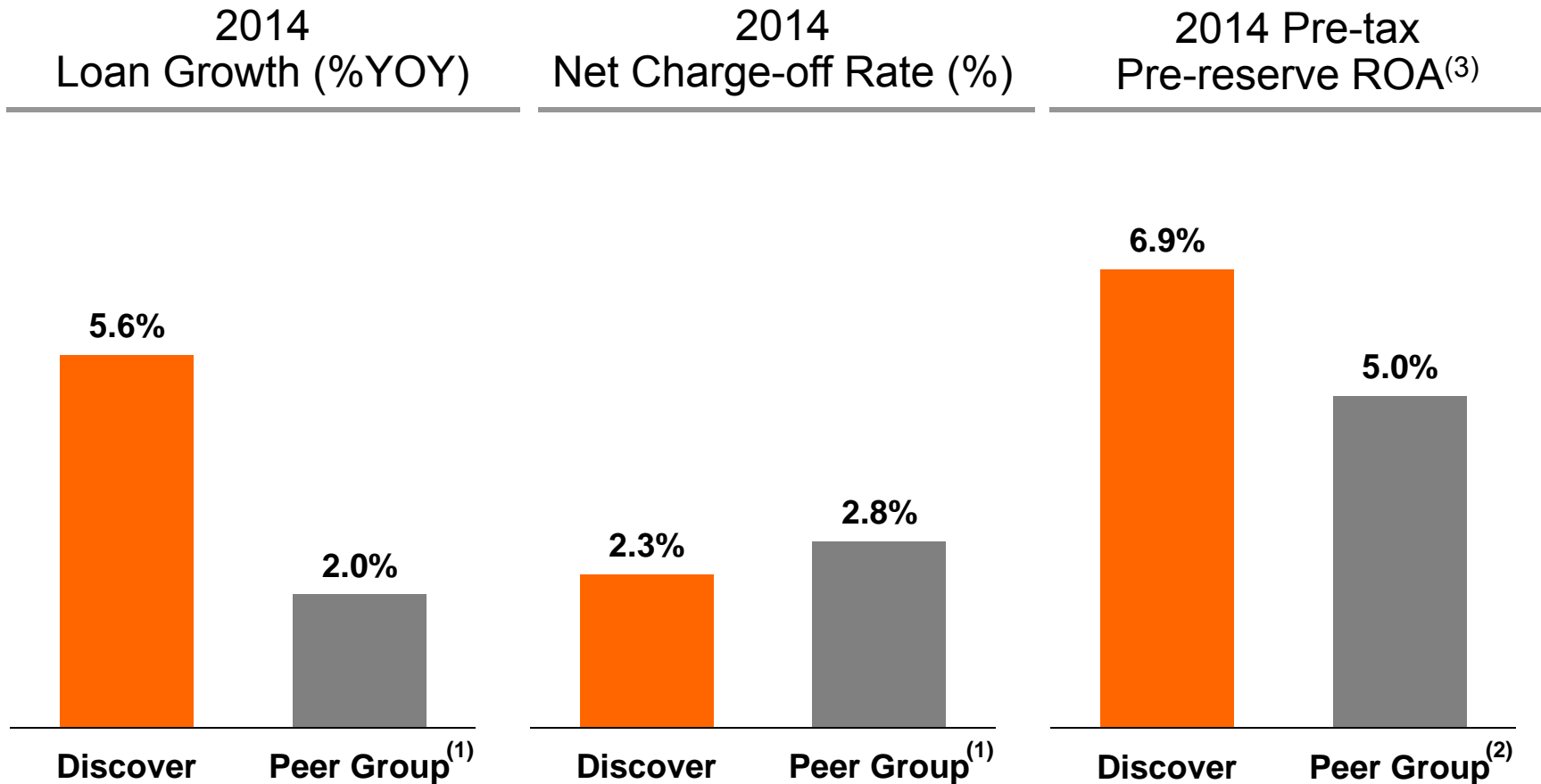
# Revolving balances with new and existing customers driving growth

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Card Receivable Growth (\$Bn)



# Achieving industry leading returns



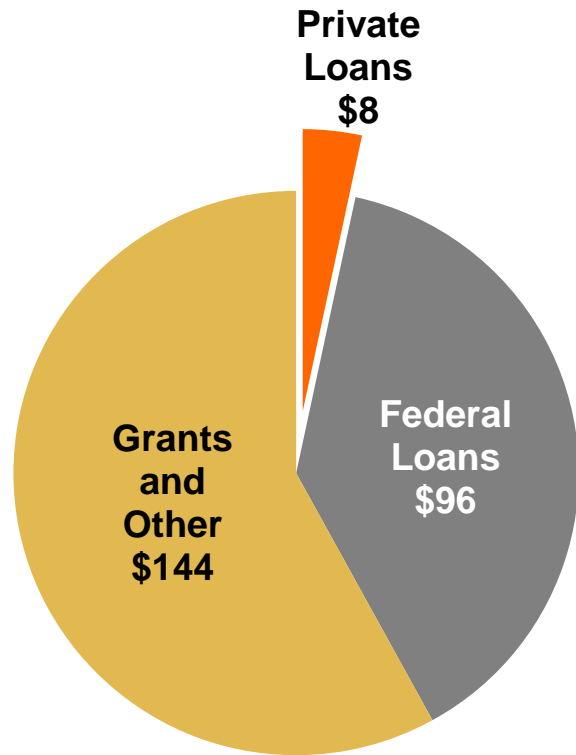
Source Public company data, calendar year

**Note(s)**

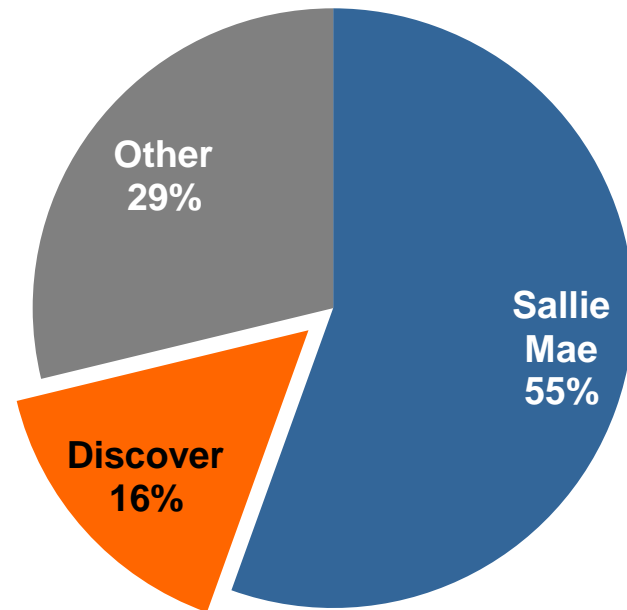
1. American Express (U.S. Card), Bank of America (U.S. Card), Capital One (U.S. Card), Citi (Citi-branded cards N.A.) and JP Morgan (Card Services excluding Commercial Card)
2. American Express (U.S. Card), Capital One (U.S. Card), Citi (Citi-branded cards N.A.) and JP Morgan (Card Services excluding Commercial Card)
3. Credit card pre-tax pre-reserve ROA is defined as pre-tax credit card income adjusted for loan loss reserve changes. Discover pre-tax income excludes 4Q14 charges related to the elimination of the credit card rewards estimated forfeiture reserve. This is a non-GAAP measure: see appendix for GAAP reconciliation

# Private Student Lending - Discover is one of the largest private student lenders

Academic Year 2013-2014  
Sources of Education Funding



Academic Year 2013-2014  
Private Loan Market Share<sup>(1)</sup>

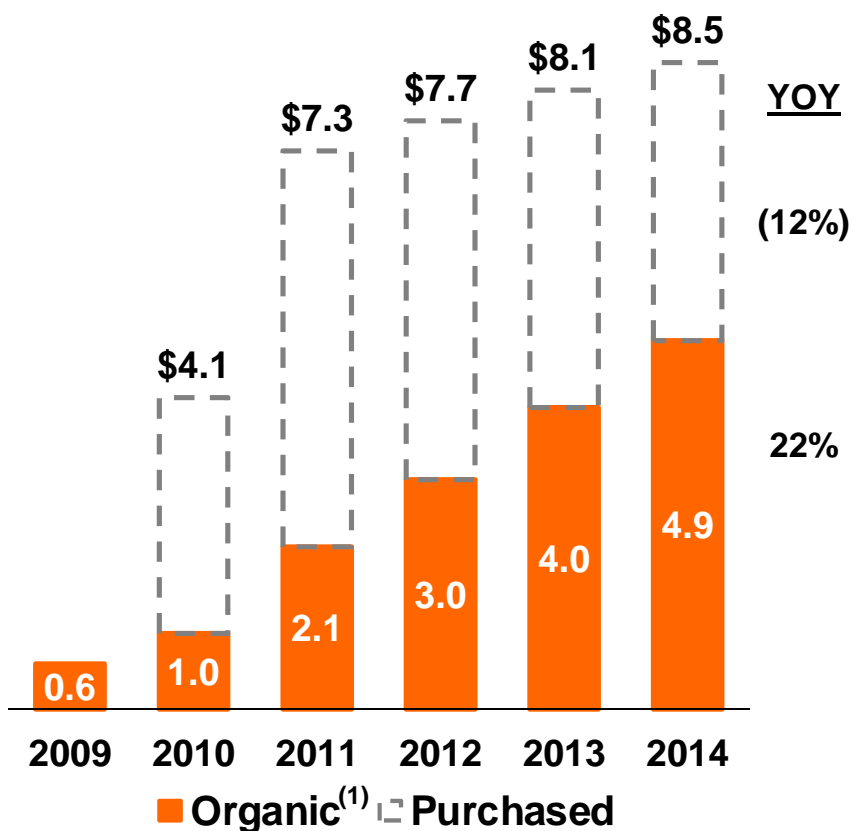


**Source** College Board, Trends in Student Aid (Preliminary 2013-2014 Academic Year); excludes family contribution

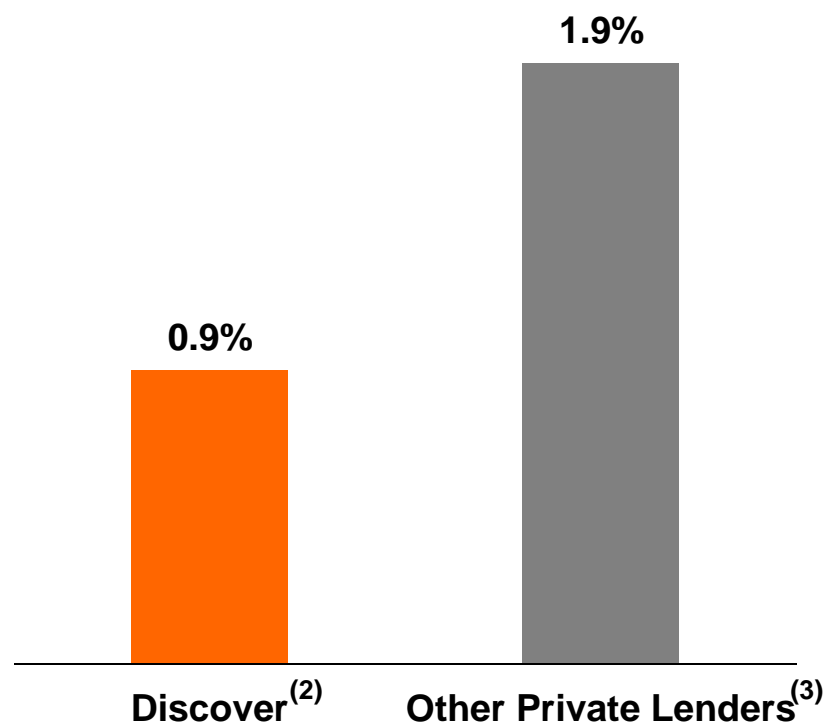
**Note(s)**  
1. Measure One Data provides industry-wide private student loan disbursements; Sallie Mae company reports

# Strong organic student loan growth with better credit performance

## Student Loan Receivables (\$Bn)



## 2014 Net Charge-off Rate (%)



**Note(s)**

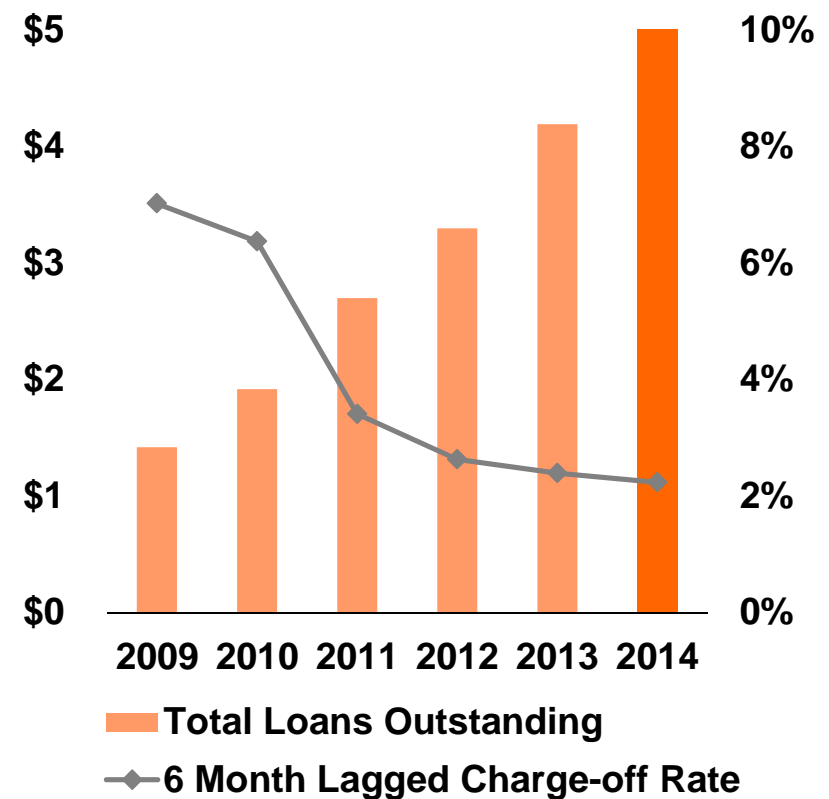
1. Includes CitiAssist branded originated loans for 2011 and 2012
2. Defined as 3Q14 annualized net losses divided by 3Q14 average managed contractual receivables, which is a non-GAAP measure; see appendix for a reconciliation
3. Based on MeasureOne industry net charge-off rates for 3Q14 annualized; Industry data includes: The First Marblehead Corporation, PNC Bank, RBS Citizens, Sallie Mae, Sun Trust Banks, Navient, and Wells Fargo Bank

# Personal Loans - Driving disciplined profitable growth

## Overview

- Good alternative for consolidating debt
- Typical installment loan characteristics:
  - 3-5 year term
  - 300-400bps rate reduction
  - Average FICO of ~750
- ~65% of portfolio has another Discover relationship
- Portfolio to date built almost entirely “by invitation only”

## Personal Loans (\$Bn)



# Payments -

## Increasing volume and acceptance

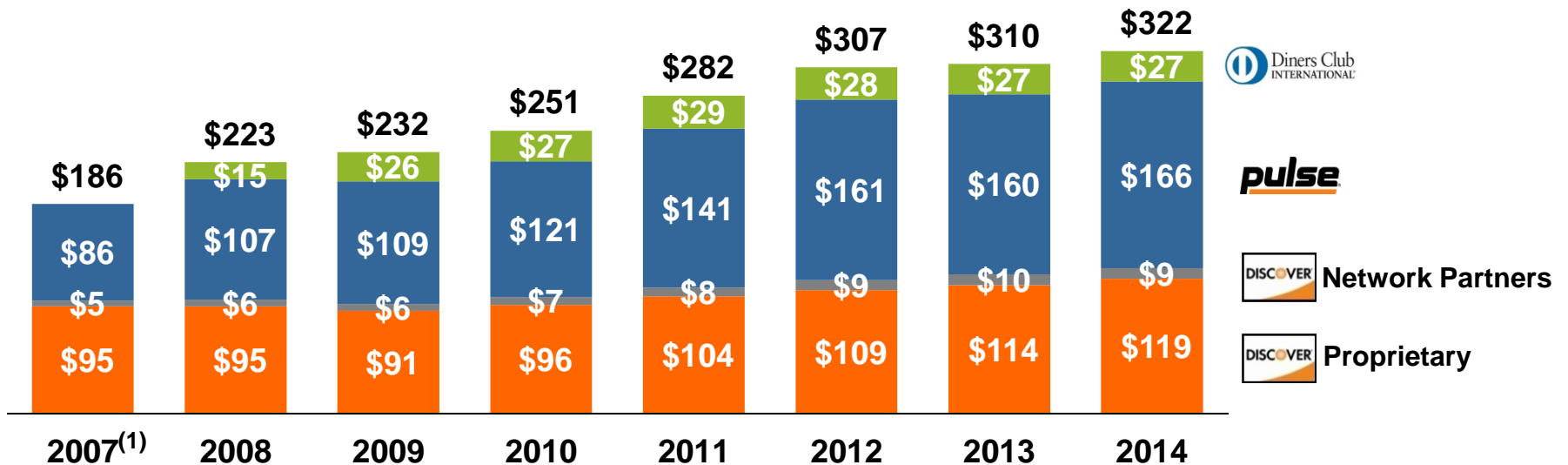
2007

2014

- \$186Bn volume
- 265,000+ ATMs
- 7MM+ acceptance locations
- Operated in 34 countries/territories

- \$322Bn volume
- 1.6MM+ ATMs
- 31MM+ acceptance locations
- Operates in 185+ countries/territories

Volume (\$Bn)

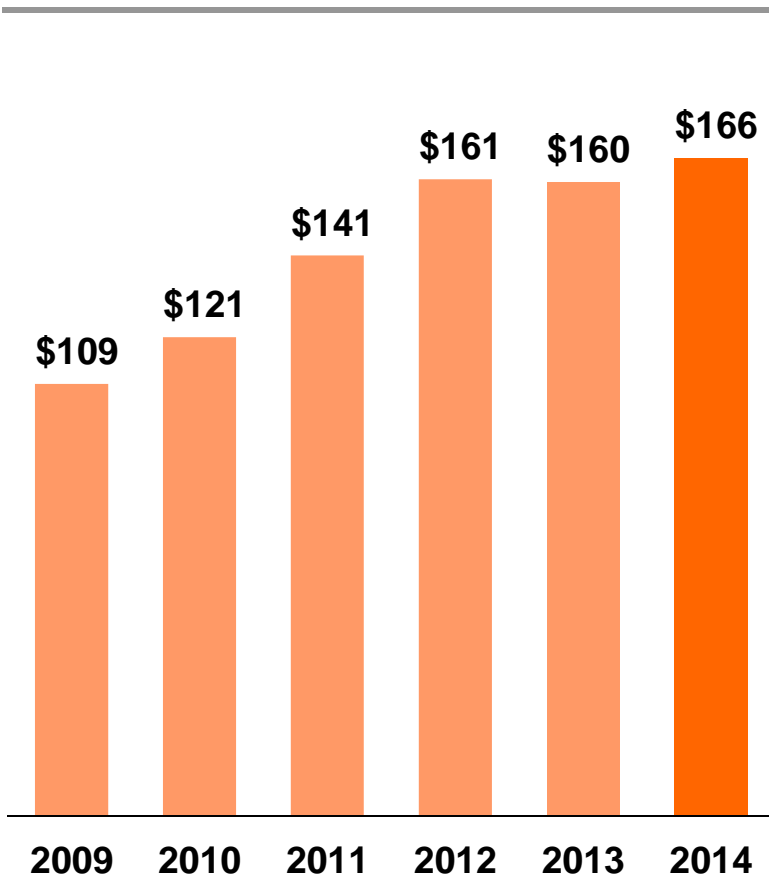


Note(s)  
1. Fiscal year ending November 30

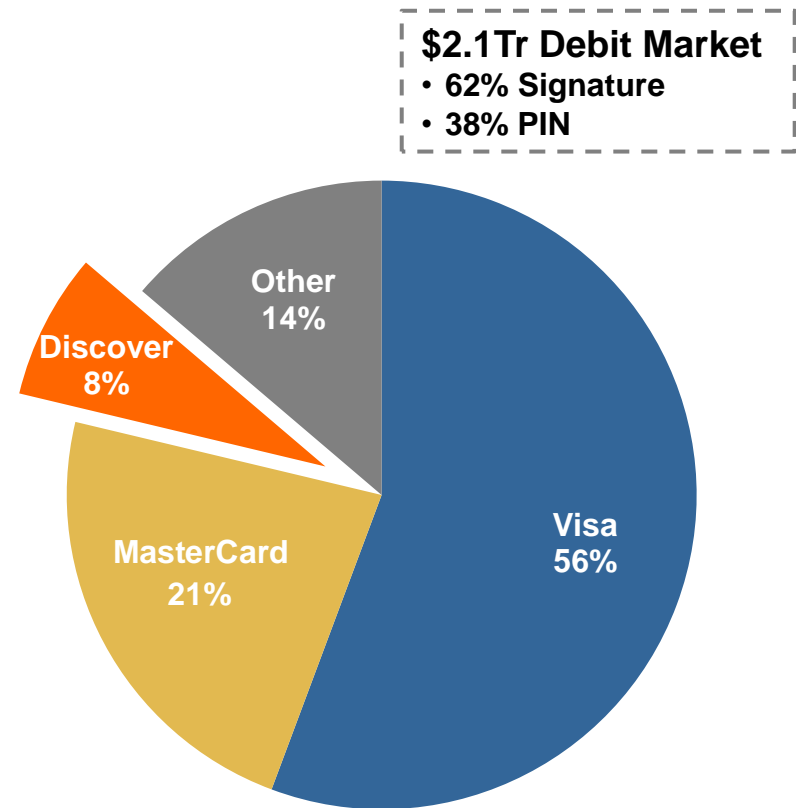
# PULSE -

## Participating in a highly competitive debit industry

PULSE Volume (\$Bn)



U.S. Debit Volume Share (%)



Source The Nilson Report 2013 Debit market; internal estimates

# Grow international partnerships in target markets

## Diners Club

Stabilize and transition



(Japan)



(Italy)

## Alliance Partners

Maximize growth



(China)



(Japan)



(S. Korea)

**DISCOVER**



Grow and expand



(China)



(Turkey)



(Mexico)

Expand in target markets



(India)



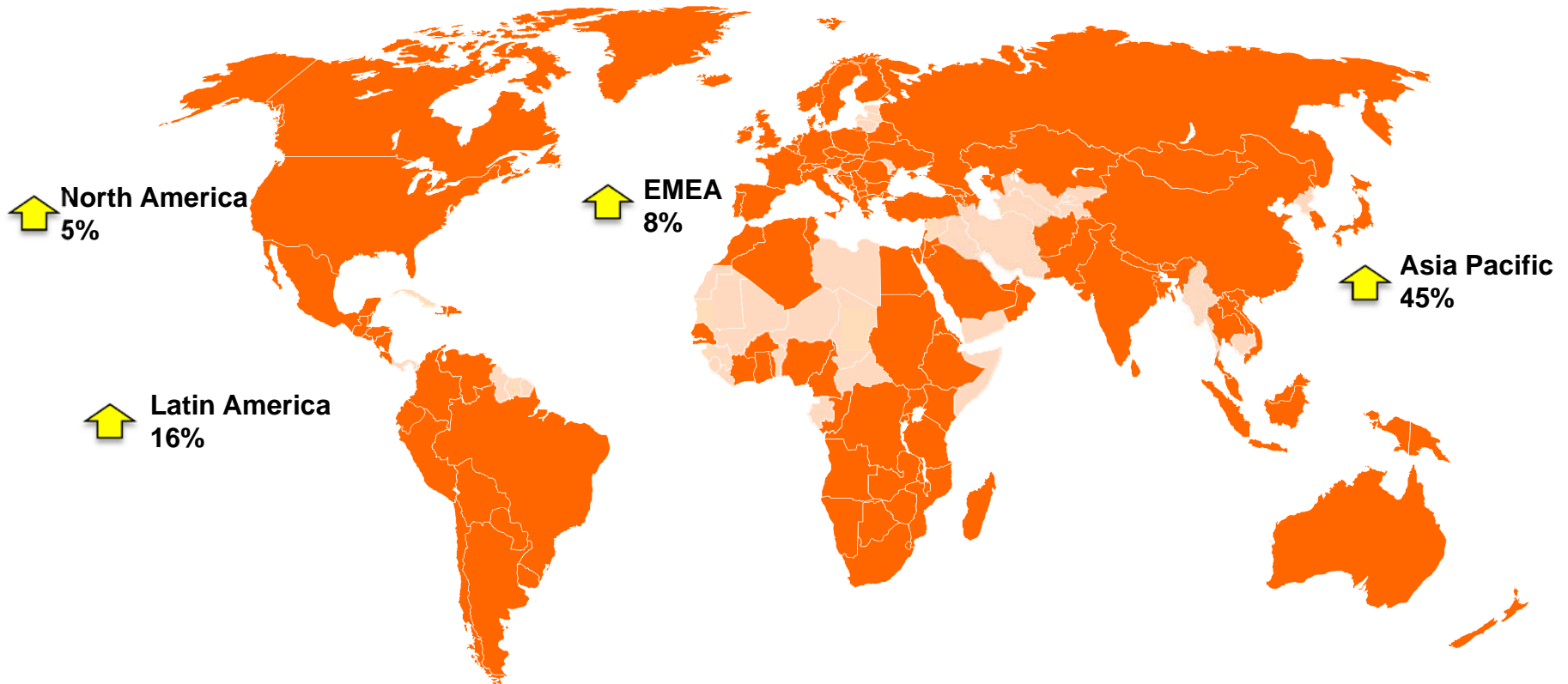
(Middle East)



(Canada)



# Growing global acceptance through network alliances



**Note(s)**

Map denotes countries/territories with transactions in the last year for Diners Club and/or Discover Network. Growth rates by region reflect 2014 change in merchant outlets

# 1Q15 Financial Performance

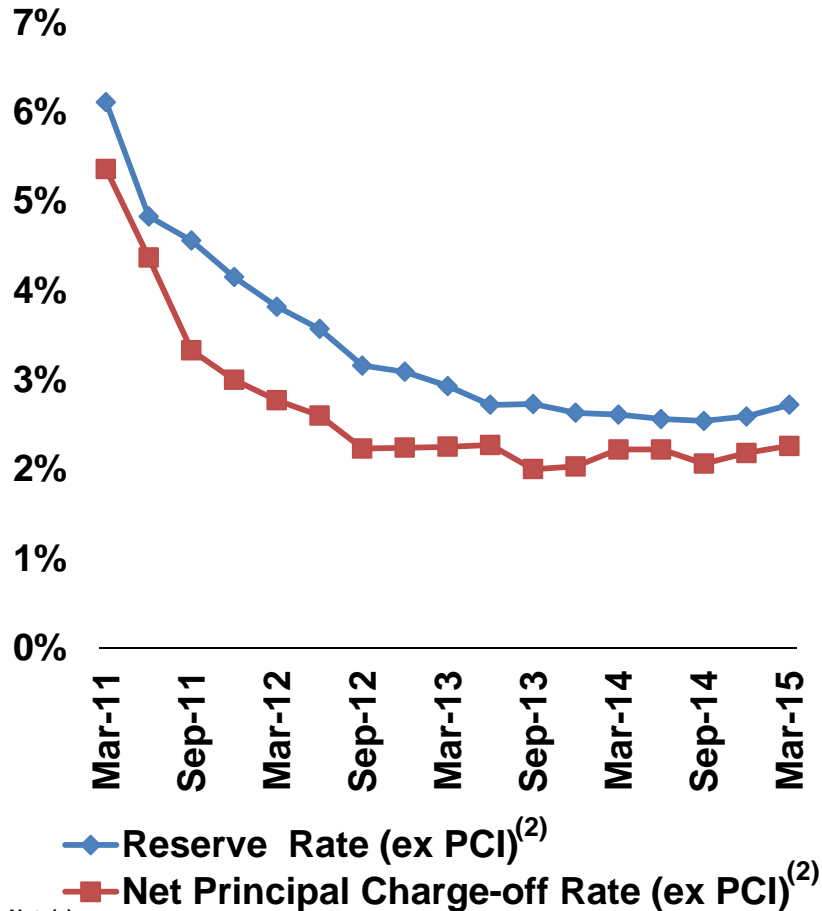
(\$MM, except per share data)	1Q15	1Q14	Better / (Worse)	
			\$ Δ	% Δ
Net Interest Income	\$1,629	\$1,563	\$66	4%
Other Operating Revenue	542	515	27	5%
Revenue Net of Interest Expense	2,171	2,078	93	4%
Net Principal Charge-Offs	360	329	(31)	(9%)
Reserve Changes build/(release)	30	(57)	(87)	(153%)
Provision for Loan Loss	390	272	(118)	(43%)
Operating Expenses	873	784	(89)	(11%)
<b>Pre-Tax, Pre-Provision Income<sup>(1)</sup></b>	<b>1,298</b>	<b>1,294</b>	<b>4</b>	<b>0%</b>
Pretax Income	908	1,022	(114)	(11%)
Net Income (Loss)	\$586	\$631	(\$45)	(7%)
<b>Diluted EPS</b>	<b>\$1.28</b>	<b>\$1.31</b>	<b>(\$0.03)</b>	<b>(2%)</b>
<b>ROE</b>	<b>21%</b>	<b>23%</b>		

**Note(s)**

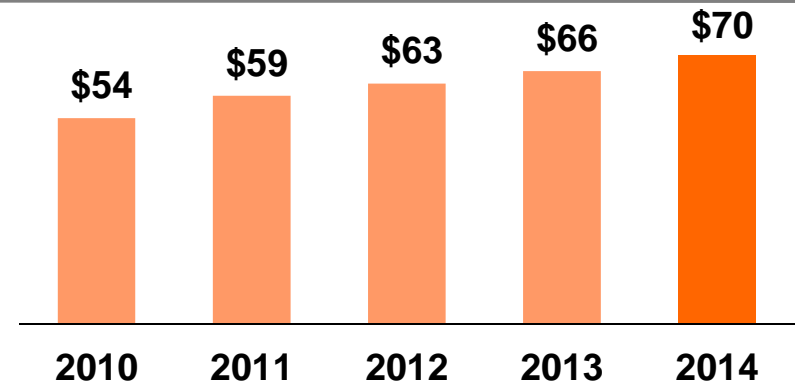
1. Pre-tax, pre-provision income, which is derived by adding provision for loan losses to pre-tax income, is a non-GAAP financial measure which should be viewed in addition to, and not as a substitute for, the Company's reported results. Management believes this information helps investors understand the effect of provision for loan losses on reported results and provides an alternate presentation of the Company's performance; see appendix for a reconciliation

# Total charge-offs remain low with provisioning driven by loan growth

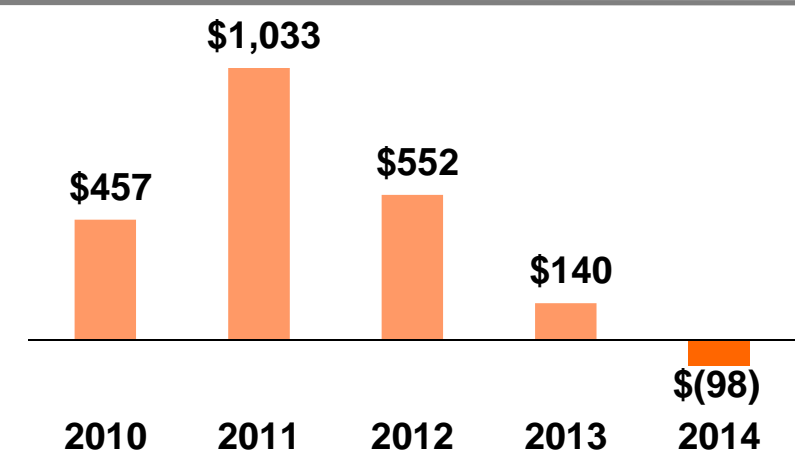
## Credit Trends<sup>(1)</sup>



## Total Loans (\$Bn)



## Reserve Release/(Build)

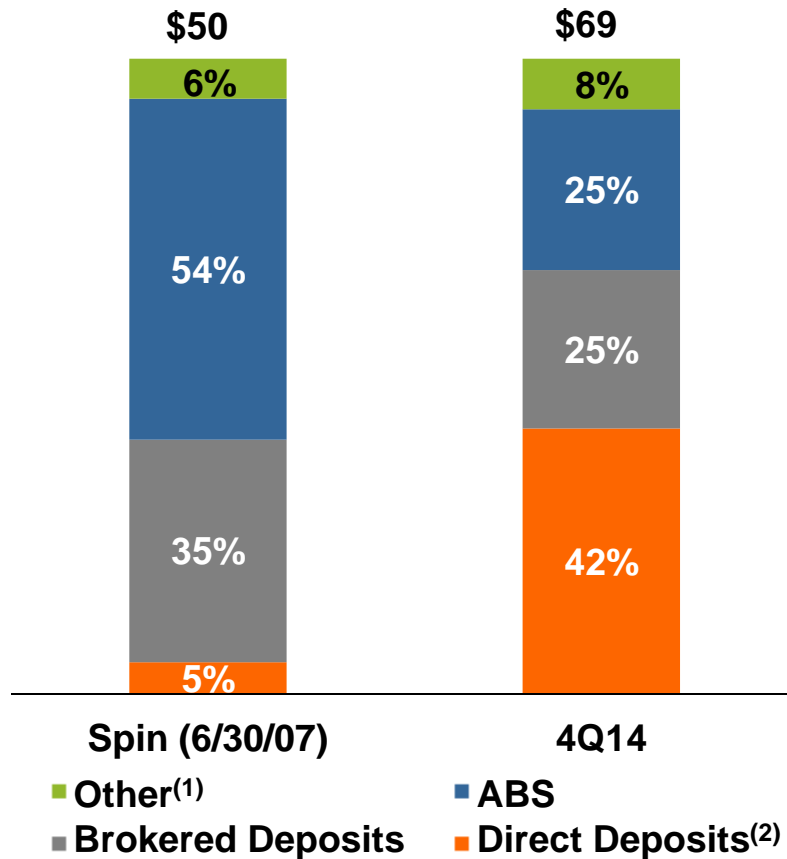


Note(s)

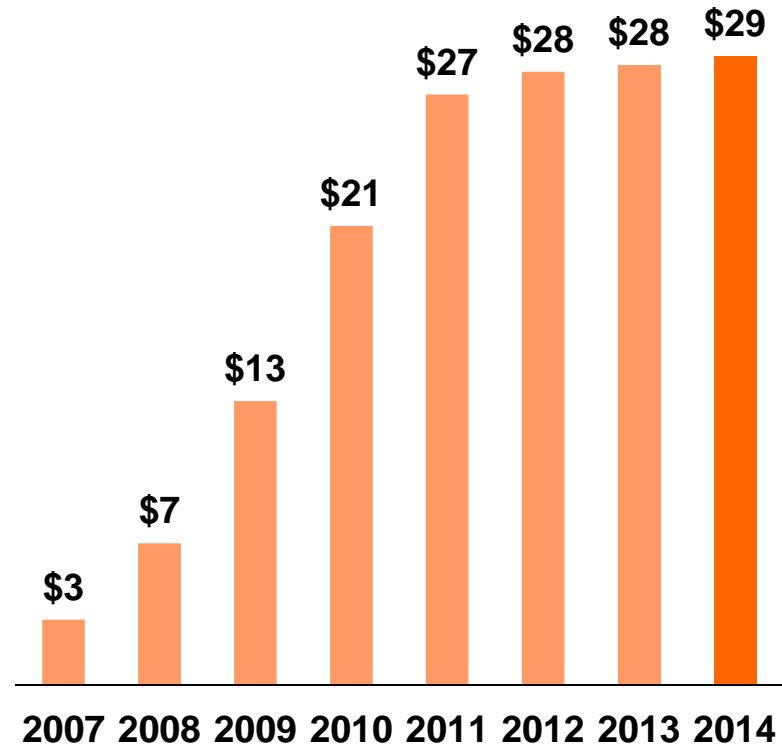
1. Excludes PCI loans which are accounted for on a pooled basis. Since a pool is accounted for as a single asset with a single composite interest rate and aggregate expectation of cash flows, the past-due status of a pool, or that of the individual loans within a pool, is not meaningful. Because the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

# Continuing to strengthen and diversify funding sources

Funding Mix (\$Bn)



Direct-to-Consumer Deposits (\$Bn)<sup>(2)</sup>

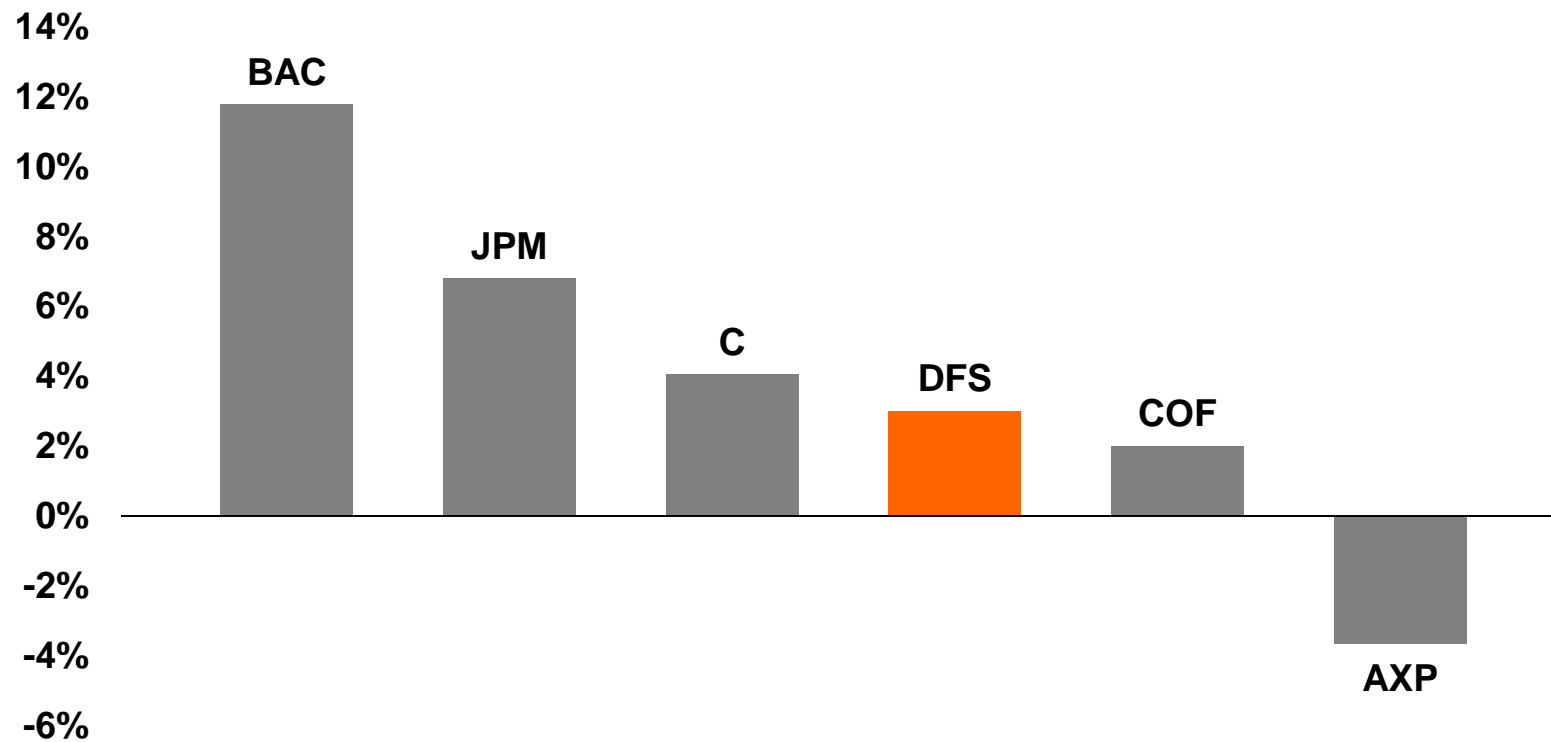


**Note(s)**

- 1. Includes unsecured debt and other funding
- 2. Includes affinity deposits

# Discover is slightly asset sensitive

## 1-Year Net Interest Income Impact from 100bps Parallel Shift<sup>(1)</sup>



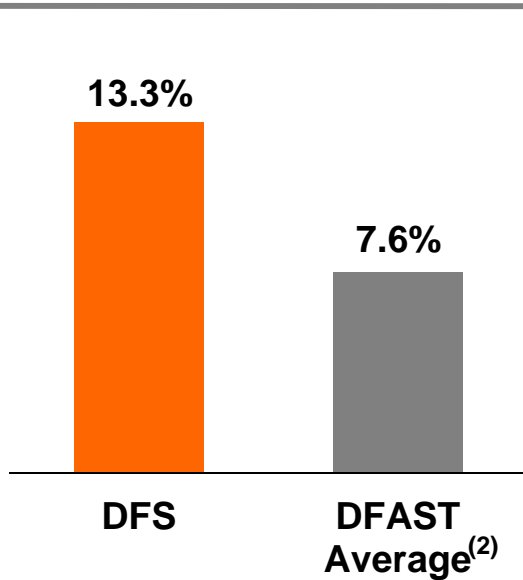
Source 1Q15 Company disclosures

**Note(s)**

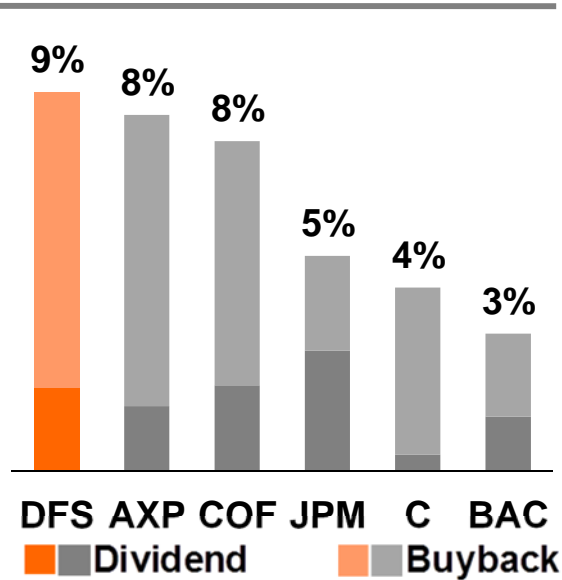
1. Calculated based on reported net interest income impact divided by period ending net interest income. Capital One (COF) estimated using 200 basis point parallel shift divided by 2 to approximate 100 basis point parallel shift

# Strong capital levels allow for significant capital returns

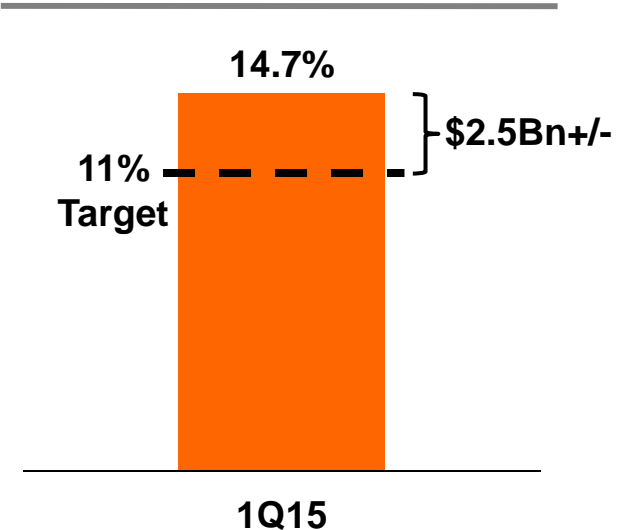
Min. Common Equity Tier 1 Capital Ratio<sup>(1)</sup>



Estimated Dividend and Buyback Yield<sup>(3)</sup>



DFS Common Equity Tier 1 Ratio<sup>(4)</sup>



Source Federal Reserve Dodd-Frank Act Stress Test 2015: Supervisory Stress Test Methodology and Results, Table 3

Source Public Company Disclosures

**Note(s)**

1. Minimum Common Equity Tier 1 Capital Ratio under the severely adverse scenario
2. Average of 31 participating bank holding companies as reported by the Federal Reserve
3. CCAR announced capital actions (buybacks and dividends) pro-rated for four quarters ending 1Q16 divided by market capitalization as of 4/30/15
4. Common Equity Tier 1 Capital Ratio (Basel III fully phased-in) is calculated using Basel III fully phased-in common equity tier 1 capital, a non-GAAP measure. The Company believes that the common equity tier 1 capital ratio based on fully phased-in Basel III rules is an important complement to the existing capital ratios and for comparability to other financial institutions. For the corresponding reconciliation of common equity tier 1 capital and risk weighted assets calculated under fully phased-in Basel III rules to common equity tier 1 capital and risk weighted assets calculated under Basel III transition rules, see appendix

# Appendix

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## Reconciliation of GAAP to non-GAAP data

(unaudited, \$ in millions)	Twelve Months Ended 12/31/14
GAAP Direct Banking pre-tax income	\$3,605
Excluding non-credit card pre-tax income	228
Credit card pre-tax income	<u>\$3,377</u>
Excluding elimination of credit card rewards program forfeiture reserve	178
Excluding credit card reserve changes	68
Credit card pre-tax income excluding forfeiture reserve and reserve changes	<u><u>\$3,623</u></u>
GAAP average credit card receivables	\$52,600
Credit card pre-tax return on assets (excluding forfeiture reserve and reserve changes) <sup>(1)</sup>	6.9%

**Note**

1. Credit card pre-tax return on assets excluding the forfeiture reserve elimination and loss reserve changes is a non-GAAP measure and represents pre-tax earnings of Discover's U.S. credit card business excluding the impact of the elimination of the credit card rewards program forfeiture reserve and changes to the allowance for loan loss reserve. Credit card pre-tax return on assets excluding the forfeiture reserve elimination and loss reserve changes is a meaningful measure to investors because it provides a competitive performance benchmark



## Reconciliation of GAAP to non-GAAP data (cont'd)

(unaudited, \$ in billions)	Quarter Ended 9/30/2014
GAAP Recorded Balance Purchased (Private) Credit Impaired Student Loans (average loans)	\$3.9
Adjustment for Purchase Accounting	0.2
Contractual Value Purchased (Private) Credit Impaired Student Loans (average loans) <sup>(1)</sup>	\$4.1
GAAP Private Student Loans (average loans)	4.5
Contractual Value Private Student Loans (average loans) <sup>(1)</sup>	\$8.6

(unaudited, \$ in millions)	Quarter Ended 9/30/2014
GAAP Private Student Loan Net Principal Charge-offs	\$12.8
Adjustment for Purchased (Private) Credit Impaired Student Loans Net Principal Charge-offs	6.1
Contractual Private Student Loan Net Principal Charge-offs <sup>(2)</sup>	\$18.9

Contractual Net Charge-off Rate	0.9%
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### Note(s)

1. The contractual value of the purchased private student loan portfolio is a non-GAAP measure and represents purchased private student loans excluding the purchase accounting discount. The contractual value of the private student loan portfolio is meaningful to investors to understand total outstanding loan balances without the purchase accounting discount
2. Contractual private student loan net principal charge-offs is a non-GAAP measure and include net charge-offs on purchase credit impaired loans. Under GAAP any losses on such loans are charged against the nonaccretable difference established in purchased credit impaired accounting and are not reported as charge-offs. Contractual net principal charge-offs is meaningful to investors to see total portfolio losses

## Reconciliation of GAAP to non-GAAP data (cont'd)

(unaudited, in millions)	Quarter Ended	
	3/31/15	3/31/14
Provision for loan losses	\$390	\$272
Income before income taxes	908	1,022
Pre-tax, pre-provision income <sup>(1)</sup>	<u>\$1,298</u>	<u>\$1,294</u>

**Note**

1. Pre-tax, pre-provision income, which is derived by adding provision for loan losses to pre-tax income, is a non-GAAP financial measure which should be viewed in addition to, and not as a substitute for, the company's reported results. Management believes this information helps investors understand the effect of provision for loan losses on reported results and provides an alternate presentation of the company's performance

## Reconciliation of GAAP to non-GAAP data (cont'd)

(unaudited, \$ in millions)	Quarter Ended 3/31/15
Common equity Tier 1 capital (Basel III transition)	\$10,497
Adjustments related to capital components during transition <sup>(1)</sup>	(87)
Common equity Tier 1 capital (Basel III fully phased-in)	<u>\$10,410</u>
Risk weighted assets (Basel III transition)	\$70,868
Risk weighted assets (Basel III fully phased-in) <sup>(2)</sup>	\$70,762
Common equity Tier 1 capital ratio (Basel III transition) <sup>(3)</sup>	14.8%
Common equity Tier 1 capital ratio (Basel III fully phased-in) <sup>(3,4)</sup>	14.7%

### Note(s)

- Adjustments related to capital components for fully phased-in Basel III include the phase-in of the intangible asset exclusion
- Key differences under fully phased-in Basel III rules in the calculation of risk-weighted assets include higher risk weighting for past due loans and unfunded commitments
- As of January 1, 2015 regulatory capital ratios are calculated under Basel III rules subject to transition provisions. We reported under Basel I at December 31, 2014, September 30, 2014, June 30, 2014 and March 31, 2014
- Common equity tier 1 capital ratio (Basel III fully phased-in) is calculated using common equity tier 1 capital (Basel III fully phased-in), a non-GAAP measure, divided by risk weighted assets (Basel III fully phased-in)