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2Q17 Financial Results

July 26, 2017

Notice

The following slides are part of a presentation by Discover Financial Services (the "Company") in connection with reporting quarterly financial results and are intended to be viewed as part of that presentation. No representation is made that the information in these slides is complete. For additional financial, statistical, and business related information, as well as information regarding business and segment trends, see the earnings release and financial supplement included as exhibits to the Company's Current Report on Form 8-K filed today and available on the Company's website (www.discover.com) and the SEC's website (www.sec.gov).

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 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, 2016, and under "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, 2017, which are filed with the SEC and available at the SEC's website (www.sec.gov). The Company does not undertake to update or revise forward-looking statements as more information becomes available.

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Vision, Strategic Objectives and Goal

Vision

Be the leading direct bank and payments partner

Focus areas and strategic objectives

Achieve profitable, disciplined growth

- Excel at serving our customers; simple, secure experience with deep relationships
- Offer differentiated products
- Leverage payments network

Invest for the future

- Build awareness and consideration
- Enhance capabilities and operating model

Manage risk prudently

Goal

Create long-term shareholder value

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2Q17 Highlights

- Delivered net income of $546MM, diluted EPS of $1.40 and 9% revenue growth YOY
- Achieved 8% total loan growth YOY with good momentum across all primary lending products (credit cards, private student and personal loans)
- Held the line on operating expenses, despite strong loan growth
- Remained disciplined on risk-adjusted returns with 19% return on equity
- Managed rewards rate lower (-1 bp YOY and -5 bps QOQ)
- Increased Payment Services volume rate of growth (up 12% YOY)
- Announced 2017-2018 capital plan, raising quarterly common dividend $0.05 to $0.35 per share and planning to purchase $2.23Bn of common shares over four quarters

2Q17 Summary Financial Results

($MM, except per share data)	2Q17	2Q16	B / (W) $ Δ	B / (W) % Δ
Revenue Net of Interest Expense	$2,419	$2,216	$203	9%
Net Principal Charge-off	520	384	(136)	(35%)
Reserve Changes build/(release)	120	28	(92)	(329%)
Provision for Loan Losses	640	412	(228)	(55%)
Operating Expense	912	906	(6)	(1%)
Direct Banking	831	868	(37)	(4%)
Payment Services	36	30	6	20%
Total Pre-Tax Income	867	898	(31)	(3%)
Income Tax Expense	321	282	(39)	(14%)
Net Income	$546	$616	($70)	(11%)
ROE	**19%**	**22%**		
Diluted EPS	**$1.40**	**$1.47**	**($0.07)**	**(5%)**
Pre-Tax, Pre-Provision Income [1]	$1,507	$1,310	$197	15%

Highlights

- Diluted EPS of $1.40, down 5% YOY (2Q16 included a non-recurring tax benefit of $0.11 per share)
- Revenue net of interest expense of $2.4Bn, up 9% YOY, driven by higher net interest income
- Provision for loan losses increased $228MM YOY (55%) on higher net charge-offs and a reserve build
- Expenses rose just 1%, primarily from higher compensation and benefits

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

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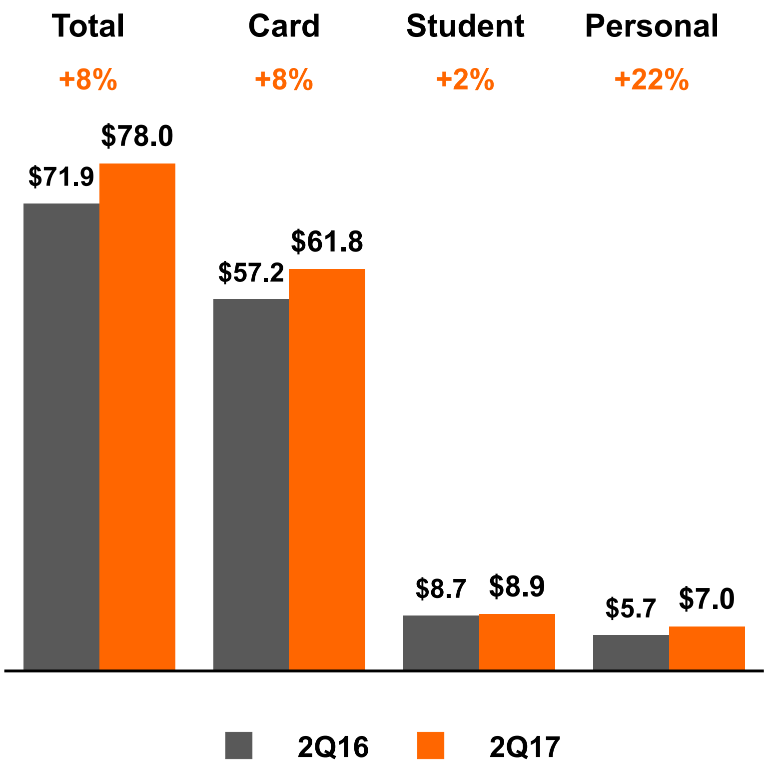
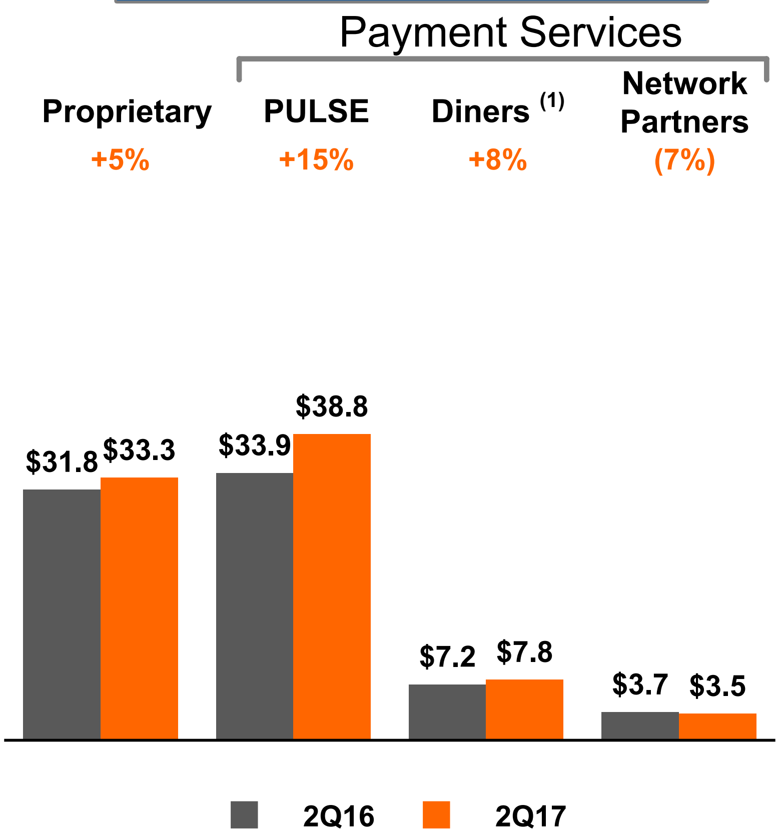
2Q17 Loan and Volume Growth

Ending Loans ($Bn)



Volume ($Bn)



Total Network Volume up 9% YOY

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

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2Q17 Revenue Detail

($MM)	2Q17	2Q16	B / (W) $ Δ	B / (W) % Δ
Interest Income	$2,338	$2,090	$248	12%
Interest Expense	400	339	(61)	(18%)
Net Interest Income	1,938	1,751	187	11%
Discount/Interchange Revenue	666	636	30	5%
Rewards Cost	388	371	(17)	(5%)
Net Discount/Interchange Revenue	278	265	13	5%
Protection Products Revenue	56	59	(3)	(5%)
Loan Fee Income	83	79	4	5%
Transaction Processing Revenue	42	39	3	8%
Other Income	22	23	(1)	(4%)
Total Non-Interest Income	481	465	16	3%
Revenue Net of Interest Expense	$2,419	$2,216	$203	9%
Direct Banking	$2,346	$2,147	$199	9%
Payment Services	73	69	4	6%
Revenue Net of Interest Expense	$2,419	$2,216	$203	9%

($MM)	2Q17	2Q16	Change QOQ	Change YOY
Discover Card Sales Volume	$32,172	$30,702	10%	5 %
Rewards Rate [1]	1.20%	1.21%	-5 bps	-1 bp

Highlights

- Net interest income of $1.9Bn, up 11% YOY on higher loan growth and modest NIM expansion
- Net discount and interchange revenue increased $13MM (5%) on increased card sales
- Rewards rate decreased 1 bp YOY, driven by lower promotional rewards

Note(s)
1. Rewards cost divided by Discover card sales volume

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2Q17 Net Interest Margin

($MM)	2Q17 Average Balance	2Q17 Rate	2Q16 Average Balance	2Q16 Rate
Credit Card	$60,700	12.66%	$56,124	12.42%
Private Student	9,020	7.45%	8,816	7.13%
Personal	6,820	12.22%	5,608	12.25%
Other	314	5.59%	262	5.04%
Total Loans	76,854	11.98%	70,810	11.72%
Other Interest-Earnings Assets	15,175	1.11%	14,562	0.71%
Total Interest-Earnings Assets	$92,029	10.19%	$85,372	9.84%
Direct to Consumer and Affinity	$36,956	1.29%	$33,215	1.22%
Brokered Deposits and Other	15,600	2.07%	14,740	1.78%
Interest Bearing Deposits	52,556	1.52%	47,955	1.39%
Borrowings	26,122	3.09%	24,621	2.82%
Total Interest-Bearing Liabilities	$78,678	2.04%	$72,576	1.88%

(%)	2Q17	Change QOQ	Change YOY
Total Interest Yield	11.98%	4bps	26bps
NIM on Receivables	10.11%	4bps	17bps
NIM on Interest-Earning Assets	8.44%	14bps	19bps

Highlights

- Net interest margin on receivables increased 17bps YOY on higher card yield and portfolio mix, partially offset by higher charge-offs and funding costs
- Credit card yield increased 24bps YOY as the prime rate increased, partially offset by higher interest charge-offs
- Average consumer deposits grew 11% YOY and composed 47% of total average funding
- Funding costs on interest-bearing liabilities increased 16bps YOY, driven by higher market rates and funding mix

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2Q17 Operating Expense Detail

($MM)	2Q17	2Q16	B / (W) $ Δ	B / (W) % Δ
Employee Compensation and Benefits	$367	$340	($27)	(8%)
Marketing and Business Development	192	198	6	3%
Information Processing & Communications	77	89	12	13%
Professional Fees	156	150	(6)	(4%)
Premises and Equipment	23	23	0	—%
Other Expense	97	106	9	8%
Total Operating Expense	$912	$906	($6)	(1%)
Direct Banking	876	868	($8)	(1%)
Payment Services	36	38	2	5%
Total Operating Expense	$912	$906	($6)	(1%)
Operating Efficiency[1]	**37.7%**	**40.9%**		**320 bps**
Adjusted Operating Efficiency[2]	**37.7%**	**40.3%**		**260 bps**

Highlights

- Employee compensation and benefits up 8% YOY, primarily on higher staffing levels driven by increased compliance headcount
- Information processing down 13% YOY, primarily from infrastructure efficiencies
- Operating efficiency improved 320 bps on expense discipline and completion of certain AML projects

Note(s)

1. Defined as reported total operating expense divided by revenue net of interest expense
2. 2Q16 operating efficiency ratio adjusted for $12 million in look back related anti-money laundering remediation expenses. Management believes adjusted operating efficiency, which is a non-GAAP measure, helps investors understand the effect of activities that are not expected to continue and provides investors with a useful metric to evaluate the company's ongoing operating performance; see appendix for a reconciliation

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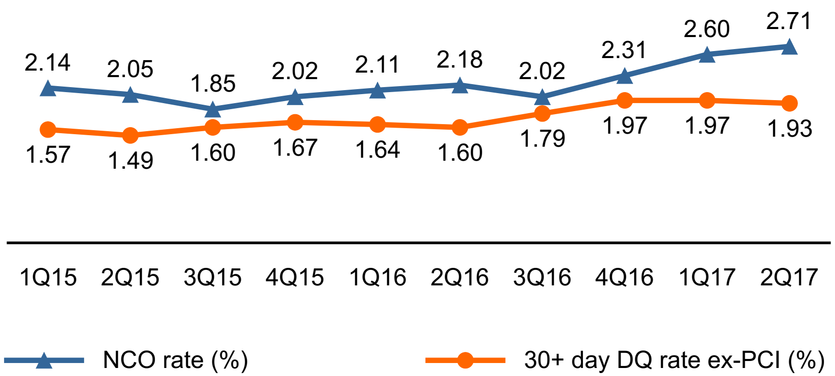
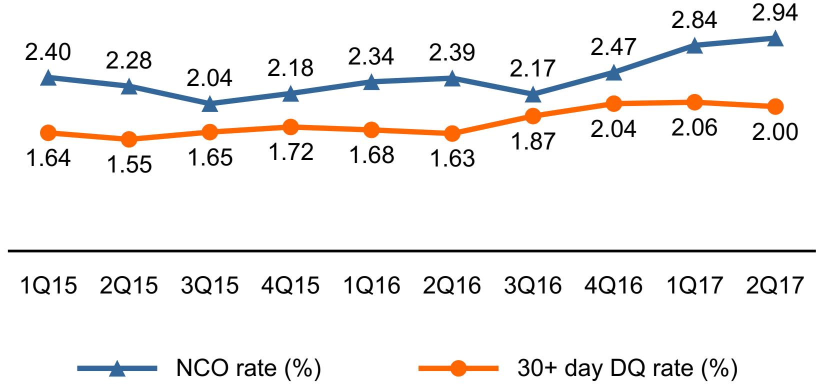
Credit Performance Trends

Total Company Loans

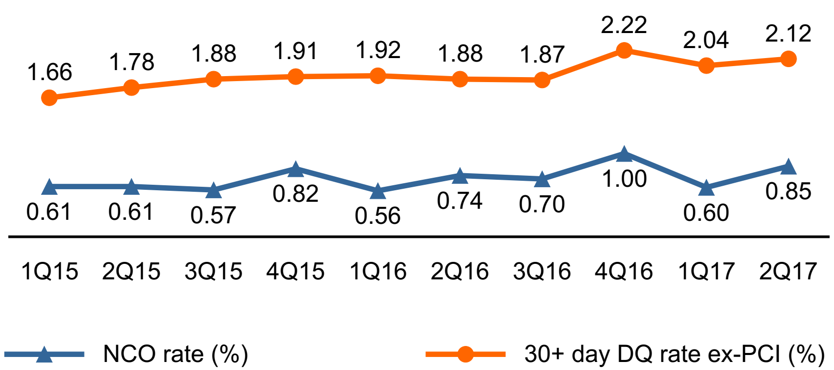
Revised 2017 NCO guidance: 2.7 - 2.8%



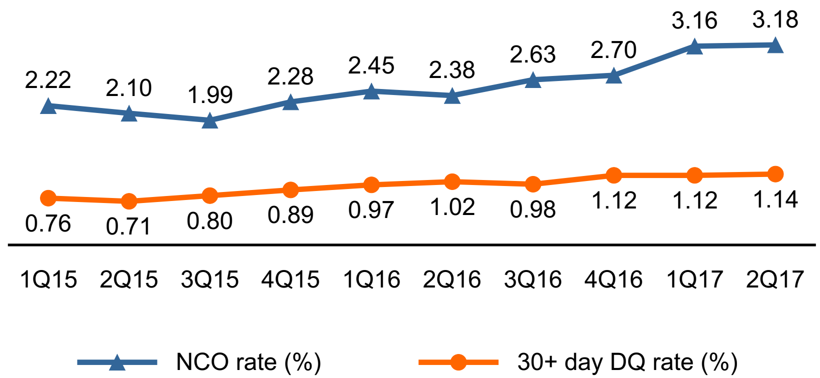
Credit Card Loans



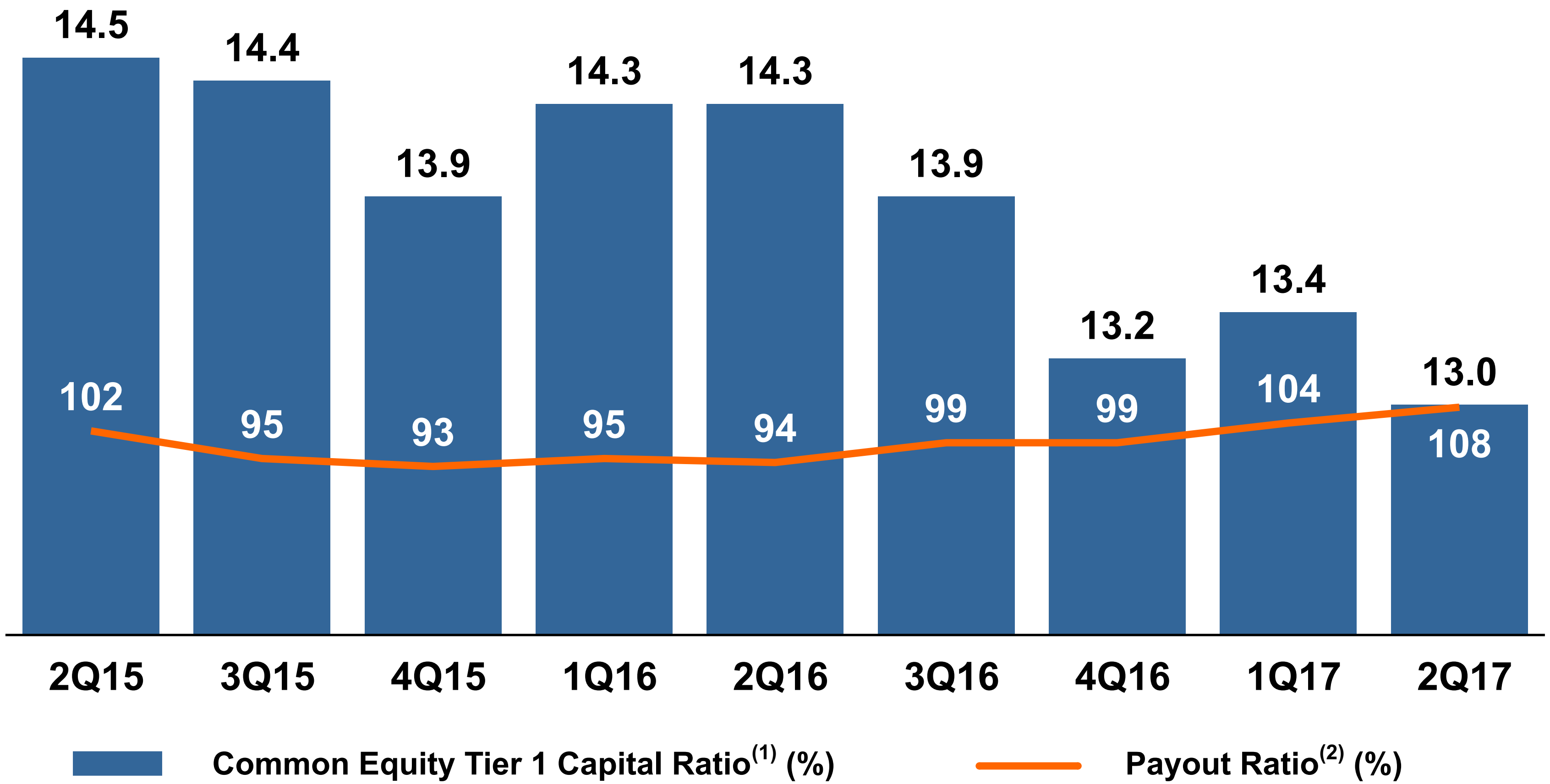
Private Student Loans



Personal Loans



Capital Trends



Note(s)

1. Common Equity Tier 1 Capital Ratio (Basel III Transition)
2. Payout Ratio is displayed on a trailing twelve month basis. This represents the trailing twelve months' Capital Return to Common Stockholders divided by the trailing twelve months' Net Income Allocated to Common Stockholders

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2Q17 Financial Summary

Profitability

- Net income of $546MM and diluted EPS of $1.40
- Revenue growth of 9% on higher net interest income
- NIM of 10.11%, up 17bps YOY
- Return on equity remains strong at 19%
- Efficiency ratio improved 3pp YOY to 38%

Balance Sheet

- Total loans grew 8% ($6.1Bn) YOY with strong contributions from all primary lending products
- Credit card loans grew 8% ($4.6Bn) YOY as sales volume increased 5%
- Average consumer deposits grew 11% ($3.7Bn) YOY as deposit rates increased slightly

Credit and Capital

- Total NCO rate of 2.71%, up 53 bps YOY
  - Driven by supply-induced credit normalization and loan seasoning
  - Revised 2017 guidance to 2.7 - 2.8%
- Capital plan announced for 3Q17 - 2Q18:
  - Raised quarterly common dividend $0.05 to $0.35/share
  - Planned gross share repurchases of $2.23Bn

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Appendix

Reconciliation of GAAP to Non-GAAP Data

(unaudited, $MM)	2Q17	2Q16
Provision for loan losses	$640	$412
Income before income taxes	867	898
Pre-tax, pre-provision income[(1)]	**$1,507**	**$1,310**
Revenue net of interest expense	$2,419	$2,216
Total operating expense	912	906
Excluding anti-money laundering and related compliance program expenses	—	12
Adjusted operating expense	$912	$894
Adjusted Operating Efficiency[(2)]	**37.7%**	**40.3%**

Note(s)

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2. Adjusted operating efficiency, which is a non-GAAP measure, helps investors understand the effect of activities that are not expected to continue and provides investors with a useful metric to evaluate the company’s ongoing operating performance

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