



3Q17 Financial Results
October 24, 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 quarters ended June 30, 2017, and 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.

3Q17 Highlights

- Delivered net income of \$602MM, diluted EPS of \$1.59 and 10% revenue growth YOY
- Achieved 9% total loan growth YOY with solid gains across all primary lending products (credit cards, private student and personal loans)
- Net interest margin up 29 bps YOY to 10.28%
- Continued to drive positive operating leverage
- Increased Payment Services volume rate of growth (up 16% YOY)
- Remained disciplined on risk-adjusted returns with 22% return on equity
- Returned \$667MM of capital through dividends and share repurchases

3Q17 Summary Financial Results

| (\$MM, except per share data) | 3Q17 | 3Q16 | B / (W) | |
|--|---------------|---------------|---------------|-----------|
| | | | \$ Δ | % Δ |
| Revenue Net of Interest Expense | \$2,525 | \$2,301 | \$224 | 10% |
| Net Principal Charge-off | 527 | 370 | (157) | (42%) |
| Reserve Change build/(release) | 147 | 75 | (72) | (96%) |
| Provision for Loan Losses | 674 | 445 | (229) | (51%) |
| Operating Expense | 948 | 895 | (53) | (6%) |
| Direct Banking | 867 | 931 | (64) | (7%) |
| Payment Services | 36 | 30 | 6 | 20% |
| Total Pre-Tax Income | 903 | 961 | (58) | (6%) |
| Income Tax Expense | 301 | 322 | 21 | 7% |
| Net Income | \$602 | \$639 | (\$37) | (6%) |
| ROE | 22% | 23% | | |
| Diluted EPS | \$1.59 | \$1.56 | \$0.03 | 2% |
| Pre-Tax, Pre-Provision Income ⁽¹⁾ | \$1,577 | \$1,406 | \$171 | 12% |

Highlights

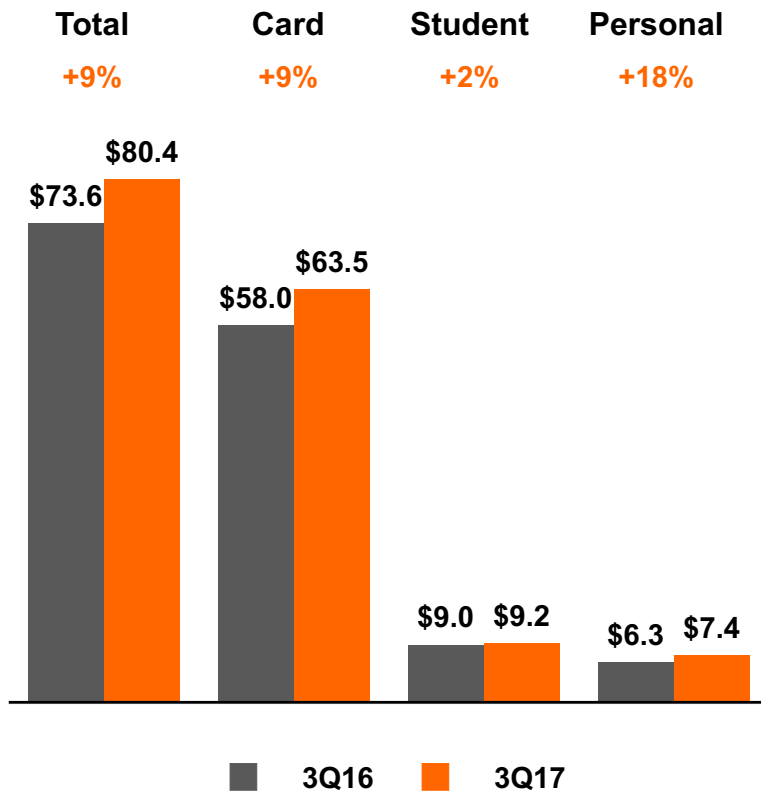
- Diluted EPS of \$1.59, up 2% YOY
- Revenue net of interest expense of \$2.5Bn, up 10% YOY, driven by higher net interest income
- Provision for loan losses increased \$229MM YOY (51%) on higher net charge-offs and a larger reserve build
- Expenses rose 6%, primarily from higher compensation and professional fees
- Income tax expense of \$301MM was lower by 7% YOY. Both 3Q16 and 3Q17 include a tax benefit of \$28MM

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

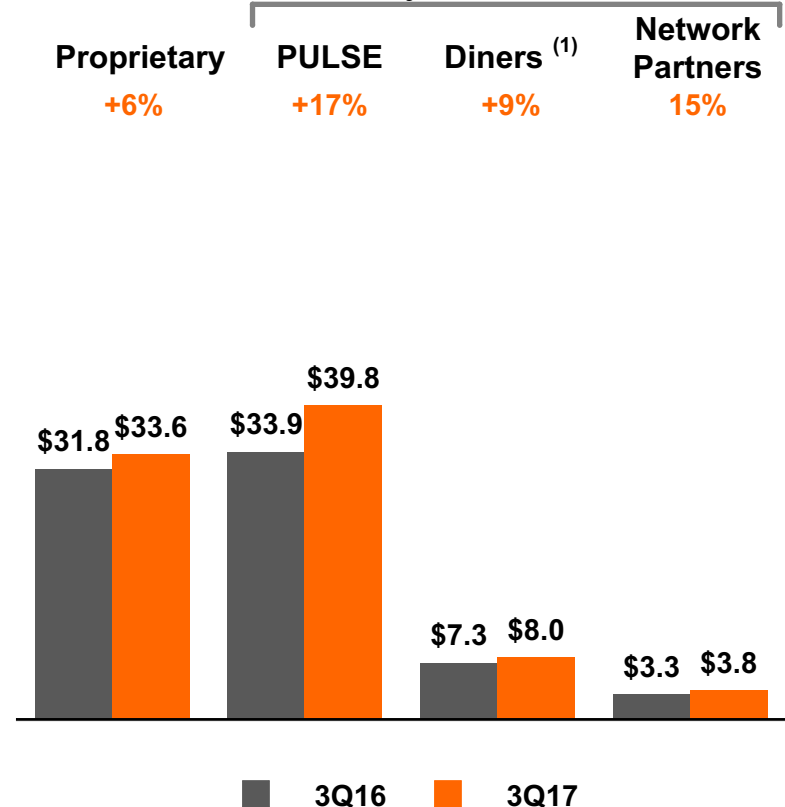
3Q17 Loan and Volume Growth

Ending Loans (\$Bn)



Volume (\$Bn)

Payment Services



Total Network Volume up 12% 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

3Q17 Revenue Detail

| (\$MM) | 3Q17 | 3Q16 | B / (W) | |
|----------------------------------|----------------|----------------|--------------|------------|
| | | | \$ Δ | % Δ |
| Interest Income | \$2,476 | \$2,184 | \$292 | 13% |
| Interest Expense | 426 | 359 | (67) | (19%) |
| Net Interest Income | 2,050 | 1,825 | 225 | 12% |
| Discount/Interchange Revenue | 675 | 631 | 44 | 7% |
| Rewards Cost | 417 | 368 | (49) | (13%) |
| Net Discount/Interchange Revenue | 258 | 263 | (5) | (2%) |
| Protection Products Revenue | 55 | 60 | (5) | (8%) |
| Loan Fee Income | 95 | 91 | 4 | 4% |
| Transaction Processing Revenue | 43 | 40 | 3 | 8% |
| Other Income | 24 | 22 | 2 | 9% |
| Total Non-Interest Income | 475 | 476 | (1) | —% |
| Revenue Net of Interest Expense | <u>\$2,525</u> | <u>\$2,301</u> | <u>\$224</u> | <u>10%</u> |
| Direct Banking | \$2,451 | \$2,233 | \$218 | 10% |
| Payment Services | 74 | 68 | 6 | 9% |
| Revenue Net of Interest Expense | <u>\$2,525</u> | <u>\$2,301</u> | <u>\$224</u> | <u>10%</u> |

| (\$MM) | 3Q17 | 3Q16 | Change | |
|-----------------------------|----------|----------|--------|--------|
| | | | QOQ | YOY |
| Discover Card Sales Volume | \$32,161 | \$30,683 | —% | 5% |
| Rewards Rate ⁽¹⁾ | 1.30% | 1.20% | 10 bps | 10 bps |

Note(s)

1. Rewards cost divided by Discover card sales volume

Highlights

- Receivables growth and margin expansion drove 12% YOY increase in net interest income
- Net discount and interchange revenue decreased \$5MM (2%) because of higher rewards expense
- Enhanced customer engagement with promotional rewards drove a 10 bps increase in rewards rate YOY

3Q17 Net Interest Margin

| (\$MM) | 3Q17 | | 3Q16 | |
|------------------------------------|-----------------|--------|-----------------|--------|
| | Average Balance | Rate | Average Balance | Rate |
| Credit Card | \$62,647 | 12.83% | \$57,561 | 12.53% |
| Private Student | 8,986 | 7.56% | 8,795 | 7.13% |
| Personal | 7,208 | 12.33% | 6,036 | 12.23% |
| Other | 348 | 5.56% | 276 | 4.96% |
| Total Loans | 79,189 | 12.15% | 72,668 | 11.82% |
| Other Interest-Earnings Assets | 15,395 | 1.30% | 14,382 | 0.68% |
| Total Interest-Earnings Assets | <u>\$94,584</u> | 10.39% | <u>\$87,050</u> | 9.98% |
| Direct to Consumer and Affinity | \$37,900 | 1.37% | \$34,488 | 1.26% |
| Brokered Deposits and Other | 16,192 | 2.12% | 14,267 | 1.90% |
| Interest Bearing Deposits | 54,092 | 1.59% | 48,755 | 1.45% |
| Borrowings | 26,928 | 3.07% | 25,484 | 2.82% |
| Total Interest-Bearing Liabilities | <u>\$81,020</u> | 2.08% | <u>\$74,239</u> | 1.92% |

| (%) | Change | | |
|--------------------------------|--------|-------|-------|
| | 3Q17 | QOQ | YOY |
| Total Interest Yield | 12.15% | 17bps | 33bps |
| NIM on Receivables | 10.28% | 17bps | 29bps |
| NIM on Interest-Earning Assets | 8.60% | 16bps | 26bps |

Highlights

- Net interest margin on receivables increased 29 bps YOY on higher loan yields, partially offset by higher funding costs
- Credit card yield increased 30 bps YOY as the prime rate increased, partially offset by higher interest charge-offs and portfolio mix
- Average consumer deposits grew 10% YOY and composed 47% of total average funding
- Funding costs on interest-bearing liabilities increased 16 bps YOY, driven by higher market rates and funding mix

3Q17 Operating Expense Detail

| (\$MM) | 3Q17 | 3Q16 | B / (W) | |
|---|--------------|--------------|---------------|----------------|
| | | | \$ Δ | % Δ |
| Employee Compensation and Benefits | \$371 | \$342 | (\$29) | (8%) |
| Marketing and Business Development | 203 | 195 | (8) | (4%) |
| Information Processing & Communications | 78 | 81 | 3 | 4% |
| Professional Fees | 163 | 143 | (20) | (14%) |
| Premises and Equipment | 25 | 25 | — | —% |
| Other Expense | 108 | 109 | 1 | 1% |
| Total Operating Expense | \$948 | \$895 | (\$53) | (6%) |
| Direct Banking | 909 | 857 | (\$52) | (6%) |
| Payment Services | 39 | 38 | (1) | (3%) |
| Total Operating Expense | \$948 | \$895 | (\$53) | (6%) |
| Operating Efficiency⁽¹⁾ | 37.5% | 38.9% | | 140 bps |

Highlights

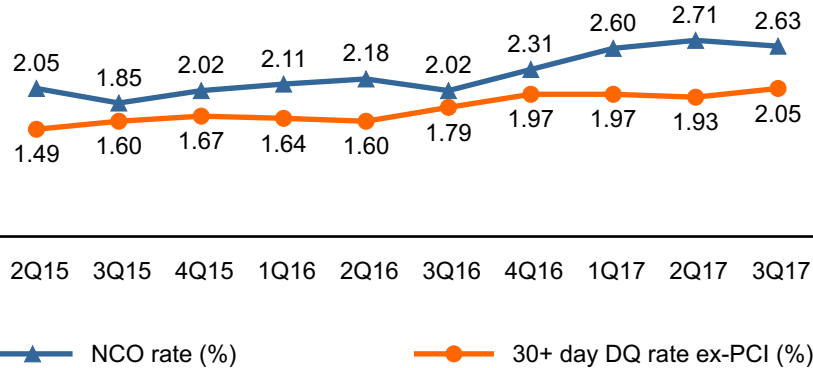
- Employee compensation and benefits up 8% YOY, primarily on higher staffing levels, as well as higher average salaries
- Professional fees up 14% YOY, primarily due to investments in technology and analytic capabilities
- Operating efficiency improved 140 bps on strong revenue growth coupled with disciplined expense growth

Note(s)

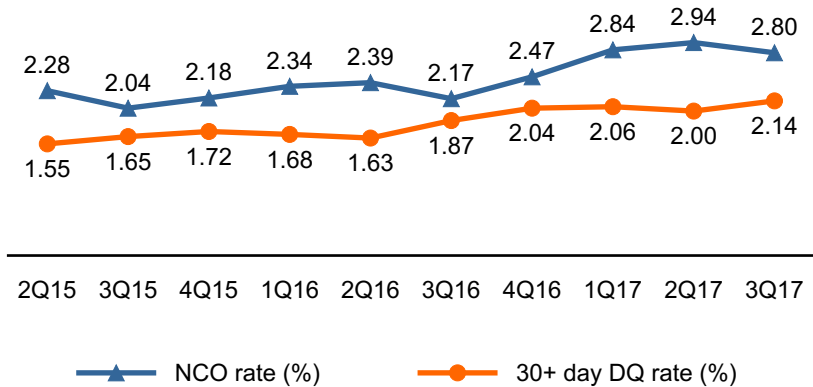
1. Defined as reported total operating expense divided by revenue net of interest expense

Credit Performance Trends

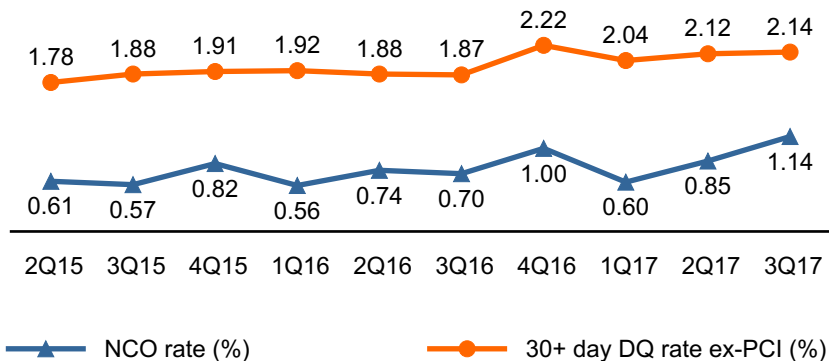
Total Company Loans



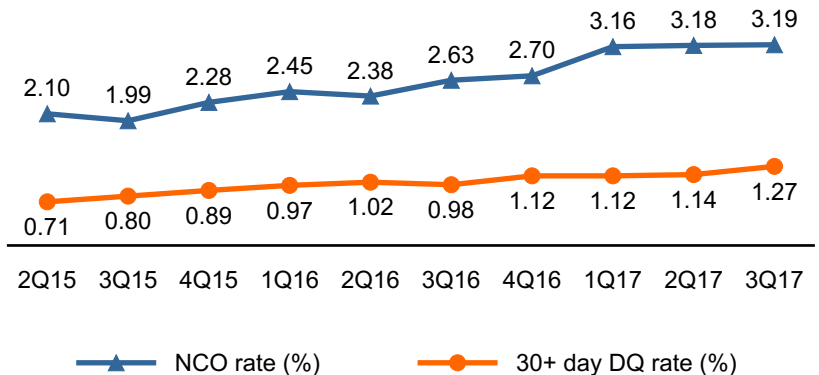
Credit Card Loans



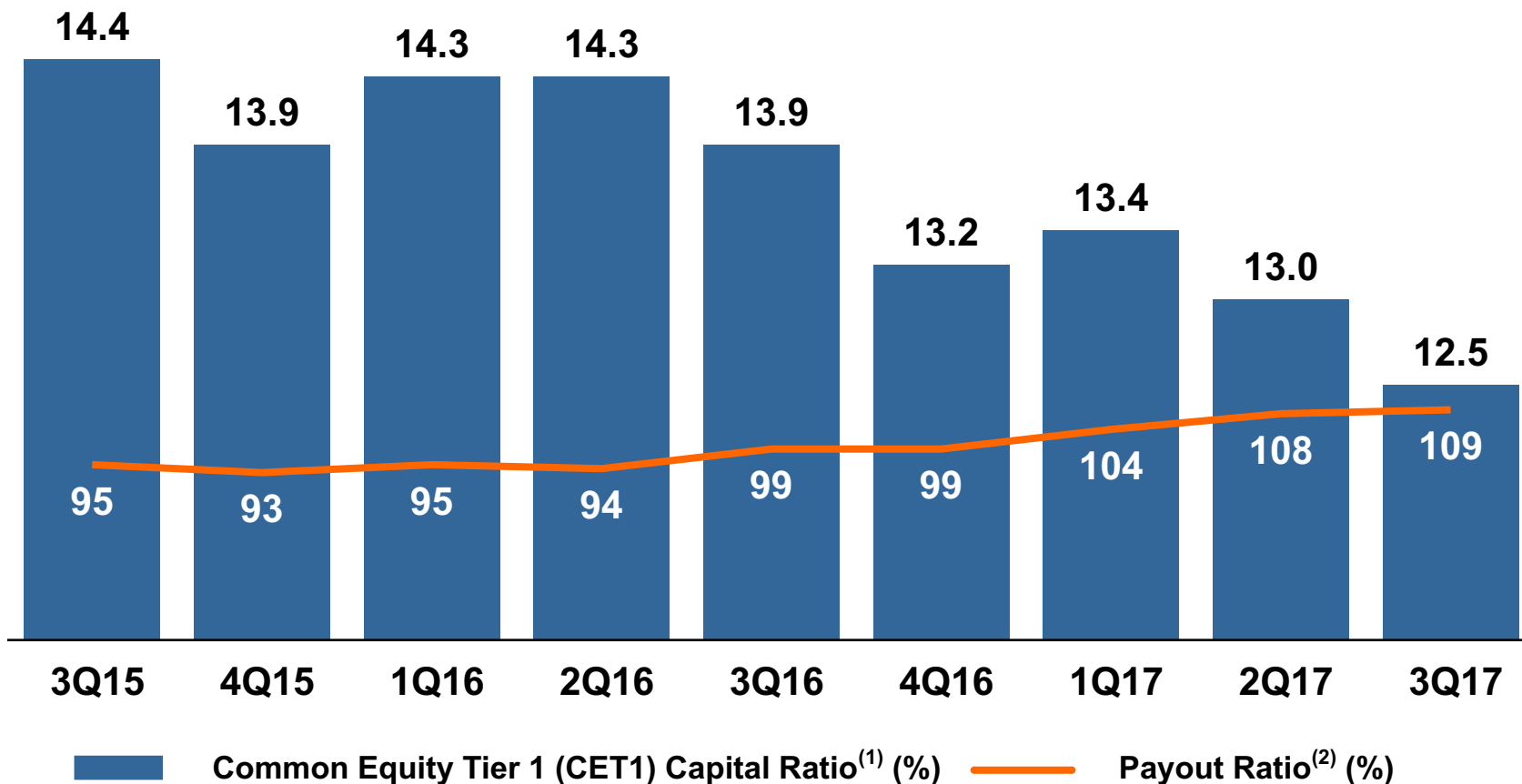
Private Student Loans



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

3Q17 Financial Summary

Balance Sheet

- Total loans grew 9% (\$6.9Bn) YOY with strong contributions from all primary lending products
- Credit card loans grew 9% (\$5.5Bn) YOY as sales volume increased 5%
- Average consumer deposits grew 10% (\$3.4Bn) YOY, while deposit rates increased slightly

Credit and Capital

- Total NCO rate of 2.63%, up 61 bps YOY
 - Driven by supply-induced credit normalization and loan seasoning
- Capital plan execution
 - Repurchased 9.2MM shares of common stock for \$555MM
 - CET1 capital ratio⁽¹⁾ of 12.5%, down 140 bps YOY

Profitability

- Net income of \$602MM and diluted EPS of \$1.59
- Revenue growth of 10% on higher net interest income
- NIM of 10.28%, up 29 bps YOY
- Return on equity remains strong at 22%
- Efficiency ratio stable QOQ at 38%

Note(s)

1. Basel III Transition

Appendix

Reconciliation of GAAP to Non-GAAP Data

(unaudited, \$MM)

| | 3Q17 | 3Q16 |
|--|----------------|----------------|
| Provision for loan losses | \$674 | \$445 |
| Income before income taxes | 903 | 961 |
| Pre-tax, pre-provision income⁽¹⁾ | \$1,577 | \$1,406 |

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