



1Q18 Financial Results

April 26, 2018

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, 2017, which is 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.

- Net income of \$666MM, diluted EPS of \$1.82 and 25% return on equity
- Credit normalization continued as a result of secular growth of consumer credit as well as our organic growth; credit environment remains constructive
- Total loan growth of 9% led by a 10% gain in credit card loans
- Continued to drive positive operating leverage led by 10% revenue growth, while investing for growth and new capabilities
- Payment Services network volume continues to show strong growth (up 19%)
- Returned \$684MM of capital through dividends and share repurchases

Note(s)

(1) All comparisons stated on a year-over-year basis

(\$MM, except per share data)	1Q18	1Q17	B / (W)	
			\$ Δ	% Δ
Revenue Net of Interest Expense	\$2,575	\$2,339	\$236	10%
Net Principal Charge-off	635	489	(146)	(30%)
Reserve Change build/(release)	116	97	(19)	(20%)
Provision for Loan Losses	751	586	(165)	(28%)
Operating Expense	968	885	(83)	(9%)
Direct Banking	811	824	(13)	(2%)
Payment Services	45	44	1	2%
Total Pre-Tax Income	856	868	(12)	(1%)
Income Tax Expense	190	304	114	38%
Net Income	\$666	\$564	\$102	18%
ROE	25%	20%		
Diluted EPS	\$1.82	\$1.43	\$0.39	27%
Pre-Tax, Pre-Provision Income ⁽¹⁾	\$1,607	\$1,454	\$153	11%

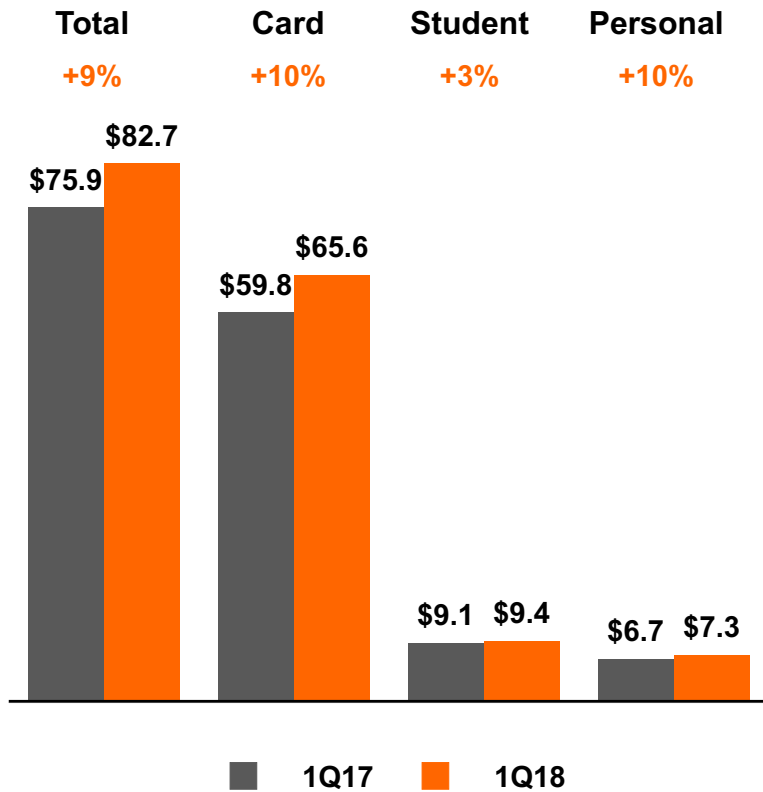
Highlights

- Diluted EPS of \$1.82, up 27%
- Revenue net of interest expense of \$2.6Bn, up 10%, driven by higher net interest income
- Provision for loan losses increased \$165MM (28%) on higher net charge-offs and a larger reserve build
- Expenses rose 9%, primarily driven by investments to support growth and new capabilities
- Income tax expense includes \$15MM of non-recurring benefits, primarily related to resolution of certain tax matters

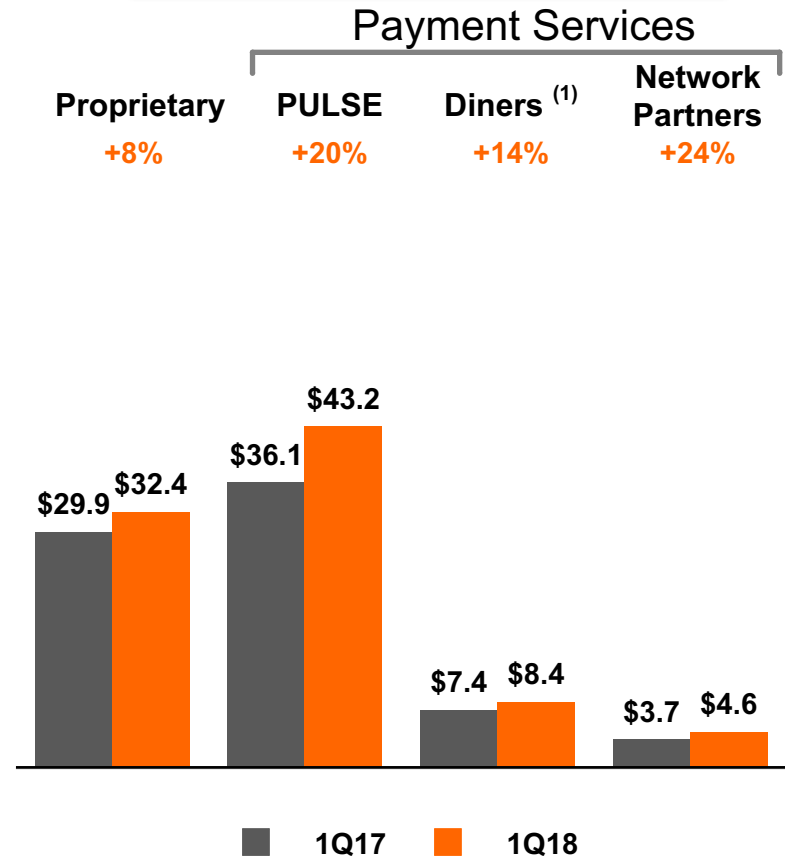
Note(s)

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

Ending Loans (\$Bn)



Volume (\$Bn)



Total Network Volume up 15% 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

(\$MM)	1Q18	1Q17	B / (W)	
			\$ Δ	% Δ
Interest Income	\$2,569	\$2,278	\$291	13%
Interest Expense	469	386	(83)	(22%)
Net Interest Income	2,100	1,892	208	11%
Discount/Interchange Revenue	646	596	50	8%
Rewards Cost	392	363	(29)	(8%)
Net Discount/Interchange Revenue	254	233	21	9%
Protection Products Revenue	53	58	(5)	(9%)
Loan Fee Income	96	89	7	8%
Transaction Processing Revenue	43	39	4	10%
Other Income	29	28	1	4%
Total Non-Interest Income	475	447	28	6%
Revenue Net of Interest Expense	<u>\$2,575</u>	<u>\$2,339</u>	<u>\$236</u>	<u>10%</u>
Direct Banking	\$2,494	\$2,267	\$227	10%
Payment Services	81	72	9	13%
Revenue Net of Interest Expense	<u>\$2,575</u>	<u>\$2,339</u>	<u>\$236</u>	<u>10%</u>

(\$MM)	1Q18	1Q17	Change	
			QOQ	YOY
Discover Card Sales Volume	\$30,850	\$29,134	(13%)	6%
Rewards Rate ⁽¹⁾	1.27%	1.25%	4 bps	2 bps

Note(s)

1. Rewards cost divided by Discover card sales volume

Highlights

- Loan growth and margin expansion drove 11% increase in net interest income
- Net discount and interchange revenue increased \$21MM driven by a 6% increase in card sales volume
- Rewards rate increased 2 bps YOY due to mix shift towards the Discover it® product

(\$MM)	1Q18		1Q17	
	Average Balance	Rate	Average Balance	Rate
Credit Card	\$65,983	12.85%	\$60,122	12.65%
Private Student	9,432	7.89%	9,197	7.29%
Personal	7,387	12.43%	6,582	12.18%
Other	452	5.98%	284	5.39%
Total Loans	83,254	12.21%	76,185	11.94%
Other Interest-Earning Assets	15,879	1.58%	16,243	0.89%
Total Interest-Earning Assets	<u>\$99,133</u>	10.51%	<u>\$92,428</u>	9.99%
Direct to Consumer and Affinity	\$39,825	1.59%	\$36,316	1.25%
Brokered Deposits and Other	19,638	2.19%	16,242	1.98%
Interest Bearing Deposits	59,463	1.79%	52,558	1.48%
Borrowings	26,126	3.21%	26,561	2.97%
Total Interest-Bearing Liabilities	<u>\$85,589</u>	2.22%	<u>\$79,119</u>	1.98%

(%)	Change		
	1Q18	QOQ	YOY
Total Interest Yield	12.21%	7bps	27bps
NIM on Loans	10.23%	-5bps	16bps
NIM on Interest-Earning Assets	8.59%	-5bps	29bps

Highlights

- Net interest margin on loans increased 16 bps on higher loan yields, partially offset by higher funding costs
- Credit card yield increased 20 bps as increases in the prime rate were partially offset by portfolio mix and higher interest charge-offs
- Average consumer deposits grew 10% and composed 47% of total average funding
- Funding costs on interest-bearing liabilities increased 24 bps, driven by higher market rates partially offset by maturities of higher-cost debt and favorable shifts in funding mix

DISCOVER® | 1Q18 Operating Expense Detail

(\$MM)	1Q18	1Q17	B / (W)	
			\$ Δ	% Δ
Employee Compensation and Benefits	\$405	\$363	(\$42)	(12%)
Marketing and Business Development	185	168	(17)	(10%)
Information Processing & Communications	82	80	(2)	(3%)
Professional Fees	155	147	(8)	(5%)
Premises and Equipment	26	25	(1)	(4%)
Other Expense	115	102	(13)	(13%)
Total Operating Expense	\$968	\$885	(\$83)	(9%)
Direct Banking	932	849	(\$83)	(10%)
Payment Services	36	36	0	—%
Total Operating Expense	\$968	\$885	(\$83)	(9%)
Operating Efficiency⁽¹⁾	37.6%	37.9%		30 bps

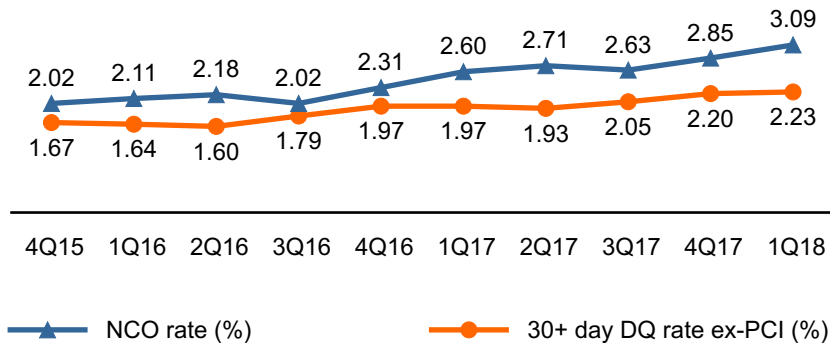
Highlights

- Employee compensation and benefits up 12%, primarily on higher staffing levels, as well as higher average salaries
- Marketing up 10% as a result of higher account acquisition costs and brand advertising
- Other expense up 13% primarily due to incremental investment in philanthropic initiatives
- Operating efficiency improved 30 bps on strong revenue growth with disciplined expense growth

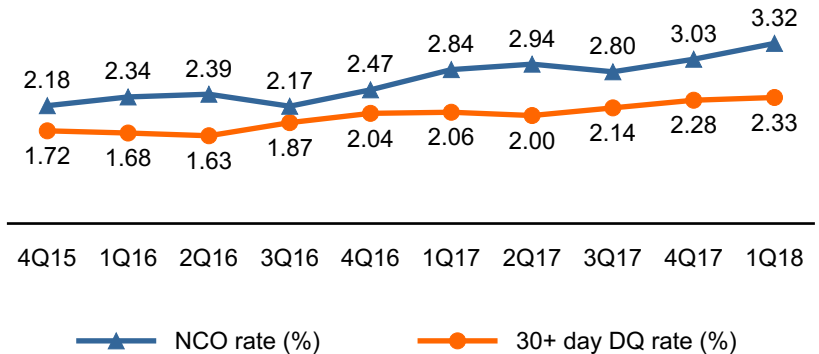
Note(s)

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

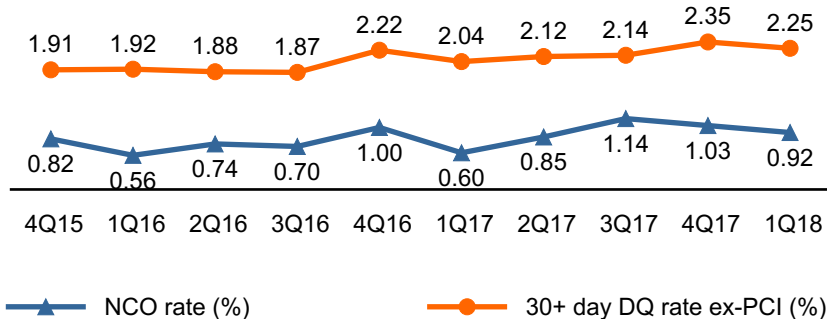
Total Company Loans



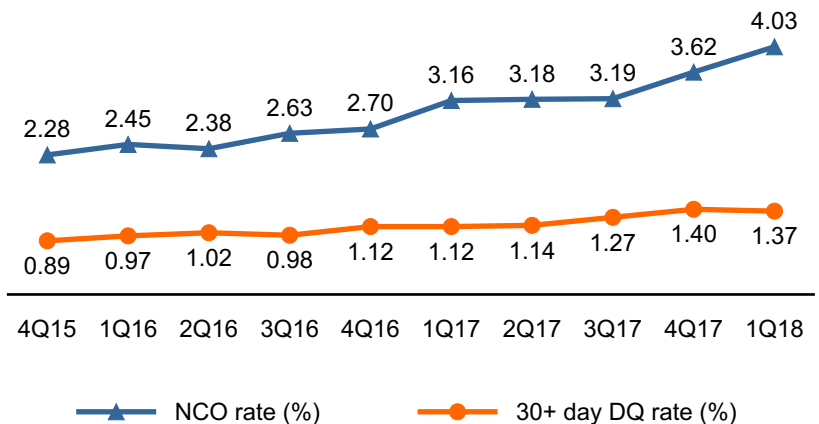
Credit Card Loans

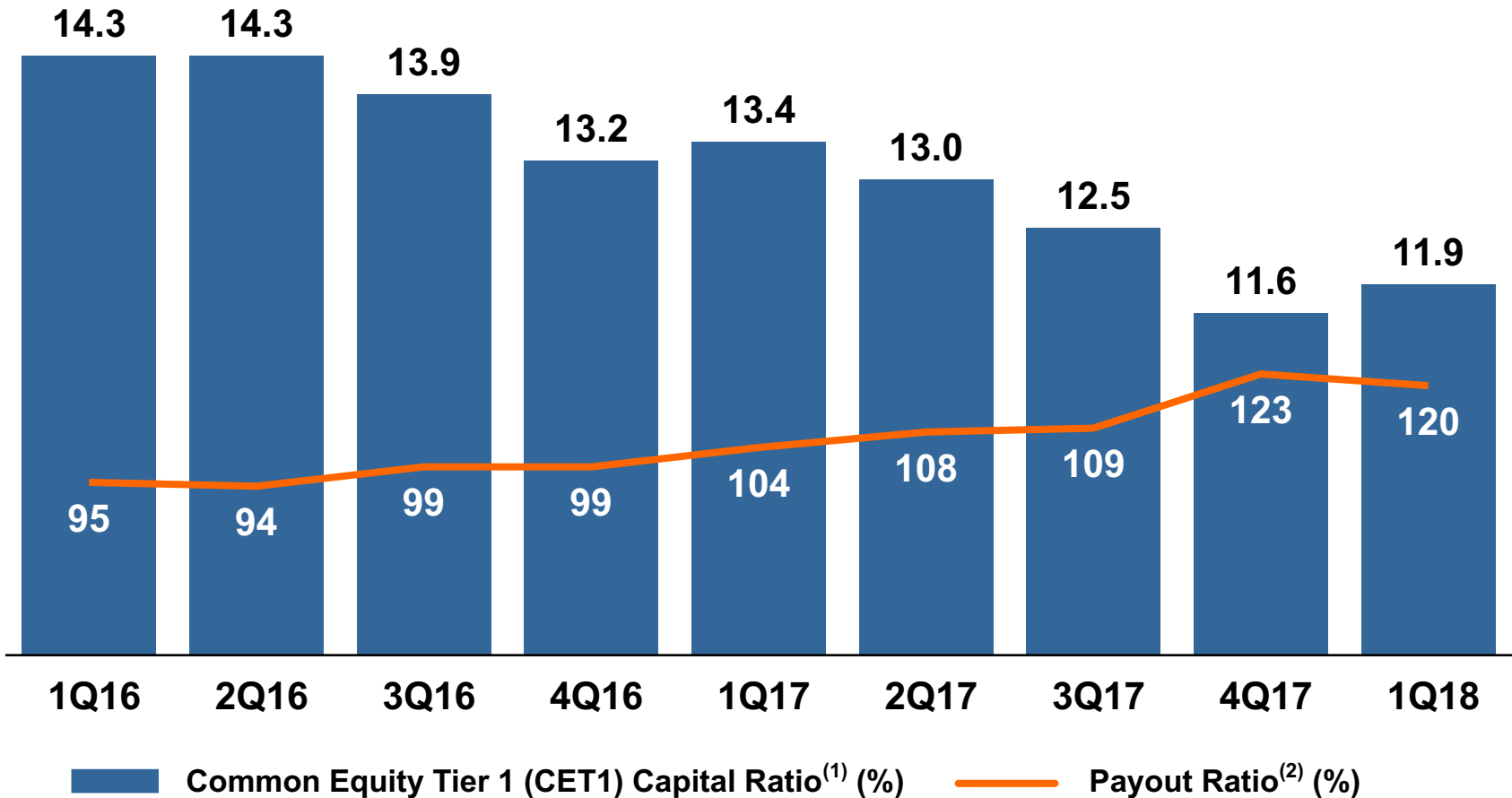


Private Student Loans



Personal Loans





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

Balance Sheet

- Total loans grew 9% (\$6.9Bn) YOY with strong contributions from all primary lending products
- Credit card loans grew 10% (\$5.8Bn) YOY as sales volume increased 6%
- Average consumer deposits grew 10% (\$3.5Bn) YOY, while deposit rates increased 34 bps

Credit and Capital

- Total NCO rate of 3.09%, up 49 bps YOY
 - Driven by supply-induced credit normalization and loan seasoning
- Capital plan execution
 - Repurchased 7.5MM shares of common stock for \$584MM
 - CET1 capital ratio⁽¹⁾ of 11.9% down 150 bps YOY

Profitability

- Net income of \$666MM and diluted EPS of \$1.82
- Revenue growth of 10% on higher net interest income
- NIM of 10.23%, up 16 bps YOY
- Efficiency ratio improved 30 bps YOY to 38%
- Strong return on equity at 25%

Note(s)

1. Basel III Transition

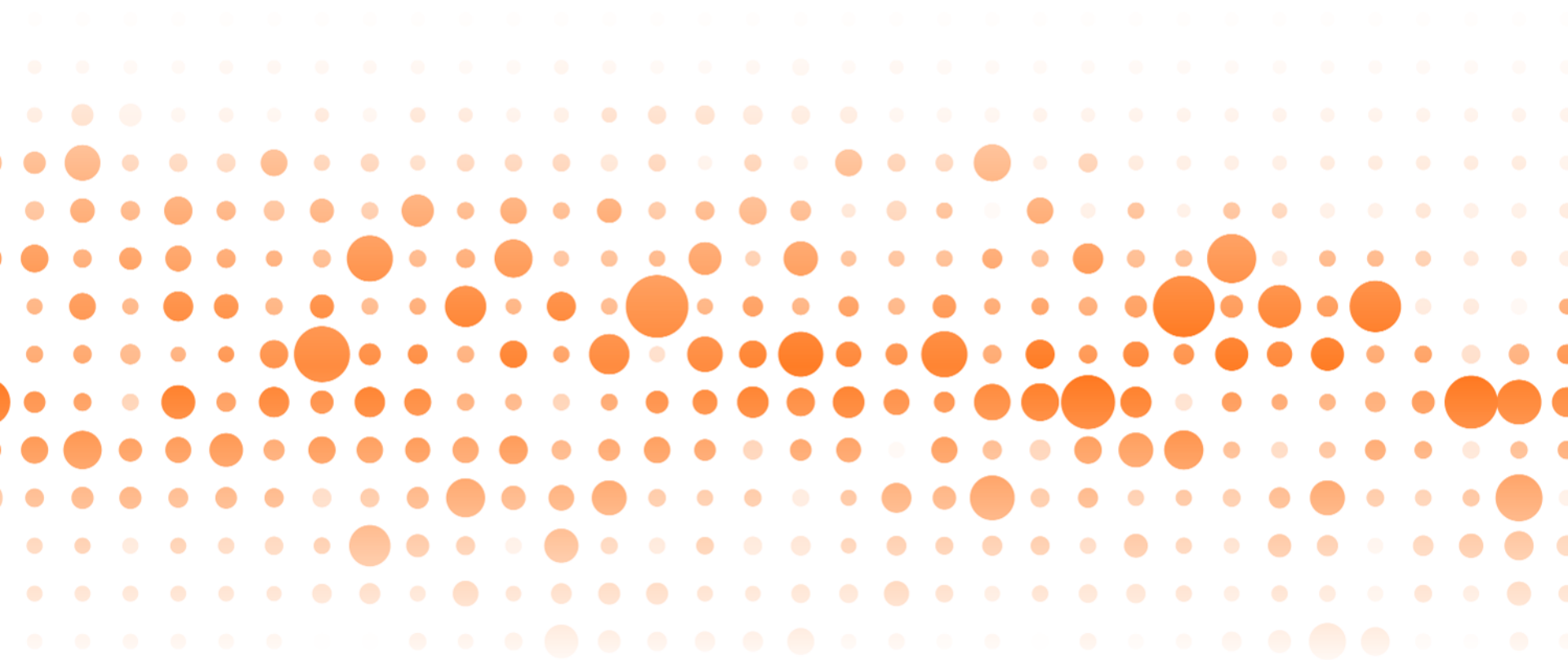
Reconciliation of GAAP to Non-GAAP Data

(unaudited, \$MM)

	1Q18	1Q17
Provision for loan losses	\$751	\$586
Income before income taxes	856	868
Pre-tax, pre-provision income⁽¹⁾	\$1,607	\$1,454

Note(s)

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