



3Q18 Financial Results

October 25, 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, and "Management's Discussion & Analysis of Financial Condition and Results of Operations" in the company's Quarterly Report on Form 10-Q for the quarters ended June 30, 2018, and March 31, 2018, 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.

- Net income of \$720MM, diluted EPS of \$2.05; return on equity of 26%
- Total loan growth of 8% led by a 9% increase in credit card loans; revenue growth of 8%
- Strong credit performance benefiting from:
 - Disciplined underwriting
 - Increasing efficiency and effectiveness in servicing
- Payment Services continues to drive strong network volume growth (up 14%)

Note(s)

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

DISCOVER® | 3Q18 Summary Financial Results

(\$MM, except per share data)	3Q18	3Q17	B / (W)	
			\$ Δ	% Δ
Revenue Net of Interest Expense	\$2,724	\$2,525	\$199	8%
Net Principal Charge-off	642	527	(115)	(22%)
Reserve Change build/(release)	100	147	47	32%
Provision for Loan Losses	742	674	(68)	(10%)
Operating Expense	1,015	948	(67)	(7%)
Direct Banking	923	867	56	6%
Payment Services	44	36	8	22%
Total Pre-Tax Income	967	903	64	7%
Income Tax Expense	247	301	54	18%
Net Income	\$720	\$602	\$118	20%
ROE	26%	22%		
Diluted EPS	\$2.05	\$1.59	\$0.46	29%
Pre-Tax, Pre-Provision Income ⁽¹⁾	\$1,709	\$1,577	\$132	8%

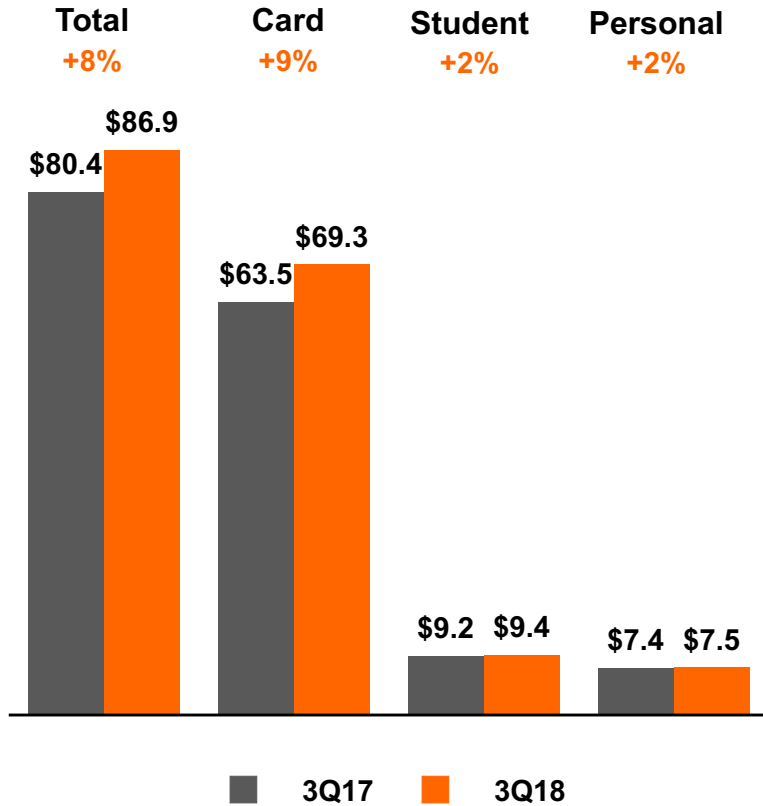
Highlights

- Diluted EPS of \$2.05, up 29%
- Revenue net of interest expense of \$2.7Bn, up 8%, driven by higher net interest income
- Provision for loan losses increased \$68MM, or 10%, on higher net charge-offs, partially offset by a lower reserve build
- Expenses rose 7%, primarily driven by higher compensation expense as well as investments to support growth and new capabilities
- Income tax expense of \$247MM includes \$9MM related to reserves for certain tax matters

Note(s)

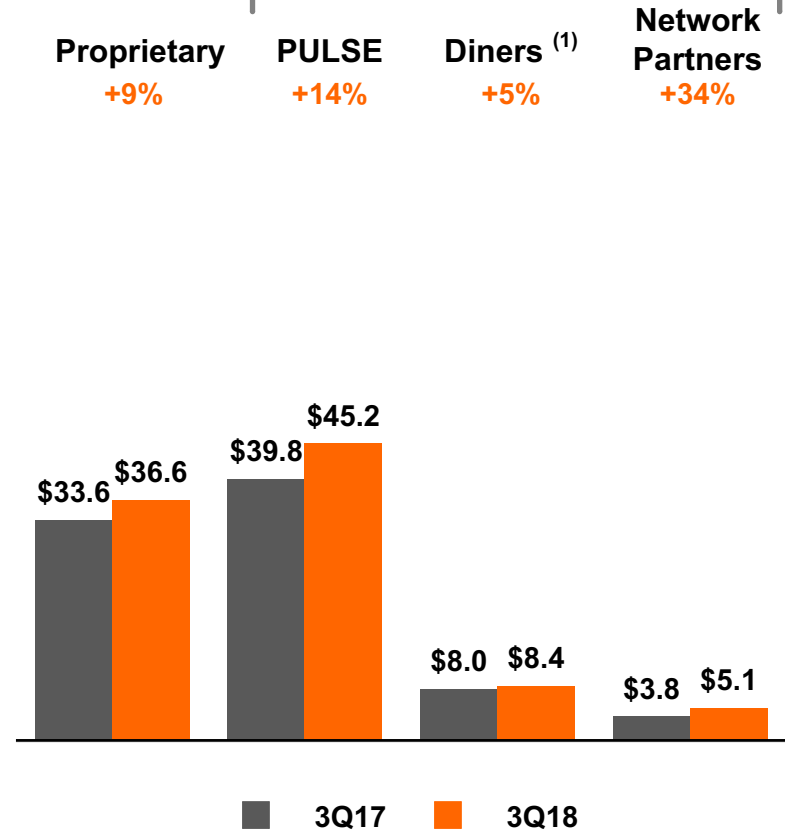
1. Pre-tax, pre-provision income, which is derived by adding provision for loan losses to pre-tax income, is a non-GAAP financial measure which should be viewed in addition to, and not as a substitute for, the Company's reported results. Management believes this information helps investors understand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

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

(\$MM)	3Q18	3Q17	B / (W)	
			\$ Δ	% Δ
Interest Income	\$2,781	\$2,476	\$305	12%
Interest Expense	558	426	(132)	(31%)
Net Interest Income	2,223	2,050	173	8%
Discount/Interchange Revenue	753	675	78	12%
Rewards Cost	473	417	(56)	(13%)
Net Discount/Interchange Revenue	280	258	22	9%
Protection Products Revenue	51	55	(4)	(7%)
Loan Fee Income	103	95	8	8%
Transaction Processing Revenue	47	43	4	9%
Other Income	20	24	(4)	(17%)
Total Non-Interest Income	501	475	26	5%
Revenue Net of Interest Expense	<u>\$2,724</u>	<u>\$2,525</u>	<u>\$199</u>	<u>8%</u>
Direct Banking	\$2,644	\$2,451	\$193	8%
Payment Services	80	74	6	8%
Revenue Net of Interest Expense	<u>\$2,724</u>	<u>\$2,525</u>	<u>\$199</u>	<u>8%</u>

(\$MM)	3Q18	3Q17	Change	
			QOQ	YOY
Discover Card Sales Volume	\$35,896	\$32,161	2%	12%
Rewards Rate ⁽¹⁾	1.31%	1.30%	0 bps	1 bps

Note(s)

1. Rewards cost divided by Discover card sales volume

2. In the current quarter, sales transactions were processed on 93 days compared to 91 days in the prior year quarter

Highlights

- Loan growth drove 8% increase in net interest income
- Net discount and interchange revenue increased \$22MM driven by higher sales volume
- Reported sales volume growth was 12%; adjusted for the number of processing days, sales volume growth was 9%⁽²⁾

(\$MM)	3Q18		3Q17	
	Average Balance	Rate	Average Balance	Rate
Credit Card	\$68,613	13.06%	\$62,647	12.83%
Private Student	9,158	8.19%	8,986	7.56%
Personal	7,460	12.66%	7,208	12.33%
Other	624	6.38%	348	5.56%
Total Loans	85,855	12.45%	79,189	12.15%
Other Interest-Earning Assets	17,112	2.00%	15,395	1.30%
Total Interest-Earning Assets	<u>\$102,967</u>	10.72%	<u>\$94,584</u>	10.39%
Direct to Consumer and Affinity	\$42,498	1.88%	\$37,900	1.37%
Brokered Deposits and Other	19,939	2.51%	16,192	2.12%
Interest Bearing Deposits	62,437	2.08%	54,092	1.59%
Borrowings	26,495	3.43%	26,928	3.07%
Total Interest-Bearing Liabilities	<u>\$88,932</u>	2.49%	<u>\$81,020</u>	2.08%

(%)	Change		
	3Q18	QOQ	YOY
Total Interest Yield on Loans	12.45%	17bps	30bps
NIM on Loans	10.28%	7bps	0bps
NIM on Interest-Earning Assets	8.57%	7bps	-3bps

Highlights

- Net interest margin on loans was flat driven by higher loan yields, offset by higher funding costs
- Credit card yield increased 23 bps as increases in the prime rate were partially offset by portfolio mix and higher interest charge-offs
- Average consumer deposits grew 12% and composed 48% of total average funding
- Funding costs on interest-bearing liabilities increased 41 bps, primarily driven by higher market rates

(\$MM)	3Q18	3Q17	B / (W)	
			\$ Δ	% Δ
Employee Compensation and Benefits	\$408	\$371	(\$37)	(10%)
Marketing and Business Development	218	203	(15)	(7%)
Information Processing & Communications	89	78	(11)	(14%)
Professional Fees	166	163	(3)	(2%)
Premises and Equipment	26	25	(1)	(4%)
Other Expense	108	108	0	—%
Total Operating Expense	\$1,015	\$948	(\$67)	(7%)
Direct Banking	979	909	(\$70)	(8%)
Payment Services	36	39	3	8%
Total Operating Expense	\$1,015	\$948	(\$67)	(7%)
Operating Efficiency⁽¹⁾	37.2%	37.5%		30 bps

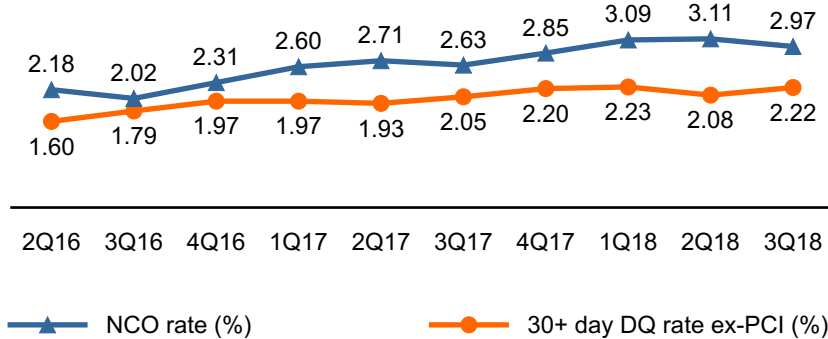
Highlights

- Employee compensation and benefits up 10%, primarily on higher average salaries, as well as higher staffing levels
- Marketing up 7% as a result of higher investment in new account acquisition
- Information processing up 14% due to investments in infrastructure and analytic capabilities

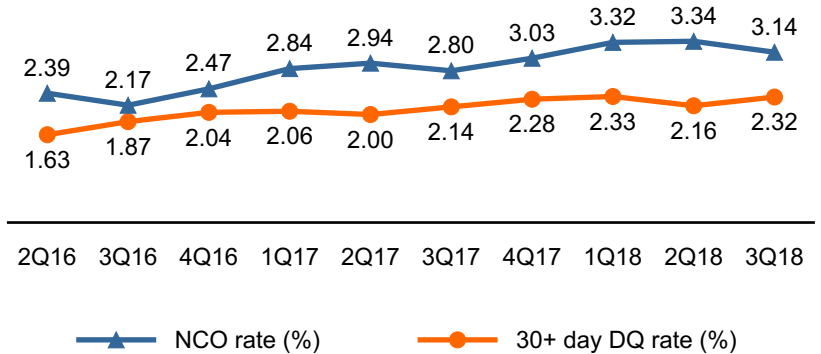
Note(s)

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

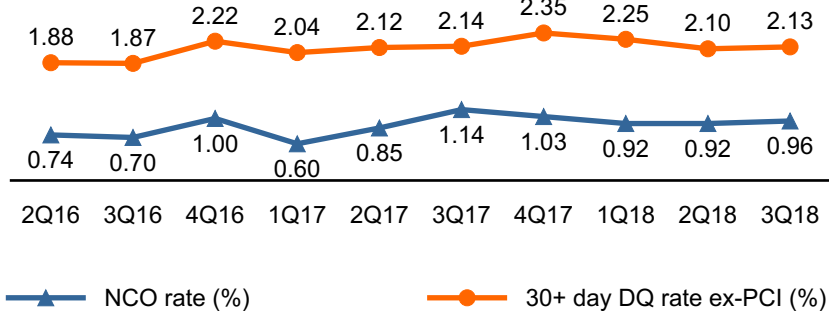
Total Company Loans



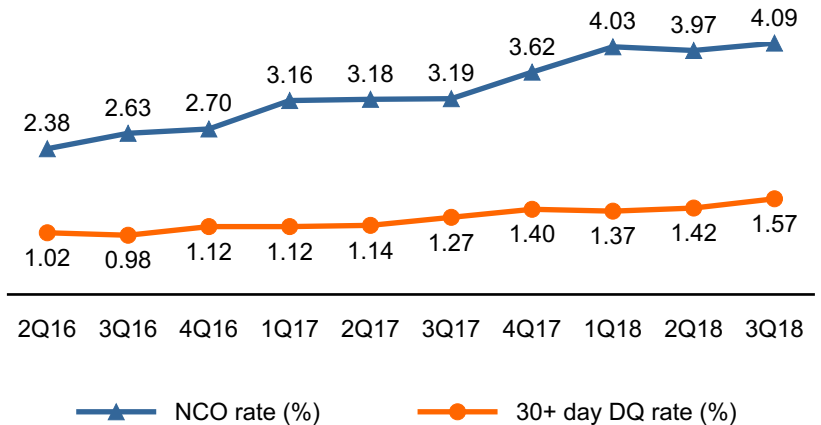
Credit Card Loans

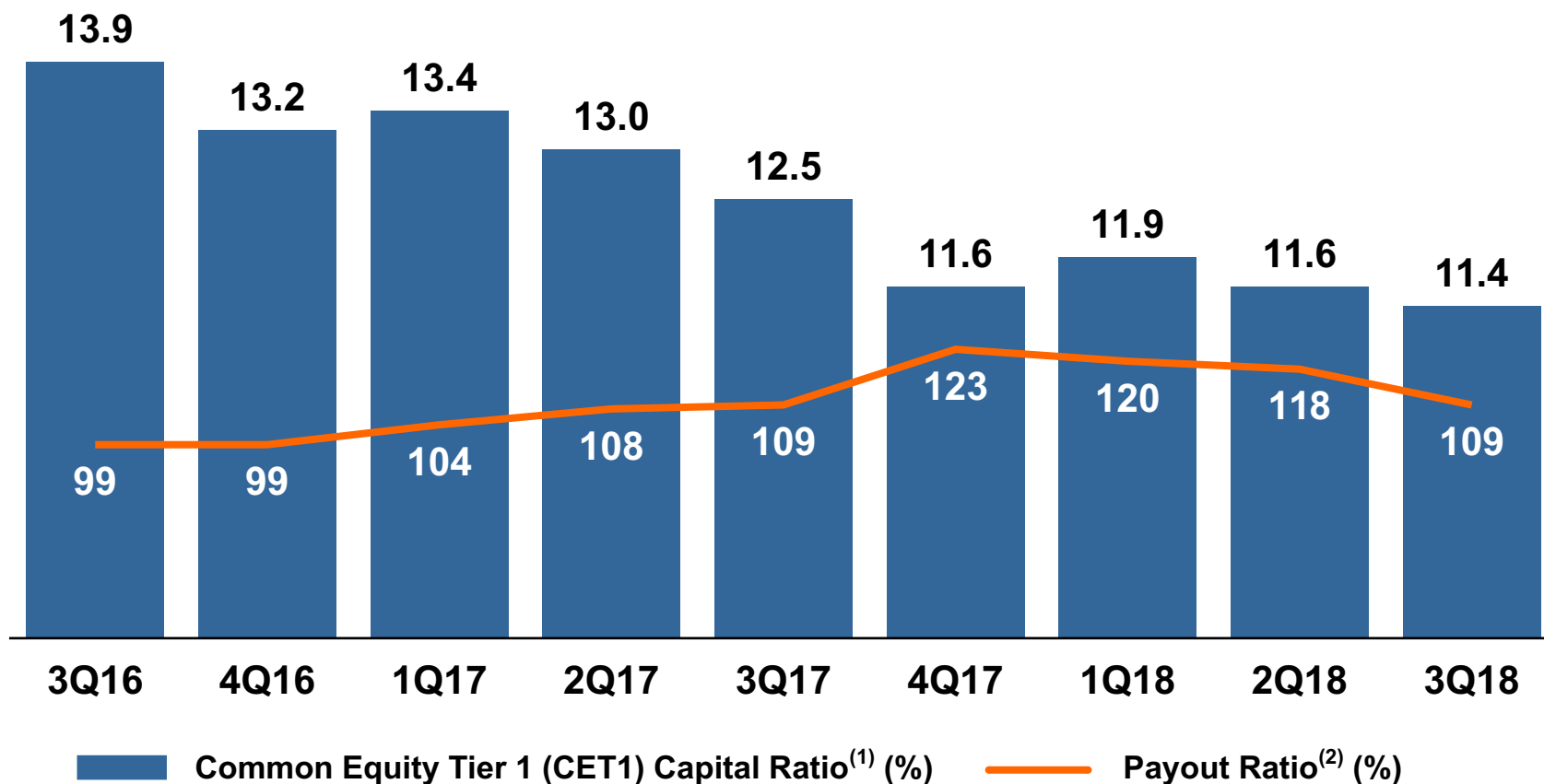


Private Student Loans



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 8% (\$6.5Bn) YOY
- Credit card loans grew 9% (\$5.8Bn) YOY as sales volume increased 12%
- Average consumer deposits grew 12% (\$4.6Bn) YOY, while deposit rates increased 51 bps

Credit and Capital

- Total NCO rate of 2.97%, up 34 bps YOY
 - Driven by supply-induced credit normalization and loan seasoning
- Capital return
 - Repurchased 6.0MM shares of common stock for \$460MM
 - CET1 capital ratio⁽¹⁾ of 11.4% down 110 bps YOY

Profitability

- Net income of \$720MM and diluted EPS of \$2.05
- Revenue growth of 8% on higher net interest income
- NIM of 10.28%, flat YOY
- Efficiency ratio improved 30 bps YOY to 37%
- Strong return on equity at 26%

Note(s)

1. Basel III Transition

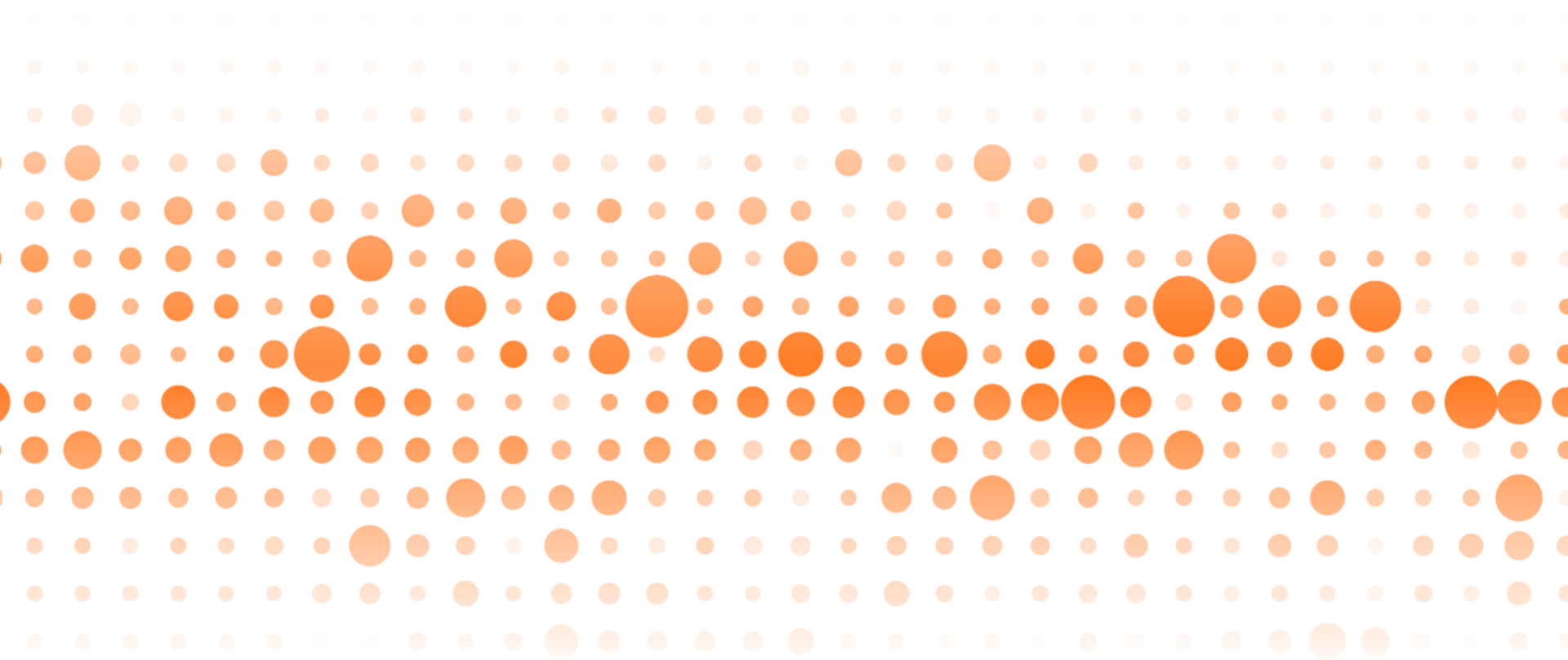
Reconciliation of GAAP to Non-GAAP Data

(unaudited, \$MM)

	3Q18	3Q17
Provision for loan losses	\$742	\$674
Income before income taxes	967	903
Pre-tax, pre-provision income⁽¹⁾	<u>\$1,709</u>	<u>\$1,577</u>

Note(s)

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