



2018 and 4Q18 Financial Results

January 24, 2019

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.

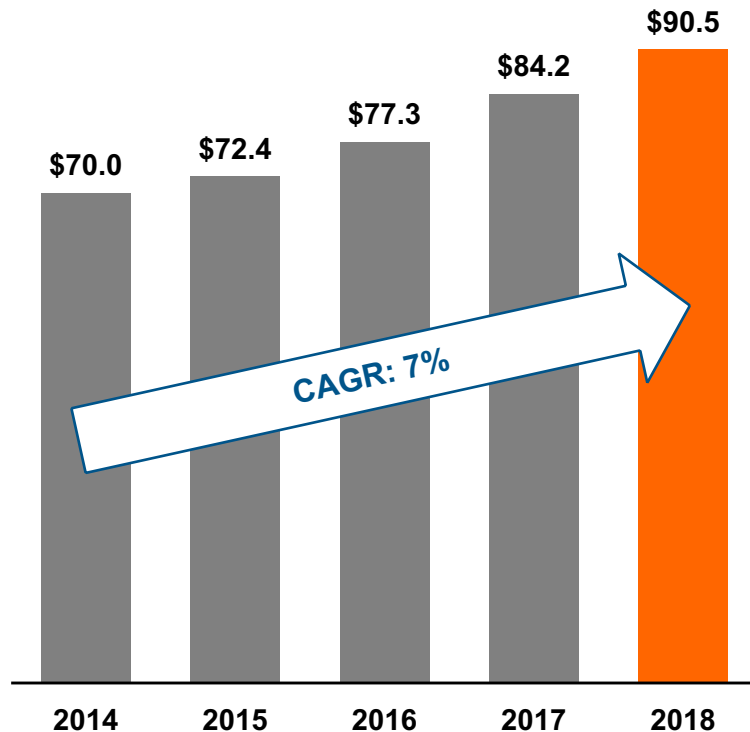
The presentation contains forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made, which reflect management's estimates, projections, expectations or beliefs at that time, and which are subject to 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 March 31, 2018, June 30, 2018, and September 30, 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.

- Solid execution of strategy drove net income of \$2.7Bn, diluted EPS of \$7.79; return on equity of 25%
- Consistent focus on profitable loan growth led to 8% revenue growth
- Strong credit performance benefiting from:
 - Disciplined underwriting
 - Increasing efficiency and effectiveness in servicing
- Payment Services continued to drive strong network volume growth (up 15%)
- Continued investments in global merchant acceptance and technology

Note(s)

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

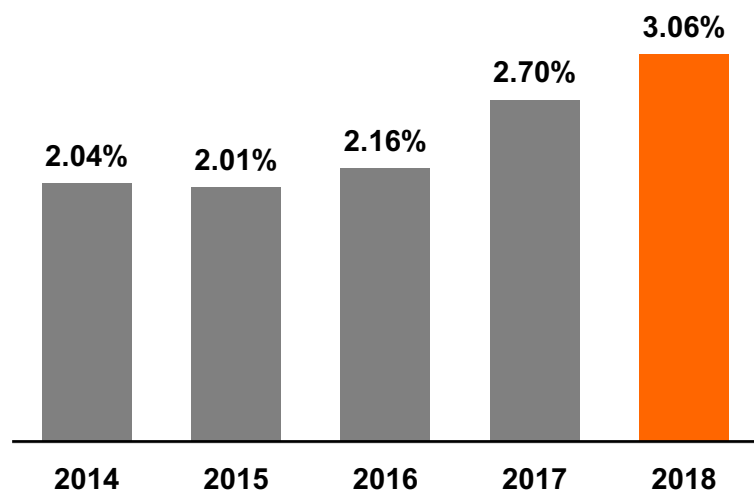
Ending Loans (\$Bn)



Highlights

- Strong loan growth of 8% in Card
 - Number of new accounts up 11%
 - Acquisition costs per account down 6%
- Student Loans grew 9% excluding purchased student loans
- Modest growth of 1% in Personal Loans; maintaining discipline in credit and pricing

Total Net Charge-off Rate



Highlights

- Credit stabilizing in Card as normalization impact slows
- Student Loan credit performance remains strong with stable net-charge off rate and lower delinquencies
- Personal Loan losses higher, as expected, primarily due to seasoning of growth and normalization

DISCOVER® | 4Q18 Summary Financial Results

(\$MM, except per share data)	4Q18	4Q17	B / (W)	
			\$ Δ	% Δ
Revenue Net of Interest Expense	\$2,807	\$2,614	\$193	7%
Net Principal Charge-off	686	583	(103)	(18%)
Reserve Change build/(release)	114	96	(18)	(19%)
Provision for Loan Losses	800	679	(121)	(18%)
Operating Expense	1,110	1,036	(74)	(7%)
Direct Banking	874	870	4	—%
Payment Services	23	29	(6)	(21%)
Total Pre-Tax Income	897	899	(2)	—%
Income Tax Expense	210	512	302	59%
Net Income	\$687	\$387	\$300	78%
ROE	25%	14%		
Diluted EPS	\$2.03	\$0.99	\$1.04	105%
EPS From Non-Recurring Charges		(\$0.56)		
Adjusted Diluted EPS ⁽¹⁾	\$2.03	\$1.55	\$0.48	31%
Pre-Tax, Pre-Provision Income ⁽²⁾	\$1,697	\$1,578	\$119	8%

Highlights

- Diluted EPS of \$2.03, up 105%
- Revenue net of interest expense of \$2.8Bn, up 7%, driven by higher net interest income
- Provision for loan losses increased \$121MM, or 18%, on higher net charge-offs and a higher reserve build
- Expenses rose 7%, primarily driven by investments to support growth and new capabilities, including \$34MM in incremental investments in global merchant acceptance
- 4Q17 income tax expense included non-recurring charges of \$179MM associated with the passage of tax reform

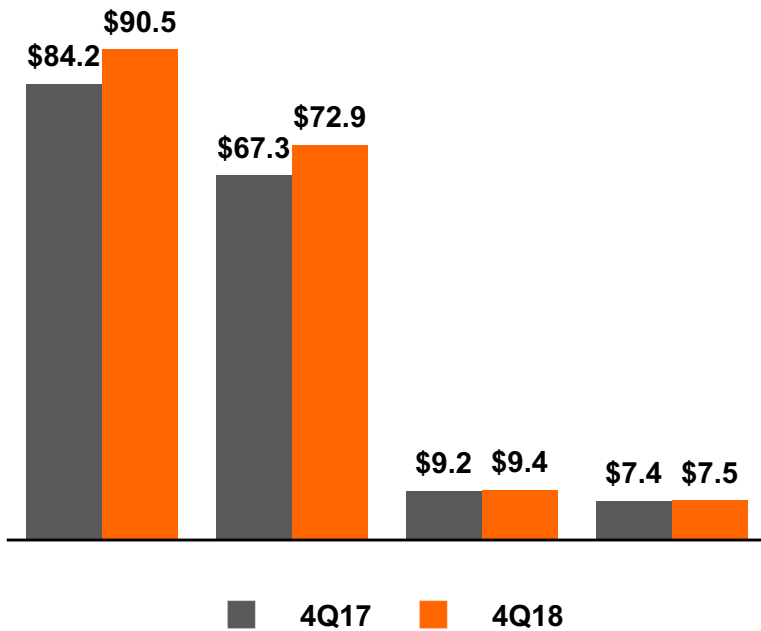
Note(s)

1. Adjusted Diluted EPS 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 activities that are not expected to continue and provides a useful metric to evaluate the Company's ongoing operating performance; see appendix for a reconciliation
2. 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

DISCOVER® | 4Q18 Loan and Volume Growth

Ending Loans (\$Bn)

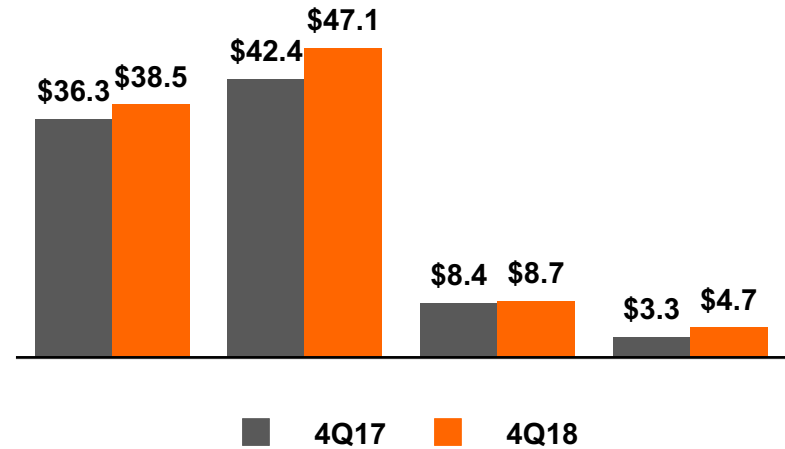
Total +7%
Card +8%
Student +2%
Personal +1%



Volume (\$Bn)

Payment Services

Proprietary +6%
PULSE +11%
Diners ⁽¹⁾ +4%
Network Partners +43%



Total Network Volume up 10% 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)	4Q18	4Q17	B / (W)	
			\$ Δ	% Δ
Interest Income	\$2,907	\$2,556	\$351	14%
Interest Expense	605	436	(169)	(39%)
Net Interest Income	2,302	2,120	182	9%
Discount/Interchange Revenue	752	717	35	5%
Rewards Cost	475	434	(41)	(9%)
Net Discount/Interchange Revenue	277	283	(6)	(2%)
Protection Products Revenue	50	54	(4)	(7%)
Loan Fee Income	108	96	12	13%
Transaction Processing Revenue	46	43	3	7%
Other Income	24	18	6	33%
Total Non-Interest Income	505	494	11	2%
Revenue Net of Interest Expense	<u>\$2,807</u>	<u>\$2,614</u>	<u>\$193</u>	<u>7%</u>
Direct Banking	\$2,733	\$2,543	\$190	7%
Payment Services	74	71	3	4%
Revenue Net of Interest Expense	<u>\$2,807</u>	<u>\$2,614</u>	<u>\$193</u>	<u>7%</u>

(\$MM)	4Q18	4Q17	Change	
			QOQ	YOY
Discover Card Sales Volume	\$37,208	\$35,339	4%	5%
Rewards Rate ⁽¹⁾	1.28%	1.23%	-3 bps	5 bps

Note(s)

1. Rewards cost divided by Discover card sales volume

Highlights

- Loan growth and higher net interest margin drove 9% increase in net interest income
- Discount and interchange revenue up 5%, driven by increased Card sales
- Rewards rate up 5 bps, driving a \$6MM decrease in net discount and interchange revenue

(\$MM)	4Q18		4Q17	
	Average Balance	Rate	Average Balance	Rate
Credit Card	\$70,563	13.20%	\$64,791	12.79%
Private Student	9,344	8.31%	9,158	7.69%
Personal	7,540	12.76%	7,455	12.27%
Other	760	6.57%	398	5.66%
Total Loans	88,207	12.59%	81,802	12.14%
Other Interest-Earning Assets	18,269	2.33%	15,566	1.34%
Total Interest-Earning Assets	<u>\$106,476</u>	10.83%	<u>\$97,368</u>	10.41%
Direct to Consumer and Affinity	\$43,514	2.00%	\$38,807	1.44%
Brokered Deposits and Other	21,574	2.58%	18,244	2.12%
Interest Bearing Deposits	65,088	2.20%	57,051	1.65%
Borrowings	27,185	3.57%	26,446	2.97%
Total Interest-Bearing Liabilities	<u>\$92,273</u>	2.60%	<u>\$83,497</u>	2.07%

(%)	Change		
	4Q18	QOQ	YOY
Total Interest Yield on Loans	12.59%	14bps	45bps
NIM on Loans	10.35%	7bps	7bps
NIM on Interest-Earning Assets	8.57%	0bps	-7bps

Highlights

- Net interest margin on loans up 7 bps driven by higher loan yields, offset by higher funding costs
- Credit card yield increased 41 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 47% of total average funding
- Funding costs on interest-bearing liabilities increased 53 bps, primarily driven by higher market rates

(\$MM)	4Q18	4Q17	B / (W)	
			\$ Δ	% Δ
Employee Compensation and Benefits	\$414	\$411	(\$3)	(1%)
Marketing and Business Development	230	213	(17)	(8%)
Information Processing & Communications	93	80	(13)	(16%)
Professional Fees	190	189	(1)	(1%)
Premises and Equipment	26	26	0	—%
Other Expense	157	117	(40)	(34%)
Total Operating Expense	\$1,110	\$1,036	(\$74)	(7%)
Direct Banking	1,059	995	(\$64)	(6%)
Payment Services	51	41	(10)	(24%)
Total Operating Expense	\$1,110	\$1,036	(\$74)	(7%)
Operating Efficiency⁽¹⁾	39.6%	39.7%		10 bps

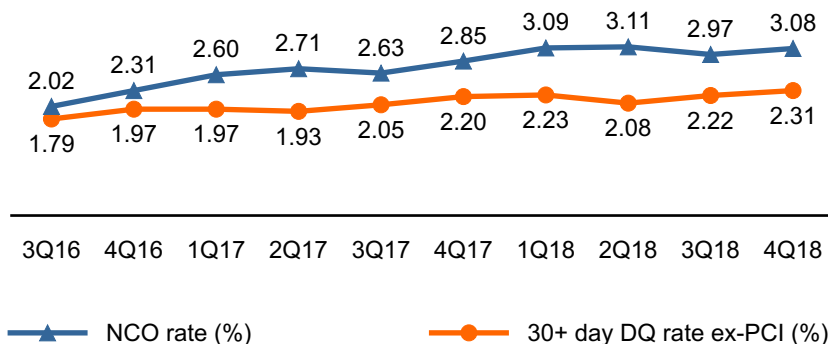
Highlights

- Other expense up 34% due to investments to enhance global merchant acceptance
- Marketing up 8% as a result of higher investment in brand and digital advertising
- Information processing up 16% due to investments in infrastructure and analytic capabilities

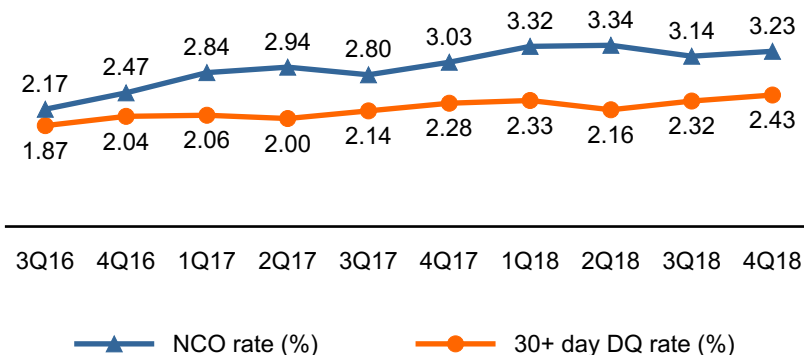
Note(s)

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

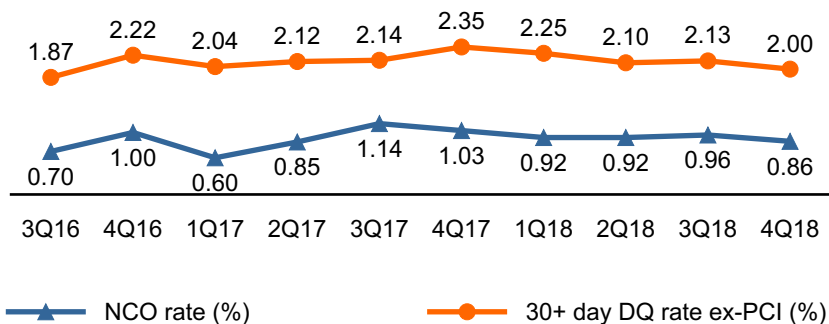
Total Company Loans



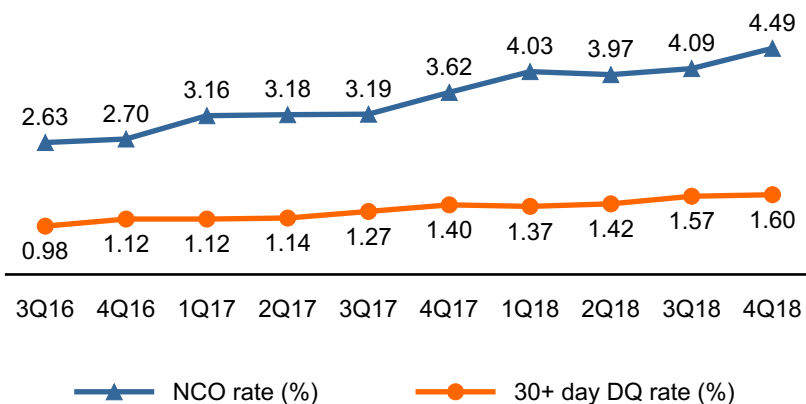
Credit Card Loans

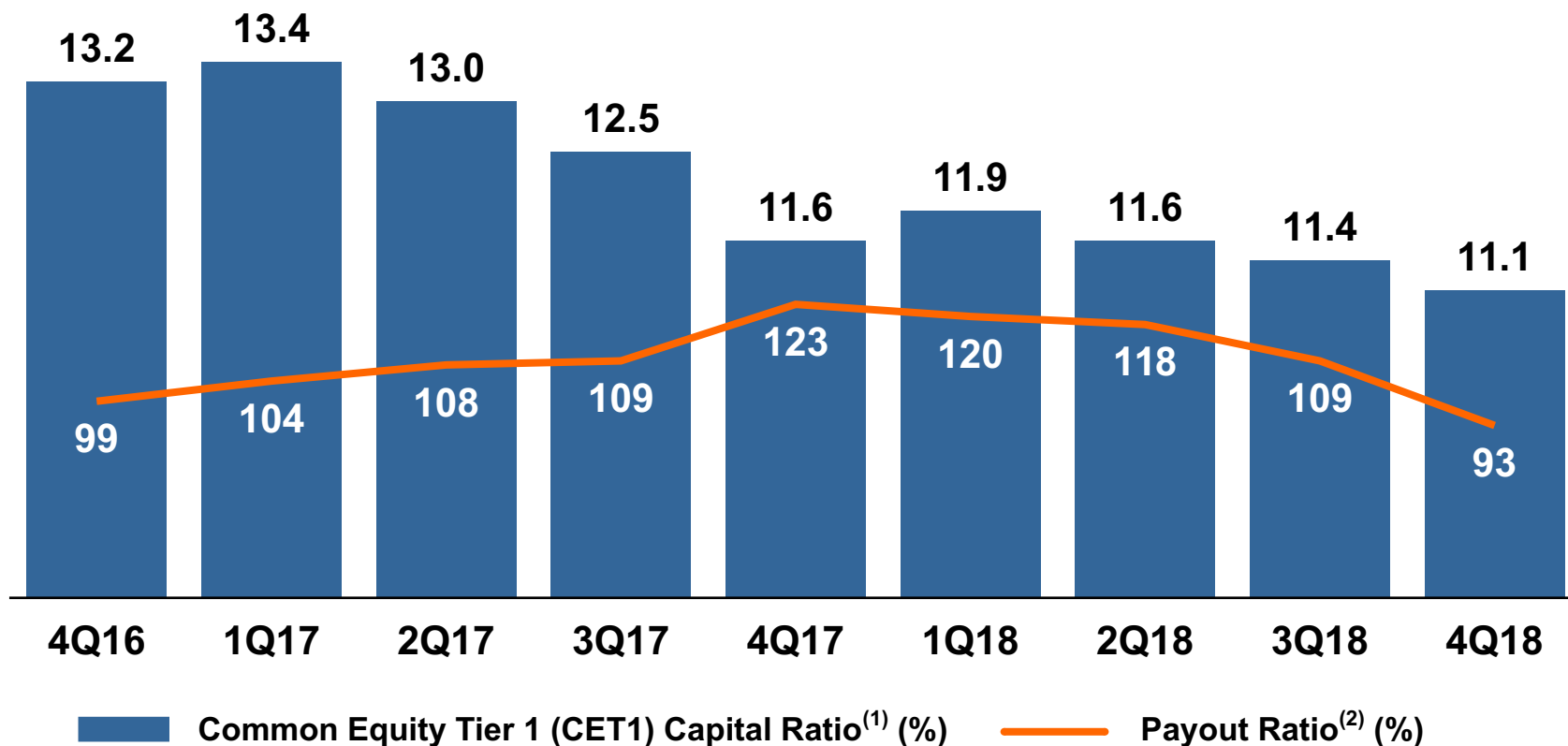


Private Student Loans



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 7% (\$6.3Bn) YOY
- Credit card loans grew 8% (\$5.6Bn) YOY as sales volume increased 5%
- Average consumer deposits grew 12% (\$4.7Bn) YOY, while deposit rates increased 56 bps

Credit and Capital

- Total NCO rate of 3.08%, up 23 bps YOY
 - Driven by supply-induced credit normalization and loan seasoning
- Capital return
 - Repurchased 6.7MM shares of common stock for \$466MM
 - CET1 capital ratio⁽¹⁾ of 11.1% down 50 bps YOY

Profitability

- Net income of \$687MM and diluted EPS of \$2.03
- Revenue growth of 7% on higher net interest income
- NIM of 10.35%, up 7 bps YOY
- Strong return on equity at 25%

Note(s)

1. Basel III Transition

- Economic environment remains stable
- Continuing to leverage the brand to drive growth in loans and deposits
- Investments in advanced analytics and automation to drive account acquisition, engagement, customer experience, and operational efficiency
- Relentless focus on customer experience
- Projecting another year of strong ROE and capital returns

	2018 Actual	2019 Guidance
Total Loan Growth	7%	6 - 8%
Operating Expense	\$4.1Bn	\$4.3 - \$4.4Bn
Rewards Rate	1.29%	1.32 - 1.34%
Total Company NIM	10.3%	10.3% +/-
Total Net Charge-off Rate	3.1%	3.2 - 3.4%

Reconciliation of GAAP to Non-GAAP Data

(unaudited, \$MM)

	4Q18	4Q17
Provision for loan losses	\$800	\$679
Income before income taxes	897	899
Pre-tax, pre-provision income⁽¹⁾	<u>\$1,697</u>	<u>\$1,578</u>

Note(s)

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Reconciliation of GAAP to Non-GAAP Data

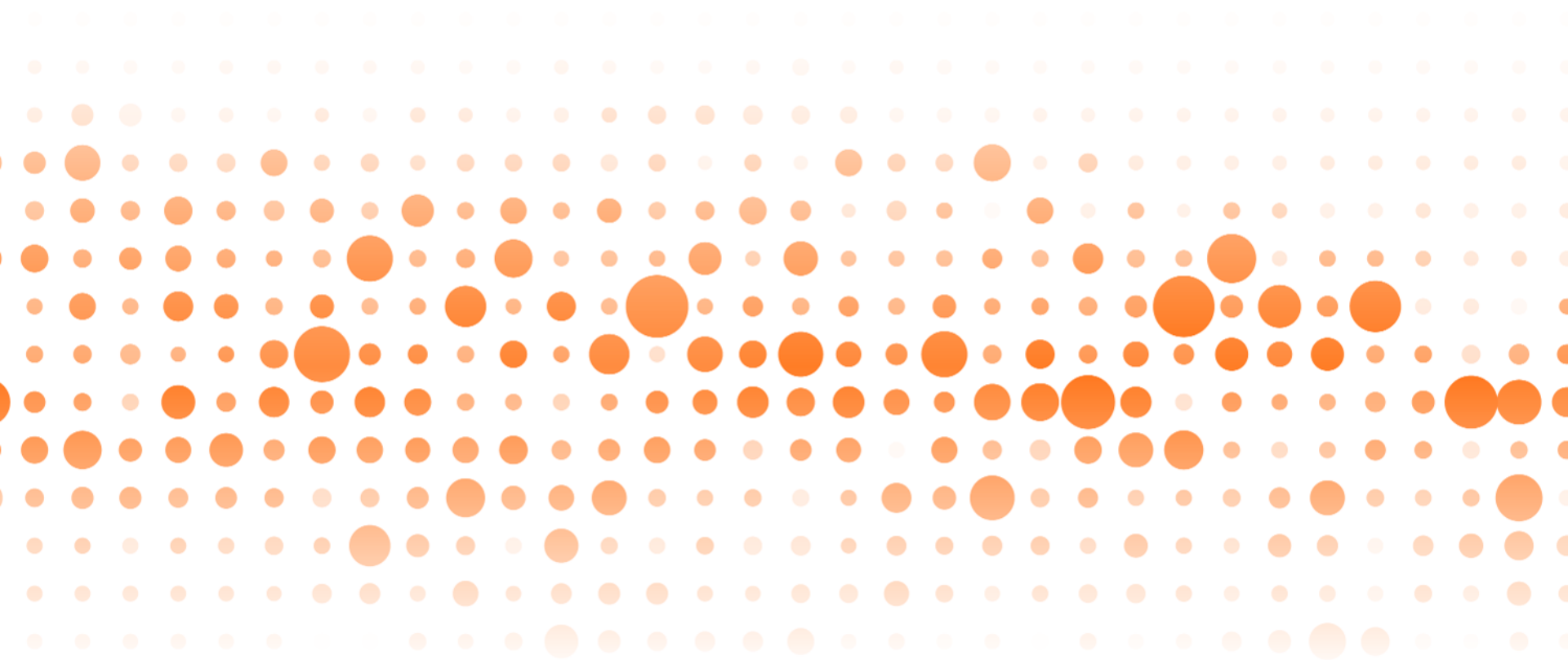
(unaudited)

4Q17

Diluted EPS	\$0.99
Adjusted for:	
Employee compensation one-time bonus	0.03
Original issuance cost related to series B preferred stock redemption	0.04
Tax related one-time items	0.49
Adjusted Diluted EPS ⁽¹⁾	<u><u>\$1.55</u></u>

Note(s)

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