



1Q19 Financial Results

April 25, 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 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, 2018, 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 \$726MM, diluted EPS of \$2.15; return on equity of 26%
- Total loan growth of 7% led by an 8% increase in credit card loans; revenue growth of 7%
- Strong credit performance reflecting disciplined underwriting, continued efficiency and effectiveness in servicing
- Efficiency ratio improved 50 bps to 37.1%
- Payment Services continued to drive strong network volume growth (up 9%)
- Returned \$601MM of capital through dividends and share repurchases

Note(s)

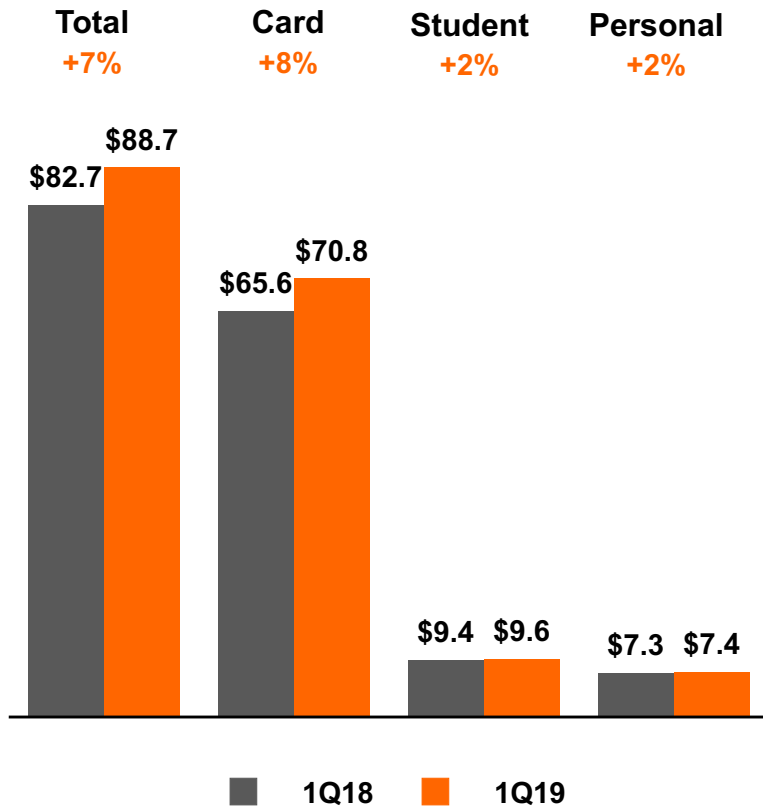
(1) All comparisons stated on a year-over-year basis

(\$MM, except per share data)	1Q19	1Q18	B / (W)	
			\$ Δ	% Δ
Revenue Net of Interest Expense	\$2,763	\$2,575	\$188	7%
Net Principal Charge-off	715	635	(80)	(13%)
Reserve Change build/(release)	94	116	22	19%
Provision for Loan Losses	809	751	(58)	(8%)
Operating Expense	1,024	968	(56)	(6%)
Direct Banking	879	811	68	8%
Payment Services	51	45	6	13%
Total Pre-Tax Income	930	856	74	9%
Income Tax Expense	204	190	(14)	(7%)
Net Income	\$726	\$666	\$60	9%
ROE	26%	25%		
Diluted EPS	\$2.15	\$1.82	\$0.33	18%

Highlights

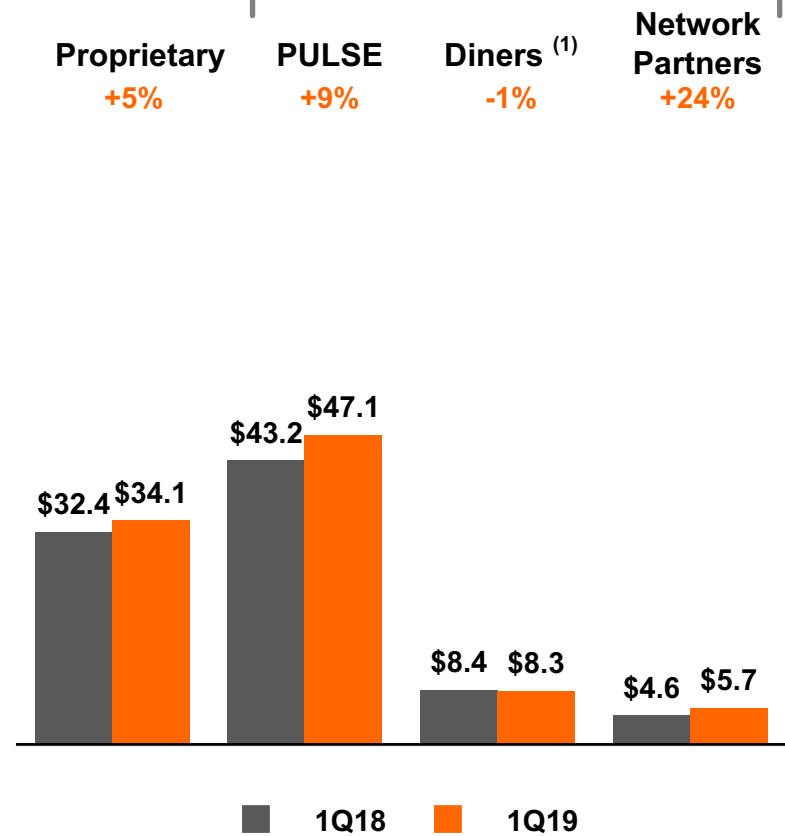
- Diluted EPS of \$2.15, up 18%
- Revenue net of interest expense of \$2.8Bn, up 7%, driven by higher net interest income
- Provision for loan losses increased \$58MM, or 8%, on higher net charge-offs, partially offset by a lower reserve build
- Expenses rose 6%, primarily driven by higher compensation expense, as well as investments to support growth and new capabilities

Ending Loans (\$Bn)



Volume (\$Bn)

Payment Services



Total Network Volume up 7% 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)	1Q19	1Q18	B / (W)	
			\$ Δ	% Δ
Interest Income	\$2,937	\$2,569	\$368	14%
Interest Expense	632	469	(163)	(35%)
Net Interest Income	2,305	2,100	205	10%
Discount/Interchange Revenue	677	646	31	5%
Rewards Cost	446	392	(54)	(14%)
Net Discount/Interchange Revenue	231	254	(23)	(9%)
Protection Products Revenue	49	53	(4)	(8%)
Loan Fee Income	104	96	8	8%
Transaction Processing Revenue	46	43	3	7%
Other Income	28	29	(1)	(3%)
Total Non-Interest Income	458	475	(17)	(4%)
Revenue Net of Interest Expense	<u>\$2,763</u>	<u>\$2,575</u>	<u>\$188</u>	<u>7%</u>
Direct Banking	\$2,677	\$2,494	\$183	7%
Payment Services	86	81	5	6%
Revenue Net of Interest Expense	<u>\$2,763</u>	<u>\$2,575</u>	<u>\$188</u>	<u>7%</u>

(\$MM)	1Q19	1Q18	Change	
			QOQ	YOY
Discover Card Sales Volume	\$32,899	\$30,850	(12%)	7%
Rewards Rate ⁽¹⁾	1.35%	1.27%	7 bps	8 bps

Note(s)

1. Rewards cost divided by Discover card sales volume

Highlights

- Loan growth and higher net interest margin drove 10% increase in net interest income
- Net discount and interchange revenue decreased 9% driven by higher promotional rewards cost
- Rewards rate up 8 bps, due to greater customer engagement in 5% category this quarter

(\$MM)	1Q19		1Q18	
	Average Balance	Rate	Average Balance	Rate
Credit Card	\$71,363	13.42%	\$65,983	12.85%
Private Student	9,654	8.63%	9,432	7.89%
Personal	7,468	12.86%	7,387	12.43%
Other	868	6.85%	452	5.98%
Total Loans	89,353	12.79%	83,254	12.21%
Other Interest-Earning Assets	19,221	2.50%	15,879	1.58%
Total Interest-Earning Assets	<u>\$108,574</u>	<u>10.97%</u>	<u>\$99,133</u>	<u>10.51%</u>
Direct to Consumer and Affinity	\$45,841	2.15%	\$39,825	1.59%
Brokered Deposits and Other	21,799	2.67%	19,638	2.19%
Interest Bearing Deposits	67,640	2.32%	59,463	1.79%
Borrowings	26,577	3.76%	26,126	3.21%
Total Interest-Bearing Liabilities	<u>\$94,217</u>	<u>2.72%</u>	<u>\$85,589</u>	<u>2.22%</u>

(%)	Change		
	1Q19	QOQ	YOY
Total Interest Yield on Loans	12.79%	20bps	58bps
NIM on Loans	10.46%	11bps	23bps
NIM on Interest-Earning Assets	8.61%	4bps	2bps

Highlights

- Net interest margin on loans up 23 bps driven by higher loan yields, partially offset by higher funding costs
- Credit card yield increased 57 bps as increases in the prime rate were partially offset by portfolio mix and higher interest charge-offs
- Average consumer deposits grew 15% and composed 49% of total funding
- Funding costs on interest-bearing liabilities increased 50 bps, primarily driven by higher market rates

(\$MM)	1Q19	1Q18	B / (W)	
			\$ Δ	% Δ
Employee Compensation and Benefits	\$425	\$405	(\$20)	(5%)
Marketing and Business Development	195	185	(10)	(5%)
Information Processing & Communications	99	82	(17)	(21%)
Professional Fees	167	155	(12)	(8%)
Premises and Equipment	28	26	(2)	(8%)
Other Expense	110	115	5	4%
Total Operating Expense	\$1,024	\$968	(\$56)	(6%)
Direct Banking	989	932	(\$57)	(6%)
Payment Services	35	36	1	3%
Total Operating Expense	\$1,024	\$968	(\$56)	(6%)
Operating Efficiency⁽¹⁾	37.1%	37.6%		50 bps

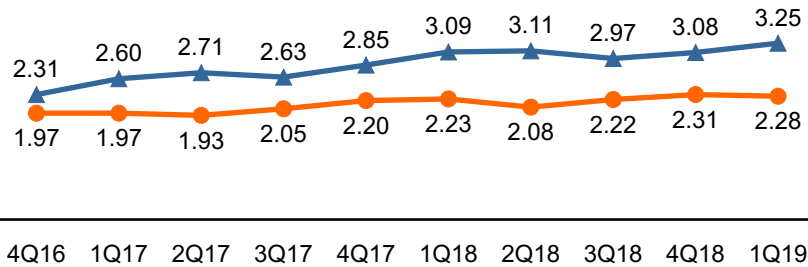
Highlights

- Employee compensation and benefits up 5%, primarily due to higher average salaries
- Information processing up 21% due to investments in infrastructure and analytic capabilities
- Professional fees up 8%, primarily related to achieving a higher level of recoveries
- Marketing up 5% as a result of higher investment in brand advertising and initiatives to drive deposits growth
- Operating efficiency improved 50 bps on strong revenue growth combined with disciplined expense growth

Note(s)

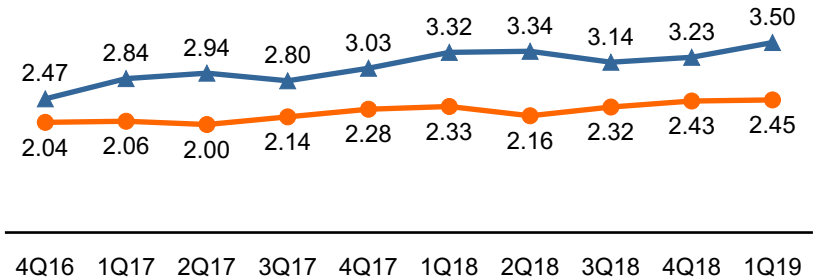
1. Defined as reported total operating expense divided by revenue net of interest expense

Total Company Loans



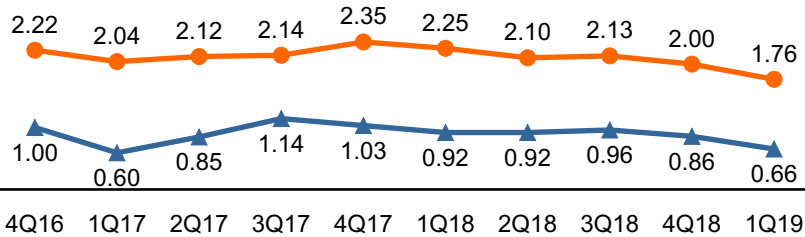
▲ NCO rate (%) ● 30+ day DQ rate ex-PCI (%)

Credit Card Loans



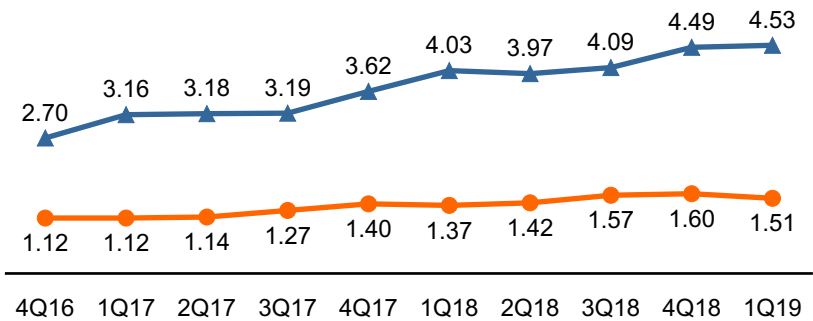
▲ NCO rate (%) ● 30+ day DQ rate (%)

Private Student Loans

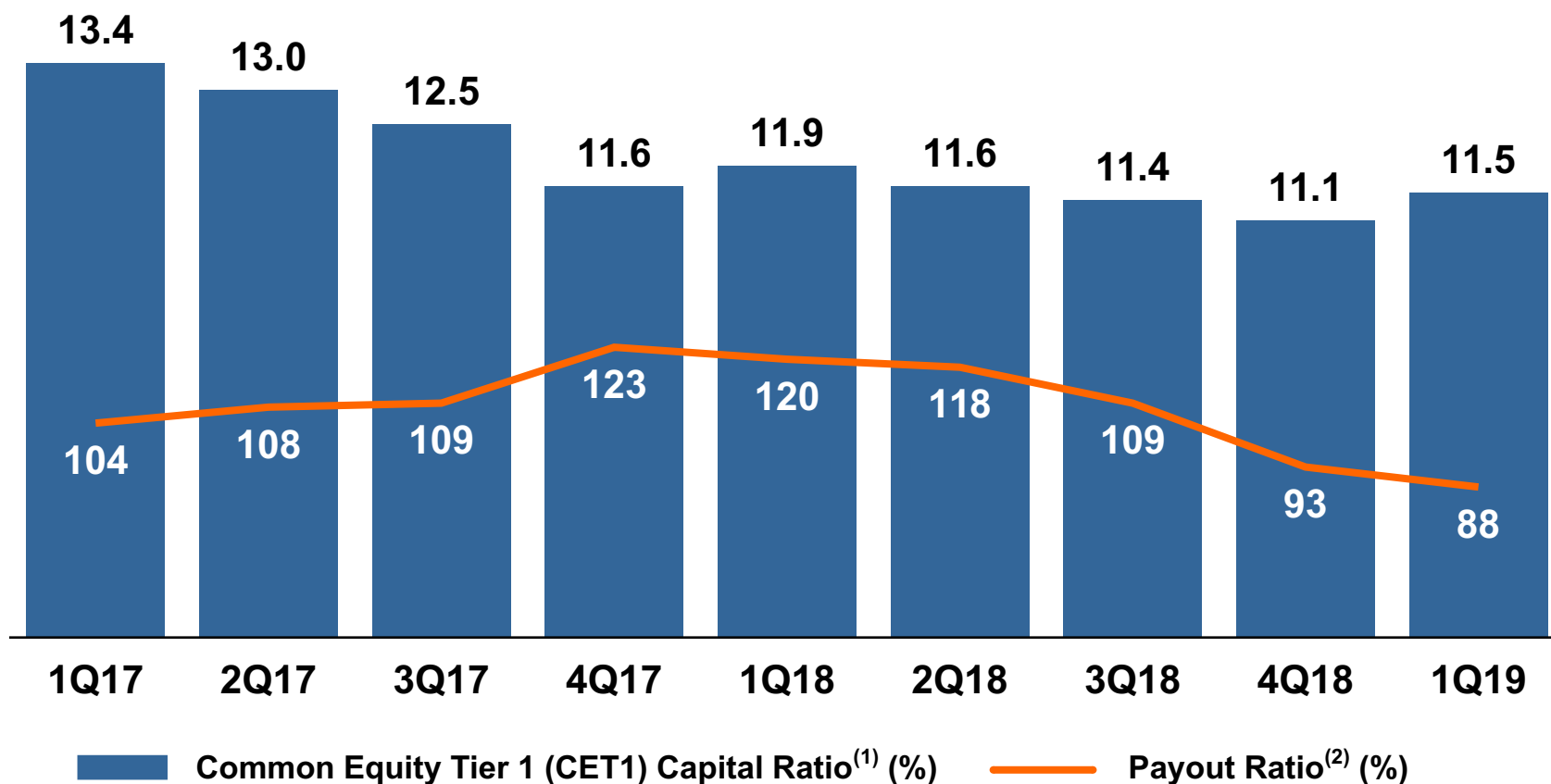


▲ NCO rate (%) ● 30+ day DQ rate ex-PCI (%)

Personal Loans



▲ NCO rate (%) ● 30+ day DQ rate (%)



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% (\$6.0Bn) YOY
- Credit card loans grew 8% (\$5.2Bn) YOY as sales volume increased 7%
- Average consumer deposits grew 15% (\$6.0Bn) YOY, while deposit rates increased 56 bps

Credit and Capital

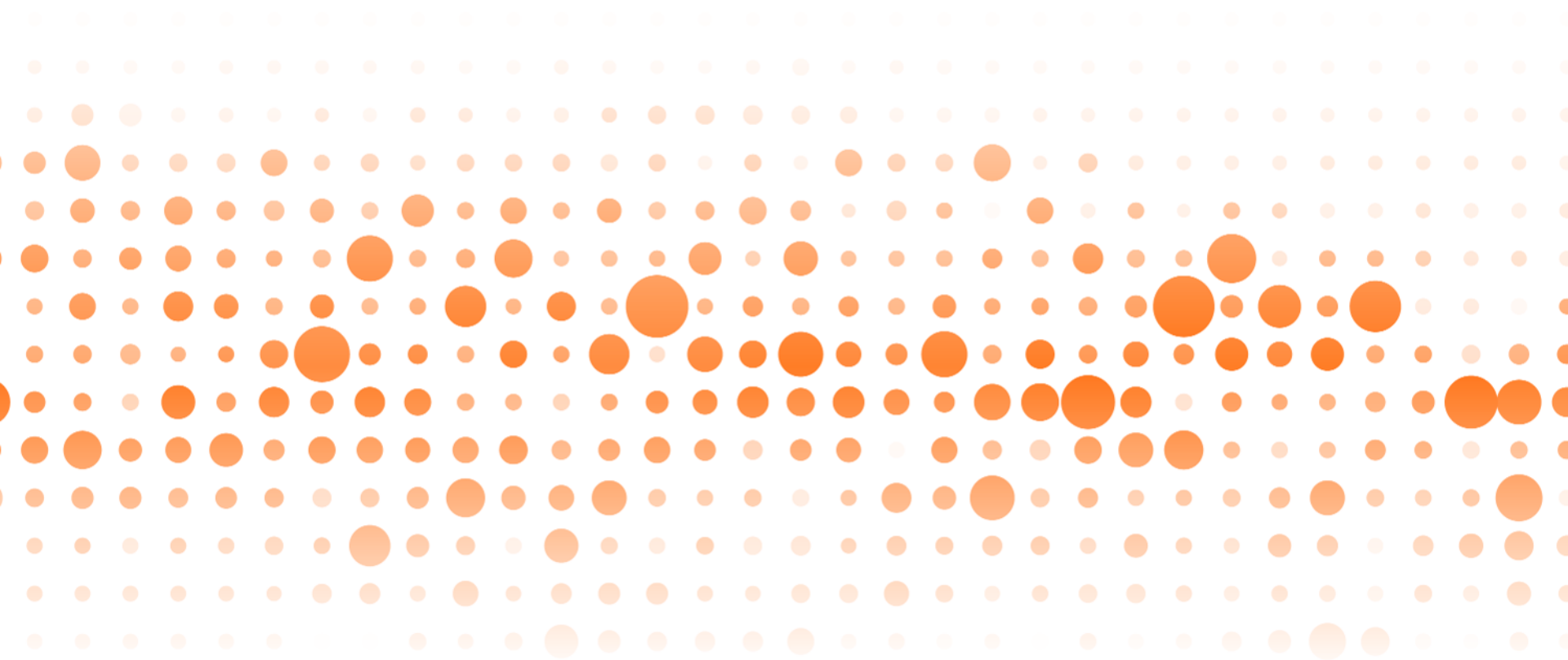
- Total NCO rate of 3.25%, up 16 bps YOY
 - Driven by loan seasoning and supply-induced credit normalization
- Capital return
 - Repurchased 7.2MM shares of common stock for \$487MM
 - CET1 capital ratio⁽¹⁾ of 11.5% down 40 bps YOY

Profitability

- Net income of \$726MM and diluted EPS of \$2.15
- Revenue growth of 7% on higher net interest income
- NIM of 10.46%, up 23 bps YOY
- Efficiency ratio improved 50 bps YOY to 37%
- Strong return on equity at 26%

Note(s)

1. Basel III Transition



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