



2Q19 Financial Results

July 23, 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, and "Management's Discussion & Analysis of Financial Condition and Results of Operations" in the company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, 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 \$753MM, diluted EPS of \$2.32; return on equity of 26%
- Total loan growth of 6% led by an 7% increase in credit card loans; revenue growth of 10%
- Strong credit performance reflecting disciplined underwriting and continued investments in collection capabilities
- Payment Services continued to drive strong network volume growth (up 8%)
- Investments in technology as well as our customer focus led to the highest ranking by J.D. Power in customer satisfaction among credit card mobile apps and websites
- Returned \$571MM of capital through dividends and share repurchases; announced capital plan which includes dividend increase and share repurchases

Note(s)

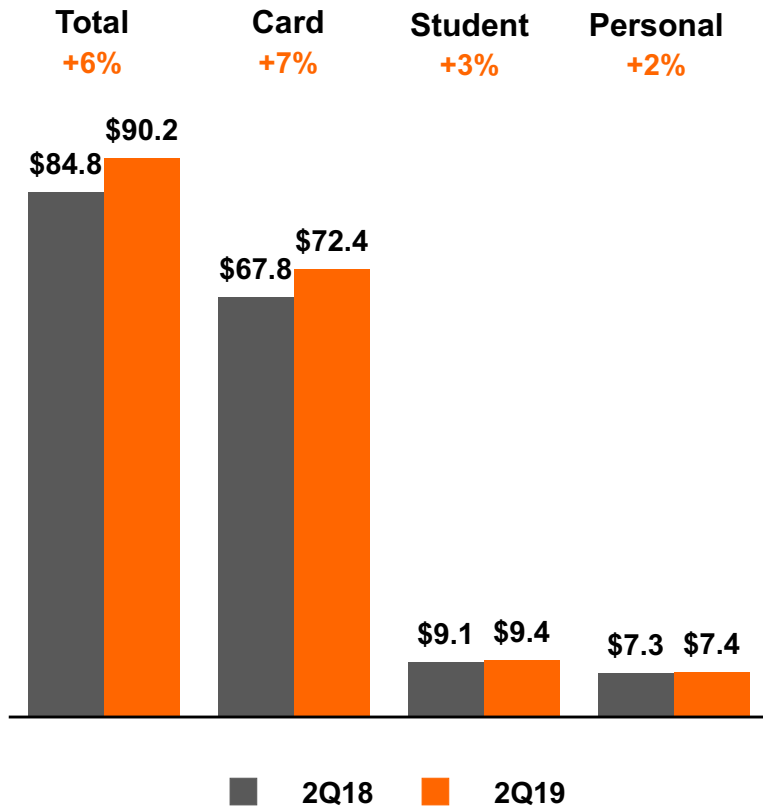
(1) All comparisons stated on a year-over-year basis

(\$MM, except per share data)	2Q19	2Q18	Inc / (Dec)	
			\$	%
Revenue Net of Interest Expense	\$2,852	\$2,603	\$249	10%
Net Principal Charge-off	718	649	69	11%
Reserve Change	69	93	(24)	(26%)
Provision for Loan Losses	787	742	45	6%
Operating Expense	1,078	984	94	10%
Total Pre-Tax Income	987	877	110	13%
Income Tax Expense	234	208	26	13%
Net Income	\$753	\$669	\$84	13%
<u>Segment Pre-Tax Income</u>				
Direct Banking	\$941	\$837	\$104	12%
Payment Services	46	40	6	15%
Total Pre-Tax Income	\$987	\$877	\$110	13%
ROE	26%	25%		
Diluted EPS	\$2.32	\$1.91	\$0.41	21%

Highlights

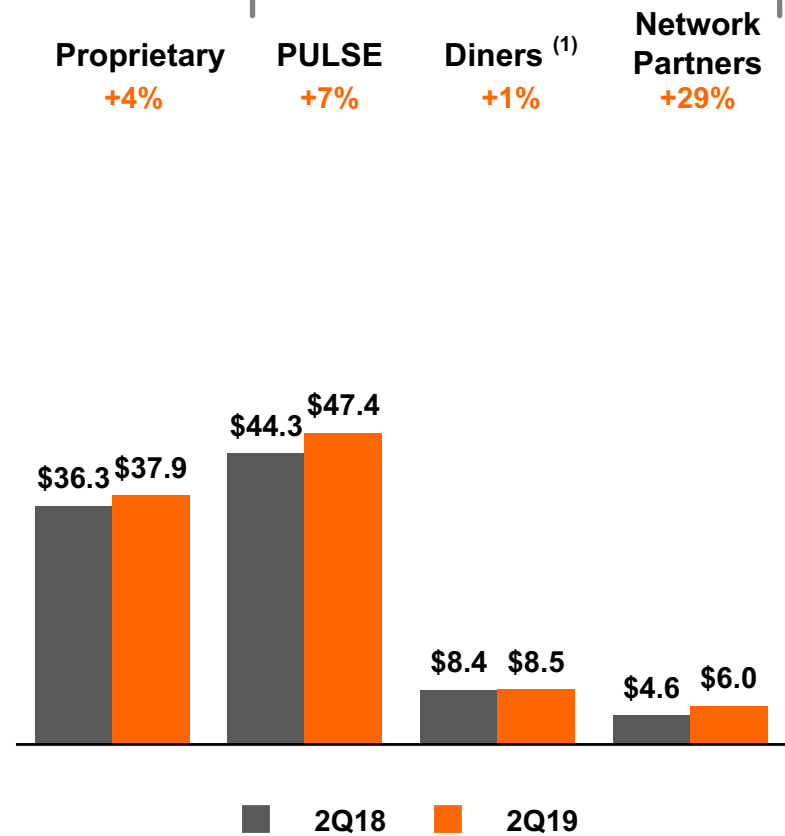
- Revenue net of interest expense of \$2.9Bn, up 10%, driven by higher net interest income
- Provision for loan losses increased \$45MM, or 6%, on higher net charge-offs, partially offset by a lower reserve build
- Expenses rose 10%, primarily driven by higher compensation expense, as well as investments to support growth and new capabilities
- Diluted EPS of \$2.32, up 21%

Ending Loans (\$Bn)



Volume (\$Bn)

Payment Services



Total Network Volume up 6% 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)	2Q19	2Q18	Inc / (Dec)	
			\$	%
Interest Income	\$2,977	\$2,636	\$341	13%
Interest Expense	645	507	138	27%
Net Interest Income	2,332	2,129	203	10%
Discount/Interchange Revenue	759	724	35	5%
Rewards Cost	460	461	(1)	—%
Net Discount/Interchange Revenue	299	263	36	14%
Protection Products Revenue	49	50	(1)	(2%)
Loan Fee Income	102	95	7	7%
Transaction Processing Revenue	48	42	6	14%
Other Income	22	24	(2)	(8%)
Total Non-Interest Income	520	474	46	10%
Revenue Net of Interest Expense	<u>\$2,852</u>	<u>\$2,603</u>	<u>\$249</u>	<u>10%</u>
<u>Segment Revenue Net of Interest Expense</u>				
Direct Banking	\$2,767	\$2,527	\$240	9%
Payment Services	85	76	9	12%
Revenue Net of Interest Expense	<u>\$2,852</u>	<u>\$2,603</u>	<u>\$249</u>	<u>10%</u>

(\$MM)	2Q19	2Q18	Change	
			QOQ	YOY
Discover Card Sales Volume	\$36,664	\$35,077	11%	5%
Rewards Rate ⁽¹⁾	1.25%	1.31%	-10 bps	-6 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 increased 14% driven by increased Card sales volume while rewards cost remained flat
- Rewards rate down 6 bps YOY reflecting a shift in the 5% category (gas, Uber, Lyft in 2Q19 vs. groceries in 2Q18)

(\$MM)	2Q19		2Q18	
	Average Balance	Rate	Average Balance	Rate
Credit Card	\$71,492	13.44%	\$66,594	12.88%
Private Student	9,464	8.59%	9,219	8.05%
Personal	7,419	13.02%	7,304	12.55%
Other	983	6.83%	531	6.02%
Total Loans	89,358	12.82%	83,648	12.28%
Other Interest-Earning Assets	19,794	2.45%	16,861	1.81%
Total Interest-Earning Assets	<u>\$109,152</u>	10.94%	<u>\$100,509</u>	10.52%
Direct to Consumer and Affinity	\$48,211	2.20%	\$41,459	1.71%
Brokered Deposits and Other	20,213	2.71%	19,166	2.33%
Interest Bearing Deposits	68,424	2.35%	60,625	1.90%
Borrowings	26,111	3.74%	25,988	3.39%
Total Interest-Bearing Liabilities	<u>\$94,535</u>	2.73%	<u>\$86,613</u>	2.35%

(%)	Change		
	2Q19	QOQ	YOY
Total Interest Yield on Loans	12.82%	3bps	54bps
NIM on Loans	10.47%	1bps	26bps
NIM on Interest-Earning Assets	8.57%	-4bps	7bps

Highlights

- Net interest margin on loans up 26 bps as higher loan yields were partially offset by higher funding costs
- Credit card yield increased 56 bps due to prime rate increases and portfolio mix, partially offset by higher interest charge-offs
- Average consumer deposits grew 16% and composed 51% of total funding
- Funding costs on interest-bearing liabilities increased 38 bps, primarily driven by higher market rates

(\$MM)	2Q19	2Q18	Inc / (Dec)	
			\$	%
Employee Compensation and Benefits	\$427	\$400	\$27	7%
Marketing and Business Development	224	224	0	—%
Information Processing & Communications	101	86	15	17%
Professional Fees	183	161	22	14%
Premises and Equipment	26	24	2	8%
Other Expense	117	89	28	31%
Total Operating Expense	\$1,078	\$984	\$94	10%
Segment Operating Expense				
Direct Banking	1,039	948	\$91	10%
Payment Services	39	36	3	8%
Total Operating Expense	\$1,078	\$984	\$94	10%
Operating Efficiency⁽¹⁾	37.8%	37.8%		— bps

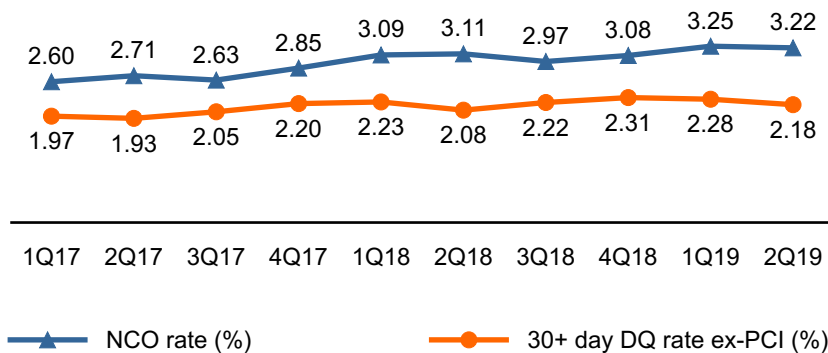
Highlights

- Employee compensation and benefits up 7%, primarily due to higher average salaries and benefits
- Information processing up 17% due to investments in infrastructure and analytic capabilities
- Professional fees up 14%, primarily related to achieving a higher level of recoveries

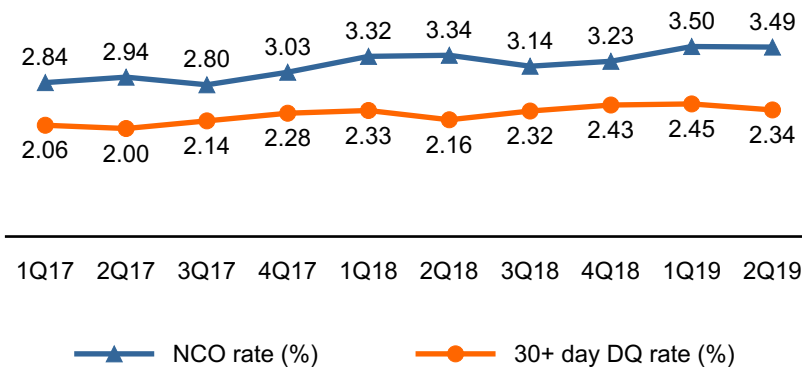
Note(s)

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

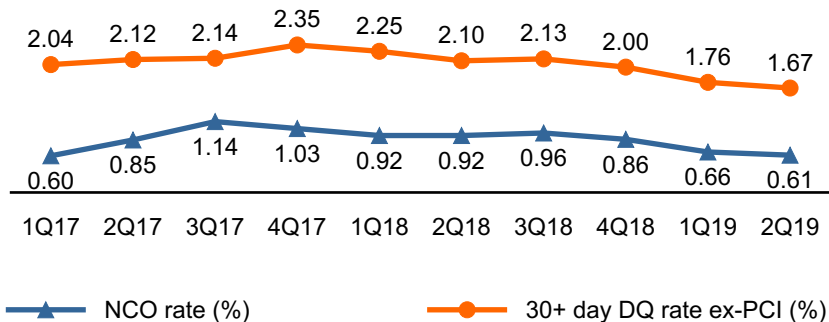
Total Company Loans



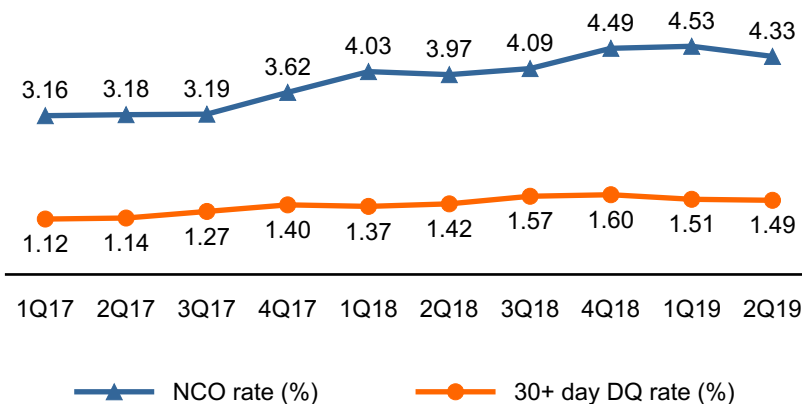
Credit Card Loans

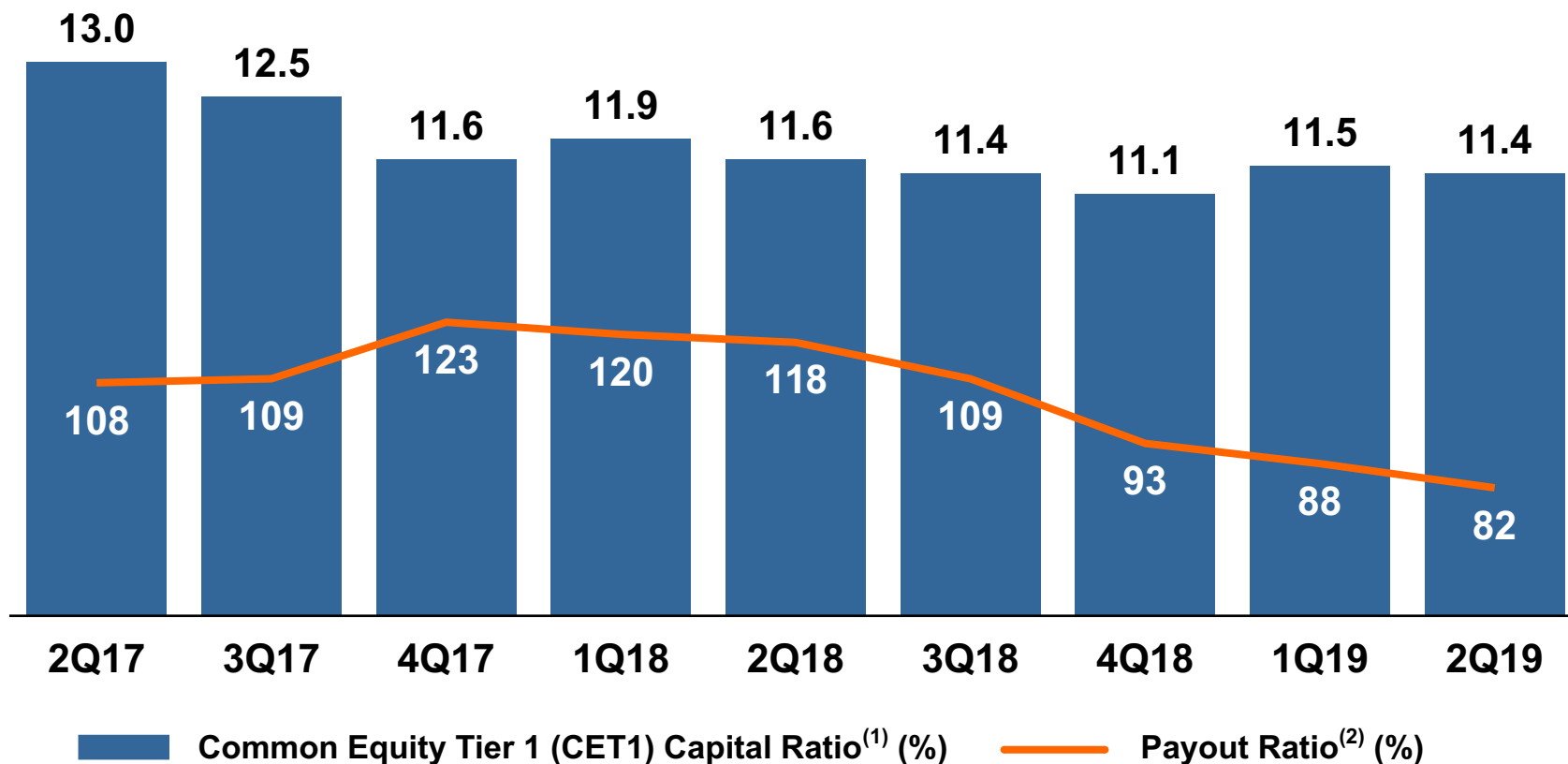


Private Student Loans



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 6% (\$5.4Bn) YOY
- Credit card loans grew 7% (\$4.6Bn) YOY as sales volume increased 5%
- Average consumer deposits grew 16% (\$6.8Bn) YOY, while deposit rates increased 49 bps

Credit and Capital

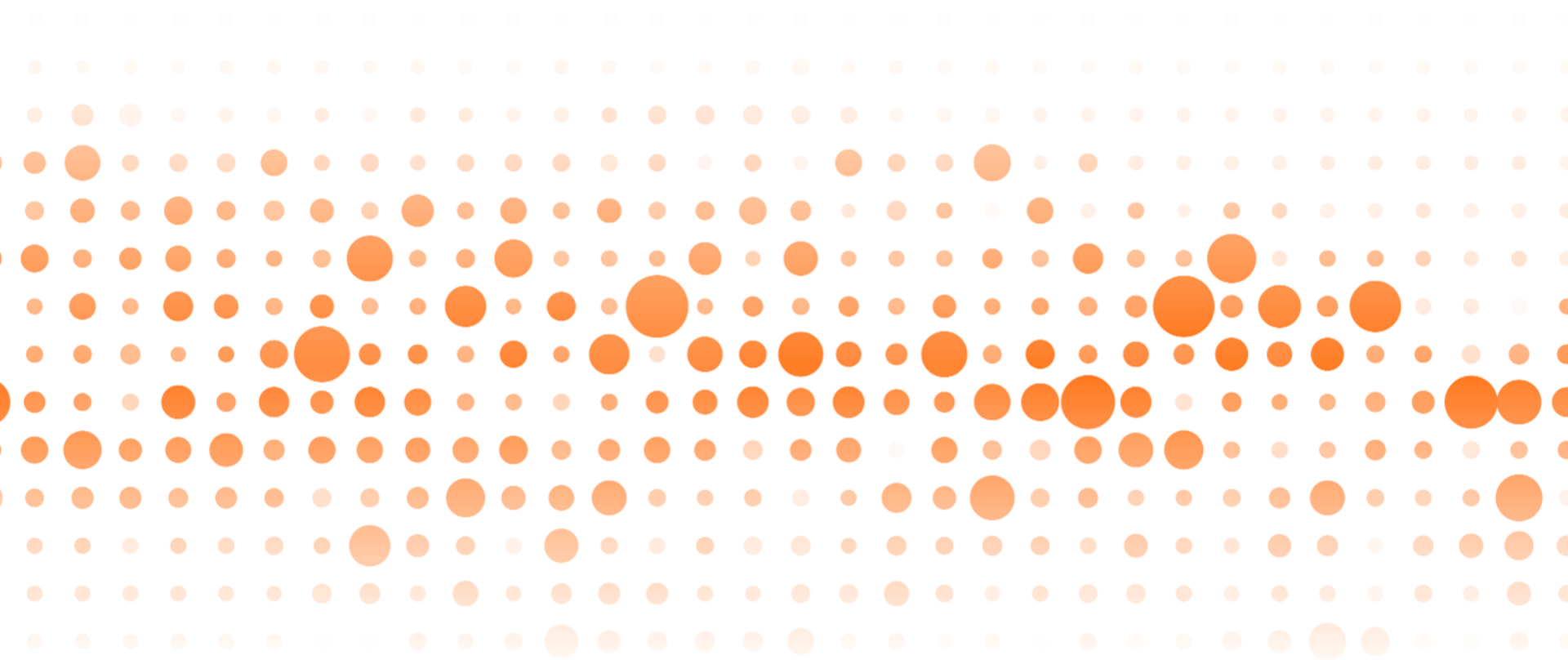
- Total NCO rate of 3.22%, up 11 bps YOY
 - Reflects loan seasoning and supply-driven credit normalization
- Capital return
 - Raised quarterly common dividend to \$0.44/share
 - Planned share repurchases up to \$1.63Bn over four quarters ending June 30, 2020
 - CET1 capital ratio⁽¹⁾ of 11.4% down 20 bps YOY

Profitability

- Net income of \$753MM and diluted EPS of \$2.32
- Revenue growth of 10% on higher net interest income
- NIM of 10.47%, up 26 bps YOY
- Strong return on equity at 26%

Note(s)

1. Basel III Transition



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