



2014 BancAnalysts Association of Boston Conference

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Notice

The following slides are part of a presentation by Discover Financial Services (the "Company") and are intended to be viewed as part of that presentation. No representation is made that the information in these slides is complete.

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, 2013 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014, June 30, 2014 and September 30, 2014, which are available on the Company's website and the SEC's website. The Company does not undertake to update or revise forward-looking statements as more information becomes available.

We own or have rights to use the trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to: Discover®, PULSE®, Cashback Bonus®, Discover Cashback CheckingSM, Discover it®, Discover® Network and Diners Club International®. All other trademarks, trade names and service marks included in this presentation are the property of their respective owners.

Throughout these materials, direct-to-consumer deposits are referred to as DTC deposits. DTC deposits include deposit products that we offer to customers through direct marketing, internet origination and affinity relationships. DTC deposits include certificates of deposits, money market accounts, online savings and checking accounts, and IRA certificates of deposit.

Positioning to be the leading direct bank

Direct Banking Strategy

- Discover to become the leading direct bank by leveraging our unique assets and capabilities to grow credit card market share and pursue other high-return direct consumer banking opportunities in the U.S.

Consumer Strategic Shift

- Today:** "My favorite credit card"
- Near Term:** "My favorite provider of credit cards and other financial services"
- Ultimately:** "My bank"

Direct Banking Segment (97% of DFS Pre-Tax Profit)



U.S. Card Issuing

- \$54Bn in card receivables
- Leading cash rewards program
- 1 in 4 U.S. households

DISCOVER® Deposits and Lending

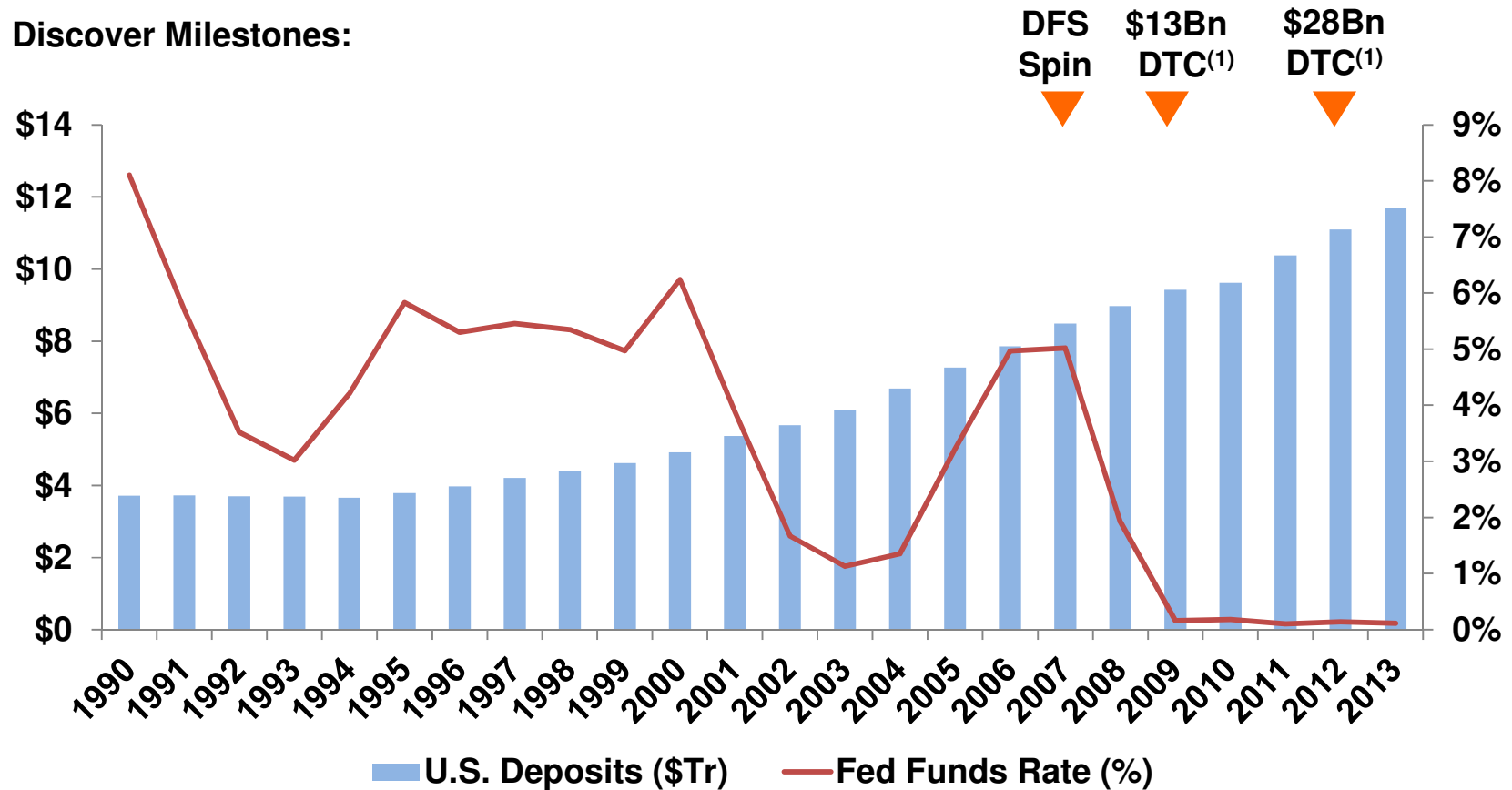
- \$29Bn direct-to-consumer deposits
- \$13Bn personal loans and private student loans
- \$2.5Bn home loan originations
- Home equity installment loans

Note(s): Balances as of September 30, 2014; direct mortgage originations and pre-tax profit based on the trailing four quarters ending 3Q14

Today - uncharted environment

U.S. Deposit Growth vs. Fed Funds Rate

Discover Milestones:



Source: Federal Reserve Board Flow of Funds and Fed Funds rate reported annually

Note(s):

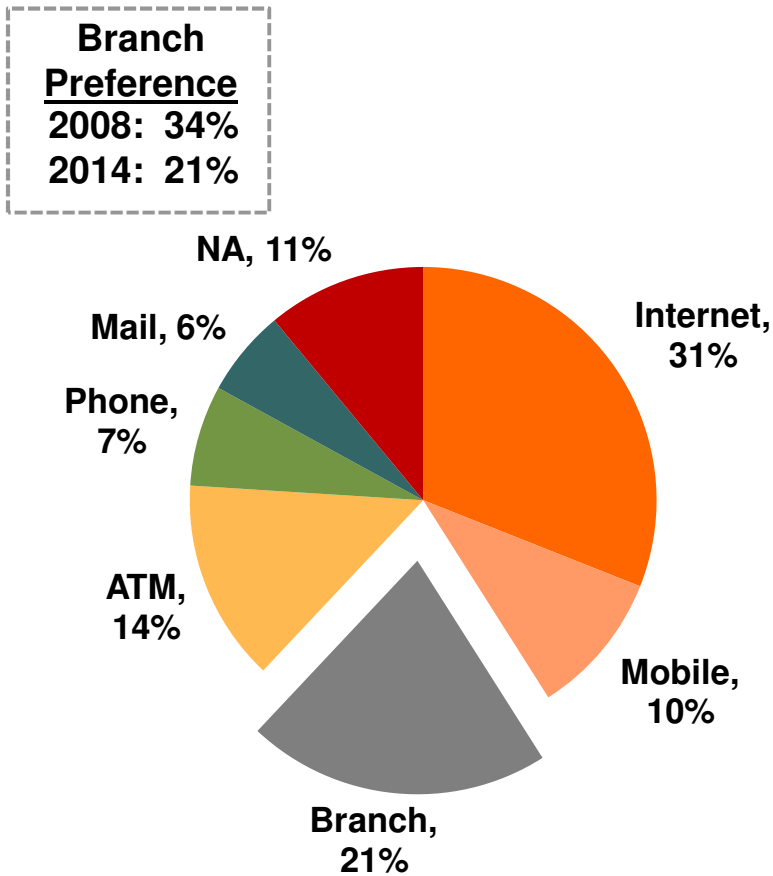
1. Direct-to-consumer deposits (DTC); see Notice for complete definition

Deposits strategy – Great service and good pricing

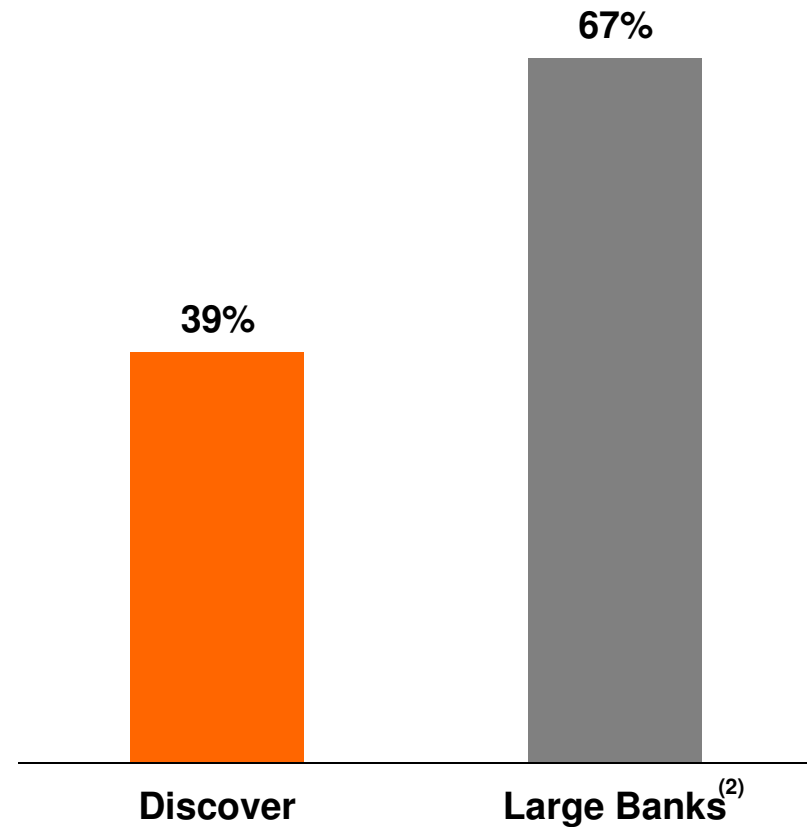
- Segment: Savvy, value-oriented consumers
- Value Proposition
 - Outstanding service and convenience
 - Consistently good rates
- Execution Path
 - Expand product breadth with distinctive offerings over time
 - Enhance product features and functionality
 - Integrate brands across platforms to drive cross-sell

Preference for direct channels has grown among consumers

Preferred Banking Channel



2013 Efficiency Ratio⁽¹⁾



Source: American Bankers Association Survey 2014

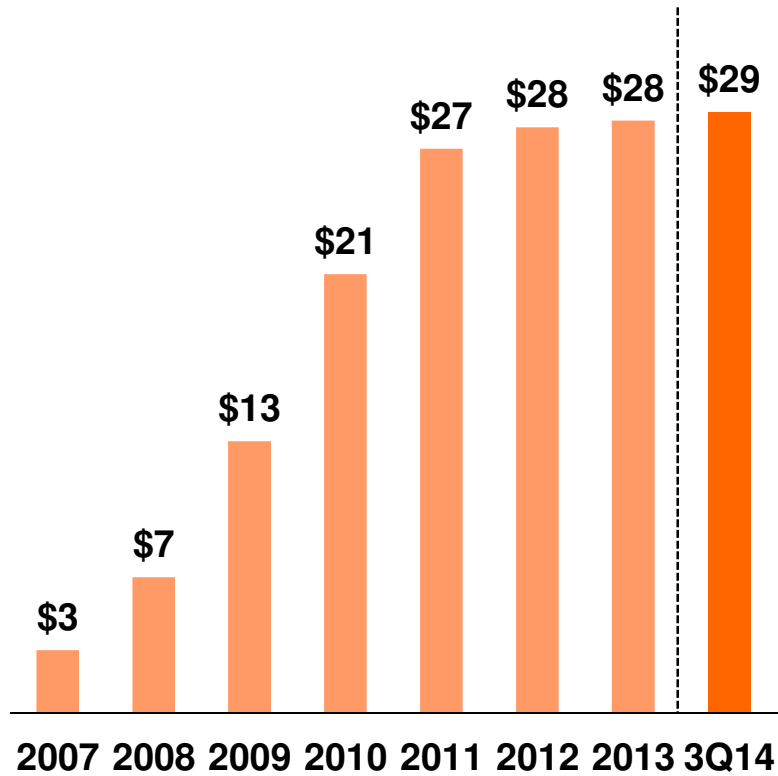
Note(s):

1. Total operating expenses divided by revenue net of interest expense
2. Bank holding companies participating in the 2014 Comprehensive Capital Analysis and Review (CCAR); excludes Discover

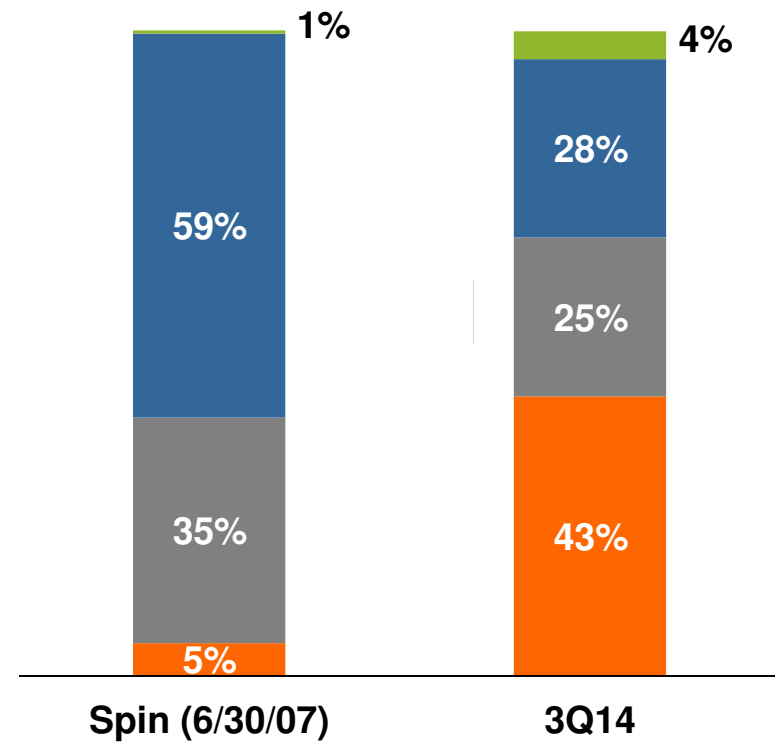
Source: SNL

Funding asset growth with deposits

Direct-to-Consumer Deposits (\$Bn)⁽¹⁾



Funding Mix

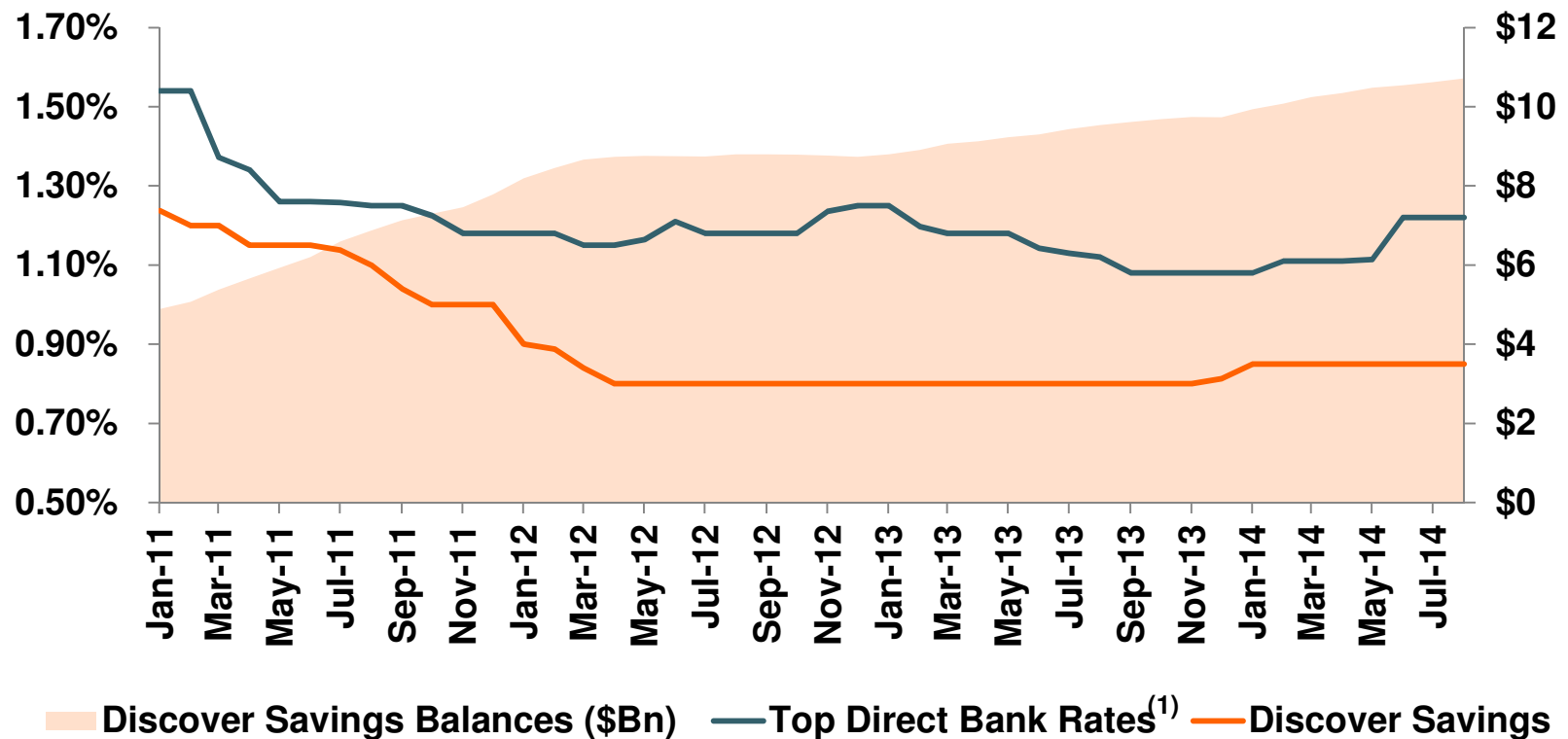


Note(s):
1. Includes affinity deposits

■ Senior Bank Notes
 ■ ABS and Other
■ Brokered Deposits
 ■ Direct Deposits⁽¹⁾

Pricing to balance growth and stability of book

Discover Savings Rate vs. Top Direct Bank Rates⁽¹⁾



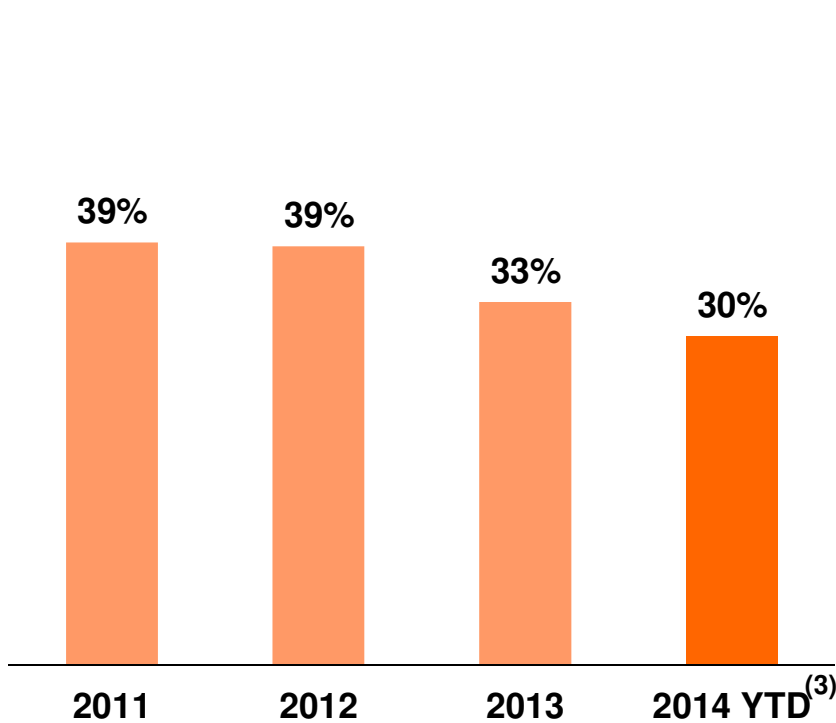
Source: Internal data & Informa Research Services

Note(s):

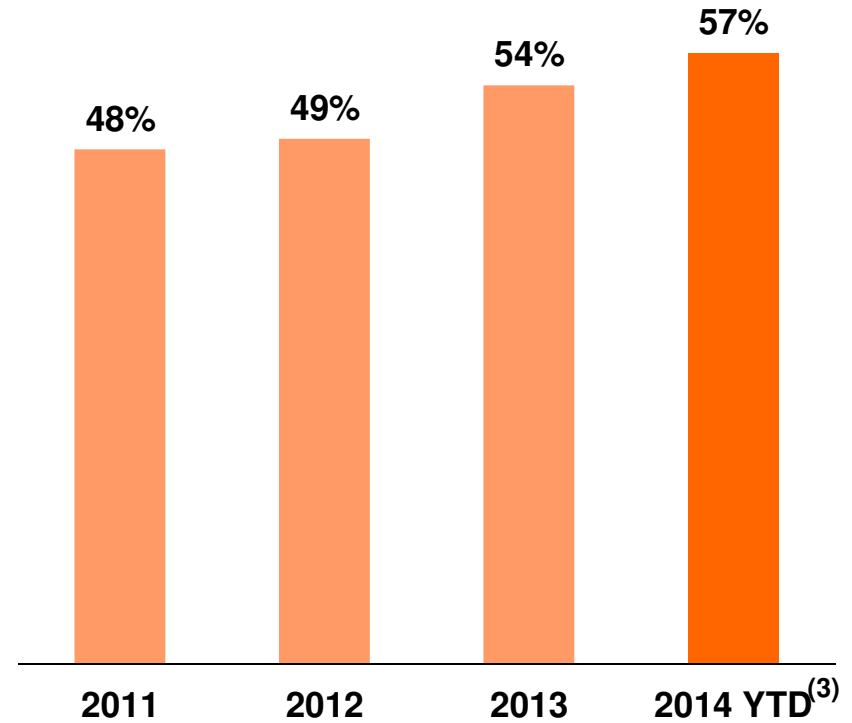
1. Data set through August 2014; Top Direct Bank Rates reflects monthly average of top three rates posted online weekly by banks without a traditional branch network

Optimizing product mix to manage rate sensitivity

Indeterminate Balances Acquired at 10%+ Above Competitor Rates^(1,2)



Indeterminate Balances as a % of Deposits Portfolio⁽¹⁾

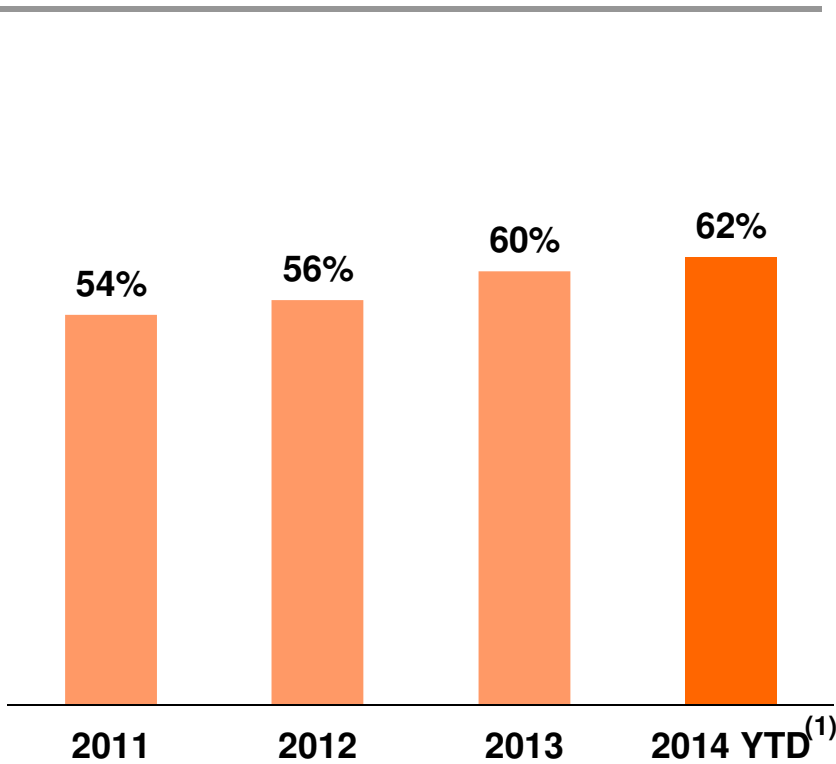


Note(s):

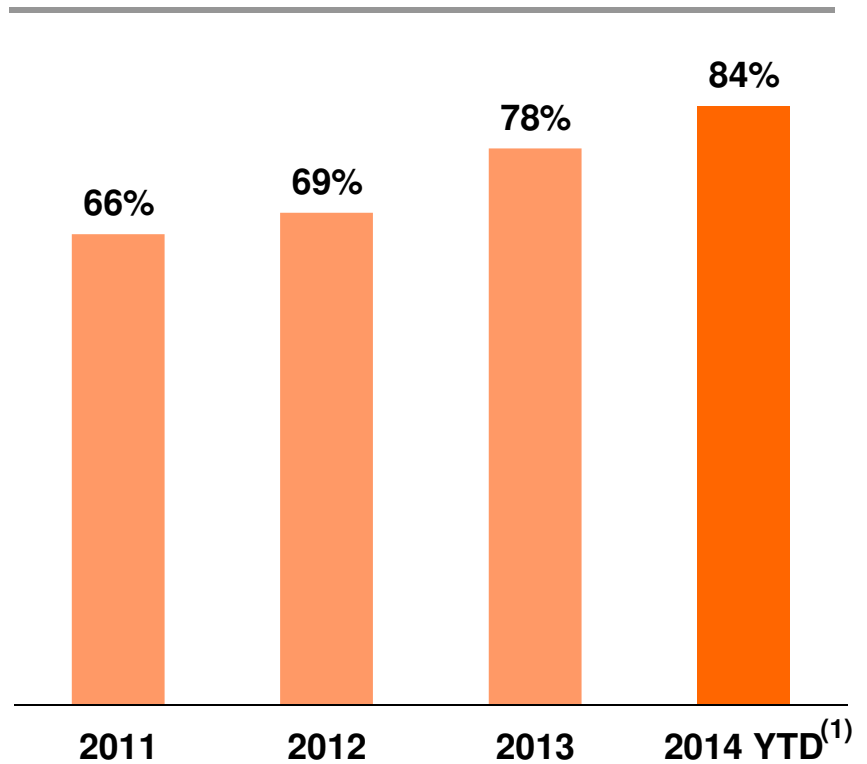
- 1. Indeterminate Balances defined as savings and money market balances
- 2. Competitor Rates reflects monthly average of rates posted online by peer banks, which include banks without a traditional branch network
- 3. 2014 YTD is as of 9/30/2014

Optimizing customer mix to manage rate sensitivity

Deposits from
Card or Affinity Customers
(% of Total)



New Deposit Accounts Opened by
Card or Affinity Customers
(% of Total)

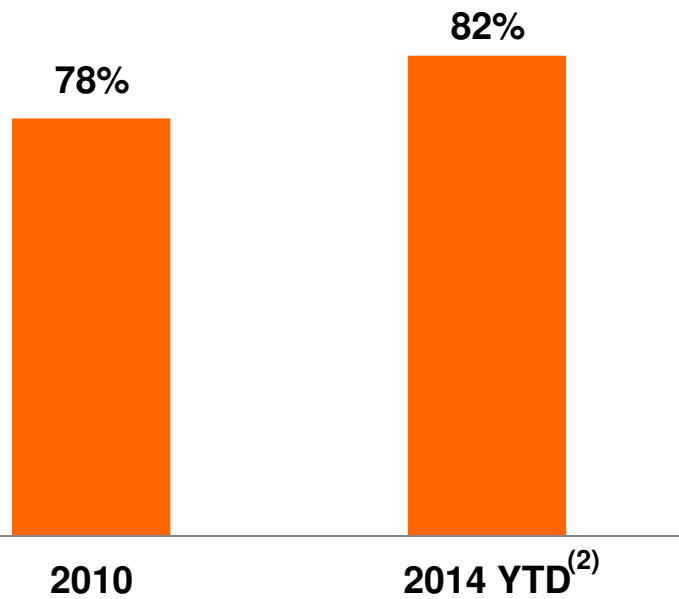


Note(s):

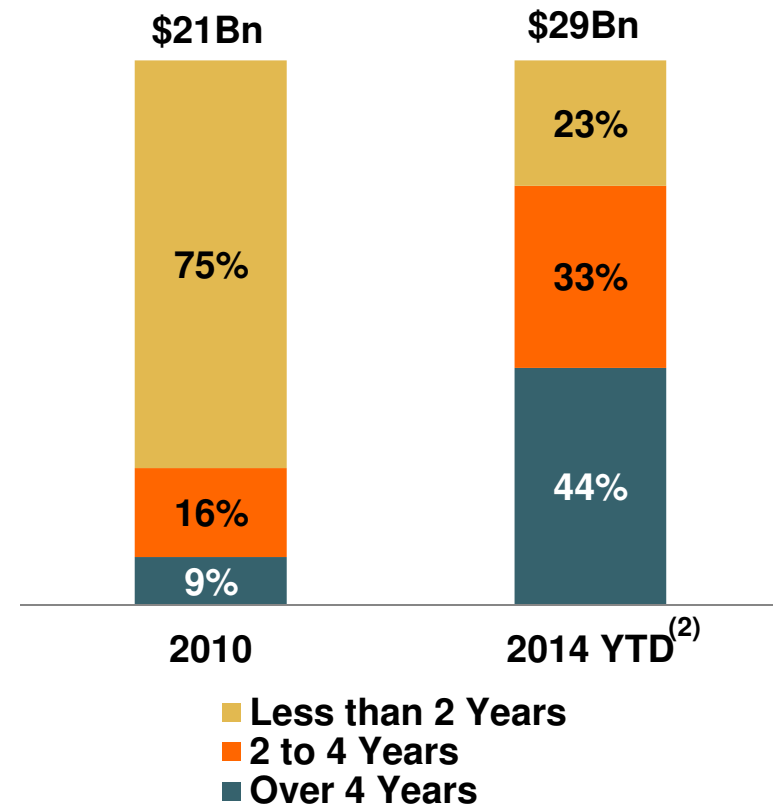
1. 2014 YTD is as of 9/30/2014

Positive trends in depositor behavior

CD Retention Rates⁽¹⁾



DTC Balances by Life of Relationship



Note(s):

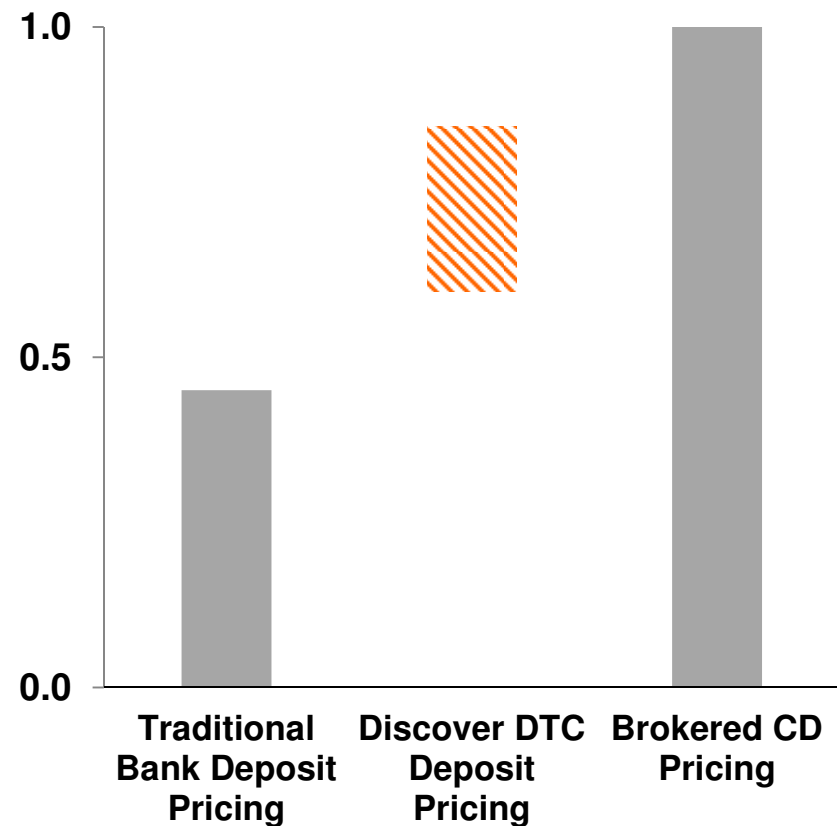
1. CD retention rates based on direct-to-consumer CDs; excludes brokered CDs
2. 2014 YTD is as of 9/30/2014

Our beta will be higher than a “traditional” bank but not “1”

DFS vs. Traditional Bank

- Similar to “traditional” bank, strong synergy between right and left hand side of balance sheet
 - 62% of current accounts have a loan product relationship with DFS
 - 78% of new accounts have a loan product relationship with DFS
- Different from “traditional” bank...
 - Checking deposits are still relatively small (<1% of DFS funding)
 - Funding stack relies on ABS, DTC and Brokered Deposits

Illustrative Betas⁽¹⁾



Note(s):

1. Defined as the ratio of expected change in deposit pricing relative to Fed increases in short term interest rates

Establish core banking presence and lower long term cost of funds with checking product

Strategic Rationale



- Achieves cost of funds benefit in a rising rate environment
- Deepens customer relationships given transactional nature of product
- Delivers richer product features and better value given lower direct banking cost structure
- Leverages Discover and PULSE networks

Note(s): Checking product currently limited to existing deposit and card customers; Broad market launch expected in 2015

Strong digital presence with great customer service is key

Online Banking Log In

User ID

Password

Select an Account

[Register Now](#)

Remember User ID

[Forgot User ID/Password?](#)

Discover Online Banking

With online banking, managing your Discover Bank accounts is simple and convenient. You'll find all the services you need to manage your money — anytime, anywhere.

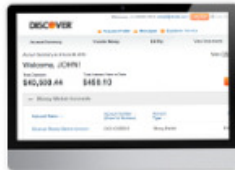
[Open an Account](#)



Online Banking Features

Manage Your Account

Manage your Discover Bank accounts, view pending and recent transactions, and contact us securely 24/7. [Learn More](#)



Transfer Money

Transfer money quickly, easily and securely. [Learn More](#)



Online Bill Pay

Add payees and set up payments so your bills get paid on time, guaranteed. [Learn More](#)



Mobile Banking

Check balances, deposit checks, find free ATMs, pay bills and more. [Learn More](#)



Summary

- Utilizing all current funding channels
- Focusing on funding that is favorable in terms of cost, beta, liquidity and term
- Committed to DTC funding channel as a large percentage of funding mix
- Focusing on product mix and customer retention to prepare for rising rate environment