



2Q20 Financial Results

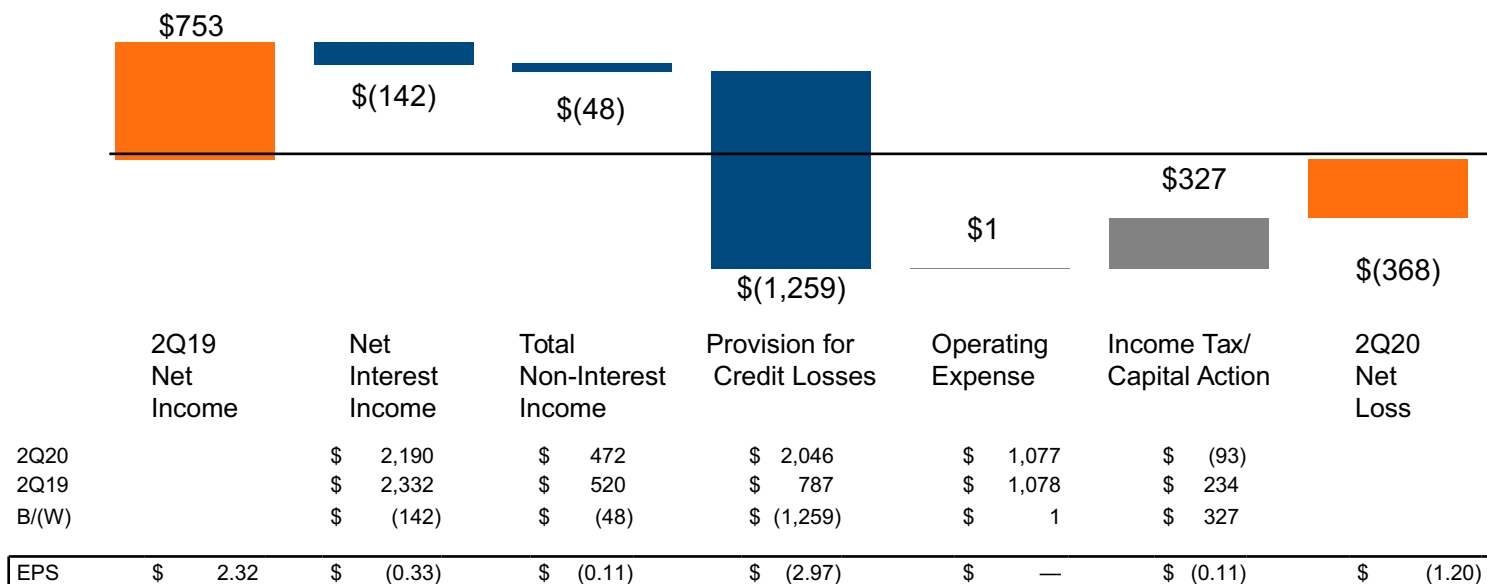
July 22, 2020

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, 2019, "Risk Factors" 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, 2020, which is filed with the SEC and available at the SEC's website (www.sec.gov) and subsequent reports on Forms 8-K and 10-Q, including the Company's Current Report on Form 8-K filed today with the SEC. The Company does not undertake to update or revise forward-looking statements as more information becomes available.

- Our principal focus continues to be protecting employees, supporting customers, and strengthening the value of the Discover franchise
- 2Q20 results reflect a \$1.3Bn reserve build in recognition of further deterioration in the economic outlook
- Continuing to invest in core capabilities while aligning expenses with the current environment
 - Operating expenses down YOY excluding a 1-time item
 - Remain on track for \$400MM expense reduction in 2020
- Maintaining disciplined approach to capital management and liquidity
 - CET1 of 11.7%
 - \$26.9Bn liquidity portfolio; \$38.8Bn additional contingency liquidity sources
 - Stable and diversified funding model; consumer deposits nearly 60% of total funding
- Remain conservative due to economic outlook; franchise remains strong and positioned for profitable growth as conditions warrant
- 2Q20 Net loss of \$368MM; diluted EPS of \$(1.20)

Year-Over-Year Net Income/(Loss) & EPS (\$MM, except EPS)



Highlights

- Revenue net of interest expense was \$2.7Bn, down 7%, primarily driven by NIM compression and lower net discount and interchange revenue due to the decline in sales volume, partially offset by a \$44MM one-time gain on the sale of equity investments
- Net interest margin was 9.81% down 66 bps as lower loan yields driven by prime rate decreases were partially offset by lower funding costs
- Provision for credit losses increased \$1.3Bn reflecting a higher reserve build primarily due to changes in the macroeconomic outlook, and higher net charge-offs
- Expenses were flat year-over-year as lower marketing expense was offset by a \$59MM intangible impairment charge resulting from a steep reduction in T&E spend impacting the Diners business, as well as higher compensation expense and investments in technology
- Net loss of \$368MM; diluted EPS of \$(1.20)

	2Q19	1Q20	2Q20	Change	
				QOQ	YOY
Credit Card Loans					
Ending Loan Balance (\$MM)	\$72,393	\$73,811	\$70,201	(4.9)%	(3.0)%
Net Principal Charge-off Rate	3.49%	3.65%	3.90%	25 bps	41 bps
30-Day Delinquency Rate	2.34%	2.62%	2.17%	(45) bps	(17) bps
Private Student Loans					
Ending Loan Balance (\$MM)	\$9,375	\$9,957	\$9,730	(2.3)%	3.8%
Net Principal Charge-off Rate	0.61%	0.68%	0.62%	(6) bps	1 bps
30-Day Delinquency Rate ⁽¹⁾	1.67%	1.64%	1.49%	(15) bps	(18) bps
Personal Loans					
Ending Loan Balance (\$MM)	\$7,414	\$7,651	\$7,316	(4.4)%	(1.3)%
Net Principal Charge-off Rate	4.33%	3.59%	3.43%	(16) bps	(90) bps
30-Day Delinquency Rate	1.49%	1.31%	1.07%	(24) bps	(42) bps
Total Loans					
Ending Loan Balance (\$MM)	\$90,229	\$92,963	\$88,927	(4.3)%	(1.4)%
Net Principal Charge-off Rate	3.22%	3.27%	3.44%	17 bps	22 bps
30-Day Delinquency Rate ⁽¹⁾	2.18%	2.38%	1.98%	(40) bps	(20) bps

Note(s)

1. 30-Day Delinquency Rate excludes purchased loans

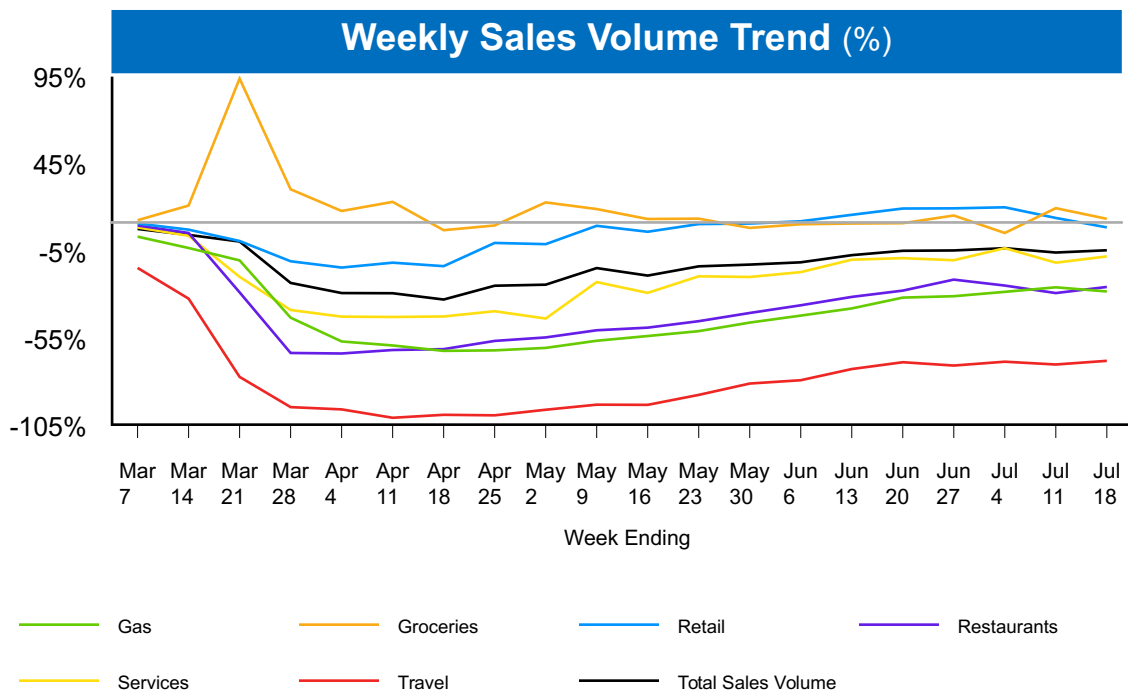
Highlights

- Credit card net charge-offs up 41bps YOY mainly due to seasoning of loan growth from recent years
- Credit card 30-Day delinquency rate down 17bps YOY due to stable portfolio performance and modest impact from Skip-a-Pay program
- Personal loan net charge-offs down 90bps YOY reflecting underwriting approach and portfolio performance
- Student loan credit performance remains stable

(\$MM)	Credit Card	Student Loans	Personal Loans	Other	Total Loans
Balance at January 1, 2020	4,550	653	613	28	5,844
Reserve rate	5.90%	6.76%	7.97%	N/A	6.09%
Balance at March 31, 2020	5,306	765	807	35	6,913
Reserve rate	7.19%	7.68%	10.55%	N/A	7.44%
Provision for credit losses ⁽¹⁾	1,873	49	114	2	2,038
Net Charge-offs	(688)	(15)	(64)	0	767
Balance at June 30, 2020	\$6,491	\$799	\$857	\$37	\$8,184
Reserve rate	9.25%	8.21%	11.71%	N/A	9.20%

Note(s)

1. Excludes \$8MM release of the liability for expected credit losses on unfunded commitments for the six months ended June 30, 2020 as the liability is recorded in accrued expenses and other liabilities



Year-Over-Year Sales Volume Trend (%)

	1Q20	2Q20	MTD July 19th
Gas	—%	(48)%	(26)%
Grocery	14%	14%	14%
Retail	6%	7%	15%
Restaurants	(2)%	(43)%	(26)%
Services	(1)%	(25)%	(5)%
Travel	(20)%	(85)%	(69)%
All Other	6%	(6)%	10%
Total Sales Volume	3%	(16)%	(3)%

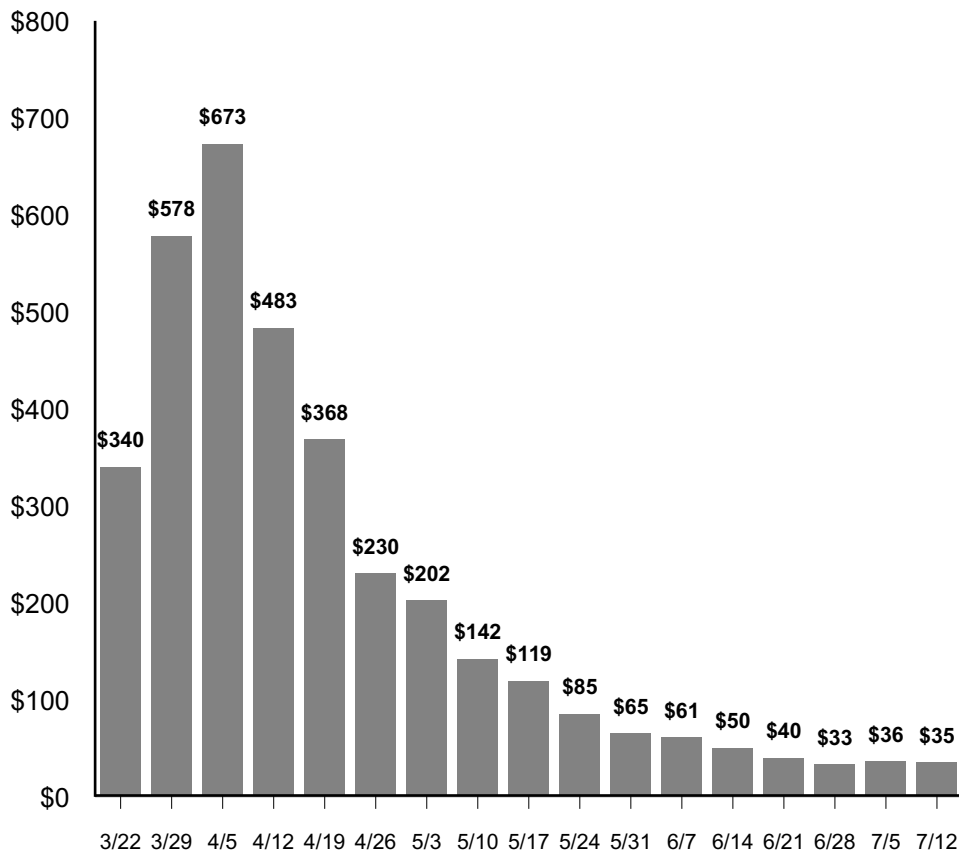
Category Definitions

- Services includes entertainment, auto, education, medical, and other service providers
- All Other includes discount stores, drug stores, wholesale clubs, telecommunication, utilities, insurance, financial services and government

Comments

- 2Q20 sales volume down 16% YOY
 - Trends in key categories continue to improve
 - First half of July down 3% compared to first half of April down 29%
- Grocery spending remains strong reflecting a shift in consumer behavior.
- Home improvement remains bright spot in retail up 19% for 2Q20
- The most adversely impacted categories continued to be travel, restaurants and gas

Weekly Credit Card Balance Enrollments (\$MM)



Total Portfolio Balance⁽¹⁾

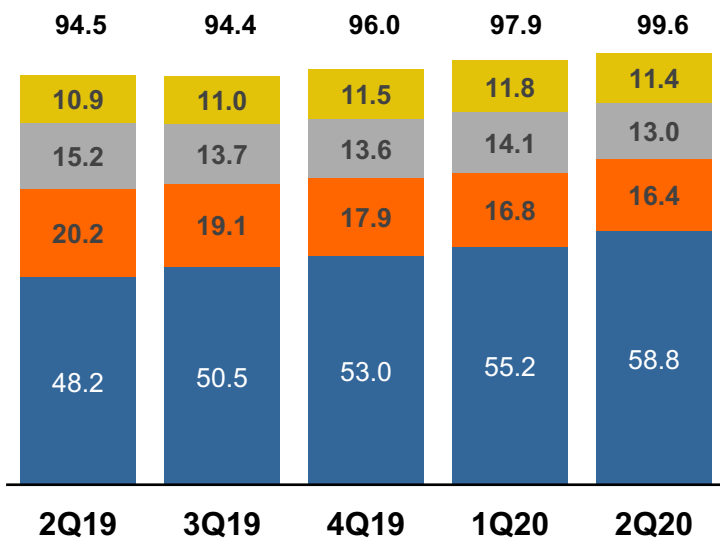
\$5.3Bn cumulative balances enrolled since inception of program

- Credit card: \$3.4Bn; ~ 70% no longer enrolled, of which ~ 80% have made a payment
- Student loans⁽²⁾: \$1.2Bn; ~ 35% no longer enrolled, of which ~ 90% have made a payment
- Personal loans: \$691MM; ~ 65% no longer enrolled, of which ~ 65% have made a payment
- Home loans: \$70MM; ~ 25% no longer enrolled, of which ~ 80% have made a payment

Note(s)

1. Total Portfolio Balance data as of July 13, 2020
2. Student loan accounts requiring payment; repay, interest only, and immediate repay

Funding Trends (\$Bn, Average Balance)



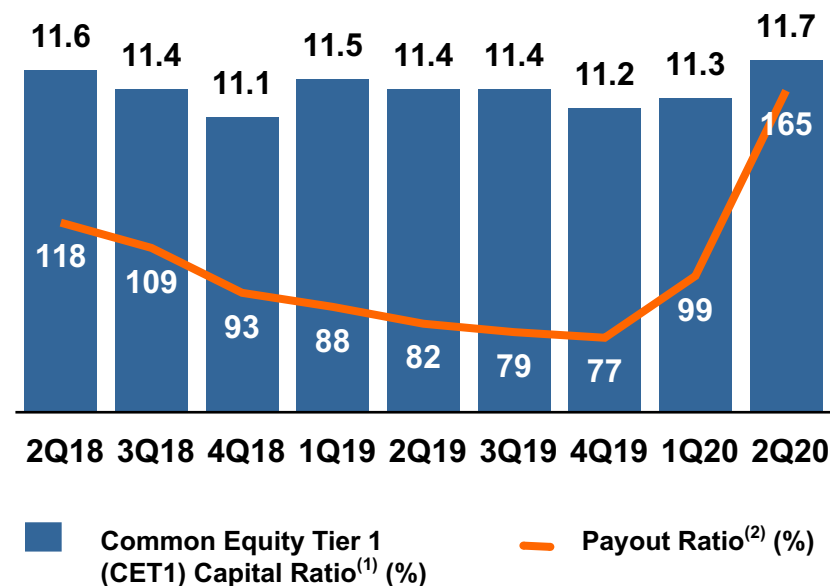
■ Direct to Consumer Deposits ⁽¹⁾ ■ Securitized Borrowings
■ Brokered & Other Deposits ■ Other Borrowings

	<u>2Q19</u>	<u>3Q19</u>	<u>4Q19</u>	<u>1Q20</u>	<u>2Q20</u>
Direct to Consumer Deposits ⁽¹⁾	51%	53%	55%	56%	59%
Brokered & Other Deposits	21%	20%	19%	17%	16%
Securitized Borrowings	16%	15%	14%	14%	14%
Other Borrowings	12%	12%	12%	12%	11%

Note(s)

1. Includes Affinity relationships

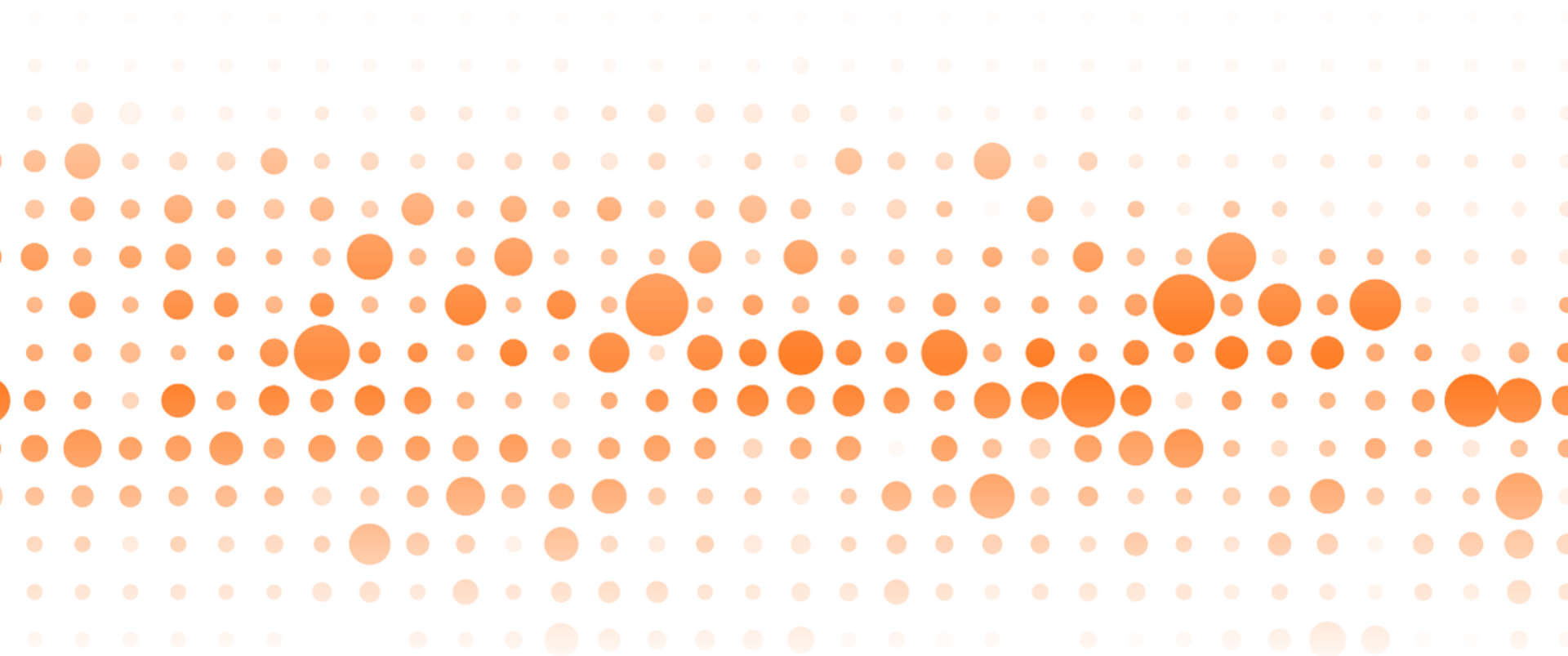
Capital Trends



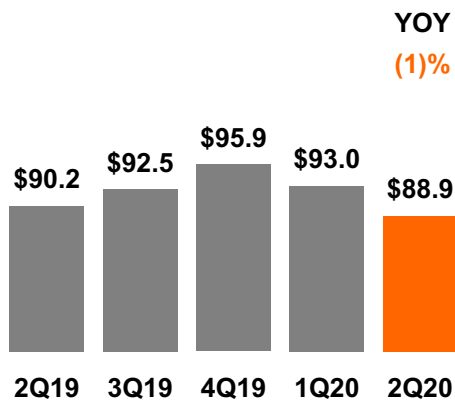
Note(s)

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

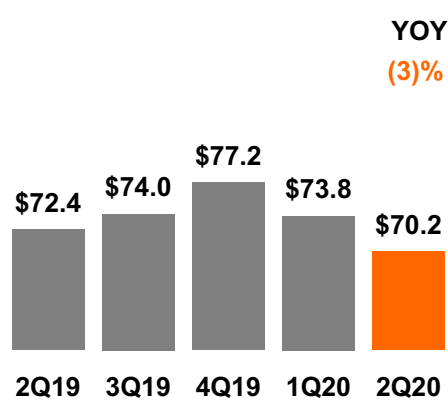
Appendix



Total



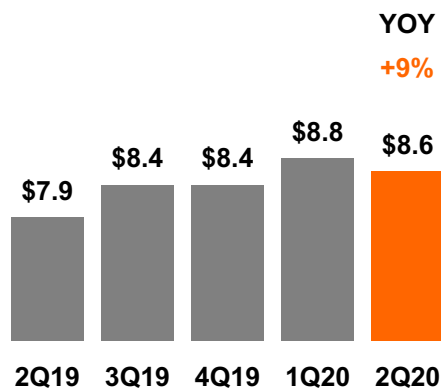
Card



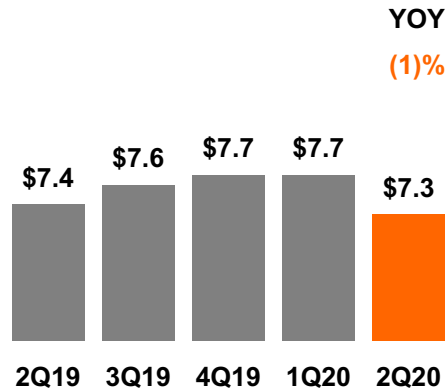
Highlights

- Card receivables decreased reflecting the drop in sales in the quarter and lower BT/promo activity
- Organic student loan growth on track with seasonal trends
- Personal loans decreased reflecting lower originations due to recent credit tightening actions and higher paydowns

Organic Student

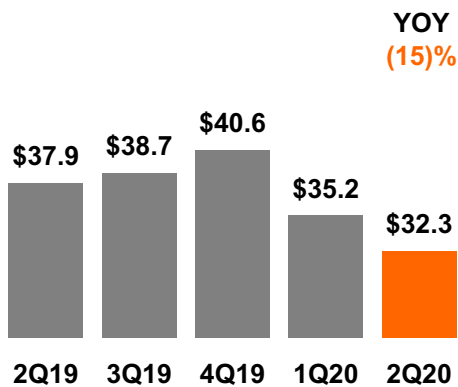


Personal

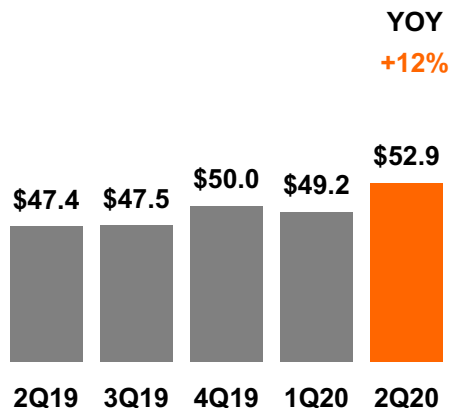


DISCOVER® | 2Q20 Payments Volume (\$Bn)

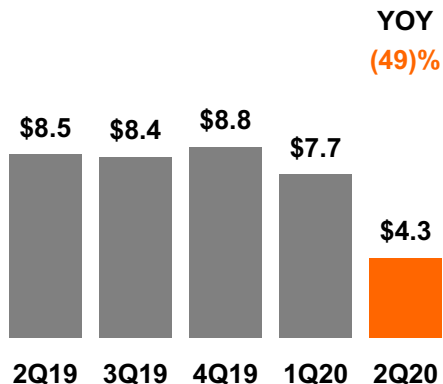
Discover Network



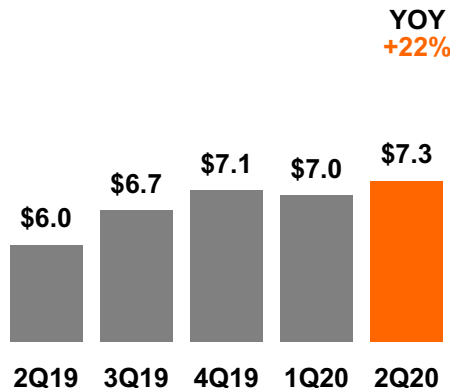
PULSE



Diners ⁽¹⁾



Network Partners



Total Network Volume down 3% YOY

Highlights

- Discover Network volume declined 15%; deceleration in-line with slowdown in Discover card sales volume
- PULSE volume up 12% year-over-year driven by higher average spend per transaction related to the pandemic, the impact of stimulus funds available to consumers and growth in e-commerce transactions
- Diners Club volume down 49% from the prior year resulting from steep decline in T&E spending
- Network Partners up 22% driven primarily by AribaPay

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)	2Q20	2Q19	Inc / (Dec)	
			\$	%
Interest Income	\$2,672	\$2,977	\$(305)	(10%)
Interest Expense	482	645	(163)	(25%)
Net Interest Income	2,190	2,332	(142)	(6%)
Discount/Interchange Revenue	622	759	(137)	(18%)
Rewards Cost	385	460	(75)	(16%)
Net Discount/Interchange Revenue	237	299	(62)	(21%)
Protection Products Revenue	44	49	(5)	(10%)
Loan Fee Income	85	102	(17)	(17%)
Transaction Processing Revenue	49	48	1	2%
Other Income	57	22	35	159%
Total Non-Interest Income	472	520	(48)	(9%)
Revenue Net of Interest Expense	\$2,662	\$2,852	\$(190)	(7%)

	2Q20	2Q19	Change	
			QOQ	YOY
Discover Card Sales Volume (\$MM)	\$30,721	\$36,664	(10)%	(16)%
Rewards Rate ⁽¹⁾	1.24%	1.25%	-16bps	-1bps
NIM on Loans	9.81%	10.47%	-40bps	-66bps

Note(s)

1. Rewards cost divided by Discover card sales volume

Highlights

- 6% decrease in net interest income driven primarily by NIM compression
- Net discount and interchange revenue was down 21% driven by the decline in sales volume
- Decrease in loan fee income reflects lower cash advance fees and lower late fees
- Other Income up \$35MM primarily driven by a \$44MM one-time gain on the sale of equity investments
- Rewards rate was down 1bps YOY reflecting the impact of lower sales on Cashback Match and lower engagement in the rotating 5% category due to the pandemic

DISCOVER® | 2Q20 Net Interest Margin Drivers

Interest-Earning Assets (\$MM)	2Q20		2Q19	
	Average Balance	Yield	Average Balance	Yield
Credit Card	\$70,848	12.34%	\$71,492	13.44%
Private Student	9,826	7.46%	9,464	8.59%
Personal	7,475	12.40%	7,419	13.02%
Other	1,622	6.49%	983	6.83%
Total Loans	89,771	11.70%	89,358	12.82%
Other Interest-Earning Assets	25,907	0.95%	19,794	2.45%
Total Interest-Earning Assets	<u>\$115,678</u>	<u>9.29%</u>	<u>\$109,152</u>	<u>10.94%</u>

Interest-Bearing Liabilities (\$MM)	2Q20		2Q19	
	Average Balance	Rate	Average Balance	Rate
Direct to Consumer Deposits ⁽¹⁾	\$58,813	1.62%	\$48,211	2.20%
Brokered Deposits and Other	16,429	2.52%	20,213	2.71%
Interest Bearing Deposits	75,242	1.81%	68,424	2.35%
Borrowings	24,335	2.36%	26,111	3.74%
Total Interest-Bearing Liabilities	<u>\$99,577</u>	<u>1.95%</u>	<u>\$94,535</u>	<u>2.73%</u>

(%)	Change		
	2Q20	QOQ	YOY
Total Interest Yield on Loans	11.70%	-64bps	-112bps
NIM on Loans	9.81%	-40bps	-66bps
NIM on Interest-Earning Assets	7.61%	-92bps	-96bps

Note(s)

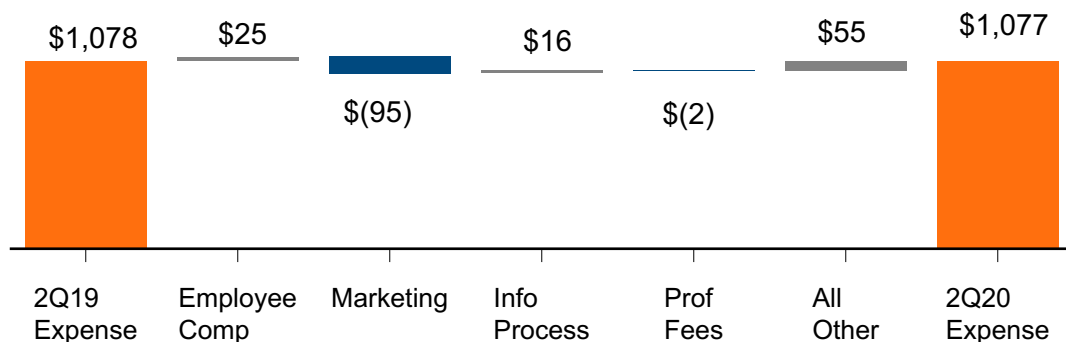
1. Includes Affinity relationships

Highlights

- Credit card yield of 12.34% was down 110 bps YOY primarily driven by prime rate decreases partially offset by a favorable revolve rate and portfolio mix
- Average consumer deposits of \$58.8Bn grew 22% and composed 59% of total funding
- The rate on average interest-bearing liabilities was 1.95%, down 78bps from prior year, primarily driven by lower market rates
- Net interest margin on loans was 9.81% down 66 bps as lower loan yields were partially offset by lower funding costs

DISCOVER® | 2Q20 Operating Expense

Year-Over-Year Expense (\$MM)



(\$MM)	2Q20	2Q19	Inc / (Dec)	
			\$	%
Employee Compensation and Benefits	\$452	\$427	\$25	6%
Marketing and Business Development	129	224	(95)	(42%)
Information Processing & Communications	117	101	16	16%
Professional Fees	181	183	(2)	(1%)
Premises and Equipment	27	26	1	4%
Other Expense	171	117	54	46%
Total Operating Expense	\$1,077	\$1,078	(\$1)	—%
Operating Efficiency⁽¹⁾	40.5%	37.8%		270 bps

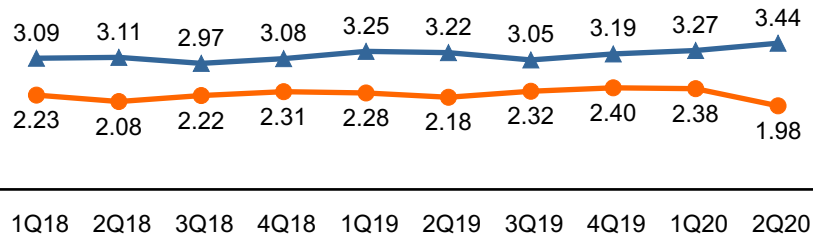
Note(s)

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

Highlights

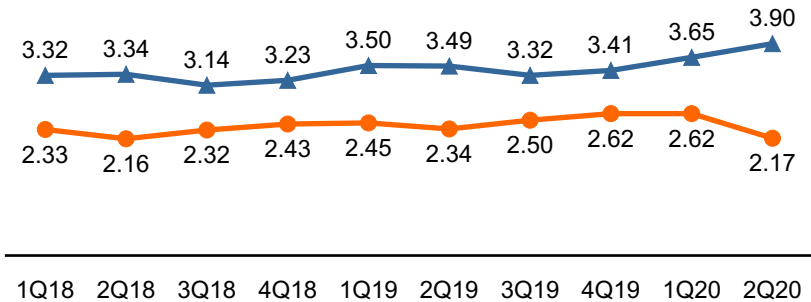
- Employee compensation increase due to higher average salaries and headcount
- Marketing expense decreased in response to the slowdown in the US economy with reductions primarily in brand and acquisition expense
- Information processing increase driven by investments in technology capabilities and infrastructure
- Other expense increase driven by a \$59MM intangible impairment charge resulting from a steep reduction in T&E spend impacting the Diners business

Total Company Loans



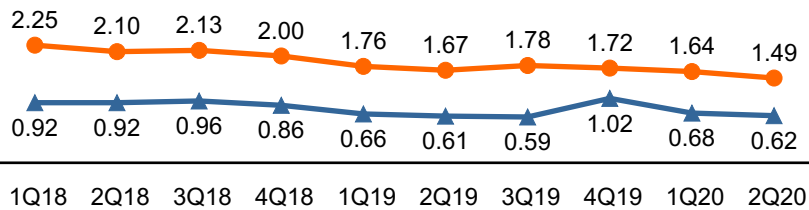
▲ NCO rate (%)
● 30+ day DQ rate ex-purchased loans (%)

Credit Card Loans



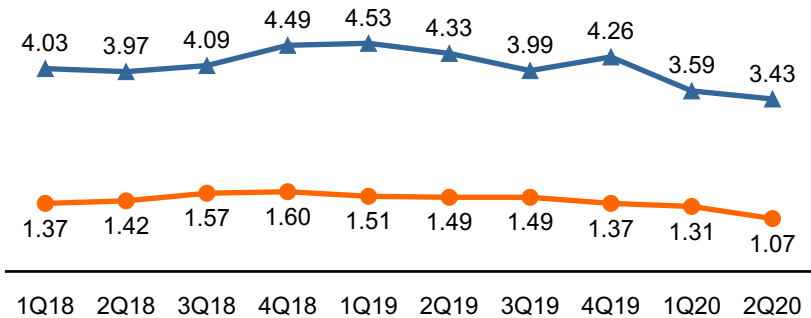
▲ NCO rate (%) ● 30+ day DQ rate (%)

Private Student Loans

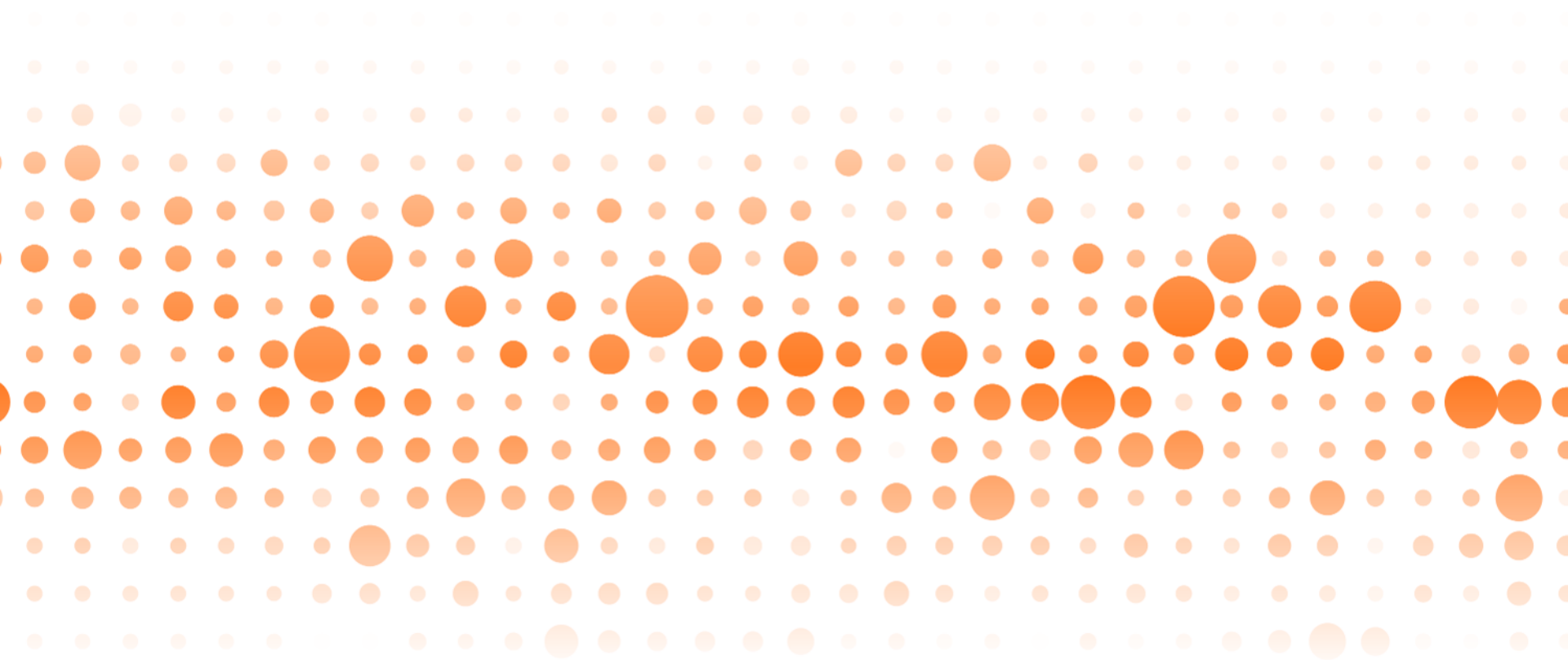


▲ NCO rate (%)
● 30+ day DQ rate ex-purchased loans (%)

Personal Loans



▲ NCO rate (%) ● 30+ day DQ rate (%)



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