

2022 & 4Q22 Financial Results

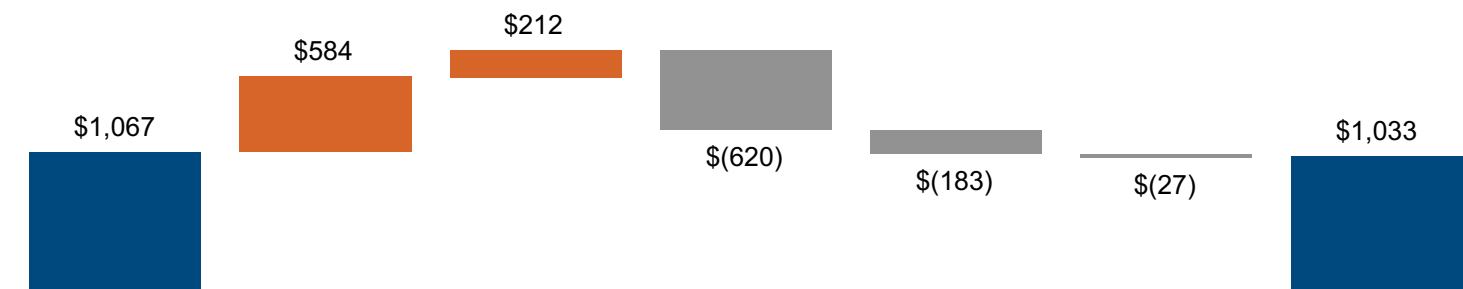
January 18, 2023

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, 2021, "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 September 30, 2022, June 30, 2022 and March 31, 2022, 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.

- 2022 net income of \$4.4Bn; diluted EPS of \$15.50; and return on equity of 31%
 - 4Q22 net income of \$1.0Bn; diluted EPS of \$3.77; and return on equity of 28%
- Disciplined execution drove strong 2022 results amid fluid operating conditions
 - Card account growth of 23% and elevated sales drove loan growth of 20% YOY
 - Generated 39% efficiency ratio and 31% ROE
 - Credit metrics are seasoning consistent with recent periods of elevated growth
 - Repurchased \$2.4Bn in common stock and increased common dividend by 22%
- Remain well positioned to generate resilient returns through a range of economic environments
 - Focus on prime lending with through-the-cycle approach to underwriting
 - Disciplined expense management with prudent investments for growth
 - Integrated digital banking and payments model generates high returns and enables capital return to shareholders

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

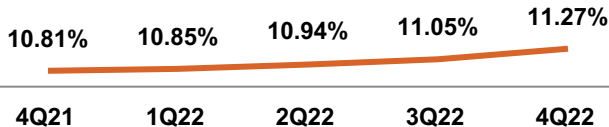


	4Q21 Net Income	Net Interest Income	Non- Interest Income	Provision for Credit Losses	Operating Expense	Income Tax/ Capital Action	4Q22 Net Income
4Q22		\$ 3,067	\$ 665	\$ 883	\$ 1,495	\$ 321	
4Q21		\$ 2,483	\$ 453	\$ 263	\$ 1,312	\$ 294	
B/(W)		\$ 584	\$ 212	\$ (620)	\$ (183)	\$ (27)	
EPS	\$ 3.64	\$ 1.57	\$ 0.57	\$ (1.66)	\$ (0.49)	\$ 0.15	\$ 3.77

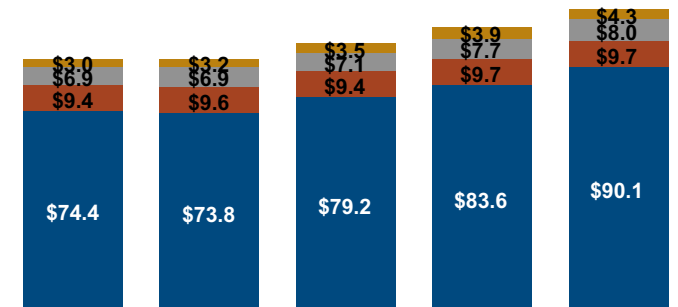
Key Points

- Revenue net of interest expense was \$3.7Bn, up 27%, due to higher net interest income and prior year losses on equity investments
- Net interest margin was 11.27%, up 46 bps primarily driven by higher market rates, partially offset by higher funding costs
- Provision for credit losses increased by \$620MM reflecting a \$313MM reserve build in the current year compared to a \$39MM release in the prior year and a \$268MM increase in net charge-offs
- Expenses increased \$183MM, or 14%, due to higher employee compensation, marketing, professional fees, and a one-time facility write-off

NIM on Loans



Loan Growth (\$Bn)

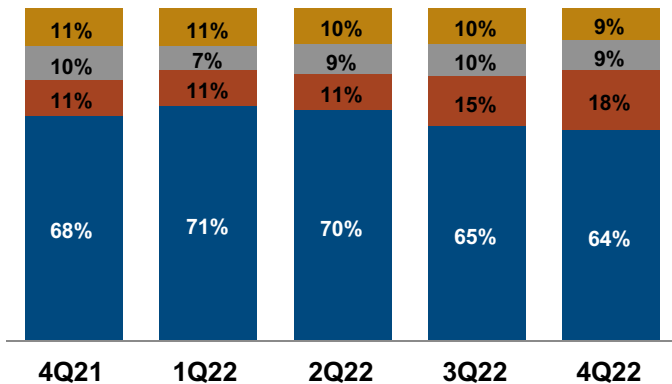


- Card +21% YOY
- Organic Student +4% YOY
- Personal +15% YOY
- Other + 43% YOY

Total Loans +20% YOY

Total Loan Yield	11.75%	11.80%	12.00%	12.67%	13.53%
	4Q21	1Q22	2Q22	3Q22	4Q22

Funding Mix (%), Average Balance ⁽¹⁾



- DTC and Affinity Deposits
- Brokered & Other Deposits
- Securitized Borrowing
- Unsecured Borrowing

Consumer Deposits +10% YOY

Total Int. - Bearing Liab Rate	1.15%	1.18%	1.36%	2.09%	2.96%
	4Q21	1Q22	2Q22	3Q22	4Q22

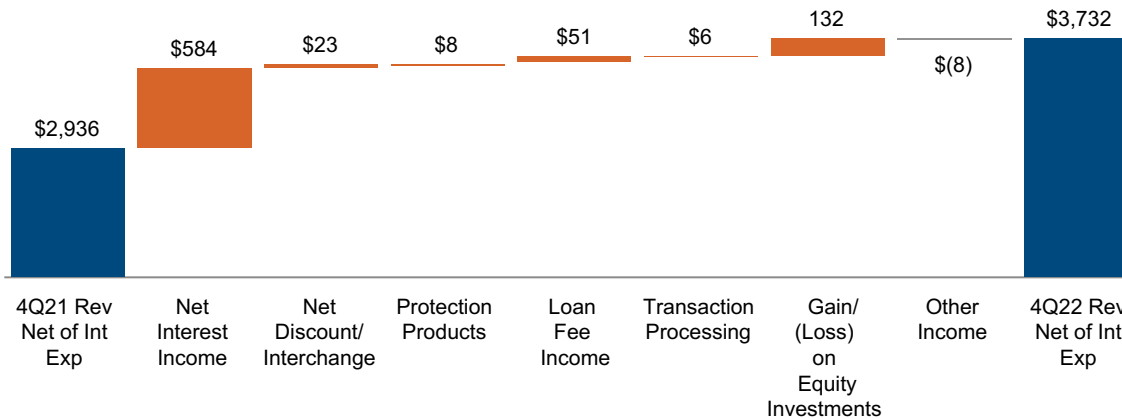
Note(s)

1. DTC and Affinity Deposits include checking and reflect both interest-bearing and non-interest bearing consumer deposits

Key Points

- NIM on loans was 11.27%, up 22bps QOQ as favorable loan and securities yields were partially offset by higher funding costs
- Total loan yield was up 86bps QOQ primarily due to higher prime rate
- The rate on average interest-bearing liabilities increased 87bps QOQ, reflecting increased consumer deposit pricing
- Consumer deposits were up 5% QOQ; we continue to target 70-80% deposit funding

Year-Over-Year Revenue (\$MM)



Key Points

- Net interest income increased primarily due to higher loan receivables and margin expansion
- Net discount and interchange revenue was driven by higher sales volume partially offset by increased rewards costs
- Loan fee income increased primarily reflecting higher late fees
- The FY22 rewards rate was 1.41%, up 4bps YOY

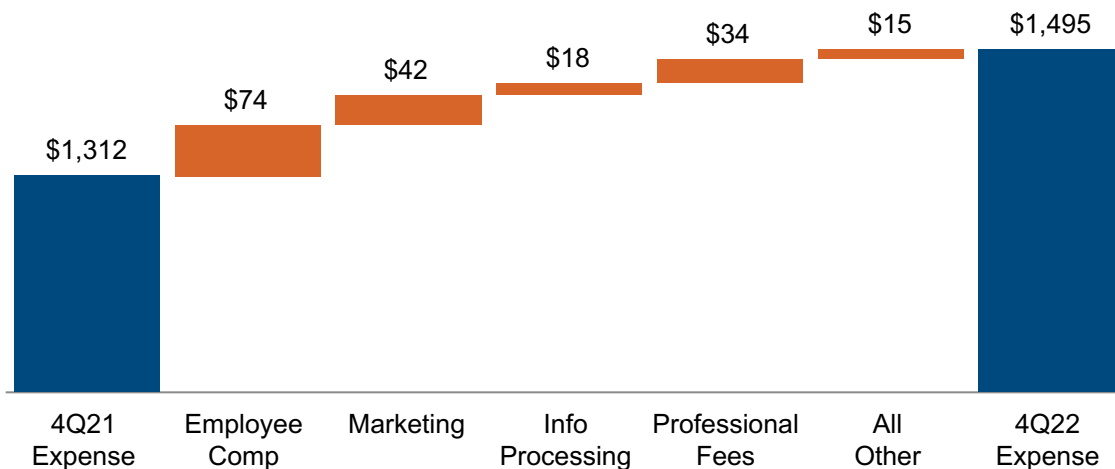
(\$MM)	4Q22	4Q21	Inc / (Dec)	
			\$	%
Net Interest Income	3,067	2,483	584	24%
Net Discount/Interchange Revenue	368	345	23	7%
Protection Products Revenue	44	36	8	22%
Loan Fee Income	182	131	51	39%
Transaction Processing Revenue	66	60	6	10%
Gain/(Loss) on Equity Investment	(6)	(138)	132	96%
Other Income	11	19	(8)	(42%)
Total Non-Interest Income	665	453	212	47%
Revenue Net of Interest Expense	<u>\$3,732</u>	<u>\$2,936</u>	<u>\$796</u>	<u>27%</u>

	4Q22	4Q21	Change	
			QOQ	YOY
Discover Card Sales Volume (\$MM)	\$55,663	\$51,308	2 %	8%
Rewards Rate ⁽¹⁾	1.42 %	1.35 %	-5bps	7bps

Note(s)

1. Rewards rate represents credit card rewards cost divided by Discover Card sales volume

Year-Over-Year Expense (\$MM)



Key Points

- Employee compensation increased due to higher headcount and wage inflation
- Marketing was up primarily due to investments in brand and acquisition
- Professional fees increased due to investment in technology and consulting costs
- Premises and equipment increased due to one-time facility write-off as we continue to optimize our real estate footprint

(\$MM)	4Q22	4Q21	Inc / (Dec)	
			\$	%
Employee Compensation and Benefits	\$573	\$499	74	15%
Marketing and Business Development	313	271	42	15%
Information Processing & Communications	143	125	18	14%
Professional Fees	264	230	34	15%
Premises and Equipment	48	23	25	109%
Other Expense	154	164	(10)	(6%)
Total Operating Expense	\$1,495	\$1,312	\$183	14%
Operating Efficiency⁽¹⁾	40.0 %	44.7 %	(470) bps	

Note(s)

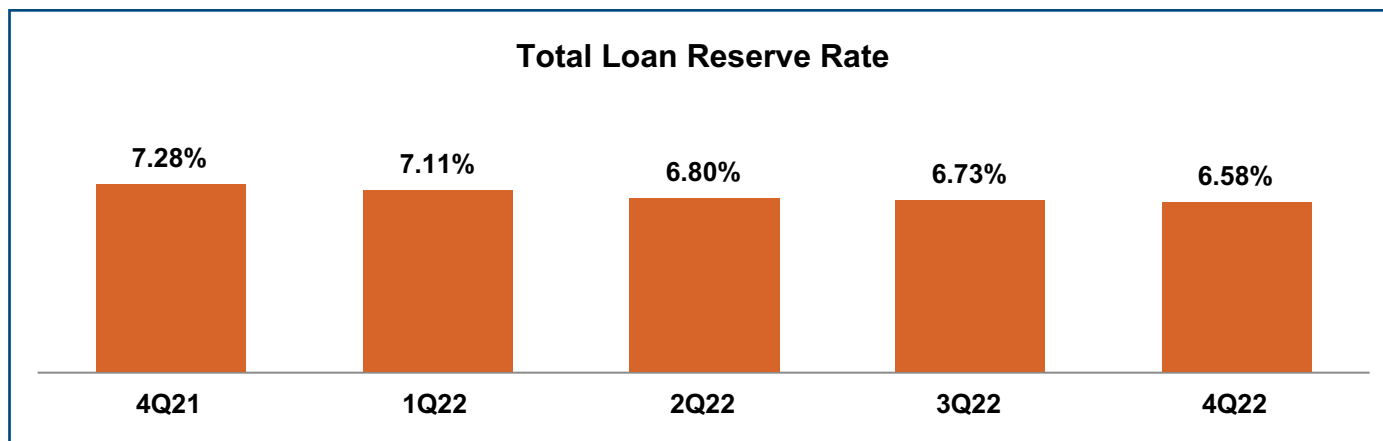
1. Defined as reported total operating expense divided by revenue net of interest expense

	4Q21	3Q22	4Q22	Change	
				QOQ	YOY
Credit Card Loans					
Ending Loan Balance (\$MM)	\$74,369	\$83,630	\$90,113	7.8%	21.2%
Net Principal Charge-off Rate	1.50%	1.92%	2.37%	45 bps	87 bps
30-Day Delinquency Rate	1.66%	2.11%	2.53%	42 bps	87 bps
Private Student Loans					
Ending Loan Balance (\$MM)	\$10,113	\$10,349	\$10,308	(0.4)%	1.9%
Net Principal Charge-off Rate	0.80%	0.91%	1.33%	42 bps	53 bps
30-Day Delinquency Rate	1.55%	1.94%	2.05%	11 bps	50 bps
Personal Loans					
Ending Loan Balance (\$MM)	\$6,936	\$7,674	\$7,998	4.2%	15.3%
Net Principal Charge-off Rate	1.21%	1.14%	1.49%	35 bps	28 bps
30-Day Delinquency Rate	0.69%	0.69%	0.80%	11 bps	11 bps
Total Loans					
Ending Loan Balance (\$MM)	\$93,684	\$104,908	\$112,120	6.9%	19.7%
Net Principal Charge-off Rate	1.37%	1.71%	2.13%	42 bps	76 bps
30-Day Delinquency Rate	1.55%	1.94%	2.30%	36 bps	75 bps

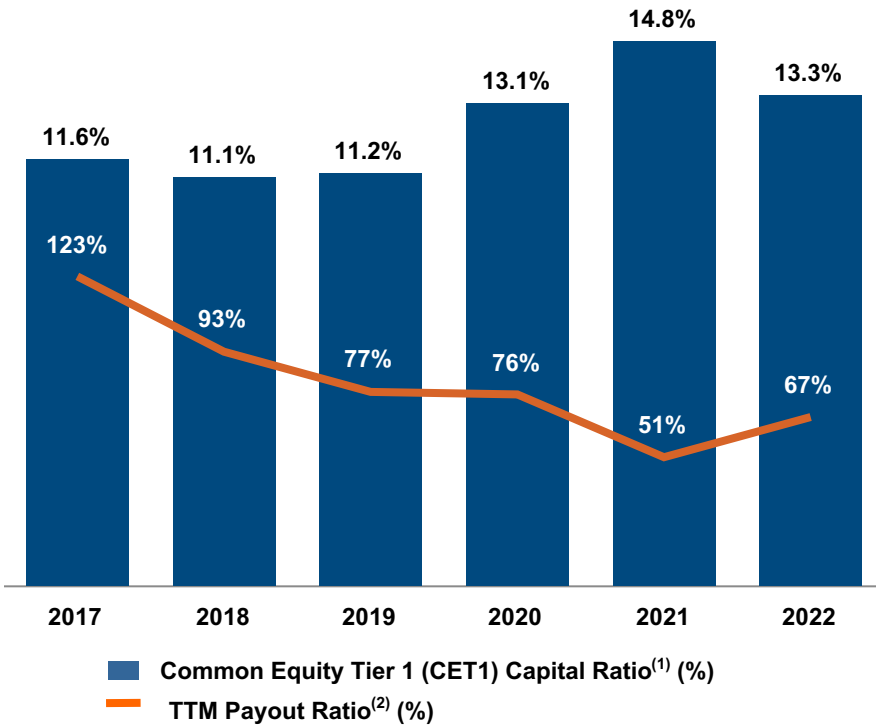
Key Points

- Seasoning occurring across most products and credit segments
- Higher credit card net charge-off rate driven by an increase in early stage delinquencies
- Student loan net charge-offs largely reflect the expiration of pandemic assistance programs
- Personal loan net charge-offs remain well below pre-pandemic norms

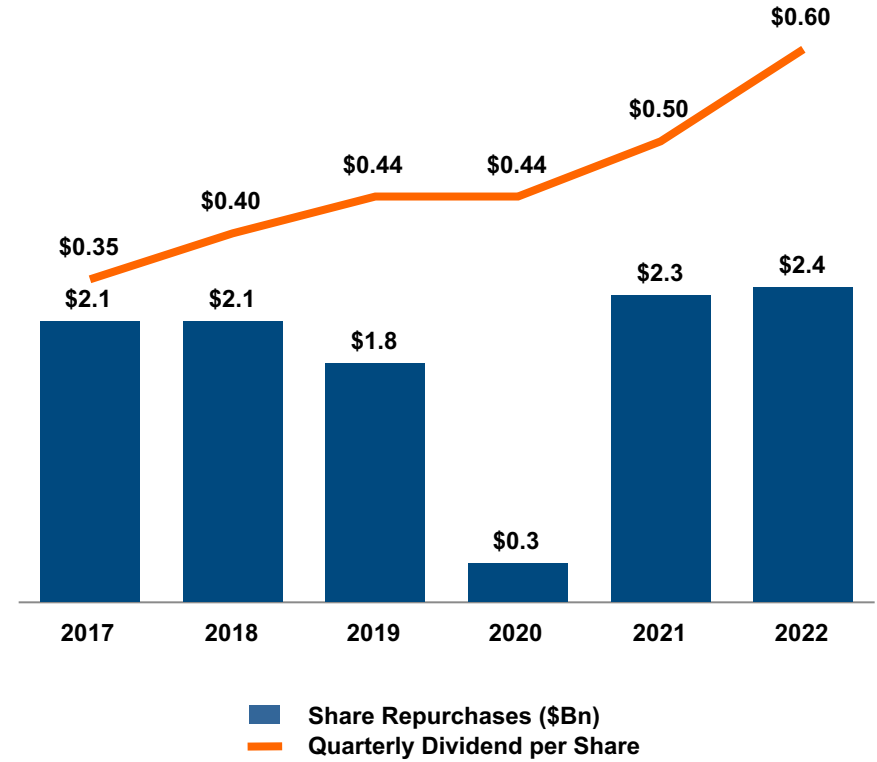
(\$MM)	Credit Card	Student Loans	Personal Loans	Other	Total Loans
Balance at December 31, 2021	\$5,273	\$843	\$662	\$44	\$6,822
<i>Reserve rate</i>	7.09%	8.33%	9.54%	N/A	7.28%
Balance at September 30, 2022	\$5,561	\$829	\$620	\$51	\$7,061
<i>Reserve rate</i>	6.65%	8.01%	8.08%	N/A	6.73%
Provision for credit losses	838	45	5	6	894
Net Charge-offs	516	35	30	—	581
Balance at December 31, 2022	\$5,883	\$839	\$595	\$57	\$7,374
<i>Reserve rate</i>	6.53%	8.14%	7.44%	N/A	6.58%



Capital Position



Capital Return⁽³⁾



Key Points

- The Common Equity Tier 1 ratio of 13.3% remains above our target of 10.5%
- Resumed share repurchase program and bought \$602 million in the quarter

Note(s)

1. Based on the final rule published September 30, 2020. Capital ratios reflect delay in the recognition of the impact of CECL reserves on regulatory capital for two years in accordance with the final rule
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
3. Quarterly dividend per share figures for 2017 through 2022 represent year-end levels

	<u>2022 Actual</u>	<u>2023 Perspective</u>
Loan Growth	20%	<ul style="list-style-type: none"> Expect loan growth to be low double digits
Net Interest Margin	11.04%	<ul style="list-style-type: none"> Expect NIM to be modestly higher vs. full year 2022
Operating Expense	\$5.2Bn	<ul style="list-style-type: none"> Expect total operating expense to be up less than 10% from prior year
Net Charge-offs	1.82%	<ul style="list-style-type: none"> Expect full year average net charge-off rate of 3.5-3.9%
Capital Management	\$2.9Bn returned to shareholders	<ul style="list-style-type: none"> \$2.8Bn remains under the current share repurchase plan authorization that expires June 30, 2023

Appendix

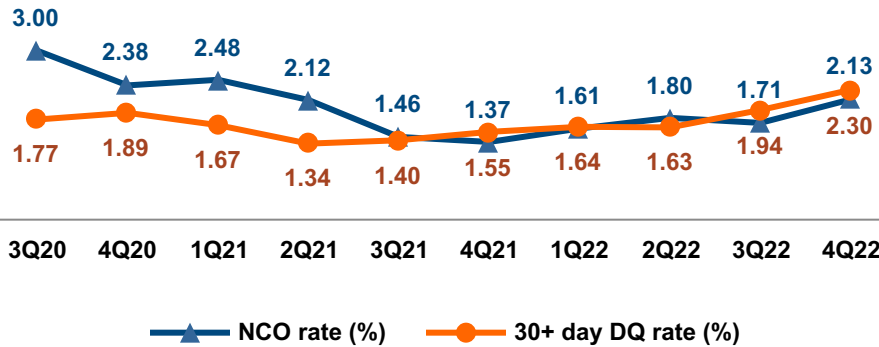
Interest-Earning Assets (\$Bn)	4Q22		3Q22		4Q21	
	Avg Bal	Yield	Avg Bal	Yield	Avg Bal	Yield
Total Loans	\$108.0	13.53 %	\$102.0	12.67 %	\$91.1	11.75 %
Other Interest-Earning Assets	20.0	3.42 %	16.9	2.30 %	18.5	0.95 %
Total Interest-Earning Assets	<u>\$128.0</u>	<u>11.96 %</u>	<u>\$118.9</u>	<u>11.20 %</u>	<u>\$109.6</u>	<u>9.93 %</u>

Interest-Bearing Liabilities (\$Bn)	4Q22		3Q22		4Q21	
	Avg Bal	Rate	Avg Bal	Rate	Avg Bal	Rate
Direct to Consumer Deposits ^{(1) (2)}	\$66.9	2.55 %	\$63.4	1.53 %	\$60.8	0.58 %
Brokered Deposits and Other	19.2	3.50 %	14.7	2.71 %	9.8	2.16 %
Interest Bearing-Deposits	86.1	2.76 %	78.1	1.76 %	70.7	0.80 %
Borrowings	19.5	3.84 %	19.4	3.45 %	18.8	2.46 %
Total Interest-Bearing Liabilities	<u>\$105.6</u>	<u>2.96 %</u>	<u>\$97.5</u>	<u>2.09 %</u>	<u>\$89.5</u>	<u>1.15 %</u>

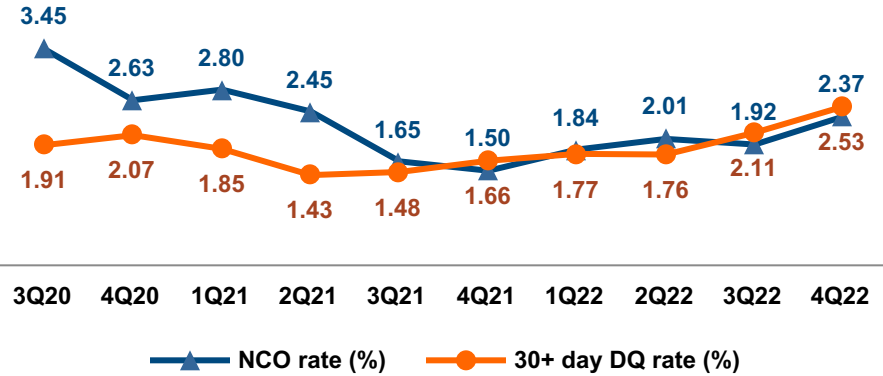
Note(s)

1. Includes Affinity relationships
2. Excludes checking which is a non-interest bearing deposit product

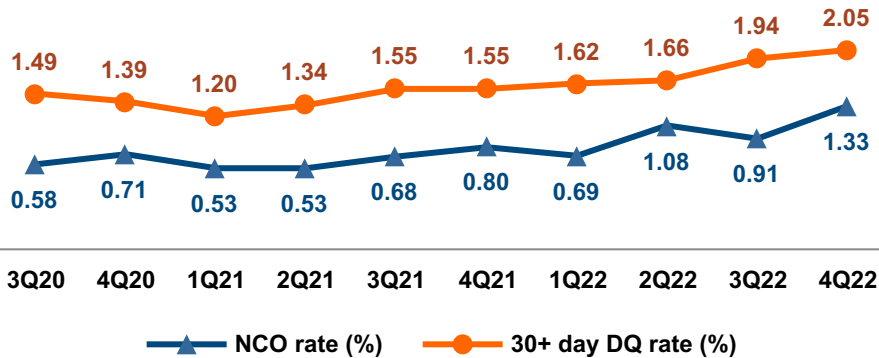
Total Company Loans



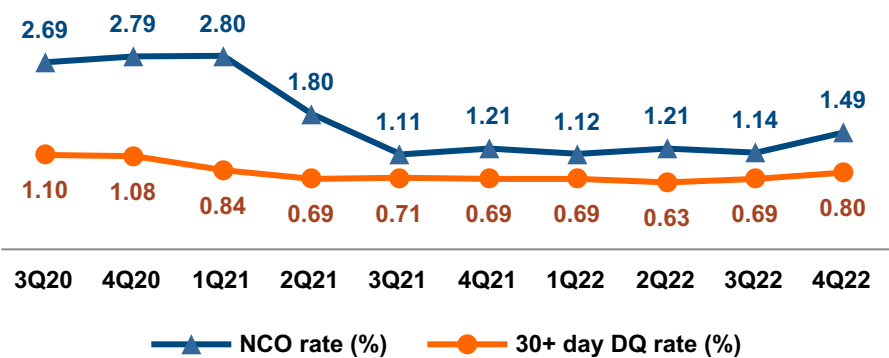
Credit Card Loans



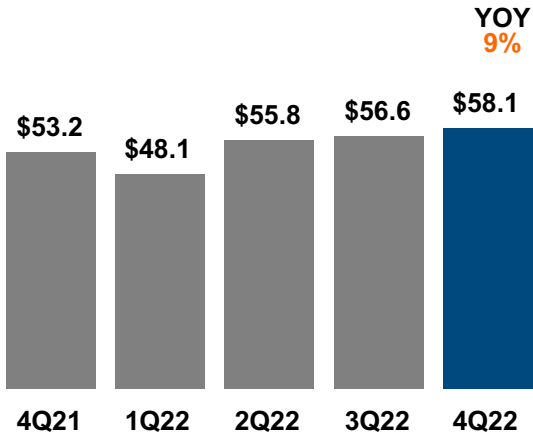
Private Student Loans



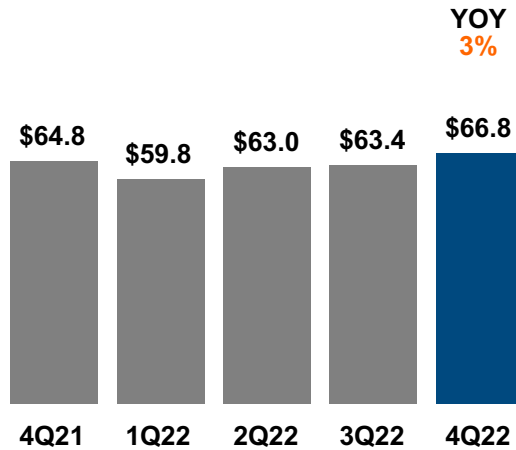
Personal Loans



Discover Network



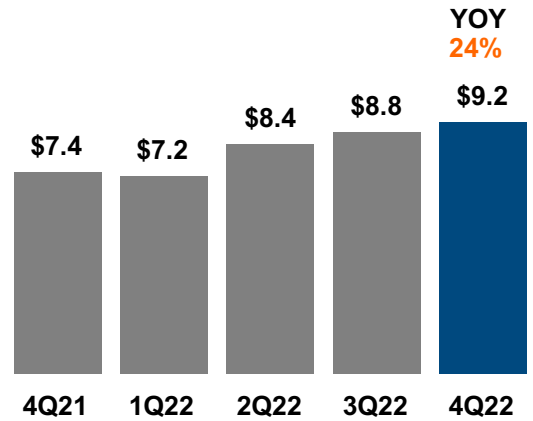
PULSE



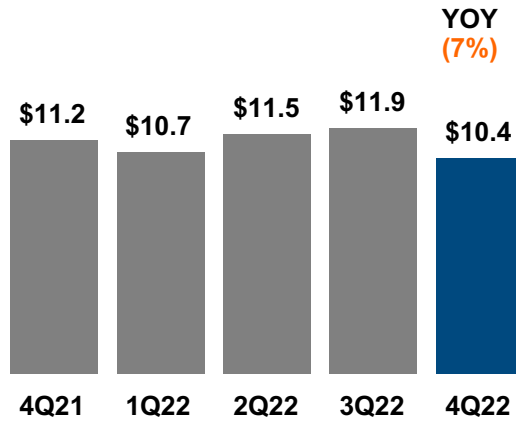
Key Points

- Discover Network volume was up 9% reflecting the increase in Discover card sales volume
- PULSE volume was up 3% driven by debit transaction volume
- Diners volume was up 24% from the prior year reflecting improvement in global T&E and corporate spending
- Network Partners was down 7% YOY driven by lower transaction volume

Diners ⁽¹⁾



Network Partners



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

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