

1Q23 Financial Results

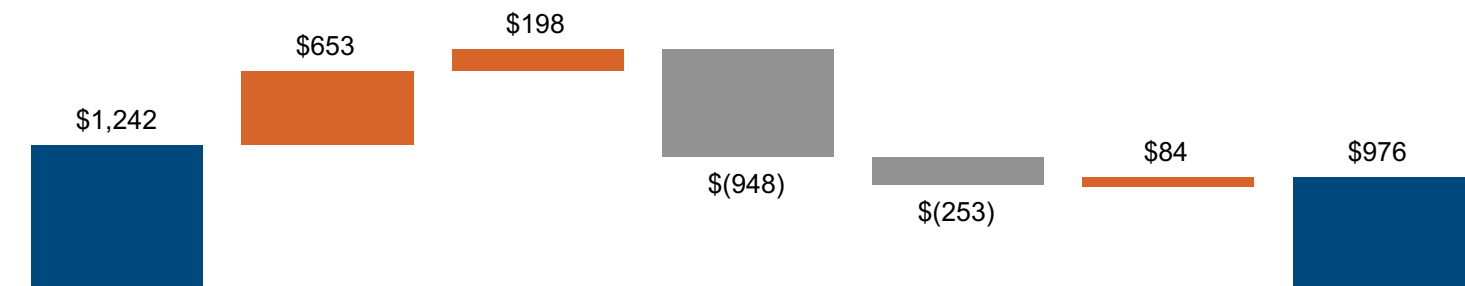
April 19, 2023

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, 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.

- 1Q23 net income of \$1.0Bn; diluted EPS of \$3.58; and return on equity of 27%
- Strong results amid challenging operating conditions
 - Record deposit growth of 17% YOY and 7% QOQ; accessed multiple funding channels at attractive cost
 - Loan growth of 21% YOY driven by disciplined new account origination, 9% sales growth and payment rate moderation
 - Credit metrics continue to normalize consistent with our expectations
- Strong capital position and highly capital-generative model supports organic growth and sustained return to shareholders; Board of Directors approved new capital actions
 - \$2.7Bn share repurchase authorization expiring June 30, 2024
 - Increased common dividend by 17% to \$0.70
- Well-positioned to generate attractive returns through a range of economic environments

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



	1Q22 Net Income	Net Interest Income	Non-Interest Income	Provision for Credit Losses	Operating Expense	Income Tax/Capital Action	1Q23 Net Income
1Q23		\$ 3,132	\$ 621	\$ 1,102	\$ 1,383	\$ 292	
1Q22		\$ 2,479	\$ 423	\$ 154	\$ 1,130	\$ 376	
B/(W)		\$ 653	\$ 198	\$ (948)	\$ (253)	\$ 84	
EPS	\$ 4.22	\$ 1.76	\$ 0.53	\$ (2.55)	\$ (0.68)	\$ 0.30	\$ 3.58

Key Points

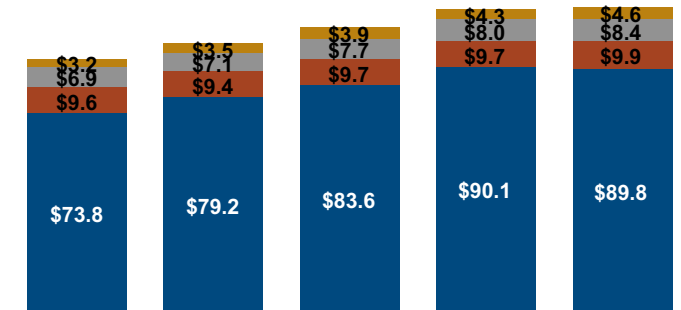
- Revenue net of interest expense was \$3.8Bn, up 29%, due to higher net interest income and prior year losses on equity investments
- Net interest margin was 11.34%, up 49 bps primarily driven by higher market rates, partially offset by higher funding costs, higher interest charge-offs and slightly higher promotional balances
- Provision for credit losses increased by \$948MM reflecting a \$385MM reserve build in the current year compared to a \$175MM release in the prior year and a \$382MM increase in net charge-offs
- Expenses increased \$253MM, or 22%, due to higher employee compensation, professional fees and marketing expense

NIM on Loans

10.85% 10.94% 11.05% 11.27% 11.34%

1Q22 2Q22 3Q22 4Q22 1Q23

Loan Growth (\$Bn)

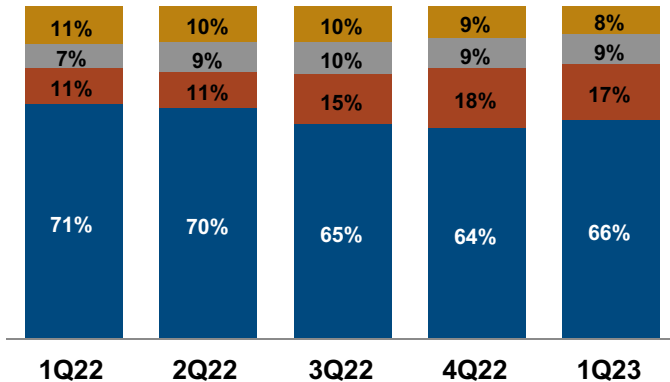


- Card +22% YOY
- Organic Student +3% YOY
- Personal +21% YOY
- Other + 46% YOY

Total Loans +21% YOY

	1Q22	2Q22	3Q22	4Q22	1Q23
Total Loan Yield	11.80%	12.00%	12.67%	13.53%	14.06%

Funding Mix (%), Average Balance ⁽¹⁾



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

Consumer Deposits +17% YOY

	1Q22	2Q22	3Q22	4Q22	1Q23
Net Funding Rate ²	0.95%	1.06%	1.62%	2.26%	2.72%

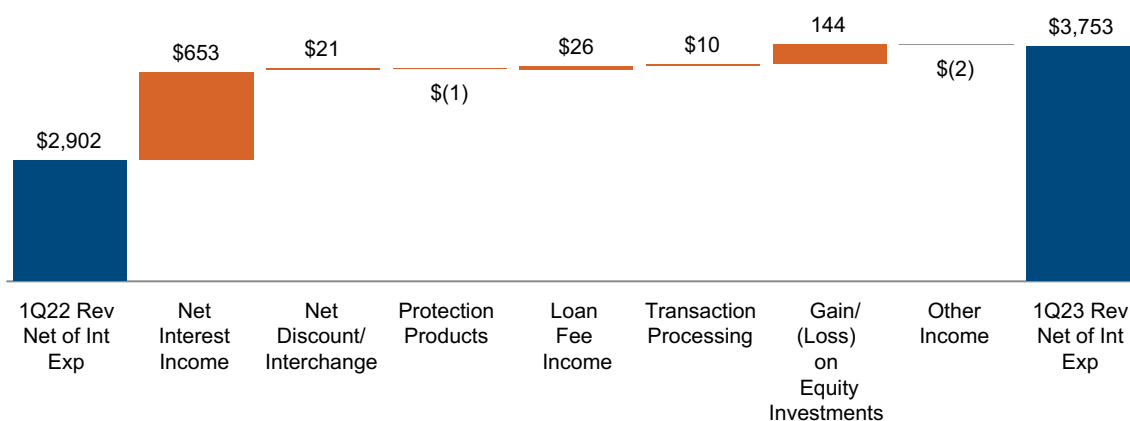
Note(s)

1. DTC and Affinity Deposits include checking and reflect both interest-bearing and non-interest bearing consumer deposits
2. Net Funding Rate reflects interest expense, net of interest income from other interest-earning assets, as a percentage of average receivables

Key Points

- NIM on loans was 11.34%, up 7bps QOQ as favorable loan yields were partially offset by higher net funding costs
- Total loan yield was up 53bps QOQ primarily due to higher prime rate, partially offset by higher interest charge-offs
- The net funding rate increased by 46bps QOQ, reflecting higher consumer deposit pricing, partially offset by higher securities yields
- Consumer deposits were up 7% 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 rewards rate was 1.41%, up 5bps YOY and down 1bp QOQ

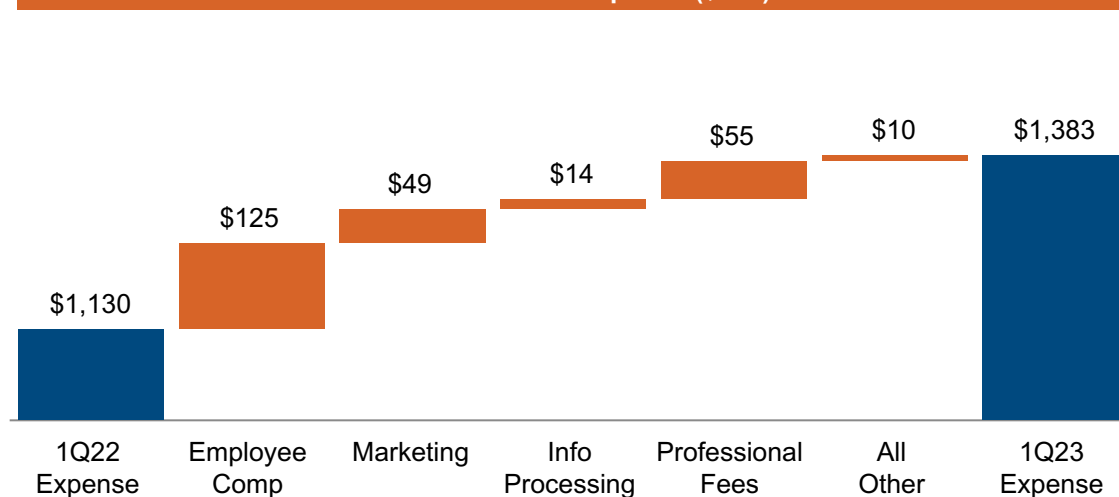
(\$MM)	1Q23	1Q22	Inc / (Dec)	
			\$	%
Net Interest Income	3,132	2,479	653	26%
Net Discount/Interchange Revenue	341	320	21	7%
Protection Products Revenue	43	44	(1)	(2%)
Loan Fee Income	166	140	26	19%
Transaction Processing Revenue	67	57	10	18%
Gain/(Loss) on Equity Investment	(18)	(162)	144	89%
Other Income	22	24	(2)	(8%)
Total Non-Interest Income	621	423	198	47%
Revenue Net of Interest Expense	<u>\$3,753</u>	<u>\$2,902</u>	<u>\$851</u>	<u>29%</u>

	1Q23	1Q22	Change	
			QOQ	YOY
Discover Card Sales Volume (\$MM)	\$50,588	\$46,329	(9)%	9%
Rewards Rate ⁽¹⁾	1.41 %	1.36 %	-1bps	5bps

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
- Marketing was up primarily due to investments in consumer banking, card acquisition, and brand
- Professional fees increased due to investment in technology and consulting costs

(\$MM)	1Q23	1Q22	Inc / (Dec)	
			\$	%
Employee Compensation and Benefits	\$625	\$500	125	25%
Marketing and Business Development	241	192	49	26%
Information Processing & Communications	139	125	14	11%
Professional Fees	232	177	55	31%
Premises and Equipment	22	24	(2)	(8%)
Other Expense	124	112	12	11%
Total Operating Expense	\$1,383	\$1,130	\$253	22%

Operating Efficiency⁽¹⁾ **36.8 %** **38.9 %** **(210) bps**

Note(s)

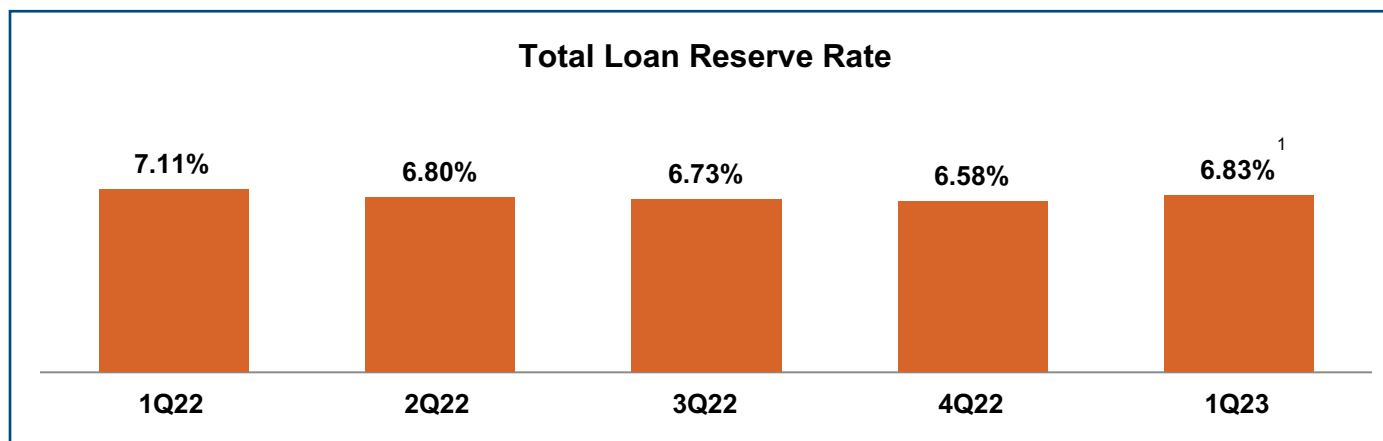
1. Defined as reported total operating expense divided by revenue net of interest expense

	1Q22	4Q22	1Q23	Change	
				QOQ	YOY
Credit Card Loans					
Ending Loan Balance (\$MM)	\$73,783	\$90,113	\$89,755	(0.4)%	21.6%
Net Principal Charge-off Rate	1.84%	2.37%	3.10%	73 bps	126 bps
30-Day Delinquency Rate	1.77%	2.53%	2.76%	23 bps	99 bps
Private Student Loans					
Ending Loan Balance (\$MM)	\$10,314	\$10,308	\$10,480	1.7%	1.6%
Net Principal Charge-off Rate	0.69%	1.33%	1.04%	(29) bps	35 bps
30-Day Delinquency Rate	1.62%	2.05%	2.02%	(3) bps	40 bps
Personal Loans					
Ending Loan Balance (\$MM)	\$6,904	\$7,998	\$8,374	4.7%	21.3%
Net Principal Charge-off Rate	1.12%	1.49%	1.94%	45 bps	82 bps
30-Day Delinquency Rate	0.69%	0.80%	0.91%	11 bps	22 bps
Total Loans					
Ending Loan Balance (\$MM)	\$93,471	\$112,120	\$112,674	0.5%	20.5%
Net Principal Charge-off Rate	1.61%	2.13%	2.72%	59 bps	111 bps
30-Day Delinquency Rate	1.64%	2.30%	2.48%	18 bps	84 bps

Key Points

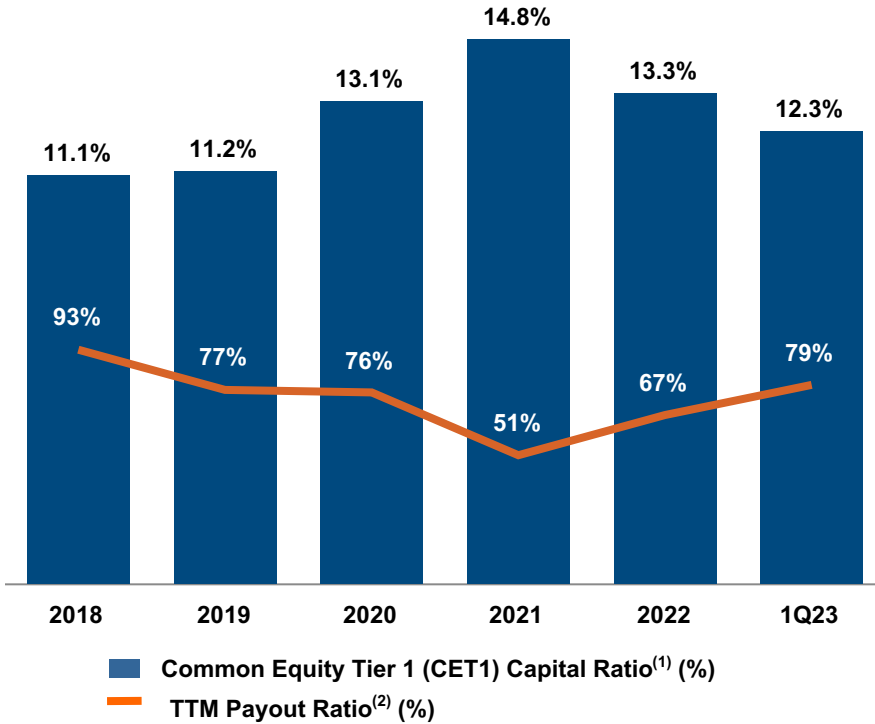
- Higher credit card net charge-off rate primarily driven by normalization of the portfolio
- Student loan net charge-offs in line with upper range of historical performance
- Personal loan net charge-offs migrating toward historical performance

(\$MM)	Credit Card	Student Loans	Personal Loans	Other	Total Loans
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%
Cumulative effect of ASU No. 2022-02 adoption	(66)	—	(2)	—	(68)
Provision for credit losses	1,002	60	68	5	1,135
Net Charge-offs	(684)	(27)	(39)	—	(750)
Balance at March 31, 2023	\$6,135	\$872	\$622	\$62	\$7,691
<i>Reserve rate</i>	6.84%	8.32%	7.43%	N/A	6.83% ¹

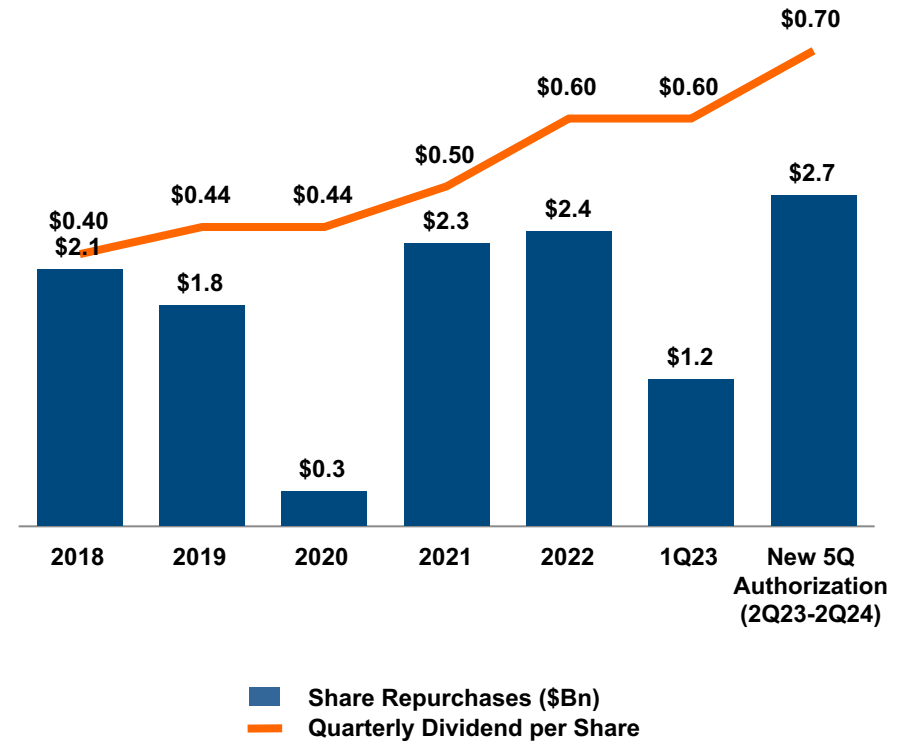


¹ Adjusting for an elevated level of transactor spend in 4Q22, the 1Q23 reserve rate was ~15bps higher QOQ

Capital Position



Capital Return⁽³⁾



Key Points

- The Common Equity Tier 1 ratio of 12.3% declined 100bps sequentially reflecting share repurchase activity and loan growth
- The Board of Directors approved a \$2.7Bn share repurchase authorization expiring June 30, 2024, and a 17% increase in the common dividend to \$0.70 per share
- Unrealized loss on the available for sale securities portfolio, net of tax, was \$45MM as of March 31, 2023⁴

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 2018 through 2022 represent year-end levels
4. As a category IV bank, Discover elects to opt-out of including AOCI in CET1 Capital; due to this, changes in AOCI do not impact CET1 Capital

	<u>Previous</u>	<u>Current</u>
Loan Growth	<ul style="list-style-type: none"> Expect loan growth to be low double digits 	<ul style="list-style-type: none"> Expect loan growth to be low to mid-teens
Net Interest Margin	<ul style="list-style-type: none"> Expect NIM to be modestly higher vs. full year 2022 	<ul style="list-style-type: none"> No change
Operating Expense	<ul style="list-style-type: none"> Expect total operating expense to be up less than 10% from prior year 	<ul style="list-style-type: none"> No change
Net Charge-offs	<ul style="list-style-type: none"> Expect full year average net charge-off rate of 3.5-3.9% 	<ul style="list-style-type: none"> Tightened the full year average net charge-off rate range by 10bps to 3.5-3.8%
Capital Management	<ul style="list-style-type: none"> \$2.8Bn remains under the current share repurchase plan authorization that expires June 30, 2023 	<ul style="list-style-type: none"> \$2.7Bn share repurchase plan authorization expires June 30, 2024

Appendix

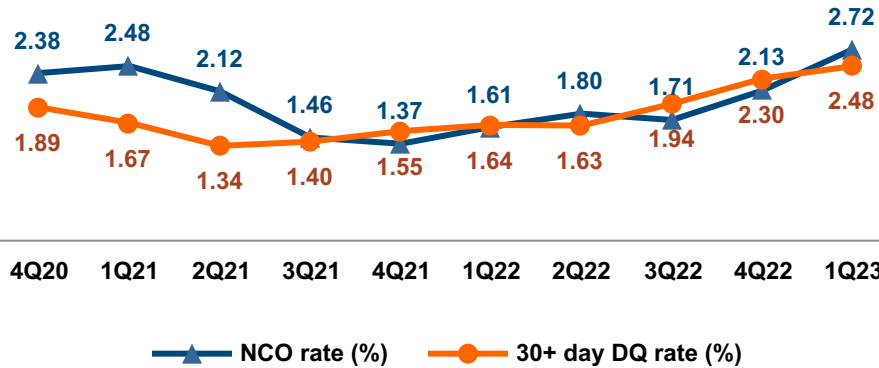
Interest-Earning Assets (\$Bn)	1Q23		4Q22		1Q22	
	Avg Bal	Yield	Avg Bal	Yield	Avg Bal	Yield
Total Loans	\$112.0	14.06 %	\$108.0	13.53 %	\$92.7	11.80 %
Other Interest-Earning Assets	20.2	3.87 %	20.0	3.42 %	15.8	1.03 %
Total Interest-Earning Assets	<u>\$132.2</u>	<u>12.51 %</u>	<u>\$128.0</u>	<u>11.96 %</u>	<u>\$108.5</u>	<u>10.23 %</u>

Interest-Bearing Liabilities (\$Bn)	1Q23		4Q22		1Q22	
	Avg Bal	Rate	Avg Bal	Rate	Avg Bal	Rate
Direct to Consumer Deposits ^{(1) (2)}	\$72.0	3.23 %	\$66.9	2.55 %	\$61.5	0.62 %
Brokered Deposits and Other	19.3	3.87 %	19.2	3.50 %	9.2	2.03 %
Interest Bearing-Deposits	91.2	3.36 %	86.1	2.76 %	70.6	0.80 %
Borrowings	19.1	4.03 %	19.5	3.84 %	17.9	2.68 %
Total Interest-Bearing Liabilities	<u>\$110.3</u>	<u>3.48 %</u>	<u>\$105.6</u>	<u>2.96 %</u>	<u>\$88.5</u>	<u>1.18 %</u>

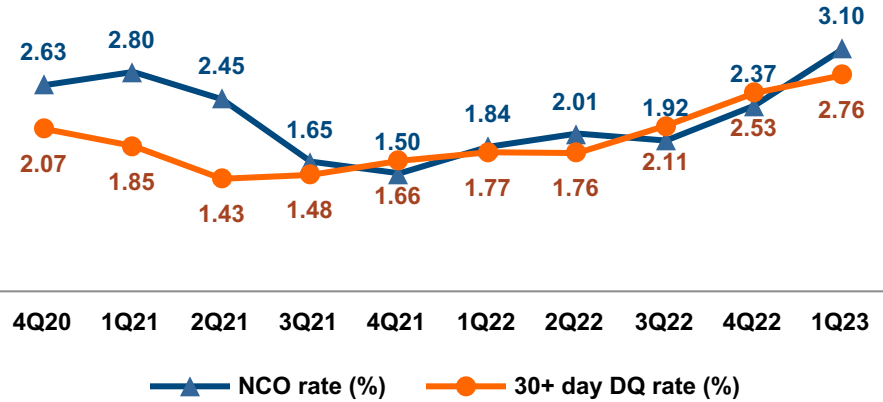
Note(s)

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

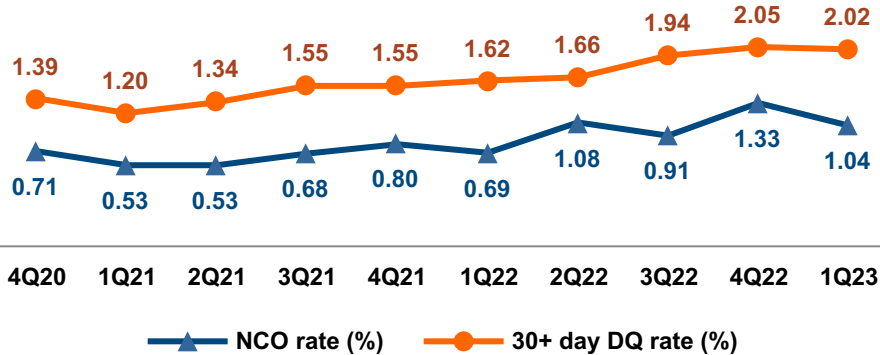
Total Company Loans



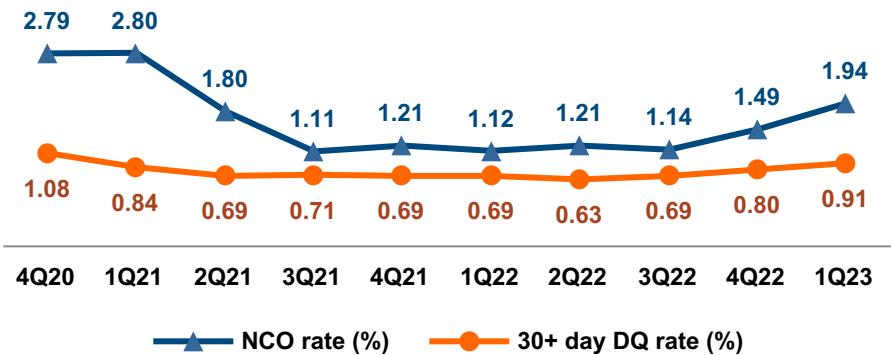
Credit Card Loans



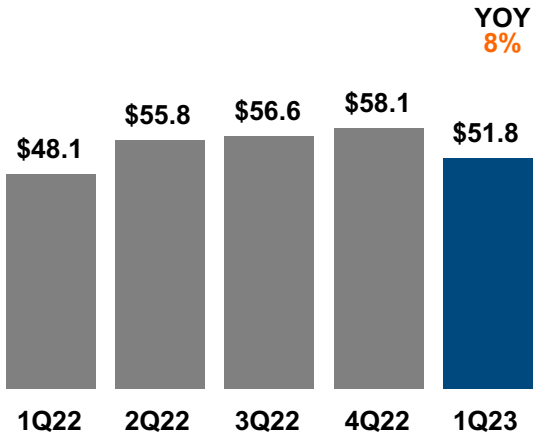
Private Student Loans



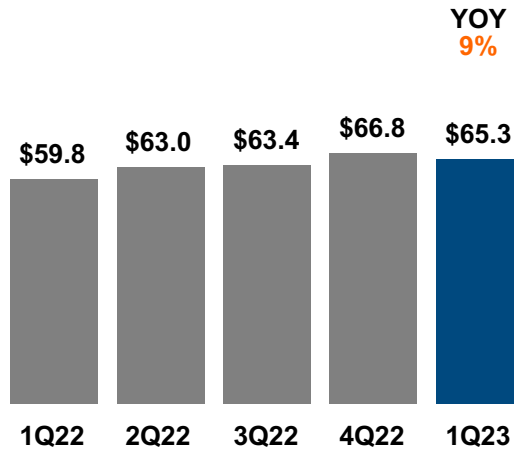
Personal Loans



Discover Network



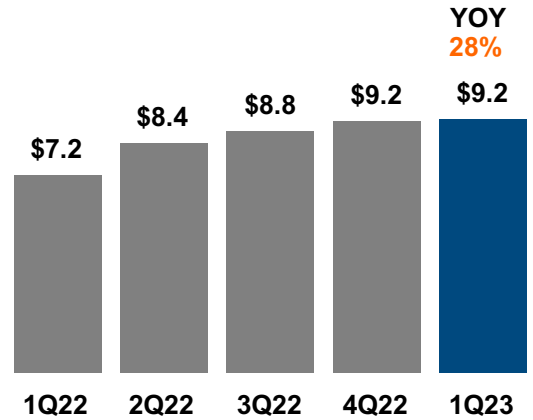
PULSE



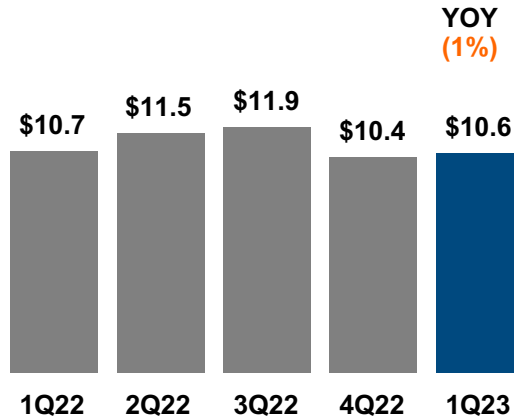
Key Points

- Discover Network volume was up 8% reflecting the increase in Discover card sales volume
- PULSE volume was up 9% driven by increased debit transaction volume
- Diners volume was up 28% from the prior year reflecting improvement in global T&E and corporate spending
- Network Partners was down 1% YOY driven by lower transaction volume

Diners ⁽¹⁾



Network Partners



Total Network Volume up 9% 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

DISCOVER[®]

