



## 3Q20 Financial Results

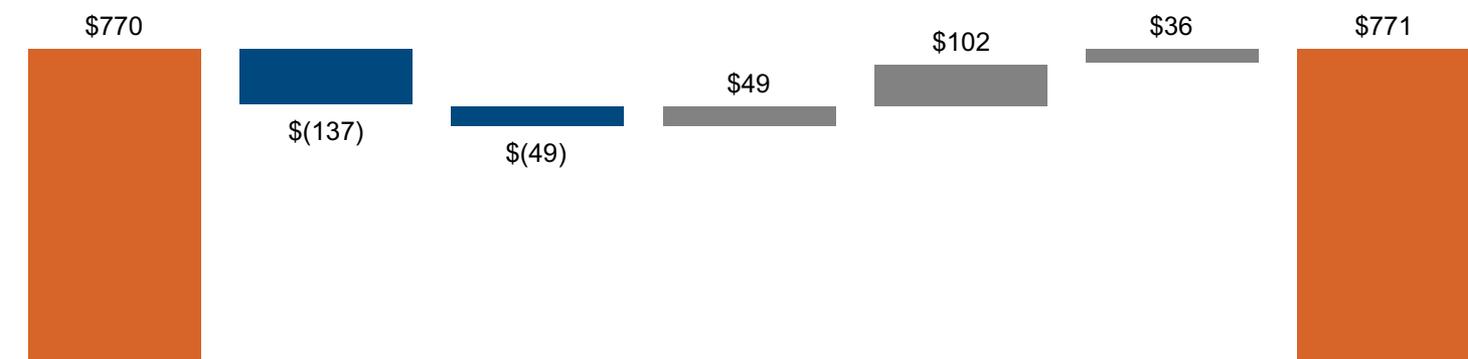
October 21, 2020

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](http://www.discover.com)) and the SEC's website ([www.sec.gov](http://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 June 30, 2020 and March 31, 2020, which is filed with the SEC and available at the SEC's website ([www.sec.gov](http://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.

- Actions taken during the first half of 2020 to mitigate credit risk and reduce costs contributed to solid results in the quarter
- Seeing positive trends in sales volume with a return to growth in September
- Minimal reserve build in 3Q20 as macroeconomic factors improved; however, outlook for the economy remains uncertain
- Well-positioned for growth when sustained recovery is evident
  - Continued investment in core capabilities including analytics and data science
  - Implemented tighter criteria for new account growth in current environment
- Business model generates high returns; remain committed to returning capital to shareholders
- 3Q20 Net Income of \$771MM; diluted EPS of \$2.45

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



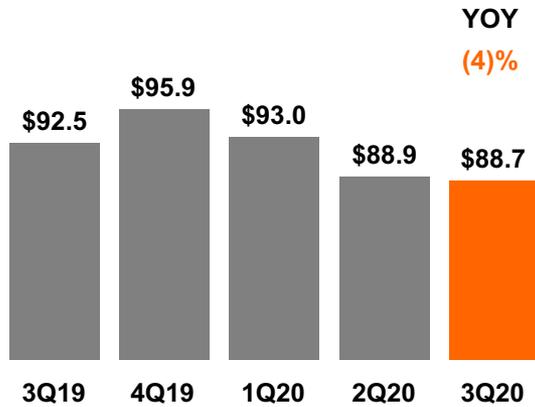
	3Q19 Net Income	Net Interest Income	Non-Interest Income	Provision for Credit Losses	Operating Expense	Income Tax/ Capital Action	3Q20 Net Income
3Q20		\$ 2,265	\$ 449	\$ 750	\$ 1,005	\$ 188	
3Q19		\$ 2,402	\$ 498	\$ 799	\$ 1,107	\$ 224	
B/(W)		\$ (137)	\$ (49)	\$ 49	\$ 102	\$ 36	
EPS	\$ 2.36	\$ (0.33)	\$ (0.12)	\$ 0.12	\$ 0.25	\$ 0.17	\$ 2.45

## Key Points

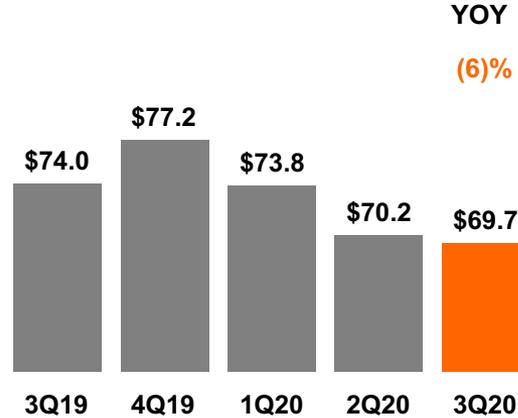
- Net Income of \$771MM; diluted EPS of \$2.45
- Revenue net of interest expense was \$2.7Bn, down 6%, driven by lower net interest income, lower loan fee income, and lower net discount and interchange revenue
- Net interest margin was 10.19% down 24 bps as lower loan yields driven by prime rate decreases were partially offset by lower funding costs
- Provision for credit losses improved by \$49MM driven by lower net charge-offs and a lower reserve build
- Expenses were down as reductions in marketing and professional fees were partially offset by higher compensation expense and investments in technology

# DISCOVER® | 3Q20 Loan Growth (\$Bn)

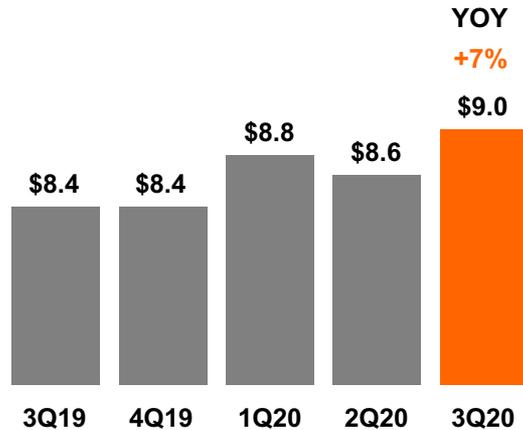
## Total



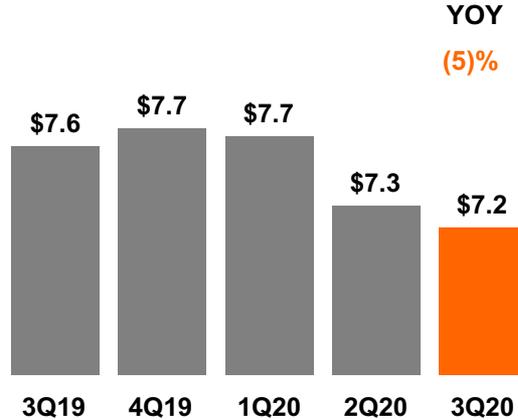
## Card



## Organic Student



## Personal



## Key Points

- Card receivables decreased reflecting a drop in sales volume, increased payment rates and lower BT/promo activity
- Organic student loan growth was in line with expectations; 3Q20 peak season was impacted by the pandemic
- Personal loans decreased reflecting impact of increased payments and credit actions taken

## Key Points

Interest-Earning Assets (\$Bn)	3Q20		2Q20		3Q19	
	Avg Bal	Yield	Avg Bal	Yield	Avg Bal	Yield
Total Loans	\$88.4	11.78 %	\$89.8	11.70 %	\$91.3	12.76 %
Other Interest-Earning Assets	28.6	0.88 %	25.9	0.93 %	18.0	2.25 %
<b>Total Interest-Earning Assets</b>	<b>\$117.0</b>	<b>9.11 %</b>	<b>\$115.7</b>	<b>9.29 %</b>	<b>\$109.3</b>	<b>11.03 %</b>

Interest-Bearing Liabilities (\$Bn)	3Q20		2Q20		3Q19	
	Avg Bal	Rate	Avg Bal	Rate	Avg Bal	Rate
Direct to Consumer Deposits <sup>(1)</sup>	\$61.6	1.25 %	\$58.8	1.62 %	\$50.5	2.16 %
Brokered Deposits and Other	15.3	2.47 %	16.4	2.52 %	19.1	2.73 %
Interest Bearing Deposits	76.8	1.49 %	75.2	1.81 %	69.6	2.32 %
Borrowings	22.9	2.23 %	24.3	2.36 %	24.8	3.70 %
<b>Total Interest-Bearing Liabilities</b>	<b>\$99.7</b>	<b>1.66 %</b>	<b>\$99.6</b>	<b>1.95 %</b>	<b>\$94.4</b>	<b>2.68 %</b>

(%)				Change	
	3Q20	2Q20	3Q19	QOQ	YOY
Total Interest Yield on Loans	11.78 %	11.70 %	12.76 %	8bps	-98bps
NIM on Loans	10.19 %	9.81 %	10.43 %	38bps	-24bps
NIM on Interest-Earning Assets	7.70 %	7.61 %	8.72 %	9bps	-102bps

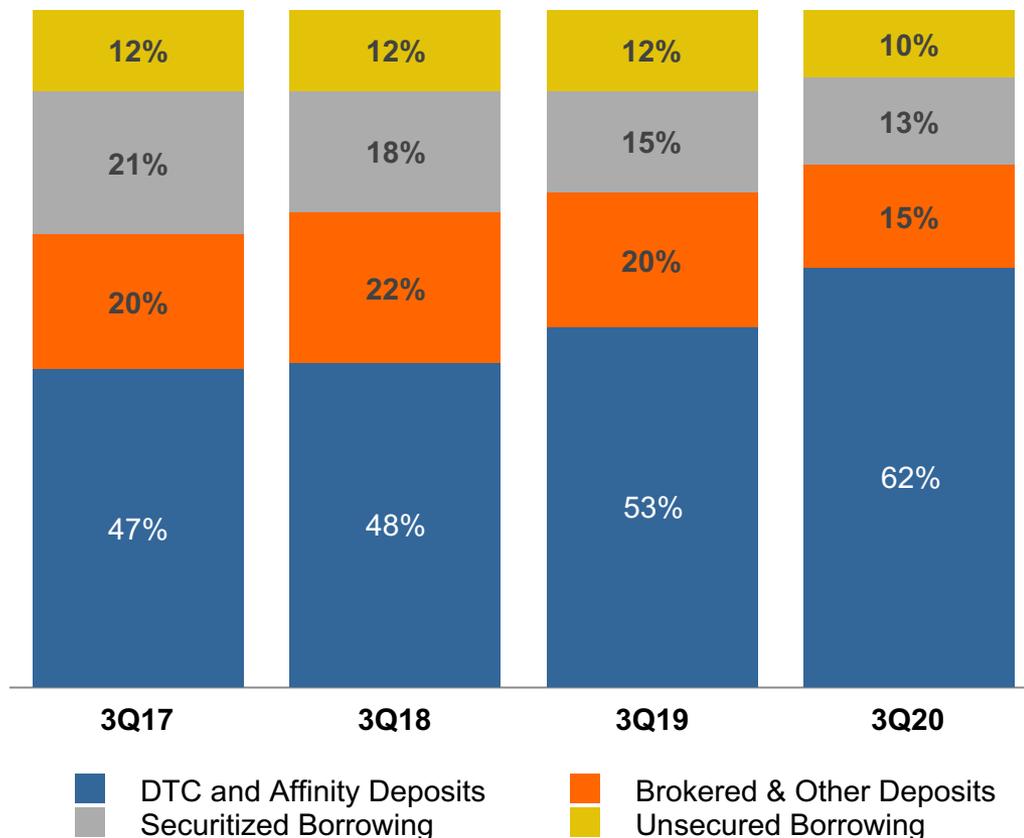
- Total loan yield of 11.78%, up 8bps QOQ and down 98bps YOY reflecting the impact of prime rate decreases partially offset by favorable portfolio mix
- Average consumer deposits of \$61.6Bn grew 22% YOY and were up \$2.7Bn QOQ; consumer deposits composed 62% of total funding
- Rate on average interest-bearing liabilities of 1.66%, down 102bps YOY and 29bps QOQ, driven by lower market rates
- NIM on loans was 10.19%, up 38bps QOQ driven by favorable deposit pricing



### Note(s)

1. Includes Affinity relationships

## Funding Mix (%), Average Balance



## Maturities

Maturity profile provides opportunity to continue optimizing funding costs

Maturities (\$Bn)	FY21	FY22
CDs	\$ 15.8	\$ 4.4
ABS	\$ 3.4	\$ 4.4
Unsecured	\$ 0.8	\$ 0.8
<b>Total</b>	<b>\$ 20.0</b>	<b>\$ 9.6</b>

Average Maturity Rate (%) <sup>(1)</sup>	FY21	FY22
CDs	1.96 %	2.28 %
ABS	0.47 %	0.68 %
Unsecured	1.93 %	4.35 %
<b>Total</b>	<b>1.70 %</b>	<b>1.73 %</b>

### Note(s)

1. Effective cost net of hedge impact



	3Q19	2Q20	3Q20	Change	
				QOQ	YOY
<b>Credit Card Loans</b>					
Ending Loan Balance (\$MM)	\$73,968	\$70,201	\$69,656	(0.8)%	(5.8)%
Net Principal Charge-off Rate	3.32%	3.90%	3.45%	(45) bps	13 bps
30-Day Delinquency Rate	2.50%	2.17%	1.91%	(26) bps	(59) bps
<b>Private Student Loans</b>					
Ending Loan Balance (\$MM)	\$9,736	\$9,730	\$10,016	2.9%	2.9%
Net Principal Charge-off Rate	0.59%	0.62%	0.58%	(4) bps	(1) bps
30-Day Delinquency Rate <sup>(1)</sup>	1.78%	1.49%	1.41%	(8) bps	(37) bps
<b>Personal Loans</b>					
Ending Loan Balance (\$MM)	\$7,596	\$7,316	\$7,211	(1.4)%	(5.1)%
Net Principal Charge-off Rate	3.99%	3.43%	2.69%	(74) bps	(130) bps
30-Day Delinquency Rate	1.49%	1.07%	1.10%	3 bps	(39) bps
<b>Total Loans</b>					
Ending Loan Balance (\$MM)	\$92,493	\$88,927	\$88,660	(0.3)%	(4.1)%
Net Principal Charge-off Rate	3.05%	3.44%	3.00%	(44) bps	(5) bps
30-Day Delinquency Rate <sup>(1)</sup>	2.32%	1.98%	1.76%	(22) bps	(56) bps

**Note(s)**

1. 30-Day Delinquency Rate excludes purchased loans

## Key Points

- Credit card net charge-off dollars down 1% while net charge-off rate increased 13 bps YOY
- Credit card 30-Day DQ's improved 59bps YOY reflecting improved credit performance
- Personal loan net charge-offs improved 130bps YOY reflecting underwriting enhancements and consumer liquidity
- Student loan credit performance remains stable

(\$MM)	Credit Card	Student Loans	Personal Loans	Other	Total Loans
<b>Balance at January 1, 2020</b>	4,550	653	613	28	5,844
Reserve rate	5.90 %	6.76 %	7.97 %	N/A	6.09 %
<b>Balance at March 31, 2020</b>	5,306	765	807	35	6,913
Reserve rate	7.19 %	7.68 %	10.55 %	N/A	7.44 %
<b>Balance at June 30, 2020</b>	6,491	799	857	37	8,184
Reserve rate	9.25 %	8.21 %	11.71 %	N/A	9.2 %
Provision for credit losses <sup>(1)</sup>	604	55	49	2	710
Net Charge-offs	(604)	(14)	(49)	(1)	(668)
<b>Balance at September 30, 2020</b>	<b>\$6,491</b>	<b>\$840</b>	<b>\$857</b>	<b>\$38</b>	<b>\$8,226</b>
Reserve rate	9.32 %	8.38 %	11.89 %	N/A	9.28 %

**Note(s)**

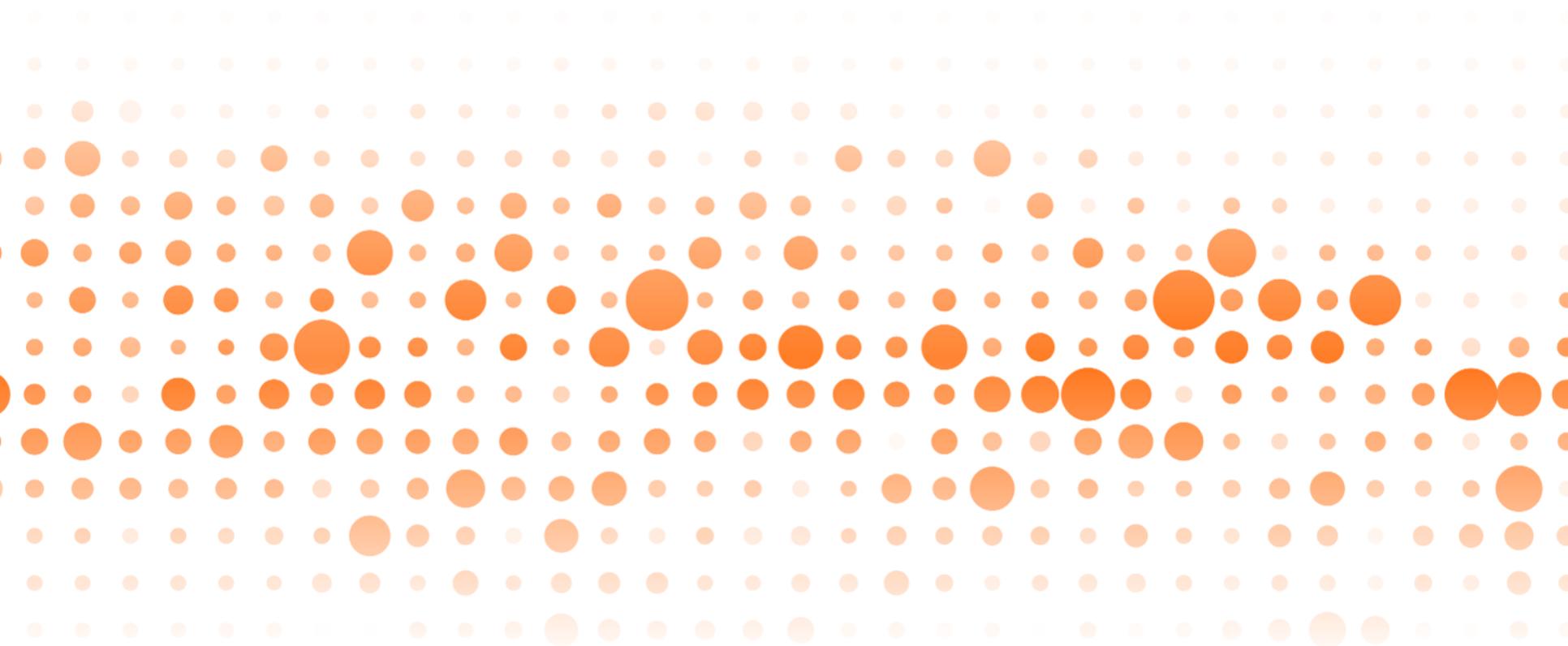
1. Excludes any build/release of the liability for expected credit losses on unfunded commitments as the offset is recorded in accrued expenses in other liabilities



**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

# Appendix



(\$MM)	3Q20	3Q19	Inc / (Dec)	
			\$	%
Net Interest Income	2,265	2,402	(137)	(6%)
Net Discount/Interchange Revenue	238	255	(17)	(7%)
Protection Products Revenue	44	48	(4)	(8%)
Loan Fee Income	100	120	(20)	(17%)
Transaction Processing Revenue	50	52	(2)	(4%)
Other Income	17	23	(6)	(26%)
Total Non-Interest Income	449	498	(49)	(10%)
Revenue Net of Interest Expense	<u>\$2,714</u>	<u>\$2,900</u>	<u>\$(186)</u>	<u>(6%)</u>

	3Q20	3Q19	Change	
			QOQ	YOY
Discover Card Sales Volume (\$MM)	\$37,134	\$37,432	21 %	(1)%
Rewards Rate <sup>(1)</sup>	1.38 %	1.38 %	14bps	-bps
NIM on Loans	10.19 %	10.43 %	38bps	-24bps

**Note(s)**

1. Rewards cost divided by Discover card sales volume

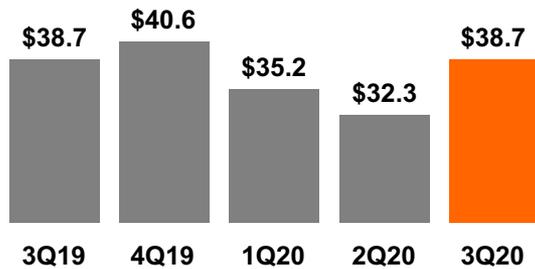
## Key Points

- 6% decrease in net interest income driven by an unfavorable net impact from lower market rates and lower average receivables
- Net discount and interchange revenue down 7% driven by the decline in sales volume
- Decrease in loan fee income primarily reflects lower late fees and cash advance fees
- Rewards rate was flat YOY

# DISCOVER® | 3Q20 Payments Volume (\$Bn)

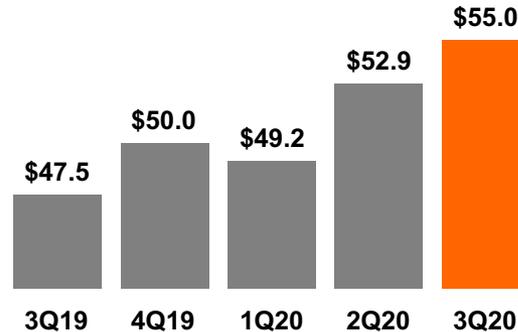
## Discover Network

YOY  
—%



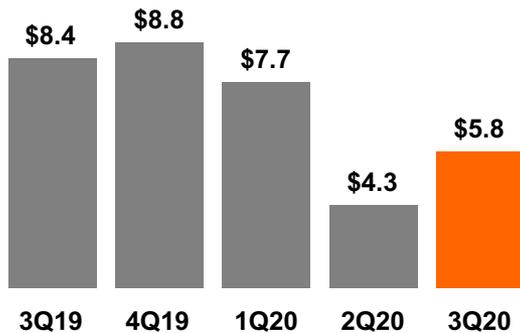
## PULSE

YOY  
+16%



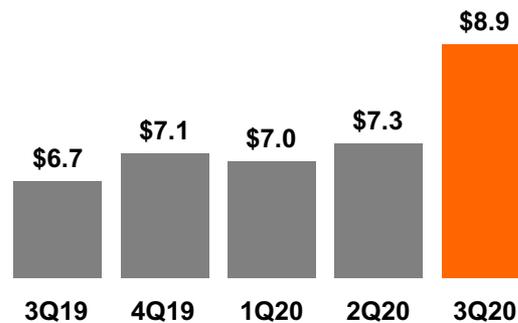
## Diners <sup>(1)</sup>

YOY  
(30)%



## Network Partners

YOY  
+34%



Total Network Volume up 7% YOY

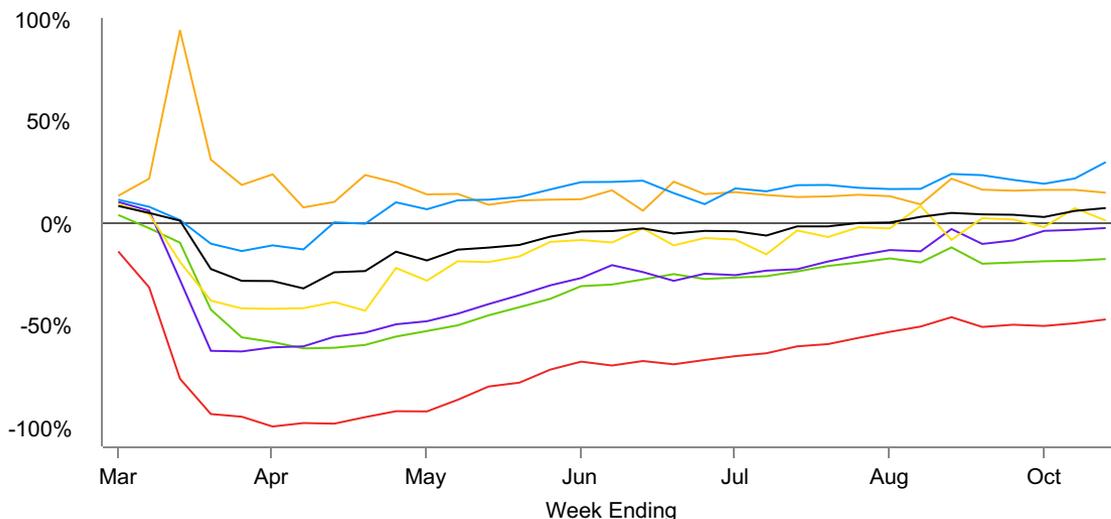
## Key Points

- Discover Network volume flat; in-line with slowdown in Discover card sales volume
- PULSE volume up 16% year-over-year driven by higher average spend per transaction related to the pandemic and the impact of stimulus funds available to consumers, increased spend at grocery and home improvement and higher ATM volume
- Diners Club volume down 30% from the prior year reflecting the impact of the global pandemic on T&E spending
- Network Partners up 34% driven 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

## Weekly Sales Volume Trend (%)



## Year-Over-Year Sales Volume Trend (%)

	1Q20	2Q20	3Q20	MTD October 18th
Gas	—%	(48)%	(23)%	(19)%
Grocery	14%	14%	13%	16%
Retail	6%	7%	18%	26%
Restaurants	(2)%	(43)%	(18)%	(2)%
Services	(1)%	(25)%	(4)%	5%
Travel	(20)%	(85)%	(59)%	(49)%
All Other	6%	(6)%	4%	4%
<b>Total Sales Volume</b>	<b>3%</b>	<b>(16)%</b>	<b>(1)%</b>	<b>7%</b>

### 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

## Key Points

- 3Q20 sales volume down 1% YOY
  - Trends in every category continue to improve
  - September sales up 4% YOY and first half of October up 7%
- Travel, restaurants, and gas have improved significantly
- Sales mix has shifted to a higher concentration from retail

## Final Skip-a-Pay Enrollment Performance

	Final Cumulative Balances Enrolled (\$Bn)	Balances Currently Enrolled (\$MM)	Balances Currently Enrolled as % of Total Portfolio	% Making Payment After Exiting Skip-a-Pay
Credit Card	\$3.5	\$—	—%	~ 75%
Student Loans	\$1.3	\$109	1.1%	~ 80%
Personal Loans	\$0.7	\$2	—%	~ 65%
Home Loans	\$—	\$30	1.7%	~80%
<b>Total</b>	<b>\$5.5</b>	<b>\$141</b>	<b>0.2%</b>	<b>~75%</b>

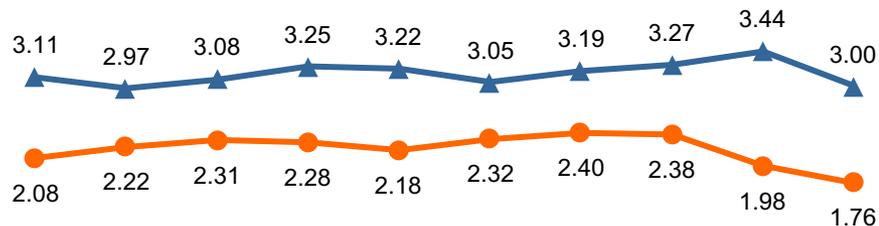
## Key Points

- Enrollment for all programs concluded at the end of August
- Continue to offer traditional payment assistance programs for customers who meet program eligibility
- Program performance in line with expectations

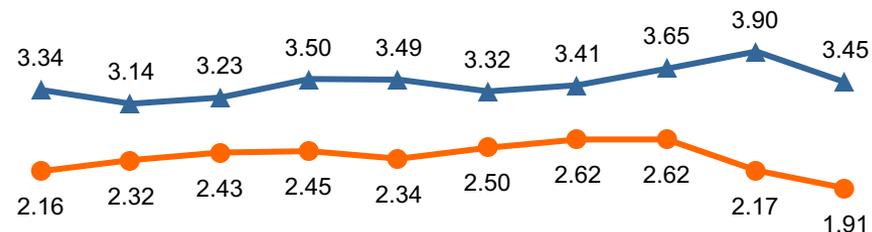
### Note(s)

1. Skip-a-Pay programs related to COVID relief efforts

## Total Company Loans



## Credit Card Loans



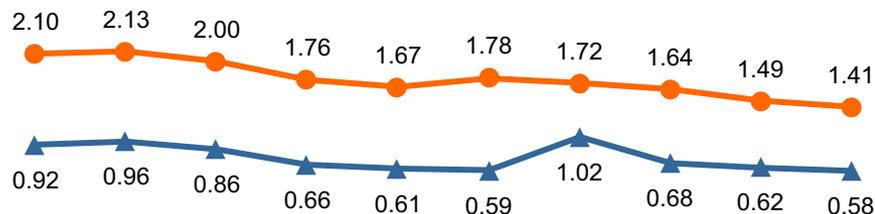
2Q18 3Q18 4Q18 1Q19 2Q19 3Q19 4Q19 1Q20 2Q20 3Q20

2Q18 3Q18 4Q18 1Q19 2Q19 3Q19 4Q19 1Q20 2Q20 3Q20

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

▲ NCO rate (%) ● 30+ day DQ rate (%)

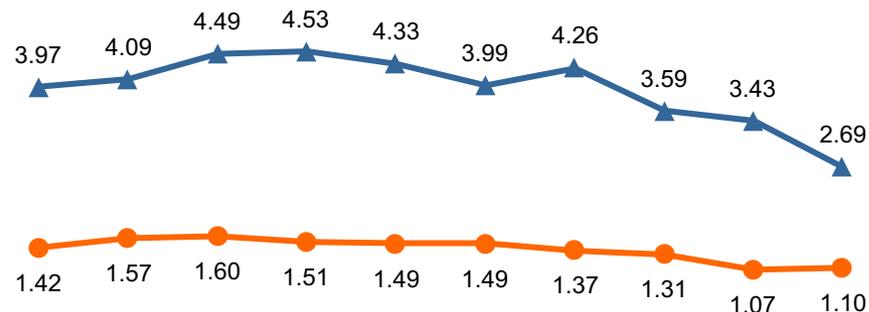
## Private Student Loans



2Q18 3Q18 4Q18 1Q19 2Q19 3Q19 4Q19 1Q20 2Q20 3Q20

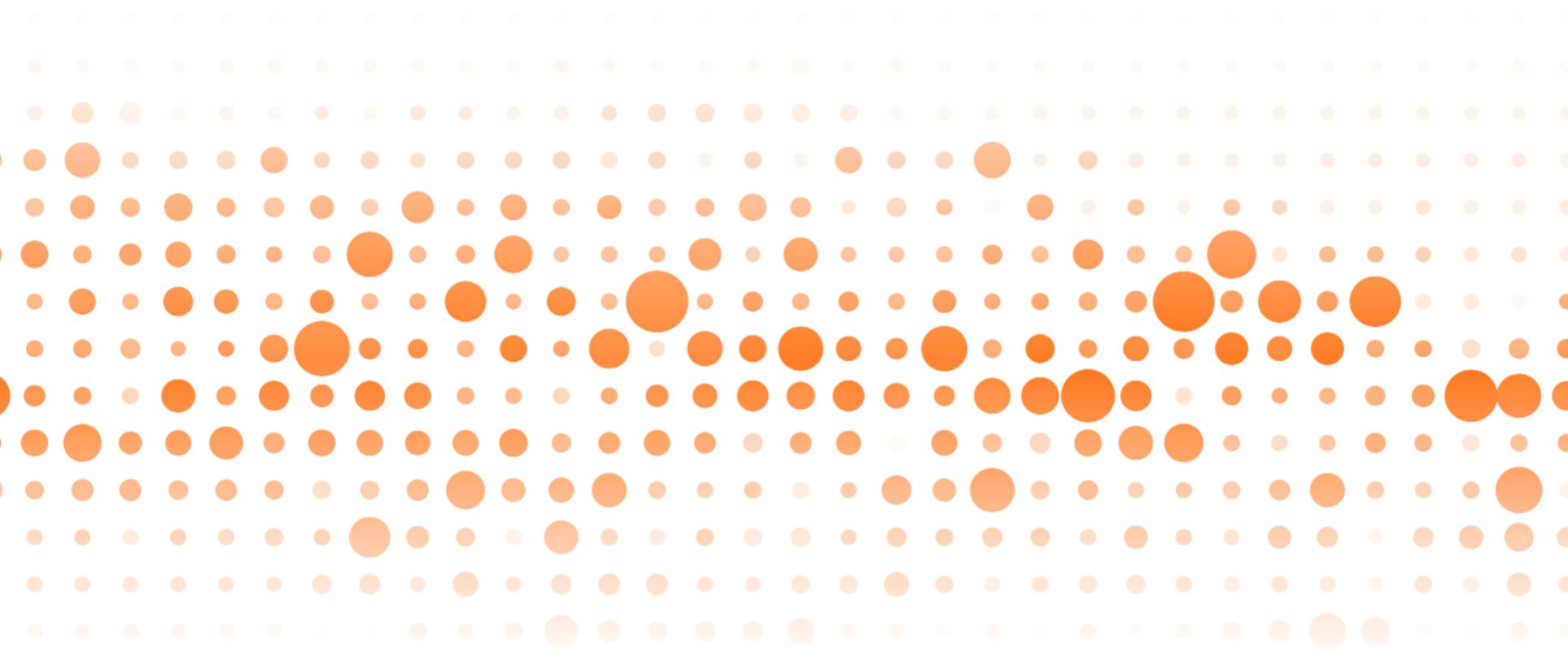
▲ NCO rate (%) ● 30+ day DQ rate ex-purchased loans (%)

## Personal Loans



2Q18 3Q18 4Q18 1Q19 2Q19 3Q19 4Q19 1Q20 2Q20 3Q20

▲ NCO rate (%) ● 30+ day DQ rate (%)



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