



# Investor Presentation

# Merrill Lynch Banking & Financial Services Investor Conference

November 13, 2007

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The information provided herein may include certain non-GAAP financial measures. The reconciliations of such measures to the comparable GAAP figures are included in the Company's Registration Statement on Form 10, as amended and the Company's Form 10-Q for the 3<sup>rd</sup> Quarter 2007, each of which is on file with the SEC.

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 – Regulatory Matters" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Information Statement that is included as part of its Registration Statement on Form 10, as amended, and the Company's Form 10-Q for the 3<sup>rd</sup> Quarter 2007, each of which is on file with the SEC.

The historical financial information prior to the Company's spin-off from Morgan Stanley included in the presentation has been derived from Morgan Stanley's consolidated financial statements and does not necessarily reflect what our financial condition, results of operations or cash flows would have been had we operated as a separate, stand-alone company during such periods presented.

# Today's Agenda

David W. Nelms  
CHIEF EXECUTIVE OFFICER

- Business Overview and Results
- Segment Review
- Capital Management
- Conclusion

# Business Segments and Objectives

## U.S. Card

- Discover cards issued on Discover Network
  - 6<sup>th</sup> largest issuer
  - 50MM cardmembers
  - \$47.4Bn receivables
  - 4MM+ merchants

## Third Party Payments

- PULSE and Discover Network third-party payments business
  - 4,400+ financial institutions
  - 2.8Bn transactions

## International Card

- U.K. cards issued by Goldfish Bank
  - 2MM cardmembers
  - \$4.4Bn receivables
  - Operating on MasterCard and Visa networks

## Objectives

- Grow Loans 4% – 8%
- Maintain Credit Quality
- ~~20%+ ROE~~
- 2.9% pretax ROMR

- ~~Grow transactions 15%+~~
- Grow third-party credit and debit volume 18%+

- Eliminate U.K. Loss

- Complete rollout of acceptance strategy

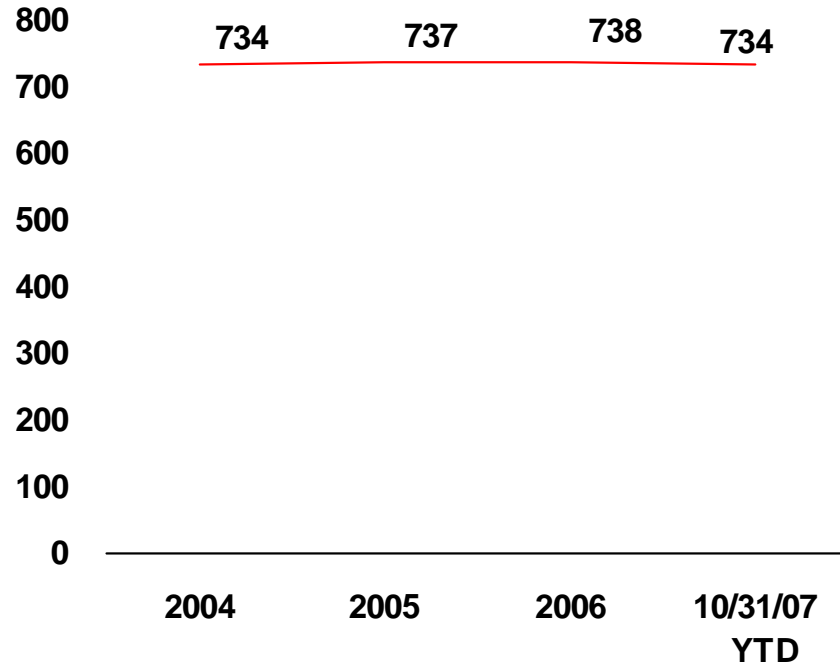
Note: All data as of August 31, 2007

# Performance Against Objectives

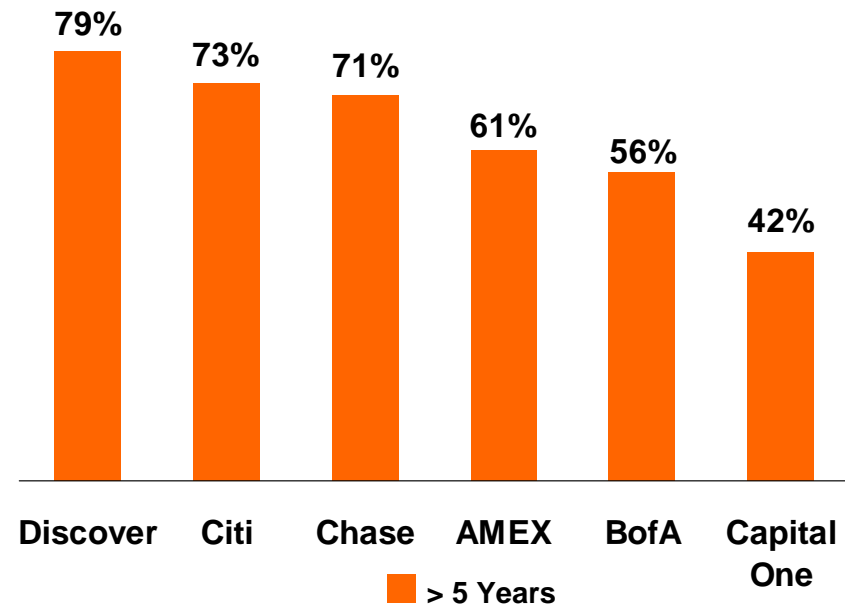
<u>Objectives</u>	<u>3Q Results</u>
<b>U.S. Card</b>	
• Grow loans 4 - 8%	✓ 5% growth
• Maintain credit quality	✓ 3.70% charge-off rate
	✓ 3.16% 30+ day delinquency
• 2.9% pretax ROMR	✓ 3.3% pretax ROMR
<b>Third-Party Payments</b>	
• Grow credit and debit volume 18%+	✓ 29% volume growth
<b>International Card</b>	
• Eliminate loss	✗ Significant loss - turnaround actions being implemented

# Prime Account Generation, Seasoned Customer Base

**Average FICO Score on New Accounts**



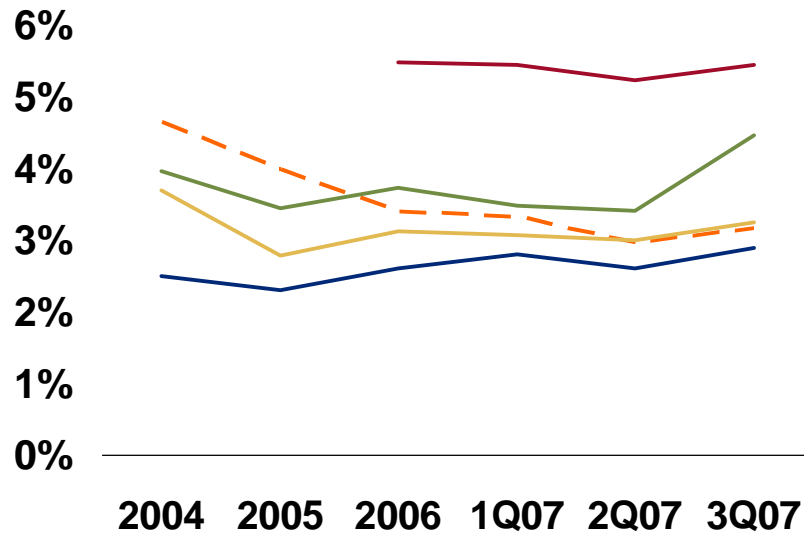
**Portfolio Tenure<sup>(1)</sup>**



Note: <sup>(1)</sup>Master Trust Balances as of 2Q07

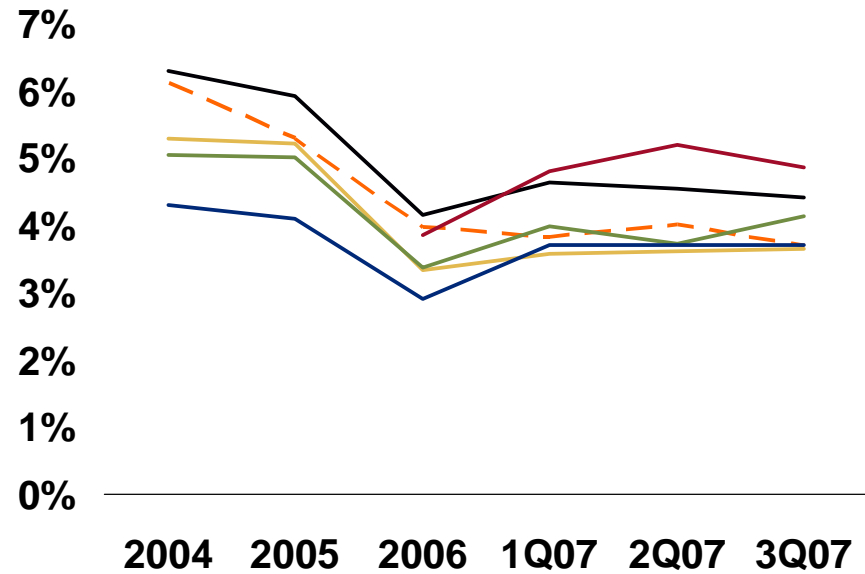
# Strong Relative Credit Performance

## 30+ Day Managed Delinquency Rate<sup>(1)</sup>



- - - Discover<sup>(2)</sup>    — Capital One<sup>(2)</sup>  
— Chase<sup>(3)</sup>    — AMEX<sup>(2)</sup>    — BofA<sup>(4)</sup>

## Charge-off Rate<sup>(1)</sup>



- - - Discover<sup>(2)</sup>    — Capital One<sup>(2)</sup>    — Chase<sup>(3)</sup>  
— AMEX<sup>(2)</sup>    — BofA<sup>(4)</sup>    — Citigroup<sup>(2)</sup>

Source: SEC Filings

**Notes:** <sup>(1)</sup>Discover fiscal year, all others calendar year  
<sup>(2)</sup>U.S. Card  
<sup>(3)</sup>Card Services  
<sup>(4)</sup>U.S. Consumer and Business Card

# U.S. Credit Outlook

## Fiscal 2008 Outlook

- Rising unemployment
- Regional weakness in housing
- Slower retail sales growth
- Higher energy prices

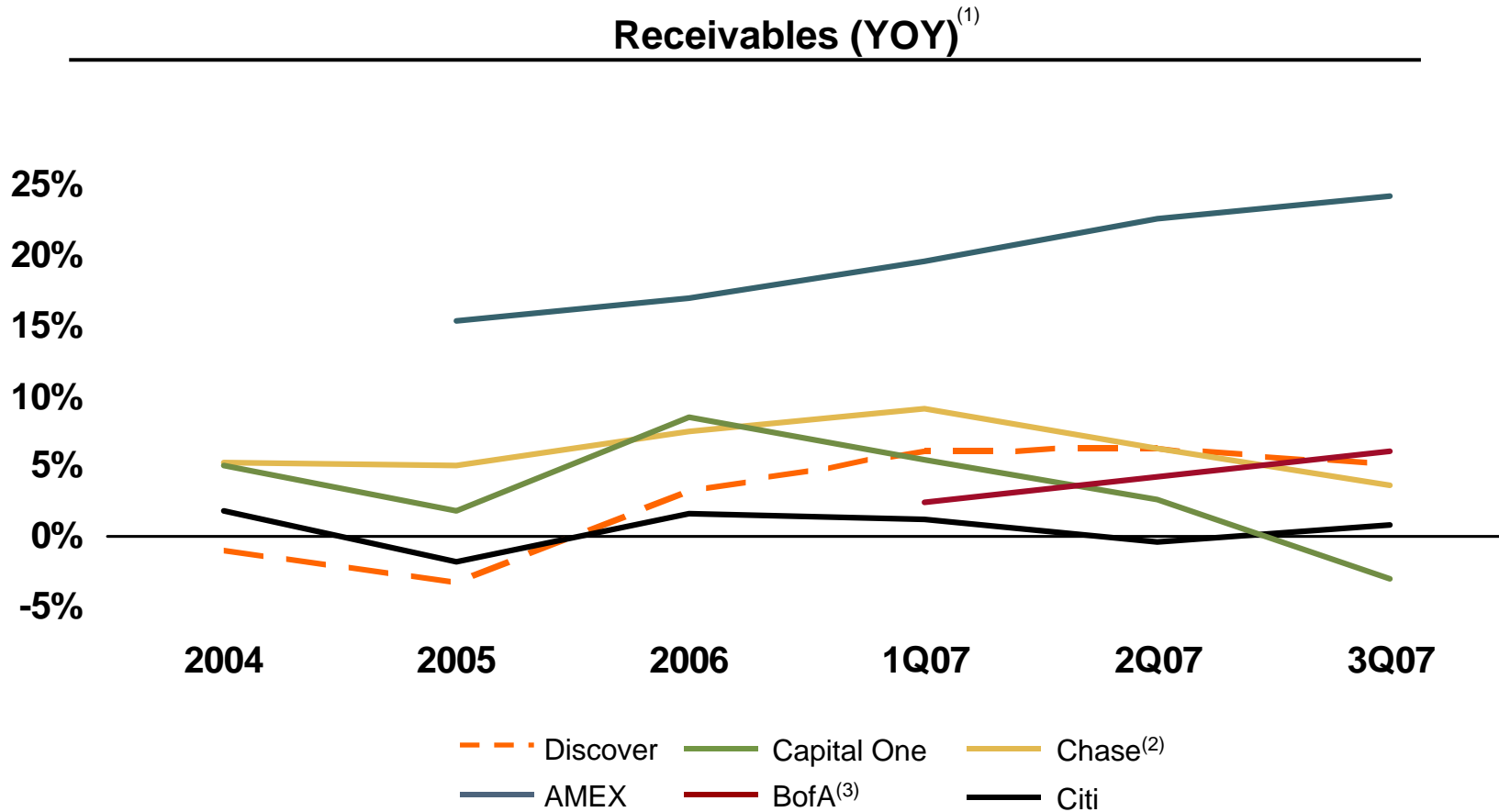


- Estimated full year Discover Card charge-off rate of 4.25% – 4.75%

## Offsets

- Higher fee income
- Higher yield
- Lower funding costs
- Lower expense ratio

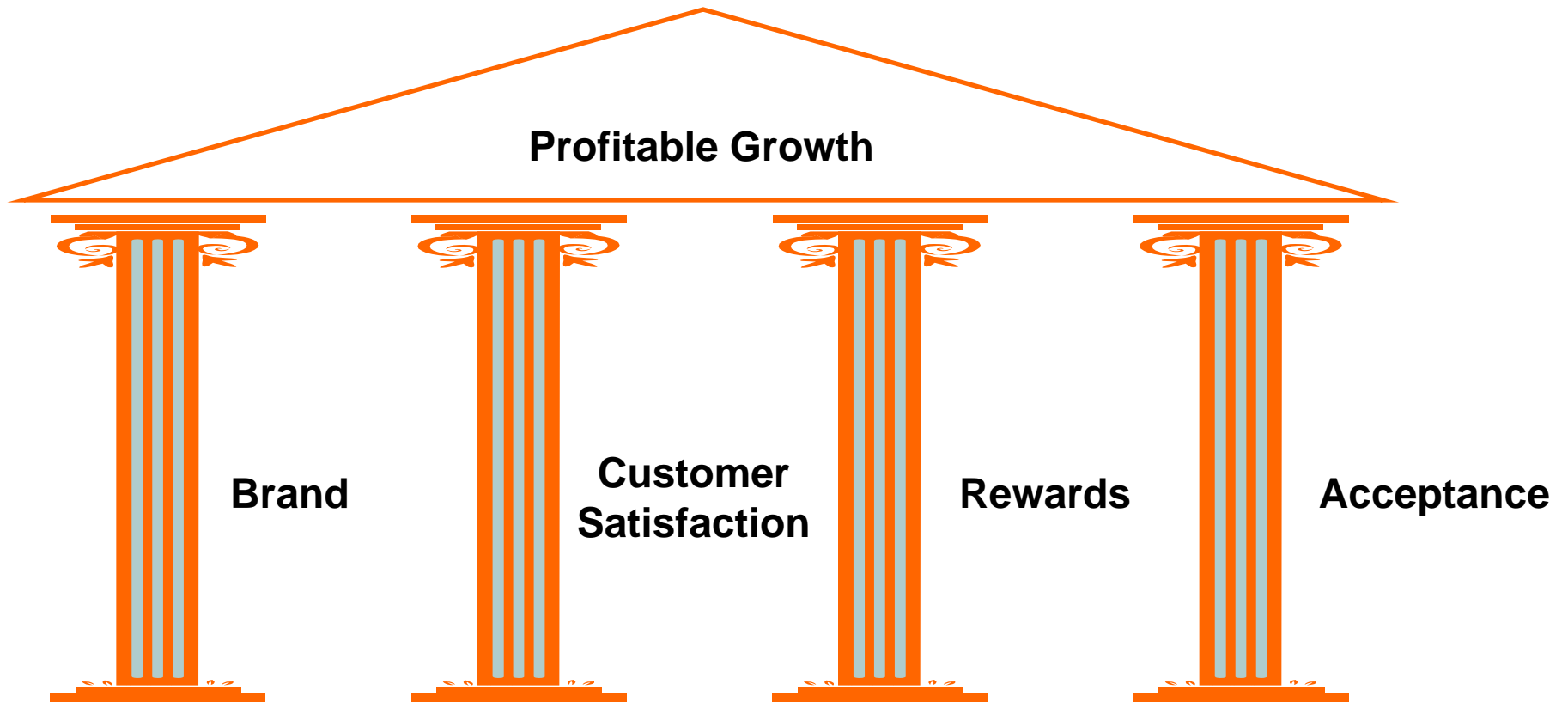
# U.S. Receivables Growth



Source: SEC Filings

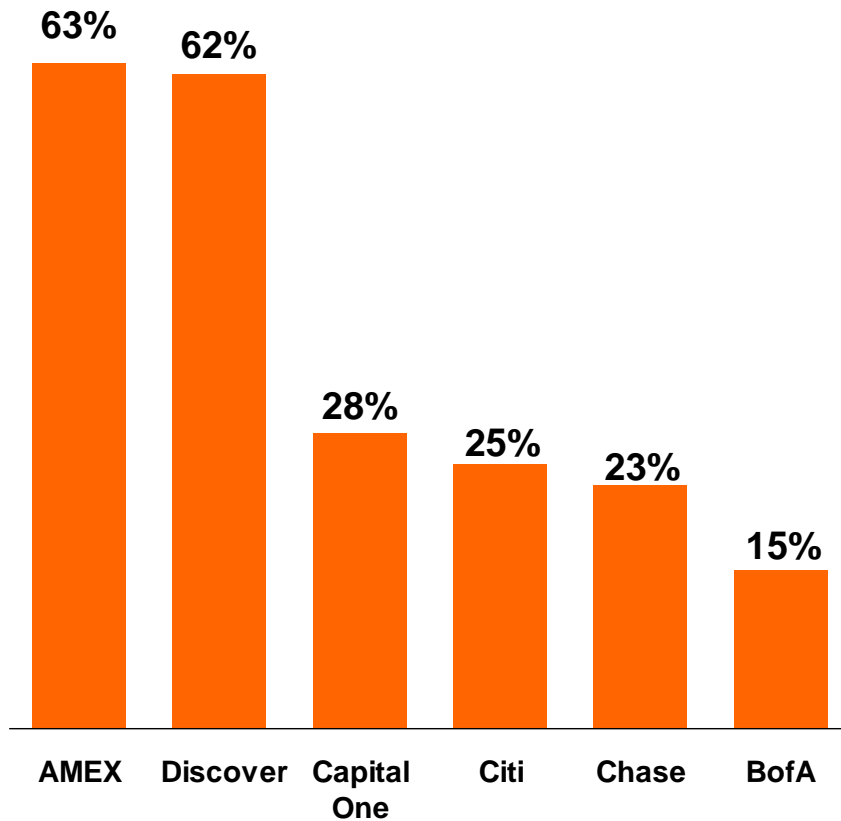
Notes: <sup>(1)</sup>U.S. Card unless otherwise noted  
<sup>(2)</sup>Card Services  
<sup>(3)</sup>U.S. Consumer and Business Card

# U.S. Card Objective



# Leading Brand

## Unaided Brand Awareness<sup>(1)</sup>



Note: <sup>(1)</sup>GfK Arbor, January 2007

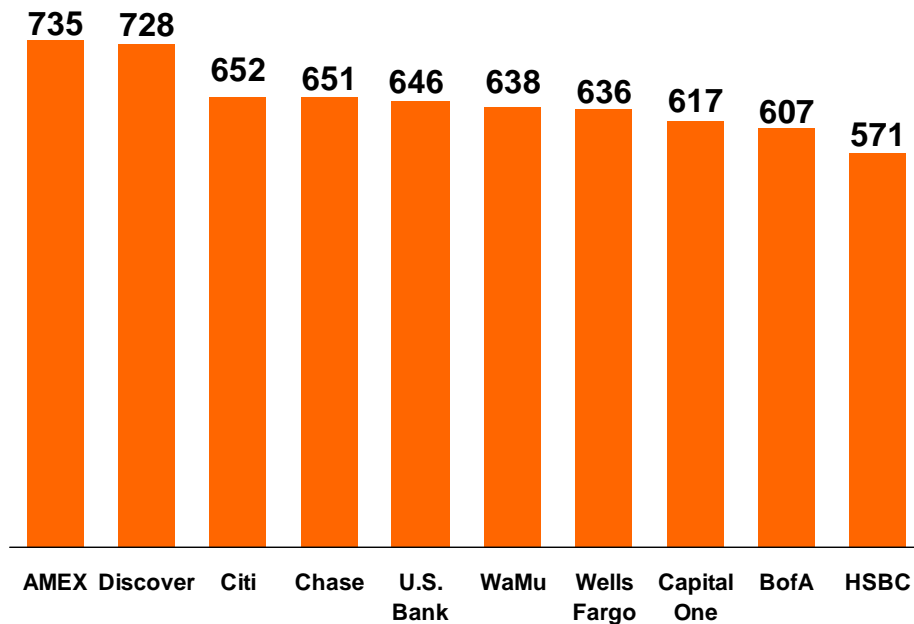
Only company to win *Brandweek's*  
"Customer Loyalty Award"  
10 years in a row

## Brand Advantages

- Differentiation
- Response rates
- Loyalty

# Leader in Customer Satisfaction

**2007 J.D. Power  
Card Satisfaction Index**



Source: 2007 Credit Card Satisfaction Study-J.D. Power

**Satisfaction  
Categories**

**Discover  
Ranking**

**Credit Card Index**

**#2**

**Benefits/Features**

**#2**

**Rewards**

**#1**

**Billing/Pmt Proc**

**#1**

**Fees/Rates**

**#2**

**Problem Resolution**

**#2**

# Leader in Cash Rewards



- One of the “best cash-back credit cards” – 7/07



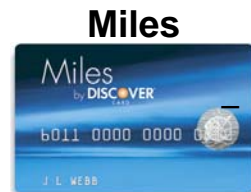
- Rated one of the “top gasoline cards” – 7/07



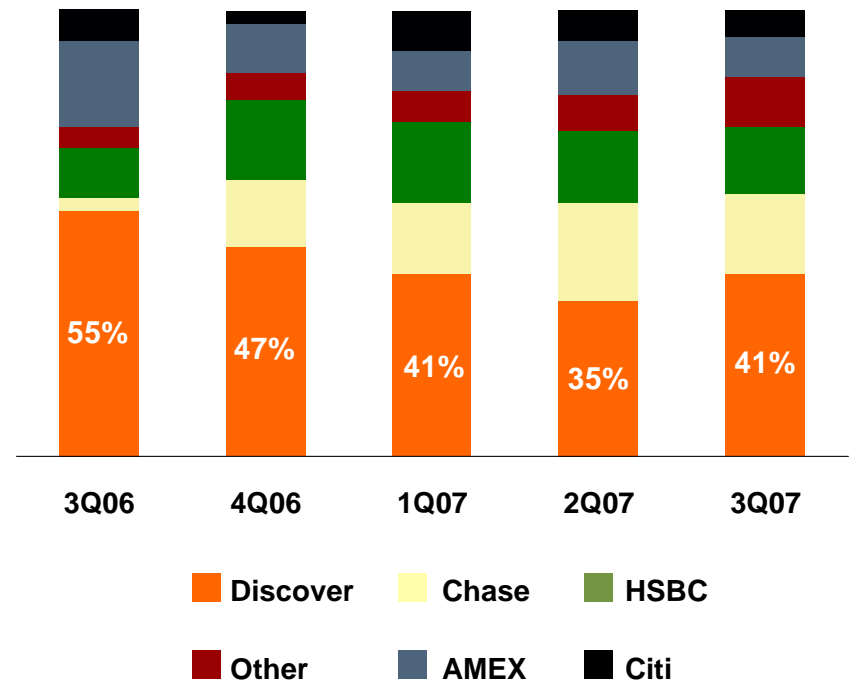
- “A credit card it pays to pay” 7/07



- “Versatile travelers: If you’re frequently traveling by plane, train and automobile, rejoice” 5/07



## Cash Reward Mail Share

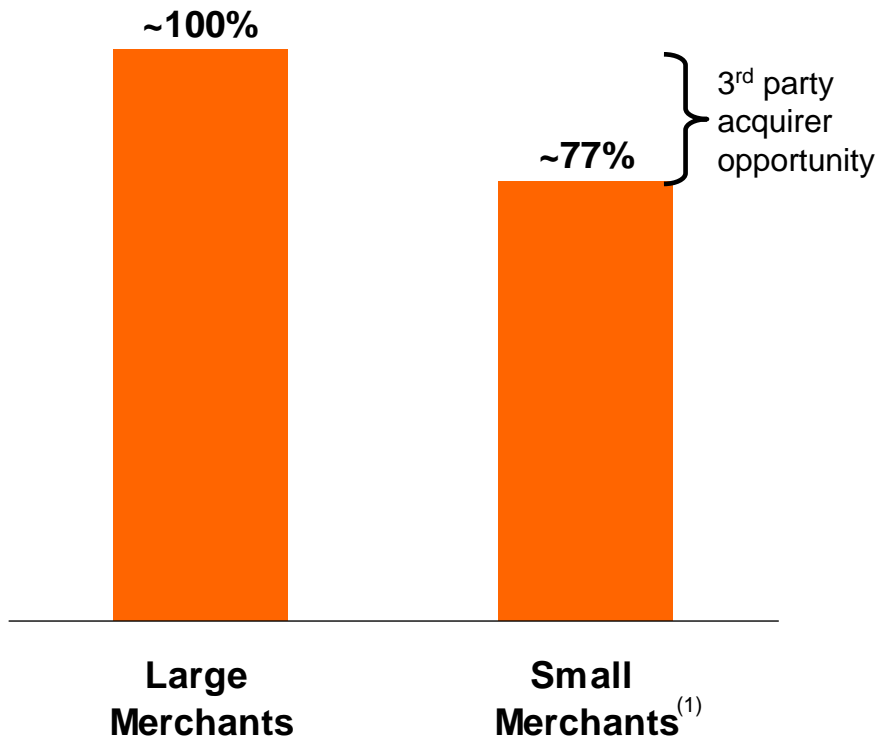


Source: Comperemedia



# Acceptance

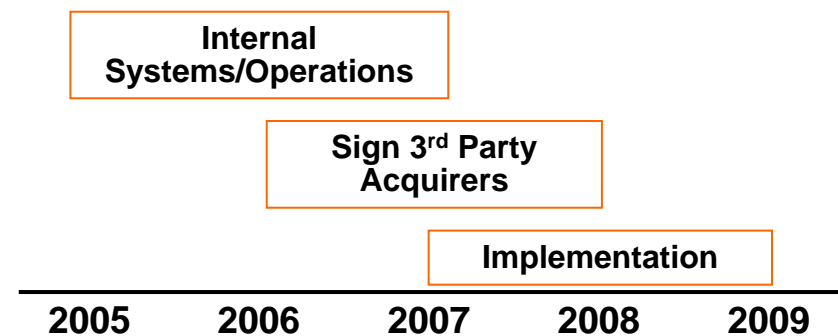
**Merchant Acceptance**  
% of Visa/MasterCard Merchants



**Sample Third-Party Acquirers Signed**



**Third-Party Acquirer Timeline**



**Note:** <sup>(1)</sup>"A National Retail Census of Product Distribution: Credit Cards" GfK NOP, Spring 2006; based on random sampling of approximately 1% of U.S. retail and service establishments

# Optimal Acceptance Model

	Retained Merchants	Outsourced Merchants
<b>Relationship</b>	<b>Direct</b>	<b>Indirect through acquirers</b>
<b>Mix (target)</b>	<b>~70% of volume ~15% of outlets</b>	<b>~30% of volume ~85% of outlets</b>
<b>Revenue</b>	<b>Merchant discount Merchant fees</b>	<b>Interchange Acquirer assessments</b>
<b>Expenses</b>	<b>Network and acquiring</b>	<b>Network</b>
<b>Advantages</b>	<b>Joint marketing opportunities  Direct relationships and scale provide efficiencies</b>	<b>Leverage acquirer scale and coverage Economics similar to Visa and MasterCard</b>

# New Model Payoff

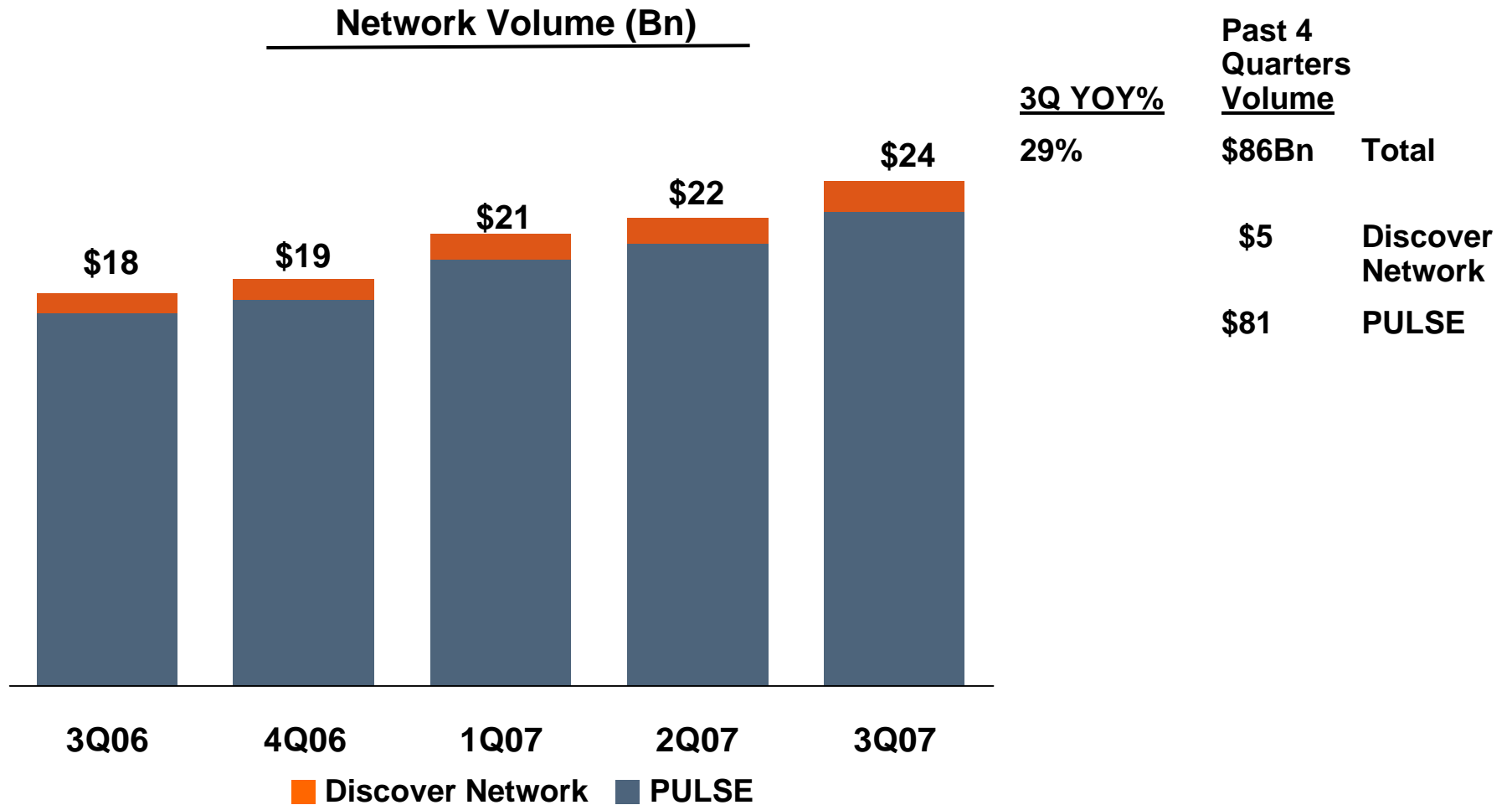


- Acquiring relationships
- Third-Party issuers

- Point-of-sale signage
- Marketing and advertising

- Primary card
- Higher spend and balance

# Third-Party Issuer Progress



# PULSE

## Key Facts

- Third largest PIN debit network<sup>(1)</sup>
- Over 4,400 issuers
- Past 4 quarters: 2.2 billion transactions
- 26% volume growth 3Q07 vs. 3Q06

## Value Proposition

- A leader in U.S. PIN POS acceptance
- Highly competitive interchange
- Leading issuer services
- Broad product line

## Primary Sources of Revenue

- Switch fees for ATM, PIN POS and signature debit transactions
- Participation fees, connectivity fees, and other product fees

## Sample Issuers



Note: <sup>(1)</sup>ATM & Debit News, EFT Data Book 2008 Edition

# Discover Network

## Key Facts

- One of only four U.S. signature networks
- 20+ issuers
- Past 4 quarters volume
  - \$89 billion Discover Card
  - \$5 billion third-party issuers

## Value Proposition

- Strong brand and growing acceptance
- Competitive interchange/assessments
- Flexibility
- Ease of implementation
- Superior fraud controls

## Primary Sources of Revenue

- Merchant discount/acquirer interchange
- Issuer assessments and fees

## Sample Issuers



# International Acceptance Partnerships



- Long-term reciprocal acceptance agreement signed in May 2005
- #1 network in China
- 800 million+ cardholder base
- 70% better acceptance than Visa/MasterCard in China



- Long-term reciprocal acceptance agreement signed in August 2006
- #2 network in Japan
- 59 million cardmembers
- Similar acceptance to Visa/MasterCard in Japan

# 2008 UK Outlook

- Removal of one-time charges
- Stabilizing risk environment
- Fee and interest income opportunities
- Expense and rewards savings opportunities
- Business mix shift / shrinking portfolio



**Expect significantly lower loss in 2008**

# International Card Turnaround

## Credit Improvement Actions

- Tightened acquisition underwriting, lines based on new scorecards (complete)
- Enhanced line management, authorizations, cash strategies (ongoing)
- New collections platform (complete)
- In-sourcing of Goldfish collections (complete)

## Revenue Improvement Actions

- Risk based re-pricing of cash and retail balances (ongoing)
- Introduction of annual fees for rewards-based products (ongoing)
- Focus on fee product cross sales (ongoing)
- Shifting mix to profitable revolvers (ongoing)

## Expense Improvement Actions

- Consolidation of operation centers (complete)
- Technology and platform migrations (complete)
- Leveraging of Discover vendors and capabilities (ongoing)
- Focus on IVR and internet channels (ongoing)

# Capital Management

## Capital Position

- Total common equity of \$5.7Bn<sup>(1)</sup>
- Tangible common equity of \$4.9Bn<sup>(1)</sup>
- Tangible common equity / managed receivables of 9.6%<sup>(1)</sup>
- Historical capital generation (3 year average) of ~\$800MM<sup>(2)</sup>

## Capital Uses

- Quarterly dividend of \$0.06 (\$115MM/year)<sup>(3)</sup>
- Capital required for 4% - 8% loan growth<sup>(4)</sup> (\$190 – \$380MM/year)
- Potential for share repurchase
- Potential for highly targeted acquisitions

Note:<sup>(1)</sup>Data as of August 31, 2007

<sup>(2)</sup>Average annual net income for 2004 – 2006

<sup>(3)</sup>Assumes dividend maintained

<sup>(4)</sup>Growth from net Managed loans as of August 31, 2007

# Conclusion – Opportunity to Create Value

- U.S. Card – Strong profits and well-positioned for continued controlled growth
- Payments – Unique assets, rapidly growing
- International Card – Significant upside from turnaround
- Strong capital generation