



DISCOVER[®]
CARD



*Diners Club
International*

Merrill Lynch Banking & Financial Services Conference

November 11, 2008

Notice

The following slides are part of a presentation by Discover Financial Services (the "Company") and are intended to be viewed as part of that presentation. No representation is made that the information in these slides is complete.

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 Form 10-K for the year ended November 30, 2007 and the Company's Form 10-Q for the quarter ended August 31, 2008, each of which is on file with the SEC and available on the Company's website at www.discover.com.

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 Annual Report on Form 10-K for the year ended November 30, 2007, and "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Quarterly Reports on Form 10-Q for the quarters ended May 31, 2008 and August 31, 2008, which are on file with the SEC.

Certain historical financial information about the Company that we have included in this 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 the periods presented.

Positioned For Value Creation

U.S. Card

- Conservative growth strategy/prime customer focus
- Superior relative credit risk performance
- Leading rewards program/customer service
- Tenured, loyal customer base

Payments

- Over 250% volume increase over past four years
- Strong position in U.S. debit via PULSE
- Dramatic increase in U.S. merchant acceptance
- International acceptance and volume through Diners Club

Liquidity & Funding

- Multiple sources of financing and liquidity
- Discover Bank is well-capitalized

Visa/MasterCard Litigation Settlement

- Positive earnings impact/strengthen capital base
- Initiatives to build global business

What Has Changed Since November 2007

Economy

- Negative GDP growth in 3Q08
- Unemployment/Underemployment
- Bankruptcy filings
- Consumer confidence
- Consumer liquidity
- Home price deflation

Capital Markets

- CDO/ABCP market disruptions
- Financial services company issues
 - Bear Stearns
 - Fannie/Freddie
 - Lehman Brothers
 - AIG
- Credit markets freeze
- U.S. government intervention

Actions Discover Has Taken

Card Issuing

- Controlled growth & line management
- Further tightened credit criteria & strengthened collections
- Strengthened loss reserves – added \$330MM YOY
- Sold \$4Bn UK issuing business



Payments Businesses

- Building-out U.S. acceptance – signed all major acquirers
- Acquired Diners Club; platform for global acceptance
- Expanding third-party issuing



Capital and Funding

- Capital level has grown – tangible equity ratio 11.2%
- Increased liquidity pool to \$9.6Bn
- Expanded direct-to-consumer deposits to \$5Bn
- Settled V/MA litigation for \$2.75Bn



Note(s): Loss reserves, tangible equity ratio and liquidity pool figure as of August 31, 2008

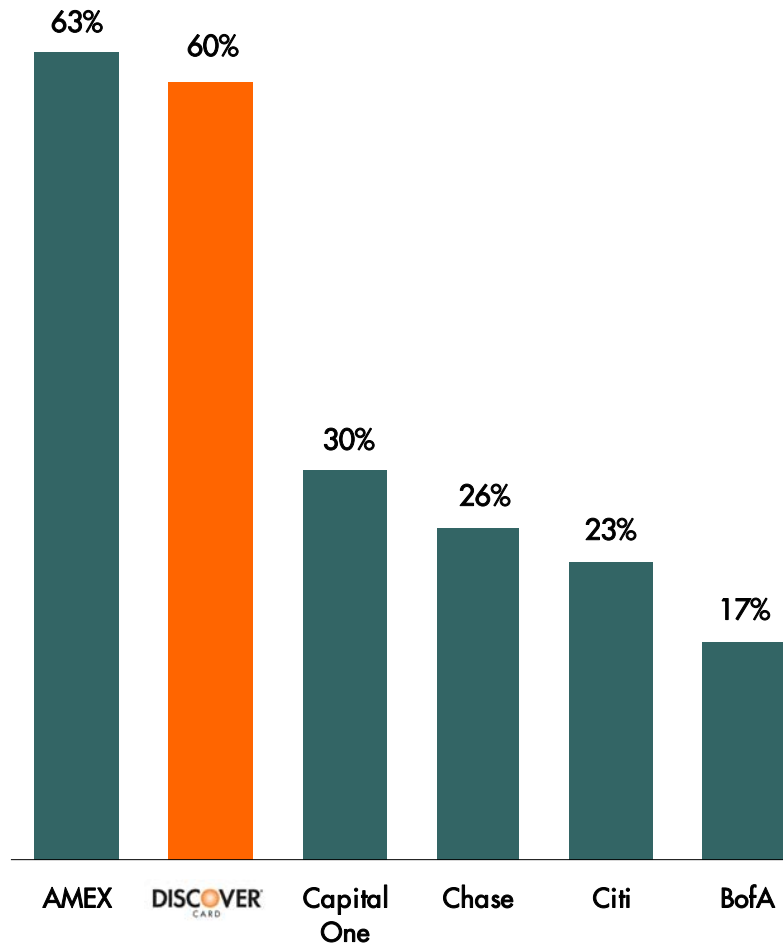
Unique Business Model

- Discover is the only card issuer that operates global payment networks with both credit and debit capabilities
- Discover Network supports the U.S. card & third-party issuing businesses
- Strong position in U.S. debit via PULSE
- International acceptance through Diners Club

	Card Issuing	Networks		
		U.S. Credit	U.S. Debit	International
DISCOVER FINANCIAL SERVICES	●	●	●	●
American Express	●	●	○	●
Visa	○	●	●	●
MasterCard	○	●	●	●
First Data/STAR	○	○	●	○
Metavante/NYCE	○	○	●	○
Citi	●	○	○	○
Bank of America	●	○	○	○
JPM Chase	●	○	○	○
Capital One	●	○	○	○

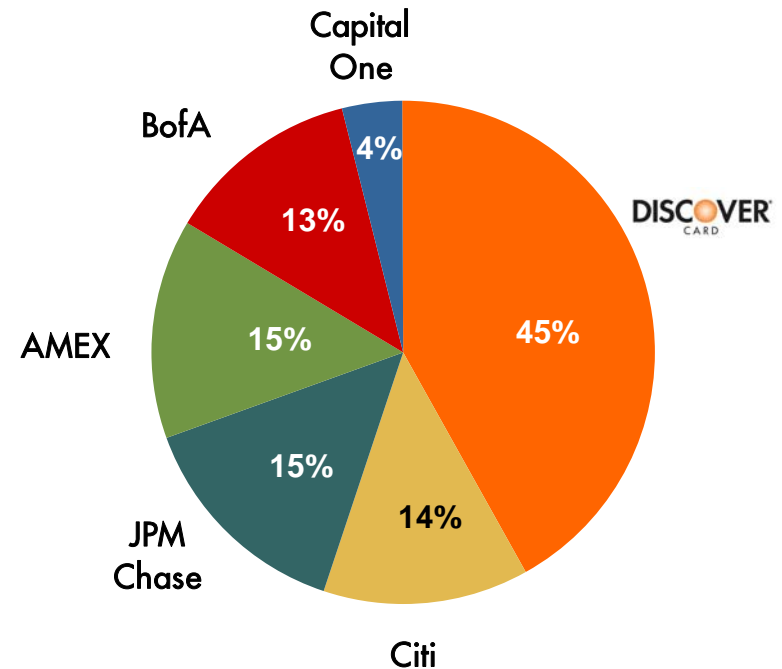
Distinctive Brand and Leader in Cash Rewards

Unaided Issuer Brand Awareness



Source: GfK Arbor, 3Q08 data

Household Ownership of Cash Rewards Cards



Source: 2007 TNS Consumer Card Strategies Research Program

World Class Customer Service

Customer Service Experience

- Call centers in-house; on-shore
- 46% of agents tenured over 3 years
- More than 90% of agent handled calls answered within 60 seconds
- 280MM customer interactions per year through primary channels

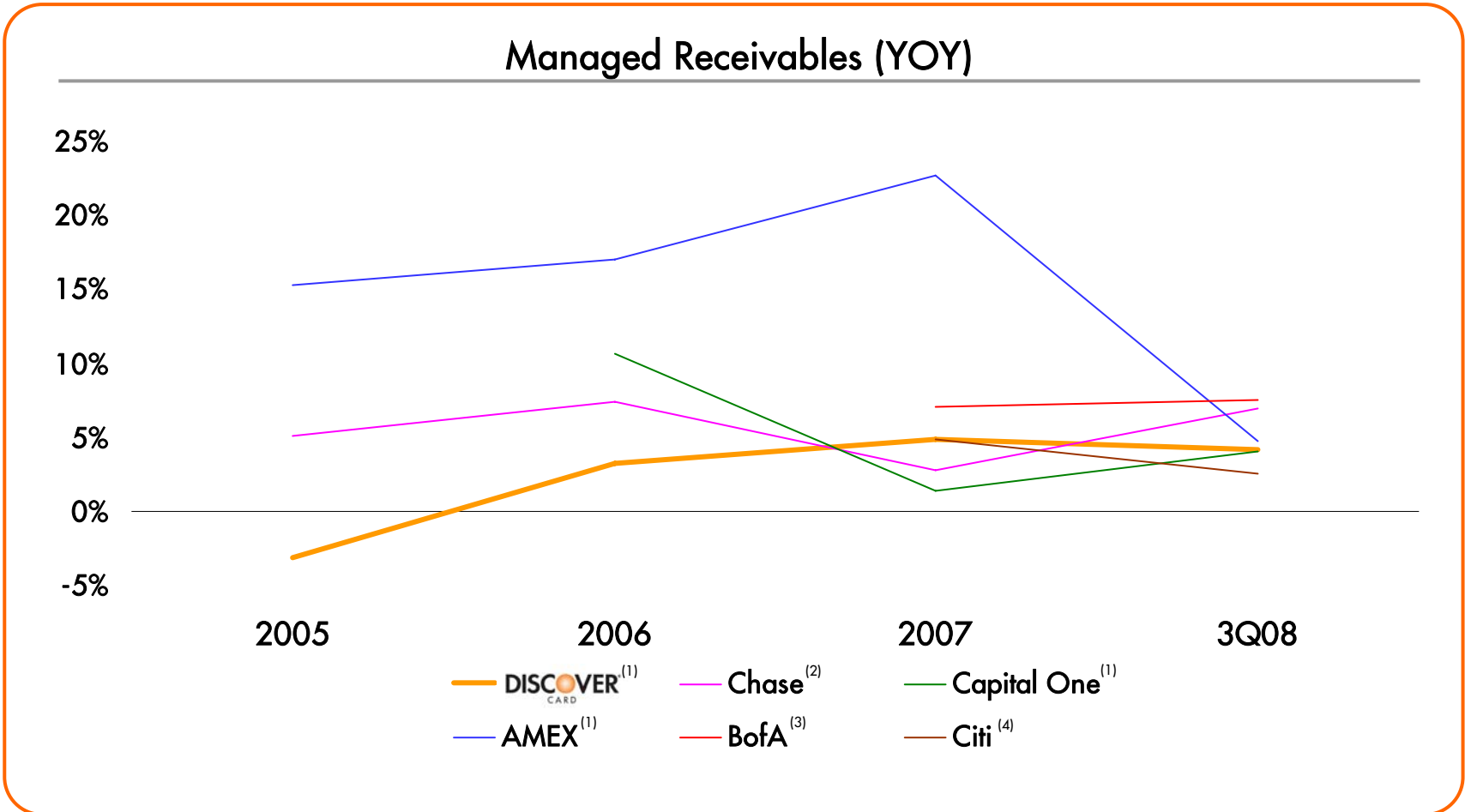
Measure	DISCOVER CARD	Avg Call Center
First Call Resolution ⁽¹⁾	82%	68%
Calls Resolved	95%	87%
Overall Customer Satisfaction	82%	66%

Note(s): ⁽¹⁾2007 Service Quality Benchmarking Report, Service Quality Measurement Group

Customer Service Awards

- #1 in Customer Loyalty
 - Brand Keys, 1998-2008
- World Class Customer Satisfaction Award
 - Service Quality Measurement Group, 2006-2008
- Top Tier Customer Service
 - J.D. Power and Associates, 2007 & 2008)
- #1 Web Site in Overall Satisfaction
 - Keynote Systems – 2006 & 2007

U.S. Receivables Growth



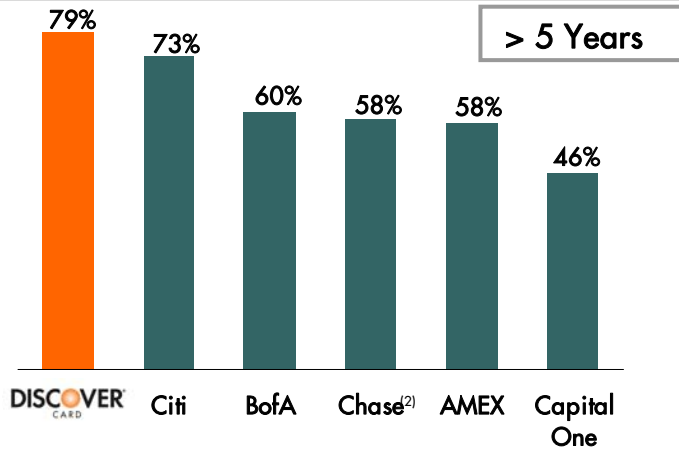
Source: SEC Filings

Note(s):

- ⁽¹⁾U.S. Card
- ⁽²⁾Card Services
- ⁽³⁾U.S. Consumer Card
- ⁽⁴⁾N.A. Cards

Favorable Relative Portfolio Positioning

Portfolio Tenure⁽¹⁾

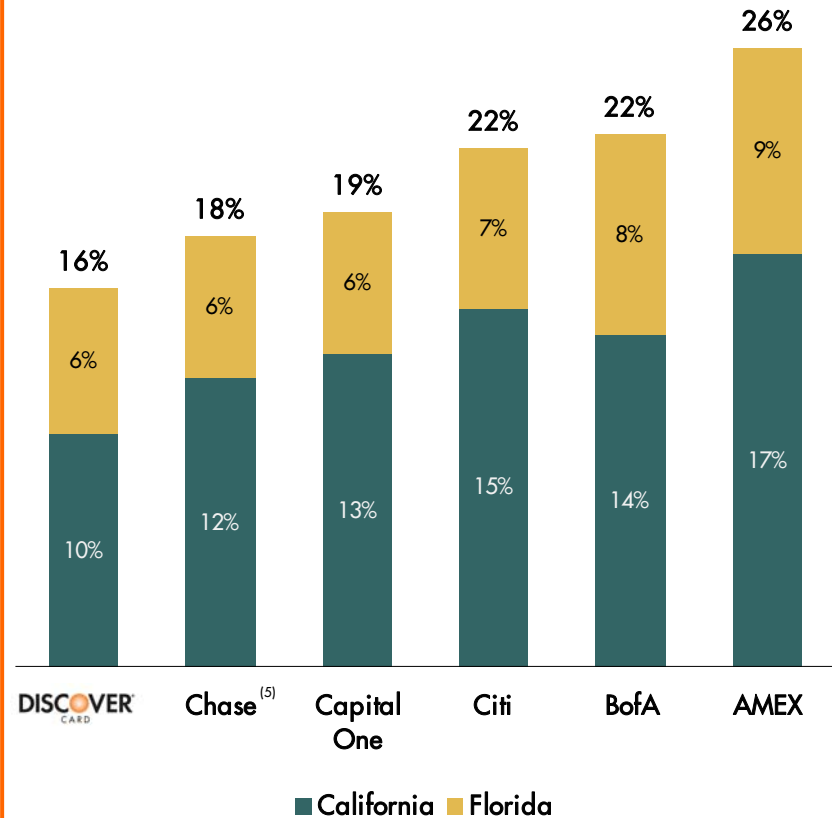


Cardmember Attrition⁽³⁾



Distribution of Receivables⁽¹⁾

(two states with the highest mortgage foreclosure rates)



Source: Cardweb's July 2008 Monthly Survey and Company data

Note(s): ⁽¹⁾Master Trust balances as of 9/16/08; based on receivables

⁽²⁾Weighted average tenure of the receivables that are assets of the Chase Issuance Trust

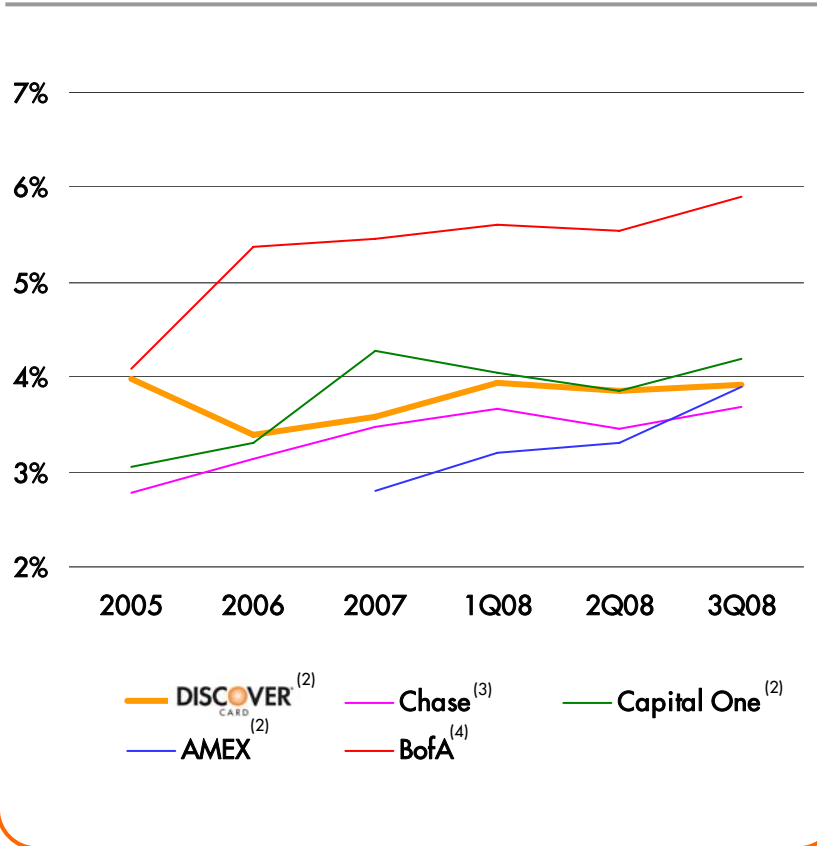
⁽³⁾Based on July 2008 calendar year YTD average

⁽⁴⁾Excludes Discover Financial Services and American Express

⁽⁵⁾Represented by Chase's CHAIT Master Trust % of accounts outstanding

Strong Relative Credit Performance

Managed 30+ Day Delinquency Rate⁽¹⁾

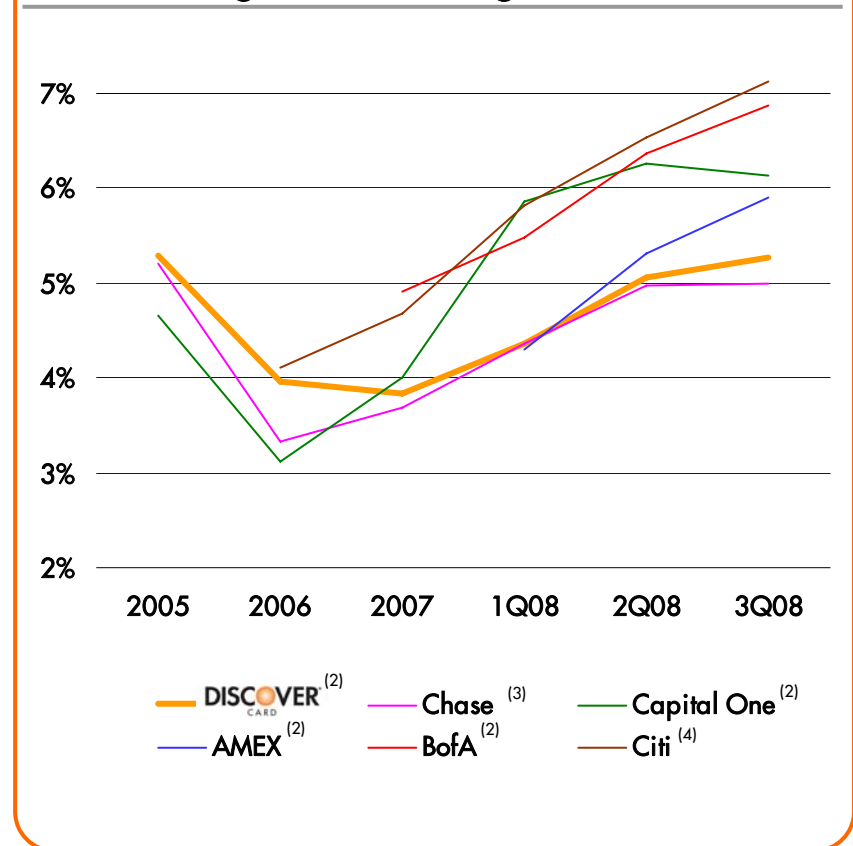


Source: SEC Filings

Note(s):

- ⁽¹⁾Discover fiscal year, all others calendar year
- ⁽²⁾U.S. Card
- ⁽³⁾Card Services
- ⁽⁴⁾U.S. & Intl.

Managed Net Charge-Off Rate⁽¹⁾



Source: SEC Filings

Note(s):

- ⁽¹⁾Discover fiscal year, all others calendar year
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U.S. Credit Outlook

Future loss rate factors:

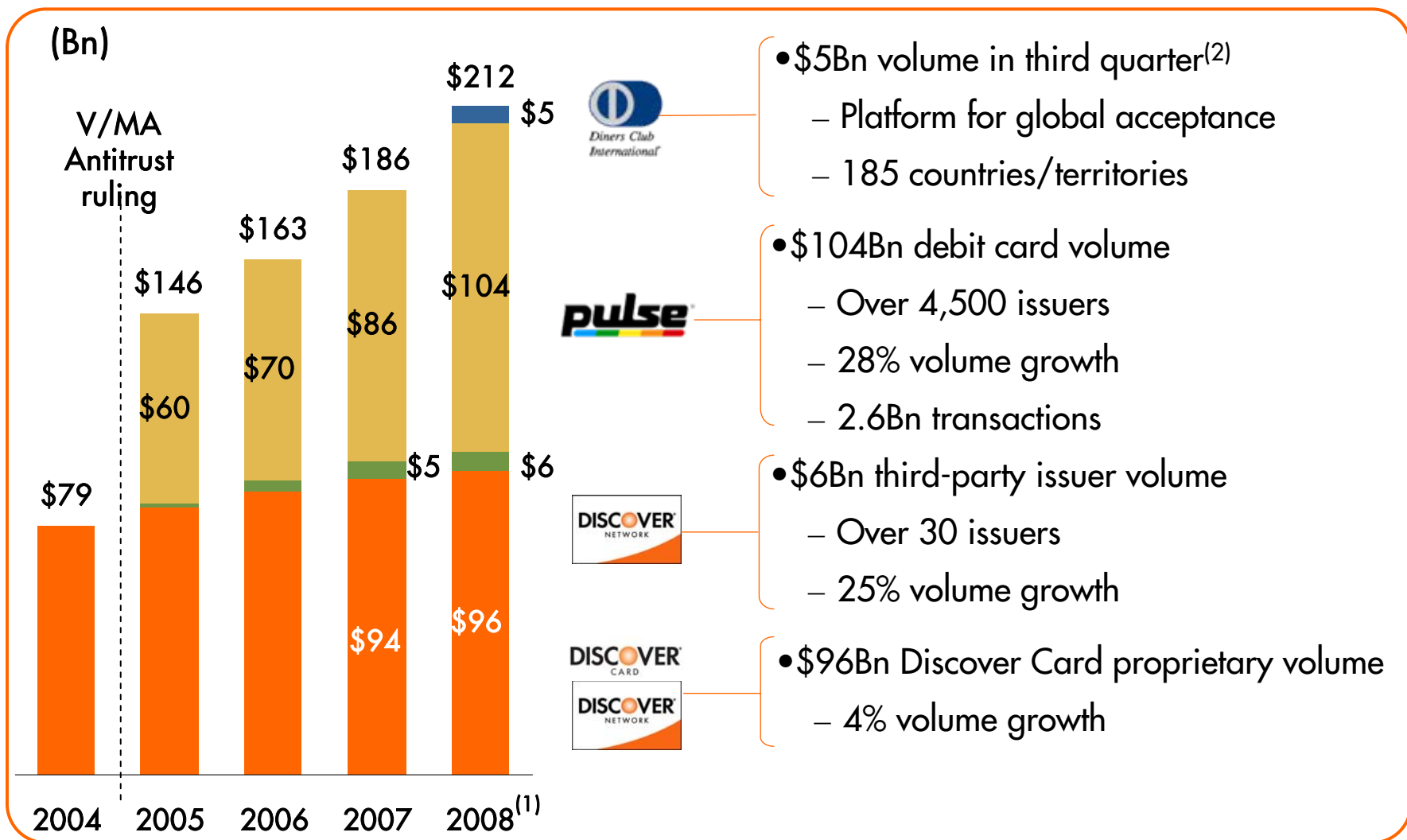
- Unemployment levels
- Housing prices
- Energy costs
- Consumer credit availability



Future loss rate estimates:

- 4Q08 managed net charge-off rate approaching 5.5%
- 1Q09 managed net charge-off rate approaching 6%

\$ Volume On Our Networks



Notes: ⁽¹⁾ Trailing four quarters ending 3Q08

⁽²⁾ Acquisition completed June 30, 2008; volume for two months

Achieving Broad U.S. Merchant Acceptance

New acceptance model:

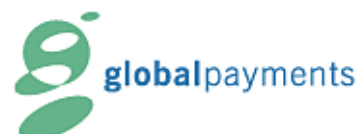
- Maintain direct relationships with larger merchants
- Leverage merchant acquirers to reach small to mid-size merchants

Merchant acceptance progress:

- Agreements in place with 88 acquirers; ~98% of U.S. volume⁽¹⁾
- 175,000 merchants signed per month⁽²⁾
- New merchant boardings up 93% (fiscal YTD)

Notes: ⁽¹⁾ Bankcard volume
⁽²⁾ Monthly average in 3Q08

Sample Third-Party Acquirers Signed



Achieving International Acceptance & Volume



Higher network volume, revenue and profits:

- 44 global issuer licensees
- Premium positioning, high average spending
- Opportunity for new international partnerships

Network interoperability targeted for 2010:

- Diners Club doubles global merchant acceptance for Discover Network Cards
- Inbound Diners Club volume on Discover Network

Sample Diners Club Global Issuers



HYUNDAI

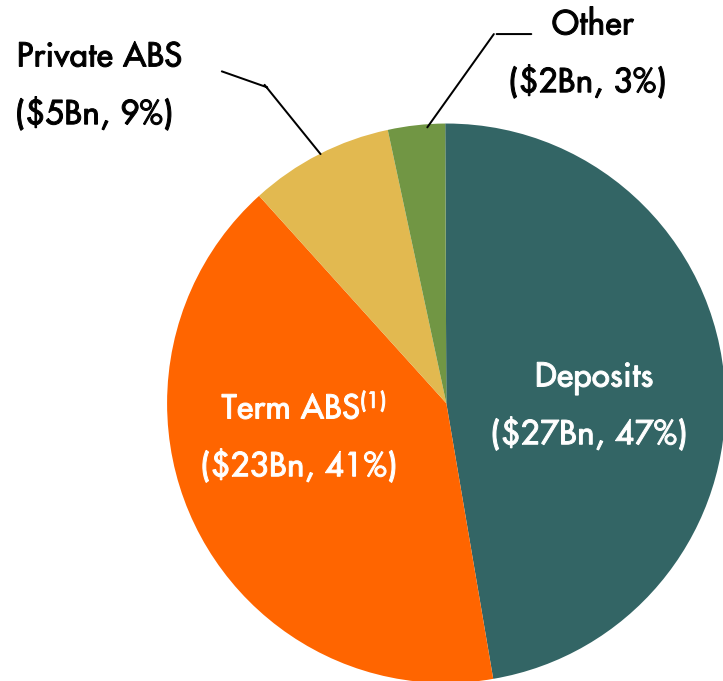


Funding at August 31, 2008

Funding Sources

- Deposits
 - Cost effective
 - Strong availability
 - Growing direct deposits business
- Public ABS
 - Tight market
 - Higher spreads
 - \$2.9Bn in 2009 maturities
- Private ABS (bank conduits)
 - Six global top-tier banks
 - \$1.5Bn open capacity

Funding Mix



Notes: ⁽¹⁾ Includes retained subordinate tranches

Deposit Funding

Deposit Growth

(Bn)	At Spin June 2007	Aug 2008	Change	% Incr
Brokered Deposits	\$16.1	\$19.8	\$3.7	23%
Direct-to-Consumer	2.5	4.8	2.3	92%
Sweeps/Other	1.7	2.2	0.5	30%
Total Deposits	\$20.3	\$26.8	\$6.5	32%

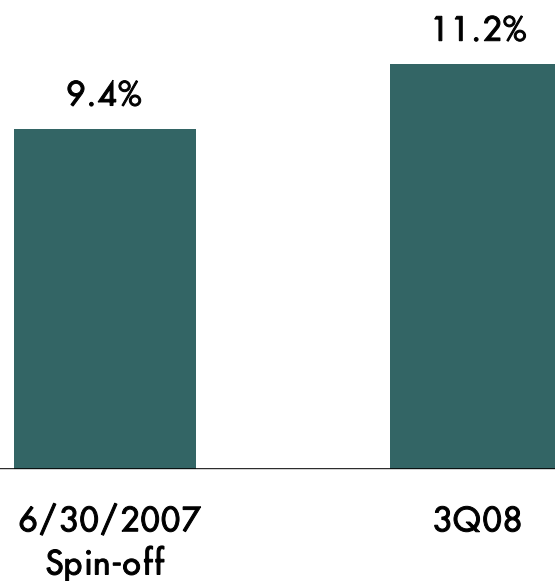
- Brokered deposits distributed through top tier U.S. wealth management firms
- Direct-to-consumer deposit issuance continues to grow
 - Added \$1Bn in 3Q08
- Extending CD maturities
 - Average maturity at 27 months vs. 22 months at prior quarter

Capital Management

Capital Management

- Capital ratio has strengthened since spin-off
 - Solid earnings
 - Sale of U.K. business
- Quarterly dividends of \$0.06 per share since spin-off
- Unchanged long-term ratings at Discover Bank
 - Fitch BBB
 - Moody's Baa2
 - S&P BBB

Tangible Equity/Net Managed Receivables



- Tangible equity has grown from \$4.8Bn at spin-off to \$5.5Bn at August 31, 2008

Visa/MasterCard Litigation Settlement

\$2.75 billion settlement agreement in antitrust dispute:

- \$862MM in 4Q08
- Expect \$472MM per quarter in 2009⁽¹⁾

Use of proceeds:

- Positive earnings impact/strengthen capital base
 - Shift to on-balance sheet funding
 - Credit trends
- Initiatives to build global business
 - Broadening acceptance
 - Expanding network volume
 - Enhancing brand recognition
 - Growing deposit franchise

Notes: ⁽¹⁾Based upon achieving certain performance levels in network sales volumes

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Q&A
