



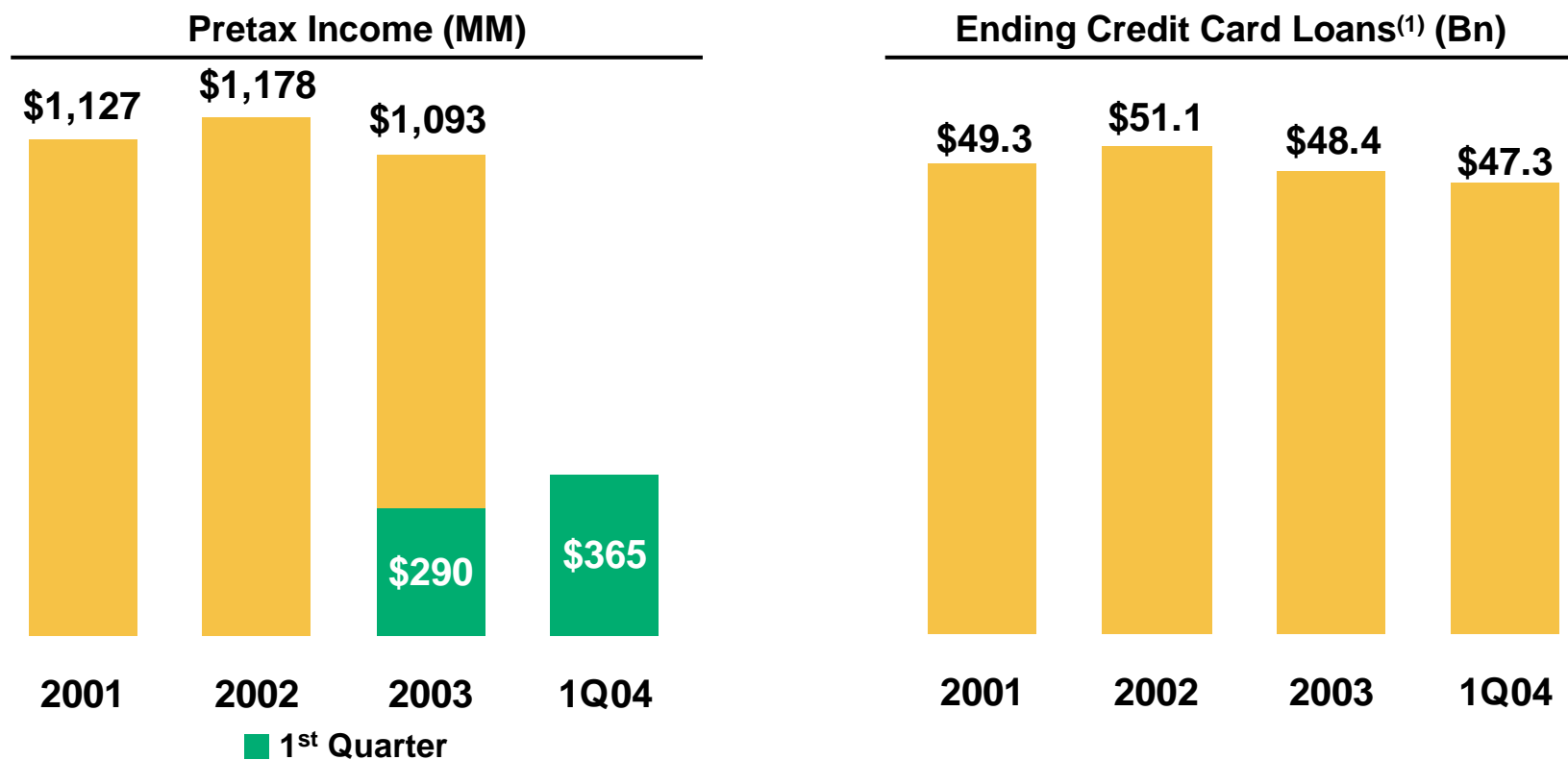
Stephen S. Crawford, Chief Administrative Officer, Morgan Stanley
David H. Sidwell, Chief Financial Officer, Morgan Stanley
David W. Nelms, Chairman and CEO, Discover Financial Services

May 10, 2004



David Nelms
Chairman & CEO
Discover Financial Services

Financial Performance

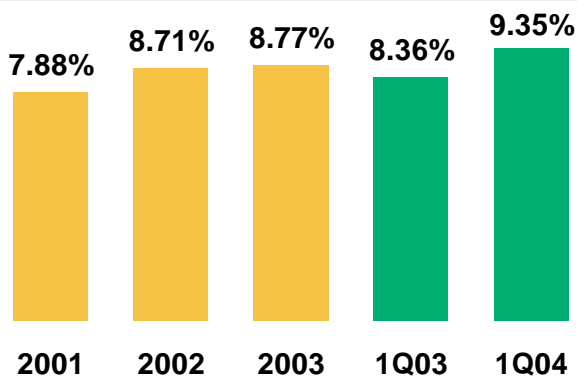


(1) Ending credit card loans presented on a "managed" loan basis. Ending credit card loans on an "owned" loan basis were \$19.7Bn, \$22.2Bn, \$18.9Bn and \$15.9Bn for 2001, 2002, 2003 and 1Q04.

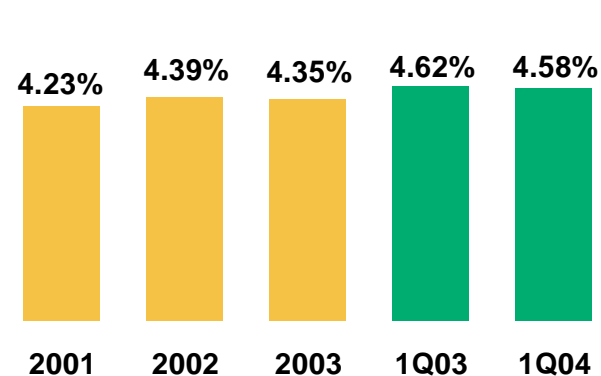
Source: Company Reports

Financial Performance

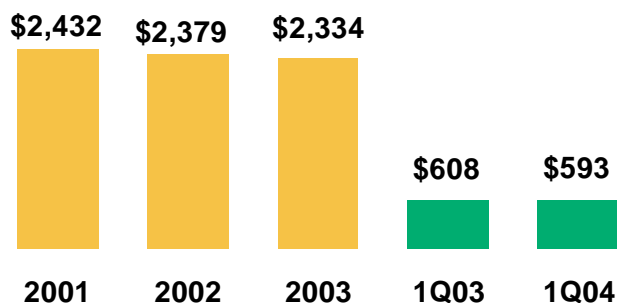
Interest Spread⁽¹⁾



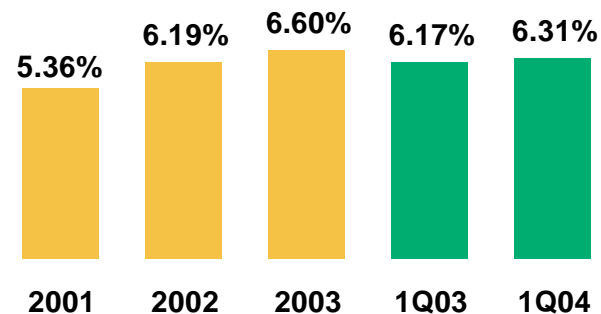
Non-interest Revenue Margin⁽²⁾



Non-interest Expense (MM)



Net Charge-off Rate⁽³⁾



(1) Interest spread presented on a "managed" loan basis. Interest spread on an "owned" loan basis was 5.47%, 5.74%, 5.69%, 4.73% and 6.08% for 2001, 2002, 2003, 1Q03 and 1Q04.

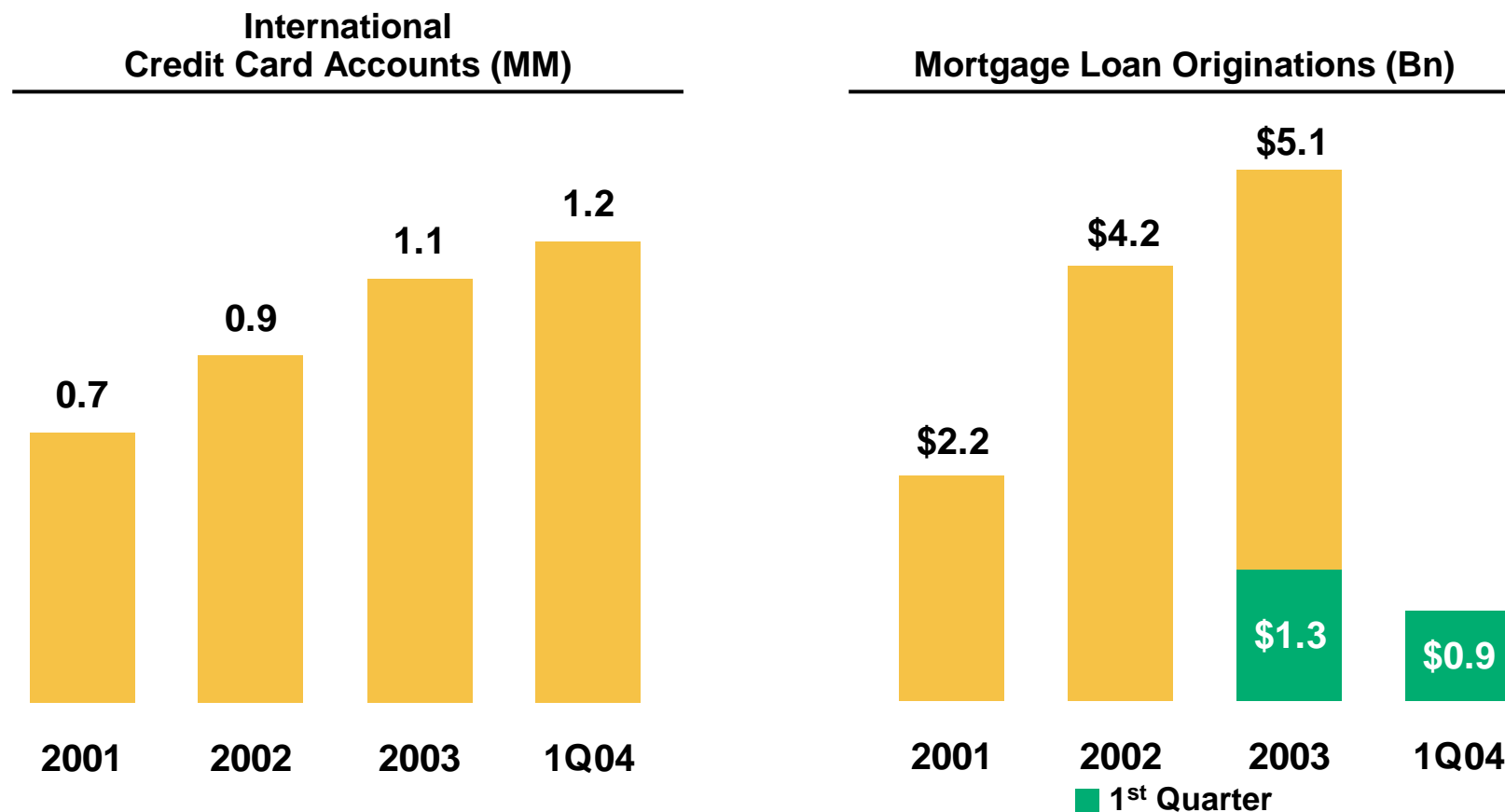
(2) Non-interest Revenue Margin represents Merchant and Cardmember fees, Servicing Fees and Other revenue divided by Average Credit Card Receivables (annualized). Non-interest Revenue Margin presented on a "managed" loan basis. Non-interest Revenue Margin on an "owned" loan basis was 16.04%, 17.09%, 17.45%, 16.86% and 20.56% for 2001, 2002, 2003, 1Q03 and 1Q04.

(3) Net Charge-off Rate presented on a "managed" loan basis. Net Charge-off Rate on an "owned" loan basis was 4.86%, 6.06%, 6.05%, 5.55% and 5.81% for 2001, 2002, 2003, 1Q03 and 1Q04.

Source: Company Reports

Financial Performance

International and Mortgage Lending Businesses

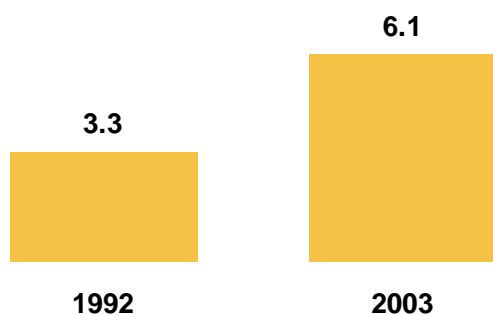


Source: Company Reports

Industry Outlook

Market Saturation

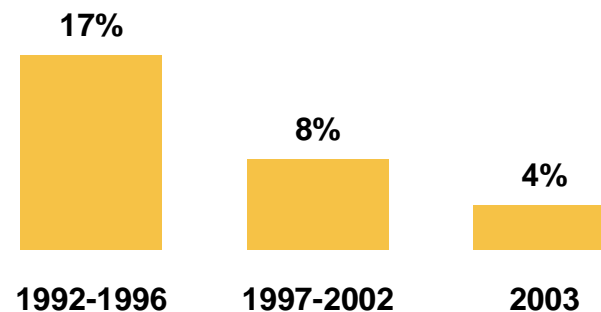
U.S. Credit Cards per Household



Source: Purchase Street Research

Industry Growth Slowing

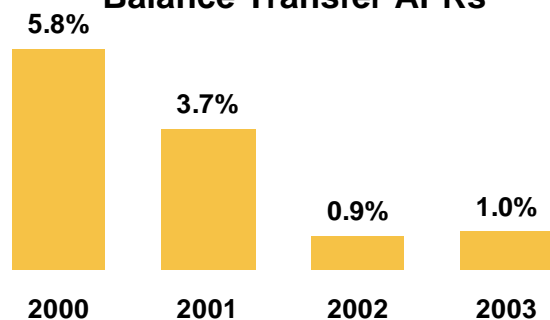
U.S. Credit Card Receivables CAGR



Source: Nilson Reports

Price Competition Intensifying

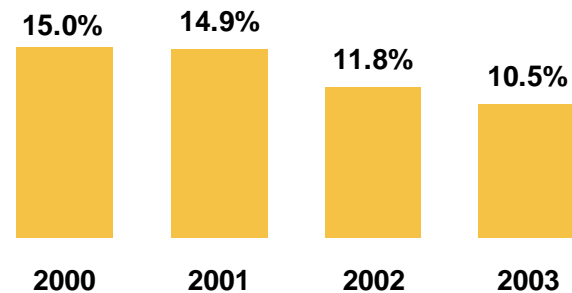
Balance Transfer APRs



Source: Comperemedia

Price Competition Intensifying

Go To APRs

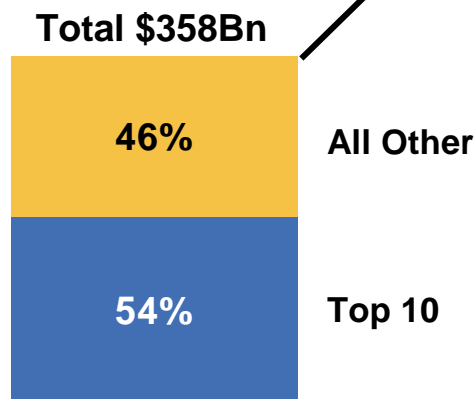


Source: Comperemedia

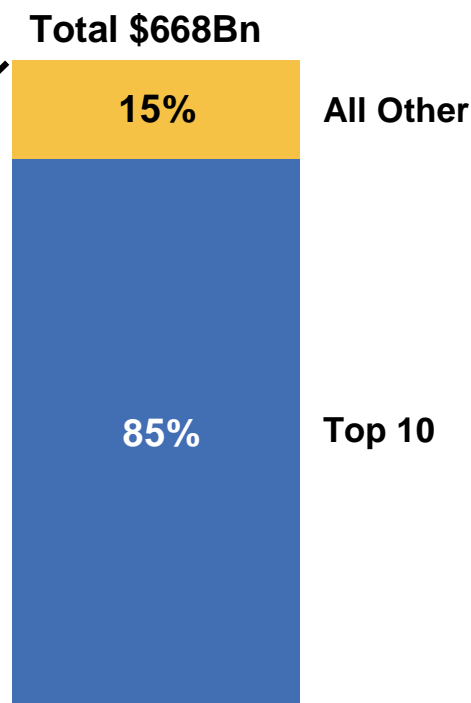
Industry Outlook

Industry Consolidation Continues

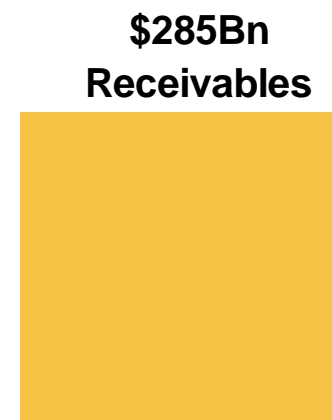
1995 U.S. Market Share
Credit Card Receivables



2003 U.S. Market Share
Credit Card Receivables



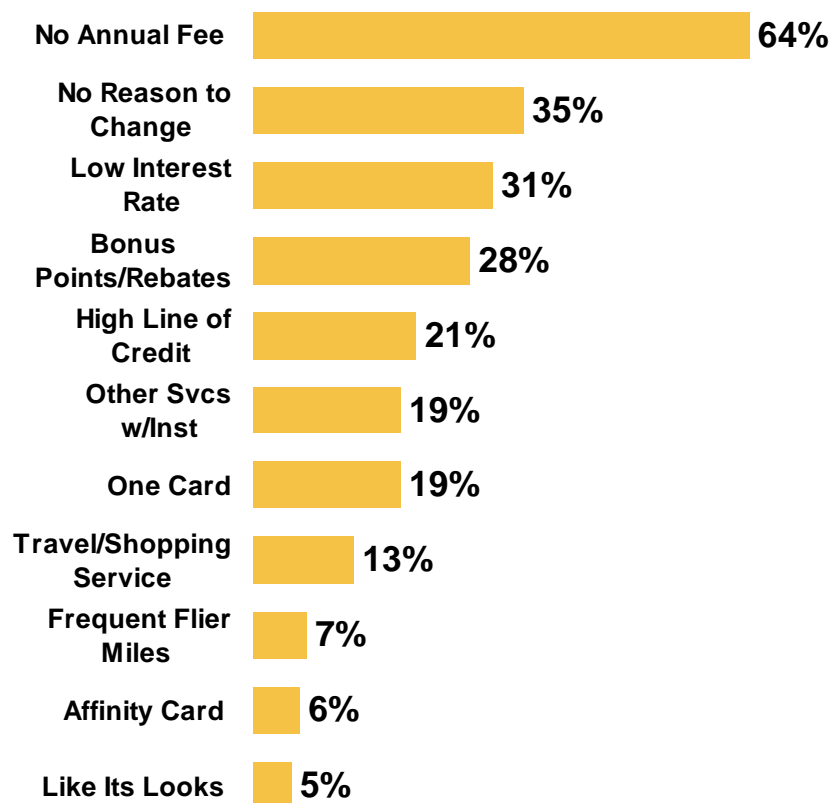
1996 – 2003
Industry Acquisitions



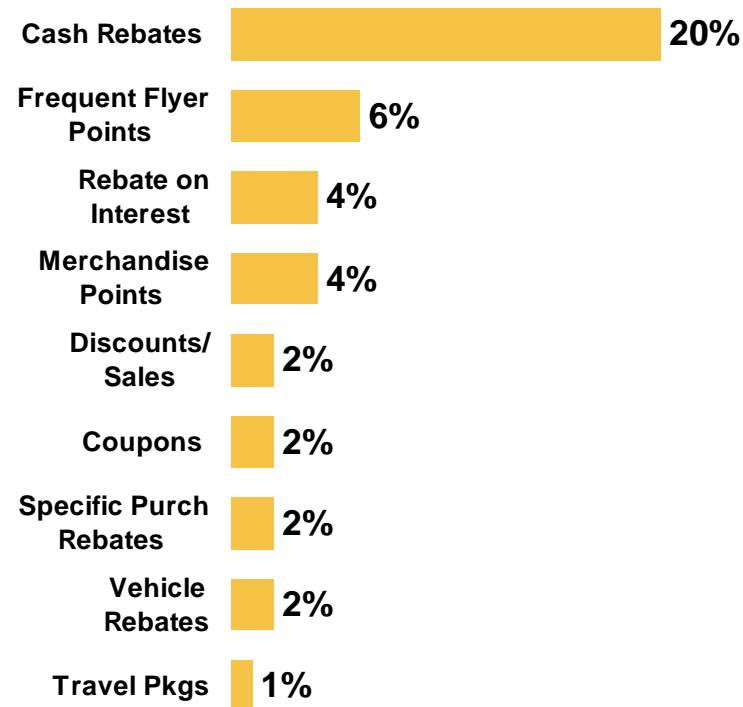
Source: Nilson Reports and Company Reports, 1995 Top 10: Citibank, Discover, MBNA, First USA, First Chicago, AT&T Universal, Household Bank, Chase Manhattan, Chemical Bank, Capital One, 2003 Top 10: Chase/Bank One, Citigroup, MBNA, B of A/Fleet, Capital One, Discover, AMEX, HSBC, Provident, Wells Fargo

Consumer Preferences

Reasons Consider Primary Card



Most Important Reward on Any Card

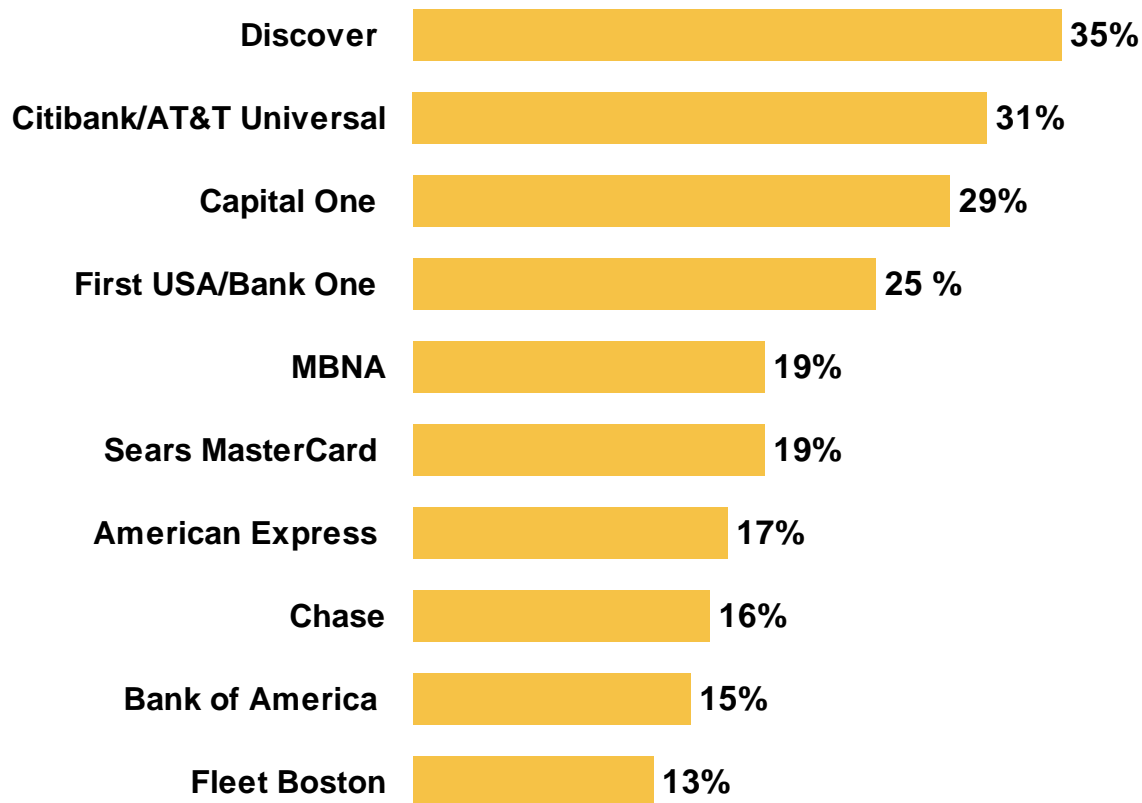


Source: Synergistics Research Corporation Presentation – Card Forum and Expo, May 6, 2004

Issuer Household Penetration

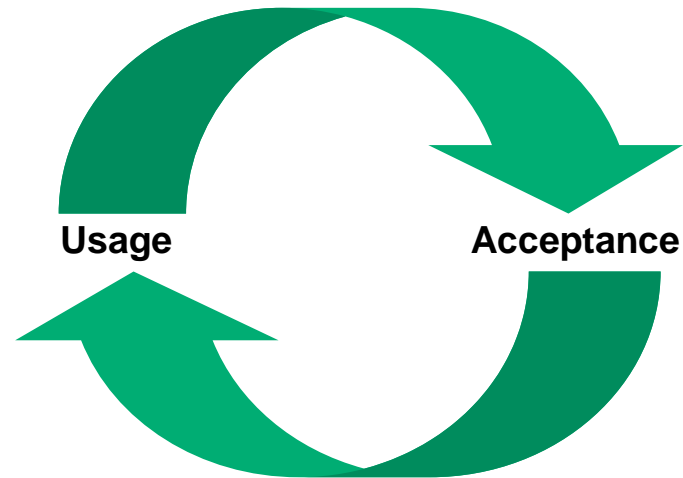
Overall Top Ten Cards Held by Households

By Issuer



Source: Synergistics Research Corporation Presentation – Card Forum and Expo, May 6, 2004

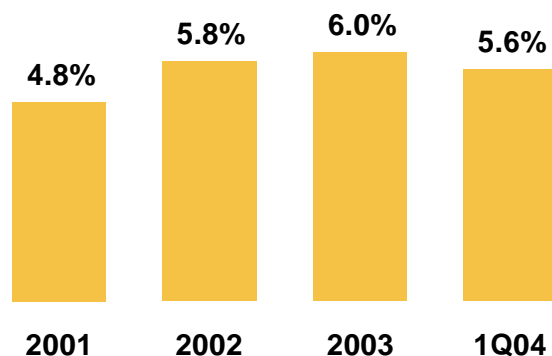
Discover Priorities



- Leverage proprietary network to drive new accounts and sales volume
- Enhance Cashback Bonus – the preeminent rewards program
- Establish/leverage Discover brand as key differentiator
- Breakthrough customer service
- Maintain focus on expenses especially loan losses

Maintain Focus on Loan Losses

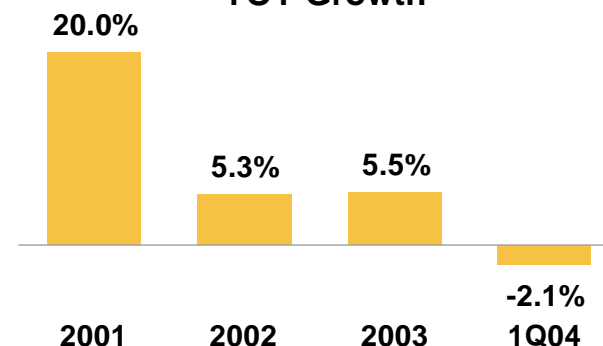
Unemployment Rate



Source: U.S. Department of Labor

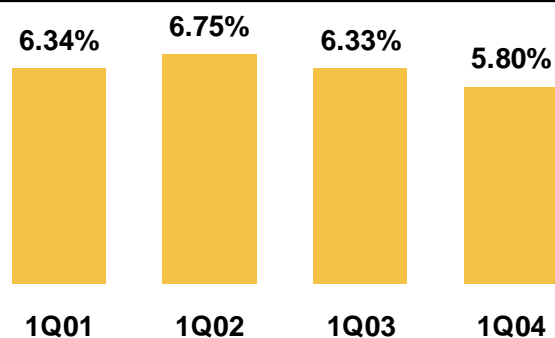
U.S. Bankruptcy Filings

YOY Growth

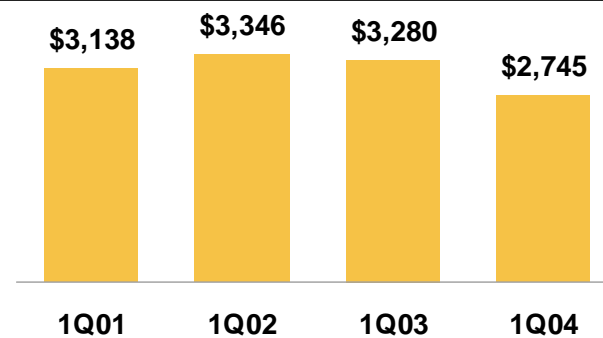


Source: Administrative Office of the US Courts

30+ Day Delinquency Rate⁽¹⁾



30+ Day Delinquency Dollars⁽²⁾ (MM)



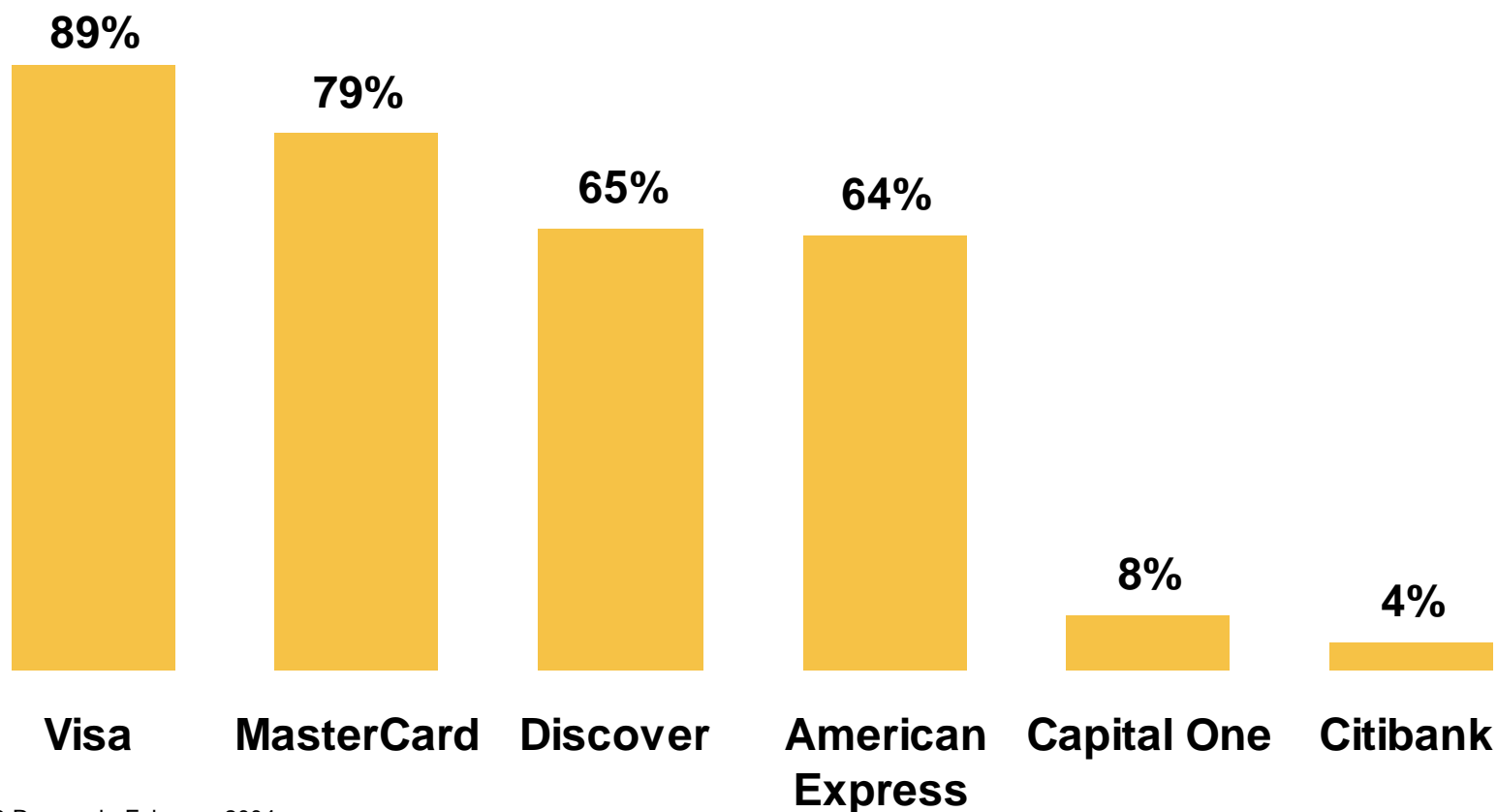
(1) 30+ Day Delinquency Rate presented on a "managed" loan basis. 30+ Day Delinquency Rate on an "owned" loan basis was 5.20%, 5.96%, 5.60% and 5.17% for 1Q01, 1Q02, 1Q03 and 1Q04.

(2) 30+ Day Delinquency Dollars presented on a "managed" loan basis. 30+ Day Delinquency Dollars on an "owned" loan basis were \$1,110MM, \$1,200MM, \$1,167MM and \$819MM for 1Q01, 1Q02, 1Q03 and 1Q04.

Source: Company Reports

Issuer Unaided Brand Awareness

“What brands of credit cards do you know of?”



Source: C&R Research, February 2004

Enhance Cashback Bonus

New Cashback Bonus Program

- Launched in 2Q02
- Increase perceived value to cardmembers – up to 2%
- Partners share rewards costs
- Higher “switching” costs
- “Breakage” – cost savings from forfeiture
- Increased value for partners



Enhance Cashback Bonus

10% Grocery Promotion



Get up to **10% back** on groceries*

DISCOVER
CARD

Get up to **10% back** on groceries with your Discover® Card.

Sign up today, this offer only lasts through June.

Earn up to 10% Cashback Bonus® award* on grocery purchases from now through June when you use your Discover® Card. Plus, you'll continue to receive a Cashback Bonus award for your other purchases.

Sign up today—call 1-800-475-9161 or visit Discovercard.com.

It pays to **DISCOVER**

*Cashback Bonus award is based on the special offer to receive up to 10% Cashback Bonus award on grocery purchases when you use up to 5% as disclosed by certificate. There are Cashback Bonus Terms related to up to double the amount if the card issued. There is a cash award of up to \$20 on qualified grocery purchases. A maximum of the highest Cashback Bonus award of up to 1% of each purchase based on annual limit. Cashback Bonus award is an additional Cashback Bonus award of 4% of each purchase made with the Card between 06/01/04 and 06/30/04 on qualifying grocery items, subject to a cap of \$1,000 in grocery purchases. Only Discover® Member and Classic® Cardmembers who participate in the Cashback Bonus program are eligible for this offer. Cashback Bonus information available in 2004 statements. For complete offer terms and conditions visit the special offer URL: 1-800-475-9161 or visit Discovercard.com. 04/04/04

In-store Promotions



Establish/Leverage Discover Brand

300+ Card Designs



Industry's 1st Keychain Card



Recent Reward Product Launches



Benefits of Proprietary Network

- Exclusive/preferred merchant acceptance
- Cashback Bonus merchant partnerships
- Cooperative merchant marketing opportunities
- Account acquisition through merchant channel
- One of only two remaining closed loop networks

Network Legal Developments

THE WALL STREET JOURNAL.

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Friday, May 2, 2003

Visa, MasterCard to Pay Share of \$3 Billion Pact Over 10 Years

AMERICAN BANKER

THE FINANCIAL SERVICES DAILY

Friday, September 26, 2003

The Verdict's In: Visa and MC Should Revamp Boards, Rules

DOJ Court Findings

- Visa and MasterCard have market power in the network services market
- Visa and MasterCard exclusionary rules have harmed bank competition, merchants and consumers
- There is no legitimate business justification for Visa and MasterCard exclusionary rules

Discover Announcement

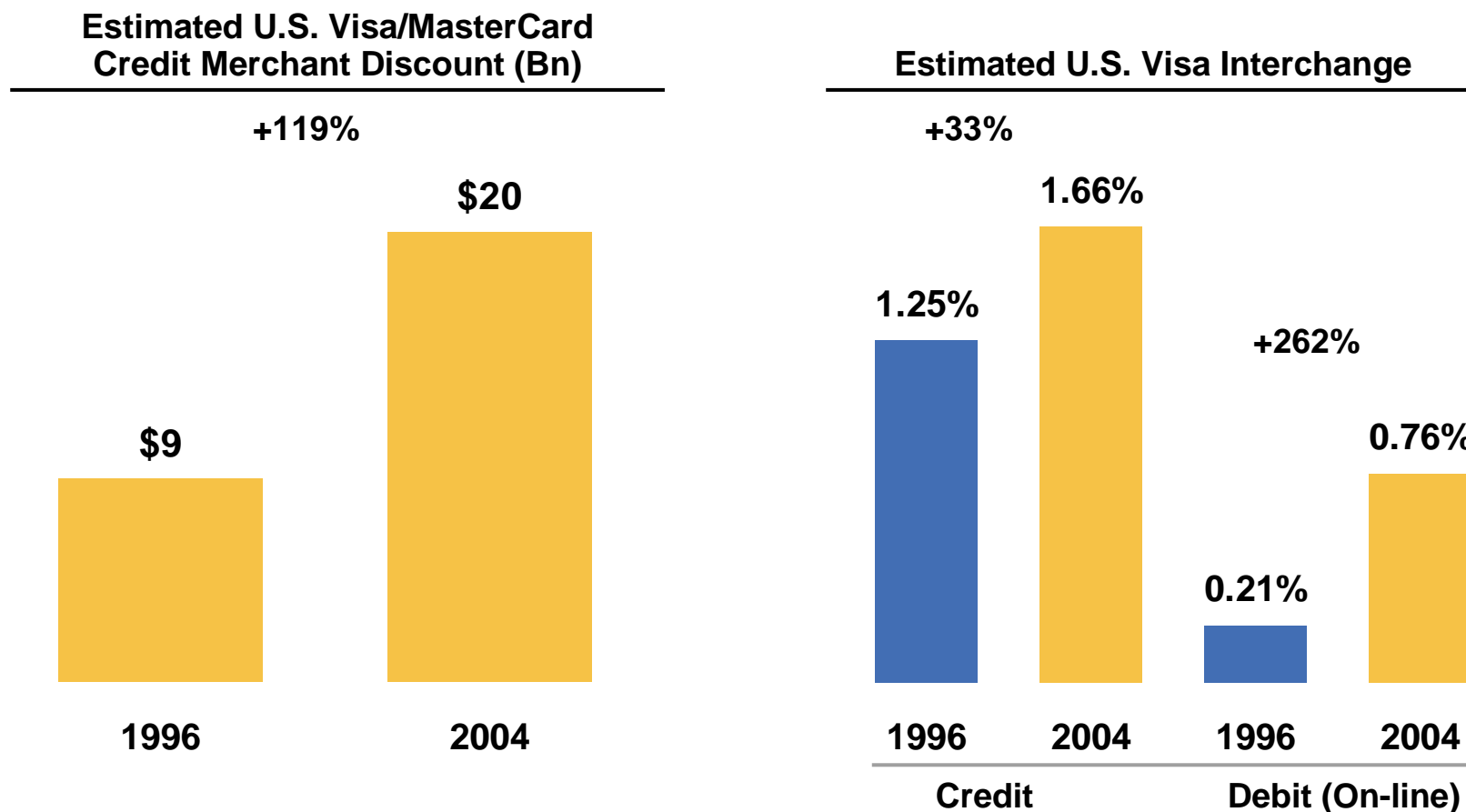
Forbes
■.com

Thursday, May 6, 2004

Discover Finds Strength in Partners

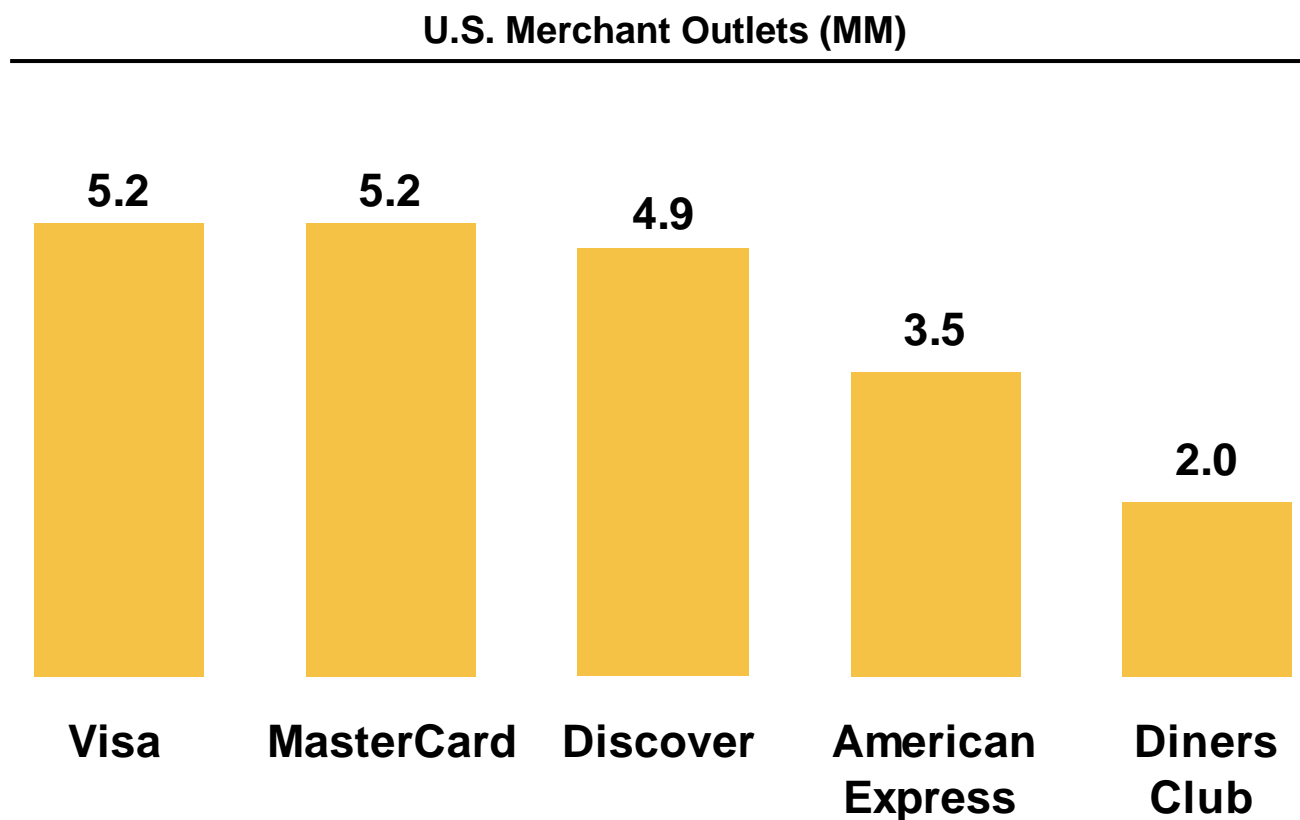
Discover Financial Services has made its opening move into the U.S. bank-issued credit card market. [Discover] plans to add banks and other issuers to its network as the competitive doors to the U.S. card industry blow wide openDiscover's announcement...came with a pitch to merchants. [Nelms] pushed Discover as the lowest-priced card network.

Visa and MasterCard Cost to U.S. Merchants



Source: VISA Published U.S. Interchange Rate (CPS Retail Category), First Annapolis, Nilson Report #640 and #805

U.S. Merchant Acceptance



Source: Nilson Report #805

Recent Acceptance Changes



Now the only major credit card accepted at SAM'S CLUB® locations in Seattle. Everyday value times two.

J L WEBB 04/05

Low Cost, Every Day
Cutting Costs To Keep Our Prices Low!

SAM'S CLUB® will no longer accept Visa Credit effective January 28, 2004.

We Do Accept:



Visa Debit Cards will still be accepted.



Welcomes

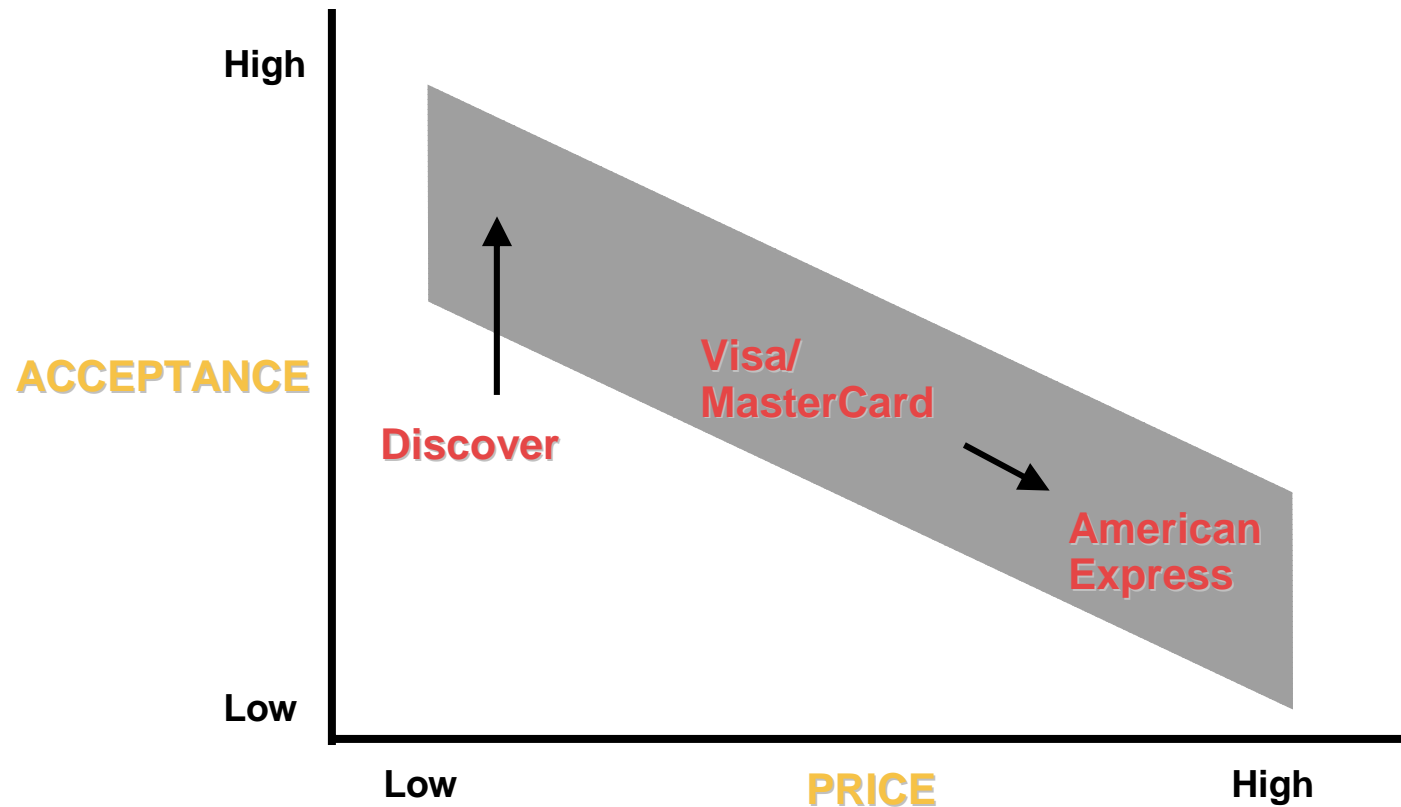


KinderCare Learning Centers to Exclusively Accept Discover Card

“... we are pleased to have selected Discover Card as the only credit card we accept.”

CEO David Johnson
March 9, 2004

U.S. Network Potential Repositioning





Rationale for Third Party Issuance

- Leverage existing, largely fixed cost, network infrastructure
- Add profitable incremental volume to build fee income
- Build scale and merchant demand
- Participate in fast growing, less competitive payments market
- Exploit opportunities from evolving payment systems

New Differentiation Opportunities



Advantages of Discover/NOVUS Network

- Opportunity to differentiate and segment
- Focus on small and medium size issuers, not just “mega issuers”
- Strong, established company that is a business unit of Morgan Stanley
- Strong, growing relationships with merchants
- Increased flexibility
- Attractive economics

Network Economics and Capabilities

Discover versus Visa/MasterCard Economics

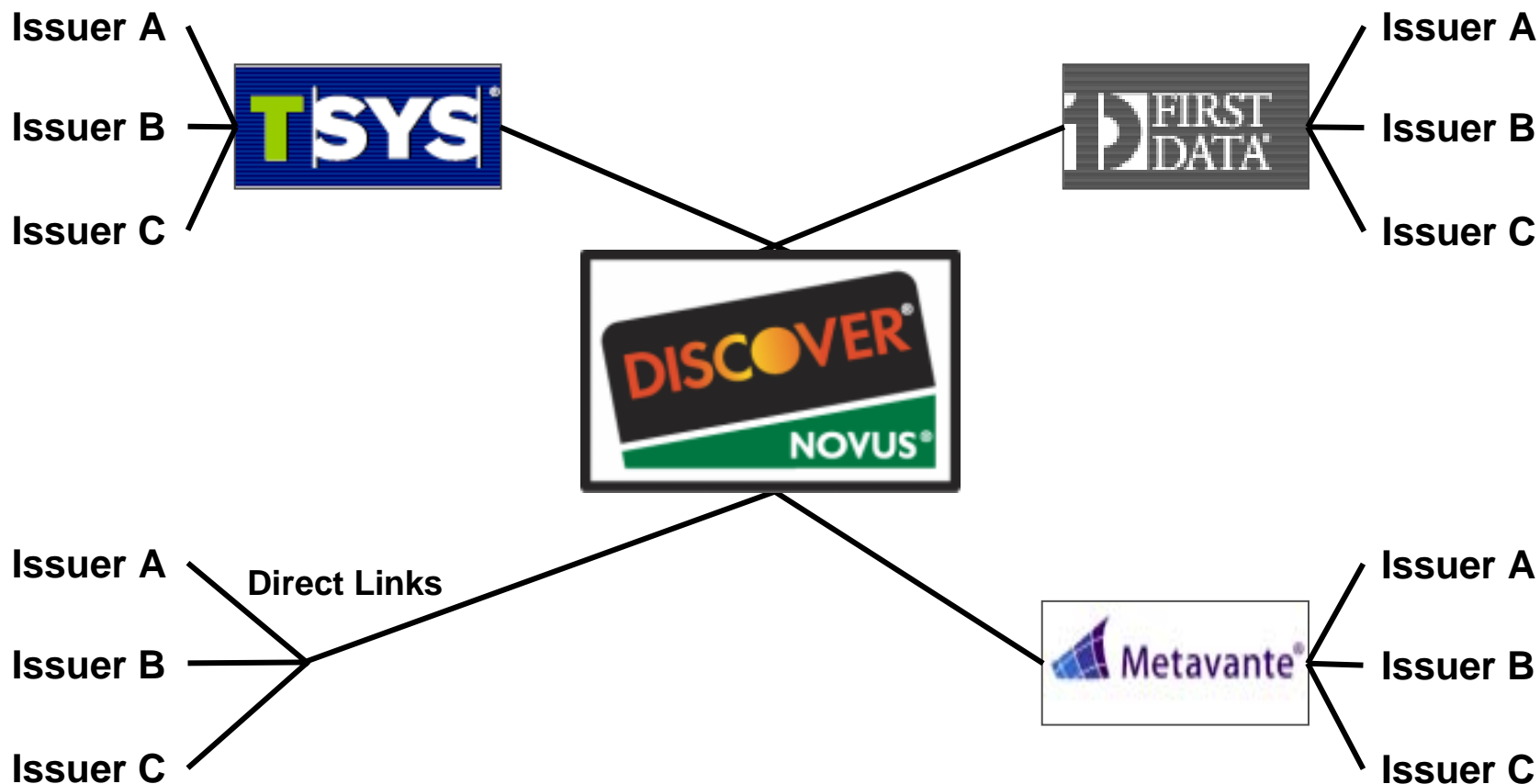
| | |
|--------------------------------------|---|
| Discount From Merchants | – |
| Operating Efficiency | + |
| Assessment Fees | + |
| Cross Subsidization | + |
| Overhead | + |
| Legal Costs | + |
| Net Effective Interchange to Issuers | + |

Discover/Novus Network Capabilities

- Credit card
- Debit card
- Private Label cobrand
- Affinity/cobrand
- Stored value/Gift card
- Virtual network

Note: Currently processing credit card, gift card and virtual network cards with capabilities to support debit card, private label cobrand and affinity cobrand.

Discover/NOVUS Network Issuer Connections



Long Term Discover Strategy

- Strengthen and leverage the Discover brand and Cashback Bonus
- Create competitive advantage with U.S. proprietary network
- Optimize business efficiency and risk management
- Leverage great customer service to build loyalty
- Expand international and mortgage businesses
- Attract, develop and retain the best workforce



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David W. Nelms, Chairman and CEO, Discover Financial Services

May 10, 2004