Discover Financial Services
Legal Notice

The information herein contains forward-looking statements, including without limitation statements about the expected effects, timing and completion of the proposed distribution to Morgan Stanley shareholders of all of the outstanding shares of Discover. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made and which reflect management's current estimates, projections, expectations or beliefs and which are subject to risks and uncertainties, many of which are beyond the control of Morgan Stanley, that may cause actual outcomes and results to differ materially from those projected or anticipated. Accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will occur, or if any of them do so, what impact they will have on the results of operations or financial condition of Morgan Stanley or Discover. For a discussion of additional risks and uncertainties that may affect the future results of the Morgan Stanley and Discover, please see "Forward-Looking Statements" immediately preceding Part I, Item 1, "Competition" and "Regulation" in Part I, Item 1, "Risk Factors" in Part I, Item 1A and "Certain Factors Affecting Results of Operations" in Part II, Item 7 of Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2005, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2006 Quarterly Reports on Form 10-Q and in other items throughout the Form 10-K, the Forms 10-Q and the Company's 2006 Current Reports on Form 8-K.

The information provided herein may include certain non-GAAP financial measures. The reconciliation of such measures to comparable GAAP figures are included in Morgan Stanley's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, including any amendments thereto, which are available on www.morganstanley.com.
Rationale for Spin-Off

- Structured to enhance shareholder value via two independent companies focused on their unique strategies and growth plans
  - Tax-efficient transaction for Morgan Stanley and Morgan Stanley shareholders
  - Shareholders retain upside in Discover as a public company
- Will allow Morgan Stanley to focus its efforts on more closely aligned firm-wide strategic priorities
  - Morgan Stanley well-positioned to build upon momentum across ISG, GWM and Asset Management business units
- Discover well-positioned to succeed as a stand-alone public company
  - Capitalize on strong brand and rewards leadership to grow
  - Changing marketplace creates opportunities for Discover in payments and international markets
- Provides Discover flexibility to access capital markets directly and use stock as an acquisition currency
- Allows the investment community to invest separately in each company

• We believe that the planned spin-off should enhance value for shareholders
Spin-Off Structure and Timing

• 100% Tax-free dividend to shareholders – no ongoing ownership retained by Morgan Stanley
  – Subject to required regulatory approvals
  – Will likely seek an IRS ruling on certain aspects of the transaction
  – Estimated timing of distribution to shareholders: 3Q of FY2007

• Maintain existing capital methodology for Discover at time of spin
  – $5.2Bn equity (as of 11/06)
  – Aim to confirm current investment grade rating at Discover Bank

• Preliminary estimate of ongoing P&L impact as a result of the separation (based on present market conditions)
  – Discover to incur approximately $85-90MM of incremental funding costs per year and expects approximately $40MM of net overhead savings per year
  – Additional one time charges will be incurred as a result of the spin off

• Morgan Stanley intends to maintain its dividend at its current annual level of $1.08 per share up to the time of and following the spin, an effective pro-rata dividend increase post spin
  – Discover will have substantial cash flow that should enable it to pay a dividend post spin
Discover Profile\(^{(1)}\)

- Leading U.S. card issuer
  - 50 million+ cardmembers, $45Bn+ managed consumer loans
  - America’s #1 cash rewards program\(^{(2)}\) – Cashback Bonus®
  - One of the strongest brands in financial services
  - Recognized for superior customer service and loyalty
  - Well positioned for continued growth
- Expanding payments business (Discover Network and PULSE)
  - Over 3 billion transactions in 2006
  - One of three networks with full product suite including debit, credit, prepaid and gift card
  - 4 million+ merchant and ATM locations in North America
  - 4,200+ issuers
  - International acceptance and volume through network partners
- Growing UK business with 3 million accounts and $4.6 billion+ managed loans
- $1.6 billion PBT in 2006 with strong capital generation and 22% return on equity

Notes
1. Company Data as of 11/30/06.
2. Source: TNS Global
• Record 2006 profits driven by favorable credit results
• PBT in 2005 was depressed and in 2006 was helped by 10/05 bankruptcy law change
• Discover PBT has been above $900MM every year since 1999 – across credit and interest rate cycle

### Profit Before Tax ($MM)

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit Before Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$1,027</td>
</tr>
<tr>
<td>2004</td>
<td>$1,221</td>
</tr>
<tr>
<td>2005</td>
<td>$921</td>
</tr>
<tr>
<td>2006</td>
<td>$1,587</td>
</tr>
</tbody>
</table>

### Return on Managed Receivables (1) (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Return on Managed Receivables</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>1.28%</td>
</tr>
<tr>
<td>2004</td>
<td>1.65%</td>
</tr>
<tr>
<td>2005</td>
<td>1.23%</td>
</tr>
<tr>
<td>2006</td>
<td>2.24%</td>
</tr>
</tbody>
</table>

**Source** Morgan Stanley SEC Filings

**Notes**

1. Return on managed receivables is equal to Discover annualized income divided by average managed credit card receivables.
**Discover Balance Sheet and other statistical information (1)**

<table>
<thead>
<tr>
<th>In millions</th>
<th>At November 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>Net Managed Credit Card Loans (2)</td>
<td>$46,108</td>
</tr>
<tr>
<td>Goodwill/Intangibles</td>
<td>322</td>
</tr>
<tr>
<td>Other Assets</td>
<td>4,806</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$51,236</strong></td>
</tr>
<tr>
<td>Bank, intercompany and other funding</td>
<td>$20,642</td>
</tr>
<tr>
<td>Securitizations</td>
<td>24,306</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>1,688</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$46,636</strong></td>
</tr>
<tr>
<td><strong>Total Equity (3)</strong></td>
<td><strong>$4,600</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Equity</strong></td>
<td><strong>$51,236</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>%</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 days + Delinquency</td>
<td>3.98%</td>
<td>3.51%</td>
</tr>
<tr>
<td>90 days + Delinquency</td>
<td>1.75%</td>
<td>1.65%</td>
</tr>
<tr>
<td>Securitizations as % of Managed Receivables</td>
<td>53%</td>
<td>53%</td>
</tr>
<tr>
<td>Tangible Equity</td>
<td>$4,277</td>
<td>$4,497</td>
</tr>
<tr>
<td>Managed Receivables/Tangible Equity</td>
<td>10.8</td>
<td>11.0</td>
</tr>
</tbody>
</table>

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1 Managed loan data assume that the Company’s securitized loan receivables have not been sold and presents the results of securitized loan receivables in the same manner as the Company’s owned loans.

2 Managed credit card loans less allowance for loan losses at period end.

3 Equity shown here is period end. Average common equity set forth in Morgan Stanley earnings release for the 4Q of 2006 was $5.1Bn.
Discover Financial Services Strategy

**Continue growth in US Card issuing**
- Extend rewards leadership
- Launch new products and enter new markets
- Capitalize on brand and superior service

**Increase acceptance**
- Leverage direct relationships with large merchants
- Leverage acquirer participants in North America for small/medium merchants
- Expand Network partnerships beyond North America

**Grow payments business**
- Leverage #3 position in PIN debit (PULSE)
- Continue to grow Discover third-party issuer volume (debit, credit, prepaid and gift card)

**Efficiency focus**
- Continue favorable credit performance
- Reduce expense as a % of managed loans

**Enhance UK issuing business to generate strong returns**
- Complete integration of recent acquisitions
- Reduce loan losses, increase revenues and reduce expenses

**Expand Discover banking businesses**
- Grow consumer deposits and personal loans (near term)
- Launch other branded mass financial services (longer term)
Discover Card Brand
Strong Awareness, Leading Customer Satisfaction

• Discover’s brand has one of the highest levels of unaided brand awareness among issuers

• Independent surveys indicate Discover’s service is rated #1 by customers

<table>
<thead>
<tr>
<th>Unaided Brand Awareness Among Issuers (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Express</td>
</tr>
<tr>
<td>67%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer Satisfaction Rating (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discover</td>
</tr>
<tr>
<td>74%</td>
</tr>
</tbody>
</table>

Source: GFK Arbor, May 2006

Source: Phoenix AMIS Card Report, March 2006 – Affluent Customers (>150K household income)
Rewards Leadership
Customer Earnings and Engagement Growing

• Discover operates the industry’s largest cash rewards program
• Recent Cashback Bonus innovations are popular with millions of customers
  – 5% ShopDiscover
  – 5% Get More program
  – 80+ redemption partners
    – Borders
    – Red Lobster
    – Kohl’s
    – Sharper Image
    – Staples

### CashBack Bonus Structure

#### Rewards Features
- Earn up to 1%
- No caps or expiration(1)
- Redeem anytime in $20 increments

#### 5% Get More
- Earn full 5% on rotating categories
- Enrollment required
- Targeted to maximize profitable behavior

#### Redemption – Cashback Bonus Partners
- 80+ brand name partners
- Increases amount earned by cardholders
- Retailers participate in funding

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**Notes**
1. For active cardmembers
2006 New Products and Advertising
Innovation Leadership

- Recent new products appeal to new segments and customer needs
  - Discover Business card
  - Discover Gift cards
  - Gas card
  - Discover Debit card
- New advertising campaign has been well-received

Small Business Card

- Cashback Bonus: 5% on office supplies, 2% on gas (up to $2000 in each), up to 1% on all others
- Fee-free PurchaseChecks that can be used where credit is not accepted while still earning rewards
- Real-time, customizable spending limits
- Quarterly and annual statements that can be downloaded directly into QuickBooks®

Gift Card

- Choose a gift card with matching greeting card
- Over 20 unique gift-card designs
- Emboss a name and message on the card itself
- Denominations between $25-$200

Gas Card

- Full 5% Cashback Bonus on gas and auto (up to $1,200) maintenance purchases
- Full 5% Cashback Bonus and more from top online retailers through ShopDiscover
- Up to 1% - unlimited - on all other purchases
- Full Platinum benefits

Advertising Campaign
Launched August 2006
Steady Improvement in Credit Performance
Managed Credit Card Portfolio

- In recent years, Discover has improved credit quality
- 2006 net loan loss rate and 30+ day delinquency rate were lowest in 10 years
- Modest rise in loss rates to 4.5% to 5.0% expected in 2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Principal Loan Losses (%)</th>
<th>30+ Day Delinquency Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>6.60%</td>
<td>5.97%</td>
</tr>
<tr>
<td>2004</td>
<td>6.00%</td>
<td>4.55%</td>
</tr>
<tr>
<td>2005 (1)</td>
<td>5.23%</td>
<td>3.98%</td>
</tr>
<tr>
<td>2006 (1)</td>
<td>4.08%</td>
<td>3.51%</td>
</tr>
</tbody>
</table>

Notes:
1. 2005 and 2006 results impacted by 10/05 U.S. bankruptcy legislation.
Discover sales volume is growing

In 2006, Discover began growing U.S. receivables again

2006 international receivables benefited from Goldfish and Liverpool Victoria acquisitions
Discover Financial Services

Discover Payments

Expansion of Issuers, Products, Acceptance

Multi-Year Implementation In-Process

<table>
<thead>
<tr>
<th>Card Issuers</th>
<th>Discover Bank</th>
<th>4,200+ issuers</th>
<th>20+ issuers</th>
<th>189 issuers (primarily Chinese)</th>
<th>200 issuers (primarily Japanese)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$87Bn spend</td>
<td>$70Bn spend</td>
<td>$8Bn spend</td>
<td>900MM cards</td>
<td>57MM cards</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Owned Networks</th>
<th>Discover Network</th>
<th>Pulse</th>
<th>UnionPay</th>
<th>JCB</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Credit, debit, prepaid, gift card, consumer and business</td>
<td>1.3Bn transactions/ year</td>
<td>Debit (PIN and Signature), ATM, prepaid and gift card</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Acceptance</th>
<th>Discover Network</th>
<th>Pulse</th>
<th>UnionPay</th>
<th>JCB</th>
</tr>
</thead>
<tbody>
<tr>
<td>4MM merchants/ ATMs</td>
<td>~3.4MM PIN POS terminals/250K ATMs</td>
<td>500 merchants/ ATMs in China</td>
<td>2.5MM merchants/ ATMs in Japan</td>
<td></td>
</tr>
<tr>
<td>Direct acquirer for large merchants</td>
<td>Acquirer partnerships for small/medium merchants</td>
<td>Growing acceptance in 37 countries</td>
<td>58K ATMs in the United Kingdom</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company Data and Estimates

Notes:
3. PULSE issuers enabled to access LINK ATMs.
Discover Financial Services

**Acquirer Partnerships**

**Objective: North American Acceptance Equal to Visa/MasterCard**

<table>
<thead>
<tr>
<th>Merchant Processing Agreements</th>
<th>Date Signed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Data</strong></td>
<td>July 2006</td>
</tr>
<tr>
<td><strong>Global Payments</strong></td>
<td>September 2006</td>
</tr>
<tr>
<td><strong>RBS Lynk</strong></td>
<td>September 2006</td>
</tr>
<tr>
<td><strong>TSYS</strong></td>
<td>September 2006</td>
</tr>
<tr>
<td><strong>NOVA</strong></td>
<td>October 2006</td>
</tr>
<tr>
<td><strong>TransFirst</strong></td>
<td>October 2006</td>
</tr>
</tbody>
</table>

- Discover is expanding acceptance among small/medium-sized merchants through agreements with acquirers
- Acquirers will integrate Discover with their bankcard business
  - Integrated sales
  - Combined statement, service and settlement
- Acquirers also will enable existing merchants to accept Discover
- Implementation will continue in 2007 and 2008

Source: Company Press Releases
• Network customer base has grown
  – PULSE is #3 PIN Debit network with over 4,200 financial institutions
  – Discover Network has third-party issuers who issue credit, signature debit, prepaid and gift cards

Network Volume (MM)

<table>
<thead>
<tr>
<th>Year</th>
<th>Discover Network</th>
<th>Pulse</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1,226</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>1,301</td>
<td>2,857</td>
</tr>
<tr>
<td>2006</td>
<td>1,399</td>
<td>3,256</td>
</tr>
</tbody>
</table>

Notes
1. PULSE volume post 1/12/05 acquisition.
Discover Financial Services

Discover Overview
December 2006