



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

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Morgan Stanley



**David Nelms**  
Chairman & CEO  
Discover Financial Services

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Morgan Stanley

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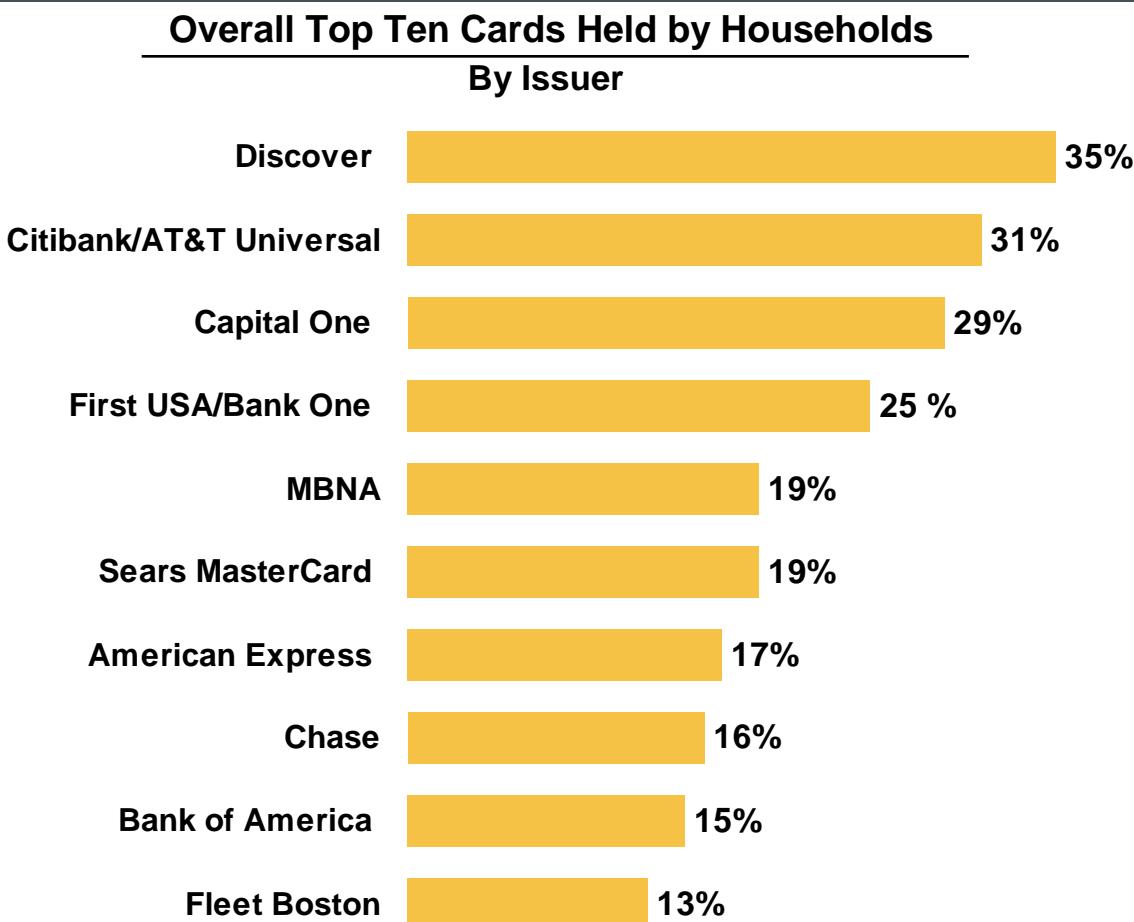








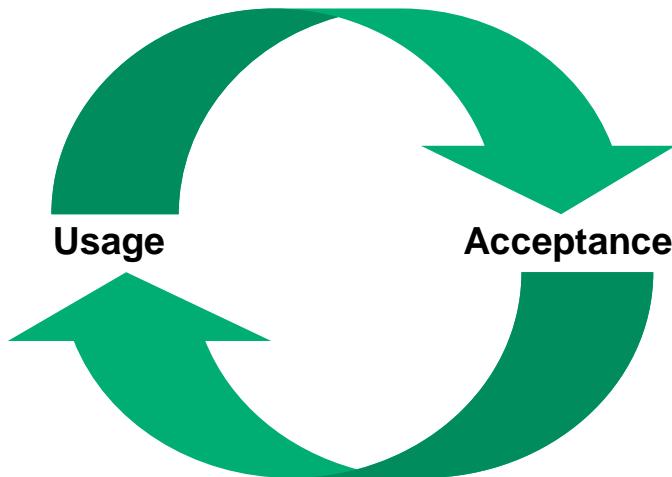
# Issuer Household Penetration



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

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# 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





# Enhance Cashback Bonus

- 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



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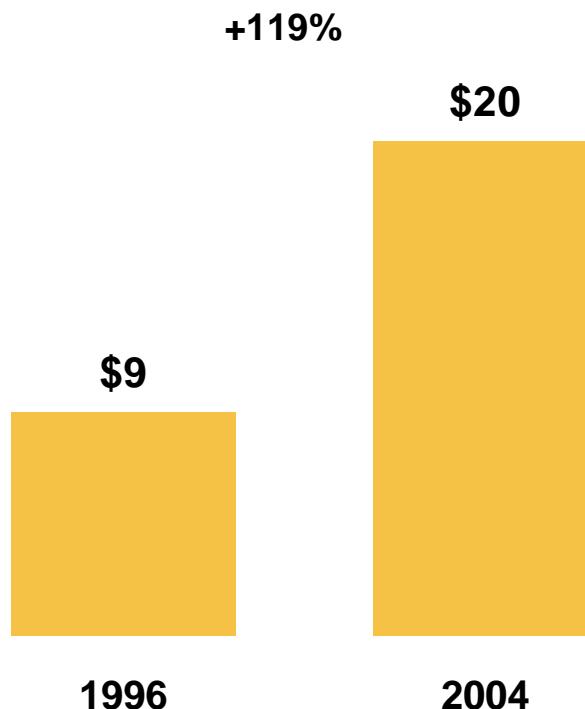




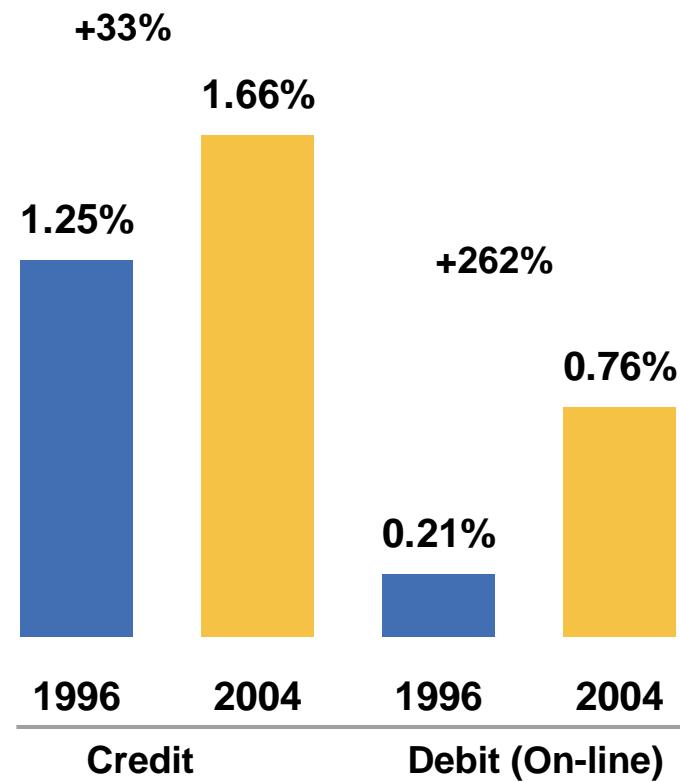


# Visa and MasterCard Cost to U.S. Merchants

Estimated U.S. Visa/MasterCard Credit Merchant Discount (Bn)



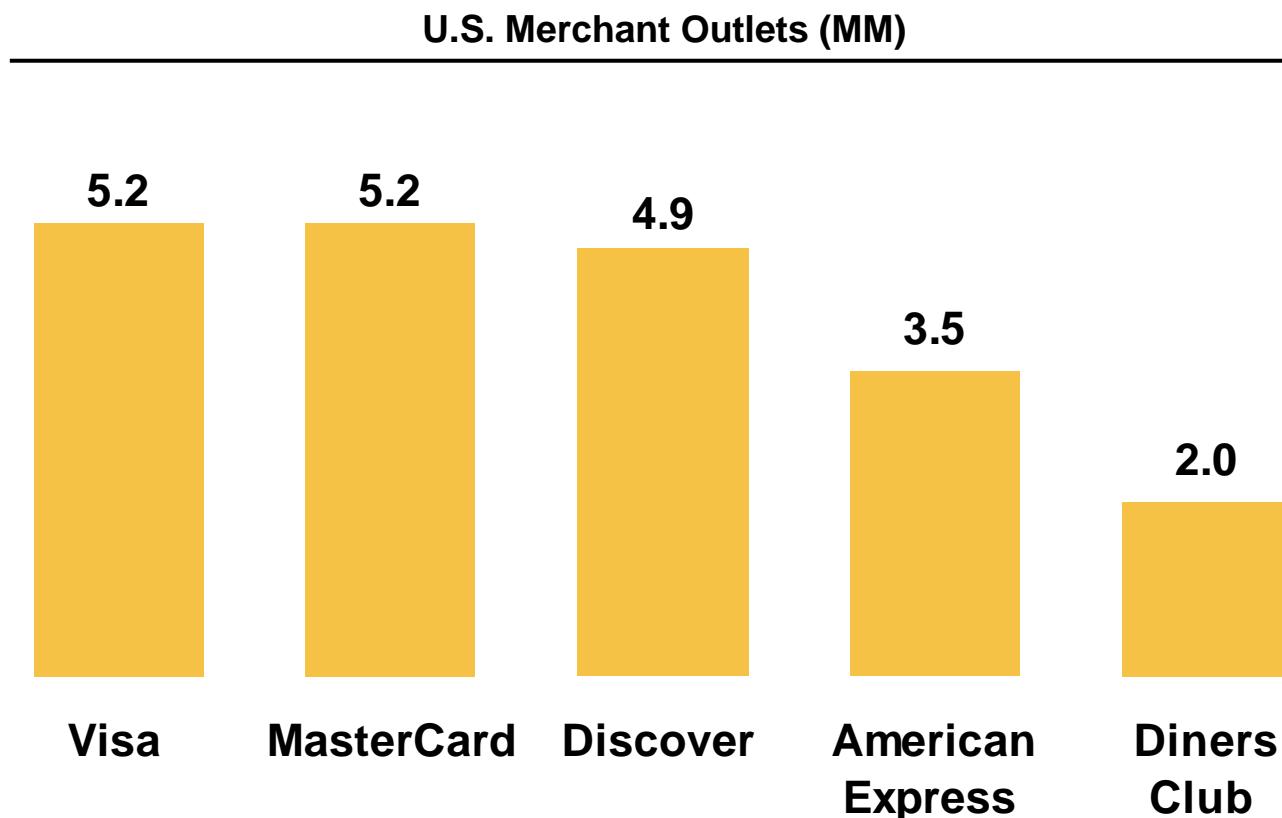
Estimated U.S. Visa Interchange



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

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# U.S. Merchant Acceptance



Source: Nilson Report #805

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# 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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