

Stephen S. Crawford,
Chief Administrative and Risk Officer

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

February 9, 2005

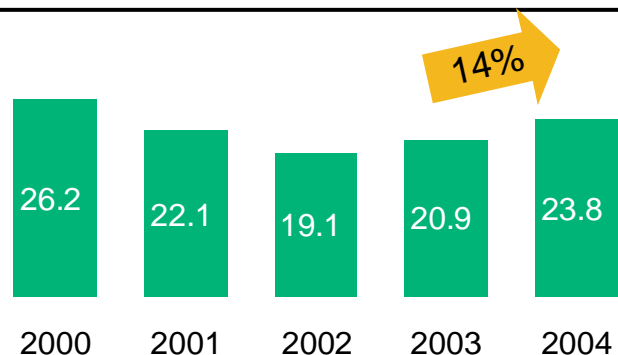


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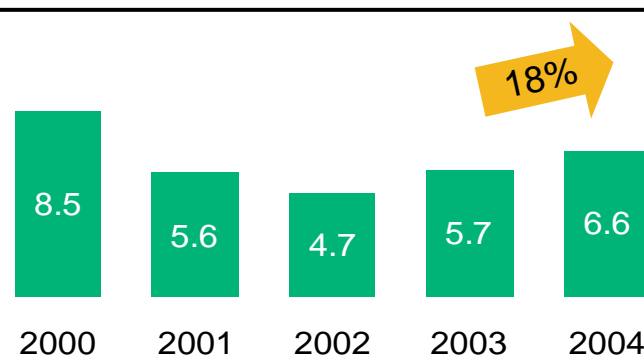
February 9, 2005

Consolidated Financial Highlights

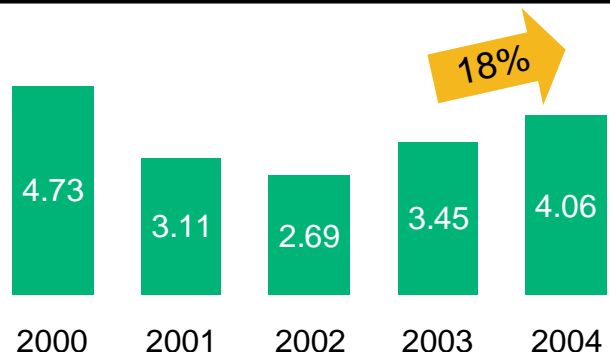
Net Revenues (\$Bn)



Profit Before Taxes (\$Bn) ⁽¹⁾



Diluted EPS (\$/Share)



Return on Equity (%)

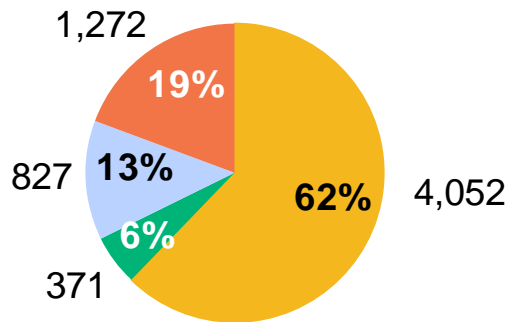


Source: Morgan Stanley SEC filings and 4Q 2004 Financial Supplement.

Note: (1) PBT for 2003 and 2004 includes dividends on preferred securities subject to mandatory redemption, to conform with earlier periods.

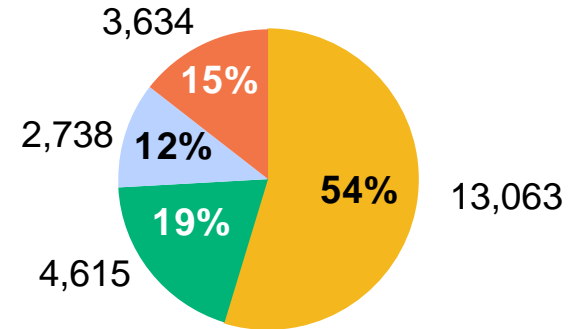
Morgan Stanley – 2004 Segment Mix

Profit Before Taxes (\$MM)



Institutional Securities
 Individual Investor Group
 Investment Management
 Discover Financial Services

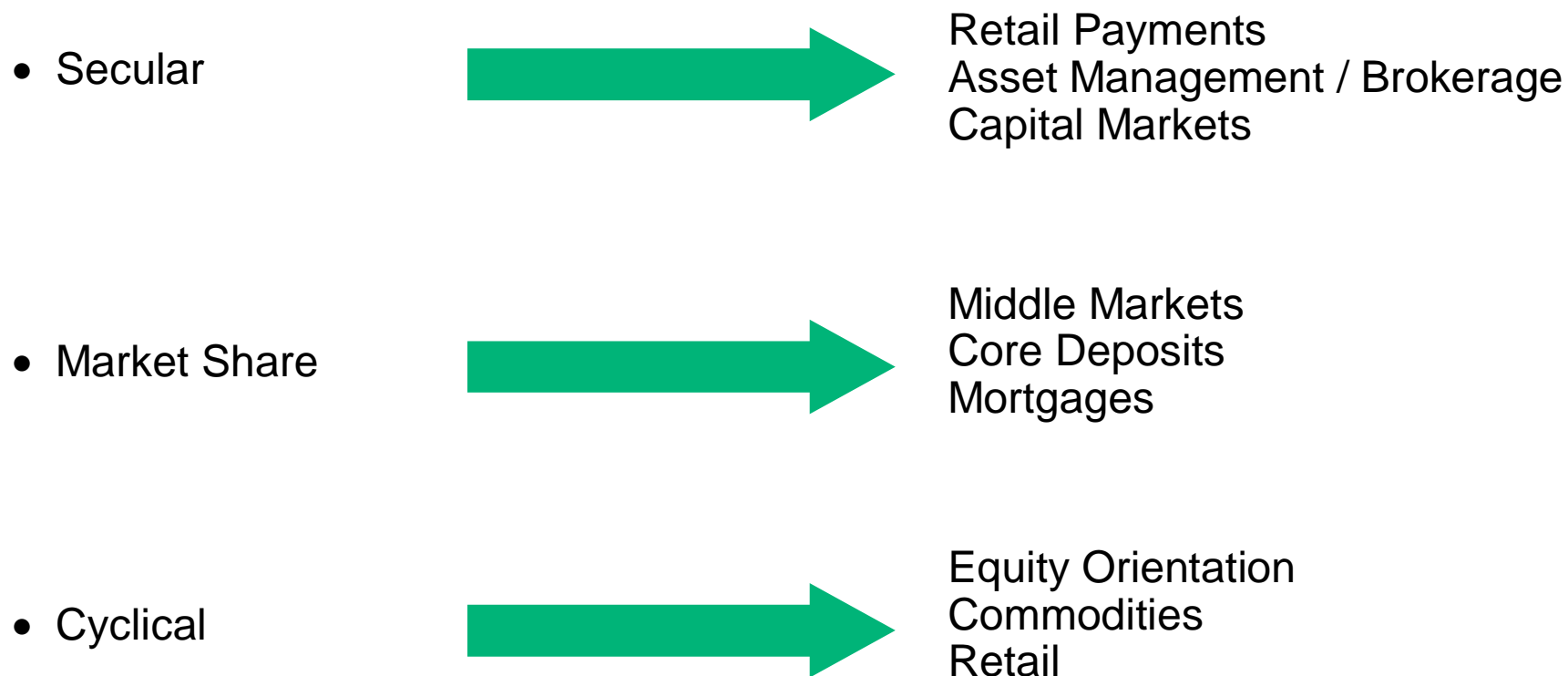
Net Revenues (\$MM)



Source: Morgan Stanley 4Q 2004 Financial Supplement.

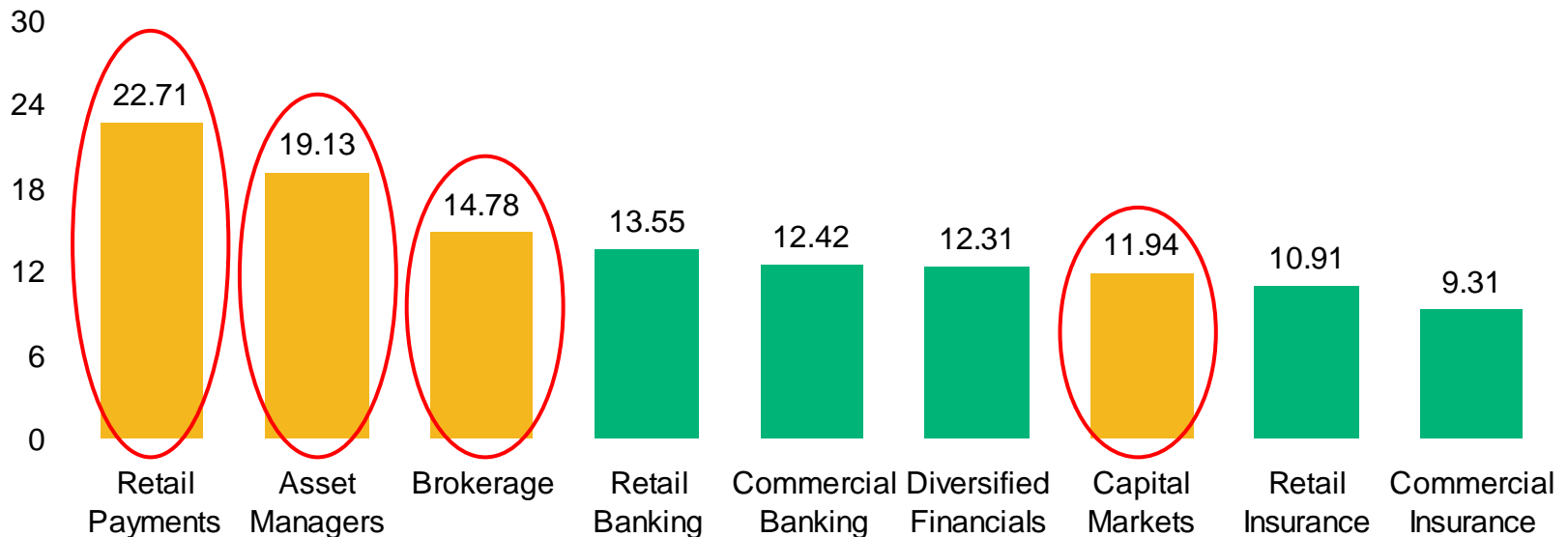
- Financial Services Firm Focused on *Growth*
- Strategic and Financial Benefits of *Diversification*
- *Skills* Over Capital

Growth



Perspective on Growth

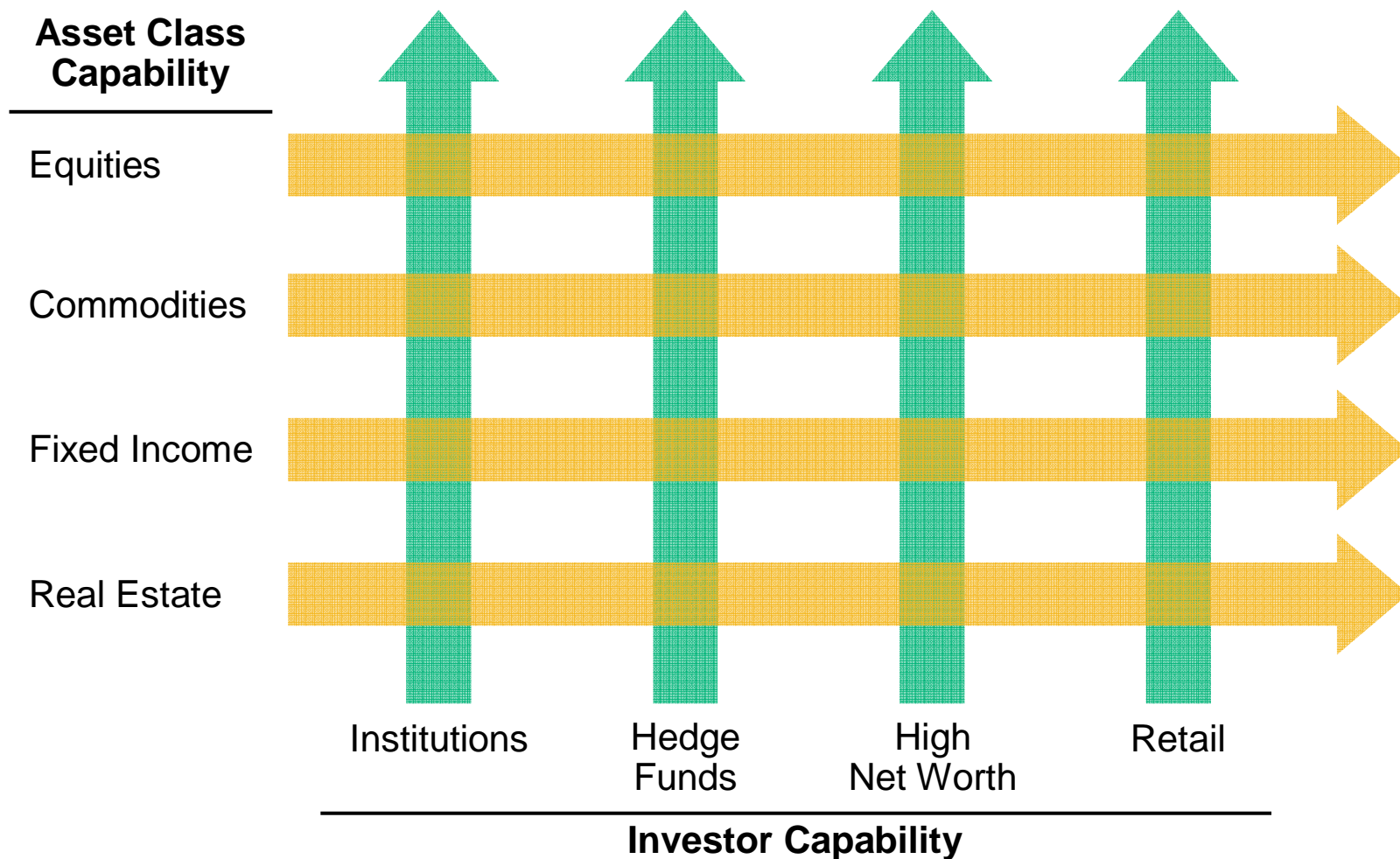
P/E Multiples



Source: FactSet data as of 7 February 2005.

Note: (1) Current P/E is current price divided by calendar 2005 earnings estimates. Category constituents can be found in the Appendix at the end of this presentation.

A Position of Strength and Depth



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Priorities: Institutional Securities Group

External

- Credit Products
- Commodities
- Real Estate
- Prime Brokerage
- Corporates
- Asia

Internal

- Pricing
- Capital Efficiency
- Cost Management
- Integration

Priorities: Individual Investor Group

External

- Managed Account Assets
- Alternative Assets
- Deposits / Mortgages

Internal

- Scaling the Business
- Client and Advisor Segmentation
- Cost Management
- Asset / Liability Management

Priorities: Investment Management

External

- Investment performance
- Alternative Investment Products
- Separately Managed Accounts
- Institutional Liquidity
- Europe
- Asia

Internal

- Investment process / resources
- Increase net flows
- Margin enhancements

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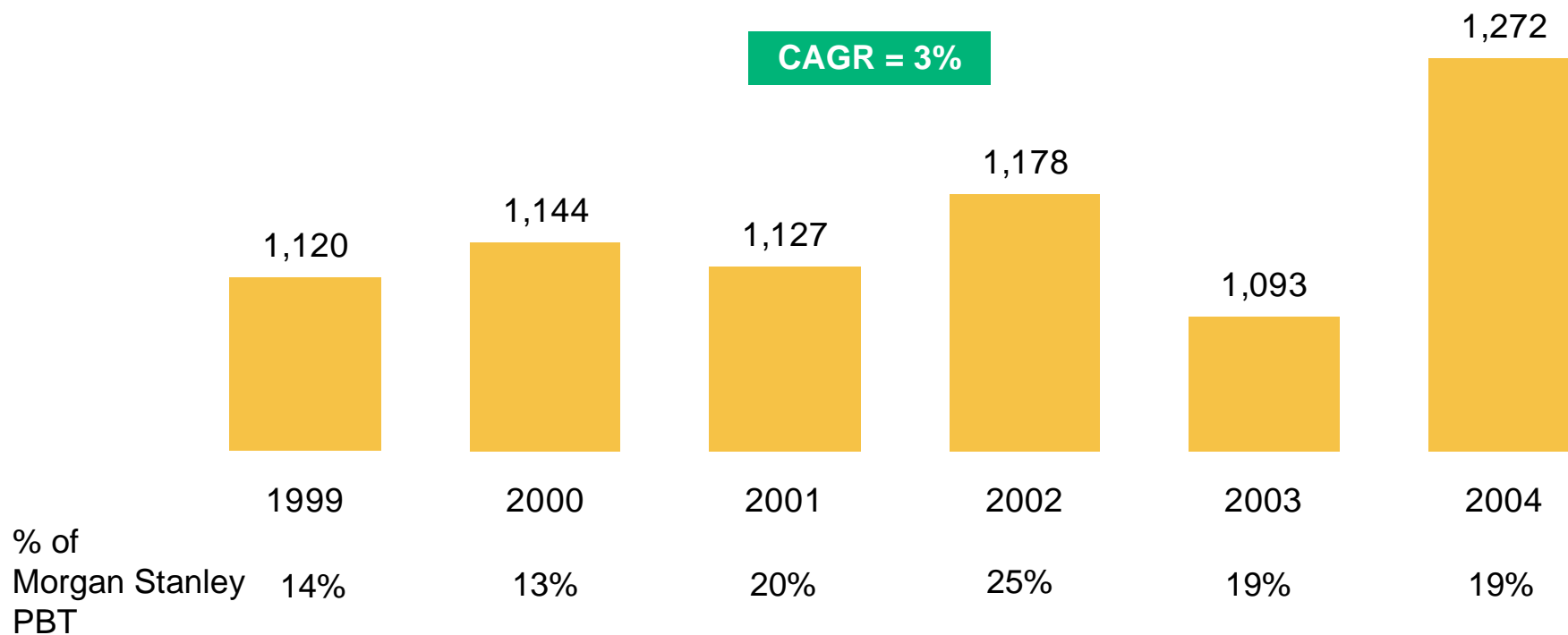
Discover[®] Profile

- 50 million+ cardmembers
- \$48 billion managed loans
- 4 million+ merchants and cash access locations
- Record \$1.27 billion pretax income in 2004
- Largest, most successful reward program – Cashback Bonus[®]
- One of the strongest brands in financial services
- Recent court ruling allows Discover to enter into partnerships with financial institutions
 - Acquisition of PULSE: entry into rapidly growing debit market
 - GE/Wal-Mart contract: first third-party issuer on Discover[®] Network

Source: Morgan Stanley

Consistent Profit Contributor

Discover Profit Before Tax (\$MM)



Source: Morgan Stanley SEC filings and 4Q 2004 Financial Supplement.

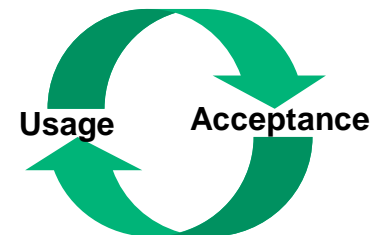
Discover Is Positioned for Growth

Credit Card Industry Challenges

- Rising cost of funds
- Slowing growth
- Regulatory changes

Discover Strengths

- One of the strongest credit card brands
- Industry's #1 rewards program
- Rapid loan loss improvement
- Well positioned in fast growing electronic payments businesses, including debit
- Additional opportunities in mortgages and international
- Discover Card and Discover Network strategies self-reinforcing



Discover Financial Services Business Mix

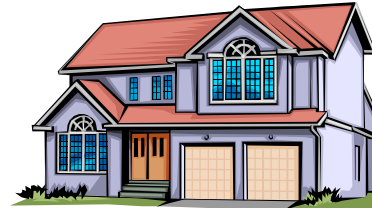
U.S. Card Issuing



Network/ Payments



Mortgage / Banking



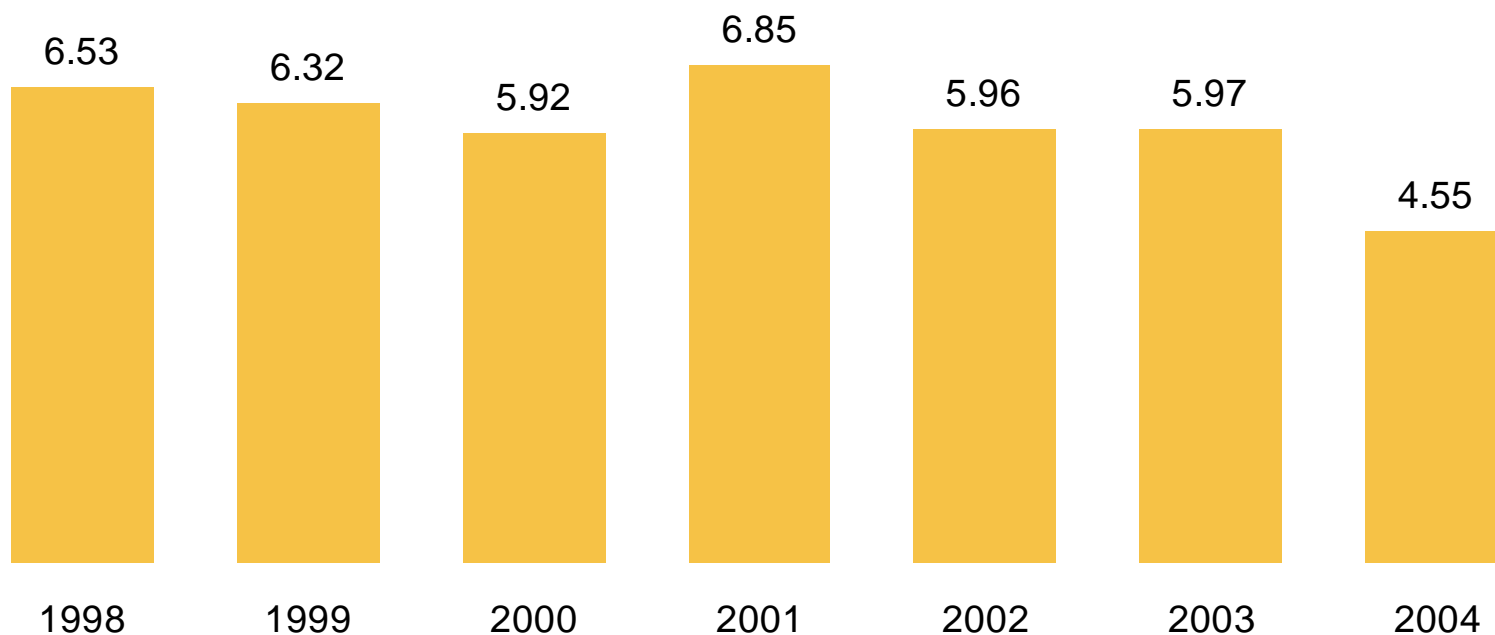
- Morgan Stanley Mortgages
- Discover Home Loans

International Cards (U.K.)



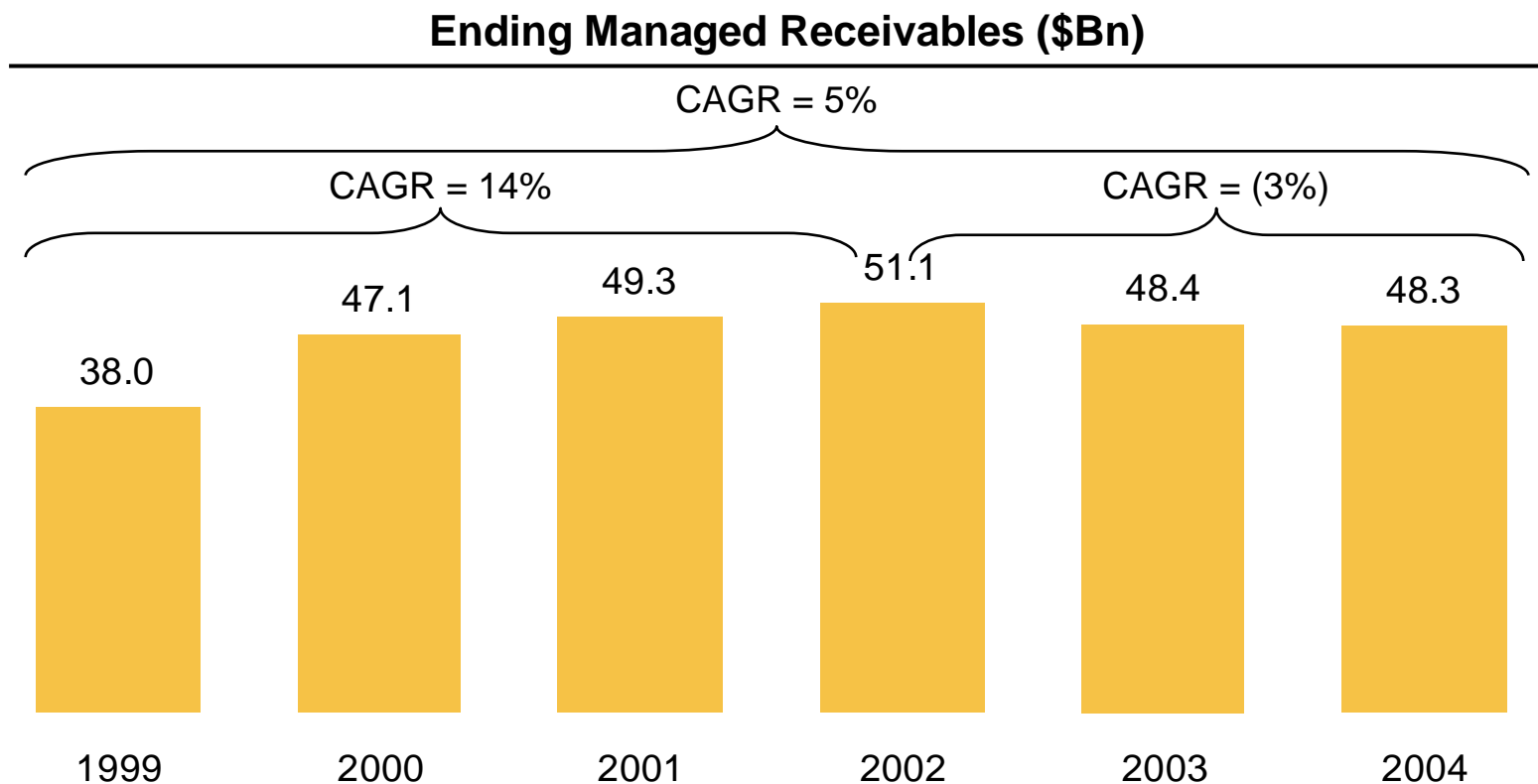
Credit Quality Much Improved

Over 30-Day Delinquency Rate (%)



Source: Morgan Stanley SEC filings and 4Q 2004 Financial Supplement.

Objective: More Consistent Loan Growth

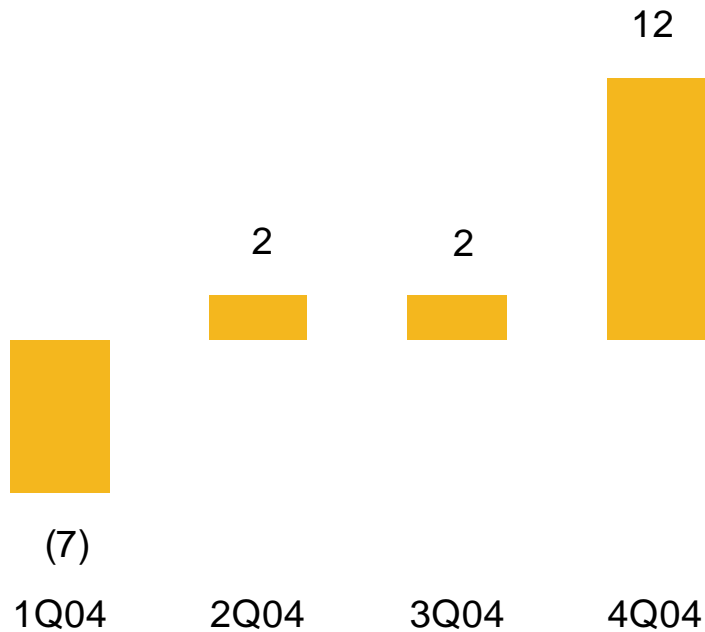


Source: Morgan Stanley SEC filings and 4Q 2004 Financial Supplement.

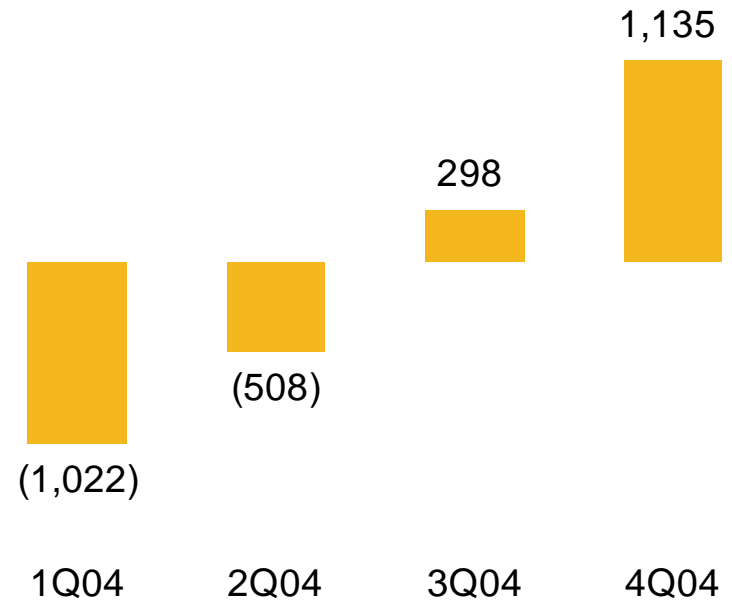
GAAP reconciliation to owned basis loan data is available in the Morgan Stanley SEC filings, and, for 2003 and 2004, on page 19 of the 4Q 2004 Financial Supplement.

Discover Volume Accelerated During 2004

**Year-over-Year
Transaction Volume Change (%)**



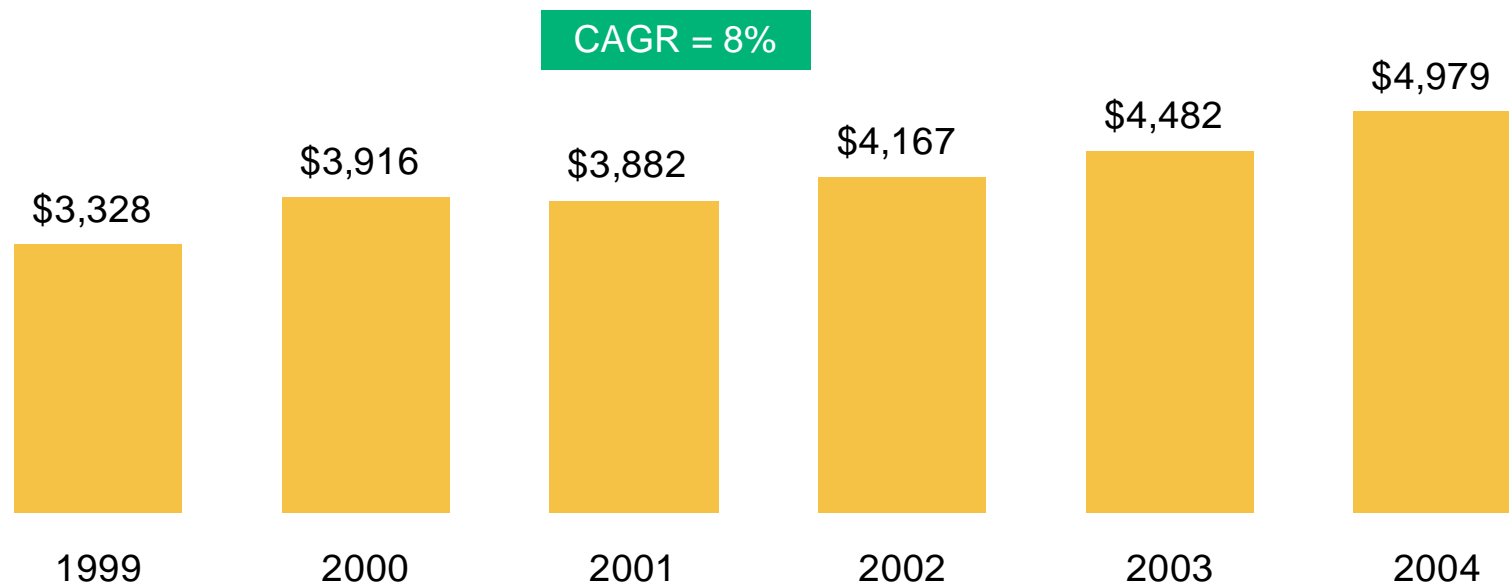
**Quarter-over-Quarter
Managed Loan Change (\$MM)**



Source: Morgan Stanley 4Q 2004 Financial Supplement.
GAAP reconciliation to owned basis loan data is available on pages 17 and 18 of the 4Q 2004 Financial Supplement.

Account Usage Is Growing Rapidly

Transaction Volume per Average Active Account

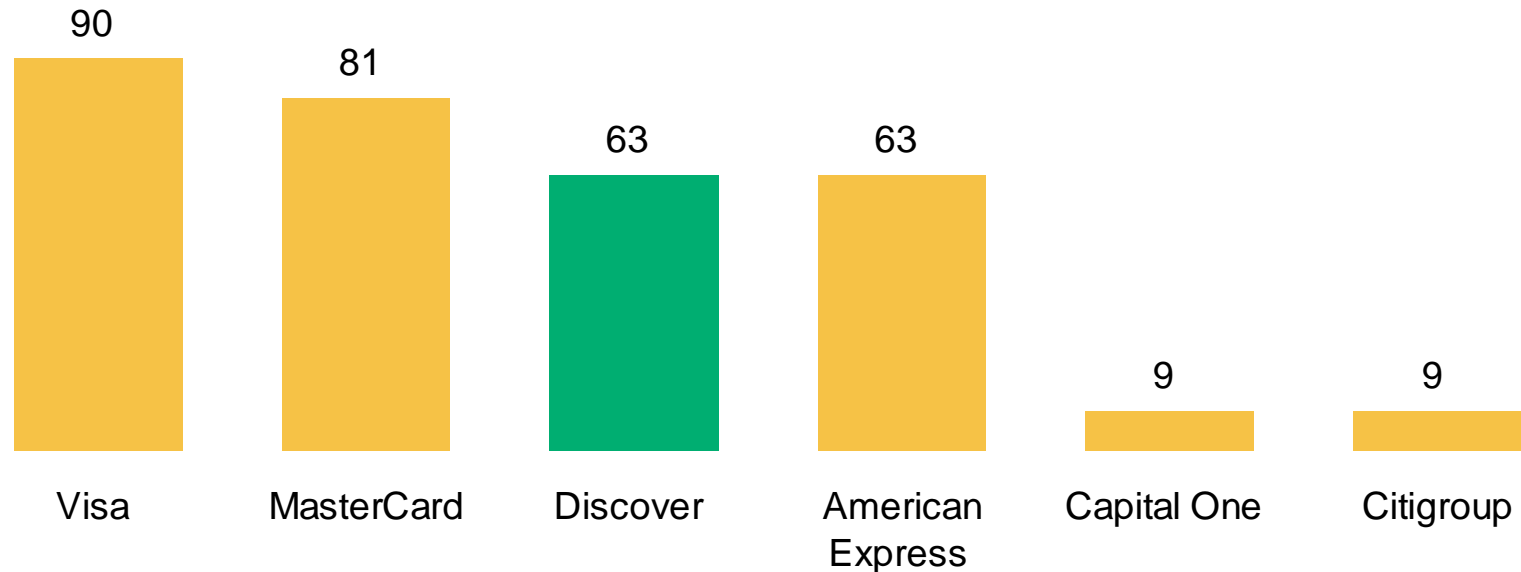


Source: Morgan Stanley SEC filings and 4Q 2004 Financial Supplement.

Discover Is a Leading Consumer Brand

Credit Card Brand Unaided Awareness

October 2004 Survey



Source: C&R Research, October 2004 (Discover Proprietary Research).

Cashback Bonus Award Industry's #1 Reward Program

Cashback Bonus Advantages

- No Fee
- Automatically earned on every purchase
- Unlimited earnings
- Accumulates and never expires
- Simple, valuable promotions all year to earn rewards even faster
- Easy redemption
- Double rewards with valuable retail partners

Valuable Extra Earnings All Year Long



Over 175 Card Designs and Products



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Record Growth for Discover Network Acceptance in 2004

Signed Over 1 Million
New Merchants, Including:



REGIS SALONS



American
Red Cross



Signed Over 1,000
Exclusive Merchants, Including:



Recent Supreme Court Decision “Changes the Game”

Impact on Discover

- Other financial institutions can issue credit cards on Discover® Network
- Discover free to enter the debit network business
- Potential to generate scale, increase acceptance
- New source of fee income
- Potential for treble damages from Visa and MasterCard

Payments Vision

“Create a payments company offering a full range of electronic payments products and value-added services that appeal to issuers, merchants, processors and consumers”

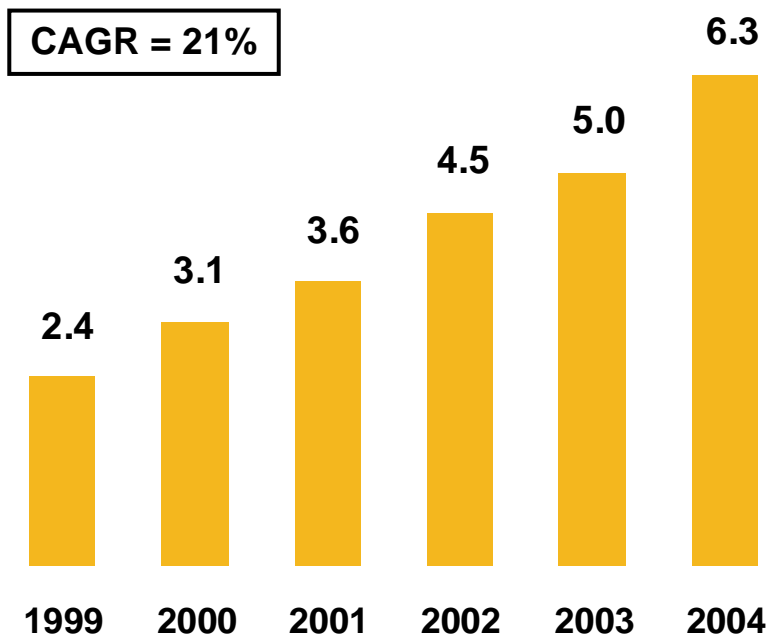
PULSE Acquisition



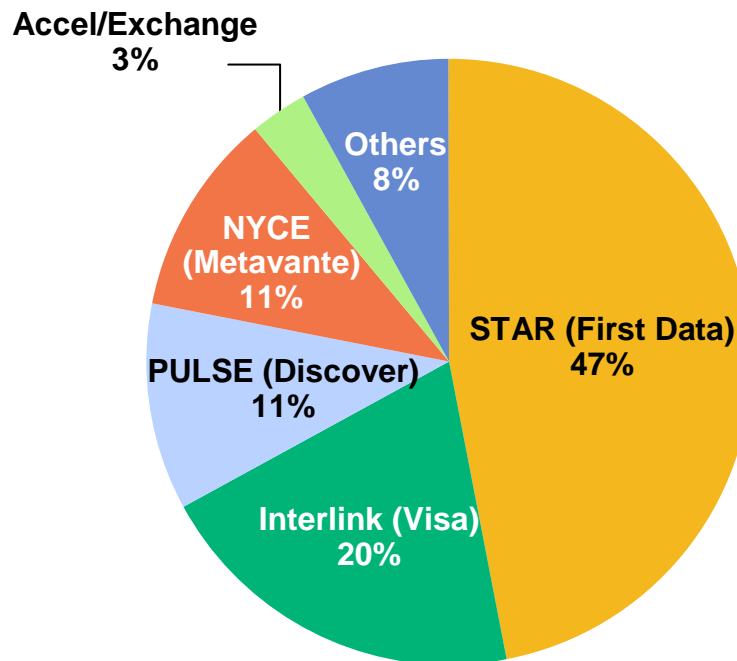
- Acquisition closed 1/12/05
- Creates a leading electronic payments company
- Relationships with more than 4,100 bank, credit union and savings institution participants
- Provides financial institutions with an alternative complete product set

U.S. Pin-Based Debit Transaction Volume

Industry Volume (Bn)



PIN-Based Retail Debit Share



Source: ATM & Debit News, EFT Data Book, 2005 Edition, Dated September 16, 2004

Source: ATM & Debit News – As of March 2004

GE Consumer Finance Will Issue Wal-mart Discover

THE WALL STREET JOURNAL.

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Monday, January 24, 2005

Wal-Mart, Discover Offer Card

AMERICAN BANKER.

THE FINANCIAL SERVICES DAILY

Volume CLXXII

Number 243

Monday, January 24, 2005

Discover's First Partner is a Big One

The New York Times

Saturday, January 22, 2005

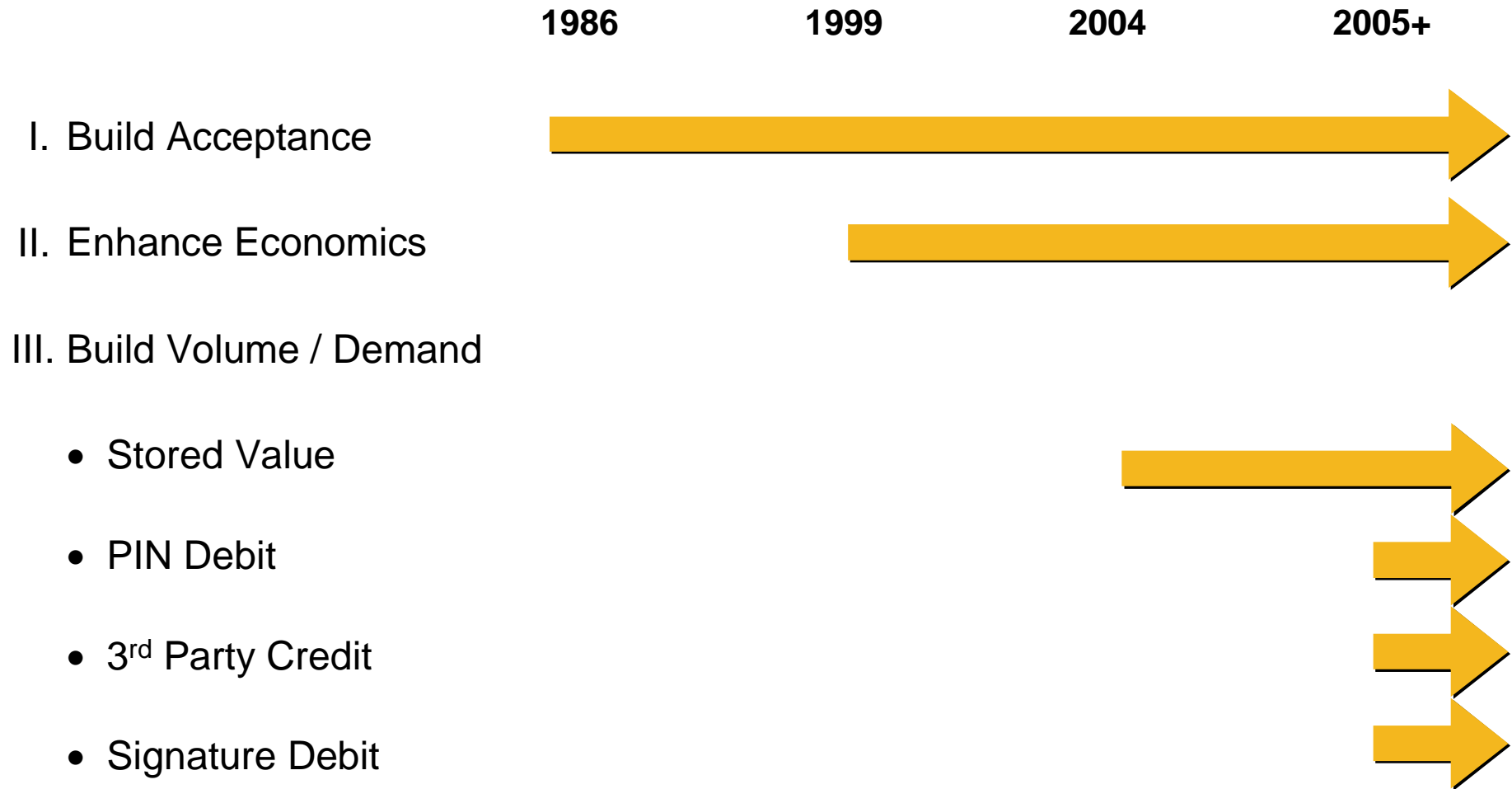
Discover Financial and Wal-Mart to Offer Credit Card

Chicago Tribune

Saturday, January 22, 2005

Discover Credit Card Aimed at Wal-Mart Patrons

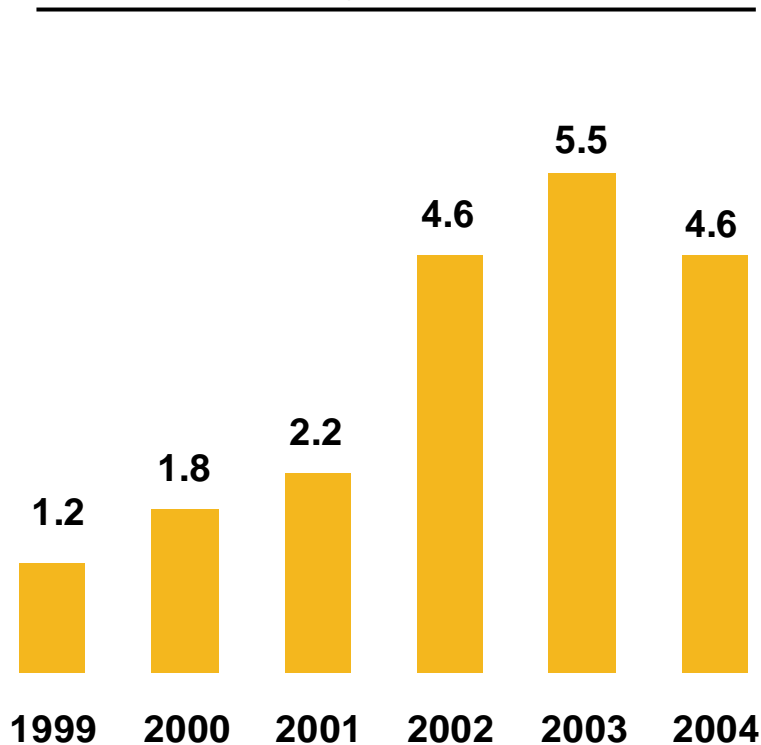
Evolution of Discover Network / Payments Business



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Mortgage / Banking

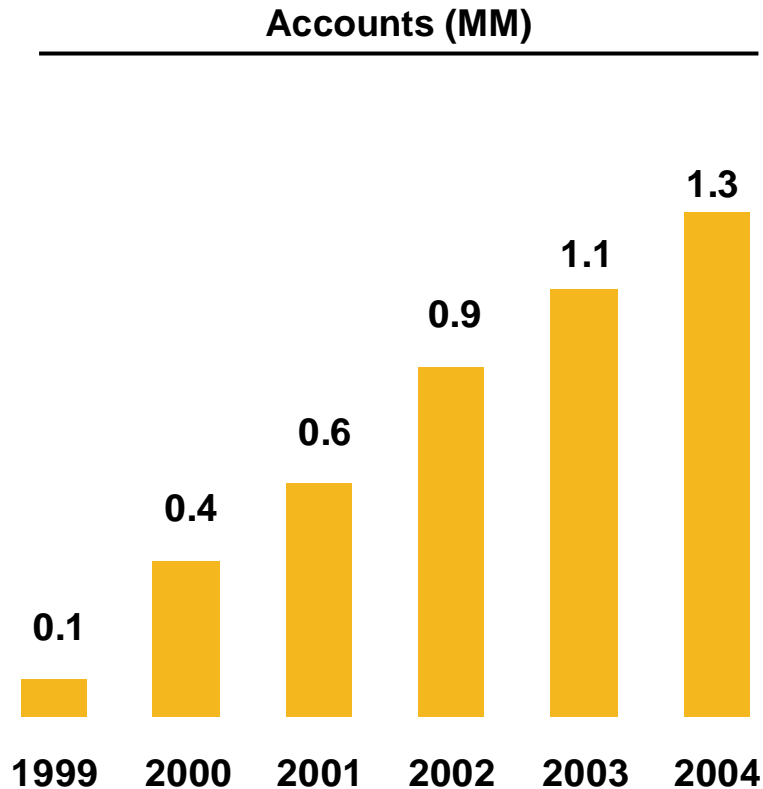
Loan Originations (\$Bn)



- Originated and serviced by Discover Financial Services
- Most distribution through Morgan Stanley financial advisors
- Highly differentiated products
- Strong profits

Source: Morgan Stanley

International Cards



- Morgan Stanley UK card launched in 1999
- Became profitable in 2003
- \$2.6 billion of managed loans
- Grew accounts by 18% in 2004

Source: Morgan Stanley

Discover Financial Services Summary

- Discover has been a consistent profit contributor and a growing part of Morgan Stanley
- Credit challenges have been addressed
- We believe Discover has multiple growth opportunities
 - U.S. credit card issuing
 - Payments business
 - Mortgages / banking
 - International

Appendix: P/E Multiple Category Constituents

Retail Payments

First Data Corporation
Total System Services
Global Payments Inc.
Alliance Data Systems Corporation
Certegy Inc.
I-Payments
ADP

Capital Markets

Lehman Brothers Holdings Inc.
Goldman Sachs Group, Inc.
Bear Stearns Companies Inc.

Commercial Banking

Comerica
JPMorgan Chase
Citigroup

Retail Banking

Wells Fargo & Company
U.S. Bancorp
Fifth Third Bancorp
Wachovia Corporation

Retail Insurance

Allstate Corporation
Progressive Corporation
Safeco Corporation
Mercury General Corporation

Commercial Insurance

American International Group, Inc.
ACE Limited
XL Capital Ltd.
St. Paul Travelers Companies, Inc.

Asset Managers

Alliance Capital Management Holding L.P.
Federated Investors, Inc.
Nuveen Investments, Inc.
Janus Capital Group Inc.
Franklin Resources, Inc.
T. Rowe Price Group, Inc.

Brokerages

A.G. Edwards, Inc.
Raymond James Financial, Inc.
Piper Jaffray

Diversified Financials

American Express Company
CIT Group Inc.
Capital One Financial Corporation
MBNA Corporation
Countrywide Financial Corporation

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