

Our vision is to be  
**the most rewarding  
relationship** consumers  
and businesses have  
with a financial services  
company. We help  
people spend smarter,  
manage debt better  
and save more so they  
achieve a **brighter  
financial future.**



**DISCOVER FINANCIAL SERVICES** (NYSE: DFS) is a leading credit card issuer and electronic payment services company with one of the most recognized brands in U.S. financial services. Discover is one of the largest card issuers in the United States. The company pioneered cash rewards and remains the industry leader with a broad range of rewards cards, including the Discover More Card (*Cashback Bonus* for all purchases), Discover Open Road Card (enhanced rewards for gasoline/automotive purchases), Miles by Discover Card (travel rewards), Discover Business Card (additional rewards for business purchases), and Discover Motiva Card (rewards for on-time payments). Discover also owns and operates the Discover Network, with millions of merchant and cash access locations, and PULSE Network, one of the nation's leading ATM/debit networks. Discover also operates the Goldfish credit card business in the United Kingdom (under contract to be sold to Barclays Bank PLC in 2008).

**DISCOVER'S BUSINESS SEGMENTS**

**U.S. Card:** Discover Card offers a number of consumer and business credit cards. The segment has \$48 billion in managed loans and \$90 billion of annual spending. Our card products enable cardmembers to earn meaningful rewards quickly and easily, while giving them more account control and information to use credit smarter. The U.S. Card segment also includes Discover Bank, which offers personal loans, student loans, gift cards, certificates of deposit and money market accounts. Discover Card acceptance and connectivity are provided by our Discover Network.

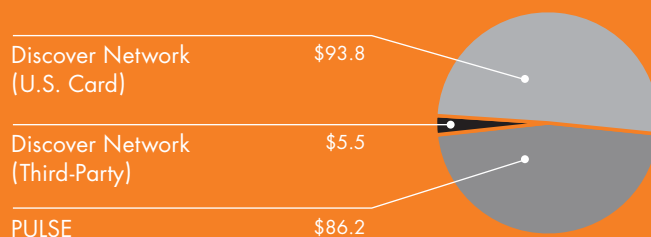
**Third-Party Payments:** Discover's Third-Party Payments segment consists of PULSE Network and Discover Network activities with issuers other than Discover Bank. PULSE Network is one of the nation's leading electronic funds transfer networks. It serves more than 4,500 banks, credit unions and savings institutions across the country, and links cardholders with more than 265,000 ATMs, as well as point-of-sale terminals at retail locations nationwide. Discover Network is a comprehensive and secure payments network that markets and supports a full range of credit, debit and prepaid cards. Discover Network also provides customer-centric tools and programs designed to help issuers, acquirers and merchants drive loyalty, increase transaction volume and run their businesses more effectively.

**International Card:** Discover operates Goldfish, issuer of one of the United Kingdom's leading rewards credit cards. This segment will be reported as a discontinued operation beginning with the first quarter of 2008.

**U.S. CARD MANAGED LOANS**  
[ IN BILLIONS ]



**2007 TOTAL NETWORK VOLUME \* = \$185.5 BILLION**  
[ IN BILLIONS ]

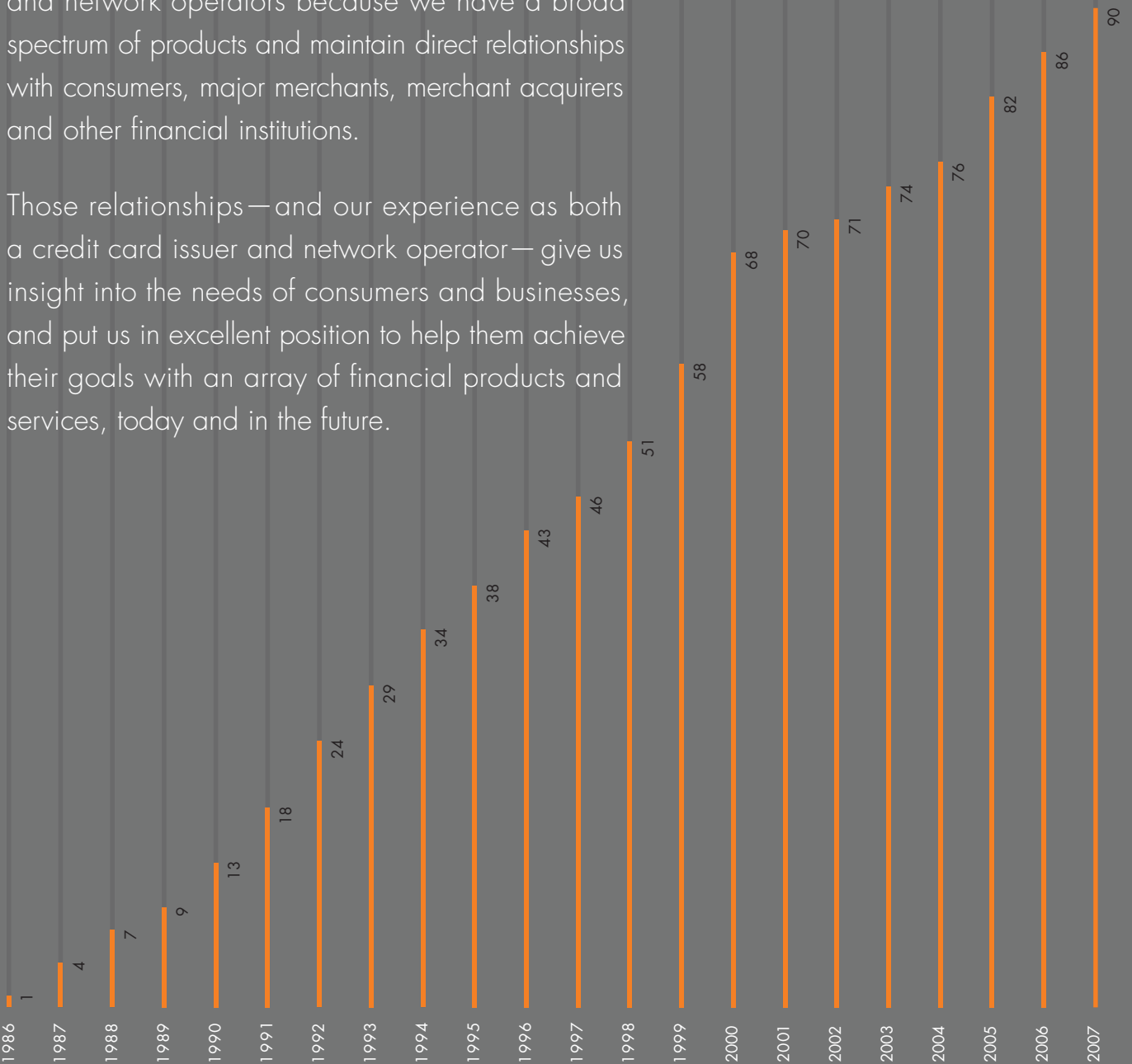


\* Includes credit, debit and prepaid volume

Discover Financial Services became an independent, public company in 2007, but the company's roots go back to 1986 when the Discover Card was first introduced, making Discover a new public company with a 22-year history of success.

Discover is the only credit card issuer that operates its own U.S. payments networks with both credit and debit functionality. Our unique business model gives Discover advantages over other credit card issuers and network operators because we have a broad spectrum of products and maintain direct relationships with consumers, major merchants, merchant acquirers and other financial institutions.

Those relationships—and our experience as both a credit card issuer and network operator—give us insight into the needs of consumers and businesses, and put us in excellent position to help them achieve their goals with an array of financial products and services, today and in the future.



U.S. CARD NET SALES VOLUME [ \$ IN BILLIONS ]

**Discover.**  
**A Different**  
**Kind of Financial**  
**Services**  
**Company.**

## To Our Shareholders,

In 1986, Discover pioneered cash rewards and no annual fee credit cards, and also established the first successful new credit card network in decades.

Today, Discover has one of the most recognized brands in U.S. financial services, is one of the largest card issuers, and operates two large and fast-growing payments networks.

On June 30, 2007, Discover became a public company as a result of our spin-off from Morgan Stanley, and we look forward to building upon Discover's proud heritage and many strengths to take advantage of new opportunities in the financial services industry.

I am proud of Discover's many accomplishments in 2007, including the following:

- Achieved U.S. Card pretax profit of \$1.5 billion and Third-Party Payments pretax profit of \$37 million;
- Grew U.S. credit card sales by 4% to \$90.3 billion and total U.S. managed loans by 5% to \$48.2 billion;
- Continued strong credit results, achieving a managed U.S. credit card charge-off rate of 3.84%;
- Increased third-party volume on our debit and credit networks by 25% to \$91.7 billion; and
- Made significant progress on our new business model to expand merchant acceptance of Discover Network cards.



“

Every action and interaction at Discover is guided by our values: Doing the right thing, Innovation, Simplicity, Collaboration, Openness, Volunteerism, Enthusiasm and Respect.

”

David Nelms  
Chief Executive Officer

In total, Discover reported net income of \$589 million, or \$1.23 per share, including a non-cash impairment charge of \$279 million after tax related to the company's International Card business. Without the charge, net income would have been \$868 million, or \$1.81 per share.

While our dedicated U.K. employees achieved important progress in our Goldfish business, the funding and operating environment there continues to be a challenge. Accordingly, on February 7, 2008, Discover announced an agreement for Barclays Bank PLC to acquire Discover's U.K. credit card business. The transaction frees up capital, enhances Discover's net income, and brings even sharper focus to our profitable and growing U.S. Card and Third-Party Payments businesses. The sale is expected to close in our second quarter.

Looking ahead, I am very optimistic about Discover's future as a public company. Our U.S. Card business has high margins with strong cash flows and numerous strengths, including an established brand, leadership positions in rewards and customer service, and sophisticated marketing and risk management programs. We also have opportunities to offer additional financial services that leverage our brand, capabilities and large customer base.

In our payments business, we have achieved strong and accelerating volume growth in both debit and third-party credit, which we believe significantly increases future growth opportunities for Discover. In addition, Discover has a strong balance sheet with established sources of liquidity, and we have a senior management team of experienced leaders.

As I write, concerns about the U.S. economy and U.S. consumer credit quality continue to rise. Over the last five years, Discover has enhanced its credit policies and practices, tightened underwriting standards, enhanced account management efforts, and leveraged state-of-the-art databases and analytic tools to provide for a strong credit foundation. In 2007, our U.S. Card business achieved its lowest managed 30+ days delinquency rate in more than 15 years—an important indication of strong credit quality. Given our established cardmember base (80% of our U.S. loans are on accounts that have been open for five years or more), we are well positioned to maintain profitability through the current credit cycle and to continue prudent growth.

In 2008, Discover will focus on the following priorities: growing U.S. Card loans, earning a good return on those loans, maintaining our strong credit foundation, growing our payments business, broadening acceptance and increasing efficiency.

“

We are very proud of Discover's position as an industry leader in cash rewards and customer service.

”

Roger Hochschild  
President and Chief Operating Officer

“

Our emphasis on credit quality is part of responsible lending and it contributes to Discover's solid financial results.

”

Roy Guthrie  
Chief Financial Officer

2007 was a landmark year for Discover, and I would like to acknowledge those who helped make it possible:

- Our customers: We are fortunate to have cardmembers who are extremely loyal to the Discover brand, and network partners who value collaboration and innovation.
- Our employees: Their commitment and “customer-first” attitude helped make Discover successful in the past, and they are the key to our success in the future.
- Our new Board of Directors, led by our Chairman, Dennis D. Dammerman: We are very pleased to have attracted such a highly qualified group of individuals to serve on our board. Their experience and guidance will be of significant value to Discover as we continue to grow our business as an independent company.

With the help of Discover's dedicated employees and strong leadership, and with an eye toward fulfilling our vision of being the most rewarding relationship consumers and businesses have with a financial services company, I am confident we can make progress on each of our priorities in 2008 and be successful in our first full year as a public company.



David Nelms  
Chief Executive Officer



# More Rewarding Relationships.

Discover is a leader when it comes to cash rewards in the credit card industry. In fact, since the launch of the Discover Card in 1986, Discover Cardmembers have earned more than \$7 billion in *Cashback Bonus*. And the rewards of a relationship with Discover don't stop there. Consumers and businesses also reap rewards in terms of no annual fees, competitive interest rates, superior customer service, an award-winning Web site, valuable offers from retail partners and complete fraud protection.





DISCOVER CARD, P.O. BOX 15156 WILMINGTON DE 19850-5156 USA

Ed L.

"It's so much fun to see our rewards pile up as the year goes on and think about the great things we can get."

Ed L.  
Bronx, New York



## More ways to earn *Cashback Bonus* than ever before.



Throughout its history, Discover has been a leading innovator and driver of change in the credit card industry. Our pioneering accomplishments include the introduction of the first cash reward program, known as *Cashback Bonus*. The Discover Card also was the first no-fee cash reward card to offer unlimited rewards, and Discover was one of the earliest companies to offer 24/7 customer service and secure account numbers for online purchases.

### REWARDS THE WAY YOU WANT THEM

**5% CASHBACK BONUS**  
In more than 15 popular categories that change each season

**AUTOMATIC REWARDS**  
Up to 1% *Cashback Bonus* on everyday purchases, automatically

**SHOP DISCOVER**  
5% to 20% *Cashback Bonus* through our exclusive online shopping site

**MAXIMUM REDEMPTION**  
Increase, even double, rewards when you redeem for gift cards from our brand-name partners

# Innovative Products. Smart Customers.

Discover has a history of providing innovative products and services. Leveraging our heritage of strong issuer and network capabilities, brand position and innovative rewards solutions, we offer rewards on every purchase, unique cash access at the point of purchase and advanced fraud protection—making Discover the right financial services company for smart customers.



DISCOVER CARD, P.O. BOX 15156 WILMINGTON DE 19850-5156 USA

*Kelley*

"Last year I stopped using cash all together and went to only using my Discover Card. It's a great way to track where my money is going and build my *Cashback Bonus* quickly."

Kelley C.  
Ashburn, Virginia



Giving consumers the credit they deserve with products that fit their lifestyles.

*Kiplinger's*, *MONEY*® and others have recognized certain card offers from Discover Card as being among the best in a broad range of categories—including cash rewards, travel, gasoline/automotive, business and gift cards. And the Discover Motiva Card has been singled out as one of the best new credit card products for 2008.



**DISCOVER  
MORE CARD**

Maximum Cash  
Rewards for All  
Your Purchases



**DISCOVER  
OPEN ROAD CARD**

Save at the  
Pump and  
Everywhere Else



**DISCOVER  
MOTIVA CARD**

Cash Rewards  
for On-Time  
Payments



**MILES BY  
DISCOVER CARD**

Flexible Miles  
and Unrestricted  
Travel



**DISCOVER  
BUSINESS CARD**

Cash Rewards  
for All Business  
Purchases



# Beyond Customer Expectations.

One of the biggest rewards of a relationship with Discover is superior customer service. Discover employees at call centers across the United States welcome calls as opportunities to get to know Discover Cardmembers, merchants and financial institutions better and to share information about the benefits of Discover products and services. As a result, Discover received the 2007 World Class Customer Satisfaction Award for call center satisfaction as measured by the Service Quality



DISCOVER CARD, P.O. BOX 15156 WILMINGTON DE 19850-5156 USA

*Kurt*

"We've received wonderful and friendly service from Discover Card. Thank you for your dedication to pleasing your customer."

Kurt M.  
Santa Maria, California

**pulse**

**DISCOVER**  
NETWORK

Measurement Group, and has ranked #1 in customer loyalty among leading credit card brands in the Brand Keys Customer Loyalty Engagement Index report for 10 years in a row. Discover Network Relationship Managers bring that same level of commitment to our merchants, financial institutions and partners.

Committed to delivering the best customer service in America.

Utah	Texas
West Valley	Houston
Salt Lake City	Ohio
Sandy	New Albany
Arizona	Delaware
Phoenix	Dover
Illinois	New Castle
Riverwoods	Greenwood
Tennessee	
Memphis	

#### DISCOVER BUSINESS CENTERS

In addition to our headquarters in Riverwoods, IL, Discover operates business centers across the United States—each with its own specialized functions.



#### DISCOVER CALL CENTERS

Discover's highly skilled customer service agents, all based in the United States, are measured on their ability to provide useful information to the customer and on how the customer rates the experience.





# Leading Payments Networks.

Discover owns and operates two payments networks: Discover Network, a comprehensive payments network that supports multiple card products, merchants, acquirers and issuers; and PULSE Network, one of the leading ATM/debit networks. Together, these two networks support billions of financial transactions each year, giving consumers more ways to pay and helping the business partners of Discover Network and PULSE Network grow and operate their businesses more effectively.

DISCOVER CARD, P.O. BOX 15156 WILMINGTON DE 19850-5156 USA

*Cathie*

"As the largest HVAC/R wholesaler in the Southeast, we've always been happy to accept Discover Card. Now it's integrated with other cards, which means one contact person and one statement. It's great!"

Cathie Lanser, C.C. Dickson Co.  
Rock Hill, South Carolina



**PULSE NETWORK** is one of the nation's leading electronic funds transfer networks. It serves more than 4,500 banks, credit unions and savings institutions across **pulse** the United States. The network links cardholders with more than 265,000 ATMs, as well as POS terminals at retail locations nationwide.

**DISCOVER NETWORK** markets and supports a comprehensive suite of credit, debit and prepaid cards, including network support for Discover Card. Discover's unique approach to building strong relationships allows us to connect partners and create mutually beneficial programs that help our acquirers, merchants and issuers increase loyalty and build their businesses.

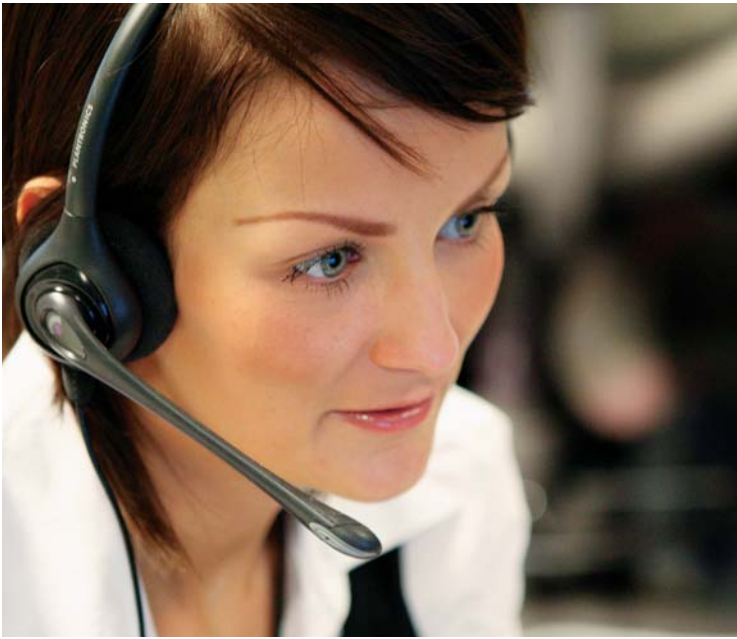
**INTERNATIONAL ACCEPTANCE** Discover Network offers acceptance at millions of merchant and cash access locations throughout the United States, Canada, Mexico and the Caribbean. We are also opening new doors for Discover Network Cardholders through reciprocal acceptance agreements with **China UnionPay** in China and **JCB** in Japan.



China UnionPay



Billions of financial transactions each year.



**A MORE REWARDING WAY TO WORK.**

Ask any Discover employee what they like about the company, and the first answer is almost always “the people.” They are responsible for the company’s strong brand, high customer satisfaction and loyalty ratings, and reputation as a leading financial services company. Our focus on the customer made Discover successful in the past, and we look forward to building even more rewarding relationships with consumers and businesses in the future.

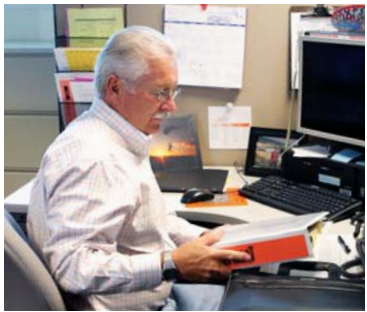






**COMMITMENT TO OUR COMMUNITIES.**  
 Volunteerism is one of our company's values, and we are very proud of the Discover employees who participate in employee giving and volunteer programs to strengthen the communities where we live and work.

Last year, Discover and its employees contributed more than \$6 million to charitable organizations through company contributions and individual gifts. In addition, our employees donated more than 30,000 hours of their time to non-profit organizations in their communities through volunteer efforts.



**DISCOVER'S VALUES.**  
 The Discover Values play an important role in defining the culture at Discover. Each of the Discover Values represents a core belief about performance for the organization collectively and for each of our employees.  
 At Discover, we believe in and we practice:

- Doing the right thing
- Innovation
- Simplicity
- Collaboration
- Openness
- Volunteerism
- Enthusiasm
- Respect



## FINANCIAL HIGHLIGHTS <sup>(1)</sup>

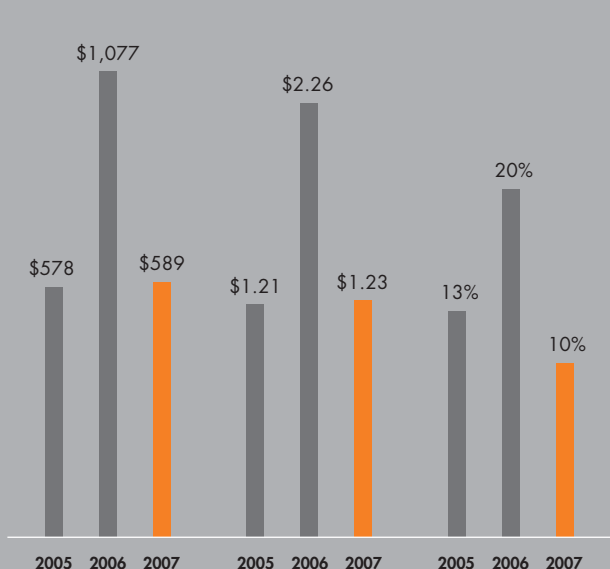
(Millions, except per share amounts and employees)	CONSOLIDATED 2007	CONSOLIDATED 2006
Net revenues	\$ 5,052	\$ 5,057
Net income	\$ 589	\$ 1,077
Diluted earnings per common share <sup>(2)</sup>	\$ 1.23	\$ 2.26
Return on equity	10%	20%
Cash dividends declared per common share	\$ 0.06	–
Weighted average shares outstanding (fully diluted, 000s)	478,879	477,236
Total assets	\$ 37,376	\$ 29,067
Shareholders' equity	\$ 5,599	\$ 5,775
Managed loans <sup>(3)</sup>	\$ 52,554	\$ 50,446
Total network volume	\$ 185,511	\$ 163,016
Managed credit card interest yield <sup>(3)</sup>	12.44%	12.36%
Managed credit card net principal charge-off rate <sup>(3)</sup>	4.08%	4.08%
Managed credit card delinquency rate (over 30 days) <sup>(3)</sup>	3.73%	3.50%
Number of employees	12,800	14,000

### CONSOLIDATED

NET INCOME  
(\$ millions)

DILUTED EARNINGS PER COMMON SHARE <sup>(2)</sup>

RETURN ON EQUITY

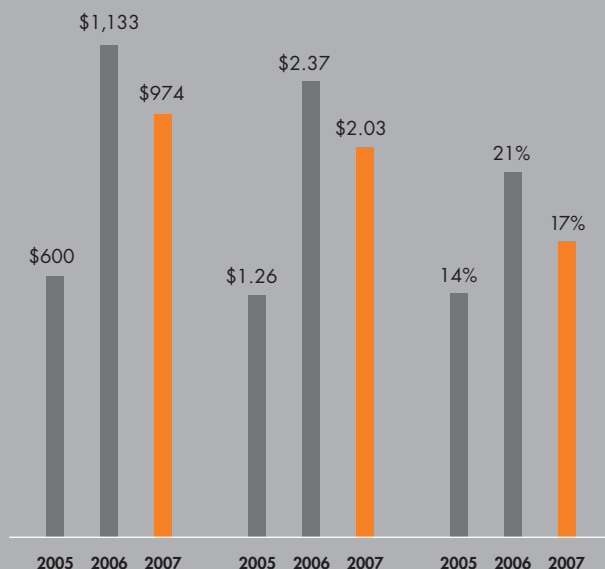


### PRO FORMA EXCLUDING INTERNATIONAL CARD SEGMENT <sup>(4)</sup>

NET INCOME  
(\$ millions)

DILUTED EARNINGS PER COMMON SHARE <sup>(2)</sup>

RETURN ON EQUITY



(1) Financial results in 2005 and 2006 include the impact of changes in U.S. bankruptcy regulations that took effect in late 2005.

(2) Diluted EPS for 2005 and 2006 are calculated based on the 477,235,927 shares of common stock distributed by Morgan Stanley on July 2, 2007.

(3) Financial information presented on a managed basis in this Summary Annual Report assumes that loans that have been securitized were not sold and presents financial information on these loans in a manner similar to the way financial information on loans that have not been sold is presented. For more information, and a detailed reconciliation, please refer to the accompanying document titled "Financial Annual Report."

(4) Reflects pro forma results excluding the International Card segment as reported in company filings and using estimated tax rates for the periods indicated. For more information, and a detailed reconciliation, please refer to the accompanying document titled "Financial Annual Report."

**BOARD OF DIRECTORS**

**Dennis D. Dammerman**  
Chairman, Discover Financial Services. Retired Vice Chairman, General Electric Company

**Jeffrey S. Aronin**  
President and CEO, Ovation Pharmaceuticals, Inc.

**Mary K. Bush**  
President, Bush International

**Gregory C. Case**  
President and CEO, Aon

**Robert M. Devlin**  
Chairman, Curragh Capital Partners

**Philip A. Laskawy**  
Retired Chairman and CEO, Ernst & Young LLP

**Michael H. Moskow**  
Retired CEO, Federal Reserve Bank of Chicago

**David W. Nelms**  
CEO, Discover Financial Services

**Michael L. Rankowitz**  
Retired, senior advisor to Morgan Stanley

**E. Follin Smith**  
Retired Executive Vice President, CFO and CAO, Constellation Energy Group

**Lawrence A. Weinbach**  
Partner, Yankee Hill Capital Management LLC

**EXECUTIVE OFFICERS**

**David W. Nelms** [1]  
Chief Executive Officer

**Roger C. Hochschild** [2]  
President and Chief Operating Officer

**Roy A. Guthrie** [3]  
Executive Vice President, Chief Financial Officer

**Kathryn McNamara Corley** [4]  
Senior Vice President, General Counsel and Secretary

**Margaret H. Georgiadis** [5]  
Executive Vice President, Chief Marketing Officer

**Charlotte M. Hogg** [NOT SHOWN]  
Senior Vice President, International

**Carlos Minetti** [6]  
Executive Vice President, Cardmember Services and Consumer Banking

**Diane E. Offereins** [7]  
Executive Vice President, Chief Technology Officer

**James V. Panzarino** [8]  
Senior Vice President, Chief Credit Risk Officer

**Harit Talwar** [9]  
Executive Vice President, Discover Network

**PRIMARY INVESTOR CONTACT**

Investor Relations  
Phone: 1-224-405-4555  
investorrelations@discover.com

**TRANSFER AGENT**

Mellon Investor Services LLC  
200 W. Monroe Street  
Suite 1590  
Chicago, IL 60606  
Phone: 1-866-258-6590  
Corporate Web site:  
www.melloninvestor.com/ISD

**ANNUAL SHAREHOLDERS' MEETING**

The 2008 Annual Meeting of Shareholders of Discover Financial Services will be held on Thursday, April 10, 2008, at 9:00 AM CT at the company's headquarters at 2500 Lake Cook Road, Riverwoods, IL 60015.

Discover, *Cashback Bonus*, *More*, *Motiva*, *Open Road*, *PULSE* and the other trademarks, logos and service marks used in this Summary Annual Report are the trademarks of Discover Financial Services or their respective third-party owners.



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