China’s economy freezing up. How freaked out should we be?
- The Washington Post (June 2013)

End of American dream: 4 of 5 in U.S. face near-poverty
- Associated Press (July 2013)

US Economy growth at modest-moderate pace
- Reuters (September 2013)

Bad Economy Is New Normal, More Americans Say
- Huffington Post (July 2013)

U.S. economy looks weaker, as GDP data is revised
- CNN (June 2013)

Economy added a disappointing 162,000 jobs in July
- The Washington Post (August 2013)

Dow stocks close at all-time high
- NBC (September 2013)

U.S. Trade Gap Narrows
- Wall Street Journal (July 2012)

World stocks fall on European contagion concern
- Associated Press (June 2012)
Customer, Brand Focus

Harit Talwar – President of US Cards
Discover Financial Services
That which does not kill us makes us stronger.

– Friedrich Nietzsche

Credit card industry – The Goldilocks Syndrome
The Butterfly Effect

Seemingly small increase in unemployment can erode industry profit significantly
Lost revenue as a result of the CARD Act will be more than $50 billion \(^{(1)}\)

New law is expected to cost the industry as much as $5.5 billion in lost revenue in 2010 and more than $50 billion through 2015 \(^{(2)}\)

CARD Act could reduce an organization's revenue by as much as 50% \(^{(3)}\)

Adoption of FAS166/167 will lead to a significant increase in capital requirements
How did consumers view the category?

Favorable

- Personal Computers
- Restaurants
- Fast Food
- Wines and Spirits
- Media
- Pharmaceutical
- Automobile
- Airline
- Banking
- Oil and Gas
- Investment
- Home Mortgage
- Tobacco

Credit Cards

16%

Unfavorable

- Credit Cards
- Banking
- Oil and Gas
- Investment
- Home Mortgage
- Tobacco
- Media
- Pharmaceutical
- Automobile
- Airline
- Wines and Spirits
- Fast Food
- Restaurants
- Personal Computers

63%

Source: IPSOS Marketing Research, Corporate Reputation Study December 2009
Industry is smaller and more competitive

Credit Card Loans *(1)*

- 2008
- 2012

Direct Mail Volume *(2)*

- 2009
- 2012

Media Spend *(3)*

- 2009
- 2012

Notes:
1. U.S. Board of Governors of the Federal Reserve System (year ending receivables)
2. Comperemedia, full year
3. MediaCom, full year
## Direct Banking

### U.S. Cards
- $50Bn in card receivables
- Leading cash rewards program
- 1 in 4 U.S. households

### Deposits and Lending
- $29Bn direct-to-consumer deposits
- $12Bn personal loans and private student loans
- $5Bn home loan originations
- Cashback checking
- Home equity installment loans

## Payments

### US Cards
- $121Bn volume
- 30+ issuers

### Pulse
- $161Bn volume
- 4,100 issuers

### American Express
- $28Bn volume
- 80 licensees
- 185+ countries / territories

**Note(s):** Balances as of June 30, 2013; payments volume and direct mortgage originations based on the trailing four quarters ending 2Q13
The key is not to win.
Everybody has that.
It is the will to prepare that is important.

- Bobby Knight

Source: www.brainyquote.com/quotes/authors/b/bobby_knight.html
The agony of choices!

- Profitability or growth?
- Expense/resource allocation?
- Short-term or long-term?
- Advertising focused on: Usage vs. brand? Customers vs. prospects?
- Protect customer base or steal market share?
No luxury of decidophobia
• Protect customer base and profitability
• Emerge competitively stronger
Our customer

Family Focused and Social
- BBQs
- Home decorating
- Home entertaining
- Board games
- Camping
- Concerts and theater
- College football
- Theme parks and museums

Increasing Technology Use
- Organize life
- Online bill payments
- Smart phones
- Mobile devices
  - Weather, maps, sports and news
- Nintendo Wii

Married with Children
- Average Age: 42
- Average HHI: $106
- 68% are married
- 52% have children

Casual Family Restaurants
- Olive Garden
- Dave & Buster’s
- Outback Steakhouse
- Dunkin’ Donuts

Family Friendly, Useful Media
- Sports: NHL, ESPN and bowl games
- Entertainment: Golden Globes, New Years Eve, Oscars
- Magazines: Money, Cooking Light, Shape
- Digital: Podcasts, blogs and streaming radio

Classic and Quality Brands
- Loyal to trusted brand names
  - Ann Taylor
  - Bed Bath & Beyond
  - Michael’s
  - The Home Depot
The new consumer

- Value-driven
- Suspicious of business gotchas
- Online savvy, research conscious
- Consumers control the brand
The journey ...

Phase 1: Focus on the Core Needs of the Customer

- Rewards
- Service
- Value
Leveraging rewards

CASHBACK BONUS®

Ready to make your money worth more?
Find hot deals and exclusive cardmember offers.

What will you get back?
Redeem your Cashback Bonus for gift cards, cash and more.

Earn More ➤
Redeem for More ➤
Leveraging emerging technologies

Note(s)
Registered trademarks are the property of respective owners
Restaurants (15 sec)
Summer Fun (15 sec)
The journey …

Phase 1: Focus on the Core Needs of the Customer

Phase 2: Differentiate

Rewards  Service  Value

Friendly  Helpful  Refreshing
Differentiate on service as a core brand driver

CMS
Cardmember Services Division

It’s you behind the Card.
Build relationships with every contact.
Digital experience integral to the brand
Differentiating at the point-of-sale

- Pay with Cashback Bonus on Amazon.com
- Free McDonald's Spicy Chicken McNuggets with purchase
- Free Starbucks VIA with purchase
Peggy: Service

Peggy: Rewards

Peggy: Acceptance

Grocery Stores
Refresh (15 sec)

On-line Refresh
(15 sec)
Peggy: Service

Peggy: Rewards

Peggy: Acceptance

Grocery Stores Refresh (15 sec)

On-line Refresh (15 sec)
Grocery Stores Refresh (15 sec)

Peggy: Service

Peggy: Rewards

Peggy: Acceptance

On-line Refresh (15 sec)
Peggy: Service

Peggy: Rewards

Peggy: Acceptance
Grocery Stores Refresh (15 sec)

On-line Refresh (15 sec)

Peggy: Service

Peggy: Rewards

Peggy: Acceptance
The journey …

Phase 1: Focus on the Core Needs of the Customer

Phase 2: Differentiate

Phase 3: Innovate

“*A different* kind of company, where *loyalty* goes both ways.”
Cardmembers love us

Non-Cardmembers aren’t so sure

Most people don’t trust the credit card industry
Distinctive combination of product features

<table>
<thead>
<tr>
<th>Feature</th>
<th>DISCOVER</th>
<th>CHASE FREEDOM</th>
<th>BANK AMERICAN CASH REWARDS</th>
<th>CAPITAL ONE CASH REWARDS</th>
<th>CITI SIMPLICITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>No annual fee</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>No late fee for your first late payment</td>
<td>✔️</td>
<td>✔️</td>
<td>✗</td>
<td>✗</td>
<td>✔️</td>
</tr>
<tr>
<td>No foreign transaction fee</td>
<td></td>
<td>✗</td>
<td>✗</td>
<td>✔️</td>
<td>✗</td>
</tr>
<tr>
<td>No overlimit fee</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Paying late won’t increase your APR</td>
<td>✔️</td>
<td>✔️</td>
<td>✗</td>
<td>✗</td>
<td>✔️</td>
</tr>
<tr>
<td>Earn cash rewards on every purchase, not points</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✗</td>
</tr>
<tr>
<td>5% cash back online October through December'</td>
<td>✔️</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✗</td>
</tr>
<tr>
<td>Pay for millions of items with your rewards at Amazon.com</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✔️</td>
<td>✗</td>
</tr>
<tr>
<td>Pay your bill ‘til midnight (ET) the day it’s due by phone or online</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✔️</td>
<td>✗</td>
</tr>
<tr>
<td>100% U.S. based customer service available any time</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Automatic expedited delivery of your new card via UPS</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>
Unique design and customer experience

- New online application process
- Distinctive card design and communications
- Expedited delivery
- Access to live account manager
- Superior service experience

Card design

Card delivery

Surprise and delight
Emphasizing value proposition beyond price

Note(s)
- Creatives highlight key features only for illustrative purposes
Faster growth increasing market share

Source: SEC filings, calendar year data, internal estimates

Note(s):
1. Includes weighted average card receivables growth for American Express (U.S. Card), Bank of America (U.S. Card), Capital One (U.S. Card excl. HSBC for 2Q12-1Q13 and installment loans), Citi (Citi-branded Cards N.A.) and JPMorgan Chase (Card Services); periods prior to 3Q08 adjusted to include estimated Washington Mutual receivables
2. Weighted average rate; includes U.S. card net charge-off rates for Citi (Citi-branded Cards N.A.), JPMorgan Chase (Card Services), Capital One (U.S. Card), American Express (U.S. Card) and Bank of America (U.S. Card)
Increasing wallet share with existing customers

Wallet Share of Loans\(^{(1)}\)

Note(s)
1. Wallet Share is the amount of customer loans with Discover vs. other cards in wallet as of December of each year; share based upon credit bureau data and internal modeling
Largest cash rewards

Cash rewards household penetration (%)

- Discover: 48%
- Chase: 25%
- American Express: 21%
- Bank of America: 15%
- Capital One: 12%
- Citibank: 10%

Best cash rewards

Source: 1Q 2013 Brand Tracker Study, Millward Brown (among each brand’s primary card members, % unaided association of “best cash rewards” with brand)
### Leading customer service

**J.D. Power 2013 U.S. Credit Card Satisfaction Study™**

<table>
<thead>
<tr>
<th>Card Issuer</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Express</td>
<td>816</td>
</tr>
<tr>
<td>Discover</td>
<td>812</td>
</tr>
<tr>
<td>Chase</td>
<td>763</td>
</tr>
<tr>
<td>Industry Average</td>
<td>767</td>
</tr>
<tr>
<td>Barclaycard</td>
<td>764</td>
</tr>
<tr>
<td>U.S. Bank</td>
<td>759</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>757</td>
</tr>
<tr>
<td>Capital One</td>
<td>756</td>
</tr>
<tr>
<td>Bank of America</td>
<td>749</td>
</tr>
<tr>
<td>GE Capital Retail Bank</td>
<td>742</td>
</tr>
<tr>
<td>Citi</td>
<td>741</td>
</tr>
<tr>
<td>HSBC</td>
<td>709</td>
</tr>
</tbody>
</table>

**Source:** J.D. Power 2013 U.S. Credit Card Satisfaction Study™

Charts and graphs extracted from this press release must be accompanied by a statement identifying J.D. Power as the publisher and the J.D. Power 2013 U.S. Credit Card Satisfaction Study™ as the source. Rankings are based on numerical scores, and not necessarily on statistical significance. JDPower.com Power Circle Ratings™ are derived from consumer ratings in J.D. Power studies. For more information on Power Circle Ratings, visit jdpower.com/pts. No advertising or other promotional use can be made of the information in this release or J.D. Power survey results without the express prior written consent of J.D. Power.
Strong brand momentum

1Q 2009

Recommend to a Friend
(among each brand’s primary cardmembers)

Consideration
(among general population)

AXP
DFS
BAC
C

1Q 2013

Recommend to a Friend
(among each brand’s primary cardmembers)

Consideration
(among general population)

AXP
DFS
COF
JPM
BAC
C

Source 1Q 2009 Brand Tracker Study, Millward Brown

Source 1Q 2013 Brand Tracker Study, Millward Brown

Note(s)
1. Recommend to a Friend - % of survey participants who strongly / somewhat agree with the statement “I would recommend to a friend”; among cardholders who say they use that brand's card most often to make purchases
2. Consideration - % of survey participants saying either “it would be my first choice” or “I would seriously consider it.”; among general population
Stock outperforming the market

3-Year Performance

Source: SNL Financial; through September 18, 2013, Investor Relations
Customers are the lighthouse for True North

- Defined the brand value proposition, personality and positioning
- Drove priorities and investments