

Company Registration No: 6455516

DISCOVER FINANCIAL SERVICES (UK) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2012



DISCOVER FINANCIAL SERVICES (UK) LIMITED

CONTENTS	Page
Officers and Professional Advisers	2
Directors' Report	3
Independent Auditor's Report	6
Profit and Loss Statement	8
Statement of Total Recognised Gains and Losses	8
Balance Sheet	9
Notes to Financial Statements	10

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	Roger Hochschild Kathryn McNamara Corley Mark Graf
SECRETARY:	Jordans Company Secretaries Limited
REGISTERED OFFICE:	20-22 Bedford Row London WC1R 4JS England
AUDITORS:	Deloitte LLP London United Kingdom

DIRECTORS' REPORT

(Amounts in U.S. Dollars, unless otherwise noted)

The directors present their report of the affairs of the Company, together with the financial statements and auditors' report, for the year ended 31 December 2012

Principal activity

Discover Financial Services (UK) Limited (the "Company") was incorporated on 17 December 2007 under the Companies Act of 2006 as a private limited company with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1. At the time of incorporation, 1 share of £1 was issued at par to DFS Services LLC as the sole subscriber of the memorandum and articles of association

The Company has 77 employees staffing a service centre in the United Kingdom that provides transaction processing to a group company, Diners Club International Ltd ("Diners Club"). The Company also has a 3-person sales force based in Paris and a 1-person sales force based in Singapore, who also provide services to Diners Club. Both the Company and Diners Club are direct subsidiaries of DFS Services LLC (the "Intermediate Parent Company"), which is a direct subsidiary of Discover Financial Services (the "Ultimate Parent Company")

Business review and future developments

The Company made a profit after tax of \$1,504,893 (2011 - \$751,644) in the year ended 31 December 2012

The directors did not declare any dividend during the year (2011 - \$Nil). No final dividend is proposed (2011 - \$Nil)

The results of the Company are set out in the profit and loss statement on page 8. During 2012, the Company's main expenses included staff costs and information processing and communication costs. These costs, plus a service charge, are charged back to Diners Club.

The Company's balance sheet is set out on page 9. At 31 December 2012, the Company had \$40,683 in cash at bank and had employed \$5.1 million of shareholders' funds.

On May 21, 2013, the Company acquired Diners Club Italia S.r.l. and its wholly-owned subsidiary Dinit d.o.o. See note 18 for further discussion.

The Ultimate Parent Company manages its key performance indicators on a global basis. For this reason, the Company's directors believe that providing performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company. Going forward, the directors do not expect the general level of activity to change significantly.

In order to provide transaction processing systems to Diners Club, the Company must ensure its information technology systems are secure and up-to-date. Natural disasters or other catastrophic events, including terrorist attacks, or unauthorised access to our systems may have a negative effect on our business and infrastructure, including our information technology systems. A disruption to our information technology systems would require significant repair and recovery expenses and/or significant investment in new technology. In addition, if key technology platforms become obsolete, it would require a significant investment in new technology. To mitigate these risks, the Company has a business continuity plan in place and continually monitors emerging technologies.

Going concern

After making inquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements.

Financial risk management objectives and policies

Risk is an inherent part of the Company's business activity and is managed within the context of the broader Ultimate Parent Company's business activities. The Company's major financial assets include cash and intercompany balances. The Ultimate Parent Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its activities, in accordance with defined policies and procedures.

Credit Risk

Credit risk refers to the risk arising from the borrower or counterparty default when a borrower, counterparty or obligor is unable to meet its financial obligations.

The Ultimate Parent Company manages credit risk exposure in consideration of each individual legal entity, but on a global basis, by ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit, and escalating risk concentrations to appropriate senior management.

Liquidity and cash flow risk

The Ultimate Parent Company's senior management establishes the overall liquidity and capital policies of the Ultimate Parent Company and the Company. The Ultimate Parent Company's liquidity and funding risk management policies are designed to mitigate the potential risk that the Ultimate Parent Company and the Company may be unable to access adequate financing to service its financial obligations when they come due without material, adverse business impact. The key objectives of the liquidity and funding risk management framework are to support the successful execution of the Ultimate Parent Company and Company's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of financial distress.

Directors

Roger Hochschild	(appointed 17 December 2007)
Kathryn McNamara Corley	(appointed 17 December 2007)
Mark Graf	(appointed 28 September 2011)

Auditors

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information (being information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Statement of directors' responsibilities

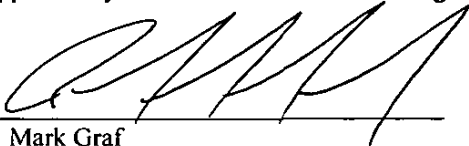
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on its behalf by



R. Mark Graf
Director

25 September 2013
20-22 Bedford Row
London WC1R 4JS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DISCOVER FINANCIAL SERVICES (UK) LIMITED

We have audited the financial statements of Discover Financial Services (UK) Limited for the year ended 31 December 2012 which comprise the Profit and Loss Statement, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DISCOVER FINANCIAL SERVICES (UK) LIMITED

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Alan Chaudhuri (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
26 September 2013

DISCOVER FINANCIAL SERVICES (UK) LIMITED

Profit and loss statement

For the year ended 31 December 2012

(Amounts in U S. Dollars)

	Note	2012	2011
Turnover	1	23,802,157	19,976,335
Other operating income		277,640	—
Administrative expenses		(22,041,743)	(18,550,764)
Operating Profit		<u>2,038,054</u>	<u>1,425,571</u>
Other operating expense		—	(178,780)
Interest payable		(247,011)	(75,493)
Profit on ordinary activities before taxation	2	<u>1,791,043</u>	<u>1,171,298</u>
Tax on profit on ordinary activities	5	(286,150)	(419,654)
Profit on ordinary activities after taxation		<u>\$ 1,504,893</u>	<u>\$ 751,644</u>

Statement of total recognised gains and losses

For the year ended 31 December 2012

	Note	2012	2011
Profit on ordinary activities after taxation		1,504,893	751,644
Actuarial gain/(loss) relating to the pension scheme	14	329,028	(10,913)
UK deferred tax attributable to actuarial gain/(losses)	14	(80,612)	2,881
Total recognised gains and losses relating to the year		<u>\$ 1,753,309</u>	<u>\$ 743,612</u>

All results relate to continuing operations

DISCOVER FINANCIAL SERVICES (UK) LIMITED

Balance sheet

As at 31 December 2012 and 2011

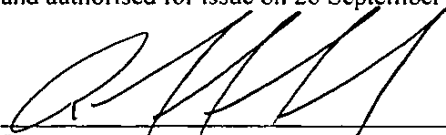
(Amounts in U.S. Dollars)

Company Registration No: 6455516

	Note	2012	2011
Fixed assets			
Tangible assets	6	2 943,171	3,255,580
Debtors Amounts falling due after more than one year	7	626,660	599,459
Current assets			
Cash at bank		40 683	935,734
Debtors Amounts falling due within one year	7	6,901 044	2 505,638
Creditors Amounts falling due within one year	8	(3,554,360)	(3,071,678)
Net current assets		3,387 367	369 694
Net assets excluding pension liability		6,957 198	4,224,733
Pension liability	14	(1 867,439)	(888,283)
Total net assets		5 089,759	3 336 450
Capital and reserves			
Called-up share capital	10	2	2
Capital contribution reserve	12	341,185	341,185
Profit and loss account	12	4 748,572	2,995,263
Total shareholders' funds employed		5 089,759	3 336,450

The notes 1 to 18 form an integral part of these financial statements

The financial statements of the Company, Registration No 6455516, were approved by the board of directors and authorised for issue on 26 September 2013. They were signed on behalf of the Board of Directors by


 Director
 R. Mark Graf
 25 September 2013

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars, unless otherwise noted)

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) **Basis of accounting**

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom company law and accounting standards.

b) **Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 3 to 5. It also includes the Company's objectives, policies, its financial risk management objectives, and its exposures to credit and liquidity and cash flow risks. The Company earns all of its revenues from Diners Club International Ltd ("Diners Club"), another subsidiary of the Company's immediate parent company, DFS Services LLC. The Company continues to provide services to Diners Club. After making inquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they adopt the going concern basis in preparing the annual report and accounts.

c) **Foreign currencies**

All monetary assets and liabilities denominated in currencies other than United States Dollars ("USD") are translated into USD at the rates ruling at the balance sheet date. All transactions in currencies other than USD are recorded at the rates ruling at the dates of the transactions.

Foreign currency gains and losses arise from changes in exchange rates between the time transactions are first recorded to when they are settled. They also arise in the case of unsettled transactions when the exchange rate at the balance sheet date at closing differs from when the transactions were first recorded. The Company recorded \$274,048 foreign currency gain and \$182,534 foreign currency loss in the years ended 31 December 2012 and 2011, respectively, which is included in other operating income/expense.

d) **Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, or in the case of short leaseholds, the lesser of its useful life or the remaining term of the lease. The following useful lives have been applied to the Company's tangible fixed assets:

Short leaseholds	- life of lease
Furniture and fixtures	- between 5 and 8 years
Computer equipment	- between 0 and 3 years

The Company's tangible fixed assets are subject to impairment testing when events or conditions indicate that the carrying value of an asset may not be fully recoverable from future cash flows. No such events or conditions existed during the years ended 31 December 2012 and 2011.

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars, unless otherwise noted)

e) **Taxation**

UK corporation tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Pension contributions are taxed on a paid basis.

f) **Deferred Taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

g) **Turnover**

The Company performs services under a contractual agreement and recognises revenue to the extent that there is a right to consideration and is recorded at the value of the consideration due. Turnover is stated net of VAT.

h) **Loan note**

The Company has an intercompany note with the Immediate Parent Company, the terms of which are discussed in note 7.

i) **Share-based payment**

The Company has applied the requirements of FRS 20 *Share-based Payment*. Employees of the Company may be granted share-based awards of the Ultimate Parent Company. Although the Ultimate Parent Company issues the equity-settled share-based payments to certain employees, the expense related to the share-based payments is recorded in the Company's financial statements and cash settled with the Ultimate Parent Company. The share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the share-based payments is expensed over the vesting period and is calculated based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

j) **Pension costs**

For defined benefit schemes, the amounts charged to operating profit are the current service and interest costs. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are unfunded with liabilities met on a pay-as-you-go basis by the Company.

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars, unless otherwise noted)

Liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities

The Company also provides for a defined contribution pension scheme for which costs are recorded in a similar manner as other employee benefits and are therefore, expensed as incurred

k) **Operating leases**

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis

l) **Cash flow statement**

The Ultimate Parent Company, whose financial statements are publicly available, produces a consolidated cash flow statement. Accordingly, the Company, which is a wholly owned subsidiary, has elected to avail itself of the exemption provided in FRS 1 (revised) *Cash Flow Statements* and not present a cash flow statement

m) **Interest payable**

Interest payable relates solely to amounts payable to group undertakings

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year Ended 31 December 2012	Year Ended 31 December 2011
Foreign exchange gain (loss)	\$ 274,048	\$ (182,534)
Depreciation	1,099,640	1,035,288
Auditor's remuneration		
Fees for audit of statutory accounts	42,058	41,902
Operating lease rentals - land & buildings	1,265,340	1,348,808

3. STAFF COSTS

The average monthly number of employees (excluding contractors) was

	2012	2011
Business Technology	33	32
Marketing	24	18
Administration	16	15
Total	73	65

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars, unless otherwise noted)

Their aggregate remuneration (excluding contractors) comprised

	Year Ended 31 December 2012	Year Ended 31 December 2011
Wages and salaries	\$ 8,227,105	\$ 7,169,255
Social security costs	2,048,677	1,744,719
Bonuses	1,437,058	1,202,993
Share-based payment	331,260	412,222
Other pension costs	78,420	49,849
Total	<u>\$ 12,122,520</u>	<u>\$ 10,579,038</u>

The Directors did not receive any fees or emoluments from the Company during the year (2011 £nil) directly attributable to their position within the Company. All Directors' fees or emoluments were paid by the Ultimate Parent Company and the amount attributable to the qualifying services provided by the Directors to the Company cannot be reliably estimated.

The total remuneration of the directors from the Ultimate Parent Company who received remuneration for their services to the Company was approximately \$12,006,471 and \$11,255,232 for the years ended 31 December 2012 and 2011, respectively. In addition, the three directors are each accruing benefits in respect of their services to the Ultimate Parent Company and other group companies under the Discover Financial Services Pension Plan and Supplemental Plan (together, the "Plans"). The Plans are defined benefit schemes which are sponsored by the Ultimate Parent Company.

4. SHARE-BASED PAYMENTS

The Ultimate Parent Company has made deferred stock awards pursuant to the Discover Financial Services Omnibus Incentive Plan (the "Omnibus Plan"). The Omnibus Plan provides for the deferral of a portion of certain key employees' discretionary compensation with awards made in the form of restricted stock units ("RSUs") and performance stock units ("PSUs"). RSU awards are generally subject to a sole vesting condition of service over time and to restrictions on sale, transfer or assignment until the end of a specified period, generally three or four years from date of grant. PSU awards are generally subject to both a performance condition, with either a two or three year performance period, and a vesting condition of service over time. In addition, PSU's are also subject to restrictions on sale, transfer or assignment until the end of a specified period, generally three years from date of grant. All or a portion of an award may be cancelled if employment is terminated before the end of the relevant vesting period. The Ultimate Parent Company grants these awards to the employees of the Company and the Company reimburses the Ultimate Parent Company for the related expense.

Certain awards provide for accelerated vesting if there is a change in control or upon certain terminations (as defined in the Omnibus Plan or the award certificate). The fair value is amortized on a straight-line basis, net of estimated forfeitures, over the requisite service period for each separately vesting tranche of the award. The requisite service period is generally the vesting period.

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars, unless otherwise noted)

Details of the activity concerning vested and unvested RSUs during the period are as follows

	Year Ended 31 December 2012		Year Ended 31 December 2011	
	Number of units	Weighted average grant date fair value (\$)	Number of units	Weighted average grant date fair value (\$)
Restricted stock units at beginning of period	58,728	\$ 19 23	66,827	\$ 15 32
Granted	—	\$ —	14,047	\$ 24 74
Vested	(13,542)	\$ 16 76	(22,146)	\$ 15 72
Restricted stock units at end of period	<u>45 186</u>	<u>\$ 19 97</u>	<u>58,728</u>	<u>\$ 19 23</u>

No RSUs were granted during the period. The Ultimate Parent Company changed its fiscal year end from 30 November to 31 December and as a result, annual grants were moved from December to January. Details of the activity concerning vested and unvested PSUs during the period are as follows

	Year Ended 31 December 2012		Year Ended 31 December 2011	
	Number of units	Weighted average grant date fair value (\$)	Number of units	Weighted average grant date fair value (\$)
Performance stock units at beginning of period	6,132	\$ 21 52	3 405	\$ 18 95
Granted	—	\$ —	2 727	\$ 24 74
Vested	—	\$ —	—	\$ —
Restricted stock units at end of period	<u>6 132</u>	<u>\$ 21 52</u>	<u>6 132</u>	<u>\$ 21 52</u>

No PSUs were granted during the period. The Ultimate Parent Company changed its fiscal year end from 30 November to 31 December and as a result, annual grants were moved from December to January.

During the years ended 31 December 2012 and 2011, the Company recorded \$158,387 and \$390,439, respectively, of expense as part of staff costs related to RSUs. During the years ended 31 December 2012 and 2011, the Company recorded \$45,770 and \$21,783, respectively, for PSUs. In 2012 an additional \$127,103 of expense was recorded to properly reflect the vested RSU and PSU cost at 31 December 2012. At 31 December 2012 and 2011, there were \$356,920 and \$954,144, respectively, of total unrecognised staff costs related to non-vested RSU's and PSU's which will be recognised over a remaining period of 1.9 and 1.7 years, respectively.

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars unless otherwise noted)

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises

	Year Ended 31 December 2012	Year Ended 31 December 2011
Current tax		
UK corporation tax	\$ 664,369	\$ 467,371
Adjustment in respect of previous periods	35,523	17,629
Total current tax	<u>699,892</u>	<u>485,000</u>
Deferred tax		
Originating timing differences	(67,241)	(54,048)
Effect of changes in tax rate	1,893	(2,530)
Movement in deferred tax on defined benefit obligations	(342,325)	(1,493)
Adjustment in respect of previous periods	(6,069)	(7,275)
Total deferred tax	<u>(413,742)</u>	<u>(65,346)</u>
Total tax on profit on ordinary activities	<u>\$ 286,150</u>	<u>\$ 419,654</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax of 24.5% and 26.5% at 31 December 2012 and 2011, respectively, to the profit before tax is as follows

	Year Ended 31 December 2012	Year Ended 31 December 2011
Profit on ordinary activities before taxation	<u>\$ 1,791,043</u>	<u>\$ 1,171,298</u>
Tax on Group profit on ordinary activities at standard UK corporation tax rate of 24.5% at 31 December 2012 and 26.5% at 31 December 2011	\$ 438,805	\$ 310,312
Effects of		
Expenses not deductible for tax purposes	65,010	35,924
Pension provision	44,859	24,654
Depreciation in excess of capital allowances	105,191	71,381
FRS 20 charge in excess of share scheme relief	7,991	37,777
Other timing differences	2,513	(12,677)
Adjustments in respect of previous years	35,523	17,629
Current tax charge for the period	<u>\$ 699,892</u>	<u>\$ 485,000</u>

The UK current tax rate was reduced from 26% to 24% with effect from 1 April 2012. Under the Finance Act 2012, the UK current tax rate was reduced to 23% with effect from 1 April 2013. Further reductions to the current tax rate to 21% with effect from 1 April 2014 and 20% from 1 April 2015 were substantively enacted in July 2013. These will reduce future current tax charges accordingly.

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars, unless otherwise noted)

6. TANGIBLE FIXED ASSETS

	Short leasehold	Furniture and fixtures	Computer equipment	Total
Cost				
At 31 December 2011	\$ 1 286,686	\$ 18,736	\$ 4 285,236	\$ 5 590,658
Additions	100 471	31,397	655,363	787,231
At 31 December 2012	<u>\$ 1,387,157</u>	<u>\$ 50,133</u>	<u>\$ 4 940,599</u>	<u>\$ 6,377,889</u>
Depreciation				
At 31 December 2011	\$ (235,678)	\$ (3 350)	\$ (2,096,050)	\$ (2,335,078)
Charge for the year	(159,800)	(3,397)	(936,443)	(1,099,640)
At 31 December 2012	<u>\$ (395,478)</u>	<u>\$ (6,747)</u>	<u>\$ (3,032,493)</u>	<u>\$ (3,434,718)</u>
Net Book Value				
At 31 December 2011	<u>\$ 1,051 008</u>	<u>\$ 15 386</u>	<u>\$ 2,189,186</u>	<u>\$ 3,255,580</u>
At 31 December 2012	<u>\$ 991,679</u>	<u>\$ 43 386</u>	<u>\$ 1 908,106</u>	<u>\$ 2,943,171</u>

7. DEBTORS

	At 31 December 2012	At 31 December 2011
Amounts falling due within one year		
Amounts due from affiliated companies	\$ 3 452,946	\$ 2,039 577
Loan note due from Immediate Parent Company	2,340,832	—
Prepayments	442 576	326 594
VAT	243 744	131,702
Loan note due from company subsequently acquired	236,033	—
Deferred tax asset (note 9)	29 048	—
Other debtors	155 865	7 765
Total	<u>\$ 6 901 044</u>	<u>\$ 2 505,638</u>
Amounts falling due after more than one year		
Security deposit	<u>\$ 626,660</u>	<u>\$ 599,459</u>

The Company had a loan note due from the Immediate Parent Company, the outstanding balance of which was \$2,340,832 at 31 December 2012. The note earned an annual interest rate of the sum of the three-month LIBOR rate in effect from time to time plus a spread applicable to unsecured debt with a "BBB" debt rating. \$3,518 of interest income was recorded with respect to this note during the year ended 31 December 2012.

The Company also had a loan note due from Dinit d.o.o. (Dinit), the outstanding balance of which was \$236,033 at 31 December 2012. The Company acquired Diners Club Italia S.r.l. and its wholly owned

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars, unless otherwise noted)

subsidiary, Dinit, on 21 May 2013. At the time of the acquisition, the loan note was forgiven and recorded as a capital contribution by Dinit. See note 18 for further discussion of this acquisition.

8 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	At 31 December 2012	At 31 December 2011
Corporation tax	\$ 514,965	\$ 206,600
Amounts owed to affiliated companies	—	321,784
Other creditors	—	326
Deferred tax liability (note 9)	—	42,369
Accruals	3,039,395	2,500,599
Total	<u>\$ 3,554,360</u>	<u>\$ 3,071,678</u>

9. DEFERRED TAXES

Movements in the deferred tax asset (liability) recorded on the balance sheet were as follows:

As at 31 December 2011	\$ (42,369)
Current year	
Credit to profit and loss statement	67,241
Effect of rate change	(1,893)
Prior Year	
Prior year adjustment	6,069
As at 31 December 2012	<u>\$ 29,048</u>

The deferred tax recorded on the balance sheet consists of:

	At 31 December 2012	At 31 December 2011
Accelerated capital allowances	\$ (60,396)	\$ (178,316)
FRS 20 timing differences	70,787	118,232
Other timing differences	18,657	17,715
Total deferred tax	<u>\$ 29,048</u>	<u>\$ (42,369)</u>

Deferred tax at 31 December 2012 and 2011 includes an asset of \$557,807 and \$296,094, respectively, in respect of the defined benefit scheme, which is included within the pension liability (see note 14). The balance of the deferred tax on pensions relates to the defined contribution scheme.

The UK corporation tax rate was reduced from 26% to 24% with effect from 1 April 2012. Under the Finance Act 2012, the UK corporation tax rate was reduced to 23% with effect from 1 April 2013. Further reductions to the current tax rate to 21% with effect from 1 April 2014 and 20% from 1 April 2015 were substantively enacted in July 2013. However, as these rate reductions were not substantively enacted as at 31 December 2012, they have not been applied to the valuation of the Company's deferred tax assets and liabilities above.

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars unless otherwise noted)

10. CALLED UP SHARE CAPITAL

Authorised	
1,000 ordinary shares of £1 each	£1,000
Allotted and called-up	
1 ordinary share of £1	£

The Company was incorporated with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1. At the time of incorporation, 1 share at £1 (which was equivalent to \$2) was issued at par to the subscriber to the Memorandum and Articles of Association to provide the initial capital of the Company. The Immediate Parent Company transferred £1 Share and recorded an amount due.

11. RECONCILIATION OF MOVEMENTS OF SHAREHOLDERS' FUNDS

	Period to 31 December 2012	Period to 31 December 2011
Opening shareholders' funds	\$ 3,336,450	\$ 2,592,838
Profit for the financial period	1,753,309	743,612
Dividend to Ultimate Parent Company	—	—
Closing shareholders' funds	<u>\$ 5,089,759</u>	<u>\$ 3,336,450</u>

12. RESERVES

Movements in the reserves were as follows:

	Capital contribution reserve	Profit and loss account	Total
Opening reserves	\$ 341,185	\$ 2,995,263	\$ 3,336,448
Profit for the year	—	1,753,309	1,753,309
Total	<u>\$ 341,185</u>	<u>\$ 4,748,572</u>	<u>\$ 5,089,757</u>

13. FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases for space rental are as follows:

	At 31 December 2012	At 31 December 2011
Expiry date		
- within one year	\$ 762,634	\$ 731,309
- within two and five years	1,614,892	1,507,898
- after five years	1,070,513	1,351,779
	<u>\$ 3,448,039</u>	<u>\$ 3,590,986</u>

14. RETIREMENT BENEFITS

Defined Contribution Scheme

The Company operates a defined contribution pension scheme for all current employees. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. Where there

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars, unless otherwise noted)

are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions

The total cost charged to income of \$872,273 and \$776,642 represents contributions paid to this scheme by the Company at rates specified in the rules of the plans during the years ended 31 December 2012 and 2011, respectively At 31 December 2012 and 2011, \$81,116 and \$71,330 remained payable by the Company in respect of this amount.

Defined Benefit Scheme

The Company operates a post-retirement medical benefits plan ("the plan"), which, at valuation date, covers a closed group of 11 actives and their dependents and one pensioner and dependents The Company participates in the BUPA Select private medical insurance plan option 1 The assumption is that this will continue for the duration of the beneficiaries' lifetimes The Company meets the full cost of premiums for principal members, their spouses and their dependents Premiums are payable for life The plan is unfunded with liabilities met on a pay as you go basis by the Company

The plan liability was transferred to the Company on 30 June 2008, at which time an intercompany receivable was set up on the balance sheet During 2012, it was determined that the original membership data included in the actuarial valuation was incorrect As a result, the Company has recorded a cumulative adjustment to correct both the initial plan liability and the expense related to 2008 through 2011

The valuation used for disclosures has been based on a full assessment of the liabilities of the plan at 31 December 2012 The present values of the defined benefit obligation and the related current service cost were measured using the projected unit credit method The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under FRS 17 are set out below

Key assumptions used	Valuation at	
	31 December 2012	31 December 2011
Discount rate for scheme liabilities	4.50% p.a.	5.00% p.a.
Medical cost inflation - initial	9.0%	9.5%
Medical cost inflation - ultimate	4.5% p.a.	4.8% p.a.
Inflation	3.0% p.a.	3.3% p.a.
Year ultimate rate reached	2023	2022
Mortality post-retirement	100% of Light SAPS tables assuming year of use 2011 long term improvements in mortality of 1.25% with an overlay of the CMI improvements (where higher than the long term improvement)	100% of Light SAPS tables assuming year of use 2011 long term improvements in mortality of 1.25% with an overlay of the CMI improvements (where higher than the long term improvement)

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars, unless otherwise noted)

Amounts recognised in the profit and loss account in respect of this defined benefit scheme are as follows

	Year ended 31 December 2012	Year ended 31 December 2011
Current service cost	\$ 55,482	\$ 46,770
Interest on liabilities	109,379	59,242
Cumulative adjustment resulting from membership data correction	207,633	—
Total operating charge	<u>\$ 372,494</u>	<u>\$ 106,012</u>

Operating charges include \$66,574 (including \$11,092 of cumulative adjustment resulting from the membership data correction) and \$46,770 of for the years ended 31 December 2012 and 31 December 2011, respectively, of staff costs within administrative expenses. Interest charges for the years ended 31 December 2012 and 31 December 2011, respectively, of \$305,920 (including \$196,541 of cumulative adjustment resulting from the membership data correction) and \$59,242 have been included in interest payable. Actuarial gains and losses have been reported in the statement of total recognised gains and losses. At 31 December 2012, the cumulative amount of actuarial gains recognised in the statement of total recognised gains and losses was \$341,823 (including a cumulative recognised gain of \$354,391 resulting from the membership data correction) as compared to a cumulative loss of \$93,855 at 31 December 2011.

The amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit retirement benefit schemes are as follows

	Value at 31 December 2012	Value at 31 December 2011
Present value of unfunded defined benefit obligations	\$ (2,425,246)	\$ (1,184,377)
	(2,425,246)	(1,184,377)
Deferred tax asset	557,807	296,094
Deficit recognised on the balance sheet	<u>\$ (1,867,439)</u>	<u>\$ (888,283)</u>

Movements in the present value of defined benefit obligations were as follows

	Year ended 31 December 2012	Year ended 31 December 2011
Beginning of period	\$ (1,184,377)	\$ (1,080,406)
Cumulative adjustment resulting from membership data correction	(955,896)	—
Adjusted beginning of period	(2,140,273)	(1,080,406)
Service cost	(55,482)	(46,770)
Interest cost	(109,379)	(59,242)
Actuarial gains and (losses)	(25,363)	(10,913)
Benefit payment	7,927	7,795
Foreign exchange movement	(102,676)	5,159
Gross pension liability	(2,425,246)	(1,184,377)
Deferred tax asset	557,807	296,094
Net pension liability at the end of the year	<u>\$ (1,867,439)</u>	<u>\$ (888,283)</u>

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars, unless otherwise noted)

Analysis of amount recognised in Statement of Recognised Gains and Losses

	Year ended 31 December 2012	Year ended 31 December 2011
Experience (losses)/gains arising on the liabilities	\$ (147,424)	\$ 87,304
Changes in assumptions underlying the present value of the liabilities	172,787	(98,217)
Cumulative adjustment resulting from membership data correction	(354,391)	—
Actuarial gain/(loss) recognised in STRGL	<u>\$ (329,028)</u>	<u>\$ (10,913)</u>
History of experience gains and losses		
Experience (losses)/gains on plan liabilities	\$ (147,424)	\$ 87,304
Percentage of scheme liabilities (%)	6.2%	7.4%
Total amounts recognised in STRGL	\$ (25,363)	\$ (10,913)
Percentage of scheme liabilities (%)	1.1%	9.2%

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below

2012 Sensitivity to medical cost inflation assumption

Measure	2012 Basis	1% increase	1% decrease
Health Care Cost Trend rate	9.0% in 2013, reducing by 0.50% p.a. for nine years, 4.5% p.a. from 2022 onwards	10.0% in 2013, reducing by 0.50% p.a. for nine years, 5.5% p.a. from 2022 onwards	8.0% in 2013, reducing by 0.50% p.a. for nine years, 3.5% p.a. from 2022 onwards
Total liability at 31 December 2012	\$ 2,425,246	\$ 2,994,171	\$ 1,983,110
Impact on reported liability	N/A	\$ 568,925 23.5%	\$ (442,136) (18.2)%

Measure	2011 Basis	1% increase	1% decrease
Health Care Cost Trend rate	9.5% in 2012, reducing by 0.50% p.a. for nine years, 4.75% p.a. from 2022 onwards	10.5% in 2012, reducing by 0.50% p.a. for nine years, 5.75% p.a. from 2022 onwards	8.5% in 2012, reducing by 0.50% p.a. for nine years, 3.75% p.a. from 2022 onwards
Total liability at 31 December 2011	\$ 1,184,377	\$ 1,484,168	\$ 960,344
Impact on reported liability	N/A	\$ 299,791 25.4%	\$ (224,033) (18.9)%

15. SEGMENT REPORTING

The Company operates mainly in the United Kingdom, but has 3 employees in a Paris sales office and 1 employee in a Singapore sales office. The Company's only business segment is in the provision of services to group companies, and all turnover arises from the United Kingdom.

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS
(All amounts in U S Dollars, unless otherwise noted)

16. RELATED PARTY TRANSACTIONS

The Company is exempt from the requirement to disclose transactions with fellow group undertakings that are wholly owned within the group under paragraph 3 (e) of FRS 8 *Related Party Disclosures*. There are no other related party transactions requiring disclosure.

17. CONTROLLING PARTY

The Ultimate Parent Company, Discover Financial Services, and the Immediate Parent Company, DFS Services LLC, are incorporated in the United States. The smallest and largest groups into which the Company is consolidated are those headed by DFS Services LLC and Discover Financial Services respectively. Copies of the consolidated financial statements of Discover Financial Services can be obtained from the Company Secretary at 2500 Lake Cook Road, Riverwoods, Illinois.

18. SUBSEQUENT EVENTS

On 21 May, 2013, the Company acquired Diners Club Italia S r l and its wholly-owned subsidiary Dinit d o o. The cash consideration paid for the acquisition was one euro. Subsequent to the purchase, a capital infusion of approximately €45 million (approximately \$58 million) was executed, primarily to settle outstanding debt. The primary assets acquired in the purchase were charge card receivables of approximately \$34 million.