

Company Registration No: 6455516

DISCOVER FINANCIAL SERVICES (UK) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2008

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DISCOVER FINANCIAL SERVICES (UK) LIMITED

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DISCOVER FINANCIAL SERVICES (UK) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	Roger Hochschild Kathryn McNamara Corley Roy A. Guthrie
SECRETARY:	Jordans Company Secretaries Limited
REGISTERED OFFICE:	20-22 Bedford Row London WC1R 4JS England
AUDITORS:	Deloitte LLP London

DISCOVER FINANCIAL SERVICES (UK) LIMITED

DIRECTORS' REPORT

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

The directors present their first report of the affairs of the Company, together with the financial statements and auditors' report, for the period from 17 December 2007 (date of incorporation) to 31 December 2008.

Principal activity

Discover Financial Services (UK) Limited (the "Company") was incorporated on 17 December 2007 under the Companies Act of 1985 as a private limited company with an authorized share capital of £1,000 divided into 1,000 ordinary shares of £1 each. At the time of incorporation, 1 share of £1 each was issued at par to DFS Services LLC as the sole subscriber of the memorandum and articles of association.

The Company serves as a payroll entity for approximately 40 Discover Financial Services employees working in the United Kingdom for DFS Services LLC, its immediate parent company. The Company commenced trade upon Discover Financial Services' ("Ultimate Parent Company") acquisition of Diners Club International on 30 June 2008 from Citibank. DFS Services LLC ("Immediate Parent Company") is a direct subsidiary of the Ultimate Parent Company. On 30 June 2008, the Immediate Parent Company contributed property and equipment valued at \$341,187 to the Company.

No dividends have been paid during the period.

Business review and future developments

The results of the Company are set out in the profit and loss statement on page 6. 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.

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.

DISCOVER FINANCIAL SERVICES (UK) LIMITED

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 instruments 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. 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)
Martin Slusarz	(appointed 17 December 2007, resigned 17 June 2008)
Kevin M. Killips	(appointed 17 June 2008, resigned 17 February 2009)
Roy A. Guthrie	(appointed 17 February 2009)

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 auditors in connection with preparing their report) of which the Company's auditors are unaware, and

DISCOVER FINANCIAL SERVICES (UK) LIMITED

- 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 auditors are aware of that information

The confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte LLP has been appointed as auditors.

Statement of directors' responsibilities

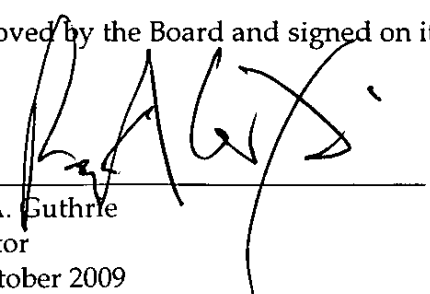
The directors are responsible for preparing their report and the financial statements in accordance with applicable laws and regulations.

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). The financial statements are required by law to 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 estimates that are reasonable and prudent,
- state whether applicable 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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 and signed on its behalf by:



Roy A. Guthrie
Director
30 October 2009
20-22 Bedford Row
London WC1R 4JS

DISCOVER FINANCIAL SERVICES (UK) LIMITED

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

We have audited the financial statements of Discover Financial Services (UK) Limited for the period ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by

DISCOVER FINANCIAL SERVICES (UK) LIMITED

fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, UK
30 October 2009

DISCOVER FINANCIAL SERVICES (UK) LIMITED

For the period from 17 December 2007 (incorporation) to 31 December 2008

	Note	2008
Turnover	1	\$ 9,554,080
Other operating income	2	338,610
Administrative expenses		<u>8,909,297</u>
Operating Profit		983,393
Interest payable	2	<u>19,759</u>
Profit on ordinary activities before taxation	2	963,634
Tax on profit on ordinary activities	5	<u>272,549</u>
Profit for the period		<u>\$ 691,085</u>

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Statement of total recognised gains and losses

For the period from 17 December 2007 (incorporation) to 31 December 2008

	Note	2008
Profit for the financial period		\$ 691,085
Actuarial gain relating to the pension scheme	15	<u>46,883</u>
UK deferred tax attributable to actuarial gain	15	<u>13,127</u>
Total recognised gains and losses relating to the period		<u>\$ 724,841</u>

All results relate to continuing operations

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

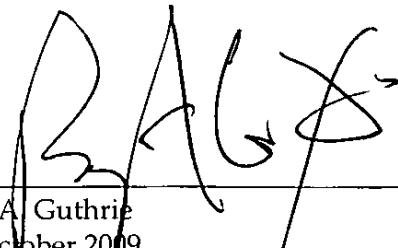
DISCOVER FINANCIAL SERVICES (UK) LIMITED

Balance sheet
As of 31 December 2008
(Amounts in U.S. Dollars)

	Note	2008
Fixed assets	6	\$ 290,602
Current assets		
Cash at bank		1,078,386
Debtors: Amounts falling due within one year	7	9,899,332
Creditors: Amounts falling due within one year	8	5,656,243
Net current assets		5,321,475
Total assets less current liabilities		5,612,077
Creditors: Amounts falling due after more than one year	10	4,021,189
Net assets excluding pension asset		1,590,888
Pension liability	15	491,005
Net assets including pension liability		\$ 1,099,883
Capital and reserves		
Called-up share capital	11	\$ 2
Capital contribution reserve	13	375,040
Profit and loss account		724,841
Total shareholders' funds employed		\$ 1,099,883

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 authorized for issue on 30 October 2009. They were signed on its behalf by:



Roy A. Guthrie
30 October 2009

Director

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 summarized below. They have all been applied consistently throughout the period.

a) Basis of accounting

The accounts 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 Business Review on page 2. The directors' report on pages 2-4 describes the financial position of the Company. The Company earns all of its revenues from its immediate parent company, DFS Services LLC. 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 \$338,610 of foreign currency gains in the period, included in other operating income.

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	- between 5 and 6 years
Furniture and fixtures	- between 5 and 8 years
Computer equipment	- between 0 and 3 years

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

The accounts show a deferred tax asset or liability in respect of any pension deficit or surplus respectively on the balance sheet. 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.

A net deferred tax asset is regarded as recoverable and therefore 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 recognizes revenue as earned.

h) Loan note

The Company has an intercompany note with the Immediate Parent Company, the terms of which are discussed in note 10.

i) Share-based payment

The Company has applied the requirements of FRS 20 *Share-based Payments*. The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is based on observable market prices and is expensed on a straight-line basis.

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

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS

(All amounts in U.S. Dollars, unless otherwise noted)

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.

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.

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.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Period to 31 December 2008
Foreign exchange gain/(loss)	\$ 338,610
Depreciation	50,585
Auditors' remuneration:	
Audit	36,507
Operating lease rentals - land & buildings	391,107

All interest expense recorded by the Company relates to intercompany loans.

3. STAFF COSTS

The average monthly number of employees (excluding contractors) was:

Business Technology	30
Marketing	8
Administration	<u>2</u>
Total	<u>40</u>

DISCOVER FINANCIAL SERVICES (UK) LIMITED

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

Their aggregate remuneration (excluding contractors) comprised:

	Period to 31 December 2008
Wages and salaries	\$ 2,003,175
Social security costs	633,042
Bonuses	310,395
Share-based payment	33,853
Other pension costs	41,674
Total	\$ 3,022,139

The emoluments of the individuals who are directors of both the Ultimate Parent Company and the Company are included in the financial statements of the Ultimate Parent Company. It is not practical to allocate their emoluments between their services as directors of the Ultimate Parent Company and the various subsidiary undertakings. The total remuneration of the directors from the Ultimate Parent Company who received remuneration for their services to the Company was approximately \$13 million.

4. SHARE-BASED PAYMENTS

The Ultimate Parent Company sponsors the Discover Financial Services Omnibus Incentive Plan (the "Omnibus Plan"). The Omnibus Plan provides for the award of stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs") and other stock-based and/or cash awards (collectively, "awards"). The Ultimate Parent Company grants these awards to the employees of the Company and these awards are equity-settled. The terms of the awards, including vesting requirements and transfer restrictions, are set at the discretion of the Compensation Committee of the Ultimate Parent Company's Board of Directors.

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

	Period to 31 December 2008	
	Number of units	Weighted average grant date fair value (\$)
Restricted stock units at beginning of period	-	-
Granted	22,701	13.41
Restricted stock units at end of period	22,701	13.41

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS

(All amounts in U.S. Dollars, unless otherwise noted)

The Company recorded \$33,853 of expense as part of staff costs related to restricted stock units. At 31 December 2008, there was \$270,483 of total unrecognised staff costs related to non-vested RSUs which will be recognised over a straight-line period of 3 to 4.1 years. The RSU's granted during the year had a grant date fair value ranging from \$10.35 to \$14.51.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	Period to 31 December 2008
Current tax	
UK corporation tax	\$ 230,013
Deferred tax	
Originating timing differences	<u>42,536</u>
Total tax on profit on ordinary activities	<u><u>\$ 272,549</u></u>

There were no transactions before 1 April 2008 and as such only the 28% UK corporation tax rate applies. The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax of 28% to the profit before tax is as follows:

	Period to 31 December 2008
Profit on ordinary activities before taxation	<u><u>\$ 963,634</u></u>
 Tax on Group profit on ordinary activities at standard UK corporation tax rate of 28%	 \$ 269,820
 Effects of:	
Expenses not deductible for tax purposes	2,729
Pension provision	(58,521)
Capital allowances in excess of depreciation	(5,911)
FRS 20 charge	9,479
Other timing differences	<u>12,417</u>
Current tax charge for the period	<u><u>\$ 230,013</u></u>

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
At 17 December 2007	\$ -	\$ -	\$ -	\$ -
Additions	263,627	3,873	73,687	341,187
Depreciation				
Charge for the year	(21,941)	(310)	(28,334)	(50,585)
At 31 December 2008	241,686	3,563	45,353	290,602
Net Book Value				
At 31 December 2008	241,686	3,563	45,353	290,602
At 17 December 2007	-	-	-	-

7. DEBTORS

Amounts falling due within one year:

	At 31 December 2008
Amounts due from affiliated companies	\$ 9,818,432
VAT	24,900
Prepayments	39,986
Deferred tax asset (See note 9)	15,985
Other debtors	29
	<u>\$ 9,899,332</u>

8. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	At 31 December 2008
Amounts owed to affiliated companies	\$ 506,347
Corporation tax	230,013
Other creditors	604,505
Accruals	4,315,378
Total	<u>\$ 5,656,243</u>

DISCOVER FINANCIAL SERVICES (UK) LIMITED

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

9. DEFERRED TAX ASSET

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

At 17 December 2007	\$ -
Transfer from Immediate Parent Company	262,596
Credit/(charge) to profit and loss statement	(42,536)
Credit/(charge) to STRGL	(13,127)
At 31 December 2008	<u>\$ 206,933</u>

The deferred tax recorded on the balance sheet at 31 December 2008 consists of:

Asset in respect of pension liability	\$ 203,365
Accelerated capital allowances (Note 7)	(5,911)
Other timing differences (Note 7)	9,479
Total deferred tax	<u>\$ 206,933</u>

Deferred tax includes an asset of \$190,948 in respect of the defined benefit scheme, which is included within the pension liability (see Note 15). The balance of the deferred tax on pensions relates to the defined contribution scheme.

10. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

The Company has a loan note due to the Immediate Parent Company, the outstanding balance of which was \$4,021,189 at 31 December 2008. The note earns an annual interest rate of the sum of the three-month LIBOR Rate in effect from time to time plus 0.75% and is an indefinite agreement. \$19,759 of interest expense was recorded with respect to this note during the period ended 31 December 2008.

11. CALLED UP SHARE CAPITAL

Authorized:

1,000 ordinary shares of £ 1 each £ 1,000

Allotted and called-up:

1 ordinary share of £ 1 each £ 1

The Company was incorporated with an authorized share capital of £ 1,000 divided into 1,000 ordinary shares of £ 1 each. 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.

DISCOVER FINANCIAL SERVICES (UK) LIMITED

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

12. RECONCILIATION OF MOVEMENTS OF SHAREHOLDERS' FUNDS

	Period to 31 December 2008
Profit for the financial period	\$ 724,841
New shares issued	2
Net addition to shareholders' funds	724,843
Opening shareholders' funds	-
Capital contribution reserve	375,040
Closing shareholders' funds	\$ 1,099,883

13. RESERVES

Movements in the reserves were as follows:

	Capital contribution reserve	Profit and loss account	Total
Opening reserves	\$ -	\$ -	\$ -
Contribution of property and equipment	341,187	-	341,187
Profit for the financial period	-	724,841	724,841
Credit to equity for equity settled share-based payments	33,853	-	33,853
Total	\$ 375,040	\$ 724,841	\$ 1,099,881

On 30 June 2008, the Immediate Parent Company contributed property and equipment valued at \$341,187 to the Company as part of the Ultimate Parent Company's acquisition of Diners Club International. In 2008, the Ultimate Parent Company granted rights to its equity instruments to the Company's employees. Accordingly, \$33,853 of expense associated with this share-based payment resulted in an increase in the capital contribution reserve. These amounts are shown as a capital contribution reserve on the balance sheet. This is not a distributable reserve.

14. FINANCIAL COMMITMENTS

There are no capital or operating lease commitments.

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS

(All amounts in U.S. Dollars, unless otherwise noted)

15. 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 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 \$269,145 represents contributions paid to this scheme by the Company at rates specified in the rules of the plans. At 31 December 2008, \$44,348 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 9 actives and their 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, making the financial period for the plan disclosure 30 June 2008 through 31 December 2008. There is an intercompany receivable on the balance sheet in relation to this scheme. No payments were made out of the plan during the period.

The valuation used for disclosures has been based on a full assessment of the liabilities of the plan at 31 December 2008. 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 2008	30 June 2008
Discount rate for scheme liabilities	6.35% p.a.	6.05% p.a.
Medical cost inflation - initial	10.0%	10.0%
Medical cost inflation - ultimate	4.6% p.a.	5% p.a.
Inflation	3.1% p.a.	3.5% p.a.
Year ultimate rate reached	2020	2019

DISCOVER FINANCIAL SERVICES (UK) LIMITED

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

Key assumptions used	Valuation at	
	31 December 2008	30 June 2008
Mortality post retirement	100% of Light SAPS tables assuming year of use 2008 and 80%/60% (for males/females respectively) of Long Cohort future improvements (with an underpin to the improvements of 1.25% p.a.)	100% of Light SAPS tables assuming year of use 2008 and 80%/60% (for males/females respectively) of Long Cohort future improvements (with an underpin to the improvements of 1.25% p.a.)

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

	Six months ending 31 December 2008
Current service cost	\$ 17,364
Interest on liabilities	24,310
Total operating charge	<u>\$ 41,674</u>

\$41,674 of operating charge has been included in staff costs within administrative expenses. Actuarial gains and losses have been reported in the statement of total recognised gains and losses.

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

	Value at 31 December 2008	Value at 30 June 2008
Present value of unfunded defined benefit obligations	\$ (681,953)	\$ (937,839)
Surplus/(deficit) recognized on the balance sheet	(681,953)	(937,839)
Deferred tax asset/(liability)	190,948	262,596
Liability recognized in the balance sheet	<u>\$ (491,005)</u>	<u>\$ (675,243)</u>

DISCOVER FINANCIAL SERVICES (UK) LIMITED

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

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

	Six months ending 31 December 2008
At 30 June 2008	\$ (937,839)
Service cost	(17,364)
Interest cost	(24,310)
Actuarial gains and (losses)	46,883
Foreign exchange movement	250,677
Gross pension liability	(681,953)
Deferred tax asset	190,948
Net pension liability at 31 December 2008	<u>\$ (491,005)</u>

Analysis of amount recognised in Statement of Recognised Gains and Losses:

	Six months ending 31 December 2008
Experience gains/(losses) arising on the liabilities	\$ (8,682)
Changes in assumptions underlying the present value of the liabilities	55,565
Actuarial gain/(loss) recognized in STRGL	<u>\$ 46,883</u>

History of experience gains and losses:

Experience gains/(losses) on plan liabilities	\$ (8,682)
Percentage of scheme liabilities (%)	1.3%
Total amounts recognized in STRGL	\$ 46,883
Percentage of scheme liabilities (%)	6.9%

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

Measure	2008 Basis	1% increase	1% decrease
Health Care Cost Trend rate	10.0% in 2010, reducing by 0.5% p.a. for ten years; 4.6% p.a. from 2020 onwards	11.0% in 2010, reducing by 0.5% p.a. for ten years; 5.6% p.a. from 2020 onwards	9.0% in 2010, reducing by 0.5% p.a. for ten years; 3.6% p.a. from 2020 onwards
Total liability at 31 December 2008	\$681,953	\$851,343	\$550,526
Impact on reported liability	\$ -	\$ 169,390 +24.8%	(\$ 131,427) -19.3%

DISCOVER FINANCIAL SERVICES (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS

(All amounts in U.S. Dollars, unless otherwise noted)

16. SEGMENT REPORTING

The Company operates entirely in the UK and its only business segment is in the provision of services to group companies.

17. RELATED PARTY TRANSACTIONS

The Company is exempt from the requirement to disclose transactions with fellow group undertakings that are over 90% owned within the group under paragraph 3 (e) of FRS 8 *Related Party Disclosures*. There are no other related party transactions requiring disclosure.

18. 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.