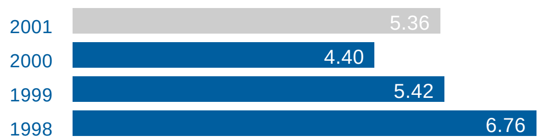
RETURN ON COMMON EQUITY
(In Percent)



DISCOVER FINANCIAL SERVICES NET CHARGE-OFF RATE
(In Percent)

- Our market share in retail securities increased in terms of number of financial advisors, but our percentage of industry-wide revenues decreased.
- In 2001, Discover® Card again increased market share measured by percentage of total receivables.

In summary, we increased market shares in our trading businesses and maintained market shares in most of our other major businesses.

CHALLENGES OF 2001

The year was not an easy one in which to achieve a 19 percent ROE. Most markets were down significantly from 2000.

- M&A activity declined by 51 percent.
- IPOs globally were down 57 percent.
- Retail securities activity in the U.S. was off at least 25 percent.
- Equity prices in the U.S. were down 13 percent for S&P 500 and 21 percent for the NASDAQ Composite. European markets suffered from similar declines.
- The U.S. officially slipped into a recession, leading the Federal Reserve to reduce interest rates 11 times during the year. In Europe, gross domestic product (GDP) annual growth fell from 3.3 percent to 1.6 percent.
- Technology and telecom stocks and bonds were particularly hard hit with stocks off over 50 percent, sharp declines in most bonds and many bankruptcies.

The impact of a difficult economic environment in 2001 reaffirmed the wisdom of focusing on our clients as well as our strategy of diversification by both products and markets. In general, certain businesses in which we carried "proprietary positions," such as high yield and private equity, experienced write-downs. Through sales and write-downs, however, we significantly reduced the size of both our high-yield and private equity portfolios in 2001. Our restructured high-yield business focuses on servicing client flows, and private equity is concentrated on the fund business where we invest alongside our clients in vehicles that we manage. While it represents a small part of our business currently, we also continue to invest in our commercial lending business. Disciplined underwriting, advantageous collateral arrangements, increased diversification and an increased investment in distribution infrastructure will help us to better manage these portfolios in the future.