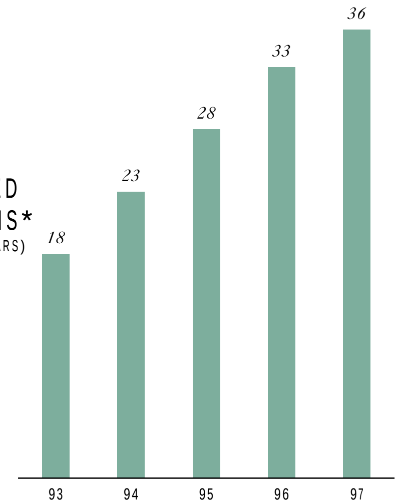
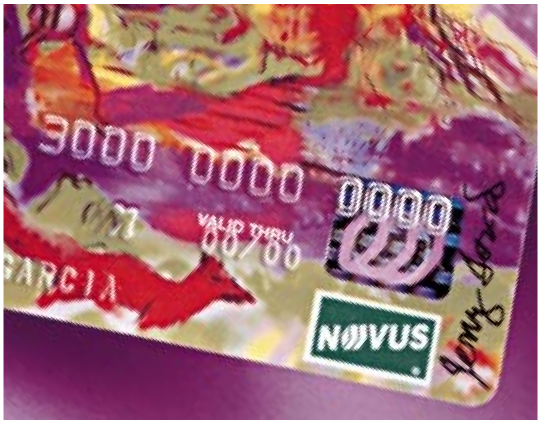
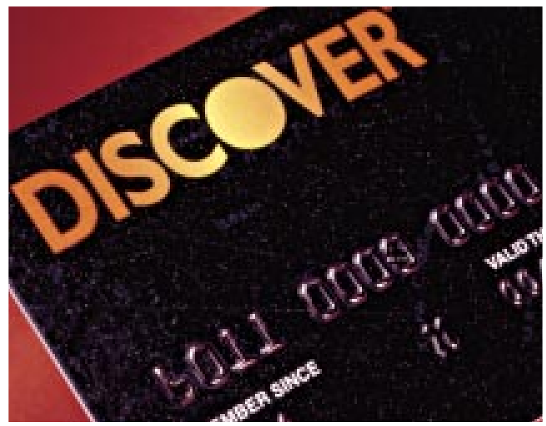
MANAGED
CONSUMER LOANS*
(IN BILLIONS OF US DOLLARS)

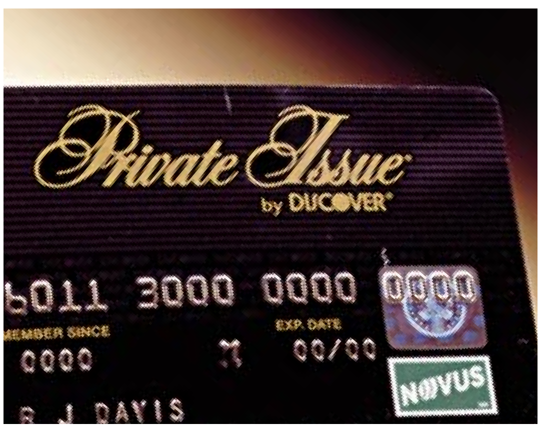


*As of November 30





NUMBER ONE IN CONSUMER SATISFACTION



40 MILLION GENERAL PURPOSE CREDIT CARD ACCOUNTS

CREDIT SERVICES

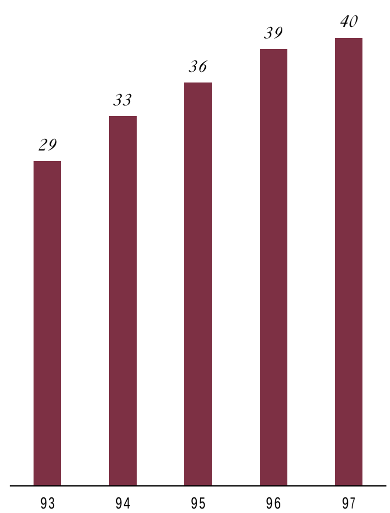
Morgan Stanley Dean Witter is a company that is built on leading, well-established franchises, and one of our strongest is Discover Card, which is the flagship of our credit services business. Discover Card was started from ground zero in 1985 and marketed as the first value card—with no annual fee and a Cashback Bonus®. In 1997, credit services was the largest US issuer of general purpose credit cards, as measured by number of accounts. We reach roughly a third of the households in the US. Our credit services business has almost $36 billion in receivables and relationships with more than 3 million merchant locations across the US.

Our credit services business had a successful year in 1997, with earnings of $468 million—an 8% increase over 1996. We maintained the strength of our franchise and continued to extend it in a number of key areas. Credit card receivables, which provide a stream of continuing revenues, increased by 8% to $36 billion. We achieved significant growth with the addition of 400,000 new NOVUS® merchant locations that accept our credit cards, bringing us much closer to our goal of parity with VISA and MasterCard. Today, our cards are accepted at locations that account for a vast majority of credit card transactions in the US. In 1997, we also continued our initiative, through Discover Brokerage Direct, in the promising area of electronic commerce.

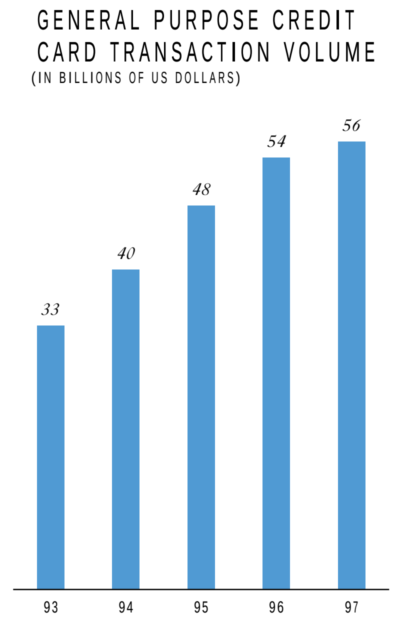
CREDIT AND TRANSACTION SERVICES ACHIEVED $468 MILLION IN NET INCOME, AN 8% INCREASE OVER LAST YEAR

We achieved these results in an environment that was difficult for many in the industry in two ways. First, delinquencies and personal bankruptcies continued to beleaguer the industry, resulting in continued high costs of write-offs for bad debt. Second, several years of fierce competition for new accounts have made it more difficult for many companies to achieve profitable growth, several major cards have faltered and industry-wide consolidation has intensified. We believe our size and strength have enabled us to withstand the worst effects of these trends, and we have been able to take action in response to them.

GENERAL PURPOSE CREDIT CARD ACCOUNTS
(IN MILLIONS)



In 1997, we continued to pursue a number of courses to deal with the trend of rising delinquencies, including tightened credit standards, increased collection efforts, and a number of repricing actions such as overlimit fees and increased fees for late payments. As a result of the repricing actions, we protected the profitability of the franchise during 1997—in fact, earnings have continued to grow despite $2.8 billion in write-offs over the past two years.



In early 1997, we initiated further steps to deal with the continuing problem of bad debts. The tightening of credit policies begun two years ago applied mostly to new account acquisition, but we now examine our entire portfolio (old and new accounts alike) to identify risks of future delinquencies, and we lower lines of credit and proactively revoke accounts based on current credit bureau information on the number of credit cards held by the cardmember and the cardmember's current total indebtedness. We look forward to the future results from this intensified focus on portfolio risk management.

Many industry observers have been predicting a slowing of growth in the credit card market for more than a decade—it was cited back in 1985 as the main reason the new Discover Card would never succeed. But credit cards continued to be a growth industry, attracting new entrants and fostering fierce competition. As a result, continued profitable growth has become more difficult for many companies. In 1997, Bank of New York exited the market, Advanta's growth stalled (its card portfolio was acquired by Fleet Financial), and AT&T put its Universal Card on the selling block (and found a buyer in Citibank).

Discover Card continues to have a large, successful consumer franchise, and we are responding to the competitive environment with increased focus on our strengths. Since it has become more difficult and expensive to gain profitable new accounts, we will give more emphasis to building revenues by playing to our strength: namely, our enormous base of existing cardholders. We plan to build revenues by offering new promotions, opportunities, and products to the many different segments of our customer base of 38 million accounts. We believe this customer base is an immense strength in a consolidating market.

As we mine the rich Discover Card account base, we are still in a position to opportunistically pursue additional growth in other segments of the credit card market. We plan to continue to grow the Private Issue card. We are pleased with the initial success of our NOVUS partnership (co-brand and affinity) programs, which have allowed us to broaden our customer base

THE NOVUS ACCOUNT BASE OF 38 MILLION GIVES US A SIGNIFICANT COMPETITIVE ADVANTAGE

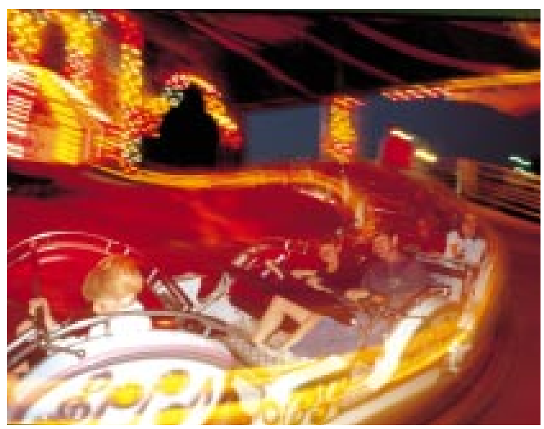
through our programs with various partners, including the Smithsonian Institution and Universal Studios. We will continue these efforts.

A long-term goal for Discover Card and the NOVUS Network is expansion overseas—into markets where there is still a significant undercapacity in credit cards. Since this expansion will entail relationships with financial and non-financial institutions, as well as foreign governments, Morgan Stanley's established presence in markets throughout the world is an obvious advantage.

The extension of the Discover brand also offers opportunities in a number of emerging, rapid growth businesses that cut across the traditional credit card market. One of the most promising is the realm of electronic commerce. In January 1997, Dean Witter Discover acquired Lombard Brokerage, Inc., a leading provider of online brokerage services. We renamed it Discover Brokerage Direct and have committed new resources to this enterprise, with the long-term goal of offering a wide range of financial services to the growing number of customers who want alternatives to traditional brokerage channels.

DISCOVER® CARD

PRIVATE ISSUE® CARD



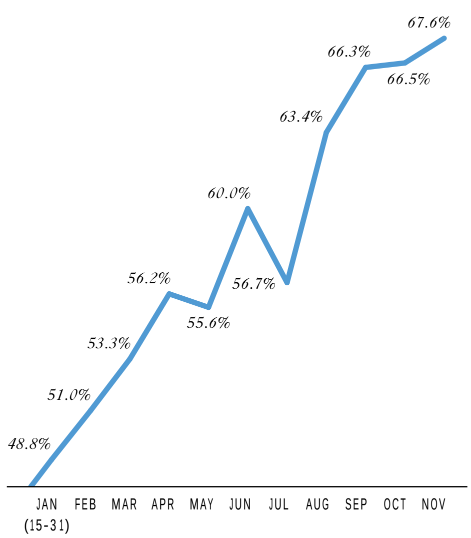
CO-BRAND/AFFINITY CARDS

DISCOVER BROKERAGE DIRECT

WE BELIEVE DISCOVER BROKERAGE DIRECT HAS TREMENDOUS GROWTH POTENTIAL IN THE ELECTRONIC FINANCIAL SERVICES MARKET

We believe the emerging electronic financial services market has tremendous growth potential. Forrester Research has predicted that online accounts will grow from approximately 3 million today to more than 14 million by 2002 and that those accounts will control more than $500 billion in assets. Discover Brokerage Direct is participating in this growth as shown by the increase in the percentage of our trades processed through the Internet.

DISCOVER BROKERAGE DIRECT INTERNET TRADES AS A PERCENT OF TOTAL TRADES
(JAN. 1996—6.2%)



Discover Brokerage Direct permits customers to invest three ways—through its Internet site, via an automated touch-tone telephone system, or with a core group of registered representatives. Our user-friendly services include detailed account information; real-time securities quotes; stock, options, bonds, and mutual fund executions; and third-party research data. In April 1997, Discover Brokerage Direct was named the best overall online broker by *Barron's* for the second consecutive year and in February 1998 was named the #1 online brokerage firm overall by *SmartMoney* magazine. Discover Brokerage Direct also has recently redesigned its Web site (www.discoverbrokerage.com) and launched a new advertising campaign with the theme "You Are Not Alone." We are enthusiastic about building Discover Brokerage Direct into a leading financial services firm for self-directed consumers worldwide, providing them with direct access to financial data and the capability to execute value-priced transactions.