

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

THE COMPANY

Ma 31, 1997, M _hga _hS _ha _he Gr _hl _hc. (M _hga _hS _ha _he)
a _hrged i _had _hDea _hWi _her, Di _hc _her & C. (Dea _hWi _her
Di _hc _her) (he Merger). A _hha _hi _he, Dea _hWi _her Di _hc _her
cha _hged i _hc _hro _hrae _ha _he M _hga _hS _ha _he, Dea _hWi _her, Di _hc _her
& C. (MSDWD). I _hc _hj _hc _hi _h i h he Merger, each hare f
M _hga _hS _ha _he c _h c _hhe _h a _hdi _hg a _hc _h ered i _h
1.65 hare f MSDWD c _h c (he E _hcha _hge Ra _hi). I _h
addi _hi _h each hare f M _hga _hS _ha _he preferred c _h a _hc _h ered
i _he hare f a c _hre _h di _hg erie f _hreferred c _h f
MSDWD. The Merger a _hrea _hed a _ha _ha _h-free e _hcha _hge.

On March 24, 1998, MSDWD charged in cora e
a e M rga S a e Dea Wi er & C .(he C da).

i a(i -ea_h di_h g ar e • di i d i, each f i)Tj T -0.009 T
i e e_h ba_h i_h g(i c di_h g der ri_h g • b ic fferi_h g f ec -
ri ie a_h d erger a_h d ac i i_h ad ice)a di_h i i_h a ae a_h d
radi_h g, i h re_h g h i_h or idi_h g i e e_h a dg ba a e a-
age e_h er ice i c er a di_h or idi_h g ai c_h er
credi_h c d c a ri ari h ghi Di c ec

Card bra d.

BASIS OF FINANCIAL INFORMATION AND CHANGE IN FISCAL YEAR-END

The C **Da** 'c **h** -ida ed fi **h** a cia a e e **h** gie rer aci e
effec he Merger, hich a acc **h** ed f **h** r a a **h** -ig fi **h** er-
e . The **h** -ig fi **h** ere e h d f acc **h** i g re ire he
re a e e **h** f a **h** eri d **h** re e ed a if Dea **h** Wi **h** er Di c er a d
M **h** erga **h** Sa **h** e a a had bee **h** c **h** bi ed. The c **h** -ida ed a e-
e **h** f chage i **h** hreh -der 'e i ref ec he acc **h** f he
C **Da** **h** a if he addi i **h** a **h** referred a **h** d c **h** c had bee
i ed d ri g a **h** f he **h** eri d **h** re e ed.

h Pri r he Merger, Dea h Wi er Di c er' ear e ded
h Dece ber 31 a h d M rga h S a h e' fi ca- ear e ded
h N e ber 30. S b e e h he Merger, he C o h ad o ed a
fi ca- ear e ded f N e ber 30. h rec rdig he o i g fi er-
e c bi a i h Dea h Wi er Di c er' fi a cia- ae e f r he

ear e ded Dece ber 31, 1996 ere c bi ed i h M rg a Sa e
fi a cia a e e f r he fi ca ear e ded N e ber 30, 1996
(a c bi ed ba i , fi ca 1996). The C da ' re - f r he
12 h e ded N e ber 30, 1998 (fi ca 1998) a d
N e ber 30, 1997 (fi ca 1997) ref ec he change i fi ca ear-
e d. Fi ca 1997 i c de he re - f Dea Wi er Di c er ha
ere re a ed c f r he e fi ca ear e d da e. The
C da ' re - f o r a i f fi ca 1997 a d fi ca 1996
i c de he h f Dece ber 1996 f r Dea Wi er Di c er.
Cer ai rec a ifica i ha e bee ade ori r ear
a c f r he c re ore e a i . A a eria i er-
c da ba a ce a d ra ac i ha e bee e i i a ed.

RESULTS OF OPERATIONS

CERTAIN FACTORS AFFECTING RESULTS OF OPERATIONS

The C **o**a' re - f **o**ra i **h** a be a eria₁ affec ed b
ar e f c a i **h** a **h** d b ec **h** ic fac r. l **h** addi **h**, re - f
ora i **h** i he **o**a ha e bee **h** a **h** di he f **h** re a c **h** i **h** e
be a eria₁ affec ed b a **h** fac r fag ba **h** a re, i **h** c **h** di g
ec **h** ic a d are c **h** di i **h**; he a ai-abi-i **h** f cao i a; he
-e e-a d -a i i fe i **h** rice a **h** di **h** ere rae; c **h** re c a-
e a d her ar e i dice; ech **h** -gica-cha ge a **h** de e **h** (ch
a he i crea ed e f he l er e a d he Year 2000 i e); he
a ai-abi-i f credi; i **h** f a i **h**; a **h** d -egi a i e a d reg -a r de e-
-o e **h**. S ch fac r a a ha e a i **h** oac **h** he C **o**a' **h**
abi-i **h** achie e i **h** ra egic bjec i e **h** ag ba ba i, i **h** c **h** d-
i g (i h -i i a i **h**) c **h** i **h** ed i crea ed ar e hare i **h**
ec rie ac i i e, gr hi a e **h** der a age e **h** a d he
e **o**a i **h** fi Di c er Card bra **h**.

*This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements as well as a discussion of some of the risks and uncertainties involved in the Company's businesses that could affect the matters referred to in such statements.

or d c a d he r a i i a d i i d i f g b a r a d i g a r e . F r c a i , a c c r d e h e e e f a r e a c i i , h i c h , a g h e r h i g , a f f e c h e f r f i e e h d a r i a f d a d h e i e , b e r a d i i g f r a h a c i h c i e h a i g e (i c - d i g h e r e a i a h f r e h f r h e C o a ' b r i a e e i i e e).

In the C o a ' C r e d i a d T r a h a c i h S e r i c b i e , c h a g e i e c h i c a r a b e a b a i a a f f e c c h e r - a h e e a h d c r e d i a i . S c h a r a b e i c d e h e h - b e r a d i e f r e r a b a r o c f i g , h e r a e f e e h a d h e e e f c e r d e b a a b e r c e h a c i e f i c e .

The C o a ' r e - f b e r a i a a b e a r i a a f f e c e d b c b e i i e f a c r . I addi i h c b e i i h f r f i r r a d i i a e h g a g e d i h e c r i i e a d a e a h a g e e b i e , h e r e h a b e e i c r e a e d c b e i i h f r h e r c e , c h a c e r c i a b a , i r a c e c o a i e , a f d g r o , h i e e r i c e r i d e r a d h e r c o a i e f f e r i g f i h a c i a e r i c e b h h e U.S. a d g b a . A a r e - f r e c e , a d b e d i g e g i a i e a d r e g a r i i i a i e i h e U.S. r e e r r e i e e c r a i r e r i c i h c e r c i a b a , c - b e i i i i e a r e h a h a e h i r i c a b e e d i a e d b i e e h b a a d r e a i e c r i i e f i r h a i c r e a e d a d a c h i e i c r e a e i h e e a r f r . I addi i h r e c e a d c h i g g b a c h e r g e c e a d c h i d a i h h h e f i a c i a e r i c e i d r i n e a d i c r e i i h f r r a g e r d i e r i f i d a c i a e r i c e r g a i a i .

In the C o a ' a g h e r h i g , a f f e c h e C o a ' a b i i a r a c a d r e a i h i g h - i d e i d a . C b e i i e f a c r a a f f e c h e C o a ' c c e i a r a c i g a d r e a i i g c i e a d a e h r g h i a b i i e e i e r ' a i g a d i e e h e e d b c h i e c f i e e h b e r f r a c e a d a c c e i b i i a b r a d a r a f f i a c i a o r d c a d a d i c e . I h e c r e d i e r i c e i d r , c b e i i c e r h e r c h a a c c e a c e f c r e d i c a r d , c r e d i c a r d a c h i i i a h f c r e d i c a r d . M e r c h a a c c e a c e i b a d b h c b e i i e r a h a c i h o r i c g a d h e h b e r f c r e d i c a r d i c r c a i h . C r e d i c a r d a c h i i i a d c e r i a i h a r e d r i e b f f e r i g c r e d i c a r d i h c b e i i e a d a b b e a i h a r e d r i e b f f e r i g c r e d i c a r d i h a a f e e , - i h r d c r i h e r

e r a e a d h e r c i i e d f e a r e a r g e i g o c i c c h e r g o a d b h a i g b r a d e r c h a a c c e a c e .

A a r e - f h e a b e e c h i c a d c b e i i e f a c r , e i c e a d r e e e i a h a r i c a r b e r i d a h b e r o r e h a i e f f - e a r r e - a d a a a r i g i f i c a - f r e a r e a d f r a r a r e r . The C o a ' i h e d a - a g e i b i e f r h e r g e r a d h e o i g a e h e o e i a - e f f e c f a r e d h r b r e g h e i g i c b e i i e o i i h h e g b a f i a c i a e r i c e i d r h r g h d i e r i f i c a i h f i r e e r c e a d e h a c e e h f i g b a f r a c h i e . The C o a ' a b i i a d c c e i a h a i i g h i g h e e f o r f i a b e b i e a c i i i e , e o h a i i g f e e - b a e d a e h a a r e d i g e d g e r a c h i i g r e a f r e e e , a a g i g r i i b h h e S e c r i i e a d A e M a g a e h a d C r e d i a d T r a h a c i h S e r i c b i e e , e a a i g c r e d i o r d c o r i c i g a d h i r i g c i c h i e a f f e c i e r a f i a c i a r e - . I addi i h h e c o e e a r e d i h e f i a c i a e r i c e i d r f c h i d a i h a d g b a i a i o r e h , a h g h e r h i g , e c h h - g i c a , r i a g e e h a d h e r i f r a c r e c h a e g e h a i r e r i e f f e c i e r e r c e a c a i h i r d e r f r h e C o a ' r e a i h c b e i i e .

GLOBAL MARKET AND ECONOMIC CONDITIONS IN FISCAL 1998

C h i i h i h e g b a f i a c i a e r e e r e e r b e d r i g f i c a - 1998 . W h i l e h e f a r a b e a r e a d e c h i c c h d i i h h i c h c h a r a c e r i d f i c a - 1997 c h i h e d h r g h c h f h e f i r a d e c h a r a r e f f i c a - 1998 , b e r i d f e r e e a a i i h h e a e r h a f f h e e a r c r e a e d d i f f i c h d i i i a g b a f i a c i a e r e . N e e r h e e , h e C o a ' h h S e c r i i e a d A e M a g a e h b i e g e r a e d r e c r d e e f h i c e a d e r e e e a d e d h e f i c a e r a i h r e c r d e e f f i a c i a e d i r , c e r a c c h a d a e , a d a e h d e r a g e e h a d a d i i r a i . The C o a ' C r e d i a d T r a h a c i h S e r i c b i e a a c h i e e d r e c r d b e r a i g r e - i h f i c a - 1998 , r e f e c i g a i o r e e h i h e c r e d i a f c h e r r e c e i a b e .

In the U.S. , a r e c d i i h c h i h e d b e f i f r h e e a r e g h f h e d e i c e c h . T h r g h f i -

car 1998, he U.S. ec a charac eri ed b dera e e e
f gr h, a abe e e fi fai , - e , a d high
e e fc h er c fide ce a d be dig. H e er, U.S. fi a-
cia ar e a e serie ced berid f -ai . l , he fir ha-
f he ear, i e r ere c cer ed i h he o e ia i bac f
he g i g ec ic d h h he Far Ea a d i hd e ic
age i fai . La er i he ear, U.S. ar e ere ad er e-
affec ed b i e rre ac i he e ere ec h ic r i i he
Far Ea , R ia a d here ergi g ar e ai . l , he rref-
ere ce hif ed ard e -ri i e e h , re -i gi , prece-
de ed ide i g f credi b read , red ced i idi i he
ar e bace a d dra a ic deci i U.S. Tre a r ied . l , addi-
i h e i bice deci i g ifica - a are - f he e de e-
• e . D rig he f r h ar er, he ec di i or b ed he
Federa Re er e B ard - er he er i g h e di g s a e b 0.25%

hree ebara e cca i i a eff r i crea e i idi , i -
i i e hei r frce i i he U.S. de he ea e e i fir-
eig ec h ie a d a er a c h ed g ba ec h ic - d
The ac i f he Federa Re er e B ard, c b ed i h he c i -
ed re lie ce f he U.S. ec , c rib ed i or ed c -
di i i he fi a cia ar e i a e 1998, a d b he i a d
b d orice reb ded.

dec i i g i orice a d a h abe o li ca i fra r c re. The
R ia h g er h e h dec i h re ched e i d e ic deb
b i g a i h a d e fi e er h a S ie deb b i g a i h a d
de a e her b e e e red ced i h e rc fide ce a d re - ed
i h i g ifica h e e f a i i i R ia h a d her f i a cia ar-
e . T ard he e d f f i ca 1998, c h di i h E r b e rec ered
d e , a h g her h i g , - eri h ere r a e a h di crea ed a-
b i i h e g ba h b i a cia ar e .

Mar e c ^h di i ^h i he Far Ea ^h c ^h i ^h ed be - g
gi h d e he ^h g i ^h g fi ^h a cia ^h a dec ^h ic diffic - ie ha ha e
e i ed i ^h ha regi ^h i ce he a er ha f f fi ca 1997. The
Jaa ^h e eec ^h c ^h i ^h ed be ad er e affec ed b hri ^h i g
c ^h er de a d, dec i ^h i g c ^h ro a r e or fi , def a i ^h a d r i ^h i g
e ^h e ^h . The e c ^h di i ^h c ^h rib ed he regi ^h a i ^h f
Jaa ^h Pri ^h e Mi ^h i erd ri ^h g he ear, a ^h e a hea ^h h ^h ce e
f re aggre i e fi ca, ^h ear a d fi ^h a cia ^h ec r o cie
de i g ed i or e he a i ^h rae fec ^h ic gr h. He er,
d e he ea ^h e f he Jaa ^h e eba ^h i g e a d he diffi-
c - ec ^h ic c ^h di i ^h e i ^h i g hr gh he Far Ea , a ^h
i ^h e r erec ^h cer ed ha he e g h f i e ^h ece ar f rec -
h ic rec er a d be ^h ger ha ^h e dec ed. Fi ^h a cia ^h ar e
e e here i he Far Ea a ^h ere ea d ri ^h g fi ca 1998. The
• rec ^h ic oerf r a ce f Jaa ^h, brea f o i cia a d cia
re , a d crie i ^h here ergi ^h ar e ad er e affec ed he
fi ^h a cia ^h ar e f a h ^h a i ^h i hi ^h he regi ^h.

The re ide are fr erger ad ac ii h
c h h ed ber b d ri g fi ca 1998, c ri g rec rd -
e fre e b he C ba h i e e ba h g b i e . The
ergera d ac ii h are ref ec d g ig g c h ida i h a d
g ba h a i h acr a h i d r ec r, a e a a h i crea d
e e f dere g a h a d ori a i h . A are -, fi ca 1998
h c ded e f he arge ergera d ac ii h ra aci h er
c h e ed. The are fr he h der ri g f ec ri ie ere h
i ie i h aced b he ge era fa rab e are a dec h icc h
di h i h chic h h icke h edd ri g he fir haf ff ca 1998. Ac ii h
he ori ar ar e ir a h ca e a ad in h he a er bar
f he h ird ar er a d he begi h g f he f h ar er. H ee er,
ard he e d ff ca 1998, ac ii h he ori ar ar e , bar

ic car f r fi ed i c e ec rie , bega_n reg he_n a c_n di-
i h i h he g ba_n fi a cia ar e abi ed.

I fi ca 1998, U.S. c_n er de a d a d re air-
ae c_n i ed i crea e a a dera e bace, de n i e a ear ier
c_n e_n ha a - d_n a ha ebee i i e. The fa rabe
i ere rae e ir h e ha e i ed i he U.S. d ri g fi ca-
1998 e ab ed c_n er a age fi a ce ad a age - hie
i a i g fr ead gr h i c_n er credi . D ri g fi ca-
1998, - a h - e a d ber h a ba r o cie a o e e ff
fr he rec rd gr h fi d r - ide a - e e i 1997. The
C o a c_n i ed i e i he g h fi credi card b i-
e hr gh hee o a i fi Dic er/NOVUS Ne r a db
i crea i g i are i g a d ucia i aci i ie i h re sec he
Dic er Card bra d.

FISCAL 1998 AND 1997 RESULTS FOR THE COMPANY

The C o a_n achie ed e i c e f \$3,276 i i fi ca-
1998, a 27% i crea e fr fi ca 1997. Fi ca 1998' e i c e
i c ded a e gai f \$345 i i fr he ae f he C o a_n'
G ba C d b i e , i i ere i he oera i f SPS
Tra aci Service , l.c. (SPS), a d cer ai BRAVO Card recei-
ab e (BRAVO) (ee Re - f O o r a i B i e
Di o i i herei). Fi ca 1998' e i c e a i c ded a
charge f \$117 i i re - i g fr he c a i e effec f a_n
acc i g cha g. Thi charge reore e he effec f a_n
acc i g cha g ad o ed i he f r h arer (effec i e Dece ber 1,
1997) i h re sec he acc i g fr fferi g c oaid b i e -
e ad i r fc ed-e d a-f d , here chc are
oecific rei b red hr gh e oara e ad i r c_n rac (ee
N e 2 he c iida ed fi a cia a e e).

E c di g he e gai fr he ae f heb i e e
ed ab e a d he charge re - i g fr he c a i e effec f
a_n acc i g cha g, fi ca 1998 i c e a \$3,048 i i , a
i crea e f 18% fr fi ca 1997. I fi ca 1997, e i c e a
\$2,586 i i , a_n i crea e f 31% fr fi ca 1996. Ba ic ear-
i g ber c_n hare i crea ed 28% \$5.60 i fi ca 1998 a d
31% \$4.38 i fi ca 1997. E c di g he e gai fr he ae
f heb i e e ed ab e a d hei oac f he c a i e effec

f a_n acc i g cha g, ba ic ear i g ber c_n hare a
\$5.20 i fi ca 1998, a i crea e f 19% fr fi ca 1997. Di ed
ear i g ber c_n hare i crea ed 28% \$5.33 i fi ca 1998
a d 32% \$4.16 i fi ca 1997. E c di g he e gai fr he
ae f heb i e e ed ab e a d hei oac f he c a i e
effec f a_n acc i g cha g, di ed ear i g ber c_n hare a
\$4.95 i fi ca 1998, a i crea e f 19% fr fi ca 1997. The C o a_n' re r h a erage hareh der 'e i a
25%, 22% a d 20% i fi ca 1998, fi ca 1997 a d fi ca 1996,
re oecie. E c di g he e gai fr he ae f heb i e e
ed ab e a d hei oac f he c a i e effec f a_n
acc i g cha g, fi ca 1998' re r h a erage hareh der
e i a 23%.

BUSINESS DISPOSITIONS

I fi ca 1998, he C o a_n e h ered i e era ra_n aci_n refec-
i g i ra egic deci i f c_n gr i g i c re Sec ri ie a d
A e Ma age e a d Cred i a d Tra aci Service b i e e .

I hef r h arer f fi ca 1998, he C o a_n c -
e ed he ae f i G ba C d b i e . The C o a_n a d
i i ere i he oera i f SPS, a 73% ed, o b ic he d
b idiar f he C o a_n. I addi i , he C o a_n a d cer ai
credi card recei ab e rea i g i di c i ed BRAVO Card. The
C o a_n aggreda e e ored a gai re - i g fr he e ra_n ac-
i a \$685 i i .

I addi i , d ri g fi ca 1998 he C o a_n - di
Pri e O o iSM Ma erCard o r f i (Pri e O o i), a b i e
i had oera ed i h Nai_n Ba_n f De a are, N.A., a d i
C re o de C eari g b i e . The gai re - i g fr he ae
f he e b i e e ere a eria he C o a_n ' re - f
oera i r fi a cia c di i eria he C o a_n Tc -0.24 T Thegr

in certain recent financial statements for the current year are as follows:

SECURITIES AND ASSET MANAGEMENT STATEMENTS OF INCOME

(dollars in millions)	FISCAL 1998	fiscal 1997	fiscal 1996
Revenues:			
Investment banking	\$ 3,340	\$ 2,694	\$ 2,190
Principal transactions:			
Trading	3,291	3,191	2,659
Investments	89	463	86
Commissions	2,317	2,059	1,776
Asset management, distribution and administration fees	2,848	2,505	1,732
Interest and dividends	13,696	10,455	8,571
Other	182	132	122
Total revenues	25,763	21,499	17,136
Interest expense	12,519	9,633	7,902
Net revenues	13,244	11,866	9,234
Compensation and benefits	6,071	5,475	4,585
Occupancy and equipment	510	462	432
Brokerage, clearing and exchange fees	538	448	317
Information processing and communications	666	602	514
Marketing and business development	487	393	296
Professional services	579	378	282
Other	529	511	382
Total non-interest expenses	9,380	8,269	6,808
Gain on sale of businesses	323		
Income before income taxes and cumulative effect of accounting change	4,187	3,597	2,426
Provision for income taxes	1,482	1,416	880
Income before cumulative effect of accounting change	2,705	2,181	1,546
Cumulative effect of accounting change	(117)		
Net income	\$ 2,588	\$ 2,181	\$ 1,546

SECURITIES AND ASSET MANAGEMENT

Securities and Asset Management recorded a 12% increase in revenues for the year. The increase was primarily due to higher fees for asset management, distribution and administration fees, and interest and dividends. The increase in revenues was partially offset by a decrease in investment banking fees.

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The **merger** - **fees** **ear** **referred** **to** **as** **advisory** **fees** **paid** **by** **the** **Company** **for** **its** **acquisition** **and** **restructuring** **transactions** **and** **its** **underwriting** **activities** **are** **based** **on** **the** **size** **and** **complexity** **of** **the** **transaction** **and** **the** **length** **of** **time** **involved**.

Investment banking
The **investment banking** **revenues** **are** **derived** **from** **the** **underwriting** **activities** **offered** **by** **the** **Company** **and** **from** **advisory** **fees** **paid** **by** **clients** **for** **advice** **on** **mergers** **and** **restructurings**.

(dollars in millions)	FISCAL 1998	fiscal 1997	fiscal 1996
Advisory fees from merger, acquisition and restructuring transactions	\$1,322	\$ 920	\$ 848
Equity underwriting revenues	815	888	722
Fixed income underwriting revenues	1,203	886	620
Total investment banking revenues	\$3,340	\$2,694	\$2,190

The **investment banking** **revenues** **increased** **24%** **and** **reflected** **the** **strong** **merger** **and** **acquisition** **activity** **in** **1998**, **as** **well** **as** **the** **Company's** **strong** **record** **in** **1997**. **Revenues** **in** **1998** **benefited** **from** **increased** **advisory** **fees** **from** **mergers**, **acquisitions** **and** **restructurings** **and** **from** **the** **strong** **fixed** **income** **market**. **For** **1997**, **revenues** **reflected** **higher** **advisory** **fees** **from** **mergers**, **acquisitions** **and** **restructurings**, **as** **well** **as** **increased** **revenues** **from** **the** **underwriting** **of** **high-yield** **bonds** **in** **addition** **to** **the** **fixed** **income** **market**.

The **underwriting** **and** **advisory** **revenues** **are** **related** **to** **the** **size** **and** **complexity** **of** **the** **transaction**, **the** **size** **of** **the** **equity** **issue** **and** **the** **length** **of** **time** **involved**. **For** **1998**, **the** **Company** **underwrote** **equity** **issues** **with** **total** **values** **of** **\$2.5** **billion**, **which** **was** **up** **from** **\$1.9** **billion** **in** **1997**. **Underwriting** **revenues** **in** **1998** **reflected** **the** **strong** **market** **for** **equity** **issues** **in** **1997**, **as** **well** **as** **the** **strong** **market** **for** **equity** **issues** **in** **1998**. **Underwriting** **revenues** **in** **1997** **reflected** **the** **strong** **market** **for** **equity** **issues** **in** **1996**, **as** **well** **as** **the** **strong** **market** **for** **equity** **issues** **in** **1997**. **The** **Company** **underwrote** **equity** **issues** **with** **total** **values** **of** **\$1.9** **billion**, **which** **was** **up** **from** **\$1.4** **billion** **in** **1996**. **Underwriting** **revenues** **in** **1996** **reflected** **the** **strong** **market** **for** **equity** **issues** **in** **1995**, **as** **well** **as** **the** **strong** **market** **for** **equity** **issues** **in** **1996**. **The** **Company** **underwrote** **equity** **issues** **with** **total** **values** **of** **\$1.4** **billion**, **which** **was** **up** **from** **\$1.1** **billion** **in** **1995**.

Interest rate **revenue** **is** **derived** **from** **the** **Company's** **interest** **in** **its** **fixed** **income** **portfolio**, **which** **includes** **commercial** **paper**, **short-term** **bonds**, **notes** **and** **long-term** **bonds**. **The** **Company** **also** **receives** **interest** **revenue** **from** **its** **mortgage** **portfolio**, **which** **includes** **residential** **and** **commercial** **mortgages**.

Interest rate **revenue** **in** **1998** **decreased** **8%** **in** **1997**, **as** **high** **interest** **rates** **reflected** **the** **Company's** **high** **interest** **rate** **environment**. **Interest** **rate** **revenue** **in** **1997** **increased** **23%** **in** **1996**, **as** **interest** **rates** **reflected** **the** **Company's** **higher** **interest** **rate** **environment**, **as** **well** **as** **the** **Company's** **strong** **market** **for** **fixed** **income** **products**. **Interest** **rate** **revenue** **in** **1996** **increased** **2%** **in** **1995**, **as** **interest** **rates** **reflected** **the** **Company's** **strong** **market** **for** **fixed** **income** **products**.

Interest rate **revenue** **in** **1995** **increased** **36%** **in** **1994**, **as** **interest** **rates** **reflected** **the** **Company's** **higher** **interest** **rate** **environment**. **Interest** **rate** **revenue** **in** **1994** **increased** **2%** **in** **1993**, **as** **interest** **rates** **reflected** **the** **Company's** **strong** **market** **for** **fixed** **income** **products**. **Interest** **rate** **revenue** **in** **1993** **increased** **1%** **in** **1992**, **as** **interest** **rates** **reflected** **the** **Company's** **strong** **market** **for** **fixed** **income** **products**. **Interest** **rate** **revenue** **in** **1992** **increased** **1%** **in** **1991**, **as** **interest** **rates** **reflected** **the** **Company's** **strong** **market** **for** **fixed** **income** **products**. **Interest** **rate** **revenue** **in** **1991** **increased** **1%** **in** **1990**, **as** **interest** **rates** **reflected** **the** **Company's** **strong** **market** **for** **fixed** **income** **products**. **Interest** **rate** **revenue** **in** **1990** **increased** **1%** **in** **1989**, **as** **interest** **rates** **reflected** **the** **Company's** **strong** **market** **for** **fixed** **income** **products**.

Pri cipa Tra ac i

Principia ra ra ac i h i c de re e h e fr h c er ' h rcha e
a d a e f ec rie i h hich he C h a h ac a h rci oia a d
gai h a d h e ec rie he d f rre a e.

(dollars in millions)	FISCAL 1998	fiscal 1997	fiscal 1996
Equities	\$2,056	\$1,310	\$1,181
Fixed income	455	1,187	1,172
Foreign exchange	587	500	169
Commodities	193	194	137
Total principal transaction trading revenues	\$3,291	\$3,191	\$2,659

E i radi g re e e i crea ed 57% a rec rd
e e i fi ca 1998, bri ari ref ec i g higher re e e fr e i
ca ha d deri a i e or d c . The i crea e i re e e fr e i
ca h or d c a bri ari a rib abe higher radi g - e
i E r de a are , hich be efi ed fr he C a i crea ed
a e a d re each c erage f he regi ha bega i id-1997.
E r de a e i radi g re e e a be efi ed fr ge era-
fa rab e are c di i a d o i i e r e i e regard-
ing EMU. Re e e fr radi g e i deri a i e or d c a
i crea ed, bri ari d e i crea ed ra aci - e a d he high-
e e f ar e a i i ha e i ed hr gh he ear, bar ic -
ar i ech - g -re a ed i e . E i radi g re e e i crea ed
11% i fi ca 1997, ref ec i g fa rab e are c di i ha c -
rib ed r g c erde a d a d high radi g - e . The
i crea ed re e e ere bri ari fr radi g i ca h or d
c , a he r g rae fr r ge era ed b a g bae i
are c rib ed higher c er radi g - e a d hec -
i a ce f high e e fca h i f i a f d . Re e e
a be efi ed fr he r g b erf r a ce f a f reign e i
are , bar ic ar i E r de , hich ed higher radi g - e
a U.S. i e r gh i crea e heir o i i he e ar e .

Fi ed i c e radi g re e e decrea ed 62% i fi -
ca 1998, ref ec i g ig ifica - - erre e h e fr i h e e
grade, high- ied a d ec ri i ed fi ed i c e ec ri ie . Re e h e
fr i h e e grade fi ed i c e ec ri ie ere ad er e-
affec ed b he e ere ec h ic a d fia cia r i h he Far Ea ,
R ia a de ergi g ar e ha cc red d ri g he ear. The e
diffic - c d i i h ca ed i h e r orefere hce hif ard
higher ai fi a cia i r e h , ri cia - U.S. rea r ec -
ri ie . Thi ega i e affec ed he radi g f credi - e i i e fi ed
i c e ec ri ie b ide h g credi bread , red ci g ar e i -
idi a d de-c h i g he hi rica rice rea i h be ee
credi - e i i e ec ri ie a d g er e h ec ri ie . Re e h e
fr high- ied fi ed i c e ec ri ie ar e i bac ed b he
rb e c d i i h heg ba fi a cia ar e de i e r
c cer ab hei bac fa or - ged ec h ic d h h
high- ied i er . Re e h e fr ec ri i ed fi ed i c e ec ri -
ie ar deci ed, a he rea i e - i ere ra ee h ir e h i
he U.S. i crea ed area e h c cer a d re - ed i h i crea ed
bread . Fi ed i c e radi g re e h i crea ed 1% i fi ca -
1997. Re e h e fr radi g i fi ed i c e or d c ere o i -
i e affec ed b high- e e f c er radi g - e , a large
a h f h deb i a ce a d i crea ed de a d f r credi -
e i i e fi ed i c e or d c . Re e h e fr radi g i high- ied
deb ec ri ie a d fi ed i c e deri a i e or d c ere oar ic -
ar fa rab i bac ed b he e de e o e h . Sec ri i ed deb rad -
i g re e h e a i crea ed, a he C bac c i ed f c
hi ar e eg e h be o a di g i - e faci i h e era e
area . Tradi g re e h e be ffi ed fr higher re e h e fr rad -
i g i c ercia h e - a a d rgage a o , c led i h
i crea ed ec ri i ai h - e a d i h a i e r c re . The e
i crea e ere ff e b - erre e h e fr radi g i g er e h e h
a d i e e grade c ro ra e ec ri ie .

Re e e fr f reig e cha ge radi g i crea ed
17% rec rd e e i fi ca 1998. The i crea e a ori ari a rib-
abe high e er fc er radi g - e a d a i i i he
f reig e cha ge ar e . D rig fi ca 1998, he U.S. d ari c-
a ed agai n a j r c re cie d e c cer ab he U.S.
ec ' e o re he fi a cia cri e i he Far Ea a de erg-
ig ar e , a e a fr he Federa Re er e B ard' deci i
- er he er igh e di g rae hree cca i d rig hef r h

ar er. Cerai, E r dea, c rre cie a e serie ced seri d f a i i , re - i g fr e dec a i , fi ere rae f c a i , i a c i o a i , f EMU a d he c m a e f he R ia , r b e. Diffic - b i c i a a d dec , ic c di i , i cerai, A ia , a i , c ued i h he c i , ed rece i , i Jaa , a c , rib ed seri d f high a i i , i he c rre c ar e. F reig e cha ge radi g re - e i crea ed 196% i fi ca 1997, ori ar i re - i g fr he C o a , i crea ed cie , ar e hare a d fr high e e f a i i , hef reig e cha ge ar e. D rig fi ca 1997, he U.S. d a r a b o r e cia ed agai , a c rre cie hr gh he eard e he r g gr h f he U.S. ec , a d c i , ed - e e f i fi a i . I addi i , a E r dea, c rre cie e serie ced seri d fi crea ed a i i d e , cerai, regardi g he i - i g f EMU a d he re g h f he e r , hie he b e r r a c e f he e a affec ed b - ggi hec , ic gr h i Jaa . O her A ia c rre cie ere b a r i c ar - a i d r i g he a er haf f fi - ca 1997, ori ar i d e he de r e cia i , f cerai, c rre cie , i c , di g Thai a d' bah . Higher radi g - e a d a i crea i g c erba e a c , rib ed he i crea e i re e .

C di i e radi g re e , e ere c b a r a b e ori r - ear e e , a higher re e , e fr cr de i , refi ed e erg or d c a d e e c rici ere b a r i a ff e b - er e e , e fr a r a g a radi g. Re e , e fr radi g cr de i a d refi ed e erg or d c erei b a c ed b e erg or i c e ha f e d r i g ch ffi ca 1998. Di i i hed de a d f r he e or d c , b a r i a d e he g i g ec , ic cri i , he Far Ea , c ued i h high i e h r - e e , c , rib ed he deci e i or i c e . E ec rici radi g re e , e be efi ed fr higher e ec rici or i c e , ori ar i d r i g he er , h he he de a d f r e ec rici o er i crea ed. The C o a , c , i ed ore e ce i , he e ec rici are a d he h g i g d e r e g - a i , f he i d r a had a fa r a b e i b a c , e ec rici radi g re e , e . Re e , e fr a r a g a radi g decrea ed a ea ab ar ea her i cerai , regi , f he U.S. d rig he i er , h red ced he de a d f r h e hea i g i , eadi g a deci e i or i c e . C di i e radi g re e , e i crea ed 42% a d reached rec rde e i fi ca 1997, be efi i g fr higher re e , e fr radi g i , e erg or d c , i c , di g he C o a , i crea ed ore e ce i , he e ec rici ar e , b e c i e a a d a r a g a . V a i i , i he e or d c a high d rig f he eard e f c a i g e e fc er de a d a d i e r . I b h fi ca 1998 a d fi ca 1997, c - di i e radi g re e , e be efi ed fr he e o a , i , f he c -

erba e f r c di - re a ed or d c , i c , di g deri a i e , a d he e f ch o d c f r i a age e o r o e .

Pri c i a r a , ac i , i e e re e , e agg r a i g \$89 i i , i fi ca 1997. Fi ca 1998 re e , e refi ed he ec d hig e e e free , e fr he C o a , b r i a e e i b i e , hich ori ar i re - i d fr gai , i cerai , i i , ha ere - d d r i g he ear a d i crea e i , he carri g a e f cerai , f he C o a , b r i a e e i i e e . S ch i crea e i c , ded gai , fr he i i i a , b i c f f e r i g f E a , a d gai , fr he a e f o i i , i F r Ja e C r o r a i , a d Jeffer , S rfi C r o r a i . The egai , ere b a i a ff e b - e fr a i i i , i a e eraged ergi g ar e deb o r f i ha cc red d r i g he h i d ar er. Fi ca 1997 re e , e ori ar i refi ed i crea e i , he carri g a e f cerai , f he C o a , b r i a e e i i , i c , di g a , i crea e re a ed he C o a , h di g f F r Ja e C r o r a i , a e a re a i ed gai , i cerai , i i , ha ere - d d r i g he ear . Higher re e , e fr cerai , re a e a e a d e , re c a i a i e e , gai , a c , rib ed fi ca 1997' re e .

C i i , C i i , re e , e ori ar i , ari e fr age c r a , ac i , i i , i ed a d er - he - c , e re i , ec r i i e a d a e f a f d , f re , i , r a c e or d c a d , i . C i i , re e , e i crea ed 13% i fi ca 1998, refi i g higher re e , e fr e i ca h o r d c , ori ar i , fr ar e i , he U.S. a d E r de , a e a higher re e , e fr deri a i e or d c . Re e , e fr U.S. ar e be efi ed fr higher e e , f ar e - a i i , hich c , rib ed i crea ed c er radi g - e . Re e , e fr E r dea , ar e a a be efi ed fr r g c er radi g - e , hich ere o i i e i b a c ed b he g e , era , fa r a b e b e r r a c e f cerai , E r dea , e i ar e a d fr he C o a , i crea ed a e a d re search ac i i i e i , he regi . C i i , h deri a i e or d c i crea ed a he high e e , f ar e - a i i , c , rib ed i crea ed c er hedgi g ac i i i e a d radi g - e . Higher c i i , fr he a e f a f d , a d he C o a , addi i , f re ha 1,000 fi a cia ad i r d r i g fi ca 1998 a c , rib ed he i crea e . C i i , re e , e i crea ed 16% i fi ca 1997, ori ar i refi i g high c er radi g - e , b a r i c ar i , he h i d a d f r h fi ca ar er he he Ne Y r S c E cha ge e de -

ried e f he highe radi g - ei i hi r. The rg
re r h o ed b a h g- ba e i are e c raged a h
i crea ed i h e r de a d f re i ec rie a d re - ed i h
high e e f ca h i f i h a f d. C i i h re -
e e a be h i ed fr a h i crea ei h e C o a h are hare
a d fr he c h i ed re g h i h e are f re i i a ce .

Ne *l* ere
I ere addi ide dre e e addi ere e *de* e are af ci *f*
he e e *ad* i f a a e a di abi lie , i *c* - di g fi *a* cia-
i *r* e *ed*, re e re o rcha e a d re o rcha e agree e ,
radi g ra egie a cia ed i h he C *da* ' i *i* *a* ec -
ri ie ac i i ie , c er argi *a* a d he ore ai *g-e* e, er
r c read a i i fi *ere* rae. I ere addi ide dre e e
a di ere e *de* e h *ad* be ie ed i he brader c e f ori -
c ia radi g re -. Deci i *re* a i g ori cia ra ac i *i* ec -
ri ie are ba ed a era re ie f aggrega e re e e a d c
a cia ed i he ach ra ac i *r* erie f ra ac i *h*. Thi re ie
i *c* - de a a e e f he o e ia gai *r* a cia ed i h
a rade; he i *ere* i *c* e re *de* e a cia ed i h fi *a* cig r
hedgi g he C *da* ' o i i ; a d o e ia der ri i g c -
i *i* r her re e e a cia ed i h re a ed ori ar r ec dar
are ae. Ne i *ere* re e e i *crea* ed 43% i *fi* ca 1998, ori -
ari a rib abe higher e e free e e fr e i *ere* ear -
ig a e , i *c* - di g fi a cia i *r* e *ed* a d c er
argi recei abe ba a ce. Higher e e f ec ri ie e di g ra -
ac i *h* a had a o i i e i *da* c h h e i *ere* re e e. Ne
i *ere* re e e i *crea* ed 23% i *fi* ca 1997, refec i g higher e e
f radi g ac i i ie a d re a i c er fi a cig ac i i , i *c* - di g
argi i *ere*. I *fi* ca 1997, e i *ere* re e e a refec ed
i *crea* ed fi a cig c a cia ed i h higher a erage e e f ba -
a ce hee age, bar ic ar i *h* e i *-re* a ed b i *h* e e .

A e Ma_hage e_h, Di_h rib i_h a_h d Ad i_h i_h ra i_h Fee
A e a_h age e_h, di_h rib i_h a_h d Ad i_h i_h ra i_h fee i_h c_h de re -
e_h e fr a e a_h age e_h er ice, i_h c_h di_h g_h f_h d a_h age e_h
fee hich are recei ed f_h ri e e_h a_h age e_h a_h d f_h or -
i_h g_h a_h d di_h rib i_h g a_h f_h d (12b-1-fee), herad i_h
i_h ra i_h fee a_h d i_h -i_h ere re e_h e ear_h ed fr c_h re • de_h
c_h ear_h g a_h d c_h d er ice. F_h d a_h age e_h fee ari e fr
i_h e e_h a_h age e_h er ice he C_h ba_h or ide regi ered

h e e c ba ie (he F h d) • r a ari c h rac-
a arra ge e h . The C ba h recei e a age e h fee ba ed
• h each F h d' a erage dai h e a e . The C ba h recei e
12b-1 fee fr er ice i or ide h or i ga h ddi rib h g cer-
ai h de -e ded F h d . The e fee are ba ed h ei her he a erage
dai h F h d e a e ba a ce ra erage dai h aggrega e e F h d
a e a d a re affec ed b ch a ge i he era -e a d i fa e
h der a age e h a d ad h i ra i h . The C ba h a recei e
fee fr i h e e h a age e h er ice or ided egrega ed
c er acc h • r a ari c h rac a arra ge e h .

A' e a_h age e_h, di rib i_h a_h d ad i_h rai_h
fee ere a f_h :

(dollars in millions)	FISCAL 1998	fiscal 1997	fiscal 1996
Asset management, distribution and administration fees	\$2,848	\$2,505	\$1,732

The C **ea**_h ' c er a e **h** der a_h age e_h r **er** i i **h**
ere a f - ;

(dollars in billions)	FISCAL 1998	fiscal 1997	fiscal 1996
Customer assets under management or supervision (at fiscal year-end)	\$376	\$338	\$278

re e e fr i er a i a e i , e ergi g are , a d U.S.
d e ice i a d fied i c e or d c a d c h i edgr h
i c era e h der a age e h r deri i h . Re e h e a
ere o i i e i b a ced b he C o a h ' ac i i i h f hei h i
i h a g ba c d b i h e f Barca Ba h PLC(Barca)
h Aori 3, 1997.

A f N e ber 30, 1998, a e der a age-
e r ber i i increa ed \$38 bi- fr fi ca ear-e d
1997. The increa ei a e der a age e r ber i i
b h fi ca 1998 a d fi ca 1997 refec ed c i ed i f fc -
era e a e a a obrecia i i he a e fc er o r-
f i . l b h fi ca 1998 a d fi ca 1997, aod r i a e 50% f
he i crea ei a e der a age e r ber i i a a rib-
abe heac i i f e e a e , hie here ai i g 50%
refec ed ar e a obrecia i i .

N *h* - *l* *h* *ere* *E* *o* *e* *h* *e*

<i>(dollars in millions)</i>	FISCAL 1998	<i>fiscal 1997</i>	<i>fiscal 1996</i>
Compensation and benefits	\$6,071	\$5,475	\$4,585
Occupancy and equipment	510	462	432
Brokerage, clearing and exchange fees	538	448	317
Information processing and communications	666	602	514
Marketing and business development	487	393	296
Professional services	579	378	282
Other	529	511	382
Total non-interest expenses	\$9,380	\$8,269	\$6,808

he i crea e. Pr fe i a er ice e e i crea ed 53%, ori-
ari ref ec i g higher c h i g c a a re - f cerai h i f r-
ai h ech h - g i i a i e, i c di g he C da ' o rea rai h
f r EMU a d Year 2000 (ee a Year 2000 a d EMU herei h).
Higher e e f e o r a r aff a d e o e fee d e he
i crea ed e e f era b i e ac i i a c h rib ed he
i crea e. O here e e i crea ed 4%, hich ref ec hei da c f
a higher e e f b i e ac i i h ari o rea i g e e e .

Fi ca 1997' a ^h_h_h_h_h_h_h ere e ^h_h_h_h_h_h_h e i ^h_h_h_h_h_h_h crea ed
21% \$8,269 i ^h_h_h_h_h_h_h. Wi hi ^h_h_h_h_h_h_h he ^h_h_h_h_h_h_h ere e ^h_h_h_h_h_h_h e ca eg r,
e ^h_h_h_h_h_h_h ee c ^h_h_h_h_h_h_h a i ^h_h_h_h_h_h_h a d be ^h_h_h_h_h_h_h efi e ^h_h_h_h_h_h_h e i ^h_h_h_h_h_h_h crea ed 19%,
ref.ec i ^h_h_h_h_h_h_h g i ^h_h_h_h_h_h_h crea ed e e- f i ^h_h_h_h_h_h_h ce ^h_h_h_h_h_h_h i ^h_h_h_h_h_h_h e c
he - rec rd fi ca 1997 re e ^h_h_h_h_h_h_h e a d ear i ^h_h_h_h_h_h_h g. E c ^h_h_h_h_h_h_h di g c -
be ^h_h_h_h_h_h_h a i ^h_h_h_h_h_h_h a d be ^h_h_h_h_h_h_h efi e ^h_h_h_h_h_h_h e i ^h_h_h_h_h_h_h crea ed
\$571 i ^h_h_h_h_h_h_h, i ^h_h_h_h_h_h_h c ^h_h_h_h_h_h_h di g \$266 i ^h_h_h_h_h_h_h f ^h_h_h_h_h_h_h oera i ^h_h_h_h_h_h_h g c ^h_h_h_h_h_h_h rea ed
VK a ^h_h_h_h_h_h_h d he g- ba ^h_h_h_h_h_h_h i ^h_h_h_h_h_h_h a c ^h_h_h_h_h_h_h d b ^h_h_h_h_h_h_h i ^h_h_h_h_h_h_h e f Barca .
Occ ^h_h_h_h_h_h_h a c a de i ^h_h_h_h_h_h_h e ^h_h_h_h_h_h_h e i ^h_h_h_h_h_h_h crea ed 7%, ori cida ^h_h_h_h_h_h_h ref.ec-
i ^h_h_h_h_h_h_h g he cc ^h_h_h_h_h_h_h c ^h_h_h_h_h_h_h f VK a ^h_h_h_h_h_h_h di ^h_h_h_h_h_h_h crea ed ffice ^h_h_h_h_h_h_h a c e i ^h_h_h_h_h_h_h L ^h_h_h_h_h_h_h d
a d H ^h_h_h_h_h_h_h g K ^h_h_h_h_h_h_h g. Br er age, c ^h_h_h_h_h_h_h ear i ^h_h_h_h_h_h_h g a de cha ge fee ^h_h_h_h_h_h_h crea ed
41%, ori ari ^h_h_h_h_h_h_h ref.ec i ^h_h_h_h_h_h_h g he ac i ^h_h_h_h_h_h_h f VK a ^h_h_h_h_h_h_h d he i ^h_h_h_h_h_h_h i ^h_h_h_h_h_h_h a
g- ba c ^h_h_h_h_h_h_h d b ^h_h_h_h_h_h_h i ^h_h_h_h_h_h_h e f Barca , a ^h_h_h_h_h_h_h a higher e ^h_h_h_h_h_h_h f rad-
i ^h_h_h_h_h_h_h g - e i ^h_h_h_h_h_h_h he g- ba c ^h_h_h_h_h_h_h e c r i ^h_h_h_h_h_h_h ie . l ^h_h_h_h_h_h_h f r a i ^h_h_h_h_h_h_h or ce i ^h_h_h_h_h_h_h g
a d c ^h_h_h_h_h_h_h i ^h_h_h_h_h_h_h c ^h_h_h_h_h_h_h i ^h_h_h_h_h_h_h crea ed 17% d ^h_h_h_h_h_h_h e higher da a er-
ice c ^h_h_h_h_h_h_h rea ed a ^h_h_h_h_h_h_h i ^h_h_h_h_h_h_h crea ed ^h_h_h_h_h_h_h ber fe ^h_h_h_h_h_h_h b ^h_h_h_h_h_h_h ee , i ^h_h_h_h_h_h_h cre e ^h_h_h_h_h_h_h a
c ^h_h_h_h_h_h_h rea ed VK a ^h_h_h_h_h_h_h d c ^h_h_h_h_h_h_h i ^h_h_h_h_h_h_h ed e ha ce e ^h_h_h_h_h_h_h he C ^h_h_h_h_h_h_h o a
i ^h_h_h_h_h_h_h f r a i ^h_h_h_h_h_h_h ech ^h_h_h_h_h_h_h - g i ^h_h_h_h_h_h_h fra c ^h_h_h_h_h_h_h re. Mar e i ^h_h_h_h_h_h_h g a ^h_h_h_h_h_h_h d b ^h_h_h_h_h_h_h i ^h_h_h_h_h_h_h e de-
e ^h_h_h_h_h_h_h e ^h_h_h_h_h_h_h e i ^h_h_h_h_h_h_h crea ed 33%, ref.ec i ^h_h_h_h_h_h_h g higher ra e- a de er-
ai ^h_h_h_h_h_h_h e ^h_h_h_h_h_h_h c ^h_h_h_h_h_h_h rea i ^h_h_h_h_h_h_h g i ^h_h_h_h_h_h_h crea ed e e- f b ^h_h_h_h_h_h_h i ^h_h_h_h_h_h_h e ac i ^h_h_h_h_h_h_h
a cia ed i ^h_h_h_h_h_h_h h ac i ^h_h_h_h_h_h_h e f i ^h_h_h_h_h_h_h a cia- ar e . Addi i ^h_h_h_h_h_h_h a ad er i ^h_h_h_h_h_h_h g
c ^h_h_h_h_h_h_h a cia ed i ^h_h_h_h_h_h_h h VK ' re ai ^h_h_h_h_h_h_h a f ^h_h_h_h_h_h_h d a ^h_h_h_h_h_h_h c ^h_h_h_h_h_h_h rib ed
he i ^h_h_h_h_h_h_h crea e. Pr fe i ^h_h_h_h_h_h_h a er ice e ^h_h_h_h_h_h_h e i ^h_h_h_h_h_h_h crea ed 34%, ref.ec-
i ^h_h_h_h_h_h_h g higher c ^h_h_h_h_h_h_h - i ^h_h_h_h_h_h_h g c ^h_h_h_h_h_h_h a are - f i ^h_h_h_h_h_h_h f r a i ^h_h_h_h_h_h_h ech ^h_h_h_h_h_h_h - g i ^h_h_h_h_h_h_h i

ia i e a d he i crea ed e e f era b i e aci i . O her e de e i crea ed 34%, hich i c de g d i a ria i h \$43 i i a cia ed i h he ac i i i f VK a d Barca , a era hei bac f a higher e e f b i e aci i h ari ari ari arib abe he gai h he ab e e i i ed a e a da eror i i f r a a e ari ari re i g f r he a e f Pri e O o i a d he ari ari f SPS. Thi i crea e a baria ff e b i crea e i i are i g a d b i e de e o e e de e a di cre e a a e a cia ed i h he a e f he ari ari f SPS. I fi ca 1997, e i c e i crea ed 8% \$468 i i . Fi ca 1997, e i c e a o i i e i bac ed b higher a erage e e f c h er a , credi card fee a di cre re e e h a ce e i i r d ced i fi ca 1996 a d higher ge era o o e credi card ra h aci h - e, baria ff e b i crea ed c h er credi e a d higher h i e e e e e .

CREDIT AND TRANSACTION SERVICES STATEMENTS OF INCOME

(dollars in millions)	FISCAL 1998	fiscal 1997	fiscal 1996
Fees:			
Merchant and cardmember	\$1,647	\$1,704	\$1,505
Servicing	928	762	809
Commissions	36	27	
Asset management, distribution and administration fees	1		
Other	16	12	4
Total non-interest revenues	2,628	2,505	2,318
Interest revenue	2,740	3,128	2,717
Interest expense	995	1,173	1,032
Net interest income	1,745	1,955	1,685
Provision for consumer loan losses	1,173	1,493	1,214
Net credit income	572	462	471
Net revenues	3,200	2,967	2,789
Compensation and benefits	565	544	486
Occupancy and equipment	73	64	61
Brokerage, clearing and exchange fees	14	12	
Information processing and communications	474	478	482
Marketing and business development	924	786	731
Professional services	98	73	52
Other	216	259	286
Total non-interest expenses	2,364	2,216	2,098
Gain on sale of businesses	362		
Income before income taxes	1,198	751	691
Provision for income taxes	510	283	257
Net income	\$ 688	\$ 468	\$ 434

CREDIT AND TRANSACTION SERVICES

I fi ca 1998, Credi a d Tra h aci h Ser ice e i c e i crea ed 47% \$688 i i , i c di g a h e af er a gai f \$163 i i , re a ed he a e f he C o a i i ere i h he ari ari f SPS a d cerai BRAVO recei abe . E c di g hi gai h e i c e i crea ed 12%. The i c re i h e i c e i fi ca 1998

a ri ari arib abe he gai h he ab e e i i ed a e a da eror i i f r a a e ari ari re i g f r he a e f Pri e O o i a d he ari ari f SPS. Thi i crea e a baria ff e b i crea e i i are i g a d b i e de e o e e de e a di cre e a a e a cia ed i h he a e f he ari ari f SPS. I fi ca 1997, e i c e i crea ed 8% \$468 i i . Fi ca 1997, e i c e a o i i e i bac ed b higher a erage e e f c h er a , credi card fee a di cre re e e h a ce e i i r d ced i fi ca 1996 a d higher ge era o o e credi card ra h aci h - e, baria ff e b i crea ed c h er credi e a d higher h i e e e e .

The a e f Pri e O o i , he ari ari f SPS a d cerai BRAVO recei abe ref ec he C o a i i ra egic deci i f c h he gai h fi e i g Di c er Card bra d a d Di c er/NOVUS Ne r . Ref ec i g hi re e ed f c , he C o a i i r d ced he Di c er P a i h Card i Dece ber 1998 a d o a i a ch he Di c er Card i a aj r f reig ar e d ri g fi ca 1999.

A are - f e h a ce e i ade cerai f he C o a i i ari ari e i h he f r h arer ff fi ca 1997, he C o a i i bega rec rdi g charged ff card e berfee a di er e re e e direc agai h he i c e a e e i i e i hich he ere rigi a rec rded. Pri r he e h a ce e i , charged ff card e berfee a di er e re e e b h ere recorded a a red c i f i e re e e . Whi e hi ch a ge had i bac h h e re e e , he C o a i i be ie e he re i ed ore e a i be - er ref ec he a h eri hich charge ff affec he Credi a d Tra h aci h Ser ice a e e i f i c e . H e er, i ce o ri o serid ha e h bee re a ed ref ec hi ch a ge, he c o ari abi i f ercha a d card e berfee a di er e re e e be ee fi ca 1998 a d fi ca 1997 ha bee affec ed. Acc rdi g , he f - i g ec i a i di c he ch a ge i h he i c e a e e h ca eg rie e c di g he i bac f hi rec a ifica i .

Credi a d Tra h aci h Ser ice a i i ca da a ere a f :

(dollars in billions)	FISCAL 1998	fiscal 1997	fiscal 1996
Consumer loans at fiscal year-end:			
Owned	\$16.0	\$20.9	\$22.1
Managed	\$32.5	\$36.0	\$35.3
General Purpose Credit Card transaction volume	\$58.0	\$55.8	\$53.6

The e re e e f c h er a h a N e ber 30, 1998 ref ec
he C da h ae f Pri e Oo i h, he oera i h f SPS a h
ai h BRAVO recei abe d ri g fi ca 1998.

Merchant Card Fee

Mercha_n a_n d card e ber fee i_n c de re e_n e fr fee charged
ercha_n h credi card a e , a e **ea** e_n fee , er-i i fee ,
i_n ra ce fee , ca h ad a ce fee , a d fee f r he ad i_n i rai_n
f credi card or gra a d ra ac i_n or ce i_n g er ice .

Mercha_h a_hd card e_h ber fee decrea ed 3% i_h fi-
ca_h 1998 a_hd i_h crea ed 13% i_h fi ca_h 1997. E_h c_h di_h g_h he effec-
f_h he reca_h ifica i_h f charged- ff card e_h ber fee di c_h ed
ab_h e, ercha_h a_hd card e_h ber fee d_h ha e_h crea ed 2% i_h
fi ca_h 1998. Thi_h i_h crea e_h i_h fi ca_h 1998 a_ha rib abe_h higher
ercha_h di c_h re e_h e_h ori ari a_h cia ed i_h i_h crea ed
gr_h f_h g_h e_h gera_h •_h e_h credi card ra_h ac i_h - e_h rea ed
he Di c_h er Card ff e_h b_h - erre e_h e_h de_h he ae_h f_h he
a i_h f_h SPS i_h Oc_h ber 1998. I_h addi i_h ercha_h a_hd card-
e_h ber fee be_h efied fr_h higher eri_h i_h a_hd a_he fee a_h rib abe_h
a_h fee i_h crea e_h i_h r_h d ced d_h rig_h fi ca_h 1998 a_hd a_hi_h crea e_h
cc_h re e_h f de_h i_h e_h a_hd eri_h i_h acc_h. Paria_h ff e_h i_h g_h
he e_h i_h crea e_h a_ha decrea e_h ca h ad a_hce fee a_h a re_h - f_h
- erca h ad a_hce ra_h ac i_h - e_h ori ari a_h rib abe_h - i_h
- i_h ca h ad a_hce i_h • ed b_h he C_h da_h i_h a_h eff r_h i_h or_h
credi_h ai_h. The i_h crea e_h i_h fi ca_h 1997 a_hd e_h a_hi_h crea e_h
ercha_h di c_h re e_h ea_h cia ed i_h i_h crea ed gr_h f_h g_h -
era_h •_h e_h credi card ra_h ac i_h - e_h a_h di_h crea ed a_h e_h da_h
e_h fee a_hd eri_h i_h fee. The i_h crea e_h eri_h i_h fee a_hd e_h
a_h higher i_h cide ce f_h eri_h i_h cc_h re e_h ce. The i_h crea e_h a_he
da_h e_h fee se e_h e_h a_hd e_h a_hi_h crea e_h i_h he i_h cide ce f_h a_he
da_h e_h a_hd higher e_h f de_h i_h e_h acc_h.

Sur ici, g Fee

Ser ici_h g fee are re e_h e deri ed fr c_h er - a_h hich
ha e bee_h -d i_h e r hr gh a e ec ria i a_h . Ca h
fr fr he i_h ere ied a d card e ber fee ge era ed b ec -
ri ied - a are ed ba i_h e r i he e - a a b red e er ied
fi ed rf a i g rae fre r_h heiri_h e e_h , rei b re he
i e r fr_h e for i cia re - i g fr charged- ff - a_h a d
ba he C ba a fee f r er ici g he - a_h . A e ce ca h
fr re ai i g are said he C ba_h . The er ici g fee a d

ce e ca h f said he C ba are reor red a er ic-
ig fee i hec ida ed a e e f i c e. The ae fc -
er- a hr gh a e ec ri i a i her ef re ha he effec f
c eri g or i f e credi ic e a d fee i c e er ic-
ig fee. The C ba c be ed a e ec ri i a i f \$4.5 bi-
-i i fi ca 1998 a d \$2.8 bi- i fi ca 1997. The a e
ec ri i a i i fi ca 1998 a d 1997 ha e e dec ed a ri ie
ra gi g fr hree 10 ear fr he da e fi a ce.

The abe bere eb he ce b b fer icig fee : b

(dollars in millions)	FISCAL 1998	fiscal 1997	fiscal 1996
Merchant and cardmember fees	\$ 505	\$ 436	\$ 307
Interest revenue	2,598	2,116	2,025
Interest expense	(1,010)	(829)	(792)
Provision for consumer loan losses	(1,165)	(961)	(731)
Servicing fees	\$ 928	\$ 762	\$ 809

Ser ici_h g fee are affec ed b he-e e_h f ec ri i ed- a_h , he bread be ee_h he i_h ere ie-d_h he ec ri i ed- a_h a d he ie-d_h a d d he i_h e_h r, he rae f credi- e_h ec ri i ed- a_h a d he e_h f card e ber fee ear ed fr ec ri i ed- a_h . Ser ici_h g fee a i_h c de he effec f i_h ere ra e c_h rac e ered i_h b he C_h a_h a_h a_h fi i_h ere ra e ri a_h age e_h or gra . Ser ici_h g fee i_h crea ed 22% i_h fi ca 1998 a_h d decrea ed 6% i_h fi ca 1997. The i_h crea e i_h fi ca 1998 a_h d e higher e e f_h e i_h ere ca h f_h a d i_h crea ed fee re e_h e, bar ia ff- e_h b i_h crea ed credi- e_h fr ec ri i ed c_h er- a_h hich ere ori ari are f higher e e fa erage ec ri i ed - a_h . The dec i_h fi ca 1997 er ici_h g fee a a rib abe higher credi- e_h, bar ia ff e b higher card e ber fee a_h b i_h ere re e_h e .

C i i, Re e e

C i i re e e ari e fr c er ec ri ie ra ac i
a cia ed i h Di c er Br erage Direc , I c. (DBD), he
C da ' or ider f eec r ic br erage er ice ac i red i
Ja ar 1997. C i i re e e i crea ed 33% i fi ca 1998
re -ig fr a i crea e h e e f c er radi gac i ,
paria ff e b - er re e e ber rade d e a i crea e i
l er e rade a a berce age f ar rade . I addi i fi ca
1998 c ai ed a f - ear f c i i f r DBD, h i e fi ca 1997
ref ec ed - 10 h .

As of December 31, 1998, the Company had \$1.1 billion in fees receivable from its credit card and consumer finance divisions. These fees are received by DBD from its card and consumer finance divisions.

Net interest income is the difference between interest income received from credit card and consumer finance divisions and interest expense paid to these divisions. Credit card and consumer finance interest rates are variable and are subject to change. The Company's interest rates are based on the current rates charged by the card and consumer finance divisions.

Interest rates are fixed and are effective for the period of the credit card and consumer finance divisions. These rates are determined by the card and consumer finance divisions based on the current rates charged by the card and consumer finance divisions.

The following table shows the credit card and consumer finance divisions' interest rates for 1998, 1997 and 1996, and the change in interest rates for 1998, 1997 and 1996.

AVERAGE BALANCE SHEET ANALYSIS

(dollars in millions)	FISCAL 1998			FISCAL 1997 ⁽³⁾			FISCAL 1996 ⁽³⁾		
	AVERAGE BALANCE	RATE	INTEREST	Average Balance	Rate	Interest	Average Balance	Rate	Interest
ASSETS									
Interest earning assets:									
General purpose credit card loans	\$17,184	13.87%	\$2,383	\$19,512	14.03%	\$2,738	\$17,083	13.99%	\$2,391
Other consumer loans	1,374	16.70	229	1,773	15.73	279	1,766	14.25	252
Investment securities	496	6.25	31	176	5.45	10	234	5.38	13
Other	1,465	6.61	97	1,680	6.06	101	1,078	5.60	61
Total interest earning assets	20,519	13.35	2,740	23,141	13.52	3,128	20,161	13.47	2,717
Allowance for loan losses	(847)			(828)			(669)		
Non interest earning assets	1,517			1,529			1,334		
Total assets	\$21,189			\$23,842			\$20,826		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest bearing liabilities:									
Interest bearing deposits									
Savings	\$ 1,073	4.79%	\$ 51	\$ 963	4.27%	\$ 41	\$ 1,021	4.58%	\$ 47
Brokered	5,656	6.62	375	4,589	6.66	306	3,418	6.93	237
Other time	2,189	6.16	135	2,212	6.12	135	1,921	6.05	116
Total interest bearing deposits	8,918	6.29	561	7,764	6.21	482	6,360	6.29	400
Other borrowings	7,162	6.06	434	11,371	6.07	691	10,307	6.11	632
Total interest bearing liabilities	16,080	6.19	995	19,135	6.13	1,173	16,667	6.18	1,032
Shareholders' equity/other liabilities	5,109			4,707			4,159		
Total liabilities and shareholders' equity	\$21,189			\$23,842			\$20,826		
Net interest income		\$1,745			\$1,955			\$1,685	
Net interest margin ⁽¹⁾		8.51%			8.45%			8.36%	
Interest rate spread ⁽²⁾		7.16%			7.39%			7.29%	

(1) Net interest margin represents net interest income as a percentage of total interest earning assets.

(2) Interest rate spread represents the difference between the rate on total interest earning assets and the rate on total interest bearing liabilities.

(3) Certain prior-year information has been reclassified to conform to the current year's presentation.

RATE/VOLUME ANALYSIS

INCREASE/(DECREASE) DUE TO CHANGES IN:
(dollars in millions)

	1998 vs. 1997			1997 vs. 1996		
	VOLUME	RATE	TOTAL	Volume	Rate	Total
INTEREST REVENUE						
General purpose credit card loans	\$ (327)	\$(28)	\$(355)	\$339	\$ 8	\$347
Other consumer loans	(63)	13	(50)	1	26	27
Investment securities	17	4	21	(3)	—	(3)
Other	(12)	8	(4)	33	7	40
Total interest revenue	(353)	(35)	(388)	400	11	411
INTEREST EXPENSE						
Interest bearing deposits:						
Savings	5	5	10	(3)	(3)	(6)
Brokered	71	(2)	69	81	(12)	69
Other time	(1)	1	—	18	1	19
Total interest bearing deposits	72	7	79	88	(6)	82
Other borrowings	(256)	(1)	(257)	64	(5)	59
Total interest expense	(188)	10	(178)	151	(10)	141
Net interest income	\$(165)	\$(45)	\$(210)	\$249	\$21	\$270

Net interest income decreased 11% in 1998 and increased 16% in 1997. Increasing the effective rate significantly charged-off cardholder fees decreased interest income and had decreased 15% in 1998. The decrease in 1998 and era erage effective fees decreased general credit card fees and the Private Oil and SPS portfolio. The era ered general credit card fees in 1998 and a larger percentage of card fees increased average fees. In addition, the effective charge rate increased variable rates on portfolios of general credit card fees and the CBA's variable charge rate increased for the CBA's variable rate portfolios. The CBA's variable charge rate increased for the CBA's variable rate portfolios.

reduced financial. The CBA believes that the effective rate increased significantly due to a higher average effective rate. The increase in interest rates in 1997 and a higher average effective fees decreased general credit card fees and the CBA's general credit card fees increased for the CBA's general credit card fees. The increase in interest rates in 1997 and a higher average effective fees decreased general credit card fees and the CBA's general credit card fees increased for the CBA's general credit card fees.

The CBA also increased the receivables for a larger percentage of general credit card receivables and increased the effective charge rate in 1999. The CBA decreased the effective charge rate in general credit card receivables and increased the effective charge rate in general credit card receivables.

The ~~decrease~~ ~~in~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~is~~ ~~higher~~ ~~than~~ ~~the~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~is~~ ~~attributed~~ ~~to~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~new~~ ~~loans~~ ~~originated~~ ~~in~~ ~~1998~~ ~~and~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~certified~~ ~~deposits~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~.

SUPPLEMENTAL AVERAGE MANAGED LOAN INFORMATION

(dollars in millions)	FISCAL 1998	FISCAL 1997	FISCAL 1996			
	AVERAGE BALANCE	RATE	AVERAGE BALANCE	RATE	AVERAGE BALANCE	RATE
Consumer loans	\$34,619	14.86%	\$34,619	14.83%	\$31,459	14.83%
General purpose credit card loans	32,684	14.72	32,176	14.72	29,021	14.81
Total interest earning assets	36,580	14.41	36,475	14.38	32,770	14.46
Total interest bearing liabilities	32,141	6.16	32,469	6.17	29,277	6.22
Consumer loan interest rate spread		8.70		8.66		8.61
Interest rate spread		8.25		8.21		8.24
Net interest margin		9.00		8.89		8.90

The ~~decrease~~ ~~in~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~is~~ ~~higher~~ ~~than~~ ~~the~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~is~~ ~~attributed~~ ~~to~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~new~~ ~~loans~~ ~~originated~~ ~~in~~ ~~1998~~ ~~and~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~certified~~ ~~deposits~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~.

The ~~decrease~~ ~~in~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~is~~ ~~higher~~ ~~than~~ ~~the~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~is~~ ~~attributed~~ ~~to~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~new~~ ~~loans~~ ~~originated~~ ~~in~~ ~~1998~~ ~~and~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~certified~~ ~~deposits~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~.

The ~~decrease~~ ~~in~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~is~~ ~~higher~~ ~~than~~ ~~the~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~is~~ ~~attributed~~ ~~to~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~new~~ ~~loans~~ ~~originated~~ ~~in~~ ~~1998~~ ~~and~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~certified~~ ~~deposits~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~.

The ~~decrease~~ ~~in~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~is~~ ~~higher~~ ~~than~~ ~~the~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~is~~ ~~attributed~~ ~~to~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~new~~ ~~loans~~ ~~originated~~ ~~in~~ ~~1998~~ ~~and~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~certified~~ ~~deposits~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~.

The ~~decrease~~ ~~in~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~is~~ ~~higher~~ ~~than~~ ~~the~~ ~~average~~ ~~interest~~ ~~rate~~ ~~on~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~is~~ ~~attributed~~ ~~to~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~new~~ ~~loans~~ ~~originated~~ ~~in~~ ~~1998~~ ~~and~~ ~~the~~ ~~lower~~ ~~interest~~ ~~rate~~ ~~on~~ ~~certified~~ ~~deposits~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~liabilities~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~ ~~and~~ ~~which~~ ~~are~~ ~~not~~ ~~interest~~ ~~bearing~~ ~~assets~~ ~~in~~ ~~the~~ ~~same~~ ~~period~~ ~~in~~ ~~1997~~.

• r i i i he i i h da e, h i c i i g accr e deri dic fi a ce charge, i h be i g c i dered be da de (i a da e). The c dari f de i e c rae a a paric ar i i i e a be affec ed de e di g h e i i g f he i a da e or gra. The de i e c rae f r c h er a h

30-89 da da de a N e ber 30, 1997 a c ored i h N e ber 30, 1996 a fa rab i oac ed b a Se o be 1997 i a da effer a i gcer ai card e ber i o heir e h da e. The f i g abe ore e de i e c a d h charge- ffra e i h ose e a aaged- a h i f r a i :

ASSET QUALITY

(dollars in millions)	FISCAL 1998		FISCAL 1997		FISCAL 1996	
	OWNED	MANAGED	Owned	Managed	Owned	Managed
Consumer loans at period-end	\$15,996	\$32,502	\$20,917	\$35,950	\$20,085	\$33,316
Consumer loans contractually past due as a percentage of period-end consumer loans:						
30 to 89 days	3.54%	3.69%	3.96%	3.91%	4.45%	4.49%
90 to 179 days	2.67%	2.84%	3.11%	3.07%	2.78%	2.78%
Net charge-offs as a percentage of average consumer loans	6.75%	6.90%	6.78%	6.95%	5.29%	5.43%

N h ere E de e
T a h i ere e de e i crea ed 7% \$2,364 i i i fi - ca 1998 a d 6% \$2,216 i i i fi ca 1997.

E de e c de a i a d be efi e de e i crea ed 4% i fi ca 1998 a d 12% i fi ca 1997. The i crea e i fi ca 1998 a de a i crea ed ber fe de ee a d higher e ec de a i c a cia ed i h Di c er Card de rai a d DBD, ff e b - erc de a i c a cia ed i h he a e f Pri e O i a d he de rai f SPS. The i crea e i fi ca 1997 a de a i crea ed ber fe de ee a d e e c a cia ed i h or ce i g i crea ed credi card ra aci - e a d er ici g addi i a Di c er/NOVUS Ne r ercha a d aci e credi card acc h i c di g c - ec i aci ie .

Occ da c a de i e de e i crea ed 14% i fi ca 1998 a d 5% i fi ca 1997. The i crea e i b h ear ere de higher re a d her cc da c c a ciai f he C da ' facili e, i c di g da e or ce i gce er .

Br erage, c eari g a de cha ge fee i crea ed 17% fr fi ca 1997. The i crea e i a rib abe higher e f DBD c er radi g - e, da ria ff e b - erc de rade re - i g fr DBD' i de e h a i f ef-c eari g de rai i h Oc ber 1998.

I f r a i h or ce i g a d c i cai i e de e de crea ed 1% i fi ca 1998 a d 1997. I fi ca 1998, - er

ra aci h or ce i g c re - i gfr he a e f he de rai f SPS ere da ia ff e b higher e er a da a or ce i g c re a ed he Year 2000 or jec a d i crea ed card e ber da a a i a cia ed i h credi ri a age e aci i . I fi ca 1997, i f r a i h or ce i g a d c i cai i h e de e i crea ed de higher e e f ra aci - e, addi i a Di c er/NOVUS Ne r er ici g c a d he de e o e h f he e o o r i g he C da ' - i card ra eg. I fi ca 1997, he i crea e ere ff e b a adj e re - i gfr he a e f he C da ' i direc i ere i h e f he C da ' ra aci h or ce i g e d r .

Mar e i g a d b i e de e o e h e de e i crea ed 18% i fi ca 1998 a d 8% i fi ca 1997. The i crea e i fi ca 1998 a a rib ed higher ad er i i g a d or - i a e de e a cia ed i h i crea ed direc ai a d her or - i a aci ie re a ed he Di c er Card, Pri a e l e Card, da er his or gra a d DBD, a e a higher card e - ber re a d e de e. The C da i crea ed ar e i g a d or - i a de di g ig ifica - i he hird a d f r h arer f fi ca 1998 i a eff r re e a d i crea e g r h i he Di c er Card bra d. I he da e era ear , he C da f c ed i a e - i h i or i g a d ai ai i g credi ai . I fi ca 1999, he C da e dec c h i e i e i he gr h fi credi card b i e , i c di g he i r d c i f a Di c er P a i Card a d he a ch f he Di c er Card i a a j r f reig ar e .

Pr fe i a er ice e de e i crea ed 34% i fi ca 1998 a d 40% i fi ca 1997. The i crea e i fi ca 1998 a d e er ice re a ed i crea ed par er his or gra ac i i , higher e de di re f rc er credi c e i g a d c -eci er ice a d c -i g fee . The i crea e i fi ca 1997 a ori ari d e higher e de di re f rc er credi c e i g a d c -eci er ice .

O her h h i ere e oe h e decrea ed 17% i h fi ca 1998 a d 9% i h fi ca 1997. O here oe h e ori ari i c de fra d - e , credi h ir fee a d her ad i h rai e c . The decrea e i b h ear a de ac h h i i g deci e i h here e f fra d e . Fi ca 1998 a refec a - er e e fe oe h e re - i g fr he a e f Pri e O o i h a d he oera i h f SPS.

Sea b a. Fac r

LIQUIDITY AND CAPITAL RESOURCES

The Baa-ee Shee

The C ba ' a-a e i crea ed \$317.6 bi-h a N e ber 30, 1998 fr \$302.3 bi-h a N e ber 30, 1997, ori ari ref ec i g gr h i h ca h a d ca h e i a e h , ca h a d ec ri ie deo i ed i h c e ari g rga i a i h r e grega ed h der federa a d h e rreg a i h , a d ec ri ie b rr ed. A b a i a o ri h f he C ba ' a-a e c h i f high- i id a re a be ec ri ie a d h r- er recei a be ari i g or i cia h fr ec ri ie ra ac i h . The high- i id h a re f he e a e or ide he C ba i h f e ibili i fia c i g a d a agi g i b i e .

*F. di g a d Ca*o*i a -P icie*

The C **o**a_h’ e i r a _hage e _he ab-i he he era- f _hdi_g
a d cas i a-●icie f he C **o**a_h, re ie he C **o**a_h’ berf- r-
a ce rea i e he e-●icie, _hi r he a ai-abi- i f rce
f fi a ci g, re ie he f reig e cha ge ri f he C **o**a_h, a d
er ee he- i idi a di e re a e _hii i f he C **o**a_h,
a e a di-abi- i i i . The ori ar g a f he C **o**a_h’ f _hdi-
i g a di idi ac i i ie i _he reade a e f i a c i g era ide
ra ge f o e ia-credi ra i g a d are e _h i b e .

Ma_n f he C _a_n ' b i e e are casia-a-i e_n
i e. Casia i re i red fi a ce, a_n g her hi g , he C _a_n
ec r i ie i e_n rie , h der ri i g , ori cida- i e e_n , ori a e
e i ac ii ie , c_n er- a_n a di_n e e_n i fi ed a e . A
a o ic , he C _a_n a e • ai_n ai_n fficie_n casia-a_n
f_n di g rce i h der ha e he casaci fi a ce i ef_n a
f_n c_n a era i ed ba i a a r i e , i c_n di g peri d f fi_n a cia
re . C re_n - , he C _a_n be ie e i ha fficie_n casia ee
i eed . I_n addi i_n , he C _a_n a e • ai_n ai_n a
e i_n , ac_n i da ed ba i , a ea e a he fa_n fi
b idiarie ' e i . S b idiar e i casia are ire e_n are de er-
i ed b reg a r re ire e_n (if a o ic a b e), a e i , e erage

The C **o**a_h ie re r_h e i be a_h i o-
a ea re fi oer r a ce, i_h hec_h e f b h he oar ic-
-ar b i e e_h ir e_h i_h hich he C **o**a_h i oer a_h g a_h
i oer gr o're - l_h hi regard, he C **o**a_h ac i e a-
age i c_h -ida ed cao i a o i i_h ba ed o_h a_h g her

hi g , b i e d o r i ie , caia a aiabili a drae fre n
ge her i hi er a caia a -cicie , reg a r re ire e a d
ra i g age c g ide i e a d heref re, i he f re, a e da d
rc rac i caia ba e addre hecha g g eed fi b i
e e . The C da a ha re ed h areh der i er a
ge era ed e i caia hich a i e ce f he eed fi b i
e e hr gh c c reo rch a e a d di ide d .

The C da ' i id i -cicie e sha i e di er ifi
ca i ff di g rce . The C da a f - af di g ra
eg hich i de ig ed e re ha he e r f he C da ' i
iabili ie e a re eed he e dec ed h di g oer i d f he a e
bei g fi a ced . Sh r -er f di g ge era i bai ed a rae
rea ed U.S. E r r A ia e are rae f r hec rre c b
r ed . Reo rch a e ra ac i are effec ed a eg ia ed rae .
O her b rr i g c are eg ia ed de e di g b re a i g ar
e c di i (eeN e 5 a d 6 hec rida ed fi a cia a e
e). Ma rie f b h h r -er a d -g er fi a cing are
de ig ed i i i ee o re refi a cing ri i a h e oer i d .

The - e f he C da ' b rr i g ge rae f c
a e i re o e chage i hea f reo rch a e ra ac i
a di g he e e f he C da ' ec rie i e rie a d
c n er -a recei abe, a d era ar e c di i . A aiabili
a d c f fi a cing he C da ca ar de e di g b
ar e c di i , he - e fcer ai radig ac i i ie , he C da ' i
credi ra i g a d he era a aiabili f credi . The C da ,
heref re, ai ai a ro f ed h r -er f di g rce
a a i e i h a da f ree c h rac i i credi caoac i . I addi i , he C da a e o ai ai ca h a d h
heca ed are abe ec rie e a a ea 110% fi
a di g h r -er hec red b rr i g . The C da ha i
bace a c i ge c f di g ra eg , hich or ide ac orehe i e
h e ear ac i . The C da i e -g er deb a a abe rce

ff di g f r c rei e n ie , c n er -a ad i id a e a d
heref re, ai ai a -g er deb - caia ai ai rai a a
e e a o or oia e f r hec rre c o i i fi ba a ce hee . I
ge era, fi ed a e are fi a ced i h fied rae g er deb , a d
ec rie i e rie a da c rre a e are fi a ced i h ac
bi a i n f h r -er f di g f a i g rae g er deb rfi ed

ra e -g er deb a oed a f a i g bai . B h fi ed rae a d
f a i g rae -g er deb (i addi i rce ff d acce ed
direc b he C da ' Credi a d Tra aci Ser ice b i e)
are ed fi a cce he C da ' c er -a o rfi . C er
- a fi a cing i arge ed a ch he reo rci g add rai char
ac eri ic f he a fi a ced . The C da e deri a i e or d
c (ori ari i ere rae c re c a de i a o) a i i
a e a d iabili aage e , red ce b rr i g c a d hedge
i ere rae r (eeN e 6 hec rida ed fi a cia a e e).
The C da ' reia ce e er a rce fi a cce
a ig ifica o ri fi da -da oer a i a e acce g ba
rce f fi a cing o ra . The c a d a aiabili f ec red
fi a cing ge era are de e de he C da ' h r -er a d
- g er deb ra i g . I addi i , he C da ' deb ra i g ca
ha e a ig ifica i oac cer ai radig re e , bar ic ar i
h e b i e e here -ger er c eror oer r a ce i
cri icar , cha er -he c erder a i e ra ac i .

A f Ja ar 31, 1999, he C da ' credi ra i g
ere a f :

	Commercial Paper	Senior Debt
Dominion Bond Rating Service	R-1	/a
Duff & Phelps Credit Rating Co.	D-1+	AA
Fitch IBCA, Inc.	F1+	AA
Japan Rating & Investment Information, Inc.	A-1+	AA
Moody's Investors Service	P-1	Aa3
Standard & Poor's	A-1	A+
Thomson BankWatch, Inc.	TBW-1	AA

D rig fi ca 1998, M d ' I e r Ser ice o graded he
C da ' e i r deb ra i g fr A1 Aa3. I Ja ar 1999, D ff
& Phe Credi Ra i g C . o graded he C da ' e i r deb ra
i g fr AA AA.

A he C da c i i e i g bae o a i a d
deri e re e e i crea i g fr ari c re cie , f reig c
re c a age e i a e e e f he C da ' fi a cia o ci
cie . The C da be efi fr oer a i g i e era differe
c re cie beca e ea e i a bar ic ar c re c f e i ff
e b re g h i a herc re c . The C da c e i i
i e o re f c a i i c re cie a d , here c -j ified,
ad o ra e gie red ce he i oac f he e f c a i h he
C da ' fi a cia oer r a ce . The e ra e gie i c de e gag

ing in ari hedging activities a age in c ea dca h f
de i a ed i f reig c re cie a d i g f reig c re c b r
r i g , he a bor arie, fi a ce i e e h ide he U.S.

Principa S rce f F , di g

The C ba f d i ba a ce hee a g ba ba i . The C ba ' f di g f ri Sec ri ie a d A e Ma age e b i e i rai ed hr gh di er e rce . The e rce i c de he C ba ' casia, i c di ge i a d g er deb; re rcha e agree e ; U.S., Ca adia, Er and Ja a eec ercia bader; e er f credi; ec red b db rr ; ec rie e di g; b / e agree e ; h icia re i e e ; a er e; a d c i ed a d c i ed i e f credi . Re rcha e agree e ; r a c i , ec rie e di g a da a ri f he C ba ' ba b rr i g are ade a c a era i ed ba i a d heref re r ide a re a b e rce f f di g ha h r er ec red b rr i g .

The f di g rce i ed f r he C ba , Credi a d Tra aci h Service b i e i c de he C ba ' casia, i c di ge i a d g er deb, a e ec ria i , c ercia bader, deo i , a e bac ed c ercia bader, Federa F d a d h r er ba h e . The C ba e c h er a hr gh a e ec ria i , i g e era ra aci r c re . Ri er d F di g C rai (RFC), a e i i c ded i he c i da ed fi a cia a e e h f he C ba , i e a e bac ed c ercia bader.

The C ba ' ba b idiarie i ci deo i fr c h er, b rcha e Federa F d a d i e h r er ba h e . I ere bear i g deo i are ca ified b dea a i g, br ered a d her i edeo i . Sa i g deo i c i or i ari f e ar e deo i a d cer ifica e f deo i acc d direc card e ber a d a i g deo i fr i di id acie . Br ered deo i c i or i ari fcer ifica e f deo i i ed b he C ba ' ba b idiarie . O her i edeo i i c dei i i a cer ifica e f deo i . The C ba , hr gh Gree d Tr C ba , a i dirc b idiar f he C ba , e n e der a h r er ba h e or gra .

The C ba ai ai b rr i g re i h i h abr ad r a ge f ba , fi a cia i i i h , c ercia a d h er fr hich i dra f d i a arie f c re cie .

The C ba ai ai a e i rre i g credi agree e ; i h ag r f ba b o r ge r a i id i eed , i c di g he i a ce f c ercia bader (he MSDW Faci). Under he er f he MSDW Faci , he ba are c i ed or ide o \$6.0 bini . The MSDW Faci c ai re rie i c e a h hich re ire, a g her h i g , ha he C ba ai ai h aresh der e i f a ea \$9.1 bini a a i e . The C ba be ie ha hec e a re rici i i i air he C ba ' abi i ba i c re e e fdi ide d . A N e ber 30, 1998, b rr i g ere a di g der he MSDW Faci .

The C ba ai ai a a er c a era faci ha e abe Marga S a e & C . I c r o r a ed (MS&C), e f he C ba ' U.S. br er-deaer b idiarie , b edge cer ai c a era ec re a arra ge e , e er f credi a d her fi a cia acc dai (he MS&C . Faci). A oar f he MS&C . Faci , MS&C . a ai ai a ec red c i ed credi agree e ; i h ag r f ba ha are barie he a er c a era faci der hich ch ba are c i ed or ide o \$1.875 bini . The credi agree e ; c ai re rie e a h hich re ire, a g her h i g , ha MS&C . ai ai b edfied e e f c i idae h aresh der e i a d Ne Ca aia, a defi ed . I Ja ar 1999, he MS&C . Faci a re e ed . A N e ber 30, 1998, b rr i g ere a di g der he MS&C . Faci .

The C ba a ai ai a re i g c i ed fi a cing faci ha e abe Marga S a e & C . I er ai a Li i ed (MSIL), he C ba ' L d b a ed br er-deaer b idiar , ec re c i ed f di g fr a dica e f ba b or idig a br ad r a ge f c a era der re rcha e agree e ; (he MSIL Faci). S ch ba are c i ed or ide o a aggrega e f \$1.85 bini a alab e i 12 aj rc re cie a d, effec i e Ja ar 1, 1999, he er . The faci agree e ; c ai re rie e a h hich re ire, a g her h i g , ha MSIL ai ai b edfied e e f Share der 'E i a d Fi a cia Re rce , each a defi ed . A N e ber 30, 1998, b rr i g ere a di g der he MSIL Faci .

RFC ai ai a e i rba credi faci he i a ce f a e bac ed c ercia bader i he a f \$2.6 bini . Under he er f he a e - bac ed c ercia bader or - gra , cer ai a e f RFC ere bjec a ie i he a h f

\$2.6 billion, a November 30, 1998. RFC has been funded primarily by the credit facility.

The C ~~o~~_o a_o a_o i_o a_o e_o ha_o i_o i_o i_o e_o he_o
MSDW Facili_o, he_o MS&C_o. Facili_o r_o he_o MSIL Facili_o f_o r_o h_o r-
er_o f_o n_o di_o g_o fr_o i_o e_o i_o e_o (ee_o N_o e_o 5_o he_o c_o i_o a_o d_o ed_o fi_o n_o a-
cia_o a_o e_o e_o).

Fi ca- 1998 a. d S b e e. Ac i i

D rig fi ca 1998, he C **a** e era e o e e d he a -
ri fi iabi li ie , red ce i re iace **h** **h** ec red h r - er f d -
i g a di crea e i ca i a. The e e o c **h** rib ed a e i crea e
i ca i a f \$4,345 li \$37,922 li a N e ber 30, 1998.

Dri_hg fi_h ca_h 1998, he C_h da_h i_h ed e_h i_h r_h e_h
aggrega_h i_h g \$9,800 i_h i_h, i_h cr_h di_h g_h -U.S. d_h mar_h c_h re_h c_h
e aggrega_h i_h g \$1,640 i_h i_h, ori_h ar_h o_h r_h a_h i_h o_h b_h ic_h
deb_h he_h f_h regi_h rai_h a_h e_h e_h. The e_h e_h ha_h e_h a_h r_h ie_h
fr_h 1999 2028 a_h d_h eigh_h ed a_h erage_h c_h o_h i_h ere_h r_h a_h e_h f_h
5.6% a_h N_h e_h ber_h 30, 1998; he C_h da_h ha_h e_h ered_h i_h cer-
ai_h rai_h ac_h i_h b_h ai_h f_h a_h i_h g_h i_h ere_h r_h a_h e_h ba_h ed_h ori_h ar_h
h_h r_h -er_h LIBOR_h radi_h g_h e_h e_h. A N_h e_h ber_h 30, 1998, he aggrega-
ga_h e_h a_h di_h g_h ori_h c_h o_h a_h a_h f_h he C_h da_h ' Se_h i_h
l_h deb_h ed_h e_h (a_h defi_h ed_h i_h he C_h da_h) o_h b_h ic_h deb_h he_h f_h regi-
-ra_h i_h a_h e_h e_h) a_h a_h o_h r_h i_h a_h e_h \$45.3 b_h i_h . Be_h ee_h
N_h e_h ber_h 30, 1998 a_h d_h Ja_h ar_h 31, 1999, he C_h da_h i_h ed_h
addi_h i_h a_h deb_h b_h i_h g_h aggrega_h i_h g_h a_h o_h r_h i_h a_h e_h \$2,298 i_h
i_h . The e_h e_h ha_h e_h a_h r_h ie_h fr_h 2000 2013.

Effec i e Ja_h ar 1999, he C **ba_h** ' B ard f
Direc r a h ried heC **ba_h** • rcha e, bjec are c
di i _h a_h dcer ai_h herfac r, • \$1 bi-i_h f heC **ba_h**
c _h c. The B ard f Direc r a aoor eda edara e_h g-
ig reo rchae a h ria i_h i_h c _h ec i_h i_h ha ard gra ed
h der heC **ba_h** ' e i_h -ba ed c **ba_h** a i_h **ba_h** . D rig fi-
ca 1998, he C **ba_h** • rcha ed \$2,925 i_h fi c
c. S be e_h N e ber 30, 1998 a d h r gh Ja_h ar
31, 1999, he C **ba_h** • rcha ed a_h addi i_h a \$110 i_h f
i c . c .

On March 5, 1998, MSDW Caia Tr I, a Dea are
a r b i e r (he Caia Tr), a f he c ec -
ri ie f hich are ed b he C oa , i ed \$400 i i , f
7.10% Caia Sec ri ie (he Caia Sec ri ie) ha are g ar-
a eed b he C oa . The Caia Tr i ed he Caia a

Sec ri ie a di h e ed he or ceed i h 7.10% J i h r S b rd h a ed
Deferrable h ere Debe h re i ed b he C a h , hich are d e
Febr ar 28, 2038.

On March 12, 1998, he C ~~on~~ ' he-f regi ~~ra i~~ h
a e e h f r a h addi i h a \$8 bim h f deb ec rie , arra h ,
preferred c r o rcha e c h rac , r a h c bi a i h here f
i h he f r f h i , beca e effec i e.

O A g 31, 1998, he C ~~ba~~ redee ed a 1,000,000 a ~~di~~ g hare f i 7-3/8% C ~~ba~~ a i e Preferred S c a a redee ~~bi~~ ~~bi~~ rce f \$200 ~~ber~~ hare. The C ~~ba~~ a i ~~ba~~ a e ~~ba~~ redee ed a ~~ba~~ c rre ~~bi~~ ~~di~~ g De ~~bi~~ i ar Share a a redee ~~bi~~ ~~bi~~ rce f \$25 ~~ber~~ De ~~bi~~ i ar Share. Each De ~~bi~~ i ar Share redee ed 1/8 f a hare f he C ~~ba~~ ' 7-3/8% C ~~ba~~ a i e Preferred S c .

O_h Ja_h ar 28, 1999, he C_oa_h a_h d M_orga_h
S a_h-e Fi_ha_hce, o_hc, a U.K. b idiar, ca_hed f_o redee o_hi a_h ar f
he a_hdi_hg 7.82% Ca_oi a_h U_hi a_h d 7.80% Ca_oi a_h U_hi
Febr_o ar 28, 1999. The aggrega_he o_hri_hcisa_ha f_o he Ca_oi a_h
U_hi be redee ed i \$352 i_h..

A N e ber 30, 1998, cer ai a e f he C **ba**,
ch a rea or der , e i o e **h** a d ea eh d i or e e **h** f \$1.8
bi i n **h** a d g d i a d her i a gibe a e f \$1.2 bi i **h** ere
i i id. I addi i **h**, cer ai e i i e e **h** ade i c **h** ec i **h**
i h he C **ba** **h** on a e e i a d her or i cia i e e **h**
ac i i ie , high- ie d deb ec ri ie , e ergi g ar e deb , a d cer-
ai c **h** a erai ed r gage b i g a i **h** a d r gage-re a ed - a **h**
or d c are , high- i id.

The C **o** a_h ac a a_h der rier f a_h da a ar-
e- a er i_h r gage-bac ed **o** a - h_h r gh ec ri ie , c **o** a era-i ed
r gage b-iga i_h a d re-a ed i_h r e_h a_h da a ar e-
a er i_h c ercia, re ide ia a d re-a e a e- a_h or d c . h_h
hi ca baci , he C **o** a_h a e **o** i i_h i_h ar e eg e_h i_h
hich-i idi ca_h ar grea- fr i e i e. The carri g a e

he ri f he C ba' r gage-re-a ed o r f i a
N e ber 30, 1998 r a d e d i h a r e ha he C ba' be ie ed
ere e serie ci g- er-e e f-i idi ha radi i a r gage-
bac ed o a -hr gh ec ri ie a oor i a ed \$1,369 i .

In addition, a November 30, 1998, hearing aggregated information from the high school debt collection agency, which showed the following results for the 1997-98 school year:

Grade	Number of Students	Percent of Students	Percent of Students with Debt	Percent of Students with High Debt
9th	1,120	22%	18%	6%
10th	1,120	22%	18%	6%
11th	1,120	22%	18%	6%
12th	1,120	22%	18%	6%
Total	4,480	100%	100%	100%

The agency reported that 22% of all students in the high school had debt, 18% of all students had high debt, and 6% of all students had high debt of \$2,395 or more.

The C ba a ha c i e f h d c e a i
f i e d a e a d h e r e i i d i e e , i c h d i g a N e b e r
30, 1998 a o r i a e \$181 i n i h c h e c i h i h i b r i a e
e i a d h e r o r i c i o a i e e , a c i i i e . A d d i h a , h e
C ba ha o r i d e d a d i n c i i e o r i d e f i h a c i g ,
i c h d i g a r g i h e d i g a d h e r e e i h f c r e d i c i e h .

The C **o**a_h a, fr i e i e, a or ide
fi a c i g r fi a c i g c i e_h c **o**a_h ie i c **h** ec i **h** i h
i i h e e ba i g a d **o**ri a e e i ac i i ie. The C **o**a_h
a or ide e e_h i **h** f credi -e eraged c **o**a_h ie i **h** he
fr f e i r r b rd i a ed deb , a e a bridge fi a c i g **h**
a e e c i e ba i. A N e ber 30, 1998, he C **o**a_h had c -

i e h or ide a h aggrega e f \$82 i i h a h and had h e a h
i h he a h f \$8 i i h a di g i h c h ec i h i h i
high- ie d der ri h g ac i i ie. Be ee h N e ber 30, 1998 a d
Ja h ar 31, 1999, he C o a h aggrega e c i e h i crea ed
\$89 i i h a h and had - a h i h he a h f \$112 i i h
a di g.

Se e ber 1998, he C o a ade a i e e
f \$300 li i he L g-Ter Caia P r f i, L.P. (LTCP). The
C o a i a e ber fac ri f 14 fia cia i i h bar-
ci o a i g i a e i rec a i a i a i f LTCP. The bjec i e f hi
i e e, he er f hich i hree ear , are c i e e aie
a age e fi o i i a d, er i e, red ce e ce i e ri
e o re a d e erage, re i caia he bar ci o a a d -i-
a e real e he o e ia a e f he LTCP o r f i. A N e ber
30, 1998, he carr i g a e f he C o a i h e e i i LTCP
a oor i a ed fair a e.

The C **o**a_h a e gage i_h e i r e di g ac i i ie ,
i c_h di g rig i a i_h , h dica i_h a d radi g f e i r ec red
- a_h f h h i e e grade c **o**a_h ie . S ch c **o**a_h ie are
re e h i ie ad er e ec_h ic c_h di i_h ha i_h e e
grade i_h er , b he a_h ge era are ade a ec red ba i
a d are e i r he h h i e e grade ec ri ie f he e
i er ha rade i_h he casia are . A N e ber 30, 1998,
he aggrega e a e f e i r ec red - a_h a d o i i_h he db he
C **o**a_h a \$1,259 i i_h , a d aggrega e e i r ec red - a_h
c i e ere \$447 i i_h .

The great and fair area of Derbyshire
is indeed beautiful, and the age-old and
ancient firs and beeches are indeed
a rare sight, especially in the Notts and Derbyshire
districts, where the cedars and firs are
decidedly scarce, the cedars and firs
being the chief trees in the Derbyshire
Derbyshire Forests.

YEAR 2000 AND EMU

Year 2000 Readiness Disclosure

Ma_h f he _h ad' c • er e (i_h c di_h g h e i_h n_h n_h
i_h f r a i_h e ch_h - g e i_h e_h a_h d e_h) c ree_h - rec_h d ear
i_h a - digi f r a. If_h addre_h ed, ch_h c • er e a
be_h a b e or b e r i_h e r o r e da e be_h d he ear 1999, hich
c ad' ead b i_h e di_h r o i_h i_h he U.S. a di_h er a i_h a (he
Year 2000 i_h e). The • e_h ia_h c a_h d cer a i_h ie a ci-
a ed i_h he Year 2000 i_h e i_h de_h e d a_h ber f fac_h r,

ic dig f are, hard are and he are f he i d r i h hich ac da bera e. Addi i a , c da ie c rdi a e i h here h i ie i h hich he eec r i ca i erac .

The C da ha e ab i hed a fir - ide i i i a i e addre i e a cia ed i h he Year 2000. Each f he C da ' b i e area ha a e re o ibi i f r he ide ifica i h and re edia i f Year 2000 i e i h i area f bera i h and f raddr i g a i erde e de cie . A c r o a e ea f i er a a d e er a or fe i a o r he b i e ea b or idig direc i h a d c da - ide c rdi a i a h eeded. The Year 2000 a d EMU(di c ed be) or jec ha e bee de ig a ed a he high e or i r i ac i i ie f he C da ' l f r a i Tech - g Dear e . T e re ha he C da ' c o r e e are Year 2000 c da , a ea f l f r a i Tech - g or fe i a bega b e a r g f r he Year 2000 i e i 1995. Si ce he , he C da ha bee re i g i e a d or gra ide if he ha c ai -digi ear c de a d i i he or ce f ogradig i g ba i f r a c r e a d c o r a e faci i ie a chie e Year 2000 c da ce. I addi i , he C da i ac i e r i g i h i a j r e er a c h erar i e a d o r i e a e he i c da ce a d re edia i h eff r a d he C da ' e o re he .

I addre i g he Year 2000 i e , he C da ha ide ified he f - i g oha e . I he A are , e oha e , he C da defied he Year 2000 i e a d b a i ed e ec i e e e o r a d f dig g. I he l e i r oha e , he C da c - rec ed a c o re - he i e i fie ha a be affec ed b Year 2000 c da ce i e . S chie i c de faci i ie a d r a e d h h h h i f r a i ech - g e (e bedded ech - g), c o r e e , hard are, a d er ice a d or d c or ided b hird barie . I he A e e oha e , he C da e a a e d he i e ide ified i h he l e i r oha e de er i e hich i f h i or der i h he chage he e ce , r a d r a edie hich i n eed be re edia ed ba ed he i e i a i bac he C da . The Re edia i oha ei c de a a a i f he i e ha are affec ed b Year 2000, he ide ifica i h for b e area a d he repair f h h c da ie . The Te i g oha e i c de a h r g h e i g f a o r o ed repair , i c dig g o re e a d f r a r d da e e i g hich i a e da e i h he Year 2000. The l o e e a i oha ec i f a c i g a i e ha ha e bee re edia ed a d cce f - e ed i h or d c i . Fi a , he l egr a i a d E er a Te i g oha e i c de e erci i g b i e - cri ca or d c i e i h a f re i e e ir , e a d e i g i h e er a e i ie .

The C da ha c - le ed he A are , l e h r a d A e e oha e . A f N e ber 30, 1998, he Re edia i h Te i g a d l o e e a i oha e ere b a i a c o e e . De re rce a cai b e ee he Year 2000 a d EMU or jec , a e a a e e d rde i er f hird - bar or d c , he C da e dec ha he re ai g o r i f he Re edia i h Te i g a d l o e e a i oha e f b a i a a i i - cri ca e i b e c o e e b March 31, 1999 a c o a red i h he rig a e oec ed c o e i da e f Dece ber 31, 1998. The l egr a i a d E er a Te i g oha ec e ced i h he ec d arer f 1998 a d i c i h e h r g h 1999. I addi i , he aj r b i e re a i h i o f he C da ha e bee ide ified, a d he cri ca f he ha e bee rare ched a d be e ed .

I addi i , he C da i c e i i i g he Year 2000 c da ce a fi cri ca b i e re a i h i o . The C da c i i e re a d c i c a e i h c erar i e , i er edia ie a d e d r i h h i ha i o r a f i a cia a d bera i a re a i h i o de er i e he e e hich he are re a b e Year 2000 i e . A f N e ber 30, 1998, he C da had h e recei ed fficie i f r a i fr a r aie ab he i rre edia i h o a oredic he c e f he i r eff r . l o a r i c a r , i e i e r a i a a re i hich he C da c h d c b i e , he e e fa are e a d re edia i h eff r re a i g he Year 2000 i e h g h b e e ad a ced ha i h he U i ed S a e .

D rig he hird arer f f i ca 1998, he C da oar icia ed i h he Sec ri ie l d r A cia i ' Be a e a d a e o red b he Ba f E g a d' Ce ra - Gi Office. The e e ere r i f re i e , i g a o r i f he C da ' or d c i e , a d e o ed e cri chec f ci i ai . The C da ha achie ed cce f re - i h each f he i d r - ide e i hich i oar icia ed . The C da i c i i e oar icia e i i d r - ide a d e d r - oecific e h g h 1999.

There are a ri a cia ed i h he Year 2000 i e , i c dig he o ibi i fa fail re f he C da ' c o er a d h h i f r a i ech - g e . S ch fail re c o d ha e a a eria ad er e effec he C da a d a ca e e a f ci i ; i c rec r i c o e e r a i or ce i g re - i g i failed rade e e e ; he i abili rec r i e acc h i g b a d rec rd ; he i abili rec r i e credi card r a h ac i h a d

baa ce ; he i abili rec cie radi g • i i a dbaa ce ih
c erarie ; a di acc rae i f r ai a age he C ba'
e • re radi g ri addi r o i ff digre ire e . l
addi , e e if he C ba' cce f - re edia e i Year 2000
i e , i ca be a eria a dad er e affec ed b fail re f hird
barie re edia e heir Year 2000 i e . The C ba' rec
g i e he cerai f che er a de e de cie i ce i ca
direc c r - here edia i eff r f hird barie . The fail re
f hird barie i h hich he C ba' ha fi a cia r berai a
reai hio , ch a ec rie e chage , ceari g rga i ai ,
de o i rie , reg a r age cie , ba , cie , c erarie , e-
d r (i c - dig da ace er , da a e r a d ice er ice or ider)
a d i i ie , re edia e heir c berad i f r ai ech-
g e i e i a i e a h erc d re - i a a eria
fi a cia r he C ba' .

If he ab e - e i ed ri are re edied , he
C ba' a e serie ce b i e i err o i r h d , fi a-
cia r , reg a r aci , da age he C ba' g ba - fra-
chi e a d lega - iabi .

The C ba' ha b i e c i i i ba i i oace
fri crica b i e f ci a rd ideba i . The C ba'
a ha i oace a c i ge c f di g ra eg (ee Li id i a d
Cai a Re ice). The C ba' ha beg Year 2000 c i ge c
ba i g . The C ba' i c re - re ie i g re o e fr i
aj re er a c erarie a d ber i i h re sec Year 2000
brearai , a e i g here - f ari i er a a de er a -
e a da a i g o ibe Year 2000 ce ari de er i e
ara ge f i e c e . The C ba' i e d d c e a d
e Year 2000 oecific c i ge c ba d i g f i ca 1999 a oar
fi Year 2000 i i g i eff r .

Ba ed • c re i f r ai , he C ba' e i -
a e ha he ac fi be e i g i Year 2000 i i a i e i -
be be ee \$200 i i and \$225 i i . The decrea e i he e
e i a e fr a i orei - re red i a cia ed i h he
C ba' ae fi i e i he berai f SPS a d i h re i ed
i er a e i a e . The Year 2000 c i c de a c i i ie
der a e h Year 2000 re a ed a er acr he C ba' , i c - di g ,
b h i i ed , re edia i , e i g (i er a a de er a) , hird
bar re ie , ri i i g i a d c i ge c ba i g . Thr gh
N e ber 30, 1998, he C ba' e de ded a o r i a e \$110
i i h he Year 2000 o jec . The C ba' e sec he a j r

i f here ai i g c be direc ed o r i ari ard e i g ac i -
i ie . The C ba' ha bee a d i c i e be f ded hr gh
berai g ca h f a d are e o e ed i h he beri d i h hich he
are i c rred .

The C ba' e sec a i ab f rec , he
i e c o e i a d he o e i ari fi Year 2000 difi-
ca i are bjec cerai ie ha c oca e ac a re -
differ a eria fr ha ha bee di c edab e . Fac r ha
c di f e ce hea ff rec a d he effec i i i g
f re edia i eff r i c de he cce f he C ba' i ide h
if i g c o eror gra a d h h i f r ai ech - g e
ha c ai - digi earc de ; he a re a da h f or -
gra i g a d e i g re i red o grade r re a ce each f he
affec ed o r gra a d e ; he a re a da h f e i g ,
erifica i a d re o i g re i red b he C ba' reg a r
ar d he r d , i c - di g ec rie e chage , ce r a ba
a d ari g er e a reg a r b die ; he a e a d ag i de
f re a ed ab r a d c h i g c ; a d he cce f he
C ba' e er a c h erarie a d ber , a e a r d -
ide e chage , ceari g rga i ai h add e i rie , i addre -
i g he Year 2000 i e .

EMU

EMU re a ce he a i a c re cie f 11 baric o a i g E r oea
U i h c rie i h a i g e E r oea c re c he e r . The
e r a a a ched Ja h ar 1, 1999, he h E r oea Ce r a
Ba a a ed c h r - f he ar o ic fr he baric o a i g
ai . D ri g he r a i i beri d i he a i a c re cie are
i h d r a fr circ a i (J - 2002 a he a e) , ch c re -
cie i c h i e e i b h a fi ed de i a i h f he e r .
EMU i o r i ari i oac he C ba' Sec rie a d A e
Ma age e b i e .

The i r d c i f he e r o re e a j r b i e
o o r i i e f r f i a cia a re baric o a ch a he C ba' .
The C ba' e sec ha he i r d c i f he e r i - lead
grea er cr - b rder orice r a o a c a d i h a e a i g i f i c a
i oac h he a re i hich he C ba' ber a e .

The C ba' o re a c a i e f r he i r d c i f
he e r a di o e e ed i g i f i c a d i f i c a i i i f r a
i i ech - g e a d o r gra i rder o re a f r a
i i h he e r . The C ba' e h gaged i e e i e i g f he

the ad or ce e affec ed b EMU a da c nica ed e en ier ihi cie, a dc erarie regardi g hei o- ca i f EMU. The C da c ider ha he i iia rede i- ai e erci e ha nace be ee Ja ar 1 a d Ja ar 3, 1999 a cce f -fr he oer dec i e fi ier a e ad b a d rec rd. De ncerai i iia i e i h he e e e fer da e , a f Ja ar 31, 1999 i a opear ha he change er he e r ha bee cce f -acr E r oe.

Bar ed o n c re i f r ai , he C da e i- a e ha hec a cia ed i hre ie i g, a e di g a d e - i g i i f r ai , ech -g e o rebare f r EMU f r fi ca 1998 a d hr gh he o r jec ' c le i i be a oor i a e \$76 i i , S b a ia a f chc ere i c red b he e d f fi ca 1998. The ec ha e bee a d i c i e be f ded hr gh oera i gca h f a d a e de h ed h he oer i d i hich he are i c rred.

REGULATORY CAPITAL REQUIREMENTS

Dea Wi er Re d l c. (DWR) a d MS&C . are regi ered b r er-dea er a d regi ered f re c i i ercha a d, acc rid- i g, are bjec he i i e caia are ire e f he Sec rie a d E cha ge C i i (SEC), he Ne Yr S c E cha ge a d he C di F re Tradig C i i . MSIL a L d -ba ed br er-dea er b idiar, i reg a ed b he Sec rie a d F re A hri (SFA) i he U i ed Ki gd a d, acc rid- i g, i bjec he Fi a cia Re rce Re ire e f he SFA. Mrga S a e Ja a Li i ed (MSJL), a T -ba ed br er-dea er, i reg a ed b he Ja a e e Mi i r f Fi a cie i hre dec reg- a r caia are ire e . DWR, MS&C ., MSIL a d MSJL ha e c i e - oera ed i e ce f he i rre dec i e reg- a r re ire e (ee N e 11 he c i d a ed fi a cia a e e).

Cer ai f he C da ' b idiarie are Federa Deo i l r a ce C rai (FDIC) i red fi a cia i i . Sch b idiarie are heref re bjec he reg a r caia re ire e ad o ed b he FDIC. The e b idiarie ha e c i e - oera ed i e ce f he e a d he rreg a r re ire e .

Cer ai her U.S. a d -U.S. b idiarie are b jec ari ec rie , c di ie a d ba i g reg a i a d caia ade ac re ire e or -ga ed b he reg a r a d e cha ge a hri ie f he c hri ie i hich he oera e. The e b idiarie ha e c i e - oera ed i e ce f he i rra caia ade ac re ire e . I h addi i , Mrga S a e

Der a i e Pr d c l c., a rde-A rae b idiar hr gh hich he C da c idc e fi der a i e ac i i ie , ha e ab- li hed cer ai oera i g re ric i hich ha e bee re ie ed b ari ra i g age cie .

EFFECTS OF INFLATION AND CHANGES IN FOREIGN EXCHANGE RATES

Be ca he C da ' a e a large e are i id i a re, he are i g i f i ca - affec ed b i f a i . He er, i f a i a re - i h i cre a e i he C da h e e , hich a h be ready rec erabe i he oice f er ice f fered. T he e i f a i re - i h i g i e rae a d ha herad er e effec o h he ec rie are , he a e f f i a cia i r e h a d o h he are f r c ercredi erice , i a ad er e affec he C da ' fi a cia o i i a d or fi abi .

A o r i f he C da ' b i e i c d c ed i c re cie her ha he U.S. d war N -U.S. d war a e o- ca a re fi a ced b direc b rr i g r a -ba ed f di g i he a ec rie c . Cha ge i f reig e cha ge rae affec h -U.S. d war re e a e a -U.S. d war e o e . Th e f reig e cha ge e o re ha a i e a d a re h hedged b a ff e i g f reig c re c e o re a rae a c i e a gaged b he C da i i i i f de c re c f c a i .

DERIVATIVE FINANCIAL INSTRUMENTS

The C da ac i e ffer cie a d rade f ri acc a arie f fi a cia i r e decribed a der a i e or d c o r der a i e . The e o r d c ge er a e he f r f re, f r r a d, o i , a o , ca , c a r , f r , a o , o i , a d i i a r i , r e hich der i e heir a e f r der i g i er e rae, f reig e cha ge rae, rc di re i i r e h ad i dice . A f he C da ' radi g -re a ed di i h e der a i e or d c a a i e g r a oar f he i rre dec i e radi g rae gie , a d ch or d c are ed e e i e a age he ar e e o re ha re - fr a arie f or orie ar radi g ac i i ie (ee N e 9 he c i d a ed fi a cia a e e). I addi i , a a dea eri cer ai der a i e or d c , a b i e re ra e a d c re c a o , he C da e h er i der a i e c rac ee a arie f ri a age e a d her fi a cia eed f i cie . Gi e he high i e g r a ed a re f der a i e or d c a d re a ed ca h i r e h i he de er i a i f era rad i g di i h or fi abi a d he c h e i hich he C da

a age i radi g area , i i ea i gf - a ca e radi g
re e be ee he deri a i e a d de i g ca h i r e c -
• e . M re er, he ri a cia ed i h he C ba deri -
a i e ac i i ie , i c di g are a d credi ri , are a aged
a i egra ed ba i i h a cia ed ca h i r e i a a er
c i e i h he C ba ' era ri a age e • icie
a d or ced re (ee Ri Ma age e f - ig Ma age e '
Di c i a d A a i f Fi a cia C di i a d Re - f
O oera i). I h - d be ed ha hie baric arri a be
a cia ed i h he e f deri a i e , i a ca e deri a i e er e
red ce, ra her ha i crea e, he C ba ' e • re ar e ,
credi a d herri .

The C **o**a_h a e deria i e or d c (ori ari-
i ere rae, c rre c a_h d e i a_o) a i i_h a e a_h d ia-
bi_h a age e_h, red ce b rr i_h g c a_h d hedge i_h ere rae
ri (ee N e 6 he c, lida ed fi, a cia a e e).

The C o a h be ie e ha deri a i e are a abe
- ha ca h or ide c -effec i e - i h c o e fi h a cia
or b-e a d r e ai h c i ed or idig i cie h i h h -
a i e fi h a cia or d c . The C o a h e ab i hed M g a h S g a h
Deri a i e Pr d c l c. fferderi a i e or d c cie h h i
e eri h deri a i e ra h aci h i h r i e -Ara ed c h eroarie .
I addi h, he C o a h, hr ghi c h i h i gih - e e h i h reg-
-a r, ef-reg a r a d i d r aci i ie cha he h er a i a
S g a h d Deri a i e A cia i h l c. (ISDA), he Sec ri ie
I d r A cia i h, he Gr o 30 a d he U.S. ec ri ie fir
Deri a i e P ric Gr o, or ide reader hi h i, he de e o e h f

• -cie a d orac ice i h rder ai h ai h c h fide ce i h he ar e
f rderi a i e or d c , hich i cri ca- he C o a h ' abi i
a i c ie h i h ee i g heir era fi a cia h eed .

RISK MANAGEMENT

RISK MANAGEMENT POLICY AND CONTROL STRUCTURE

Ri ia i here, bar f he C ba ' bi e a d ac i i ie .
Thee e hich he C ba or ber a d effec i e ide ifie ,
a ee , hir a d a age each f he ari oe fri
i - ed i i ac i i ie i cri ca i h d e a d or fi abi
i . The C ba ' br ad - ba ed or f i fb i e ac i i ie he
red ce hei bac ha a li i a bar ic ar area rea ed area
a ha e i e re e e a a h e . The C ba ee ide -
if , a e , hir a d a age , i acc rda ce i h defi ed
cie a d or ced re , he f - i g ori cida ri i h ed i he
C ba ' bi e ac i i ie : are ri , credi ri , aera i a
ri , ega ri a d f di g ri . F di g ri i di c ed i he
Li idi a d Casi a Re rce ec i h f Ma age e ' Di c i h
a d A a i f Fi a cia C di i h a d Re - f Oera i h begin
h h page 23.

Ri aage e a he C da i a -i-face ed
or ce i h i de e de er igh ha re ire c a c -
ica i , j dg e a d h e dge f oecia i ed or d c a d ar-
e . The C da h e i r aage e a e a ac i e r e i he
ri aage e or ce a dha de e oed o cie a d or ced re
ha re ire oecific ad i i r a i e a d b i e f c i n a i
i he ide h ifica i , a e e a d c r - f ari ri . I h rec g-
i i f he i crea i g- aried a d c o e a re f he g ba-
fi a cia er ice b i e , he C da h ri aage e o-
cie a d or ced re are e - i h ar i h a re a d are bjec
g i g re ie a d difica i .

The Ma_hage e_h C i ee, c ed f he
C ba', e i r fficer, e abi he he era ri a-
age e_h o cie fr he C ba_h a_h d re ie he C ba', ber-
fr a c e re a i e he e o cie . The Ma_hage e_h C i ee ha
cre a ed e era Ri C i ee a i i i_h i ri g a d
re ie i g he C ba' ri a age e_h or a cie . The e Ri
C i ee, a e a herc i ee e abi hed a age a d
h i r decific ri , re ie he ri i ri g a d ri a age-
e_h o cie a d or ced re re a i g he C ba', ar e

h d credi ri or fie, a e brac ice, brici g fc h er a a d
re er e ade ac, ega e h f reabili a d berai a a d e
ri . The C h r mer, Tre a , C h dia ce a d G er h e a
Affair a d Fir Ri Ma age e h Deoar e h , hich are a i de
e de f he C o a ' b i e i , a i e i r a age e h
a d he Ri C i ee i h i riga dc r - i g he C o a h
ri or fie. I addi i h , he l h er a A di Deoar e h , hich a
re o r e i r a age e h , beri dica e a i e a dea a e
he C o a ' berai a d c r - e i r e . The C o a h
c i e bec i ed e o i g aifid ber h e i h
aod beria ee berie i each fi ari ad i i r a i e a d b i
h e area i be e h effec i e he C o a h ri a age e h
a d h i rig e a d or ce e .

The f_u i_g i_g i_g a_g d_g i_g i_g f_u heC_g o_g 'ri_g a_g
age e_g o_g c_g i_g a_g d_g o_g c_g re_g f_u ri_g o_g c_g a_g ri_g (her ha_g
f_u di_g ri_g). The di_g i_g f_u c_g e_g heC_g o_g 'ec_g ri_g ie rad-
i_g (ori_g ari_g i_g i_g i_g a_g radi_g ac_g i_g ie) a_g d_g e_g e_g e_g d-
i_g a_g d_g re_g a_g ed_g ac_g i_g ie . The C_g o_g be_g ie_g ha_g he_g e_g ac_g i_g ie
ge_g era_g e_g a_g b_g a_g ia_g o_g ri_g fi_g o_g c_g a_g ri_g . Thi_g di_g i_g
a_g d_g he_g e_g i_g a_g ed_g a_g f_u heC_g o_g 'are_g ri_g e_g o_g re_g
ge_g era_g ed_g b_g heC_g o_g , a_g i_g ca_g a_g a_g e_g are_g f_u ard_g i_g g
a_g e_g e_g . H_u e_g er_g , hea_g a_g e_g ed_g a_g e_g chri_g are_g
o_g predi_g i_g f_u f_u re_g e_g , a_g d_g ac_g a_g re_g - a_g ar_g ig_g ifi-
ca_g - fr_g ch_g a_g e_g d_g e_g ac_g a_g e_g i_g he_g are_g i_g hich
heC_g o_g o_g era_g a_g d_g cer_g ai_g her_g fac_g r_g de_g ribed_g be_g .

MARKET RISK

Mar e ri refer he ri ha a cha ge i h he e e f h e r re
ar e orice , rae , i dice , a ii ie , c rea i h r her are
fac r , cha i i idi , i re - i - e f r a b e cified o i i h
r o r f i . F r a d i c i h f he C ba h ' c r e c e o re
rea i g i h e h ear i h e e h i h h -U.S. d r a f h c i a
c rre c b idiarie , ee N e 11 he c h i da ed
fi a clia a e e h .

TRADING AND RELATED ACTIVITIES

President Mariano Rajoy, who has been in office since 2011, has been a vocal critic of the independence movement. He has called for a "return to理性和尊重" (return to reason and respect) and has threatened to invoke Article 155 of the Spanish Constitution, which would allow the central government to take over the region's autonomy if it becomes independent. The independence movement, on the other hand, has been pushing for a referendum on independence and has been organizing protests and demonstrations across the country.

rice a da cia ed a i i e a d bread rea ed a
br ad dec r fg ba are i hich i c d c i radi g
aci i ie . The C da h i e o ed i ere aeri a are -
f ai ai i g are a i g a d or brie ar o i i h a d radi g
i i ere a e e i i e fi a cia i r e (e.g., ri ari i g
fr chage i he e e r a i i fi ere a e , he i i g f
r gage bread e , he haoe f he ied c re a d credi
bread fr c ro rae b d a d e ergi g are deb). The
C da h i e o ed e i oriceri a are - f a i g ar-
e i e i ec ri ie a de i deria i e a d ai ai i g
or brie ar o i i h . The C da h i e o ed f reig e chage
raeri i c h ec i i h a i g are i f reig c re cie ,
f reig c re c i h a d ai ai i g f reig e chage o i i h .
The C da h , c re c radi g c er a h f reig c re cie ,
i c di g he e , de che ar , o d eri g , French fra c
a d , h ag i g f r ard ba i , he e r . The C da h i e o ed
c di oriceri a are - f radi g i c di -rea ed deri -
a i e a d oh i a c di ie .

The C **o** a **g** age i **r** a d i **g** o **i** **i** **h** b e **o** -
i **g** a **a** **r** i e **f** **r** a **e** **g** i e , h i c h i **c** **d** e **d** i **e** **r** i **f** i c **i** **f** r i **e** **o** -
r e a d h e **o** **r** c h a e **r** a e **f** **o** **i** **i** **h** i **r** e a **e** **d** e c **r** i **i** **e** a d
f i **h** a c i a i **h** r e **e** , i **c** **d** i g a **a** **r** i e **f** **d** e **r** a i e **o** **r** d **c**
(e.g., a **o** , b **i** , f **r** e a d f **r** a r d). The C **o** a **g** age
h e a r e r i a **c** i a e d i **h** i **r** a d i g a c i i i e **h** a C **o** a **g** -
i d e b a i , **h** a **r** a d i g d i i i **h** e e r **r** d i d e a d **h** a i **h** i **d** i d -
a o r d **c** b a i . The C **o** a **g** age a d **h** i **r** i **i** **a** **r** e
r i e **o** **r** e i **h** c h a a a a **a** i **a** i **a** o r f i **h** a **h** e
C **o** a **g** be i e e i e **d** i **e** r i f i e d i **h** r e **o** **e** **c** **h** a r e r i
f a c **r** . M a r e r i i i h a e b e e a o o r e d f **r** h e C **o** a **g** a d
e a c h a j r r a d i g d i i i **h** f h e C **o** a **g** r d i d e (e i , f i d e
i **c** e , f r e i g e c h a g e a d c **d** i **h** e). D i c r e e a r e r i
i **i** i a r e a i g e d r a d i g d e a d , a a o o r o r i a e , o r d **c**
a d r e g i **h** , h a a r e c **o** a i b e i h h e r a d i g d i i i **h** i **i** .
T r a d i g d i i i **h** r i a a g e r , d e r i a a g e r a d h e F i r R i
M a g a g e e **h** D e o a r e **h** a r i r a e r i e a r e a g a i n
i **i** i a d r e o r a j r a r e a d o i i e e e e i r a a g e e .

The Fir Ri Ma age e Debar e i deee de-
re ie heC **ba** ' radi g o n f i a reg arba i fr a ar-
e ri ber dec i e i i i g Va e-a-Ri a d her a i a i e a d
a i a i e ri ea re e **ba** a d a a e . The C **ba** a e

ea re, ch a rae e i i i, c h ei, a i i a d i e deca ea re e h, e i a e a r e i a d a e he e - i i i f o i h change i h are c d i h. Sre e i g, hich ea re hei bac h he a e fei i g o r f i f deci fied change i h are fac r, f rcerai or d c i b e r r ed b e r i dica a d re ie ed b radi g d i i h a a g e r, de ri a a g e r a d he Fir Ri Ma a g e e h Debar e h.

Va e-a -Ri

The a i ca ech i e h h a Va e-a -Ri (VaR) i e f he - ed b a a g e e h ea re, i h r a d r e ie he a r e i e o re f he C o a h ' radi g o r f i . The C o a h ' i deo de h Fir Ri Ma a g e e h Debar e h car- c a e a d di rib e dai VaR-ba ed ri ea re ari - e e f a a g e e h .

VaR Me h d - g, A o i h a d Li i a i

The C o a h e i a e VaR i g a de ba ed h i rica i - a i h i h a c h fide ce e f 99%. H i rica i a i h i e c h r c i g a d i rib i h f h o he i ca dai change i h radi g o r f i a e. The h o he i ca change i h o r f i a e are ba ed dai b er ed b er ce age change i h e ar e i dice r her a e fac r (a e ri fac r) hich he o r f i e i i e l h heca e f he C o a h ' VaR, he h i rica b er ai b er di aoor i a e f r ear. The C o a h ' e da 99% VaR c rre o d he h ega i e change i h o r f i a e ha, ba ed b er ed a e ri fac r e e h , d ha e bee h e c eed i h a f r e e c f 1%, r h c i 100 radi g da .

The VaR de ge era a e i h acc h i ear a d h h i ear e o re o rce a d i h e re a e ri a d h i ear e o - re i o ied a i i ri . Mar e ri ha a e i c r o r a e di h he VaR de i c de e i a d c di o rce, h i e re r a e, f reig e cha gera e a d a cia ed a i i ie, a e a c rea i h ha e i a a g he e ari able. A a o o e e h he e f h i rica i a i h f r a j r a e ri fac r, he C o a h ' VaR de e M e C a r i a i h ca o re a e b e cific i g ba e i ie a d i h U.S. c r o r a e a d h i g b d. A f N e ber 30, 1998, a a f aoor i a e 500 a e ri fac r be ch ar da a e rie ere i c r o r a e di h he C o a h ' VaR

de c eri g i e re r a e, e i o rce, f reig e cha gera e, c di o rce a d a cia ed a i i ie. I add i h he de i c de a r e i fac r f r aor i a e 7,500 e i h a e a d 60 c a e f c r o r a e a d h i g b d.

VaR de ch a he C o a h ' are c h i a e - i g a hec o i i h f radi g o r f i change a d a d e i g e ch i e a d e ca sabil i e i o r e. D ri g fi ca 1998, a oar f he C o a h ' g i g o r g a f VaR de e ha ce e h, o i i a d i c erage e re b rade ed a d i ea re e h e d - gie e re refi ed. I c ded i h che ha ce e h e re i o r ed ca o re fi o ied a i i ri i h cerai deri a i e or d c a d i e re r a e re a ed ri i h r gage-bac ed a d e ergi g - a e fi a cia i h r e e h , hich had he o r i ar effec fi crea h g he VaR f r i e re r a e ri .

A h g heir be ffi , VaR de ber i e i a i h f a o r f i ' agg raga e a e ri e o re, i c r o r a i g a r a g e a ried a e ri ; refec ri red c i d e o r f i di er ifica i ; a d ca c era ide r a g e f o r f i a e e are re a i e ea i e re. H e er, VaR ri ea re h d be i e re ed i h i g f he e h d - g i i a i h , hich i c de he f - i g: o a change i h a e ri fac r i h a a ied acc r a e b e d i f hedi rib i h a d c rea i h ff re are e e h ; change i h o r f i a e i re o h e are e e h a dif fer fr here o h e i o i ci i a VaR de; o b i hed VaR re - refec o a radi g o i i h h i f re ri de se h f re o i i h ; VaR i g a e da i e h i d e h f - ca o re he a e ri f o i i h ha ca h be i ida ed r hedged i h i e da ; a d he h i rica a e ri fac r da a ed f r VaR e i a i h a o r ide h i i ied i h i g h i - e ha c d be i c red h dercerai h a a e e e h . The C o a h i a are f he e a d h e i i a i h a d here re e VaR a h ec o e h i i ri a a g e e h re ie or ce . Thi or ce a i c r o r a e re e i g a de e i e i h i i i g a d c h - r a he radi g de , di i i h a d C o a h e e .

VaR f r Fi ca 1998

The abe be o re e h he re - f he C o a h ' VaR f r each f he C o a h ' o r i ar a e ri e o re a d h a a g g r a e ba i a N e ber 30, 1998 a d N e ber 30, 1997, i c r

• rai g b a ia a fi a cia i r e g e nera i g a re ri
 (i c di g f di g iabi i e re a ed hedgi g radi g o i i h, re a i
 radi g ac i i ie a d cerai ori a ee i o i i h ha are h
 re red esara e beca e he aggrega e i bac h he C o a h
 VaR a h a eria). H e er, a a or o ri h f radi g o i i h
 g e nera i g a re ri ere h c ered, a d he de i g f
 he ri charac eri ic f e o i i h i - ed aoor i a i h
 hich c d be ig ifica h der cerai circ a ce. Mar e
 ri ha he C o a h ha f d o ari c ar diffic i c ro rae
 i i VaR de i c de cerai ri a cia ed i h r gage-bac ed
 ec rie, e c di orice ri (ch a eec rici orice
 ri) a d i id i ri i cerai fi a cia or d c .

Si ce VaR i ba ed h i rica da a a d cha ge i
 a re ri fac rre r, VaR h d h be ie ed a oredic i e
 f he C o a h f re fil a cia berf r a ce ri abi i a -
 age a d h i rri, a d here ca be h a r a ce ha he
 C o a h ac ar e h a o ari c arda i h e ced he VaR
 a i dica ed be r ha ch e i h cc r re ha
 ce i 100 radi g da .

PRIMARY MARKET RISK CATEGORY (dollars in millions, pre-tax)	99%/ONE-DAY VaR AT NOVEMBER 30, 1998		1997 ⁽¹⁾
	High	Low	
Interest rate	\$36	\$42	
Equity price	17	17	
Foreign exchange rate	5	7	
Commodity price	6	6	
Subtotal	64	72	
Less diversification benefit⁽²⁾	26	26	
Aggregate Value-at-Risk	\$38	\$46	

(1) The Interest rate and Aggregate Value-at-Risk for fiscal 1997 have been restated to reflect the estimated impact of enhancements to the Company's VaR model made during fiscal 1998 described above.

(2) Equals the difference between Aggregate VaR and the sum of the VaRs for the four risk categories. This benefit arises because the simulated 99%/one-day losses for each of the four primary market risk categories occur on different days; similar diversification benefits also are taken into account within each such category.

The cha ge i Aggrega e Va e-a -Ri fr N e ber 30, 1997
 N e ber 30, 1998 ori ari ref ec ed a red ci h i cerai i h er-
 e a eri o i i .

I h order faci a e c oari h her g- ba-
 fi a cia er ice fir , he C o a h e ha i Aggrega e VaR
 a N e ber 30, 1998 fr her c h fide ce e e ad i e h ri h

a a f - : \$26 i i f r 95% h e - da VaR a h \$121 i i h
 f r 99% - ee VaR.

The abe be ore e he a erage, high a d -
 99% h e - da VaR er he c re effi ca 1998 f r b a ia-
 a r f he C o a h i i a radi g ac i i ie . Thi ea re f
 VaR i c ro rae f he C o a h radi g - re ad ar e
 ri . Cerai ar e ri i c ded i h he ear e d VaR di c ed
 ab e are e c ded fr hi ea re (i.e., h e a cia ed i h
 he C o a h re al radi g ac i i ie , e i orice ri i cerai
 ori a ee i o i i h a d f h di g iabi i ie re a ed hedgi g
 radi g o i i h).

PRIMARY MARKET RISK CATEGORY (dollars in millions, pre-tax)	DAILY 99%/ONE-DAY VaR FOR FISCAL 1998		
	High	Low	Average
Interest rate	\$50	\$35	\$41
Equity price	19	12	15
Foreign exchange rate	10	3	5
Commodity price	8	5	6
Aggregate Value-at-Risk	\$50	\$35	\$43

The C o a h e a a e he rea abe e fi VaR de b c -
 bari g he o e ia deci e i o rfi a re ge re ad b he
 de i h ac a radi g - . De oie a i e ar e c di i
 d ri g fi ca 1998, here ere h da d ri g hich he C o a h
 i c red da i radi g - e i i i i a radi g b i e i
 e ce f he 99% h e - da VaR hich i c ro rae he e ha ce e
 he C o a h VaR de ade d ri g fi ca 1998.

The char be ore e he C o a h dai 99% h e - da VaR f r
 i i h i i a radi g ac i i ie er he c re effi ca 1998:



CONSUMER LENDING AND RELATED ACTIVITIES

Here Rate Risk Management is
increasingly becoming a core activity, helping to manage risk associated with charge-offs, late fees, and other credit card fees. The credit card fees received from cardholders are based on a percentage of the outstanding balance, and are typically charged on a monthly basis. The fees are used to cover the cost of processing transactions and maintaining the credit card. The fees are also used to cover the cost of providing services to cardholders, such as customer service and technical support.

The credit card fees are derived from a variety of sources, including fees for late payments, fees for cash advances, and fees for balance transfers. The fees are typically charged on a monthly basis, and are used to cover the cost of processing transactions and maintaining the credit card. The fees are also used to cover the cost of providing services to cardholders, such as customer service and technical support.

Secondly, Management is increasing its focus on risk management, particularly in the area of credit card fees. The company is increasing its focus on risk management, particularly in the area of credit card fees. The company is increasing its focus on risk management, particularly in the area of credit card fees.

Thirdly, Management is increasing its focus on risk management, particularly in the area of credit card fees. The company is increasing its focus on risk management, particularly in the area of credit card fees.

are rate-sensitive. The rate card fees are derived from credit card fees, which are offered at a rate of 12% per annum. The fees are charged on a monthly basis, and are used to cover the cost of processing transactions and maintaining the credit card. The fees are also used to cover the cost of providing services to cardholders, such as customer service and technical support.

Fourthly, Management is increasing its focus on risk management, particularly in the area of credit card fees. The company is increasing its focus on risk management, particularly in the area of credit card fees.

Finally, Management is increasing its focus on risk management, particularly in the area of credit card fees. The company is increasing its focus on risk management, particularly in the area of credit card fees.

The company is increasing its focus on risk management, particularly in the area of credit card fees.

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REPORT OF INDEPENDENT AUDITORS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
MORGAN STANLEY DEAN WITTER & CO.

We have audited the accounts of Morgan Stanley & Co. and its
subsidiaries for the year ended November 30, 1998 and 1997, and
the related consolidated financial statements of Morgan Stanley & Co. and
its subsidiaries for the year ended November 30, 1998. The consolidated financial statements
are presented in accordance with generally accepted accounting principles. Our
audit included an examination of the financial statements and procedures
of Morgan Stanley & Co. and its subsidiaries, and such other information
as we considered necessary in order to audit the financial statements
consistently with generally accepted accounting principles and in accordance
with auditing standards generally accepted in the United States. We believe
that the financial statements present fairly the financial position of Morgan Stanley & Co.
and its subsidiaries in accordance with generally accepted accounting principles.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence concerning the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Morgan Stanley & Co. and its subsidiaries as of November 30, 1998 and 1997, and the results of their operations and cash flows for the years then ended in accordance with generally accepted accounting principles.

Audit fees for 1998, Morgan Stanley & Co. charged in connection with the audit of the financial statements for the year ended November 30, 1998, including fees for professional services rendered for the audit of the financial statements for the year ended November 30, 1997, amounted to \$13,144.

Deloitte & Touche LLP

New York, New York

January 22, 1999