

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in millions, except share data)

	NOVEMBER 30, 1998	NOVEMBER 30, 1997
ASSETS		
Cash and cash equivalents	\$ 16,878	\$ 8,255
Cash and securities deposited with clearing organizations or segregated under federal and other regulations (including securities at fair value of \$7,518 at November 30, 1998 and \$4,655 at November 30, 1997)	10,531	6,890
Financial instruments owned:		
U.S. government and agency securities	12,350	12,901
Other sovereign government obligations	15,050	22,900
Corporate and other debt	22,388	24,499
Corporate equities	14,289	10,329
Derivative contracts	21,442	17,146
Physical commodities	416	242
Securities purchased under agreements to resell	79,570	84,516
Receivable for securities provided as collateral ⁽¹⁾	4,388	—
Securities borrowed	69,338	55,266
Receivables:		
Consumer loans (net of allowances of \$787 at November 30, 1998 and \$884 at November 30, 1997)	15,209	20,033
Customers, net	18,785	12,259
Brokers, dealers and clearing organizations	4,432	13,263
Fees, interest and other	3,359	4,705
Office facilities, at cost (less accumulated depreciation and amortization of \$1,837 at November 30, 1998 and \$1,279 at November 30, 1997)	1,834	1,705
Other assets	7,331	7,378
Total assets	\$ 317,590	\$ 302,287

(dollars in millions, except share data)

	NOVEMBER 30, 1998	NOVEMBER 30, 1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
Commercial paper and other short-term borrowings	\$ 28,137	\$ 22,614
Deposits	8,197	8,993
Financial instruments sold, not yet purchased:		
U.S. government and agency securities	11,305	11,563
Other sovereign government obligations	13,899	12,095
Corporate and other debt	3,093	1,699
Corporate equities	11,501	13,305
Derivative contracts	21,198	15,599
Physical commodities	348	68
Securities sold under agreements to repurchase	92,327	111,680
Obligation to return securities received as collateral ⁽¹⁾	6,636	—
Securities loaned	23,152	14,141
Payables:		
Customers	40,606	25,086
Brokers, dealers and clearing organizations	5,244	16,097
Interest and dividends	371	970
Other liabilities and accrued expenses	8,623	8,630
Long-term borrowings	27,435	24,792
	302,072	287,332
Capital Units	999	999
Preferred Securities Issued by Subsidiaries	400	—
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	674	876
Common stock (\$0.01 par value, 1,750,000,000 shares authorized, 605,842,952 and 602,829,994 shares issued, 565,670,808 and 594,708,971 shares outstanding at November 30, 1998 and November 30, 1997)	6	6
Paid-in capital	3,746	3,727
Retained earnings	12,080	9,330
Employee stock trust	1,913	1,681
Cumulative translation adjustments	(12)	(9)
Subtotal	18,407	15,611
Note receivable related to sale of preferred stock to ESOP	(60)	(68)
Common stock held in treasury, at cost (\$0.01 par value, 40,172,144 and 8,121,023 shares at November 30, 1998 and November 30, 1997)	(2,702)	(250)
Common stock issued to employee trust	(1,526)	(1,337)
Total shareholders' equity	14,119	13,956
Total liabilities and shareholders' equity	\$ 317,590	\$ 302,287

(1) These amounts relate to the Company's adoption of SFAS No. 127.
See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

fiscal year (dollars in millions, except share and per share data)	1998	1997	1996
Revenues:			
Investment banking	\$ 3,340	\$ 2,694	\$ 2,190
Principal transactions:			
Trading	3,291	3,191	2,659
Investments	89	463	86
Commissions	2,353	2,086	1,776
Fees:			
Asset management, distribution and administration	2,849	2,505	1,732
Merchant and cardmember	1,647	1,704	1,505
Servicing	928	762	809
Interest and dividends	16,436	13,583	11,288
Other	198	144	126
Total revenues	31,131	27,132	22,171
Interest expense	13,514	10,806	8,934
Provision for consumer loan losses	1,173	1,493	1,214
Net revenues	16,444	14,833	12,023
Non-interest expenses:			
Compensation and benefits	6,636	6,019	5,071
Occupancy and equipment	583	526	493
Brokerage, clearing and exchange fees	552	460	317
Information processing and communications	1,140	1,080	996
Marketing and business development	1,411	1,179	1,027
Professional services	677	451	334
Other	745	770	668
Merger-related expenses	—	74	—
Total non-interest expenses	11,744	10,559	8,906
Gain on sale of businesses	685	—	—
Income before income taxes and cumulative effect of accounting change	5,385	4,274	3,117
Provision for income taxes	1,992	1,688	1,137
Income before cumulative effect of accounting change	3,393	2,586	1,980
Cumulative effect of accounting change	(117)	—	—
Net income	\$ 3,276	\$ 2,586	\$ 1,980
Preferred stock dividend requirements	\$ 55	\$ 66	\$ 66
Earnings applicable to common shares ⁽¹⁾	\$ 3,221	\$ 2,520	\$ 1,914
Earnings per common share⁽²⁾:			
Basic before cumulative effect of accounting change	\$ 5.80	\$ 4.38	\$ 3.34
Cumulative effect of accounting change	\$ (0.20)	\$ —	\$ —
Basic	\$ 5.60	\$ 4.38	\$ 3.34
Diluted before cumulative effect of accounting change	\$ 5.52	\$ 4.16	\$ 3.16
Cumulative effect of accounting change	\$ (0.19)	\$ —	\$ —
Diluted	\$ 5.33	\$ 4.16	\$ 3.16
Average common shares outstanding⁽²⁾:			
Basic	575,822,725	574,818,233	573,356,930
Diluted	606,294,065	606,306,475	606,790,754

(1) Amounts shown are used to calculate basic earnings per common share.

(2) Per share and share data for fiscal 1997 and 1996 have been restated to reflect the Company's adoption of SFAS No. 128.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

fiscal year (dollars in millions)	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 3,276	\$ 2,586	\$ 1,980
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Non-cash charges included in net income:			
Cumulative effect of accounting change	117	—	—
Gain on sale of businesses	(685)	—	—
Deferred income taxes	(55)	(77)	(426)
Compensation payable in common or preferred stock	334	374	513
Depreciation and amortization	575	338	251
Provision for consumer loan losses	1,173	1,493	1,214
Changes in assets and liabilities:			
Cash and securities deposited with clearing organizations or segregated under federal and other regulations	(3,641)	(1,691)	(1,943)
Financial instruments owned, net of financial instruments sold, not yet purchased	11,127	1,730	(2,536)
Securities borrowed, net of securities loaned	(5,061)	(10,561)	(13,087)
Receivables and other assets	2,114	(13,808)	(8,227)
Payables and other liabilities	6,095	19,058	6,910
Net cash provided by (used for) operating activities	15,369	(558)	(15,351)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (payments for) proceeds from:			
Office facilities	(358)	(301)	(152)
Sale of businesses, net of disposal costs	1,399	—	—
Purchase of Miller Anderson & Sherrerd, LLP, net of cash acquired	—	—	(200)
Purchase of Van Kampen American Capital, Inc., net of cash acquired	—	—	(986)
Net principal disbursed on consumer loans	(2,314)	(4,994)	(7,532)
Purchases of consumer loans	—	(11)	(51)
Sales of consumer loans	4,466	2,783	4,824
Other investing activities	—	(5)	(40)
Net cash provided by (used for) investing activities	3,193	(2,528)	(4,137)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for) short-term borrowings	5,620	(1,336)	8,106
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	(14,407)	3,080	7,748
Net proceeds from (payments for):			
Deposits	(796)	2,113	1,022
Issuance of cumulative preferred stock	—	—	540
Issuance of common stock	186	194	156
Issuance of long-term borrowings	9,771	6,619	8,745
Issuance of Preferred Securities Issued by Subsidiaries	400	—	—
Issuance of Capital Units	—	134	—
Payments for:			
Repayments of long-term borrowings	(7,069)	(3,964)	(2,637)
Redemption of cumulative preferred stock	(200)	(345)	(138)
Repurchases of common stock	(2,925)	(124)	(1,133)
Cash dividends	(519)	(416)	(313)
Net cash (used for) provided by financing activities	(9,939)	5,955	22,096
Dean Witter, Discover & Co.'s net cash activity for the month of December 1996	—	(1,158)	—
Net increase in cash and cash equivalents	8,623	1,711	2,608
Cash and cash equivalents, at beginning of period	8,255	6,544	3,936
Cash and cash equivalents, at end of period	\$ 16,878	\$ 8,255	\$ 6,544

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(dollars in millions)	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Employee Stock Trust	Cumulative Translation Adjustments	Note Receivable Related to Sale of Preferred Stock to ESOP	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Total
BALANCE AT FISCAL YEAR-END 1995										
Net income	\$ 818	\$ 6	\$ 3,456	\$ 5,981	\$ 1,050	\$ (9)	\$ (89)	\$ (361)	\$ (844)	\$ 10,008
Dividends	—	—	—	1,980	—	—	—	—	—	1,980
Issuance of common stock in connection with MAS acquisition	—	—	9	—	—	—	—	74	—	83
Redemption of 9.36% Cumulative Preferred Stock	(138)	—	—	—	—	—	—	—	—	(138)
Issuance of 7-3/4% Cumulative Preferred Stock	200	—	(3)	—	—	—	—	—	—	197
Issuance of Series A Fixed/Adjustable Rate Cumulative Preferred Stock	345	—	(2)	—	—	—	—	—	—	343
Conversion of ESOP Preferred Stock	(2)	—	2	—	—	—	—	—	—	—
Issuance of common stock	—	—	97	—	—	—	—	133	—	230
Repurchases of common stock	—	—	—	—	—	—	—	(1,133)	—	(1,133)
Retirement of treasury stock	—	—	(4)	(161)	—	—	—	165	—	—
Compensation payable in common stock	—	—	34	—	445	—	—	117	(150)	446
ESOP shares allocated, at cost	—	—	—	—	—	—	11	—	—	11
Translation adjustments	—	—	—	—	—	(2)	—	—	—	(2)
BALANCE AT FISCAL YEAR-END 1996										
Net income	\$ 1,223	\$ 6	\$ 3,589	\$ 7,477	\$ 1,495	\$ (11)	\$ (78)	\$ (1,005)	\$ (994)	\$ 11,702
Dividends	—	—	—	2,586	—	—	—	—	—	2,586
Redemption of 8.88% Cumulative Preferred Stock	(195)	—	—	—	—	—	—	—	—	(195)
Redemption of 8-3/4% Cumulative Preferred Stock	(150)	—	—	—	—	—	—	—	—	(150)
Conversion of ESOP Preferred Stock	(2)	—	(1)	—	—	—	—	3	—	—
Issuance of common stock	—	—	(22)	—	—	—	—	246	—	224
Repurchases of common stock	—	—	—	—	—	—	—	(124)	—	(124)
Compensation payable in common stock	—	—	243	—	186	—	—	278	(343)	364
ESOP shares allocated, at cost	—	—	—	—	—	—	10	—	—	10
Retirement of treasury stock	—	—	(6)	(265)	—	—	—	271	—	—
Translation adjustments	—	—	—	—	—	2	—	—	—	2
Issuance of common stock in connection with Lombard acquisition	—	—	14	—	—	—	—	49	—	63
Adjustment for change in Dean Witter Discover's year-end	—	—	(90)	(81)	—	—	—	32	—	(139)

(dollars in millions)	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Employee Stock Trust	Cumulative Translation Adjustments	Note Receivable Related to Sale of Preferred Stock to ESOP	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Total
BALANCE AT NOVEMBER 30, 1997	\$ 876	\$ 6	\$ 3,727	\$ 9,330	\$ 1,681	\$ (9)	\$ (68)	\$ (250)	\$ (1,337)	\$ 13,956
Net income	—	—	—	3,276	—	—	—	—	—	3,276
Dividends	—	—	—	(526)	—	—	—	—	—	(526)
Redemption of 7-3/4%										
Cumulative Preferred Stock	(200)	—	—	—	—	—	—	—	—	(200)
Conversion of ESOP Preferred Stock	(2)	—	(12)	—	—	—	—	14	—	—
Issuance of common stock	—	—	(210)	—	—	—	—	417	—	207
Repurchases of common stock	—	—	—	—	—	—	—	(2,925)	—	(2,925)
Compensation payable in common stock	—	—	241	—	232	—	—	42	(189)	326
ESOP shares allocated, at cost	—	—	—	—	—	—	8	—	—	8
Translation adjustments	—	—	—	—	—	(3)	—	—	—	(3)
BALANCE AT NOVEMBER 30, 1998	\$ 674	\$ 6	\$ 3,746	\$ 12,080	\$ 1,913	\$ (12)	\$ (60)	\$ (2,702)	\$ (1,526)	\$ 14,119

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