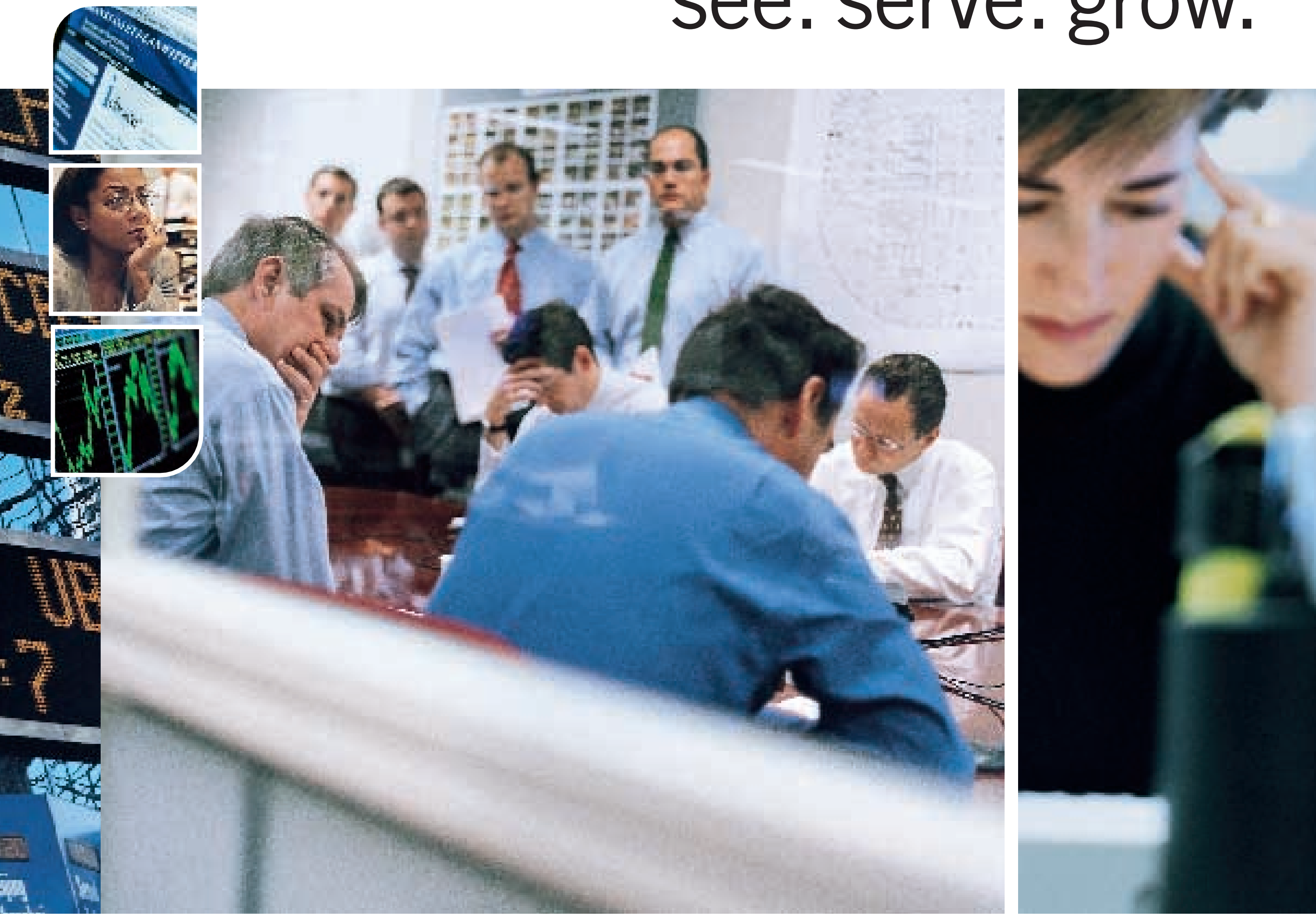
see. serve. grow.



MORGAN STANLEY DEAN WITTER

1999 annual report

We see possibilities where others see confusion and risk. We see opportunities in places others haven’t looked.

We serve our clients by expertly turning possibilities into realities… through securities offerings, mergers and acquisitions advice, asset management, credit services and innovative investment tools.

We grow our business by serving our clients… entering new markets, developing new products, attracting the most-talented people… becoming the world’s pre-eminent financial services firm.

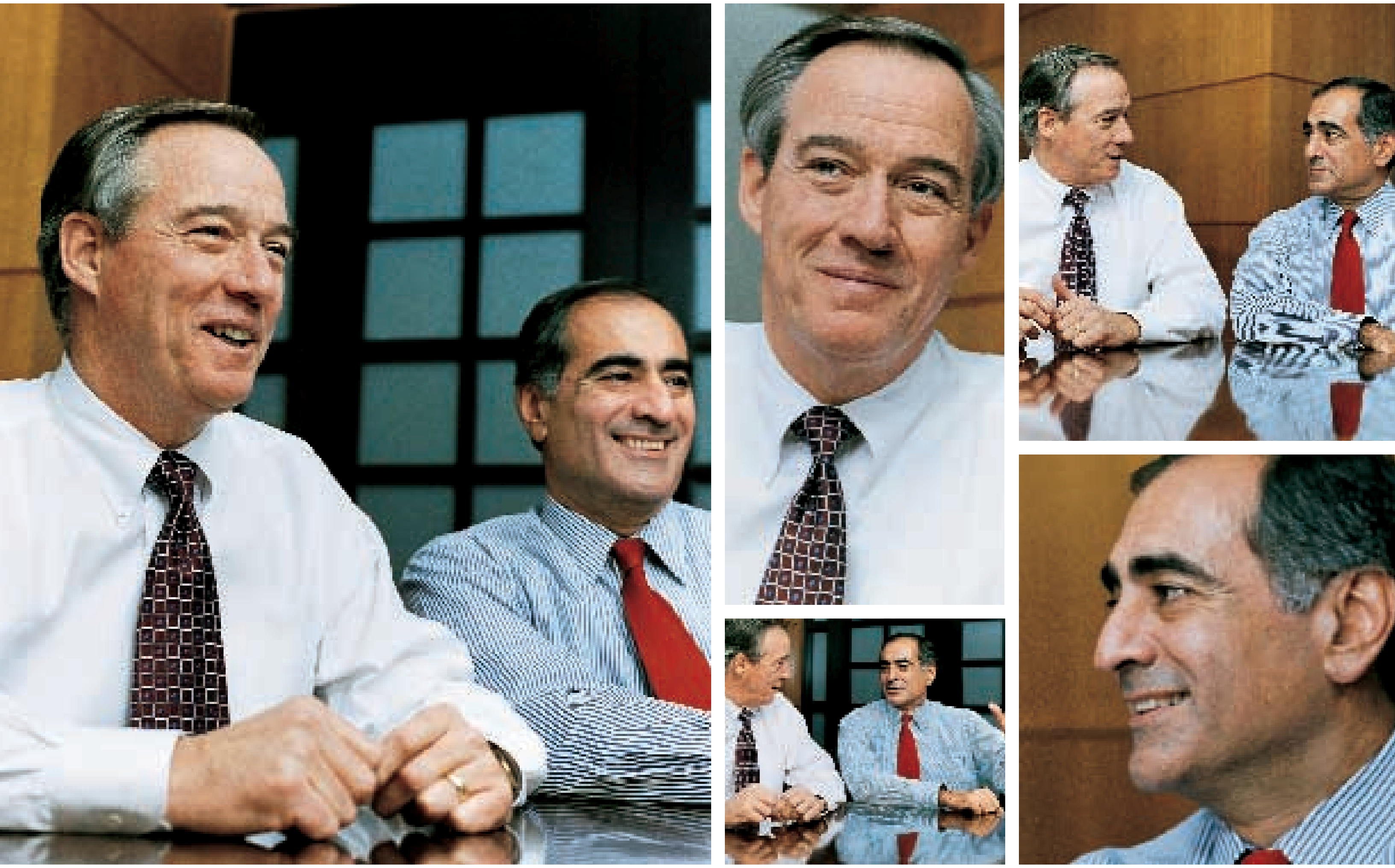
dear shareholders,

1999 was an extraordinary year for Morgan Stanley Dean Witter, our clients and our shareholders. The commitment and exceptional performance of our 55,000 employees around the globe led to increases in market share in several key businesses. We ended the year in the strongest position in our history, and we are poised for further growth in the new millennium.

Let's begin with our financial results:

- We earned $4.8 billion in 1999, an increase of $1.5 billion, or 46 percent over 1998. Diluted earnings per share was $4.10 — up 54 percent from $2.67 in 1998.
- Return on equity was 32.6 percent — well above our goal of an average of 18 percent to 20 percent over the course of the business cycle.
- On December 31, 1999, our stock closed up 101 percent from a year earlier. Since our merger on May 31, 1997, our stock price has risen by 244 percent compared with 73 percent for the S&P 500.
- In December, the Board of Directors declared a two-for-one common stock split for common shareholders of record as of January 12, 2000. The Board also increased the quarterly cash dividend per common share by 67 percent to $0.20.

What was the story behind these extraordinary results? You can begin with an excellent year for most financial markets, especially compared with the turbulence experienced in the latter half of 1998. But the story goes deeper than that and has to do with the remarkable transformation that is occurring in the world of business generally and with our customers. We are witnessing an intensification of the trends we discussed a year ago — particularly the rapid technological



PHILIP J. PURCELL, Chairman & Chief Executive Officer (left) **JOHN J. MACK,** President & Chief Operating Officer

selected financial data

fiscal year[1] (dollars in millions, except share and per share data)	1999	1998	1997	1996	1995
INCOME STATEMENT DATA:					
Revenues:					
Investment banking	$ 4,523	$ 3,340	$ 2,694	$ 2,190	$ 1,556
Principal transactions:					
Trading	5,983	3,283	3,191	2,659	1,685
Investments	725	89	463	86	121
Commissions	2,921	2,321	2,066	1,776	1,533
Fees:					
Asset management, distribution and administration	3,170	2,889	2,525	1,732	1,377
Merchant and cardmember	1,492	1,647	1,704	1,505	1,135
Servicing	1,194	928	762	809	680
Interest and dividends	13,755	16,436	13,583	11,288	10,530
Other	165	198	144	126	115
Total revenues	33,928	31,131	27,132	22,171	18,732
Interest expense	11,390	13,514	10,806	8,934	8,190
Provision for consumer loan losses	529	1,173	1,493	1,214	722
Net revenues	22,009	16,444	14,833	12,023	9,820
Non-interest expenses:					
Compensation and benefits	8,398	6,636	6,019	5,071	4,005
Other	5,883	5,108	4,466	3,835	3,464
Merger-related expenses	—	—	74	—	—
Relocation charge	—	—	—	—	59
Total non-interest expenses	14,281	11,744	10,559	8,906	7,528
Gain on sale of businesses	—	685	—	—	—
Income before income taxes and cumulative effect of accounting change	7,728	5,385	4,274	3,117	2,292
Provision for income taxes	2,937	1,992	1,688	1,137	827
Income before cumulative effect of accounting change	4,791	3,393	2,586	1,980	1,465
Cumulative effect of accounting change	—	(117)	—	—	—
Net income	$ 4,791	$ 3,276	$ 2,586	$ 1,980	$ 1,465
Earnings applicable to common shares[2]	$ 4,747	$ 3,221	$ 2,520	$ 1,914	$ 1,400
PER SHARE DATA[3]:					
Earnings per common share:					
Basic before cumulative effect of accounting change	$ 4.33	$ 2.90	$ 2.19	$ 1.67	$ 1.19
Cumulative effect of accounting change	—	(0.10)	—	—	—
Basic	$ 4.33	$ 2.80	$ 2.19	$ 1.67	$ 1.19
Diluted before cumulative effect of accounting change	$ 4.10	$ 2.76	$ 2.08	$ 1.58	$ 1.13
Cumulative effect of accounting change	—	(0.09)	—	—	—
Diluted	$ 4.10	$ 2.67	$ 2.08	$ 1.58	$ 1.13
Book value per common share	$ 14.85	$ 11.94	$ 11.06	$ 9.22	$ 7.82
Dividends per common share	$ 0.48	$ 0.40	$ 0.28	$ 0.22	$ 0.16
BALANCE SHEET AND OTHER OPERATING DATA:					
Total assets	$366,967	$317,590	$302,287	$238,860	$181,961
Consumer loans, net	20,229	15,209	20,033	21,262	19,733
Total capital[4]	39,699	37,922	33,577	31,152	24,644
Long-term borrowings[4]	22,685	23,803	19,621	19,450	14,636
Shareholders' equity	17,014	14,119	13,956	11,702	10,008
Return on average common shareholders' equity	32.6%	24.5%	22.0%	20.0%	16.4%
Average common and equivalent shares[2][3]	1,096,789,720	1,151,645,450	1,149,636,466	1,146,713,860	1,180,288,434

(1) *Fiscal 1995 and fiscal 1996 represent the combination of Morgan Stanley Group Inc.'s financial statements for the fiscal years ended November 30 with Dean Witter, Discover & Co.'s financial statements for the years ended December 31.*

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

(3) *Amounts have been retroactively adjusted to give effect for a two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on January 26, 2000.*

(4) *These amounts exclude the current portion of long-term borrowings and include Capital Units and Preferred Securities Issued by Subsidiaries.*

change that is creating new companies, driving consolidation and globalization, and bringing about the restructuring of entire industries and economies.

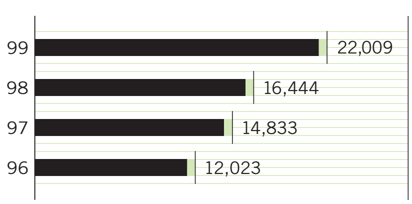
In this "new economy," customers are gaining power, transaction costs are being driven down, and more open and transparent markets and increased competition put a premium on products and services that are the best of breed. We know that such a new economy is emerging. And we believe that Morgan Stanley Dean Witter (MSDW), with its tradition of putting customer interests first, its financial strength and its ability to provide customers with access to efficient markets, stands at the fulcrum of change.

BREADTH AND DEPTH

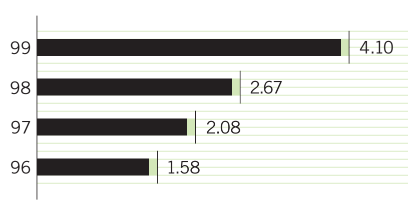
One theme, which we never tire of repeating, is the great breadth and depth of our firm, which gives us a diverse stream of revenues and the capabilities to offer a wide range of opportunities to our customers.

We have three core businesses — securities, asset management and credit services — each requiring different expertise, each meeting particular customer needs and each offering significant opportunities for growth. We achieved record results and market share gains this past year in both our securities and credit services businesses; and in the third, asset management, we improved our results substantially from a year earlier and took steps to capitalize on some strategic long-term growth opportunities.

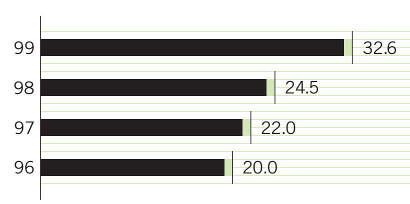
Within each of our core businesses, we have established strong brands and broad market presence as well as considerable diversity in products and services. Our capabilities for institutional customers include products and services in mergers and acquisitions, equities,



NET REVENUES
(in millions of U.S. dollars)



EARNINGS PER SHARE
(diluted, in U.S. dollars)

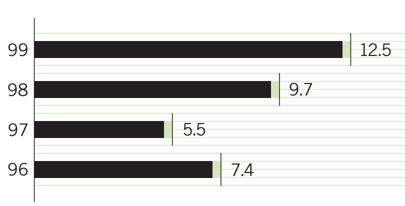


RETURN ON AVERAGE COMMON EQUITY
(in percent)

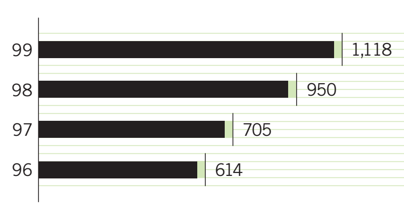
fixed income securities, commodities and foreign exchange — in markets throughout the world. This past year we achieved record revenues and net income in our institutional business, with substantial growth in nearly every category. It also was a record year for our Private Client Group, which serves more than 4 million individual investor accounts. The breadth of this business is reflected in 475 branch offices and more than 12,000 financial advisors. The synergy between the origination capabilities of our institutional securities business and distribution capabilities of our Private Client Group is illustrated by the large increases in new equity issue sales to individual investors over the past three years.

In credit services, our Discover Card is a franchise of unique breadth that serves more than 48 million cardmembers and over 3.5 million merchant outlets. One of Discover's key growth initiatives this past year was a concerted marketing campaign to expand its merchant network by emphasizing its cost and services advantage. This resulted in the enrollment of more than 615,000 new merchant locations, the highest yearly increase in our history. Discover also added to its cardholder base 5.5 million new accounts and grew transaction volume by 22 percent and managed consumer loans by 17 percent, to $38 billion.

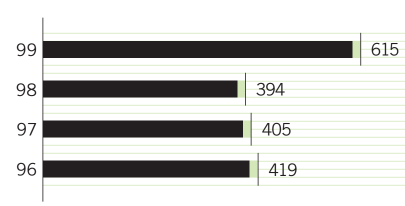
In asset management, our strategy is to offer a full range of funds, international expertise and asset allocation skills — the "best of our best" — to both our institutional clients and our retail clients. The scope of this business now includes more than 400 funds and three well-established distribution channels: relationships with our individual clients through our financial advisors; relationships with corporations, governments and other institutions through MSDW Investment Management and Miller Anderson & Sherrerd; and relationships with millions of investors who purchase our Van Kampen funds through brokers, banks, financial planners or other financial intermediaries.



WORLDWIDE INITIAL PUBLIC OFFERINGS MARKET SHARE*
(in percent)
*Thomson Financial Securities Data



NEW ACCOUNTS OPENED IN PRIVATE CLIENT GROUP
(in thousands)



DISCOVER/NOVUS INCREASE IN MERCHANT LOCATIONS
(in thousands)

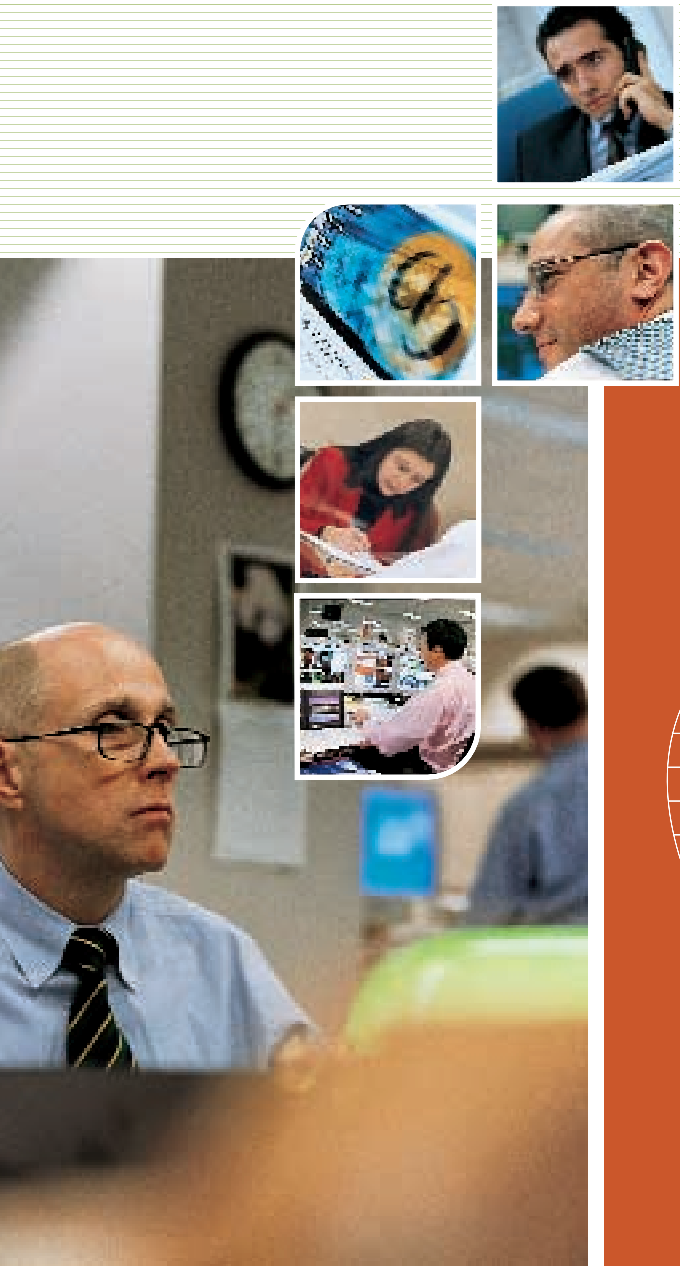
see possibilities

BEING CLOSE TO CLIENTS. KNOWING THEIR GOALS. UTILIZING THE BEST TECHNOLOGY. ANALYZING MARKETS AND LONG-TERM ECONOMIC TRENDS. HAVING SMART, EXPERIENCED PEOPLE IN FINANCIAL MARKETS AROUND THE WORLD.

UNIFIED EUROPE
Companies are positioning themselves to capitalize on the Pan-European market environment by merging with or acquiring their competitors. MSDW is a leader in European M&A.

PRIVATIZED PENSIONS
Individual investors worldwide are gaining control of billions of dollars of pension investments — and shifting them from fixed income to equity investments. MSDW is expanding its asset management business globally.

TECHNOLOGY IPOs
MSDW was the market leader in 1999, raising $6 billion in technology IPOs for clients.



DELIVERING SOLUTIONS

SPAIN
Acquired AB Asesores, the largest independent financial services firm in Spain.

U.S.
Expanded online access to securities products for both institutional and individual customers.

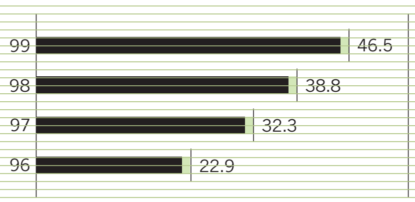
U.K.
Extended credit card franchise overseas.

JAPAN
Assisted in the restructuring of Japanese financial markets with innovative debt issues.

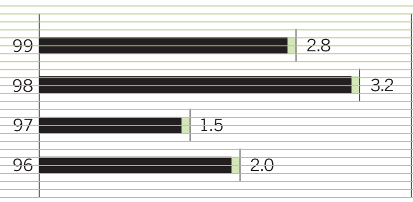
LATIN AMERICA
Assisted governments and corporations in raising capital through new high-yield debt issues.

ASIA
Named Asia's "Best Investment Bank" by *Finance Asia* for the second consecutive year.

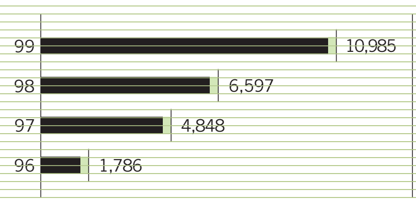
EUROPE
Led more equity underwriting issues than any other U.S. investment bank.



EUROPEAN M&A ANNOUNCED TRANSACTIONS MARKET SHARE*
(volume in percent)
*Thomson Financial Securities Data



MSDW RETAIL MUTUAL FUNDS NET SALES MARKET SHARE*
(in percent)
*Includes MSDW Advisors and Van Kampen market share
Based on top 50 competitors



MSDW ONLINE AVERAGE TRADES PER DAY

Morgan Stanley Dean Witter has been a leader in the growth, restructuring and consolidation of the European markets.

INSIGHT AND EXPERIENCE

There is no substitute for the right combination of insight and experience, whether it is seizing new opportunities created by a unified European market, bringing an unprecedented number of technology IPOs to market or continuing to create innovative financial products to match the needs of issuers and investors.

There was perhaps nowhere in the world this past year where change has been more dramatic and the opportunities for growth greater than in Europe. The advent of the euro in early 1999 has ushered in a wave of consolidation and restructuring that crosses traditional boundaries. The single currency is leading to a unified debt market. Companies are seeking financing to restructure and become more competitive. More investors are demanding performance, and the equity markets are gaining in prominence.

Morgan Stanley Dean Witter has been a leader in the growth, restructuring and consolidation of the European markets. Some of the prominent M&A transactions we advised on included: the $66 billion Vodafone/AirTouch merger, which formed the largest mobile telephone company in the world; the $59 billion oil industry merger of Elf Aquitaine with TotalFina; and the $28.5 billion pharmaceutical industry merger of Hoechst and Rhône-Poulenc. We also are an advisor in the proposed merger of SmithKline Beecham and Glaxo Wellcome, announced at the beginning of 2000.

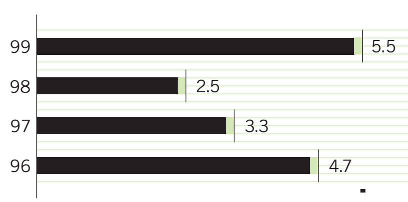
We continued to pioneer the movement to a unified credit market in Europe, acting as lead-manager in euro-denominated debt issues for Fiat, Electricite de Portugal and Suez Lyonnaise des Eaux, which was the largest corporate bond offering ever by a French company. MSDW is a leader in Europe as well as other parts of the world in applying our insight and experience to create innovative financing structures. We structured and placed a series of complex transactions for Pemex, the Mexican oil company. In Japan, we lead-managed an innovative $5.6 billion equity offering for East Japan Railway and arranged for the first-ever securitization of non-performing real estate loans.

The dot-com phenomenon in the United States was another major trend in 1999. More than 300 technology companies went public this past year, raising more than $33 billion in capital. MSDW played a central role as the number one underwriter of technology IPOs in the United States and worldwide, working with leaders such as Amazon.com, eBay and Priceline.com. We were the lead-manager in the $2.2 billion IPO for Agilent Technologies, a subsidiary of Hewlett-Packard, and the $2.8 billion secondary offering for Nextel Communications. In an active market for technology mergers and acquisitions, we were the advisor in a number of prominent transactions, including the sale of Broadcast.com to Yahoo! and the acquisition of Netscape by America Online. In addition, as the year 2000 began, we became an advisor in what is perhaps the most widely heralded “new economy” combination to date — the proposed merger of Time Warner and America Online.

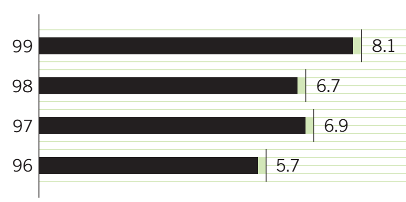
COMMITMENT TO ADDING VALUE

Morgan Stanley Dean Witter has the resources, the commitment, the people and the technology to provide virtually any client in almost any country the combination of products, services and advice to find the best solution for that client’s financial needs. Our future growth is linked to this basic value proposition.

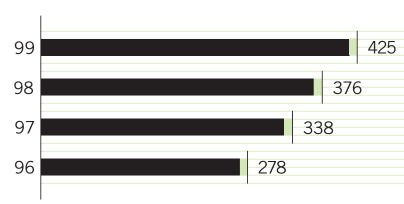
There are countless examples of how this past year Morgan Stanley Dean Witter brought the firm’s broad resources to bear to meet the particular needs of our clients. One notable example, with far-reaching implications, was the launch in October of ***i***choice for individual investors.



NEW ACCOUNTS OPENED IN DISCOVER FINANCIAL SERVICES
(in millions)



WORLDWIDE INVESTMENT GRADE DEBT UNDERWRITING MARKET SHARE*
(in percent)
*Thomson Financial Securities Data



ASSETS UNDER MANAGEMENT OR SUPERVISION
(in billions of U.S. dollars)

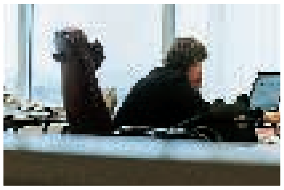
serve clients

DELIVERING SOLUTIONS THAT ARE UNIQUE AND INNOVATIVE. SOLUTIONS THAT ADD VALUE FOR CLIENTS.

ADVICE, TECHNOLOGY, PRODUCTS
With our innovative new service platform for individuals, *i*choice, investors can do business with us any way they choose.

BIGGEST U.S. IPO EVER
In November, MSDW was the lead-manager in the $5.5 billion initial public offering of United Parcel Service, the largest IPO in U.S. history.

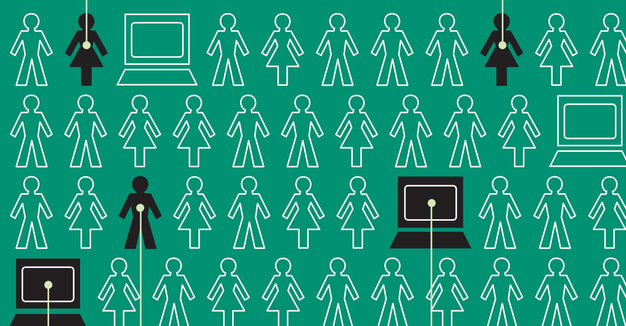
CAPITAL MARKETS INNOVATION
We have brought technical innovation to debt and equity markets in Europe and Asia, creating new products and greater opportunities for issuers and investors.



TECHNOLOGY AND INTELLECTUAL CAPITAL SERVING OUR CLIENTS

12,000+ FINANCIAL ADVISORS
These trained professionals marshal the firm's broad resources on behalf of individual clients.

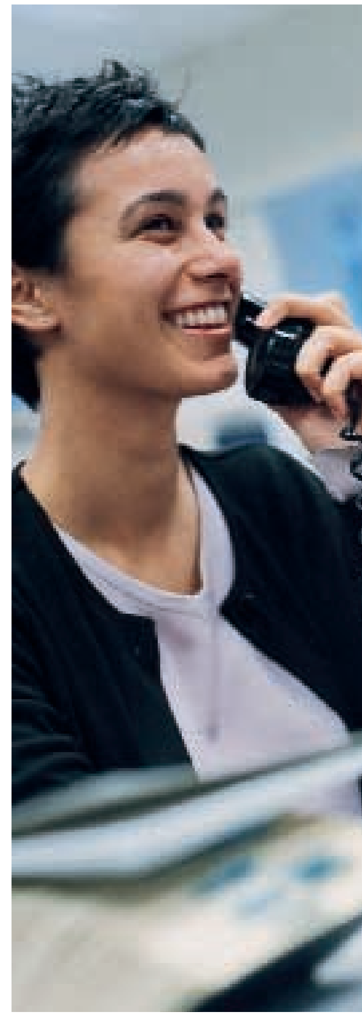
GLOBAL PRESENCE
We have more than 550 offices in 25 countries.

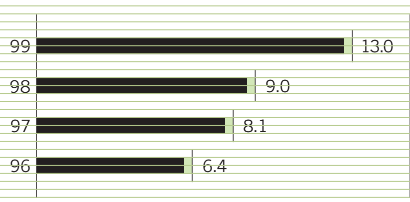


128 TOP-RATED ANALYSTS
We confirmed our global leadership in research, providing clients with quality analysis of companies and economic trends.

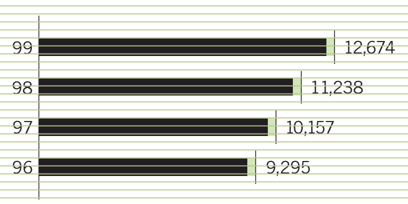
ECNS
MSDW provides clients access to securities markets through expanding electronic communication networks.

MSDW ONLINE
Our top-ranked online brokerage provides unmatched technology, execution and content for self-directed investors.

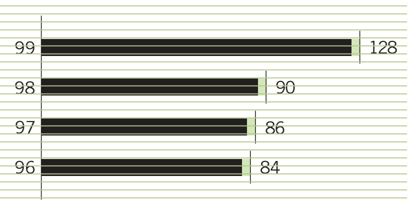




WORLDWIDE EQUITY AND EQUITY-RELATED UNDERWRITING MARKET SHARE*
(in percent)
*Thomson Financial Securities Data



NUMBER OF FINANCIAL ADVISORS



NUMBER OF MSDW TOP-RATED ANALYSTS WORLDWIDE*
**Institutional Investor*

The ability to deliver solutions to a wide range of clients in today's global financial markets depends on the combination of state-of-the-art technology as well as highly talented people.

ichoice is a new service and technology platform of great range, scale and flexibility. It combines the expertise of our more than 12,000 full-service financial advisors, the proven technology of our award-winning online business and our firm's unmatched depth in product offerings and research. ***i***choice provides every MSDW individual investor client the choice of self-directed investing online; a traditional full-service relationship through a financial advisor; or some combination of both. It also provides a range of different pricing options that include fee-based pricing with a virtually unlimited number of online trades.

The firm has always said it "measures success one investor at a time," and we know that investors have different needs, goals and preferences in the way they invest. Therefore, our new platform is designed to meet the needs of every investor. We believe that no one in our industry can offer investors the same combination of advice, technology, research and originated product as Morgan Stanley Dean Witter.

In our institutional securities business, the counterpart of the advanced ***i***choice Internet platform is ClientLink, a robust global platform that provides customers with real-time price information on a wide range of securities, advanced analytics and views of market activities around the globe. Institutions also can use ClientLink to purchase new issues. Through our private, secure Internet platform, more than 40,000 registered clients have access to over 50 financial applications and to our top-rated global equity research team, which includes 20 economists, 24 strategists and more than 250 analysts who cover over 2,400 companies worldwide. Our research group secured the top spot in *Institutional Investor's* Global Research Team in 1999, and MSDW was recognized as the "most read brokerage firm worldwide" by First Call Corp.

Another example of our ability to marshal the firm's broad capabilities to meet not only the funding goals of a major issuer but also the investment needs of institutional and individual investors was the initial public offering of United Parcel Service (UPS). The UPS offering raised $5.5 billion and was the largest IPO in U.S. history. More than 10,000 financial advisors at our branch offices were involved in distributing UPS shares to more than 90,000 of our individual investor clients. There are many examples of MSDW's ability to serve a wide range of clients in other parts of the world. In emerging markets, we were the number one underwriter in sovereign bonds, lead-managing offerings for eight of the top 10 borrowers, including issues that brought both Brazil and Argentina back into the international capital markets. With a resurgence of investor confidence in Asian economies, we were the global coordinator for the $2.5 billion equity offering of Korea Telecom and a lead-manager for the 120 billion yen bond issue for Nippon Telegraph and Telephone.

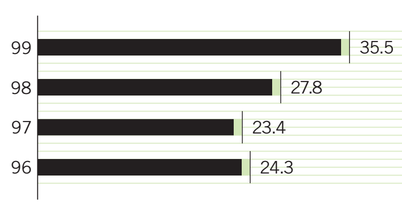
In asset management, a key measure of providing value for clients is the performance of our mutual funds. As of November 1999, 51 of our mutual funds were ranked 4 or 5 stars by Morningstar, which makes MSDW second in the industry in number of top-ranked funds. Two of our highly rated funds — the Van Kampen Emerging Growth Fund and the MSDW American Opportunities Fund — have been named "Funds of the Decade" by *Mutual Funds* magazine.

EYE ON THE FUTURE

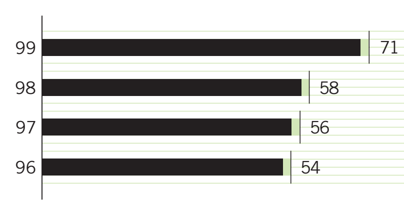
Our goal is to be the world's pre-eminent financial services firm. To reach that goal, we must continue to grow in a growing industry.

The financial services industry is undergoing significant restructuring and consolidation, with acceleration in the growth of many players and the decline of many others. Overall, when you examine key indicators over the past five years, the industry has shown resilience and strength, as well as impressive growth. Worldwide M&A volume, worldwide debt and equity issuance,

NUMBER OF MSDW FUNDS RANKED 4 AND 5 STARS BY MORNINGSTAR



WORLDWIDE M&A ANNOUNCED TRANSACTIONS MARKET SHARE*
(volume in percent)
*Thomson Financial Securities Data



GENERAL PURPOSE CREDIT CARD VOLUME
(in billions of U.S. dollars)

grow our business

AS MORE CLIENTS CHOOSE TO DO BUSINESS WITH MORGAN STANLEY DEAN WITTER. OUR GOAL — TO BE THE WORLD'S PRE-EMINENT FINANCIAL SERVICES FIRM.

GROWTH IN CLIENT ASSETS

MSDW now manages or supervises $425 billion in client assets for individual and institutional investors worldwide.

EXPANSION IN EUROPE AND ASIA

Our acquisition of AB Asesores in Spain and our cooperative agreement with Sanwa Bank in Japan are key steps in the global expansion of our securities and asset management businesses for individual investors.

GLOBAL BRANDING POWER

Cardmembers and vendors in the U.K. now leverage the power of the Discover Card through the Morgan Stanley Dean Witter card, launched in September.

A FOUNDATION FOR GROWTH

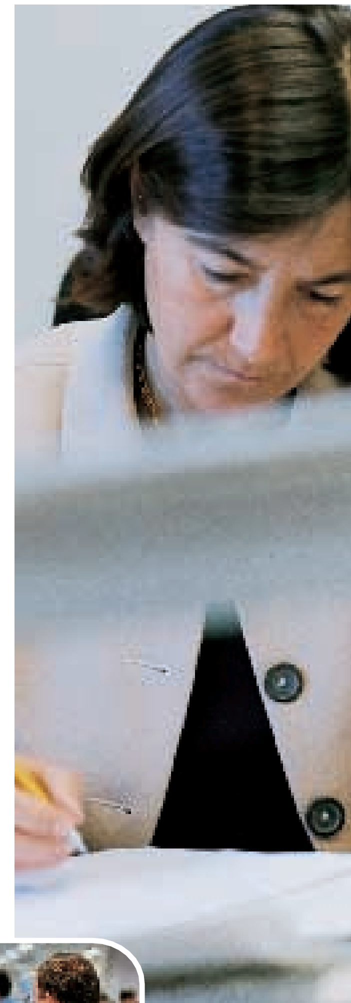
DIVERSE EARNINGS
We have less volatile earnings from diverse revenue streams in our three core businesses.

SHAREHOLDER VALUE
We repurchased 50 million shares of common stock to return capital to shareholders.

MARKET LEADERSHIP
We have increased market share in M&A, equity underwriting, IPOs and investment grade debt.

LARGEST CAPITAL BASE
We have $40 billion in total capital; $17 billion in shareholders' equity.

RISK MANAGEMENT
Our success in managing risk is based on the experience and discipline of our people.



The forces of technological change, deregulation and greater demands by customers are driving this growth.

worldwide pension assets and U.S. mutual fund assets, New York Stock Exchange and NASDAQ average daily trading volumes, and credit card receivables all have shown strong growth. The long-term trends are clearly in favor of continued expansion in financial services, despite short-term cycles. The forces of technological change, deregulation and greater demands by customers are driving this growth.

Within this overall picture, when you look at market share comparisons among financial services firms, it is clear that a winnowing process is taking place. The industry continues to consolidate, and the advantage of size and scale becomes apparent in the marketplace. Customers, who have more information and access to markets and look to firms that can provide the greatest value in products and services, are driving this.

In the institutional securities business, a super-bulge bracket has emerged in many product categories, often consisting of only two or three competitors. MSDW has capitalized on this trend: Over the past three years, our global M&A market share increased from 24 percent to 36 percent, our worldwide equity underwriting market share increased from 6 percent to 13 percent and our global IPO market share increased from 7 percent to 13 percent. On the retail side of the securities business, we also have achieved significant market share gains, measured both by the number of financial advisors and by total revenues. The credit card industry is in the midst of dramatic consolidation as well, and our Discover Card franchise is a beneficiary of growth, with 1999 gains in both transaction volume and receivables.

Obviously, our plans for the future are not just to ride the wave. We have two top-priority strategic initiatives on which we made significant progress this past year:

First, as we discussed in last year's annual report, we believe the next frontier in financial services is the global distribution of securities and asset management products to individuals.

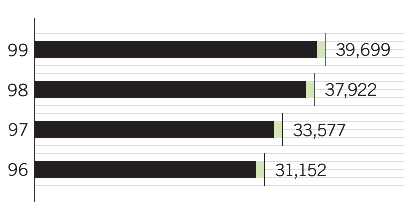
In 1999, we took several significant steps toward establishing a global retail capability. We acquired AB Asesores, the largest independent financial services firm in Spain with a distribution network serving individual investors as well as leading positions in personal investment, equity research, investment banking and asset management. We also formed an alliance with Sanwa Bank to pursue retail brokerage and asset management opportunities in Japan, and in Italy we announced our intention to purchase a 15 percent stake in Area S.p.A., a leading independent retail financial advisory firm.

Second, we believe that the credit card business in markets outside the United States represents a major growth opportunity. In September, we launched a new credit card in the United Kingdom featuring a Cashback Bonus award, attractive pricing and no annual fee. The results in card acceptance and receivables growth for the first several months have been excellent.

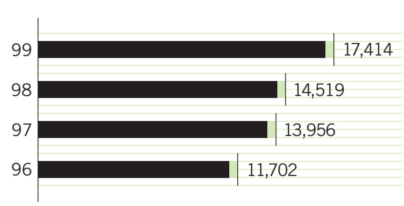
FINANCIAL STRENGTH

Few firms can match Morgan Stanley Dean Witter's financial strength and resources. The impressive growth in our earnings over the past three years has been a key source of this strength, enabling us to generate substantial capital internally and serving as a powerful platform for further expansion.

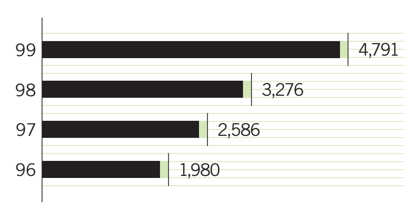
Our firm has one of the largest capital bases in the financial services industry. Our total capital at fiscal year-end was $39.7 billion, including shareholders' equity of $17.4 billion. While our capital base has grown to support our expanding business, we also were able to return capital to shareholders this past year by increasing our quarterly dividend by 67 percent and by repurchasing approximately 50 million shares of our common stock. We expect to continue to utilize stock



TOTAL CAPITAL*
(in millions of U.S. dollars)
*Excludes the current portion of long-term debt and includes Capital Units and Preferred Securities Issued by Subsidiaries



SHAREHOLDERS' EQUITY*
(in millions of U.S. dollars)
*Includes Preferred Securities Issued by Subsidiaries



NET INCOME
(in millions of U.S. dollars)

repurchases as a means of managing our capital base. In December, our Board of Directors authorized the repurchase of an additional $1 billion of common stock.

Further confirmation of our financial strength is the fact that during the past year, four rating agencies upgraded our credit rating, all in the double-A category. Because of our solid capital base, we were able to strongly encourage our clients to turn to us for assistance in meeting their liquidity needs, both during the year and over the millennial year-end.

In April, Dan Burke and Allen Murray will be leaving our Board of Directors. We would like to thank them for their important contributions to the success of our firm. Both Dan and Allen can be described as being "wiser than a tree full of owls," and we will miss their counsel.

In closing, we would like to thank our employees for their hard work and dedication to our clients. We also thank you, our fellow shareholders, for your support of our great enterprise. As we look to the future with the clear purpose of further expanding our business and pursuing opportunities for growth, we obviously are in a very strong position. We will continue to strive to create shareholder value and to manage the business for your benefit. We are confident that Morgan Stanley Dean Witter will continue to prosper and grow.

PHILIP J. PURCELL
Chairman & Chief Executive Officer

JOHN J. MACK
President & Chief Operating Officer

February 5, 2000

Morgan Stanley Dean Witter
at a glance

securities

MSDW serves institutional investors, individual investors and investment banking clients, including corporations, governments and other entities around the globe. The firm provides clients with investment banking advice on mergers and acquisitions, financial restructuring and privatizations. The firm manages private partnerships that invest in venture capital and real estate opportunities. The firm also is a major underwriter of stocks and bonds and provides research and sales and trading services in virtually every type of financial instrument, including stocks, bonds, derivatives, foreign exchange and commodities. The Private Client Group has more than 12,000 financial advisors and over 4 million client accounts, with assets of nearly $600 billion.

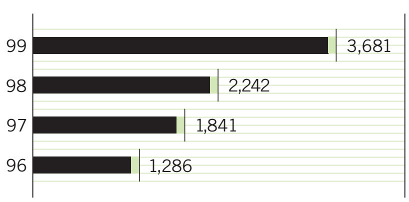
asset management

MSDW is one of the 10 largest asset managers in the world, with globally recognized brand names:

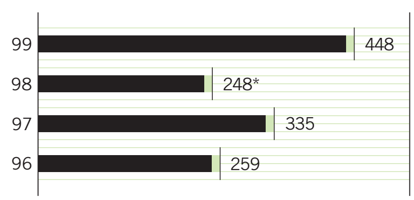
- MSDW Advisors offers a diverse range of funds managed by top investment professionals from our various money management units, including many highly rated U.S. and international bond, equity and multi-asset class funds.
- Van Kampen offers a broad array of equity and fixed income mutual fund products that are distributed via third parties.
- MSDW Investment Management and Miller Anderson & Sherrerd offer a complete selection of investment products to institutional investors, including pension funds, corporations, non-profit organizations and governmental agencies.

credit services

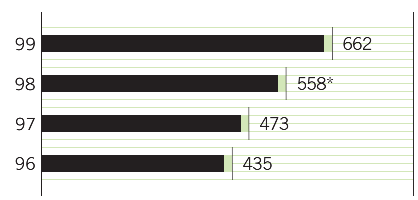
MSDW's flagship Discover® Card was launched in 1985 and is marketed in the United States with no annual fee and a Cashback Bonus® award. The Discover Card is accepted exclusively on the Discover/NOVUS® Network, the largest independent credit card network in the United States, with more than 3.5 million merchant and cash access locations. Today, Discover Card offers various products and financial services, including more than a dozen affinity card programs, CD and Savers' Accounts; and credit insurance coverage. Discover Card also has become a leading card company on the Internet; with more than 1 million registered users at the Discover Card Account Center, accessible via www.discovercard.com.



SECURITIES
INCOME AFTER TAXES
(in millions of U.S. dollars)



ASSET MANAGEMENT
INCOME AFTER TAXES
(in millions of U.S. dollars)
*Excluding gain on sale of business



CREDIT SERVICES
INCOME AFTER TAXES
(in millions of U.S. dollars)
*Excluding gain on sale of businesses

financial statements

management's discussion and analysis of financial condition and results of operations

INTRODUCTION

THE COMPANY

Morgan Stanley Dean Witter & Co. (the "Company") is a pre-eminent global financial services firm that maintains leading market positions in each of its three business segments — Securities, Asset Management and Credit Services. The Company combines global strength in investment banking and institutional sales and trading with strength in providing full-service and online brokerage services, investment and global asset management services and, primarily through its Discover® Card brand, quality consumer credit products. The Company provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals.

The Company's results for the 12 months ended November 30, 1999 ("fiscal 1999"), November 30, 1998 ("fiscal 1998") and November 30, 1997 ("fiscal 1997") are discussed below. All share and per share information presented herein have been retroactively adjusted to reflect a two-for-one common stock split, effected in the form of a 100% stock dividend, declared December 20, 1999 and payable January 26, 2000 to shareholders of record as of January 12, 2000.

RESULTS OF OPERATIONS

CERTAIN FACTORS AFFECTING RESULTS OF OPERATIONS*

The Company's results of operations may be materially affected by market fluctuations and by economic factors. In addition, results of operations in the past have been, and in the future may continue to be, materially affected by many factors of a global nature, including economic and market conditions; the availability and cost of capital; the level and volatility of equity prices and interest rates; currency values and other market indices; technological changes and events (such as the increased use of the Internet to conduct electronic commerce and the emergence of electronic communication trading networks); the availability and cost of credit; inflation; investor sentiment; and legislative and regulatory developments. Such factors also may have an impact on the Company's ability to achieve its strategic objectives on a global basis, including (without limitation) continued increased market share in its securities activities, growth in assets under management and the expansion of its Credit Services business.

The Company's Securities business, particularly its involvement in primary and secondary markets for all types of financial products, including derivatives, is subject to substantial positive and negative fluctuations due to a variety of factors that cannot be predicted with great certainty, including variations in the fair value of securities and other financial products and the volatility and liquidity of global trading markets. Fluctuations also occur due to the level of market activity around the world, which, among other things, affects the size, number and timing of investment banking client assignments and transactions and the realization of returns from the Company's private equity and other principal investments. The level of global market activity also could impact the flow of investment capital into mutual funds and the way in which such capital is allocated among money market, equity, fixed income or other investment alternatives which also could cause fluctuations to occur in the Company's Asset Management business. In the Company's Credit Services business, changes in economic variables, such as the number and size of personal bankruptcy filings, the rate of unemployment and the level of consumer debt, may substantially affect consumer loan levels and credit quality, which, in turn, could impact overall Credit Services results.

The Company's results of operations also may be materially affected by competitive factors. Included among the principal competitive factors affecting the Securities business are the quality of its professionals and other personnel, its products and services, relative pricing and innovation. Competition in the Company's Asset Management business is affected by a number of factors, including investment objectives and performance; advertising and sales promotion efforts; and the level of fees, distribution channels and types and quality of services offered. In Credit Services, competition centers on merchant acceptance of credit cards, credit card acquisition and customer utilization of credit cards, all of which are impacted by the type of fees, interest rates and other features offered.

In addition to competition from firms traditionally engaged in the financial services business, there has been increased competition in recent years from other sources, such as commercial banks, insurance companies, online service providers, sponsors of mutual funds and other companies offering financial services both in the U.S. and globally. The financial services industry also has experi-

* *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.*

enced consolidation and convergence in recent years, as financial institutions involved in a broad range of financial services industries have merged. This convergence trend is expected to continue and could result in the Company's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. In November 1999, the Gramm-Leach-Bliley Act was passed in the U.S., effectively repealing certain sections of the 1933 Glass-Steagall Act. Its passage allows commercial banks, securities firms and insurance firms to affiliate, which may accelerate consolidation and lead to increasing competition in markets which traditionally have been dominated by investment banks and retail securities firms.

The Company also has experienced increased competition for qualified employees in recent years, including from companies engaged in Internet-related businesses and private equity funds, in addition to the traditional competition for employees from the financial services, insurance and management consulting industries.

For a detailed discussion of the competitive factors in the Company's Securities, Asset Management and Credit Services businesses, see the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999.

As a result of the above economic and competitive factors, net income and revenues in any particular period may not be representative of full-year results and may vary significantly from year to year and from quarter to quarter. The Company intends to manage its business for the long term and to mitigate the potential effects of market downturns by strengthening its competitive position in the global financial services industry through diversification of its revenue sources and enhancement of its global franchise. The Company's overall financial results will continue to be affected by its ability and success in maintaining high levels of profitable business activities, emphasizing fee-based assets that are designed to generate a continuing stream of revenues, managing risks in the Securities, Asset Management and Credit Services businesses, evaluating credit product pricing and monitoring costs. In addition, the complementary trends in the financial services industry of consolidation and globalization present, among other things, technological, risk management and other infrastructure challenges that will require effective resource allocation in order for the Company to remain competitive.

The Company believes that technological advancements in the Internet and the growth of electronic commerce will continue to present both challenges and opportunities to the Company and could lead to significant changes and innovations in the financial markets and financial services industry as a whole. The Company's initiatives in this area have included Web-enabling existing businesses or enhancing client communication and access to information and services and making investments, or otherwise participating, in alternative trading systems, electronic communication networks and related businesses or technologies. The Company expects to continue to augment these initiatives in the future.

GLOBAL MARKET AND ECONOMIC CONDITIONS IN FISCAL 1999

Global market and economic conditions were generally favorable during much of fiscal 1999. Financial markets within many regions exhibited improved performance and, although experiencing periods of volatility, benefited from a succession of global interest rate cuts which were made in late 1998. These interest rate actions helped stabilize economies throughout the world and contributed to the global recovery from the extremely turbulent and uncertain conditions that existed during the latter half of fiscal 1998. During that period, severe economic turmoil in Russia, Asia and certain emerging market nations adversely affected investor confidence and led to periods of high volatility, low levels of liquidity and increased credit spreads, creating difficult conditions in the global financial markets. The improved global market and economic environment contributed to the Company's record results in fiscal 1999. The Company's Securities business generated record levels of net income and net revenues and ended the fiscal year with record levels of financial advisors, customer accounts and assets. The Company's Credit Services business also achieved record operating results in fiscal 1999, reflecting a continued improvement in the credit quality of customer receivables as well as increased customer transaction volume. In the Company's Asset Management business, customer assets under management or supervision increased to record levels at fiscal year-end.

In the U.S., market conditions benefited from robust corporate earnings and the strong performance of the domestic economy, which continued to exhibit positive fundamentals and a high rate of growth. During much of fiscal 1999, the U.S. economy was characterized by several favorable trends, such as historically low levels of unemployment, high levels of consumer confidence and spending, and a high demand for imports. The domestic economy also was positively impacted by the overall improvement in global market and economic conditions, as many non-U.S. regions continued to recover from the difficult conditions that existed during the end of fiscal 1998. However, throughout fiscal 1999, there were persistent indications that U.S. economic growth was proceeding at a brisk pace and at a higher rate than anticipated. Such indications, coupled with the tight domestic labor market, increasing wage pressures and the renewed vigor in international markets, led to fears of accelerating inflation. In an effort to slow the U.S. economy and to mitigate inflationary pressures, during fiscal 1999 the Federal Reserve Board (the "Fed") raised the overnight lending rate by 0.25% on three separate occasions and also raised the discount rate by 0.25% on two separate occasions. Such increases reversed the Fed's interest rate actions that occurred in the fourth quarter of fiscal 1998, when it lowered the overnight lending rate by a total of 0.75%. At the conclusion of fiscal 1999, the Fed announced that it was adopting a neutral bias toward interest rates. However, there still remained much uncertainty as to whether additional interest rate actions would be necessary in the event that indications of inflationary pressures continue to persist in the future.

Conditions in European financial markets also demonstrated signs of recovery in fiscal 1999. European financial markets benefited from positive investor sentiment relating to the European Economic and Monetary Union ("EMU"). EMU commenced on January 1, 1999 when the European Central Bank (the "ECB") assumed control of monetary policy for the 11 European Union (the "EU") countries participating in the EMU. Since its inception, the euro has emerged as a new funding alternative for many issuers. During the first half of fiscal 1999, European financial markets were adversely affected by the severe economic and financial turmoil that developed in Russia, Asia and certain emerging market nations in late 1998. These developments contributed to lower levels of exports and a sluggish rate of economic growth within the region. In response to these conditions, both the ECB and the Bank of England lowered interest rates in an effort to stimulate economic activity. During the latter half of fiscal 1999, the prospects for improved economic performance within Europe increased due to indications of recovery in the levels of manufacturing output and exports in Germany, the region's largest economy. European economic prospects also improved due to increased consolidation and restructuring activity across the region, the ongoing recovery of global financial markets and a lower interest rate environment, although concerns of accelerating inflation led both the ECB and the Bank of England to raise interest rates in the fourth quarter of fiscal 1999.

Economic and financial difficulties have existed in the Far East region since the latter half of fiscal 1997. The Japanese economy has suffered from its worst recession since the end of World War II and has been adversely affected by shrinking consumer demand, declining corporate profits, deflation and rising unemployment. However, during fiscal 1999, there were indications that the steps taken by Japan's government to mitigate these conditions, including bank bailouts, emergency loans and stimulus packages, were beginning to have a favorable impact on the nation's economic performance. Certain financial markets elsewhere in the Far East, such as in Hong Kong, Singapore and Korea, also began to demonstrate signs of recovery during fiscal 1999 and have experienced a marked rebound in economic activity. Although uncertainty still remains, investor interest in the Far East region has generally increased as a result of these improved prospects.

The worldwide market for mergers and acquisitions continued to be robust during fiscal 1999. The volume of global merger and acquisition transactions achieved record levels and contributed to record levels of revenues by the Company's investment banking business. The merger and acquisition market reflected ongoing consolidation and globalization across many industries, particularly in the technology and telecommunications sectors. During fiscal 1999, there also was a significant increase in the volume of cross-border transactions, primarily driven by higher levels of activity in the European merger and acquisition markets. In addition, fiscal 1999 included some of the largest merger and acquisition transactions ever completed. The markets for the underwriting of securities also were positively impacted by the generally favorable market and economic conditions which existed during much of fiscal 1999.

In fiscal 1999, U.S. consumer demand and retail sales continued to increase at a strong pace. The relatively favorable interest rate environment that continued to exist in the U.S. for much of the year enabled consumers to manage finances advantageously while still allowing for steady growth in consumer credit. In addition, the level of loan losses and personal bankruptcies continued to decline. The Company continued to invest in the growth of its credit card business through the expansion of its Discover/NOVUS® Network, as evidenced by a record number of new merchant enrollments in fiscal 1999. The Company also increased its marketing and solicitation activities with respect to the Discover Card brand and the launch of the Morgan Stanley Dean Witter℠ Card in the United Kingdom.

FISCAL 1999 AND FISCAL 1998 RESULTS FOR THE COMPANY

The Company achieved record net income of $4,791 million in fiscal 1999, a 46% increase from fiscal 1998. Fiscal 1998's net income included a net gain of $345 million from the sale of the Company's Global Custody business, its interest in the operations of SPS Transaction Services, Inc. ("SPS") and certain BRAVO® Card receivables ("BRAVO") (see "Results of Operations — Business Acquisition and Dispositions" herein). Fiscal 1998's net income also included a $117 million charge resulting from the cumulative effect of an accounting change. This charge represents the effect of an accounting change adopted in the fourth quarter of fiscal 1998 (effective December 1, 1997) with respect to the accounting for offering costs paid by investment advisors of closed-end funds, where such costs are not specifically reimbursed through separate advisory contracts (see Note 2 to the consolidated financial statements). Excluding the net gain from the sale of the businesses noted above and the charge resulting from the cumulative effect of an accounting change, fiscal 1999's net income increased 57%. In fiscal 1998, net income was $3,276 million, an increase of 27% from fiscal 1997. Excluding the net gain from the sale of the businesses noted above and the charge resulting from the cumulative effect of an accounting change, fiscal 1998 net income was $3,048 million, an increase of 18%.

The Company's income tax rate was 38.0%, 37.0% and 39.5% in fiscal 1999, 1998 and 1997, respectively. The increase in fiscal 1999 reflects an increase in provisions for certain tax matters, partially offset by reduced state and local taxes resulting from the resolution of certain audit issues. The decrease in fiscal 1998 primarily reflects lower tax rates applicable to non-U.S. earnings.

Basic earnings per common share increased 55% to $4.33 in fiscal 1999 and 28% to $2.80 in fiscal 1998. Excluding the net gain from the sale of the businesses noted above and the impact of the cumulative effect of an accounting change, fiscal 1999's basic earnings per common share increased 67%, and fiscal 1998's basic earnings per common share increased 19%. Diluted earnings per common share increased 54% to $4.10 in fiscal 1999 and 28% to $2.67 in fiscal 1998. Excluding the net gain from the sale of the businesses noted above and the impact of the cumulative effect of an accounting change, fiscal 1999's diluted earnings per common share increased 65%, and fiscal 1998's diluted earnings per common share increased 19%.

The Company's return on average shareholders' equity was 33%, 25% and 22% in fiscal 1999, fiscal 1998 and fiscal 1997, respectively. Excluding the net gain from the sale of the businesses noted above and the impact of the cumulative effect of an accounting change, fiscal 1998's return on average shareholders' equity was 23%.

BUSINESS ACQUISITION AND DISPOSITIONS

During the second quarter of fiscal 1999, the Company completed its acquisition of AB Asesores, the largest independent financial services firm in Spain. AB Asesores has leading positions in personal investment, asset management, institutional research and brokerage, and investment banking. Through its approximately 300 financial advisors, it offers its individual investors proprietary mutual funds and other financial products. This acquisition reflects the Company's strategic initiative to build its international Securities and Asset Management businesses to serve the needs of individual investors. The Company's fiscal 1999 results include the operations of AB Asesores since March 25, 1999, the date of acquisition.

In fiscal 1998, the Company entered into several transactions reflecting its strategic decision to focus on growing its core Asset Management and Credit Services businesses.

In the fourth quarter of fiscal 1998, the Company completed the sale of its Global Custody business. The Company also sold its interest in the operations of SPS, a 73%-owned, publicly held subsidiary of the Company. In addition, the Company sold certain credit card receivables relating to its discontinued BRAVO Card. The Company's aggregate net pre-tax gain resulting from these transactions was $685 million.

In addition, during fiscal 1998 the Company sold its Prime Option℠ MasterCard® portfolio ("Prime Option"), a business it had operated with NationsBank of Delaware, N.A., and its Correspondent Clearing business. The gains resulting from the sale of these businesses were not material to the Company's results of operations or financial condition.

BUSINESS SEGMENTS

The remainder of Results of Operations is presented on a business segment basis. With the exception of fiscal 1997's merger-related expenses, substantially all of the operating revenues and operating expenses of the Company can be directly attributed to its three business segments: Securities, Asset Management and Credit Services. Certain revenues and expenses have been allocated to each business segment, generally in proportion to their respective revenues or other relevant measures. The accompanying business segment information includes the operating results of Morgan Stanley Dean Witter Online ("MSDW Online"), the Company's provider of electronic brokerage services, within the Securities segment. Previously, the Company had included MSDW Online's results within its Credit Services segment. In addition, the segment data presented below reflect the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." Prior to the adoption of SFAS No. 131, the Company had presented the results of its Securities and Asset Management segments on a combined basis. The segment data of all periods presented have been restated to reflect these changes. The following discussion excludes the cumulative effect of the accounting change in references to fiscal 1998 net income. Certain reclassifications have been made to prior-period amounts to conform to the current year's presentation.

SECURITIES

STATEMENTS OF INCOME

(dollars in millions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Revenues:			
Investment banking	**$ 4,430**	$ 3,314	$ 2,660
Principal transactions:			
Trading	**5,983**	3,283	3,191
Investments	**712**	390	473
Commissions	**2,904**	2,288	2,024
Asset management, distribution and administration fees	**1,240**	998	783
Interest and dividends	**11,448**	13,455	10,233
Other	**158**	166	130
Total revenues	**26,875**	23,894	19,494
Interest expense	**10,500**	12,355	9,470
Net revenues	**16,375**	11,539	10,024
Compensation and benefits	**7,225**	5,428	4,825
Occupancy and equipment	**493**	419	388
Brokerage, clearing and exchange fees	**378**	354	318
Information processing and communications	**756**	591	514
Marketing and business development	**511**	414	280
Professional services	**578**	445	290
Other	**570**	447	383
Total non-interest expenses	**10,511**	8,098	6,998
Income before income taxes	**5,864**	3,441	3,026
Provision for income taxes	**2,183**	1,199	1,185
Net income	**$ 3,681**	$ 2,242	$ 1,841

Securities provides a wide range of financial products, services and investment advice to individual and institutional investors. Securities business activities are conducted in the U.S. and throughout the world and include investment banking, institutional sales and trading, full-service and online brokerage services, and principal investing activities. At November 30, 1999, the Company's financial advisors provided investment services to more than 4.5 million client accounts with assets of $583 billion. The Company had the second largest financial advisor sales organization in the U.S. and had 12,674 professional financial advisors and 475 branches globally at November 30, 1999.

Securities achieved record net revenues and net income of $16,375 million and $3,681 million in fiscal 1999, increases of 42% and 64%, respectively, from fiscal 1998. In fiscal 1998, Securities net revenues and net income increased 15% and 22%, respectively, from fiscal 1997. In both fiscal 1999 and fiscal 1998, the levels of net revenues and net income in the Company's Securities business reflected a strong global market for mergers and acquisitions and securities underwritings, higher principal trading and commission revenues primarily driven by generally favorable market and economic conditions, high levels of customer trading volume and the continued increase in the level of client accounts and asset balances. The results of both years were partially offset by increased costs for incentive-based compensation, as well as increased non-compensation expenses associated with the Company's higher level of global business activities.

Investment Banking

Investment banking revenues are derived from the underwriting of securities offerings and fees from advisory services. Investment banking revenues were as follows:

(dollars in millions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Advisory fees from merger, acquisition and restructuring transactions	$1,886	$1,322	$ 920
Equity underwriting revenues	1,272	815	888
Fixed income underwriting revenues	1,272	1,177	852
Total investment banking revenues	$4,430	$3,314	$2,660

Investment banking revenues increased 34% to record levels in fiscal 1999, surpassing the Company's previous record attained in fiscal 1998. Revenues in fiscal 1999 reflect higher advisory fees from merger, acquisition and restructuring transactions, as well as increased revenues from underwriting both equity and fixed income securities. In fiscal 1998, higher revenues from merger, acquisition and restructuring transactions and fixed income underwritings were partially offset by lower equity underwriting revenues.

The worldwide merger and acquisition markets remained robust for the fifth consecutive year with more than $3.4 trillion of transactions (per Thomson Financial Securities Data) announced during calendar year 1999, including record volume in the U.S., Europe and the Far East. During calendar year 1999, the Company's dollar volume of announced merger and acquisition transactions surpassed $1.1 trillion, an increase of more than 77% over the comparable period of 1998. The high level of transaction activity reflected the continuing trends of consolidation and globalization across many industry sectors, as companies attempted to expand into new markets and businesses through strategic combinations. In fiscal 1999, merger and acquisition transaction volume was particularly strong in the telecommunications and technology sectors and also reflected a significant increase in the level of European merger and acquisition activity. The sustained growth of the merger and acquisition markets, coupled with the Company's global presence and strong market share, had a positive impact on advisory fees, which increased 43% in fiscal 1999. Higher advisory fees from real estate transactions also contributed to the increase. The 44% increase in advisory fees in fiscal 1998 was primarily due to high transaction volumes resulting from the strong global market for merger, acquisition and restructuring activities, as well as increased revenues from real estate advisory transactions.

Equity underwriting revenues increased 56% in fiscal 1999 and continued to reflect a high volume of equity offerings and the Company's strong global market share. In fiscal 1999, the Company's equity underwriting revenues benefited from favorable global economic conditions, which led major equity market indices higher and new issue activity to record levels. The primary market for equity issuances was particularly strong in the U.S. and in Europe and reflected the Company's participation in some of the year's largest transactions and its leadership in the underwriting of technology-related issuances. Equity underwriting revenues decreased 8% in fiscal 1998, reflecting reduced activity in the primary market in the second half of the fiscal year due to the significant uncertainty and volatility in global financial markets that existed during that period.

Revenues from fixed income underwriting increased 8% in fiscal 1999. The volume of fixed income underwriting transactions was generally strong during much of fiscal 1999, reflecting favorable global market conditions. In addition, the relatively low levels of interest rates in the U.S. during much of the year allowed issuers to take advantage of lower borrowing costs. EMU, which has permitted many corporate issuers to access the euro-denominated credit market, and the need for strategic financing in light of the robust global market for mergers and acquisitions also had a favorable impact on the volume of fixed income underwriting transactions. Higher revenues from underwriting derivative fixed income products also contributed to the increase. Fixed income underwriting revenues increased 38% in fiscal 1998, primarily driven by higher revenues from issuances of global high-yield and investment grade fixed income securities. The primary market for these securities benefited from relatively low nominal interest rates which existed throughout the year and attracted many issuers to the market, as well as from periods of strong investor demand. During the latter part of fiscal 1998, the primary market was less active, as increased volatility in global financial markets caused an unprecedented widening of credit spreads and a shift of investor preferences toward financial instruments with higher credit ratings.

Principal Transactions

Principal transactions include revenues from customers' purchases and sales of securities in which the Company acts as principal and gains and losses on securities held for resale. Decisions relating to principal transactions in securities are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes an assessment of the potential gain or loss associated with a trade and the interest income or expense associated with financing or hedging the Company's positions.

Principal transaction trading revenues were as follows:

(dollars in millions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Equities	$3,065	$2,048	$1,310
Fixed income	2,090	455	1,187
Foreign exchange	397	587	500
Commodities	431	193	194
Total principal transaction trading revenues	$5,983	$3,283	$3,191

Principal transaction trading revenues increased 82% in fiscal 1999, primarily reflecting higher fixed income, equity and commodity trading revenues, partially offset by a decline in foreign exchange trading revenues. Principal transaction trading revenues increased 3% in fiscal 1998, as higher equity and foreign exchange trading revenues were partially offset by a decline in fixed income trading revenues.

Equity trading revenues increased 50% in fiscal 1999, primarily reflecting higher revenues from equity cash products. The increase was primarily driven by higher levels of customer trading volumes in both listed and over-the-counter securities, particularly in the U.S. and Europe, as generally favorable global market and economic conditions increased investor demand for equity securities. Higher revenues from trading equity derivative products, which benefited from strong trading volumes and periods of market volatility, and certain proprietary trading activities also contributed significantly to the increase. Equity trading revenues increased 56% in fiscal 1998, primarily reflecting higher revenues from equity cash and derivative products. The increase in revenues from equity cash products was primarily attributable to higher trading volumes in European markets, which benefited from the Company's increased sales and research coverage of the region that began in mid-1997. European equity trading revenues also benefited from generally favorable market conditions and positive investor sentiment regarding EMU. Revenues from trading equity derivative products also increased in fiscal 1998, primarily due to increased transaction volume and the high levels of market volatility that existed throughout the year, particularly in technology-related securities.

Fixed income trading revenues increased 359% in fiscal 1999, primarily reflecting higher revenues from investment grade, high-yield and securitized fixed income securities, as well as swap transactions. Fiscal 1999's revenues benefited from significantly improved conditions in the global fixed income markets as compared with the periods of extreme volatility and illiquidity that existed at the end of fiscal 1998. During the first half of fiscal 1999, the continuing recovery of global economic and market conditions led to strong investor demand for fixed income products and contributed to high transaction volume. In addition, fears of accelerating inflation in the U.S. and the interest rate actions taken by the Fed and the ECB resulted in periods of volatility in the global fixed income markets, which resulted in increased trading opportunities. Market conditions and trading volumes were more moderate during the latter half of fiscal 1999, primarily reflecting a rising interest rate environment in the U.S. and Europe. Fixed income trading revenues decreased 62% in fiscal 1998, reflecting significantly lower revenues from investment grade, high-yield and securitized fixed income securities. Revenues from investment grade fixed income securities were adversely affected by the severe economic and financial turmoil in the Far East, Russia and emerging markets that occurred during the year. These difficult conditions caused investor preferences to shift toward higher quality financial instruments, principally to U.S. treasury securities. This negatively affected the trading of credit-sensitive fixed income securities by widening credit spreads, reducing market liquidity and de-coupling the historical price relationships between credit-sensitive securities and government securities. Revenues from high-yield fixed income securities also were impacted by the turbulent conditions in the global financial markets due to investors' concerns about the impact of a prolonged economic downturn on high-yield issuers. Revenues from securitized fixed income securities also declined, as the relatively low interest rate environment in the U.S. increased prepayment concerns and resulted in increased spreads.

Foreign exchange revenues declined 32% in fiscal 1999 from the record level of revenues achieved in fiscal 1998. The decrease primarily reflects reduced customer trading volumes and lower levels of volatility in the global foreign exchange markets as compared with the prior year. During much of fiscal 1999, the U.S. dollar strengthened against the euro, reflecting the strong economic performance of the U.S., coupled with a slower growth rate across much of Europe. The U.S. dollar also appreciated against the Japanese yen in the beginning of fiscal 1999, although the yen strengthened later in the year due to the prospects of improved economic growth in the Far East and increased investor demand for yen-denominated assets. Revenues from foreign exchange trading increased 17% to record levels in fiscal 1998. The increase was primarily attributable to high levels of customer trading volume and volatility in the foreign exchange markets. During fiscal 1998, the U.S. dollar fluctuated against major currencies due to concerns about the U.S. economy's exposure to the financial crises in the Far East and emerging markets, as well as from the Fed's decision to lower the overnight lending rate on three occasions during the fourth quarter. Certain European currencies also experienced periods of volatility, resulting from expectations of interest rate fluctuations in anticipation of EMU and the collapse of the Russian ruble. Difficult political and economic conditions in certain Asian nations, coupled with the continued recession in Japan, also contributed to periods of high volatility in the currency markets.

Commodities trading revenues rose 123% to record levels in fiscal 1999, primarily driven by higher revenues from energy-related products, including crude oil, refined energy products and natural gas. Revenues from trading energy-related products benefited from the sharp rise in energy prices that occurred during the latter half of fiscal 1999. The upward trend of energy prices was primarily attributable to strong demand for energy products, relatively low inventory levels and reduced production volumes. Revenues from natural gas trading benefited from periods of price volatility during the year, which was primarily attributable to changing weather conditions and varying levels of demand. Higher revenues from electricity and metals trading also contributed to the increase. In fiscal 1998, commodities trading revenues were comparable to those recorded in fiscal 1997, as higher revenues from energy-related products and electricity were partially offset by lower revenues from natural gas trading. Revenues from trading energy-related products were impacted by energy prices that fell during much of fiscal 1998. Diminished demand for these products, partially due to the economic crisis in the Far East, coupled with high inventory levels, contributed to the decline in prices. Electricity trading revenues benefited from higher electricity prices, primarily during the summer months when the demand for electric power increased. Revenues from natural gas trading decreased as unseasonably warm weather in certain regions of the U.S. during the winter months reduced the demand for home heating oil, leading to a decline in prices. In both fiscal 1999 and fiscal 1998, commodities trading revenues benefited from the expansion of the customer base for commodity-related products, including derivatives, and the use of such products for risk management purposes.

Principal transaction investment revenues aggregating $712 million were recognized in fiscal 1999 as compared with $390 million in fiscal 1998. Fiscal 1999's revenues reflected the highest level of revenues recorded by the Company's private equity business and included realized and unrealized gains from the Company's positions in Equant N.V., a Netherlands-based data communications company, and Knight/Trimark Group Inc., a U.S.-based broker-dealer. Net gains from increases in the value of certain other private equity and venture capital investments also contributed to fiscal 1999's results. Fiscal 1998's principal transaction investment revenues primarily resulted from gains on certain positions that were sold during the year and increases in the value of certain of the Company's private equity investments. Such increases included gains from the initial public offering of Equant N.V. and from the sale of positions in Fort James Corporation and Jefferson Smurfit Corporation.

Commissions

Commission revenues primarily arise from agency transactions in listed and over-the-counter equity securities and sales of mutual funds, futures, insurance products and options. Commissions also include revenues from customer securities transactions associated with MSDW Online. Commission revenues increased 27% in fiscal 1999, primarily reflecting higher revenues from equity cash products in markets located in the U.S., Europe and the Far East.

In the U.S., favorable market conditions and strong investor demand for equity products contributed to a high volume of customer securities transactions, including listed and over-the-counter equity securities. Revenues from markets in Europe also benefited from strong customer transaction volume, as improved economic and market conditions in the region increased investor demand for European equity securities. Commission revenues from markets in Japan and elsewhere in the Far East increased, as improved economic prospects within the region increased investor interest and led to higher transaction volumes. Commission revenues increased 13% in fiscal 1998, reflecting higher revenues from equity cash products, primarily from markets in the U.S. and Europe, as well as higher revenues from derivative products. Revenues from U.S. markets benefited from high levels of market volatility, which contributed to increased customer trading volumes. Revenues from European markets benefited from strong customer trading volumes, which were positively impacted by the generally favorable performances of certain European equity markets and from the Company's increased sales and research activities in the region. Commissions on derivative products increased as the high levels of market volatility contributed to increased customer hedging activities and trading volumes. In both fiscal 1999 and fiscal 1998, commission revenues also benefited from higher sales of mutual funds and the continued growth in the number of the Company's financial advisors.

In October 1999, the Company launched ***i***choice℠, a new service and technology platform available to individual investors. ***i***choice provides each of the Company's individual investor clients with the choice of self-directed investing online; a traditional full-service brokerage relationship through a financial advisor; or some combination of both. ***i***choice provides a range of pricing options, including fee-based pricing. In future periods, the amount of revenues recorded within the "Commissions" and "Asset Management, distribution and administration fees" income statement categories will be affected by the number of the Company's clients electing a fee-based pricing arrangement.

Net Interest

Interest and dividend revenues and interest expense are a function of the level and mix of total assets and liabilities, including financial instruments owned, reverse repurchase and repurchase agreements, trading strategies associated with the Company's institutional securities activities, customer margin loans and the prevailing level, term structure and volatility of interest rates. Interest and dividend revenues and interest expense are integral components of trading activities. In assessing the profitability of trading activities, the Company views net interest and principal trading revenues in the aggregate. In addition, decisions relating to principal transactions in securities are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes an assessment of the potential gain or loss associated with a trade and the interest income or expense associated with financing or hedging the Company's positions. Net interest revenues decreased 14% in fiscal 1999, reflecting the level and mix of interest bearing assets and liabilities during the period, including liabilities associated with the Company's aircraft financing activities, as well as certain trading strategies utilized in the Company's institutional securities business. Net interest revenues increased 44% in fiscal 1998, primarily attributable to higher levels of revenues from net interest earning assets, including financial instruments owned and customer margin loans. In both periods, higher levels of securities lending transactions also had a positive impact on net interest revenues.

Asset Management, Distribution and Administration Fees

Asset management, distribution and administration fees include revenues from asset management services, including fees for promoting and distributing mutual funds ("12b-1 fees") and fees from investment management services provided to segregated customer accounts pursuant to various contractual arrangements in connection with the Company's Investment Consulting Services ("ICS") business. The Company receives 12b-1 fees for services it provides in promoting and distributing certain open-ended mutual funds. These fees are based on either the average daily fund net asset balances or average daily aggregate net fund sales and are affected by changes in the overall level and mix of assets under management or supervision.

Asset management, distribution and administration fees increased 24% in fiscal 1999 and 27% in fiscal 1998. The increase in both periods was primarily attributable to higher 12b-1 fees from promoting and distributing mutual funds to individual investors through the Company's financial advisors. Higher revenues from investment management services and the continued growth in the level of client asset balances, which rose to $583 billion at November 30, 1999 from $438 billion at November 30, 1998, also contributed to the increase.

Non-Interest Expenses

(dollars in millions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Compensation and benefits	**$ 7,225**	$5,428	$4,825
Occupancy and equipment	**493**	419	388
Brokerage, clearing and exchange fees	**378**	354	318
Information processing and communications	**756**	591	514
Marketing and business development	**511**	414	280
Professional services	**578**	445	290
Other	**570**	447	383
Total non-interest expenses	**$10,511**	$8,098	$6,998

Fiscal 1999's total non-interest expenses increased 30% to $10,511 million. Within the non-interest expense category, employee compensation and benefits expense increased 33%, reflecting increased levels of incentive compensation based on record fiscal 1999 revenues and earnings, as well as an increase in the number of employees. Excluding compensation and benefits expense, non-interest expenses increased $616 million. Occupancy and equipment expense increased 18%, principally reflecting additional office space in New York and certain other locations, as well as incremental rent attributable to the opening of 37 securities branch locations. Brokerage, clearing and exchange fees increased 7%, primarily attributable to higher brokerage expenses due to higher levels of trading volume in the global securities markets. Information processing and communications costs increased 28%, primarily due to increased costs associated with the Company's information technology infrastructure, including server and data center costs. A higher number of employees utilizing communications systems and certain data services also contributed to the increase. Marketing and business development expense increased 23%, reflecting higher advertising expenses associated with the Company's individual securities business, including MSDW Online. Increased travel and entertainment costs associated with the high levels of activity in the global financial markets also contributed to the increase. Professional services expense increased 30%, primarily reflecting higher consulting costs as a result of certain information technology initiatives, including the Company's preparations for the Year 2000 (see also "Year 2000" herein). Higher legal costs associated with increased levels of business activity and higher temporary staffing fees also contributed to the increase. Other expenses increased 28%, primarily reflecting the impact of a higher level of business activity on various operating expenses. An increase in charitable donations and the amortization of goodwill associated with the Company's acquisition of AB Asesores in March 1999 also contributed to the increase.

Fiscal 1998's total non-interest expenses increased 16% to $8,098 million. Within the non-interest expense category, employee compensation and benefits expense increased 12%, reflecting increased levels of incentive compensation based on higher fiscal 1998 revenues and earnings, as well as an increase in the number of employees. Excluding compensation and benefits expense, non-interest expenses increased $497 million. Occupancy and equipment expense increased 8%, principally reflecting additional office space and higher occupancy costs in New York and Hong Kong, as well as incremental rent attributable to the opening of 27 securities branch locations. Brokerage, clearing and exchange fees increased 11%, primarily reflecting increased expenses related to higher levels of trading volume in the global securities markets. Information processing and communications costs increased 15% due to higher data services and communications costs related to an increased number of employees and continued enhancements and maintenance associated with the Company's information technology infrastructure. Marketing and business development expense increased 48%, reflecting higher advertising expenses associated with the Company's individual securities business, primarily MSDW Online, as well as higher travel and entertainment costs relating to increased levels of business activity. Professional services expense increased 53%, primarily reflecting higher consulting costs as a result of certain information technology initiatives, including the Company's preparations for EMU and Year 2000. Higher levels of temporary staff and employment fees due to the increased level of overall business activity also contributed to the increase. Other expenses increased 17%, reflecting the impact of a higher level of business activity on various operating expenses.

ASSET MANAGEMENT

STATEMENTS OF INCOME

(dollars in millions)	FISCAL 1999	FISCAL 1998	FISCAL 1997
Revenues:			
Investment banking	$ 93	$ 26	$ 34
Principal transactions:			
Investments	13	(301)	(10)
Commissions	17	33	42
Asset management, distribution and administration fees	1,930	1,891	1,742
Interest and dividends	61	252	227
Other	7	27	9
Total revenues	2,121	1,928	2,044
Interest expense	9	165	163
Net revenues	2,112	1,763	1,881
Compensation and benefits	648	659	659
Occupancy and equipment	96	97	77
Brokerage, clearing and exchange fees	107	198	142
Information processing and communications	92	87	95
Marketing and business development	127	125	119
Professional services	137	135	88
Other	138	91	136
Total non-interest expenses	1,345	1,392	1,316
Gain on sale of businesses	—	323	—
Income before income taxes and cumulative effect of accounting change	767	694	565
Provision for income taxes	319	264	230
Income before cumulative effect of accounting change	448	430	335
Cumulative effect of accounting change	—	(117)	—
Net income	$ 448	$ 313	$ 335

Asset Management ranks among the top five global active asset managers and provides a wide range of investment advisory products through both proprietary and non-proprietary distribution channels. Morgan Stanley Dean Witter Advisors and Van Kampen Investments ("VK") offer individual investors a broad array of mutual fund and wealth management tools that cover the full spectrum of investment categories, including growth, income, sector and global. Morgan Stanley Dean Witter Investment Management and Miller Anderson & Sherrerd serve the specialized needs of global institutional and high net worth investors. Asset Management's product breadth includes mutual funds, closed-end funds, managed accounts, managed futures funds, pooled vehicles, variable annuities and unit investment trusts. In fiscal 1999, Asset Management's assets under management or supervision increased $49 billion to $425 billion at November 30, 1999.

Asset Management achieved net revenues and net income of $2,112 million and $448 million in fiscal 1999, increases of 20% and 43%, respectively, from fiscal 1998. Fiscal 1998's net income included a net gain of $182 million from the sale of the Company's Global Custody business (see "Results of Operations — Business Acquisition and Dispositions" herein). Fiscal 1998 net income also included a $117 million charge resulting from the cumulative effect of an accounting change. This charge represents the effect of an accounting change adopted in the fourth quarter of fiscal 1998 (effective December 1, 1997) with respect to the accounting for offering costs paid by investment advisors of closed-end funds, where such costs are not specifically reimbursed through separate advisory contracts (see Note 2 to the consolidated financial statements). Excluding the net gain from the sale of the Global Custody business and the charge resulting from the cumulative effect of an accounting change, fiscal 1999's net income increased 81%. In fiscal 1998, Asset Management net revenues and net income decreased 6% and 7%, respectively, from fiscal 1997. Excluding the net gain from the sale of the Global Custody business and the charge resulting from the cumulative effect of an accounting change, fiscal 1998's net income decreased 26%.

The fiscal 1999 and fiscal 1998 levels of net revenues and net income in the Company's Asset Management business primarily reflected strong growth in customer assets under management or supervision. In fiscal 1998, net revenues and net income were adversely affected by losses from an institutional leveraged emerging market debt portfolio.

Investment Banking

Asset Management primarily generates investment banking revenues from the underwriting of Unit Investment Trust products. Investment banking revenues increased 258% in fiscal 1999 and decreased 24% in fiscal 1998. In both periods, the fluctuations were primarily associated with changes in the level of Unit Investment Trust sales volumes.

Principal Transactions

Asset Management primarily generates principal transaction revenues from gains and losses resulting from the Company's capital investments in certain of its funds and other investments.

Principal transaction investment revenues aggregating $13 million were recognized in fiscal 1999 as compared with losses of $(301) million in fiscal 1998. Fiscal 1999's revenues primarily consist of net gains from the Company's capital investments in certain of its funds, reflecting generally favorable market conditions. Fiscal 1998's results primarily reflect losses from an institutional leveraged emerging market debt portfolio that occurred during the third quarter of fiscal 1998.

Commissions

Asset Management primarily generates commission revenues from dealer and distribution concessions on sales of certain funds, as well as certain allocated commission revenues.

Commission revenues decreased 48% in fiscal 1999 and 21% in fiscal 1998. In both periods, the fluctuations primarily reflected lower levels of transaction volume and allocated commission revenues.

Net Interest

Asset Management generates net interest revenues from certain investment positions, as well as from certain allocated interest revenues and expenses. Net interest revenues in fiscal 1998 and fiscal 1997 also include revenues from global custody and correspondent clearing services.

Net interest revenues decreased 40% in fiscal 1999, primarily reflecting the Company's sale of its Global Custody and Correspondent Clearing businesses in fiscal 1998. Net interest revenues increased 36% in fiscal 1998, primarily reflecting higher net revenues from certain investment positions.

Asset Management, Distribution and Administration Fees

Asset management, distribution and administration fees primarily include revenues from the management and administration of assets. These fees arise from investment management services the Company provides to investment vehicles (the "Funds") pursuant to various contractual arrangements. Generally, the Company receives fees based upon the Fund's average net assets. Revenues in fiscal 1998 and fiscal 1997 also include other administrative fees and non-interest revenues earned from global custody and correspondent clearing services. Asset management, distribution and administration fees were as follows:

(dollars in millions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Asset management, distribution and administration fees	$1,930	$1,891	$1,742

The Company's customer assets under management or supervision were as follows:

(dollars in billions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Products offered primarily to individuals	$258	$219	$193
Products offered primarily to institutional clients	167	157	145
Total assets under management or supervision at fiscal year-end(1)	$425	$376	$338

(1) *These amounts include assets associated with the Company's ICS business. Revenues generated by ICS are included in the Company's Securities segment. ICS assets were $23 billion, $19 billion and $14 billion at November 30 1999, 1998 and 1997, respectively.*

In fiscal 1999, asset management, distribution and administration fees increased 2%. The increase in revenues primarily reflects higher fund management fees as well as other revenues resulting from a higher level of assets under management or supervision. These increases were partially offset by the absence of revenues from global custody and correspondent clearing activities, attributable to the Company's sale of its Global Custody business in the fourth quarter of fiscal 1998 and its Correspondent Clearing business in the third quarter of fiscal 1998. In fiscal 1998, asset management, distribution and administration fees increased 9%. The increase in revenues primarily reflects higher fund management fees as well as other revenues resulting from a higher level of assets under management or supervision, including revenues from developed country global equity and fixed income products. Such increases were partially offset by the impact of market depreciation in certain of the Company's products resulting from the downturn in certain global financial markets which occurred during the latter half of the year. Fiscal 1998's revenues also were negatively impacted by the Company's sale of its Global Custody and Correspondent Clearing businesses.

As of November 30, 1999, assets under management or supervision increased $49 billion from fiscal year-end 1998. In fiscal 1999, approximately 25% of the increase in assets under management or supervision was attributable to net inflows of new customer assets, while the remaining 75% reflected market appreciation. In fiscal 1998, approximately 50% of the increase in assets under management or supervision was attributable to net inflows of new customer assets, while the remaining 50% reflected market appreciation.

Non-Interest Expenses

(dollars in millions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Compensation and benefits	**$ 648**	$ 659	$ 659
Occupancy and equipment	**96**	97	77
Brokerage, clearing and exchange fees	**107**	198	142
Information processing and communications	**92**	87	95
Marketing and business development	**127**	125	119
Professional services	**137**	135	88
Other	**138**	91	136
Total non-interest expenses	**$1,345**	$1,392	$1,316

Fiscal 1999's total non-interest expenses decreased 3% to $1,345 million. Within the non-interest expense category, employee compensation and benefits expense decreased 2%, reflecting lower costs due to the sale of the Company's Global Custody business in fiscal 1998, partially offset by higher incentive compensation costs based on higher fiscal 1999 revenues and earnings. Excluding compensation and benefits expense, non-interest expenses decreased $36 million. Occupancy and equipment expense was comparable to the prior year, as higher occupancy costs at certain office locations were offset by lower costs due to the Company's sale of its Global Custody business. Brokerage, clearing and exchange fees decreased 46%, primarily attributable to commissions paid in fiscal 1998 in connection with the Company's launch of the Van Kampen Senior Income Trust mutual fund and lower sales of closed-end funds through the non-proprietary distribution channel. In addition, lower agent bank costs were incurred in fiscal 1999 due to the Company's sale of its Global Custody business. These decreases were partially offset by a higher level of deferred commission amortization. Information processing and communications costs increased 6%, primarily due to increased costs associated with the Company's information technology infrastructure, as well as higher market data costs. These increases were partially offset by lower costs due to the Company's sale of its Global Custody business. Marketing and business development expenses increased 2%, as higher costs due to business growth, including new product launches, were partially offset by lower costs due to the Company's sale of its Global Custody business. Professional services expense increased 1%, as higher consulting fees were partially offset by lower legal expenses and lower costs due to the Company's sale of its Global Custody business. Other expenses increased 52%, reflecting the impact of a higher level of business activity on various operating expenses, as well as costs associated with the consolidation of certain office locations.

Fiscal 1998's total non-interest expenses increased 6% to $1,392 million. Within the non-interest expense category, employee compensation and benefits expense was comparable to the prior year. Occupancy and equipment expense increased 26%, principally reflecting the reclassification of certain expenses associated with VK, as well as additional office space and higher occupancy costs at certain locations. Brokerage, clearing and exchange fees increased 39%, primarily reflecting commissions paid in connection with the Company's launch of the Van Kampen Senior Income Trust mutual fund, higher closed-end fund sales through the non-proprietary distribution channel, and a higher level of deferred commission amortization. Information processing and communications costs decreased 8% due to the reclassification of certain expenses associated with VK, as well as lower allocated communications costs. Marketing and business development expense increased 5%, primarily reflecting higher costs due to business growth, including new product launches. Professional services expense increased 53%, primarily reflecting higher consulting and subadvisory costs. Other expenses decreased 33%, which primarily reflects a lower level of allocated expenses.

CREDIT SERVICES

STATEMENTS OF INCOME

(dollars in millions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Fees:			
Merchant and cardmember	**$1,492**	$1,647	$1,704
Servicing	**1,194**	928	762
Other	**—**	5	5
Total non-interest revenues	**2,686**	2,580	2,471
Interest revenue	**2,246**	2,729	3,123
Interest expense	**881**	994	1,173
Net interest income	**1,365**	1,735	1,950
Provision for consumer loan losses	**529**	1,173	1,493
Net credit income	**836**	562	457
Net revenues	**3,522**	3,142	2,928
Compensation and benefits	**525**	549	535
Occupancy and equipment	**54**	67	61
Information processing and communications	**477**	462	471
Marketing and business development	**1,041**	872	780
Professional services	**121**	97	73
Other	**207**	207	251
Total non-interest expenses	**2,425**	2,254	2,171
Gain on sale of businesses	**—**	362	—
Income before income taxes	**1,097**	1,250	757
Provision for income taxes	**435**	529	284
Net income	**$ 662**	$ 721	$ 473

The Company's Credit Services business is operated by its Discover Financial Services business unit, which also operates the Discover/NOVUS Network, a proprietary network of merchant and cash access locations. The credit cards offered by the Company include the Discover Card, the Discover Platinum Card, the Morgan Stanley Dean Witter Card and other proprietary general purpose credit cards.

Fiscal 1999 does not include the results from Prime Option, the operations of SPS and certain receivables associated with the discontinued BRAVO Card, all of which were sold during fiscal 1998. Prime Option, a business the Company had operated with NationsBank of Delaware, N.A., was sold during the second quarter of fiscal 1998. The Company sold its interest in the operations of SPS, which was a 73%-owned, publicly held subsidiary of the Company, in the fourth quarter of fiscal 1998. The Company discontinued its BRAVO Card in fiscal 1998 and sold certain credit card receivables associated with the BRAVO Card in the fourth quarter of fiscal 1998. Fiscal 1998's net after-tax gain on the sale of these businesses was $163 million.

The sale of Prime Option, the operations of SPS and certain BRAVO receivables reflect the Company's strategic decision to focus on the growth of its existing Discover Card and Morgan Stanley Dean Witter brand names. Reflecting this focus, the Company introduced the Discover Platinum Card and the Morgan Stanley Dean Witter Card in fiscal 1999.

In fiscal 1999, Credit Services net income decreased 8% to $662 million, primarily due to fiscal 1998's inclusion of the $163 million net gain on the sale of the above-mentioned businesses. Excluding this gain, net income increased 19% in fiscal 1999. The increase was primarily attributable to a lower provision for loan losses and increased servicing fees, partially offset by lower net interest income and merchant and cardmember fees and higher marketing and business development expenses. In fiscal 1998, net income increased 52% to $721 million from $473 million in fiscal 1997. Excluding the net gain on the sale of the businesses mentioned above, net income increased 18% in fiscal 1998. The increase was primarily attributable to a reduction in the provision for loan losses primarily resulting from the sale of Prime Option and the operations of SPS as well as higher servicing fees. The increase in net income was partially offset by lower net interest income and increases in marketing and business development expenses and incremental taxes associated with the sale of the operations of SPS.

As a result of enhancements made to certain of the Company's operating systems in the fourth quarter of fiscal 1997, the Company began recording charged-off cardmember fees and interest revenue directly against the income statement line items to which they were originally recorded. Prior to the enhancements, charged-off cardmember fees and interest revenue both were recorded as a reduction of interest revenue. While this change had no impact on net revenues, the Company believes the revised presentation better reflects the manner in which charge-offs affect the Credit Services statements of income. However, since prior periods have not been restated to reflect this change, the comparability of merchant and cardmember fees and interest revenue between fiscal 1998 and fiscal 1997 has been affected. Accordingly, the following sections also will discuss the changes in these income statement categories excluding the impact of this reclassification.

Credit Services statistical data were as follows:

(dollars in billions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Consumer loans at fiscal year-end:			
Owned	**$21.0**	$16.0	$20.9
Managed	**$38.0**	$32.5	$36.0
General purpose credit card transaction volume	**$70.6**	$58.0	$55.8

The higher level of consumer loans at November 30, 1999 was primarily attributable to growth in the Company's Discover Platinum Card. The lower level of consumer loans at November 30, 1998 reflects the Company's sale of Prime Option, the operations of SPS and certain BRAVO receivables during fiscal 1998.

Merchant and Cardmember Fees

Merchant and cardmember fees include revenues from fees charged to merchants on credit card sales, late payment fees, overlimit fees, insurance fees, cash advance fees, and fees for the administration of credit card programs and transaction processing services.

Merchant and cardmember fees decreased 9% to $1,492 million during fiscal 1999 and decreased 3% to $1,647 million during fiscal 1998. The decrease in fiscal 1999 was primarily due to the Company's sale of the operations of SPS and the sale of Prime Option. Fiscal 1999 also was impacted by higher merchant discount revenue offset by lower levels of overlimit fees and cash advance fees. The increase in merchant discount revenue was associated with record levels of sales volume. Overlimit fees decreased primarily due to a lower level of overlimit fee occurrences. Cash advance fees decreased due to lower cash advance transaction volume, primarily attributable to the Company's actions to limit cash advances in an effort to improve credit quality. The 3% decrease in merchant and cardmember fees in fiscal 1998 primarily reflects the reclassification of charged-off cardmember fees discussed above. Excluding the effect of the reclassification of charged-off cardmember fees, merchant and cardmember fees would have increased 2% in fiscal 1998. This increase was attributable to higher merchant discount revenue primarily associated with increased growth of general purpose credit card transaction volume related to the Discover Card, offset by lower revenues due to the sale of the operations of SPS in October 1998. In addition, merchant and cardmember fees benefited from higher overlimit and late fees attributable to a fee increase introduced during fiscal 1998 and an increase in occurrences of overlimit accounts and delinquent payments. Partially offsetting these increases was a decrease in cash advance fees as a result of lower cash advance transaction volume, primarily attributable to limits on cash advances imposed by the Company in an effort to improve credit quality.

Servicing Fees

Servicing fees are revenues derived from consumer loans which have been sold to investors through asset securitizations. Cash flows from the interest yield and cardmember fees generated by securitized loans are used to pay investors in these loans a predetermined fixed or floating rate of return on their investment, to reimburse the investors for losses of principal resulting from charged-off loans and to pay the Company a fee for servicing the loans. Any excess cash flows remaining are paid to the Company. The servicing fees and excess net cash flows paid to the Company are reported as servicing fees in the consolidated statements of income. The sale of consumer loans through asset securitizations therefore has the effect of converting portions of net credit income and fee income to servicing fees. The Company completed asset securitizations of $3.0 billion in fiscal 1999 and $4.5 billion in fiscal 1998. The asset securitizations in fiscal 1999 and 1998 have expected maturities ranging from three to 10 years from the date of issuance.

The table below presents the components of servicing fees:

(dollars in millions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Merchant and cardmember fees	**$ 552**	$ 505	$ 436
Interest revenue	**2,694**	2,598	2,116
Interest expense	**(996)**	(1,010)	(829)
Provision for consumer loan losses	**(1,056)**	(1,165)	(961)
Servicing fees	**$ 1,194**	$ 928	$ 762

Servicing fees are affected by the level of securitized loans, the spread between the interest yield on the securitized loans and the yield paid to the investors, the rate of credit losses on securitized loans and the level of cardmember fees earned from securitized loans. Servicing fees also include the effects of interest rate contracts entered into by the Company as part of its interest rate risk management program. Servicing fees increased 29% in fiscal 1999 and 22% in fiscal 1998. The increase in fiscal 1999 was due to higher levels of net interest income primarily resulting from higher levels of average securitized loans. The increase also reflects a decline in credit losses from securitized consumer loans resulting from a lower level of charge-offs related to the Discover Card portfolio and the positive impact of the sale of the operations of SPS, partially offset by an increase in the level of average securitized loans. The increase in servicing fees in fiscal 1998 was due to higher levels of net interest cash flows and increased fee revenue, partially offset by increased credit losses from securitized consumer loans, which were primarily a result of higher levels of average securitized loans.

Net Interest Income

Net interest income is equal to the difference between interest revenue derived from consumer loans and short-term investment assets and interest expense incurred to finance those assets. Credit Services assets, consisting primarily of consumer loans, currently earn interest revenue at fixed rates and, to a lesser extent, market-indexed variable rates. The Company incurs interest expense at fixed and floating rates. Interest expense also includes the effects of interest rate contracts entered into by the Company as part of its interest rate risk management program. This program is designed to reduce the volatility of earnings resulting from changes in interest rates and is accomplished primarily through matched financing, which entails matching the repricing schedules of consumer loans and the related financing.

The following tables present analyses of Credit Services average balance sheets and interest rates in fiscal 1999, fiscal 1998 and fiscal 1997 and changes in net interest income during those fiscal years:

AVERAGE BALANCE SHEET ANALYSIS

	FISCAL 1999			FISCAL 1998[3]			FISCAL 1997[3]		
(dollars in millions)	AVERAGE BALANCE	RATE	INTEREST	AVERAGE BALANCE	RATE	INTEREST	AVERAGE BALANCE	RATE	INTEREST
ASSETS									
Interest earning assets:									
General purpose credit card loans	$16,173	13.10%	$2,118	$17,184	13.87%	$2,383	$19,512	14.03%	$2,738
Other consumer loans	4	8.98	—	1,374	16.70	229	1,773	15.73	279
Investment securities	672	5.16	35	496	6.25	31	176	5.45	10
Other	1,656	5.61	93	1,465	5.88	86	1,680	5.75	96
Total interest earning assets	18,505	12.14	2,246	20,519	13.30	2,729	23,141	13.49	3,123
Allowance for loan losses	(774)			(847)			(828)		
Non-interest earning assets	1,544			1,517			1,529		
Total assets	$19,275			$21,189			$23,842		
LIABILITIES AND SHAREHOLDER'S EQUITY									
Interest bearing liabilities:									
Interest bearing deposits									
Savings	$ 1,492	4.51%	$ 67	$ 1,073	4.79%	$ 51	$ 963	4.27%	$ 41
Brokered	5,609	6.37	357	5,656	6.62	375	4,589	6.66	306
Other time	1,927	5.61	108	2,189	6.16	135	2,212	6.12	135
Total interest bearing deposits	9,028	5.90	532	8,918	6.29	561	7,764	6.21	482
Other borrowings	6,046	5.76	349	7,162	6.05	433	11,371	6.07	691
Total interest bearing liabilities	15,074	5.84	881	16,080	6.18	994	19,135	6.13	1,173
Shareholder's equity/other liabilities	4,201			5,109			4,707		
Total liabilities and shareholder's equity	$19,275			$21,189			$23,842		
Net interest income			$1,365			$1,735			$1,950
Net interest margin[1]			7.38%			8.46%			8.43%
Interest rate spread[2]		6.30%			7.12%			7.36%	

(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)	FISCAL 1999 VS. FISCAL 1998 VOLUME	RATE	TOTAL	FISCAL 1998 VS. FISCAL 1997 VOLUME	RATE	TOTAL
INTEREST REVENUE						
General purpose credit card loans	$(140)	$(125)	$(265)	$(327)	$(28)	$(355)
Other consumer loans	(229)	—	(229)	(63)	13	(50)
Investment securities	11	(7)	4	17	4	21
Other	11	(4)	7	(12)	2	(10)
Total interest revenue	(268)	(215)	(483)	(355)	(39)	(394)
INTEREST EXPENSE						
Interest bearing deposits:						
Savings	20	(4)	16	5	5	10
Brokered	(3)	(15)	(18)	71	(2)	69
Other time	(16)	(11)	(27)	(1)	1	—
Total interest bearing deposits	7	(36)	(29)	72	7	79
Other borrowings	(67)	(17)	(84)	(256)	(2)	(258)
Total interest expense	(62)	(51)	(113)	(187)	8	(179)
Net interest income	$(206)	$(164)	$(370)	$(168)	$(47)	$(215)

Net interest income decreased 21% in fiscal 1999 and 11% in fiscal 1998. The decrease in fiscal 1999 was primarily due to lower average levels of owned consumer loans and a lower yield on these loans. The decrease in average owned consumer loans was due to the sale of the operations of SPS, the sale of Prime Option and the discontinuance of the BRAVO Card in fiscal 1998, as well as a higher level of securitized Discover Card loans. The lower yield in fiscal 1999 was due to a lower yield on Discover Card loans, coupled with the exclusion of SPS loans from the Company's portfolio. The lower yield on Discover Card loans was primarily due to the more competitive interest rates offered to both existing and new cardmembers. The lower yield reflected an increase in consumer loans from balance transfers, which often are offered at below-market interest rates for an introductory period. In fiscal 1998, excluding the effect of the reclassification of charged-off cardmember fees discussed previously, net interest income would have decreased 15%. The decrease in fiscal 1998 was due to lower average levels of owned consumer loans and a lower yield on general purpose credit card loans. The decrease in average owned consumer loans was primarily due to an increase in securitized loans and the sale of the Prime Option and SPS portfolios. The lower yield on general purpose credit card loans in fiscal 1998 was due to a larger number of cardmembers taking advantage of promotional rates. In both years, the Company believes that the effect of changes in market interest rates on net interest income was mitigated as a result of its liquidity and interest rate risk management policies.

The supplemental table below provides average managed loan balance and rate information which takes into account both owned and securitized loans:

SUPPLEMENTAL AVERAGE MANAGED LOAN INFORMATION

	FISCAL 1999		FISCAL 1998		FISCAL 1997	
(dollars in millions)	AVERAGE BALANCE	RATE	AVERAGE BALANCE	RATE	AVERAGE BALANCE	RATE
Consumer loans	$33,534	14.23%	$34,619	14.86%	$34,619	14.83%
General purpose credit card loans	33,530	14.23	32,684	14.72	32,176	14.72
Total interest earning assets	35,862	13.66	36,580	14.38	36,475	14.37
Total interest bearing liabilities	32,431	5.74	32,141	6.15	32,469	6.17
Consumer loan interest rate spread		8.49		8.71		8.66
Interest rate spread		7.92		8.23		8.20
Net interest margin		8.47		8.98		8.88

Provision for Consumer Loan Losses

The provision for consumer loan losses is the amount necessary to establish the allowance for loan losses at a level that the Company believes is adequate to absorb estimated losses in its consumer loan portfolio at the balance sheet date. The Company's allowance for loan losses is regularly evaluated by management for adequacy and was $769 million at November 30, 1999 and $787 million at November 30, 1998.

The provision for consumer loan losses, which is affected by net charge-offs, loan volume and changes in the amount of consumer loans estimated to be uncollectable, decreased 55% in fiscal 1999 and 21% in fiscal 1998. The decrease in fiscal 1999 was primarily due to a lower level of charge-offs related to the Discover Card portfolio and the positive impact of the sale of the operations of SPS, the sale of Prime Option and the discontinuance of the BRAVO Card. This decrease was reflective of the Company's continuing efforts to improve the credit quality of its portfolio. The provision for consumer loan losses also was positively impacted by a decline in the loan loss allowance in connection with securitization transactions entered into prior to the third quarter of 1996. This loan loss allowance was fully amortized by the end of fiscal 1999. The decrease in fiscal 1998 was due to a decrease in net charge-offs resulting from lower average levels of owned consumer loans, primarily attributable to an increased level of securitized loans and reduced levels of charge-offs associated with the sale of Prime Option and SPS receivables, partially offset by a small increase in the net charge-off rate of the Discover Card portfolio. The provision for consumer loan losses also was positively impacted by a decline in the loan loss allowance in connection with securitization transactions entered into prior to the third quarter of 1996 as discussed above.

The Company's future charge-off rates and credit quality are subject to uncertainties that could cause actual results to differ materially from what has been discussed above. Factors that influence the provision for consumer loan losses include the level and direction of consumer loan delinquencies and charge-offs, changes in consumer spending and payment behaviors, bankruptcy trends, the seasoning of the Company's loan portfolio, interest rate movements and their impact on consumer behavior, and the rate and magnitude of changes in the Company's consumer loan portfolio, including the overall mix of accounts, products and loan balances within the portfolio.

Consumer loans are considered delinquent when interest or principal payments become 30 days past due. Consumer loans are charged-off when they become 180 days past due, except in the case of bankruptcies and fraudulent transactions, where loans are charged-off earlier. Loan delinquencies and charge-offs are primarily affected by changes in economic conditions and may vary throughout the year due to seasonal consumer spending and payment behaviors. The net charge-off rate decreased in fiscal 1999 as compared with fiscal 1998, reflecting the Company's increased focus on credit quality and account collections, as well as the sale of Prime Option, the operations of SPS and the discontinuance of the BRAVO Card.

The following table presents delinquency and net charge-off rates with supplemental managed loan information:

ASSET QUALITY

(dollars in millions)	FISCAL 1999 OWNED	FISCAL 1999 MANAGED	FISCAL 1998 OWNED	FISCAL 1998 MANAGED	FISCAL 1997 OWNED	FISCAL 1997 MANAGED
Consumer loans at period-end	$20,998	$37,975	$15,996	$32,502	$20,917	$35,950
Consumer loans contractually past due as a percentage of period-end consumer loans:						
30 to 89 days	3.35%	3.79%	3.54%	3.69%	3.96%	3.91%
90 to 179 days	2.20%	2.53%	2.67%	2.84%	3.11%	3.07%
Net charge-offs as a percentage of average consumer loans	4.78%	5.42%	6.75%	6.90%	6.78%	6.95%

Non-Interest Expenses

(dollars in millions)	FISCAL 1999	FISCAL 1998	FISCAL 1997
Compensation and benefits	$ 525	$ 549	$ 535
Occupancy and equipment	54	67	61
Information processing and communications	477	462	471
Marketing and business development	1,041	872	780
Professional services	121	97	73
Other	207	207	251
Total non-interest expenses	$2,425	$2,254	$2,171

Total non-interest expenses increased 8% to $2,425 million in fiscal 1999 and increased 4% to $2,254 million in fiscal 1998.

Employee compensation and benefits expense decreased 4% in fiscal 1999 and increased 3% in fiscal 1998. The decrease in fiscal 1999 was primarily due to lower compensation costs resulting from the sale of Prime Option and the operations of SPS. These decreases were partially offset by higher employment costs at Discover Financial Services associated with increased employment levels due to increased levels of transaction volume. The increase in fiscal 1998 was due to an increased number of employees and higher executive compensation costs associated with Discover Financial Services, offset by lower compensation costs associated with the sale of Prime Option and the operations of SPS.

Occupancy and equipment expense decreased 19% in fiscal 1999 and increased 10% in fiscal 1998. The decrease in fiscal 1999 was primarily due to the exclusion of the results of Prime Option and SPS, partially offset by higher occupancy costs associated with Discover Financial Services. The increase in fiscal 1998 was primarily due to higher rent and other occupancy costs at certain of the Company's facilities, including payment processing centers.

Information processing and communications expense increased 3% in fiscal 1999 and decreased 2% in fiscal 1998. The increase in fiscal 1999 was due to higher external data processing costs at Discover Financial Services, including cardmember data analysis associated with increased portfolio activity, partially offset by the exclusion of the results of Prime Option and SPS in fiscal 1999. In fiscal 1998, lower transaction processing costs resulting from the sale of the operations of SPS were partially offset by higher external data processing costs related to the Year 2000 project and increased cardmember data analysis associated with credit risk management activity.

Marketing and business development expense increased 19% in fiscal 1999 and 12% in fiscal 1998. In fiscal 1999, the Company continued to invest in the growth of its credit card business, including the introduction of the Discover Platinum Card during the first quarter of 1999 and the launch of the Morgan Stanley Dean Witter Card in the United Kingdom during the latter half of fiscal 1999. Marketing and business development expense increased in fiscal 1999 due to direct mailing and other promotional activities related to the launch and continued promotion of the Discover Platinum and Morgan Stanley Dean Witter Cards, higher cardmember rewards expense and a new advertising campaign for the Discover Card. Higher cardmember rewards expense was due to increased sales volume. Cardmember rewards expense includes the Cashback Bonus® award program, pursuant to which the Company annually pays Discover Cardmembers, and Private Issue® Cardmembers electing this feature, a percentage of their purchase amounts ranging up to 1% based upon a cardmember's level of annual purchases. The increase in fiscal 1998 was attributable to higher advertising and promotional expenses associated with increased direct mail and other promotional activities related to the Discover Card, Private Issue Card and partnership programs, as well as higher cardmember rewards expense. The Company increased marketing and promotional spending significantly in the third and fourth quarters of fiscal 1998 in an effort to renew and increase growth in the Discover Card brand.

Professional services expense increased 25% in fiscal 1999 and 33% in fiscal 1998. The increase in fiscal 1999 was due to higher costs associated with account collections and consumer credit counseling, partially offset by a decrease in expenses associated with the sale of the operations of SPS. The increase in fiscal 1998 was due to services related to increased partnership program activity, higher expenditures for consumer credit counseling, collections services and consulting fees.

Other expenses primarily include fraud losses, credit inquiry fees and other administrative costs. Other expenses remained unchanged in fiscal 1999 as compared with fiscal 1998. In fiscal 1999, increased operational costs associated with higher application and transaction volumes and costs associated with the launch of the Morgan Stanley Dean Witter Card in the United Kingdom were offset by a decrease in expenses associated with the sale of the operations of SPS. In fiscal 1998, other expenses decreased 18%, reflecting a decline in the level of fraud losses as well as a lower level of expenses resulting from the sale of Prime Option and the operations of SPS.

Seasonal Factors

The credit card lending activities of Credit Services are affected by seasonal patterns of retail purchasing. Historically, a substantial percentage of credit card loan growth occurs in the fourth calendar quarter, followed by a flattening or decline of consumer loans in the following calendar quarter. Merchant fees, therefore, have historically tended to increase in the first fiscal quarter, reflecting higher sales activity in the month of December. Additionally, higher cardmember rewards expense is accrued in the first fiscal quarter, reflecting seasonal growth in retail sales volume.

LIQUIDITY AND CAPITAL RESOURCES

The Balance Sheet

The Company's total assets increased to $367.0 billion at November 30, 1999 from $317.6 billion at November 30, 1998, primarily reflecting higher financial instruments owned, securities borrowed, consumer loans and customer receivables, partially offset by lower levels of securities purchased under agreements to resell. A substantial portion of the Company's total assets consists of highly liquid marketable securities and short-term receivables arising principally from securities transactions. The highly liquid nature of these assets provides the Company with flexibility in financing and managing its business.

Funding and Capital Policies

The Company's senior management establishes the overall funding and capital policies of the Company, reviews the Company's performance relative to these policies, monitors the availability of sources of financing, reviews the foreign exchange risk of the Company and oversees the liquidity and interest rate sensitivity of the Company's asset and liability position. The primary goal of the Company's funding and liquidity activities is to ensure adequate financing over a wide range of potential credit ratings and market environments.

Many of the Company's businesses are capital-intensive. Capital is required to finance, among other things, the Company's securities inventories, underwritings, principal investments, private equity activities, consumer loans and investments in fixed assets. As a policy, the Company attempts to maintain sufficient capital and funding sources in order to have the capacity to finance itself on a fully collateralized basis at all times, including periods of financial stress. Currently, the Company believes it has sufficient capital to meet its needs. In addition, the Company attempts to maintain total equity, on a consolidated basis, at least equal to the sum of all of its subsidiaries' equity. Subsidiary equity capital requirements are determined by regulatory requirements (if applicable), asset mix, leverage considerations and earnings volatility.

The Company views return on equity to be an important measure of its performance, in the context of both the particular business environment in which the Company is operating and its peer group's results. In this regard, the Company actively manages its consolidated capital position based upon, among other things, business opportunities, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and therefore may, in the future, expand or contract its capital base to address the changing needs of its businesses. The Company returns internally generated equity capital which is in excess of the needs of its businesses to its shareholders through common stock repurchases and dividends.

The Company's liquidity policies emphasize diversification of funding sources. The Company also follows a funding strategy which is designed to ensure that the tenor of the Company's liabilities equals or exceeds the expected holding period of the assets being financed. Short-term funding generally is obtained at rates related to U.S., Euro or Asian money market rates for the currency borrowed. Repurchase transactions are effected at negotiated rates. Other borrowing costs are negotiated depending upon prevailing market conditions (see Notes 5 and 6 to the consolidated financial statements). Maturities of both short-term and long-term financings are designed to minimize exposure to refinancing risk in any one period.

The volume of the Company's borrowings generally fluctuates in response to changes in the amount of repurchase transactions outstanding, the level of the Company's securities inventories and consumer loans receivable, and overall market conditions. Availability and cost of financing to the Company can vary depending upon market conditions, the volume of certain trading activities, the Company's credit ratings and the overall availability of credit. The Company, therefore, maintains a surplus of unused short-term funding sources at all times to withstand any unforeseen contraction in credit capacity. In addition, the Company attempts to maintain cash and unhypothecated marketable securities equal to at least 110% of its outstanding short-term unsecured borrowings. The Company has in place a contingency funding strategy, which provides a comprehensive one-year action plan in the event of a severe funding disruption.

The Company views long-term debt as a stable source of funding for core inventories, consumer loans and illiquid assets and, therefore, maintains a long-term debt-to-capitalization ratio at a level appropriate for the current composition of its balance sheet. In general, fixed assets are financed with fixed rate long-term debt, and securities inventories and the majority of current assets are financed with a combination of short-term funding, floating rate long-term debt or fixed rate long-term debt swapped to a floating basis. Both fixed rate and floating rate long-term debt (in addition to sources of funds accessed directly by the Company's Credit Services business) are used to finance the Company's consumer loan portfolio. Consumer loan financing is targeted to match the repricing and duration characteristics of the loans financed. The Company uses derivative products (primarily interest rate, currency and equity swaps) to assist in asset and liability management, reduce borrowing costs and hedge interest rate risk (see Note 6 to the consolidated financial statements).

The Company's reliance on external sources to finance a significant portion of its day-to-day operations makes access to global sources of financing important. The cost and availability of unsecured financing generally are dependent on the Company's short-term and long-term debt ratings. In addition, the Company's debt ratings can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical, such as over-the-counter derivative transactions.

As of January 31, 2000, the Company's credit ratings were as follows:

	COMMERCIAL PAPER	SENIOR DEBT
Dominion Bond Rating Service Limited	R-1 (middle)	AA (low)
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 Financial BankWatch	TBW-1	AA+

During fiscal 1999, Duff & Phelps Credit Rating Co. upgraded the Company's senior debt rating from AA- to AA, Japan Rating & Investment Information, Inc. upgraded the Company's senior debt rating from AA- to AA, Standard & Poor's placed the Company's senior debt ratings on Positive Outlook, Thomson Financial BankWatch upgraded the Company's senior debt rating from AA to AA+ and Fitch IBCA, Inc. upgraded the Company's senior debt rating from AA- to AA. On January 27, 2000, Dominion Bond Rating Service Limited established a senior debt rating of AA (low) for the Company.

As the Company continues its global expansion and derives revenues increasingly from various currencies, foreign currency management is a key element of the Company's financial policies. The Company benefits from operating in several different currencies because weakness in any particular currency often is offset by strength in another currency. The Company closely monitors its exposure to fluctuations in currencies and, where cost-justified, adopts strategies to reduce the impact of these fluctuations on the Company's financial performance. These strategies include engaging in various hedging activities to manage income and cash flows denominated in foreign currencies and using foreign currency borrowings, when appropriate, to finance investments outside the U.S.

Principal Sources of Funding

The Company funds its balance sheet on a global basis. The Company's funding for its Securities and Asset Management businesses is raised through diverse sources. These sources include the Company's capital, including equity and long-term debt; repurchase agreements; U.S., Canadian, Euro and Japanese commercial paper; letters of credit; unsecured bond borrows; securities lending; buy/sell agreements; municipal reinvestments; master notes; and committed and uncommitted lines of credit. Repurchase agreement transactions, securities lending and a portion of the Company's bank borrowings are made on a collateralized basis and, therefore, provide a more stable source of funding than short-term unsecured borrowings.

The funding sources utilized for the Company's Credit Services business include the Company's capital, including equity and long-term debt; asset securitizations; commercial paper; deposits; asset-backed commercial paper; Federal Funds; and short-term bank notes. The Company sells consumer loans through asset securitizations using several transaction structures. Riverwoods Funding Corporation (''RFC''), an entity included in the Company's consolidated financial statements, issues asset-backed commercial paper.

The Company's bank subsidiaries solicit deposits from consumers, purchase Federal Funds and issue short-term bank notes. Interest bearing deposits are classified by type as savings, brokered and other time deposits. Savings deposits consist primarily of money market deposits and certificates of deposit accounts sold directly to cardmembers and savings deposits from individual securities clients. Brokered deposits consist primarily of certificates of deposits issued by the Company's bank subsidiaries. Other time deposits include institutional certificates of deposits. The Company, through Greenwood Trust Company, an indirect subsidiary of the Company, sells notes under a short-term bank note program.

The Company maintains borrowing relationships with a broad range of banks, financial institutions, counterparties and others from which it draws funds in a variety of currencies. The volume of the Company's borrowings generally fluctuates in response to changes in the amount of repurchase transactions outstanding, the level of the Company's securities inventories and consumer loans receivable, and overall market conditions. Availability and cost of financing to the Company can vary depending upon market conditions, the volume of certain trading activities, the Company's credit ratings and the overall availability of credit.

The Company maintains a senior revolving credit agreement with a group of banks to support general liquidity needs, including the issuance of commercial paper (the "MSDW Facility"). Under the terms of the MSDW Facility, the banks are committed to provide up to $5.5 billion. The MSDW Facility contains restrictive covenants which require, among other things, that the Company maintain shareholders' equity of at least $9.1 billion at all times. The Company believes that the covenant restrictions will not impair the Company's ability to pay its current level of dividends. At November 30, 1999, no borrowings were outstanding under the MSDW Facility.

The Company maintains a master collateral facility that enables Morgan Stanley & Co. Incorporated ("MS&Co."), one of the Company's U.S. broker-dealer subsidiaries, to pledge certain collateral to secure loan arrangements, letters of credit and other financial accommodations (the "MS&Co. Facility"). As part of the MS&Co. Facility, MS&Co. also maintains a secured committed credit agreement with a group of banks that are parties to the master collateral facility under which such banks are committed to provide up to $1.875 billion. The credit agreement contains restrictive covenants which require, among other things, that MS&Co. maintain specified levels of consolidated shareholder's equity and Net Capital, as defined. At November 30, 1999, no borrowings were outstanding under the MS&Co. Facility.

The Company also maintains a revolving committed financing facility that enables Morgan Stanley & Co. International Limited ("MSIL"), the Company's London-based broker-dealer subsidiary, to secure committed funding from a syndicate of banks by providing a broad range of collateral under repurchase agreements (the "MSIL Facility"). Such banks are committed to provide up to an aggregate of $1.91 billion, available in six major currencies. The facility agreement contains restrictive covenants which require, among other things, that MSIL maintain specified levels of Shareholder's Equity and Financial Resources, each as defined. At

November 30, 1999, no borrowings were outstanding under the MSIL Facility.

On June 7, 1999, Morgan Stanley Dean Witter Japan Limited (''MSDWJL''), the Company's Tokyo-based broker-dealer subsidiary, entered into a committed revolving credit facility, guaranteed by the Company, that provides funding to support general liquidity needs, including support of MSDWJL's unsecured borrowings (the ''MSDWJL Facility''). Under the terms of the MSDWJL Facility, a syndicate of banks is committed to provide up to 60 billion Japanese yen. At November 30, 1999, no borrowings were outstanding under the MSDWJL Facility.

RFC maintains a senior bank credit facility to support the issuance of asset-backed commercial paper in the amount of $2.6 billion. Under the terms of the asset-backed commercial paper program, certain assets of RFC were subject to a lien in the amount of $2.6 billion at November 30, 1999. RFC has never borrowed from its senior bank credit facility.

The Company anticipates that it will utilize the MSDW Facility, the MS&Co. Facility, the MSIL Facility or the MSDWJL Facility for short-term funding from time to time (see Note 5 to the consolidated financial statements).

Fiscal 1999 and Subsequent Activity

During fiscal 1999, the Company issued senior notes aggregating $7,626 million, including non-U.S. dollar currency notes aggregating $2,490 million, primarily pursuant to its public debt shelf registration statements. These notes have maturities from 2000 to 2029 and a weighted average coupon interest rate of 4.8% at November 30, 1999; the Company has entered into certain transactions to obtain floating interest rates based primarily on short-term LIBOR trading levels. At November 30, 1999, the aggregate outstanding principal amount of the Company's Senior Indebtedness (as defined in the Company's public debt shelf registration statements) was approximately $49.9 billion. Between November 30, 1999 and January 31, 2000, the Company issued additional debt obligations aggregating approximately $5,093 million. These notes have maturities from 2000 to 2014.

Effective December 1999, the Company's Board of Directors authorized the Company to purchase, subject to market conditions and certain other factors, an additional $1 billion of the Company's common stock for capital management purposes. The Company also has a separate ongoing repurchase authorization in connection with awards granted under its equity-based compensation plans. During fiscal 1999, the Company purchased $2,374 million of its common stock. Subsequent to November 30, 1999 and through January 31, 2000, the Company purchased an additional $406 million of its common stock; the unused portion of the capital management common stock repurchase authorization at January 31, 2000 was approximately $1,098 million (without giving effect to any outstanding put options).

In an effort to enhance its ongoing stock repurchase program, the Company may sell put options on shares of its common stock to third parties. These put options entitle the holder to sell shares of the Company's common stock to the Company on certain dates at specified prices. As of November 30, 1999, put options were outstanding on an aggregate of 1,000,000 shares of the Company's common stock. These put options expire in February 2000. The Company may elect cash settlement of the put options instead of taking delivery of the stock.

Effective March 1, 1999, the Company redeemed all of the outstanding 7.82% Capital Units and 7.80% Capital Units. The aggregate principal amount of the Capital Units redeemed was $352 million. During fiscal 1999, the Company repurchased in a series of transactions in the open market $64 million of the $134 million outstanding 8.03% Capital Units. The Company has retired these repurchased Capital Units.

In January 2000, the Company and Morgan Stanley Finance, plc, a U.K. subsidiary, called for redemption all of the outstanding 9.00% Capital Units on February 28, 2000. The aggregate principal amount of the Capital Units to be redeemed is $144 million.

On May 5, 1999, the Company's shelf registration statement for the issuance of an additional $12 billion of debt securities, units, warrants or purchase contracts, or any combination thereof in the form of units or preferred stock, became effective.

At November 30, 1999, certain assets of the Company, such as real property, equipment and leasehold improvements of $2.2 billion and goodwill and other intangible assets of $1.3 billion, were illiquid. In addition, included in other assets are approximately $1.9 billion of aircraft that the Company has acquired in connection with its aircraft financing activities. Certain equity investments made in connection with the Company's private equity and other principal investment activities, high-yield debt securities, emerging market debt, certain collateralized mortgage obligations and mortgage-related loan products, bridge financings, and certain senior secured loans and positions are not highly liquid. The Company also has commitments to fund certain fixed assets and other less liquid investments, including at November 30, 1999 approximately $417 million in connection with its private equity and other principal investment activities. Additionally, the Company has provided and will continue to provide financing, including margin lending and other extensions of credit to clients.

At November 30, 1999, the aggregate value of high-yield debt securities and emerging market loans and securitized instruments held in inventory was $2,128 million (a substantial portion of which was subordinated debt). These securities, loans and instruments were not attributable to more than 3% to any one issuer, 16% to any one industry or 22% to any one geographic region. Non-investment grade securities generally involve greater risk than investment grade securities due to the lower credit ratings of the issuers, which typically have relatively high levels of indebtedness and, therefore, are more sensitive to adverse economic conditions. In addition, the market for non-investment grade securities and emerging market loans and securitized instruments has been, and may in the future be, characterized by periods of volatility and illiquidity. The Company has in place credit and other risk policies and procedures to control total inventory positions and risk concentrations for non-investment grade securities and emerging market loans and securitized instruments that are administered in a manner consistent with the Company's overall risk management policies and procedures (see "Risk Management" following "Management's Discussion and Analysis of Financial Condition and Results of Operations").

The Company has contracted to develop a one million-square-foot office tower in New York City. Pursuant to this agreement, the Company will own the building and has entered into a 99-year lease for the land at the development site. Construction began in 1999 and the Company intends to occupy the building upon project completion, which is anticipated in 2002. The total investment in this project (which will be incurred over the next several years) is estimated to be approximately $650 million.

In connection with certain of its business activities, the Company provides financing or financing commitments (on a secured and unsecured basis) to companies in the form of senior and subordinated debt, including bridge financing on a selective basis. The borrowers may be rated investment grade or non-investment grade, and the loans may have varying maturities. As part of these activities, the Company may syndicate and trade certain positions of these loans. At November 30, 1999, the aggregate value of loans and positions was $1.3 billion. The Company also has provided additional commitments associated with these activities aggregating $7.3 billion at November 30, 1999. These commitments are generally agreements to lend to counterparties, have fixed termination dates and are contingent on all conditions to borrowing set forth in the contract having been met. At January 31, 2000, the Company had loans and positions outstanding of $2.4 billion and aggregate commitments of $8.2 billion. The higher level of the Company's commitments as compared with prior periods is primarily attributable to increased merger and acquisition activities, particularly in Europe. However, there can be no assurance that the level of such activities will continue in future periods.

In September 1998, the Company made an investment of $300 million in the Long-Term Capital Portfolio, L.P. ("LTCP"). The Company is a member of a consortium of 14 financial institutions participating in an equity recapitalization of LTCP. The objectives of this investment were to continue active management of its positions and, over time, reduce excessive risk exposures and leverage, return capital to the participants and ultimately realize the potential value of the LTCP portfolio. During fiscal 1999, a substantial portion of this investment was returned to the Company.

The gross notional and fair value amounts of derivatives used by the Company for asset and liability management and as part of its trading activities are summarized in Notes 6 and 9, respectively, to the consolidated financial statements (see also "Derivative Financial Instruments" herein).

REGULATORY CAPITAL REQUIREMENTS

Dean Witter Reynolds Inc. ("DWR") and MS&Co. are registered broker-dealers and registered futures commission merchants and, accordingly, are subject to the minimum net capital requirements of the Securities and Exchange Commission ("SEC"), the New York Stock Exchange and the Commodity Futures Trading Commission. MSIL, a London-based broker-dealer subsidiary, is regulated by the Securities and Futures Authority ("SFA") in the United Kingdom and, accordingly, is subject to the Financial Resources Requirements of the SFA. MSDWJL, a Tokyo-based broker-dealer, is regulated by the Japanese Ministry of Finance with respect to regulatory capital requirements. DWR, MS&Co., MSIL and MSDWJL have consistently operated in excess of their respective regulatory requirements (see Note 11 to the consolidated financial statements).

Certain of the Company's subsidiaries are Federal Deposit Insurance Corporation ("FDIC") insured financial institutions. Such subsidiaries, therefore, are subject to the regulatory capital requirements adopted by the FDIC. These subsidiaries have consistently operated in excess of these and other regulatory requirements.

Certain other U.S. and non-U.S. subsidiaries are subject to various securities, commodities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These subsidiaries have consistently operated in excess of their applicable local capital adequacy requirements. In addition, Morgan Stanley Derivative Products Inc., a triple-A rated subsidiary through which the Company conducts some of its derivative activities, has established certain operating restrictions which have been reviewed by various rating agencies.

EFFECTS OF INFLATION AND CHANGES IN FOREIGN EXCHANGE RATES

Because the Company's assets to a large extent are liquid in nature, they are not significantly affected by inflation. However, inflation may result in increases in the Company's expenses, which may not be readily recoverable in the price of services offered. To the extent inflation results in rising interest rates and has other adverse effects upon the securities markets, upon the value of financial instruments and upon the markets for consumer credit services, it may adversely affect the Company's financial position and profitability.

A portion of the Company's business is conducted in currencies other than the U.S. dollar. Non-U.S. dollar assets typically are financed by direct borrowing or swap-based funding in the same currency. Changes in foreign exchange rates affect non-U.S. dollar revenues as well as non-U.S. dollar expenses. Those foreign exchange exposures that arise and are not hedged by an offsetting foreign currency exposure are actively managed by the Company to minimize risk of loss due to currency fluctuations.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company actively offers to clients and trades for its own account a variety of financial instruments described as "derivative products" or "derivatives." These products generally take the form of futures, forwards, options, swaps, caps, collars, floors, swap options and similar instruments which derive their value from underlying interest rates, foreign exchange rates, or commodity or equity instruments and indices. All of the Company's trading-related divisions use derivative products as an integral part of their respective trading strategies, and such products are used extensively to manage the market exposure that results from a variety of proprietary trading activities (see Note 9 to the consolidated financial statements). In addition, as a dealer in certain derivative products, most notably interest rate and currency swaps, the Company enters into derivative contracts to meet a variety of risk management and other financial needs of its clients. Given the highly integrated nature of derivative products and related cash instruments in the determination of overall trading division profitability and the context in which the Company manages its trading areas, it is not meaningful to allocate trading revenues between the derivative and underlying cash instrument components. Moreover, the risks associated with the Company's derivative activities, including market and credit risks, are managed on an integrated basis with associated cash instruments in a manner consistent with the Company's overall risk management policies and procedures (see "Risk Management" following "Management's Discussion and Analysis of Financial Condition and Results of Operations"). It should be noted that while particular risks may be associated with the use of derivatives, in many cases derivatives serve to reduce, rather than increase, the Company's exposure to market, credit and other risks.

The total notional value of derivative trading contracts outstanding at November 30, 1999 was $3,404 billion (as compared with $2,860 billion at November 30, 1998). While these amounts are an indication of the degree of the Company's use of derivatives for trading purposes, they do not represent the Company's market or credit exposure and may be more indicative of customer utilization of derivatives. The Company's exposure to market risk relates to changes in interest rates, foreign currency exchange rates, or the fair value of the underlying financial instruments or commodities. The Company's exposure to credit risk at any point in time is represented by the fair value of such contracts reported as assets. Such total fair value outstanding as of November 30, 1999 was $22.8 billion. Approximately $18.4 billion of that credit risk exposure was with counterparties rated single-A or better (see Note 9 to the consolidated financial statements).

The Company also uses derivative products (primarily interest rate, currency and equity swaps) to assist in asset and liability management, reduce borrowing costs and hedge interest rate risk (see Note 6 to the consolidated financial statements).

The Company believes that derivatives are valuable tools that can provide cost-effective solutions to complex financial problems and remains committed to providing its clients with innovative financial products. The Company established Morgan Stanley Derivative Products Inc. to offer derivative products to clients who will enter into derivative transactions only with triple-A rated counterparties. In addition, the Company, through its continuing involvement with regulatory, self-regulatory and industry activities, provides leadership in the development of policies and practices in order to maintain confidence in the markets for derivative products, which is critical to the Company's ability to assist clients in meeting their overall financial needs.

YEAR 2000

The Year 2000 issue arose since many of the world's computer systems (including those in non-information technology systems) traditionally recorded years in a two-digit format. If not addressed, such computer systems may have been unable to properly interpret dates beyond the year 1999, which may have led to business disruptions in the U.S. and internationally. Accordingly, the Company established a firmwide initiative to address issues associated with the Year 2000. As part of this initiative, the Company reviewed its global software and hardware infrastructure for mainframe, server and desktop computing environments and engaged in extensive remediation and testing. The Year 2000 initiative also encompassed the review of agencies, vendors and facilities for Year 2000 compliance.

Since 1995, the Company prepared actively for the Year 2000 issue to ensure that it would have the ability to respond to any critical business process failure, to prevent the loss of workspace and technology, and to mitigate any potential financial loss or damage to its global franchise. Where necessary, contingency plans were expanded or developed to address specific Year 2000 risk scenarios, supplementing existing business policies and practices.

During fiscal 1999, in its preparation for the millennial changeover, the Company established a global Command, Control and Communication Network (the "C3 Network"). The purpose of the C3 Network was to enable the Company's management, on both a global and regional basis, to monitor and manage any Year 2000-related issues and their potential impact on the Company's business activities. Using a variety of tools developed for this purpose, the C3 Network monitored business verification points as well as internal issues and external events. The Company also maintained communications with clients and regulators and coordinated global communications between senior management and all of the Company's business areas.

The Company considers the transition into the Year 2000 successful from the perspective of both its internal systems and global external interactions. Over the millennial changeover period, no material issues were encountered, and the Company conducted business as usual.

Based upon current information, the Company estimates that the total cost associated with implementing its Year 2000 initiative, including the review, remediation and testing of all internal systems, review of vendors, and event management will be approximately $240 million. Substantially all of such costs were incurred by the end of fiscal 1999, although approximately $15 million in costs are expected to be incurred during fiscal 2000. These costs are funded through operating cash flow and expensed in the period in which they are incurred.

RISK MANAGEMENT

RISK MANAGEMENT POLICY AND CONTROL STRUCTURE

Risk is an inherent part of the Company's business and activities. The extent to which the Company properly and effectively identifies, assesses, monitors and manages each of the various types of risk involved in its activities is critical to its soundness and profitability. The Company's broad-based portfolio of business activities helps reduce the impact that volatility in any particular area or related areas may have on its net revenues as a whole. The Company seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal risks involved in the Company's business activities: market risk, credit risk, operational risk, legal risk and funding risk. Funding risk is discussed in the "Liquidity and Capital Resources" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 22.

Risk management at the Company is a multi-faceted process with independent oversight that requires constant communication, judgment and knowledge of specialized products and markets. The Company's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. In recognition of the increasingly varied and complex nature of the global financial services business, the Company's risk management policies, procedures and methodologies are evolutionary in nature and are subject to ongoing review and modification.

The Management Committee, composed of the Company's most senior officers, establishes the overall risk management policies for the Company and reviews the Company's performance relative to these policies. The Management Committee has created several Risk Committees to assist it in monitoring and reviewing the Company's risk management practices. These Risk Committees, as well as other committees established to manage and monitor specific risks, review the risk monitoring and risk management policies and procedures relating to the Company's market and credit risk profile, sales practices, pricing of consumer loans and reserve adequacy, legal enforceability, and operational and systems risks.

The Firm Risk Management, Controllers, Treasury and Law, Compliance and Governmental Affairs Departments, which are all independent of the Company's business units, also assist senior management and the Risk Committees in monitoring and controlling the Company's risk profile. The Firm Risk Management Department is responsible for risk policy development, risk analysis and risk reporting to senior management and the Risk Committees and has operational responsibility for measuring and monitoring aggregate market and credit risk with respect to institutional trading activities. In addition, the Internal Audit Department, which also reports to senior management, periodically examines and evaluates the Company's operations and control environment. The Company continues to be committed to employing qualified personnel with appropriate expertise in each of its various administrative and business areas to implement effectively the Company's risk management and monitoring systems and processes.

The following is a discussion of the Company's risk management policies and procedures for its principal risks (other than funding risk). The discussion focuses on the Company's securities trading (primarily its institutional trading activities) and consumer lending and related activities. The Company believes that these activities generate a substantial portion of its principal risks. This discussion and the estimated amounts of the Company's market risk exposure generated by the Company's statistical analyses are forward-looking statements. However, the analyses used to assess such risks are not predictions of future events, and actual results may vary significantly from such analyses due to events in the markets in which the Company operates and certain other factors described below.

MARKET RISK

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. For a discussion of the Company's currency exposure relating to its net monetary investments in non-U.S. dollar functional currency subsidiaries, see Note 11 to the consolidated financial statements.

TRADING AND RELATED ACTIVITIES

Primary Market Risk Exposures and Market Risk Management

During fiscal 1999, the Company had exposures to a wide range of interest rates, equity prices, foreign exchange rates and commodity prices — and associated volatilities and spreads — related to a broad spectrum of global markets in which it conducts its trading activities. The Company is exposed to interest rate risk as a result of maintaining market-making activities and proprietary trading in interest rate sensitive financial instruments (e.g., risk arising from changes in the level or volatility of interest rates, the timing of mortgage prepayments, the shape of the yield curve and credit spreads for corporate bonds and emerging market debt). The Company is exposed to equity price risk as a result of making markets in equity securities and equity derivatives and maintaining proprietary positions. The Company is exposed to foreign exchange rate risk in connection with making markets in foreign currencies and foreign currency options and with maintaining foreign exchange positions. The Company's currency trading covers many foreign currencies, including the yen, euro and pound sterling. The Company is exposed to commodity price risk as a result of trading in commodity-related derivatives and physical commodities.

The Company manages its trading positions by employing a variety of strategies, which include diversification of risk exposures and the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (e.g., swaps, options, futures and forwards). The Company manages the market risk associated with its trading activities on a Company-wide basis, on a trading division level worldwide and on an individual product basis. The Company manages and monitors its market risk exposures in such a way as to maintain a portfolio that the Company believes is well-diversified with respect to market risk factors.

Market risk limits have been approved for the Company and each major trading division of the Company worldwide (equity, fixed income, foreign exchange and commodities). Discrete market risk limits are assigned to trading desks and, as appropriate, products and regions. Trading division risk managers, desk risk managers and the Firm Risk Management Department monitor market risk measures against limits and report major market and position events to senior management.

The Firm Risk Management Department independently reviews the Company's trading portfolios on a regular basis from a market risk perspective utilizing Value-at-Risk and other quantitative and qualitative risk measurements and analyses. The Company may use measures, such as rate sensitivity, convexity, volatility and time decay measurements, to estimate market risk and to assess the sensitivity of positions to changes in market conditions. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors, for certain products is performed periodically and reviewed by trading division risk managers, desk risk managers and the Firm Risk Management Department.

Value-at-Risk

The statistical technique known as Value-at-Risk ("VaR") is one of the tools used by management to measure, monitor and review the market risk exposures of the Company's trading portfolios. The Firm Risk Management Department calculates and distributes daily VaR-based risk measures to various levels of management.

VaR Methodology, Assumptions and Limitations

The Company estimates VaR using a model based on historical simulation for major market risk factors and Monte Carlo simulation for name-specific risk in certain equity and fixed income exposures. Historical simulation involves constructing a distribution of hypothetical daily changes in trading portfolio value based on historical observation of daily changes in key market indices or other market factors ("market risk factors") and on information on the sensitivity of the portfolio values to these market risk factor changes. In the case of the Company's VaR, approximately four years of historical data are used to characterize potential changes in market risk factors. The Company's one-day 99% VaR corresponds to the negative change in portfolio value that, based on observed market risk factor movements, would have been exceeded with a frequency of 1%, or once in 100 trading days.

The VaR model generally takes into account linear and non-linear exposures to price and interest rate risk and linear exposure to implied volatility risks. Market risks that are incorporated in the VaR model include equity and commodity prices, interest rates, foreign exchange rates and associated volatilities. As of November 30, 1999, a total of approximately 500 market risk factor benchmark data series was incorporated in the Company's VaR model covering interest rates, equity prices, foreign exchange rates, commodity prices and associated volatilities. As a supplement to the use of historical simulation for major market risk factors, the Company's VaR model uses Monte Carlo simulation to capture name-specific risk in global equities and in U.S. corporate and high-yield bonds. The model includes measures of name-specific risk for approximately 8,000 equity names and 55 classes of corporate and high-yield bonds.

VaR models such as the Company's should be expected to evolve over time in response to changes in the composition of trading portfolios and to improvements in modeling techniques and systems capabilities. During fiscal 1999, as part of the Company's ongoing program of VaR model enhancement, position and risk coverage were broadened, and risk measurement methodologies were refined. Equity enhancements included improved capture of name-specific implied volatility risk for equity options of different maturities, which tended to decrease measured VaR, and name-specific equity price risk with respect to certain private equity positions, which tended to increase VaR. Fixed income enhancements included: improved modeling of implied volatility risk, improved capture of interest rate related risks in mortgage-backed and emerging market financial instruments, and a change, related to EMU, from multiple to a single set of yield curve risk factors for euro currencies, all of which tended to decrease measured VaR.

Among their benefits, VaR models permit estimation of a portfolio's aggregate market risk exposure, incorporating a range of varied market risks; reflect risk reduction due to portfolio diversification; and can cover a wide range of portfolio assets yet are relatively easy to interpret. However, VaR risk measures should be interpreted in light of the methodology's limitations, which include the following: past changes in market risk factors will not always yield accurate predictions of the distributions and correlations of future market movements; changes in portfolio value in response to market movements may differ from the responses calculated by a VaR model; published VaR results reflect past trading positions while future risk depends on future positions; VaR using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day; and the historical market risk factor data used for VaR estimation may provide only limited insight into losses that could be incurred under market conditions that are unusual relative to the historical period used in estimating the VaR. The Company is aware of these and other limitations and therefore uses VaR as only one component in its risk management review process. This process also incorporates stress testing and extensive risk monitoring and control at the trading desk, division and Company levels.

VaR for Fiscal 1999

The table below presents the results of the Company's VaR for each of the Company's primary market risk exposures and on an aggregate basis at November 30, 1999 and November 30, 1998, incorporating substantially all financial instruments generating market risk (including funding liabilities related to trading positions, retail trading activities and private equity positions). However, a small proportion of trading positions generating market risk was not covered, and the modeling of the risk characteristics of some positions involved approximations which could be significant under certain circumstances. Market risks that are in the VaR values shown in the following table, but that the Company has found particularly difficult to model, include certain fixed income instruments (such as aspects of prepayment behavior of mortgage-backed securities and credit derivatives price risk), name-specific equity price risk in private or newly public companies, certain commodity price risks (such as electricity price risk) and certain liquidity risks.

Since VaR is based on historical data and changes in market risk factor returns, VaR should not be viewed as predictive of the Company's future financial performance or its ability to monitor and manage risk, and there can be no assurance that the Company's actual losses on a particular day will not exceed the VaR amounts indicated below or that such losses will not occur more than once in 100 trading days.

PRIMARY MARKET RISK CATEGORY *(dollars in millions, pre-tax)*	99%/ONE-DAY VaR AT NOVEMBER 30, 1999	1998[1]
Interest rate	**$33**	$28
Equity price	**32**	17
Foreign exchange rate	**3**	5
Commodity price	**16**	6
Subtotal	**84**	56
Less diversification benefit[2]	**33**	18
Aggregate Value-at-Risk	**$51**	$38

(1) *The Interest rate Value-at-Risk for fiscal 1998 has been restated to reflect the estimated impact of enhancements to the Company's VaR model made during fiscal 1999 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.*

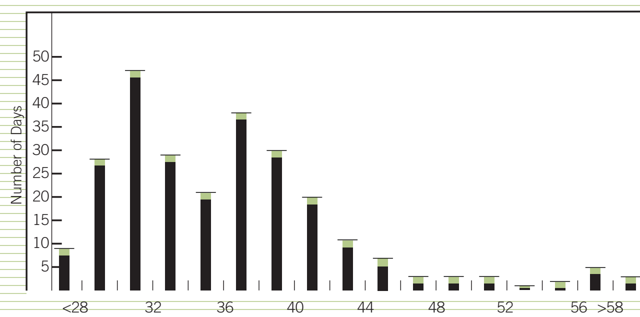
The change in Interest rate VaR from November 30, 1998 to November 30, 1999 reflected, in part, an increase in certain high-yield and emerging market interest rate risk positions. The change in Equity price VaR from November 30, 1998 to November 30, 1999 reflected, in part, an increase in the market value of certain private equity positions, a substantial portion of which was sold by the Company shortly after the end of the fiscal year. The change in Commodity price VaR reflected, in part, higher market values of commodities positions arising from increases in energy prices throughout the year.

In order to facilitate comparisons with other global financial services firms, the Company notes that its Aggregate VaR at November 30, 1999 for other confidence levels and time horizons was as follows: $32 million for 95%/one-day VaR and $151 million for 99%/two-week VaR.

The table below presents the high, low and average 99%/one-day VaR over the course of fiscal 1999 for substantially all of the Company's institutional trading activities. This measure of VaR incorporates most of the Company's trading-related market risks. Certain market risks included in the year-end VaR discussed above are excluded from this measure (i.e., equity price risk in private equity positions and funding liabilities related to trading positions).

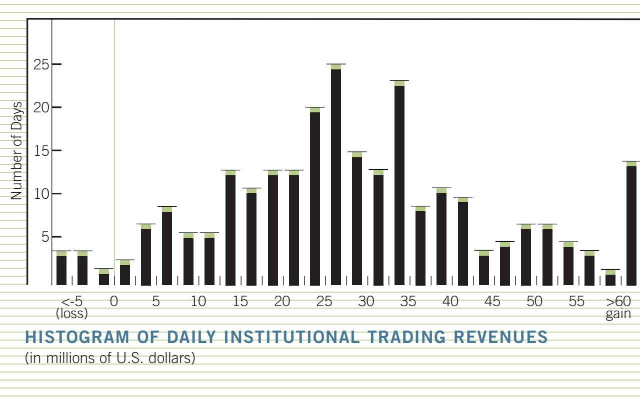
PRIMARY MARKET RISK CATEGORY *(dollars in millions, pre-tax)*	DAILY 99%/ONE-DAY VaR FOR FISCAL 1999 HIGH	LOW	AVERAGE
Interest rate	$62	$17	$29
Equity price	38	14	21
Foreign exchange rate	13	2	5
Commodity price	19	6	11
Aggregate Value-at-Risk	$60	$27	$36

The histogram below presents the Company's daily 99%/one-day VaR for its institutional trading activities during fiscal 1999:



HISTOGRAM OF DAILY 99% / ONE-DAY VaR
(in millions of U.S. dollars)

The histogram below shows the distribution of daily revenues during fiscal 1999 for the Company's institutional trading businesses (net of interest expense and including commissions and primary revenue credited to the trading businesses):



HISTOGRAM OF DAILY INSTITUTIONAL TRADING REVENUES
(in millions of U.S. dollars)

The Company evaluates the reasonableness of its VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results. There were no days during fiscal 1999 in which the Company incurred daily mark-to-market losses (trading revenue net of interest income and expense and excluding commissions and primary revenue credited to the trading businesses) in its institutional trading business in excess of the 99%/one-day VaR which incorporates the enhancements to the Company's VaR model made during fiscal 1999.

CONSUMER LENDING AND RELATED ACTIVITIES

Interest Rate Risk and Management

In its consumer lending activities, the Company is exposed to market risk primarily from changes in interest rates. Such changes in interest rates impact interest earning assets, principally credit card and other consumer loans and net servicing fees received in connection with consumer loans sold through asset securitizations, as well as the interest-sensitive liabilities which finance these assets, including asset securitizations, commercial paper, medium-term notes, long-term borrowings, deposits, asset-backed commercial paper, Federal Funds and short-term bank notes.

The Company's interest rate risk management policies are designed to reduce the potential volatility of earnings which may arise from changes in interest rates. This is accomplished primarily by matching the repricing of credit card and consumer loans and the related financing. To the extent that asset and related financing repricing characteristics of a particular portfolio are not matched effectively, the Company utilizes interest rate derivative contracts, such as swap, cap and collar agreements, to achieve its matched financing objectives. Interest rate swap agreements effectively convert the underlying asset or financing from fixed to variable repricing, from variable to fixed repricing or, in more limited circumstances, from variable to variable repricing. Interest rate cap agreements effectively establish a maximum interest rate on certain variable rate financings. Interest rate collar agreements effectively establish a range of interest rates on certain variable rate financings.

Sensitivity Analysis Methodology, Assumptions and Limitations

For its consumer lending activities, the Company uses a variety of techniques to assess its interest rate risk exposure, one of which is interest rate sensitivity simulation. For purposes of presenting the possible earnings effect of a hypothetical, adverse change in interest rates over the 12-month period from its fiscal year-end, the Company assumes that all interest rate sensitive assets and liabilities will be impacted by a hypothetical, immediate 100-basis-point increase in interest rates as of the beginning of the period.

Interest rate sensitive assets are assumed to be those for which the stated interest rate is not contractually fixed for the next 12-month period. In fiscal 1999, a substantial portion of the Company's credit card receivables was repriced to a fixed interest rate, although the Company has the right, with notice to cardmembers, to reprice the receivables to a new fixed interest rate. The Company considers such receivables to be interest rate sensitive, consistent with its policy of matching the repricing of its credit card receivables and the related financing. The Company measured the earnings sensitivity for these assets from the expected repricing date, which takes into consideration the required notice period and billing cycles. In addition, assets which have a market-based index, such as the prime rate, which will reset before the end of the 12-month period, or assets with rates that are fixed at fiscal year-end but which will mature, or otherwise contractually reset to a market-based indexed or other fixed rate prior to the end of the 12-month period, are rate-sensitive. The latter category includes certain credit card loans which may be offered at below-market rates for an introductory period, such as for balance transfers and special promotional programs, after which the loans will contractually reprice in accordance with the Company's normal market-based pricing structure. For purposes of measuring rate-sensitivity for such loans, only the effect of the hypothetical 100-basis-point change in the underlying market-based indexed or other fixed rate has been considered rather than the full change in the rate to which the loan would contractually reprice. For assets which have a fixed rate at fiscal year-end but which contractually will, or are assumed to, reset to a market-based indexed or other fixed rate during the next 12 months, earnings sensitivity is measured from the expected repricing date. In addition, for all interest rate sensitive assets, earnings sensitivity is calculated net of expected loan losses.

Interest rate sensitive liabilities are assumed to be those for which the stated interest rate is not contractually fixed for the next 12-month period. Thus, liabilities which have a market-based index, such as the prime, commercial paper, or LIBOR rates, which will reset before the end of the 12-month period, or liabilities whose rates are fixed at fiscal year-end but which will mature and be replaced with a market-based indexed rate prior to the end of the 12-month period, are rate-sensitive. For liabilities which have a fixed rate at fiscal year-end, but which are assumed to reset to a market-based index during the next 12 months, earnings sensitivity is measured from the expected repricing date.

Assuming a hypothetical, immediate 100-basis-point increase in the interest rates affecting all interest rate sensitive assets and liabilities as of November 30, 1999, it is estimated that the pre-tax income of consumer lending and related activities over the following 12-month period would be reduced by approximately $10 million. The comparable reduction of pre-tax income for the 12-month period following November 30, 1998 was estimated to be approximately $65 million. The decrease at November 30, 1999 as compared with the prior year was primarily the result of the Company's consumer loan repricing actions made during fiscal 1999 and the related impact of the funding supporting the Company's consumer loans.

The hypothetical model assumes that the balances of interest rate sensitive assets and liabilities at fiscal year-end will remain constant over the next 12-month period. It does not assume any growth, strategic change in business focus, change in asset pricing philosophy or change in asset/liability funding mix. Thus, this model represents a static analysis which cannot adequately portray how the Company would respond to significant changes in market conditions. Furthermore, the analysis does not necessarily reflect the Company's expectations regarding the movement of interest rates in the near term, including the likelihood of an immediate 100-basis-point change in market interest rates nor necessarily the actual effect on earnings if such rate changes were to occur.

CREDIT RISK

The Company's exposure to credit risk arises from the possibility that a customer or counterparty to a transaction might fail to perform under its contractual commitment, which could result in the Company incurring losses. With respect to its institutional securities activities, the Company has credit guidelines which limit the Company's current and potential credit exposure to any one counterparty and to each type of counterparty (by rating category). The Credit Department that is responsible for the Company's institutional securities activities administers and monitors these credit limits on a worldwide basis. In addition to monitoring credit limits, the Company manages the credit exposure relating to its trading activities by reviewing periodically counterparty financial soundness, by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases, the Company also may close out transactions, assign them to other counterparties or purchase credit protection to mitigate credit risk. With respect to the leveraged lending business, the Leveraged Financing Commitment Committee, which is composed of senior managers from various departments within the Company, including the Credit Department, reviews each leveraged loan request.

With respect to its consumer lending activities, potential credit card holders undergo credit reviews by the Credit Department of Discover Financial Services to establish that they meet standards of ability and willingness to pay. Credit card applications are evaluated using scoring models (statistical evaluation models) based on information obtained from credit bureaus. The Company's credit scoring systems include both industry and customized models using the Company's criteria and historical data. Each cardmember's credit line is reviewed at least annually, and actions resulting from such review may include raising or lowering a cardmember's credit line or closing the account. In addition, the Company, on a portfolio basis, performs monthly monitoring and review of consumer behavior and risk profiles. The Company also reviews the creditworthiness of prospective Discover/NOVUS Network merchants and conducts annual reviews of merchants, with the greatest scrutiny given to merchants with substantial sales volume.

The Company is subject to concentration risk by holding large positions in certain types of securities or commitments to purchase securities of a single issuer, including sovereign governments and other entities, issuers located in a particular country or geographic area, public and private issuers involving developing countries or issuers engaged in a particular industry (see Note 9 to the consolidated financial statements).

OPERATIONAL RISK

Operational risk refers generally to the risk of loss resulting from the Company's operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in the Company's operating systems, and inadequacies or breaches in the Company's control processes. The Company operates different businesses in diverse markets and is reliant on the ability of its employees and systems to process high numbers of transactions. These transactions may cross multiple markets and involve different currencies. In the event of a breakdown or improper operation of systems or improper action by employees, the Company could suffer financial loss, regulatory sanctions and damage to its reputation.

In order to mitigate and control operational risk, the Company has developed and continues to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels. For example, the Company's securities business has procedures that require that all transactions are accurately recorded and properly reflected in the Company's books and records and are confirmed on a timely basis; that position valuations are subject to periodic independent review procedures; and that collateral and adequate documentation (e.g., master agreements) are obtained from counterparties in appropriate circumstances. With respect to its consumer lending activities, the Company manages operational risk through its system of internal controls which provides checks and balances to ensure that transactions and other account-related activity (e.g., new account solicitation, transaction authorization and processing, billing and collection of delinquent accounts) are properly approved, processed, recorded and reconciled. Disaster recovery plans are in place for critical systems on a Company-wide basis, and redundancies are built into the systems as deemed appropriate. The Company also uses periodic self-assessments and Internal Audit reviews as a further check on operational risk.

LEGAL RISK

Legal risk includes the risk of non-compliance with applicable legal and regulatory requirements and the risk that a counterparty's performance obligations will be unenforceable. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business. The Company has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to ensure compliance with all applicable statutory and regulatory requirements. The Company, principally through the Law, Compliance and Governmental Affairs Department, also has established procedures that are designed to ensure that senior management's policies relating to conduct, ethics and business practices are followed globally. In connection with its business, the Company has various procedures addressing issues, such as regulatory capital requirements, sales and trading practices, new products, use and safekeeping of customer funds and securities, credit granting, collection activities, money-laundering and recordkeeping. The Company also has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies.

report of independent auditors

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

We have audited the accompanying consolidated statements of financial condition of Morgan Stanley Dean Witter & Co. and subsidiaries as of fiscal years ended November 30, 1999 and 1998, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three fiscal years in the period ended November 30, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting 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 our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Morgan Stanley Dean Witter & Co. and subsidiaries at fiscal years ended November 30, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended November 30, 1999, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in fiscal 1998, Morgan Stanley Dean Witter & Co. changed its method of accounting for certain offering costs of closed-end funds.

Deloitte & Touche LLP

New York, New York
January 21, 2000

consolidated statements of financial condition

(dollars in millions, except share data)	NOVEMBER 30, 1999	NOVEMBER 30, 1998
ASSETS		
Cash and cash equivalents	$ 12,325	$ 16,878
Cash and securities deposited with clearing organizations or segregated under federal and other regulations (including securities at fair value of $6,925 at November 30, 1999 and $7,518 at November 30, 1998)	9,713	10,531
Financial instruments owned:		
U.S. government and agency securities	25,646	12,350
Other sovereign government obligations	17,522	15,050
Corporate and other debt	30,443	22,388
Corporate equities	14,843	14,289
Derivative contracts	22,769	21,442
Physical commodities	819	416
Securities purchased under agreements to resell	70,366	79,570
Receivable for securities provided as collateral	9,007	4,388
Securities borrowed	85,064	69,338
Receivables:		
Consumer loans (net of allowances of $769 at November 30, 1999 and $787 at November 30, 1998)	20,229	15,209
Customers, net	29,299	18,785
Brokers, dealers and clearing organizations	2,252	4,432
Fees, interest and other	5,371	3,359
Office facilities, at cost (less accumulated depreciation and amortization of $1,667 at November 30, 1999 and $1,375 at November 30, 1998)	2,204	1,834
Other assets	9,095	7,331
Total assets	$366,967	$317,590

(dollars in millions, except share data)	NOVEMBER 30, 1999	NOVEMBER 30, 1998
LIABILITIES AND SHAREHOLDERS' EQUITY		
Commercial paper and other short-term borrowings	$ 38,242	$ 28,137
Deposits	10,397	8,197
Financial instruments sold, not yet purchased:		
U.S. government and agency securities	12,285	11,305
Other sovereign government obligations	7,812	13,899
Corporate and other debt	2,322	3,093
Corporate equities	15,402	11,501
Derivative contracts	23,228	21,198
Physical commodities	919	348
Securities sold under agreements to repurchase	104,450	92,327
Obligation to return securities received as collateral	14,729	6,636
Securities loaned	30,080	23,152
Payables:		
Customers	45,775	40,606
Brokers, dealers and clearing organizations	1,335	5,244
Interest and dividends	2,951	371
Other liabilities and accrued expenses	10,439	8,623
Long-term borrowings	28,604	27,435
	348,970	302,072
Capital Units	583	999
Preferred Securities Issued by Subsidiaries	400	400
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	670	674
Common stock(1) ($0.01 par value, 1,750,000,000 shares authorized, 1,211,685,904 and 1,211,685,904 shares issued, 1,104,630,098 and 1,131,341,616 shares outstanding at November 30, 1999 and November 30, 1998)	12	12
Paid-in capital(1)	3,836	3,740
Retained earnings	16,285	12,080
Employee stock trust	2,426	1,913
Cumulative translation adjustments	(27)	(12)
Subtotal	23,202	18,407
Note receivable related to sale of preferred stock to ESOP	(55)	(60)
Common stock held in treasury, at cost(1) ($0.01 par value, 107,055,806 and 80,344,288 shares at November 30, 1999 and November 30, 1998)	(4,355)	(2,702)
Common stock issued to employee trust	(1,778)	(1,526)
Total shareholders' equity	17,014	14,119
Total liabilities and shareholders' equity	$366,967	$317,590

(1) *Amounts have been retroactively adjusted to give effect for a two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on January 26, 2000.*

See Notes to Consolidated Financial Statements.

consolidated statements of income

fiscal year (dollars in millions, except share and per share data)	**1999**	1998	1997
Revenues:			
Investment banking	$ 4,523	$ 3,340	$ 2,694
Principal transactions:			
Trading	5,983	3,283	3,191
Investments	725	89	463
Commissions	2,921	2,321	2,066
Fees:			
Asset management, distribution and administration	3,170	2,889	2,525
Merchant and cardmember	1,492	1,647	1,704
Servicing	1,194	928	762
Interest and dividends	13,755	16,436	13,583
Other	165	198	144
Total revenues	33,928	31,131	27,132
Interest expense	11,390	13,514	10,806
Provision for consumer loan losses	529	1,173	1,493
Net revenues	22,009	16,444	14,833
Non-interest expenses:			
Compensation and benefits	8,398	6,636	6,019
Occupancy and equipment	643	583	526
Brokerage, clearing and exchange fees	485	552	460
Information processing and communications	1,325	1,140	1,080
Marketing and business development	1,679	1,411	1,179
Professional services	836	677	451
Other	915	745	770
Merger-related expenses	—	—	74
Total non-interest expenses	14,281	11,744	10,559
Gain on sale of businesses	—	685	—
Income before income taxes and cumulative effect of accounting change	7,728	5,385	4,274
Provision for income taxes	2,937	1,992	1,688
Income before cumulative effect of accounting change	4,791	3,393	2,586
Cumulative effect of accounting change	—	(117)	—
Net income	$ 4,791	$ 3,276	$ 2,586
Preferred stock dividend requirements	$ 44	$ 55	$ 66
Earnings applicable to common shares[1]	$ 4,747	$ 3,221	$ 2,520
Earnings per common share[2]:			
Basic before cumulative effect of accounting change	$ 4.33	$ 2.90	$ 2.19
Cumulative effect of accounting change	—	(0.10)	—
Basic	$ 4.33	$ 2.80	$ 2.19
Diluted before cumulative effect of accounting change	$ 4.10	$ 2.76	$ 2.08
Cumulative effect of accounting change	—	(0.09)	—
Diluted	$ 4.10	$ 2.67	$ 2.08
Average common shares outstanding[2]:			
Basic	1,096,789,720	1,151,645,450	1,149,636,466
Diluted	1,159,500,670	1,212,588,130	1,212,612,950

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

(2) *Amounts have been retroactively adjusted to give effect for a two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on January 26, 2000.*

See Notes to Consolidated Financial Statements.

consolidated statements of comprehensive income

fiscal year (dollars in millions)	**1999**	1998	1997
Net income	$4,791	$3,276	$2,586
Other comprehensive income, net of tax:			
Foreign currency translation adjustment	(15)	(3)	2
Comprehensive income	$4,776	$3,273	$2,588

See Notes to Consolidated Financial Statements.

consolidated statements of cash flows

fiscal year (dollars in millions)	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 4,791	$ 3,276	$ 2,586
Adjustments to reconcile net income to net cash (used for) provided by operating activities:			
Non-cash charges included in net income:			
Cumulative effect of accounting change	—	117	—
Gain on sale of businesses	—	(685)	—
Deferred income taxes	(160)	(55)	(77)
Compensation payable in common or preferred stock	675	334	374
Depreciation and amortization	541	575	338
Provision for consumer loan losses	529	1,173	1,493
Changes in assets and liabilities:			
Cash and securities deposited with clearing organizations or segregated under federal and other regulations	839	(3,641)	(1,691)
Financial instruments owned, net of financial instruments sold, not yet purchased	(22,081)	11,127	1,730
Securities borrowed, net of securities loaned	(8,798)	(5,061)	(10,561)
Receivables and other assets	(11,276)	2,114	(13,808)
Payables and other liabilities	5,669	6,095	19,058
Net cash (used for) provided by operating activities	(29,271)	15,369	(558)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (payments for) proceeds from:			
Office facilities	(656)	(358)	(301)
Sale of businesses, net of disposal costs	—	1,399	—
Purchase of AB Asesores, net of cash acquired	(223)	—	—
Net principal disbursed on consumer loans	(8,769)	(2,314)	(4,994)
Purchases of consumer loans	—	—	(11)
Sales of consumer loans	2,997	4,466	2,783
Other investing activities	—	—	(5)
Net cash (used for) provided by investing activities	(6,651)	3,193	(2,528)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for) short-term borrowings	9,994	5,620	(1,336)
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	21,327	(14,407)	3,080
Net proceeds from (payments for):			
Deposits	2,200	(796)	2,113
Issuance of common stock	270	186	194
Issuance of put options	9	—	—
Issuance of long-term borrowings	7,552	9,771	6,619
Issuance of Preferred Securities Issued by Subsidiaries	—	400	—
Issuance of Capital Units	—	—	134
Payments for:			
Repayments of long-term borrowings	(6,618)	(7,069)	(3,964)
Redemption of cumulative preferred stock	—	(200)	(345)
Redemption of Capital Units	(416)	—	—
Repurchases of common stock	(2,374)	(2,925)	(124)
Cash dividends	(575)	(519)	(416)
Net cash provided by (used for) financing activities	31,369	(9,939)	5,955
Dean Witter, Discover & Co.'s net cash activity for the month of December 1996	—	—	(1,158)
Net (decrease) increase in cash and cash equivalents	(4,553)	8,623	1,711
Cash and cash equivalents, at beginning of period	16,878	8,255	6,544
Cash and cash equivalents, at end of period	$ 12,325	$ 16,878	$ 8,255

See Notes to Consolidated Financial Statements.

consolidated statements of changes in shareholders' equity

(dollars in millions)	PREFERRED STOCK	COMMON STOCK[1]	PAID-IN CAPITAL[1]	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 1996	$1,223	$12	$3,583	$7,477	$1,495	$(11)	$(78)	$(1,005)	$ (994)	$11,702
Net income	—	—	—	2,586	—	—	—	—	—	2,586
Dividends	—	—	—	(387)	—	—	—	—	—	(387)
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 Discover Brokerage Direct acquisition	—	—	14	—	—	—	—	49	—	63
Adjustment for change in Dean Witter Discover's year-end	—	—	(90)	(81)	—	—	—	32	—	(139)
BALANCE AT NOVEMBER 30, 1997	$ 876	$12	$3,721	$9,330	$1,681	$ (9)	$(68)	$ (250)	$(1,337)	$13,956
Net income	—	—	—	3,276	—	—	—	—	—	3,276
Dividends	—	—	—	(526)	—	—	—	—	—	(526)
Redemption of 7-3/8% 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)

(dollars in millions)	PREFERRED STOCK	COMMON STOCK[1]	PAID-IN CAPITAL[1]	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, 1998	$674	$12	$3,740	$12,080	$1,913	$(12)	$(60)	$(2,702)	$(1,526)	$14,119
Net income	—	—	—	4,791	—	—	—	—	—	4,791
Dividends	—	—	—	(586)	—	—	—	—	—	(586)
Conversion of ESOP Preferred Stock	(4)	—	(18)	—	—	—	—	22	—	—
Issuance of common stock	—	—	(134)	—	—	—	—	465	—	331
Repurchases of common stock	—	—	—	—	—	—	—	(2,374)	—	(2,374)
Compensation payable in common stock	—	—	223	—	513	—	—	186	(252)	670
ESOP shares allocated, at cost	—	—	—	—	—	—	5	—	—	5
Issuance of common stock in connection with AB Asesores acquisition	—	—	16	—	—	—	—	48	—	64
Issuance of put options	—	—	9	—	—	—	—	—	—	9
Translation adjustments	—	—	—	—	—	(15)	—	—	—	(15)
BALANCE AT NOVEMBER 30, 1999	$670	$12	$3,836	$16,285	$2,426	$(27)	$(55)	$(4,355)	$(1,778)	$17,014

(1) *Amounts have been retroactively adjusted to give effect for a two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on January 26, 2000.*

See Notes to Consolidated Financial Statements.

notes to consolidated financial statements

1 INTRODUCTION AND BASIS OF PRESENTATION

THE COMPANY

Morgan Stanley Dean Witter & Co. (the "Company") is a pre-eminent global financial services firm that maintains leading market positions in each of its three business segments — Securities, Asset Management and Credit Services. Its Securities business includes securities underwriting, distribution and trading; merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities; full-service and online brokerage services; research services; the trading of foreign exchange and commodities, as well as derivatives on a broad range of asset categories, rates and indices; securities lending; and private equity activities. The Company's Asset Management business provides global asset management advice and services to investors through a variety of product lines and brand names, including Morgan Stanley Dean Witter Advisors, Van Kampen Investments, Morgan Stanley Dean Witter Investment Management and Miller Anderson & Sherrerd. The Company's Credit Services business includes the issuance of the Discover® Card and the Morgan Stanley Dean Witter℠ Card; and the operation of the Discover/NOVUS® Network, a proprietary network of merchant and cash access locations.

The consolidated financial statements include the accounts of the Company and its U.S. and international subsidiaries, including Morgan Stanley & Co. Incorporated ("MS&Co."), Morgan Stanley & Co. International Limited ("MSIL"), Morgan Stanley Dean Witter Japan Limited ("MSDWJL"), Dean Witter Reynolds Inc. ("DWR"), Morgan Stanley Dean Witter Advisors Inc. and NOVUS Credit Services Inc.

BASIS OF FINANCIAL INFORMATION

The consolidated financial statements give retroactive effect to the May 1997 merger of Morgan Stanley Group Inc. ("Morgan Stanley") with and into Dean Witter, Discover & Co. ("Dean Witter Discover"), which was accounted for as a pooling of interests. The pooling of interests method of accounting requires the restatement of all periods presented as if Dean Witter Discover and Morgan Stanley had always been combined. The consolidated statement of changes in shareholders' equity reflects the accounts of the Company as if the preferred and additional common stock issued in connection with the merger had been issued during all of the periods presented.

Prior to the consummation of the merger, Dean Witter Discover's year ended on December 31 and Morgan Stanley's fiscal year ended on November 30. Subsequent to the merger, the Company adopted a fiscal year-end of November 30. The Company's results for the 12 months ended November 30, 1999 ("fiscal 1999"), November 30, 1998 ("fiscal 1998") and November 30, 1997 ("fiscal 1997") reflect the change in fiscal year-end. Fiscal 1997 includes the results of Dean Witter Discover that were restated to conform with the new fiscal year-end date.

The consolidated financial statements are prepared in accordance with generally accepted accounting principles, which require management to make estimates and assumptions regarding certain trading inventory valuations, consumer loan loss levels, the potential outcome of litigation and other matters that affect the consolidated financial statements and related disclosures. Management believes that the estimates utilized in the preparation of the consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates.

Certain reclassifications have been made to prior-year amounts to conform to the current presentation. All material intercompany balances and transactions have been eliminated.

STOCK SPLIT

On December 20, 1999, the Company declared a two-for-one common stock split, effected in the form of a 100% stock dividend, payable to shareholders of record on January 12, 2000 and distributable on January 26, 2000. All share, per share and shareholders' equity data have been retroactively restated to reflect this split.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For purposes of these statements, cash and cash equivalents consist of cash and highly liquid investments not held for resale with maturities, when purchased, of three months or less.

In connection with the fiscal 1999 purchase of AB Asesores, the Company issued 1.4 million shares of common stock having a fair value on the date of acquisition of $64 million. In connection with the fiscal 1997 purchase of Morgan Stanley Dean Witter Online (formerly Discover Brokerage Direct, Inc.), the Company issued 3.8 million shares of common stock having a fair value on the date of acquisition of approximately $63 million.

CONSUMER LOANS

Consumer loans, which consist primarily of credit card and consumer installment loans, are reported at their principal amounts outstanding, less applicable allowances. Interest on consumer loans is credited to income as earned.

Interest is accrued on credit card loans until the date of charge-off, which generally occurs at the end of the month during which an account becomes 180 days past due, except in the case of bankruptcies and fraudulent transactions, which are charged off earlier. The interest portion of charged-off credit card loans is written off against interest revenue. Origination costs related to the issuance of credit cards are charged to earnings over periods not exceeding 12 months.

ALLOWANCE FOR CONSUMER LOAN LOSSES

The allowance for consumer loan losses is a significant estimate that is regularly evaluated by management for adequacy and is established through a charge to the provision for loan losses. The evaluations take into consideration factors such as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrower's ability to pay.

The Company uses the results of these evaluations to provide an allowance for loan losses. The exposure for credit losses for owned loans is influenced by the performance of the portfolio and other factors discussed above, with the Company absorbing all related losses.

SECURITIZATION OF CONSUMER LOANS

The Company periodically sells consumer loans through asset securitizations and continues to service these loans. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 125"), the present value of the future net servicing revenues which the Company estimates that it will receive over the term of the securitized loans is recognized in income as the loans are securitized. A corresponding asset also is recorded and then amortized as a charge to income over the term of the securitized loans, with actual net servicing revenues continuing to be recognized in income as they are earned. The impact of recognizing the present value of estimated future net servicing revenues as loans are securitized has not been material to the Company's consolidated statements of income. The exposure for credit losses for securitized loans is limited to the Company's retained contingent risk, which represents the Company's retained interest in securitized loans and any credit enhancement provided.

FINANCIAL INSTRUMENTS USED FOR TRADING AND INVESTMENT

Financial instruments, including derivatives, used in the Company's trading activities are recorded at fair value, and unrealized gains and losses are reflected in trading revenues. Interest and dividend revenue and interest expense arising from financial instruments used in trading activities are reflected in the consolidated statements of income as interest and dividend revenue or interest expense. The fair values of the trading positions generally are based on listed market prices. If listed market prices are not available or if liquidating the Company's positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations for similar instruments traded in different markets, including markets located in different geographic areas. Fair values for certain derivative contracts are derived from pricing models which consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions. Purchases and sales of financial instruments are recorded in the accounts on trade date. Unrealized gains and losses arising from the Company's dealings in over-the-counter ("OTC") financial instruments, including derivative contracts related to financial instruments and commodities, are presented in the accompanying consolidated statements of financial condition on a net-by-counterparty basis, when appropriate.

Equity securities purchased in connection with private equity and other principal investment activities initially are carried in the consolidated financial statements at their original costs. The carrying value of such equity securities is adjusted when changes in the underlying fair values are readily ascertainable, generally as evidenced by listed market prices or transactions which directly affect the value of such equity securities. Downward adjustments relating to such equity securities are made in the event that the Company determines that the eventual realizable value is less than the carrying value. The carrying value of investments made in connection with principal real estate activities which do not involve equity securities are adjusted periodically based on independent appraisals, estimates prepared by the Company of discounted future cash flows of the underlying real estate assets or other indicators of fair value.

Loans made in connection with private equity and investment banking activities are carried at cost plus accrued interest less reserves, if deemed necessary, for estimated losses.

FINANCIAL INSTRUMENTS USED FOR ASSET AND LIABILITY MANAGEMENT

The Company has entered into various contracts as hedges against specific assets, liabilities or anticipated transactions. These contracts include interest rate swaps, foreign exchange forwards and foreign currency swaps. The Company uses interest rate and currency swaps to manage the interest rate and currency exposure arising from certain borrowings and to match the repricing characteristics of consumer loans with those of the borrowings that fund these loans. For contracts that are designated as hedges of the Company's assets and liabilities, gains and losses are deferred and recognized as adjustments to interest revenue or expense over the remaining life of the underlying assets or liabilities. For contracts that are hedges of asset securitizations, gains and losses are recognized as adjustments to servicing fees. Gains and losses resulting from the termination of hedge contracts prior to their stated maturity are recognized ratably over the remaining life of the instrument being hedged. The Company also uses foreign exchange forward contracts to manage the currency exposure relating to its net monetary investment in non-U.S. dollar functional currency operations. The gain or loss from revaluing these contracts is deferred and reported within cumulative translation adjustments in shareholders' equity, net of tax effects, with the related unrealized amounts due from or to counterparties included in receivables from or payables to brokers, dealers and clearing organizations.

SECURITIES TRANSACTIONS

Clients' securities transactions are recorded on a settlement date basis with related commission revenues and expenses recorded on the trade date. Securities purchased under agreements to resell ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements"), principally government and agency securities, are treated as financing transactions and are carried at the amounts at which the securities subsequently will be resold or reacquired as specified in the respective agreements; such amounts include accrued interest. Reverse repurchase and repurchase agreements are presented on a net-by-counterparty basis, when appropriate. It is the Company's policy to take possession of securities purchased under agreements to resell. The Company monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral. Where deemed appropriate, the Company's agreements with third parties specify its rights to request additional collateral.

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced and received in connection with the transactions. The Company measures the fair value of the securities borrowed and loaned against the collateral on a daily basis. Additional collateral is obtained as necessary to ensure such transactions are adequately collateralized.

Collateral received under securities financing transactions, such as reverse repurchase agreements, is recognized, together with a corresponding obligation to return the collateral, if the collateral provider does not have the contractual right to substitute collateral or redeem collateral on short notice. Collateral transferred under securities financing transactions, such as repurchase agreements, is reclassified from financial instruments owned to receivable for securities provided as collateral if the Company does not have the contractual right to substitute collateral or redeem collateral on short notice. At November 30, 1999 and 1998, the Company recorded obligations to return securities received as collateral of $14,729 million and $6,636 million, respectively. The related assets received as collateral were recorded among several captions included in the Company's consolidated statements of financial condition. At November 30, 1999 and 1998, after giving effect to reclassifications, the net increase in total assets and total liabilities was $10,256 million and $2,089 million, respectively.

INVESTMENT BANKING

Underwriting revenues and fees for mergers and acquisitions and advisory assignments are recorded when services for the transaction are substantially completed. Transaction-related expenses are deferred and later expensed to match revenue recognition.

OFFICE FACILITIES

Office facilities are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of buildings and leasehold improvements are provided principally by the straight-line method, while depreciation and amortization of furniture, fixtures and equipment are provided by both straight-line and accelerated methods. Property and equipment are depreciated over the estimated useful lives of the related assets, while leasehold improvements are amortized over the lesser of the economic useful life of the asset or, where applicable, the remaining term of the lease.

INCOME TAXES

Income tax expense is provided for using the asset and liability method, under which deferred tax assets and liabilities are determined based upon the temporary differences between the financial statement and income tax bases of assets and liabilities, using currently enacted tax rates.

EARNINGS PER SHARE

The calculations of earnings per common share are based on the weighted average number of common shares and share equivalents outstanding and give effect to preferred stock dividend requirements.

As of December 1, 1997, the Company adopted SFAS No. 128, "Earnings per Share" ("SFAS No. 128"). SFAS No. 128 replaced the previous earnings per share ("EPS") categories of primary and fully diluted with "basic EPS," which reflects no dilution from common stock equivalents, and "diluted EPS," which reflects dilution from common stock equivalents and other dilutive securities based on the average price per share of the Company's common stock during the period. The EPS amounts of prior periods have been restated in accordance with SFAS No. 128. The adoption of SFAS No. 128 has not had a material effect on the Company's EPS calculations.

CARDMEMBER REWARDS

Cardmember rewards, primarily the Cashback Bonus® award, pursuant to which the Company annually pays Discover Cardmembers, and Private Issue® Cardmembers electing this feature, a percentage of their purchase amounts ranging up to 1%, are based upon a cardmember's level of annual purchases. The liability for cardmember rewards expense, included in other liabilities and accrued expenses, is accrued at the time that qualified cardmember transactions occur and is calculated on an individual cardmember basis.

STOCK-BASED COMPENSATION

SFAS No. 123, "Accounting for Stock-Based Compensation" encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has elected to continue to account for its stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of grant over the amount an employee must pay to acquire the stock.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities of operations having non-U.S. dollar functional currencies are translated at year-end rates of exchange, and the income statements are translated at weighted average rates of exchange for the year. In accordance with SFAS No. 52, "Foreign Currency Translation," gains or losses resulting from translating foreign currency financial statements, net of hedge gains or losses and related tax effects, are reflected in cumulative translation adjustments, a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions are included in net income.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets are amortized on a straight-line basis over periods from five to 40 years, generally not exceeding 25 years, and are periodically evaluated for impairment. At November 30, 1999 and 1998, goodwill and other intangible assets of approximately $1.3 billion and $1.2 billion, respectively, were included in the Company's consolidated statements of financial condition as a component of other assets.

ACCOUNTING CHANGE

In the fourth quarter of fiscal 1998, the Company adopted American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"), with respect to the accounting for offering costs paid by investment advisors of closed-end funds where such costs are not specifically reimbursed through separate advisory contracts. In accordance with SOP 98-5 and per an announcement by the Financial Accounting Standards Board ("FASB") staff in September 1998, such costs are to be considered start-up costs and expensed as incurred. Prior to the adoption of SOP 98-5, the Company deferred such costs and amortized them over the life of the fund. The Company recorded a charge to earnings for the cumulative effect of the accounting change as of December 1, 1997, of $117 million, net of taxes of $79 million. The effect of adopting these provisions on the Company's income before the cumulative effect of the accounting change for fiscal year 1998 was a decrease of $24 million, net of taxes. The effect on basic and diluted earnings per share was $0.02. The pro forma effect on net income for fiscal 1997 would not have been material.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." These statements, which are effective for fiscal years beginning after December 15, 1997, establish standards for the reporting and presentation of comprehensive income and the disclosure requirements related to segments. The Company adopted SFAS No. 130 and SFAS No. 131 in fiscal 1999.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which revises and standardizes pension and other postretirement benefit plan disclosures that are to be included in the employers' financial statements. SFAS No. 132 does not change the measurement or recognition rules for pensions and other postretirement benefits. The Company adopted SFAS No. 132 in fiscal 1999.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As issued, SFAS No. 133 was effective for fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 137 defers the effective date of SFAS No. 133 for one year to fiscal years beginning after June 15, 2000. The Company is in the process of evaluating the impact of adopting SFAS No. 133.

In July 1998, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested" ("EITF 97-14"). Under EITF 97-14, assets of the rabbi trust are to be consolidated with those of the employer, and the value of the employer's stock held in the rabbi trust should be classified in shareholders' equity and generally accounted for in a manner similar to treasury stock. The Company therefore has included its obligations under certain deferred compensation plans in employee stock trust. Shares that the Company has issued to the rabbi trusts are recorded in common stock issued to employee trust. Both employee stock trust and common stock issued to employee trust are components of shareholders' equity. The adoption of EITF 97-14 did not result in any change to the Company's consolidated statements of income, total assets, total liabilities or total shareholders' equity.

In March 1998, the AICPA issued SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP is effective for financial statements for fiscal years beginning after December 15, 1998 and provides specific guidance as to when certain costs incurred in connection with an internal-use software project should be capitalized and when they should be expensed. The Company has adopted SOP 98-1 effective December 1, 1999. The adoption of SOP 98-1 is not expected to have a material impact on the Company's consolidated financial statements.

3 CONSUMER LOANS

Consumer loans were as follows:

(dollars in millions)	**NOV. 30, 1999**	NOV. 30, 1998
Credit card and consumer installment	**$20,998**	$15,996
Less:		
Allowance for loan losses	**769**	787
Consumer loans, net	**$20,229**	$15,209

Activity in the allowance for consumer loan losses was as follows:

(dollars in millions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Balance beginning of period	**$ 787**	$ 884	$ 781
Additions:			
Provision for loan losses	**529**	1,173	1,493
Purchase of loan portfolios	**—**	1	—
Total additions	**529**	1,174	1,493
Deductions:			
Charge-offs	**893**	1,423	1,639
Recoveries	**(120)**	(170)	(196)
Net charge-offs	**773**	1,253	1,443
Other(1)	**226**	(18)	53
Balance end of period	**$ 769**	$ 787	$ 884

(1) *These amounts primarily reflect transfers related to asset securitizations and the fiscal 1998 sale of consumer loans associated with SPS, Prime Option and BRAVO (see Note 16).*

Interest accrued on loans subsequently charged off, recorded as a reduction of interest revenue, was $116 million, $199 million and $301 million in fiscal 1999, 1998 and 1997, respectively. The amounts charged off in fiscal 1999 and 1998 include only interest, whereas fiscal 1997 also includes cardmember fees.

At November 30, 1999 and 1998, $5,248 million and $3,999 million of the Company's consumer loans had minimum contractual maturities of less than one year. Because of the uncertainty regarding consumer loan repayment patterns, which historically have been higher than contractually required minimum payments, this amount may not necessarily be indicative of the Company's actual consumer loan repayments.

At November 30, 1999, the Company had commitments to extend credit in the amount of $204 billion. Commitments to extend credit arise from agreements to extend to customers unused lines of credit on certain credit cards, provided there is no violation of conditions established in the related agreement. These commitments, substantially all of which the Company can terminate at any time and which do not necessarily represent future cash requirements, are periodically reviewed based on account usage and customer creditworthiness.

The Company received net proceeds from asset securitizations of $2,997 million, $4,466 million and $2,783 million in fiscal 1999, 1998 and 1997, respectively. The uncollected balances of consumer loans sold through asset securitizations were $16,977 million and $16,506 million at November 30, 1999 and 1998, respectively.

The Company uses interest rate exchange agreements to hedge the risk from changes in interest rates on servicing fee revenues (which are derived from loans sold through asset securitizations). Gains and losses from these agreements are recognized as adjustments to servicing fees.

The estimated fair value of the Company's consumer loans approximated carrying value at November 30, 1999 and 1998. The Company's consumer loan portfolio, including securitized loans, is geographically diverse, with a distribution approximating that of the population of the U.S.

4 DEPOSITS

Deposits were as follows:

(dollars in millions)	NOV. 30, 1999	NOV. 30, 1998
Demand, passbook and money market accounts	$ 1,458	$1,355
Consumer certificate accounts	1,698	1,635
$100,000 minimum certificate accounts	7,241	5,207
Total	$10,397	$8,197

The weighted average interest rates of interest bearing deposits outstanding during fiscal 1999 and 1998 were 5.9% and 6.2%, respectively.

At November 30, 1999 and 1998, the notional amounts of interest rate exchange agreements that hedged deposits outstanding were $473 million and $650 million and had fair values of $6 million and $15 million, respectively. Under these interest rate exchange agreements, the Company primarily pays floating rates and receives fixed rates. At November 30, 1999, the weighted average interest rate of the Company's deposits, including the effect of interest rate exchange agreements, was 5.9%.

At November 30, 1999, certificate accounts maturing over the next five years were as follows:

(dollars in millions)	
2000	$2,473
2001	2,706
2002	1,407
2003	1,042
2004	940

The estimated fair value of the Company's deposits, using current rates for deposits with similar maturities, approximated carrying value at November 30, 1999 and 1998.

5 SHORT-TERM BORROWINGS

At November 30, 1999 and 1998, commercial paper in the amount of $27,072 million and $19,643 million, with weighted average interest rates of 5.3% for both years, was outstanding.

At November 30, 1999 and 1998, the notional amounts of interest rate and currency swaps that hedged commercial paper outstanding were $2,865 million and $208 million and had fair values of $(3) million and $(6) million. These contracts had no material effect on the weighted average interest rates of commercial paper.

At November 30, 1999 and 1998, other short-term borrowings of $11,170 million and $8,494 million were outstanding. These borrowings included bank loans, Federal Funds and bank notes.

The Company maintains a senior revolving credit agreement with a group of banks to support general liquidity needs, including the issuance of commercial paper (the "MSDW Facility"). Under the terms of the MSDW Facility, the banks are committed to provide up to $5.5 billion. The MSDW Facility contains restrictive covenants which require, among other things, that the Company maintain shareholders' equity of at least $9.1 billion at all times. The Company believes that the covenant restrictions will not impair the Company's ability to pay its current level of dividends. At November 30, 1999, no borrowings were outstanding under the MSDW Facility.

The Company maintains a master collateral facility that enables MS&Co. to pledge certain collateral to secure loan arrangements, letters of credit and other financial accommodations (the "MS&Co. Facility"). As part of the MS&Co. Facility, MS&Co. also maintains a secured committed credit agreement with a group of banks that are parties to the master collateral facility under which such banks are committed to provide up to $1.875 billion. The credit agreement contains restrictive covenants which require, among other things, that MS&Co. maintain specified levels of consolidated shareholder's equity and Net Capital, as defined. At November 30, 1999, no borrowings were outstanding under the MS&Co. Facility.

The Company also maintains a revolving committed financing facility that enables MSIL to secure committed funding from a syndicate of banks by providing a broad range of collateral under repurchase agreements (the "MSIL Facility"). Such banks are committed to provide up to an aggregate of $1.91 billion, available in six major currencies. The facility agreement contains restrictive covenants which require, among other things, that MSIL maintain specified levels of Shareholder's Equity and Financial Resources, each as defined. At November 30, 1999, no borrowings were outstanding under the MSIL Facility.

On June 7, 1999, MSDWJL, the Company's Tokyo-based broker-dealer subsidiary, entered into a committed revolving credit facility, guaranteed by the Company, that provides funding to support general liquidity needs, including support of MSDWJL's unsecured borrowings (the "MSDWJL Facility"). Under the terms of the MSDWJL Facility, a syndicate of banks is committed to provide up to 60 billion Japanese yen. At November 30, 1999, no borrowings were outstanding under the MSDWJL Facility.

Riverwoods Funding Corporation ("RFC"), an entity included in the consolidated financial statements of the Company, maintains a senior bank credit facility to support the issuance of asset-backed commercial paper in the amount of $2.6 billion. Under the terms of the asset-backed commercial paper program, certain assets of RFC were subject to a lien in the amount of $2.6 billion at November 30, 1999. RFC has never borrowed from its senior bank credit facility.

The Company anticipates that it will utilize the MSDW Facility, the MS&Co. Facility, the MSIL Facility or the MSDWJL Facility for short-term funding from time to time.

6 LONG-TERM BORROWINGS

MATURITIES AND TERMS

Long-term borrowings at fiscal year-end consist of the following:

	U.S. DOLLAR			NON-U.S. DOLLAR[1]		AT NOVEMBER 30	
(dollars in millions)	FIXED RATE	FLOATING RATE[2]	INDEX/ EQUITY LINKED	FIXED RATE	FLOATING RATE[2]	**1999 TOTAL**	1998 TOTAL
Due in fiscal 1999	$ —	$ —	$ —	$ —	$ —	$ —	$ 5,031
Due in fiscal 2000	1,619	3,081	928	62	1,212	**6,902**	6,863
Due in fiscal 2001	1,947	2,217	536	139	782	**5,621**	3,899
Due in fiscal 2002	1,440	1,260	156	115	1,070	**4,041**	2,501
Due in fiscal 2003	1,093	1,034	137	347	207	**2,818**	2,895
Due in fiscal 2004	2,306	465	293	113	28	**3,205**	580
Thereafter	4,113	741	238	643	282	**6,017**	5,666
Total	$12,518	$8,798	$2,288	$1,419	$3,581	**$28,604**	$27,435
Weighted average coupon at fiscal year-end	6.5%	6.0%	n/a	5.4%	3.2%	**5.9%**	6.1%

(1) *Weighted average coupon was calculated utilizing non-U.S. dollar interest rates.*

(2) *U.S. dollar contractual floating rate borrowings bear interest based on a variety of money market indices, including London Interbank Offered Rates ("LIBOR") and Federal Funds rates. Non-U.S. dollar contractual floating rate borrowings bear interest based on euro floating rates.*

MEDIUM-TERM NOTES

Included in the table above are medium-term notes of $15,724 million and $17,011 million at November 30, 1999 and 1998. The effective weighted average interest rate on all medium-term notes was 5.3% in fiscal 1999 and 5.7% in fiscal 1998. Maturities of these notes range from fiscal 2000 through fiscal 2028.

STRUCTURED BORROWINGS

U.S. dollar index/equity linked borrowings include various structured instruments whose payments and redemption values are linked to the performance of a specific index (e.g., Standard & Poor's 500), a basket of stocks or a specific equity security. To minimize the exposure resulting from movements in the underlying equity position or index, the Company has entered into various equity swap contracts and purchased options which effectively convert the borrowing costs into floating rates based upon LIBOR. These instruments are included in the preceding table at their redemption values based on the performance of the underlying indices, baskets of stocks or specific equity securities at November 30, 1999 and 1998.

OTHER BORROWINGS

Included in the Company's long-term borrowings are subordinated notes of $1,356 million and $1,309 million at November 30, 1999 and 1998, respectively. The effective weighted average interest rate on these subordinated notes was 7.0% in fiscal 1999 and 7.1% in fiscal 1998. Maturities of the subordinated notes range from fiscal 2001 to fiscal 2016.

Certain of the Company's long-term borrowings are redeemable prior to maturity at the option of the holder. These notes contain certain provisions which effectively enable noteholders to put the notes back to the Company and therefore are scheduled in the foregoing table to mature in fiscal 2000 through fiscal 2001. The stated maturities of these notes, which aggregate $2,081 million, are from fiscal 2001 to fiscal 2014.

MS&Co., a U.S. broker-dealer subsidiary of the Company, has outstanding $357 million of 8.22% fixed rate subordinated Series A notes, $243 million of 8.51% fixed rate subordinated Series B Notes, $313 million of 6.81% fixed rate subordinated Series C notes, $96 million of 7.03% fixed rate subordinated Series D notes, $82 million of 7.28% fixed rate subordinated Series E notes and $25 million of 7.82% fixed rate subordinated Series F notes. These notes have maturities from fiscal 2001 to fiscal 2016. The terms of such notes contain restrictive covenants which require, among other things, that MS&Co. maintain specified levels of Consolidated Tangible Net Worth and Net Capital, each as defined.

ASSET AND LIABILITY MANAGEMENT

A portion of the Company's fixed rate long-term borrowings is used to fund highly liquid marketable securities and short-term receivables arising from securities transactions. The Company uses interest rate swaps to more closely match the duration of these borrowings to the duration of the assets being funded and to manage interest rate risk. These swaps effectively convert certain of the Company's fixed rate borrowings into floating rate obligations. In addition, for non-U.S. dollar currency borrowings that are not used to fund assets in the same currency, the Company has entered into currency swaps which effectively convert the borrowings into U.S. dollar obligations. The Company's use of swaps for asset and liability management reduced its interest expense and effective average borrowing rate as follows:

(dollars in millions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Net reduction in interest expense from swaps for the fiscal year	**$22**	$48	$21
Weighted average coupon of long-term borrowings at fiscal year-end[1]	**5.9%**	6.1%	6.1%
Effective average borrowing rate for long-term borrowings after swaps at fiscal year-end[1]	**5.8%**	5.9%	6.0%

(1) *Included in the weighted average and effective average calculations are non-U.S. dollar interest rates.*

The effective weighted average interest rate on the Company's index/equity linked notes, which is not included in the table above, was 5.8% and 5.2% in fiscal 1999 and fiscal 1998, respectively, after giving effect to the related hedges.

The table below summarizes the notional or contract amounts of the swaps utilized by the Company for asset and liability management by maturity and weighted average interest rates to be received and paid at November 30, 1999. Swaps utilized to hedge the Company's structured borrowings are presented at their redemption values:

(dollars in millions)	U.S. DOLLAR RECEIVE FIXED PAY FLOATING	U.S. DOLLAR RECEIVE FLOATING PAY FIXED	U.S. DOLLAR RECEIVE FLOATING PAY FLOATING	U.S. DOLLAR INDEX/ EQUITY LINKED	NON-U.S. DOLLAR[1] RECEIVE FIXED PAY FLOATING	NON-U.S. DOLLAR[1] RECEIVE FLOATING PAY FLOATING[2]	**NOV. 30, 1999 TOTAL**	NOV. 30, 1998 TOTAL
Maturing in fiscal 1999	$ —	$ —	$ —	$ —	$ —	$ —	**$ —**	$ 2,181
Maturing in fiscal 2000	1,180	300	420	928	62	226	**3,116**	2,241
Maturing in fiscal 2001	1,834	—	85	536	134	360	**2,949**	2,181
Maturing in fiscal 2002	1,075	200	—	156	111	3	**1,545**	979
Maturing in fiscal 2003	500	—	—	137	347	199	**1,183**	1,252
Maturing in fiscal 2004	2,131	200	—	293	113	28	**2,765**	537
Thereafter	3,165	200	—	238	638	282	**4,523**	3,730
Total	$9,885	$900	$505	$2,288	$1,405	$1,098	**$16,081**	$13,101
Weighted average at fiscal year-end[3]								
Receive rate	6.4%	5.4%	5.8%	n/a	5.5%	4.0%		
Pay rate	6.1%	6.2%	5.9%	n/a	4.8%	5.3%		

(1) *The differences between the receive rate and the pay rate may reflect differences in the rate of interest associated with the underlying currency.*
(2) *These amounts include currency swaps used to effectively convert borrowings denominated in one currency into obligations denominated in another currency.*
(3) *The table was prepared under the assumption that interest rates remain constant at year-end levels. The variable interest rates to be received or paid will change to the extent that rates fluctuate. Such changes may be substantial. Variable rates presented generally are based on LIBOR or Treasury bill rates.*

The above table does not include interest rate floor agreements that are utilized by the Company to manage interest rate risk. At November 30, 1999, interest rate floor agreements with an aggregate notional value of $610 million were outstanding. These agreements have expiration dates from fiscal 2000 to fiscal 2014 and an aggregate fair value of $0.2 million at November 30, 1999. There were no interest rate floor agreements outstanding at November 30, 1998.

As noted above, the Company uses interest rate and currency swaps to modify the terms of its existing borrowings. Activity during the periods in the notional value of the swap contracts used by the Company for asset and liability management (and the unrecognized (loss) gain at fiscal year-end) is summarized in the table below:

(dollars in millions)	**FISCAL 1999**	FISCAL 1998
Notional value at beginning of period	**$13,101**	$11,707
Additions	**5,372**	4,520
Matured	**(1,804)**	(2,305)
Terminated	**(848)**	(868)
Effect of foreign currency translation on non-U.S. dollar notional values and changes in redemption values on structured borrowings	**260**	47
Notional value at fiscal year-end	**$16,081**	$13,101
Unrecognized (loss) gain at fiscal year-end	**$ (243)**	$ 279

The Company also uses interest rate swaps and swap options to modify certain of its repurchase financing agreements. The Company had interest rate swaps and swap options with notional values of approximately $6.0 billion and $5.1 billion at November 30, 1999 and 1998 and unrecognized losses of approximately $(38) million and $(10) million at November 30, 1999 and 1998, for such purpose. The unrecognized losses on these swaps and swap options were offset by unrecognized gains on certain of the Company's repurchase financing agreements.

The estimated fair value of the Company's long-term borrowings approximated carrying value based on rates available to the Company at year-end for borrowings with similar terms and maturities.

Cash paid for interest for the Company's borrowings and deposits approximated interest expense in fiscal 1999, 1998 and 1997.

7 COMMITMENTS AND CONTINGENCIES

The Company has non-cancelable operating leases covering office space and equipment. At November 30, 1999, future minimum rental commitments under such leases (net of subleases, principally on office rentals) were as follows:

(dollars in millions)

2000	$392
2001	346
2002	275
2003	225
2004	200
Thereafter	1,027

Occupancy lease agreements, in addition to base rentals, generally provide for rent and operating expense escalations resulting from increased assessments for real estate taxes and other charges. Total rent expense, net of sublease rental income, was $296 million, $274 million and $262 million in fiscal 1999, 1998 and 1997, respectively.

The Company has an agreement with IBM Corporation, under which the Company receives information processing, data networking and related services. Under the terms of the agreement, the Company has an aggregate minimum annual commitment of $120 million subject to annual cost-of-living adjustments.

The Company has contracted to develop a one million-square-foot office tower in New York City. Pursuant to this agreement, the Company will own the building and has entered into a 99-year lease for the land at the development site. Construction began in 1999 and the Company intends to occupy the building upon project completion, which is anticipated in 2002. The total investment in this project (which will be incurred over the next several years) is estimated to be approximately $650 million.

In the normal course of business, the Company has been named as a defendant in various lawsuits and has been involved in certain investigations and proceedings. Some of these matters involve claims for substantial amounts. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management, after consultation with counsel, that the resolution of such matters will not have a material adverse effect on the consolidated financial condition of the Company but may be material to the Company's operating results for any particular period, depending upon the level of the Company's income for such period.

At November 30, 1999 and 1998, the Company had approximately $6.3 billion and $5.7 billion, respectively, of letters of credit outstanding to satisfy various collateral requirements.

Financial instruments sold, not yet purchased represent obligations of the Company to deliver specified financial instruments at contracted prices, thereby creating commitments to purchase the financial instruments in the market at prevailing prices. Consequently, the Company's ultimate obligation to satisfy the sale of financial instruments sold, not yet purchased may exceed the amounts recognized in the consolidated statements of financial condition.

The Company also has commitments to fund certain fixed assets and other less liquid investments, including at November 30, 1999 approximately $417 million in connection with its private equity and other principal investment activities. Additionally, the Company has provided and will continue to provide financing, including margin lending and other extensions of credit to clients (including subordinated loans on an interim basis to leveraged companies associated with its investment banking and its private equity and other principal investment activities), that may subject the Company to increased credit and liquidity risks.

8 EARNINGS PER SHARE

Earnings per share was calculated as follows (in millions, except for per share data):

BASIC EPS:	FISCAL 1999	FISCAL 1998	FISCAL 1997
Income before cumulative effect of accounting change	$4,791	$3,393	$2,586
Cumulative effect of accounting change	—	(117)	—
Preferred stock dividend requirements	(44)	(55)	(66)
Net income available to common shareholders	$4,747	$3,221	$2,520
Weighted average common shares outstanding	1,097	1,152	1,150
Basic EPS before cumulative effect of accounting change	$ 4.33	$ 2.90	$ 2.19
Cumulative effect of accounting change	—	(0.10)	—
Basic EPS	$ 4.33	$ 2.80	$ 2.19

DILUTED EPS:	FISCAL 1999	FISCAL 1998	FISCAL 1997
Income before cumulative effect of accounting change	$4,791	$3,393	$2,586
Cumulative effect of accounting change	—	(117)	—
Preferred stock dividend requirements	(36)	(47)	(61)
Net income available to common shareholders	$4,755	$3,229	$2,525
Weighted average common shares outstanding	1,097	1,152	1,150
Effect of dilutive securities:			
Stock options	39	37	39
ESOP convertible preferred stock	24	24	24
Weighted average common shares outstanding and common stock equivalents	1,160	1,213	1,213
Diluted EPS before cumulative effect of accounting change	$ 4.10	$ 2.76	$ 2.08
Cumulative effect of accounting change	—	(0.09)	—
Diluted EPS	$ 4.10	$ 2.67	$ 2.08

9 TRADING ACTIVITIES

TRADING REVENUES

The Company's trading activities include providing securities brokerage, derivatives dealing and underwriting services to clients. While trading activities are generated by client order flow, the Company also takes proprietary positions based on expectations of future market movements and conditions. The Company's trading strategies rely on the integrated management of its client-driven and proprietary transactions, along with the hedging and financing of these positions.

The Company manages its trading businesses by product groupings and therefore has established distinct, worldwide trading divisions having responsibility for equity, fixed income, foreign exchange and commodities products. Because of the integrated nature of the markets for such products, each product area trades cash instruments as well as related derivative products (e.g., options, swaps, futures, forwards and other contracts with respect to such underlying instruments or commodities). Revenues related to principal trading are summarized below by trading division:

(dollars in millions)	FISCAL 1999	FISCAL 1998	FISCAL 1997
Equities	$3,065	$2,048	$1,310
Fixed income	2,090	455	1,187
Foreign exchange	397	587	500
Commodities	431	193	194
Total principal transaction trading revenues	$5,983	$3,283	$3,191

Interest revenue and expense are integral components of trading activities. In assessing the profitability of trading activities, the Company views net interest and principal trading revenues in the aggregate.

The Company's trading portfolios are managed with a view toward the risk and profitability of the portfolios to the Company. The nature of the equities, fixed income, foreign exchange and commodities activities conducted by the Company, including the use of derivative products in these businesses, and the market, credit and concentration risk management policies and procedures covering these activities are discussed below.

EQUITIES

The Company makes markets and trades in the global secondary markets for equities and convertible debt and is a dealer in equity warrants, exchange traded and OTC equity options, index futures, equity swaps and other sophisticated equity derivatives. The Company's activities as a dealer primarily are client-driven, with the objective of meeting clients' needs while earning a spread between the premiums paid or received on its contracts with clients and the cost of hedging such transactions in the cash or forward market or with other derivative transactions. The Company limits its market risk related to these contracts, which stems primarily from underlying equity/index price and volatility movements, by employing a variety of hedging strategies, such as delta hedging (delta is a measure of a derivative contract's price movement based on the movement of the price of the security or index underlying the contract). The Company also takes proprietary positions in the global equity markets by using derivatives, most commonly futures and options, in addition to cash positions, intending to profit from market price and volatility movements in the underlying equities or indices positioned.

Equity option contracts give the purchaser of the contract the right to buy (call) or sell (put) the equity security or index underlying the contract at an agreed-upon price (strike price) during or at the conclusion of a specified period of time. The seller (writer) of the contract is subject to market risk, and the purchaser is subject to market risk (to the extent of the premium paid) and credit risk. Equity swap contracts are contractual agreements whereby one counterparty receives the appreciation (or pays the depreciation) on an equity investment in return for paying another rate, often based upon equity index movements or interest rates.

The counterparties to the Company's equity transactions include commercial banks, investment banks, broker-dealers, investment funds and industrial companies.

FIXED INCOME

The Company is a market-maker for U.S. and non-U.S. government securities, corporate bonds, money market instruments, medium-term notes and Eurobonds, high-yield securities, emerging market securities, mortgage- and other asset-backed securities, preferred stock and tax-exempt securities. In addition, the Company is a dealer in interest rate and currency swaps and other related derivative products, OTC options on U.S. and non-U.S. government bonds and mortgage-backed forward agreements ("TBA"), options and swaps. In this capacity, the Company facilitates asset and liability management for its customers in interest rate and currency swaps and related products and OTC government bond options.

Swaps used in fixed income trading are, for the most part, contractual agreements to exchange interest payment streams (i.e., an interest rate swap may involve exchanging fixed for floating interest payments) or currencies (i.e., a currency swap may involve exchanging yen for U.S. dollars in one year at an agreed-upon exchange rate). The Company profits by earning a spread between the premium paid or received for these contracts and the cost of hedging such contracts. The Company seeks to manage the market risk of its swap portfolio, which stems from interest rate and currency movements and volatility, by using modeling that quantifies the sensitivity of its portfolio to movements in interest rates and currencies and by adding positions to or selling positions from its portfolio as needed to minimize such sensitivity. Typically, the Company adjusts its positions by entering into additional swaps or interest rate and foreign currency futures or foreign currency forwards and by purchasing or selling additional underlying government bonds. The Company manages the risk related to its option portfolio by using a variety of hedging strategies such as delta hedging, which includes the use of futures and forward contracts to hedge market risk. The Company also is involved in using debt securities to structure products with multiple risk/return factors designed to suit investor objectives.

The Company is an underwriter of and a market-maker in commercial and residential mortgage-backed securities and asset-backed securities as well as commercial, residential and real estate loan products. The Company provides financing to customers for commercial, residential and real estate loan products. The Company also uses TBA contracts in its role as a dealer in mortgage-backed securities and facilitates customer trades by taking positions in the TBA market. Typically, these positions are hedged by offsetting TBA contracts or underlying cash positions. The Company profits by earning the bid-offer spread on such transactions. As is the case with all mortgage-backed products, market risk associated with these instruments results from interest rate fluctuations and changes in mortgage prepayment speeds. The Company also acts as principal and agent in aircraft finance transactions. Acting as principal, the Company acquires aircraft outright or under leases and finances these assets by issuance of non-recourse debt in the securitization market and other similar financing arrangements.

The counterparties to the Company's fixed income transactions include investment advisors, commercial banks, insurance companies, investment funds and industrial companies.

FOREIGN EXCHANGE

The Company is a market-maker in a number of foreign currencies. In this business, it actively trades currencies in the spot and forward markets earning a dealer spread. The Company seeks to manage its market risk by entering into offsetting positions. The Company conducts an arbitrage business in which it seeks to profit from inefficiencies between the futures, spot and forward markets. The Company also makes a market in foreign currency options. This business largely is client-driven and involves the purchasing and writing of European and American style options and certain sophisticated products to meet specific client needs. The Company profits in this business by earning spreads between the options' premiums and the cost of hedging such positions. The Company limits its market risk by using a variety of hedging strategies, including the buying and selling of the currencies underlying the options based upon the options' delta equivalent. Foreign exchange option contracts give the purchaser of the contract the right to buy (call) or sell (put) the currency underlying the contract at an agreed-upon strike price at or over a specified period of time. Forward contracts and futures represent commitments to purchase or sell the underlying currencies at a specified future date at a specified price. The Company also takes proprietary positions in currencies to profit from market price and volatility movements in the currencies positioned.

The majority of the Company's foreign exchange business relates to major foreign currencies such as yen, euro, pound sterling, Swiss francs and Canadian dollars. The balance of the business covers a broad range of other currencies.

The counterparties to the Company's foreign exchange transactions include commercial banks, investment banks, broker-dealers, investment funds and industrial companies.

COMMODITIES

The Company, as a major participant in the world commodities markets, trades in physical precious, base and platinum group metals, electricity, energy products (principally oil, refined oil products and natural gas) as well as a variety of derivatives related to these commodities such as futures, forwards and exchange traded and OTC options and swaps. Through these activities, the Company provides clients with a ready market to satisfy end users' current raw material needs and facilitates their ability to hedge price fluctuations related to future inventory needs. The former activity at times requires the positioning of physical commodities. Derivatives on those commodities, such as futures, forwards and options, often are used to hedge price movements in the underlying physical inventory. The Company profits as a market-maker in physical commodities by earning the bid-offer spread inherent in the physical markets.

To facilitate hedging for its clients, the Company often is required to take positions in the commodity markets in the form of forward, option and swap contracts involving oil, natural gas, precious and base metals, and electricity. The Company generally hedges these positions by using a variety of hedging techniques such as delta hedging, whereby the Company takes positions in the physical markets and/or positions in other commodity derivatives such as futures and forwards to offset the market risk in the underlying derivative. The Company profits from this business by earning a spread between the premiums paid or received for these derivatives and the cost of hedging such derivatives.

The Company also maintains proprietary trading positions in commodity derivatives, including futures, forwards and options in addition to physical commodities, to profit from price and volatility movements in the underlying commodities markets.

Forward, option and swap contracts on commodities are structured similarly to like-kind derivative contracts for cash financial instruments. The counterparties to OTC commodity contracts include precious metals producers, refiners and consumers as well as shippers, central banks, and oil, gas and electricity producers.

The following discussions of risk management, market risk, credit risk, concentration risk and customer activities relate to the Company's trading activities.

RISK MANAGEMENT

Risk management at the Company is a multi-faceted process with independent oversight that requires constant communication, judgment and knowledge of specialized products and markets. The Company's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. In recognition of the increasingly varied and complex nature of the global financial services business, the Company's risk management policies, procedures and methodologies are evolutionary in nature and are subject to ongoing review and modification. Many of the Company's risk management and control practices are subject to periodic review by the Company's internal auditors as well as to interactions with various regulatory authorities.

The Management Committee, composed of the Company's most senior officers, establishes the overall risk management policies for the Company and reviews the Company's performance relative to these policies. The Management Committee has created several Risk Committees to assist it in monitoring and reviewing the Company's risk management practices. These Risk Committees, as well as other committees established to manage and monitor specific risks, review the risk monitoring and risk management policies and procedures relating to the Company's market and credit risk profile, sales practices, legal enforceability, and operational and systems risks. The Controllers, Treasury, Law, Compliance and Governmental Affairs and Firm Risk Management Departments, which are all independent of the Company's business units, assist senior management and the Risk Committees in monitoring and controlling the Company's risk profile. In addition, the Internal Audit Department, which also reports to senior management, periodically examines and evaluates the Company's operations and control environment. The Company continues to be committed to employing qualified personnel with appropriate expertise in each of its various administrative and business areas to implement effectively the Company's risk management and monitoring systems and processes.

MARKET RISK

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio.

The Company manages the market risk associated with its trading activities on a Company-wide basis, on a trading division level worldwide and on an individual product basis. Market risk limits have been approved for the Company and each major trading division of the Company worldwide. Discrete market risk limits are assigned to trading desks and, as appropriate, products and regions. Trading division risk managers, desk risk managers and the Firm Risk Management Department all monitor market risk measures against limits and report major market and position events to senior management.

The Firm Risk Management Department independently reviews the Company's trading portfolios on a regular basis from a market risk perspective utilizing Value-at-Risk and other quantitative and qualitative risk measurements and analyses. The Company may use measures, such as rate sensitivity, convexity, volatility and time decay measurements, to estimate market risk and to assess the sensitivity of positions to changes in market conditions. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors, for certain products is performed periodically and is reviewed by trading division risk managers, desk risk managers and the Firm Risk Management Department.

CREDIT RISK

The Company's exposure to credit risk arises from the possibility that a counterparty to a transaction might fail to perform under its contractual commitment, which could result in the Company incurring losses. The Company has credit guidelines which limit the Company's current and potential credit exposure to any one counterparty. Specific credit risk limits based on these credit guidelines also are in place for each type of counterparty (by rating category).

The Credit Department administers and monitors the credit limits among trading divisions on a worldwide basis. In addition to monitoring credit limits, the Company manages the credit exposure relating to the Company's trading activities by reviewing counterparty financial soundness periodically, by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of exposure. In certain cases, the Company also may close out transactions or assign them to other counterparties to mitigate credit risk.

CONCENTRATION RISK

The Company is subject to concentration risk by holding large positions in certain types of securities or commitments to purchase securities of a single issuer, including sovereign governments and other entities, issuers located in a particular country or geographic area, public and private issuers involving developing countries or issuers engaged in a particular industry. Financial instruments owned by the Company include U.S. government and agency securities and securities issued by other sovereign governments (principally Japan, Italy, Canada and Germany), which, in the aggregate, represented approximately 12% of the Company's total assets at November 30, 1999. In addition, substantially all of the collateral held by the Company for resale agreements or bonds borrowed, which together represented approximately 29% of the Company's total assets at November 30, 1999, consists of securities issued by the U.S. government, federal agencies or other sovereign government obligations. Positions taken and commitments made by the Company, including positions taken and underwriting and financing commitments made in connection with its private equity and principal investment activities, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment grade issuers. The Company seeks to limit concentration risk through the use of the systems and procedures described in the preceding discussions of market and credit risk.

CUSTOMER ACTIVITIES

The Company's customer activities involve the execution, settlement and financing of various securities and commodities transactions on behalf of customers. Customer securities activities are transacted on either a cash or margin basis. Customer commodities activities, which include the execution of customer transactions in commodity futures transactions (including options on futures), are transacted on a margin basis.

The Company's customer activities may expose it to off-balance sheet credit risk. The Company may have to purchase or sell financial instruments at prevailing market prices in the event of the failure of a customer to settle a trade on its original terms or in the event cash and securities in customer margin accounts are not sufficient to fully cover customer losses. The Company seeks to control the risks associated with customer activities by requiring customers to maintain margin collateral in compliance with various regulations and Company policies.

NOTIONAL/CONTRACT AMOUNTS AND FAIR MARKET VALUES OF DERIVATIVES

The gross notional or contract amounts of derivative instruments and fair value (carrying amount) of the related assets and liabilities at November 30, 1999 and 1998, as well as the average fair value of those assets and liabilities for fiscal 1999 and 1998, are presented in the table which follows. Fair value represents the cost of replacing these instruments and is further described in Note 2. Future changes in interest rates, foreign currency exchange rates or the fair values of the financial instruments, commodities or indices underlying these contracts ultimately may result in cash settlements exceeding fair value amounts recognized in the consolidated statements of financial condition. Assets represent unrealized gains on purchased exchange traded and OTC options and other contracts (including interest rate, foreign exchange, and other forward contracts and swaps), net of any unrealized losses owed to the counterparties on offsetting positions in situations where netting is appropriate. Similarly, liabilities represent net amounts owed to counterparties. These amounts will vary based on changes in the fair values of underlying financial instruments and/or the volatility of such underlying instruments:

FISCAL YEAR-END GROSS NOTIONAL/CONTRACT AMOUNT[1] [2] (dollars in billions at fiscal year-end)			FISCAL YEAR-END FAIR VALUES[3]				AVERAGE FAIR VALUES[3] [4]			
			ASSETS		LIABILITIES		ASSETS		LIABILITIES	
1999	1998		**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998
$2,689	$1,719	Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	**$ 9.5**	$10.1	**$ 9.4**	$10.4	**$ 9.0**	$ 9.5	**$ 6.2**	$ 8.6
405	903	Foreign exchange forward and futures contracts and options	**3.7**	3.7	**3.6**	4.1	**3.3**	4.6	**3.5**	4.4
110	107	Equity security contracts (including equity swaps, futures contracts, and warrants and options)	**7.1**	5.2	**7.3**	4.8	**5.9**	4.8	**5.4**	4.6
170	91	Commodity forwards, futures, options and swaps	**2.4**	2.2	**2.9**	1.9	**2.3**	2.0	**2.6**	1.7
30	40	Mortgage-backed securities forward contracts, swaps and options	**0.1**	0.2	**—**	—	**0.1**	0.2	**0.1**	—
$3,404	$2,860	Total	**$22.8**	$21.4	**$23.2**	$21.2	**$20.6**	$21.1	**$17.8**	$19.3

(1) *The notional amounts of derivatives have been adjusted to reflect the effects of leverage, where applicable.*
(2) *Notional amounts include purchased and written options of $399 billion and $401 billion, respectively, at November 30, 1999, and $485 billion and $442 billion, respectively, at November 30, 1998.*
(3) *These amounts represent carrying value (exclusive of collateral) at November 30, 1999 and 1998, respectively, and do not include receivables or payables related to exchange traded futures contracts.*
(4) *Amounts are calculated using a monthly average.*

The gross notional or contract amounts of these instruments are indicative of the Company's degree of use of derivatives for trading purposes but do not represent the Company's exposure to market or credit risk. Credit risk arises from the failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk at any point in time is represented by the fair value of the contracts reported as assets. These amounts are presented on a net-by-counterparty basis when appropriate but are not reported net of collateral, which the Company obtains with respect to certain of these transactions to reduce its exposure to credit losses. The Company monitors the creditworthiness of counterparties to these transactions on an ongoing basis and requests additional collateral when deemed necessary. The Company believes the ultimate settlement of the transactions outstanding at November 30, 1999 will not have a material effect on the Company's financial condition.

The remaining maturities of the Company's swaps and other derivative products at November 30, 1999 and 1998 are summarized in the following table, showing notional values by year of expected maturity:

(dollars in billions)	LESS THAN 1 YEAR	1 TO 3 YEARS	3 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
AT NOVEMBER 30, 1999					
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$ 664	$662	$531	$832	$2,689
Foreign exchange forward and futures contracts and options	397	8	—	—	405
Equity securities contracts (including equity swaps, futures contracts, and warrants and options)	77	22	8	3	110
Commodity forwards, futures, options and swaps	97	47	19	7	170
Mortgage-backed securities forward contracts, swaps and options	21	1	3	5	30
Total	$1,256	$740	$561	$847	$3,404
Percent of total	37%	22%	16%	25%	100%
AT NOVEMBER 30, 1998					
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$ 457	$479	$371	$412	$1,719
Foreign exchange forward and futures contracts and options	892	11	—	—	903
Equity securities contracts (including equity swaps, futures contracts, and warrants and options)	82	17	7	1	107
Commodity forwards, futures, options and swaps	53	22	8	8	91
Mortgage-backed securities forward contracts, swaps and options	25	1	2	12	40
Total	$1,509	$530	$388	$433	$2,860
Percent of total	53%	19%	13%	15%	100%

The credit quality of the Company's trading-related derivatives at November 30, 1999 and 1998 is summarized in the table below, showing the fair value of the related assets by counterparty credit rating. The actual credit ratings are determined by external rating agencies or by equivalent ratings used by the Company's Credit Department:

(dollars in millions)	AAA	AA	A	BBB	COLLATERALIZED NON-INVESTMENT GRADE	OTHER NON-INVESTMENT GRADE	TOTAL
AT NOVEMBER 30, 1999							
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$1,569	$3,842	$2,896	$ 884	$ 117	$ 174	$ 9,482
Foreign exchange forward contracts and options	556	1,551	1,285	170	—	140	3,702
Equity securities contracts (including equity swaps, warrants and options)	1,742	2,310	1,109	260	1,308	320	7,049
Commodity forwards, options and swaps	164	571	660	469	52	508	2,424
Mortgage-backed securities forward contracts, swaps and options	41	33	35	1	1	1	112
Total	$4,072	$8,307	$5,985	$1,784	$1,478	$1,143	$22,769
Percent of total	18%	37%	26%	8%	6%	5%	100%
AT NOVEMBER 30, 1998							
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$ 894	$3,727	$3,694	$1,181	$ 98	$ 510	$10,104
Foreign exchange forward contracts and options	306	1,413	1,435	337	—	263	3,754
Equity securities contracts (including equity swaps, warrants and options)	1,995	1,105	478	61	1,364	165	5,168
Commodity forwards, options and swaps	71	448	401	708	46	534	2,208
Mortgage-backed securities forward contracts, swaps and options	130	51	21	3	—	3	208
Total	$3,396	$6,744	$6,029	$2,290	$1,508	$1,475	$21,442
Percent of total	16%	31%	28%	11%	7%	7%	100%

The Company also has obtained assets posted as collateral by investment grade counterparties amounting to $2.7 billion and $2.5 billion at November 30, 1999 and November 30, 1998, respectively.

10 PREFERRED STOCK, CAPITAL UNITS AND PREFERRED SECURITIES ISSUED BY SUBSIDIARIES

Preferred stock of the Company is composed of the following issues:

(dollars in millions)	SHARES OUTSTANDING AT NOVEMBER 30 1999	1998	BALANCE AT NOVEMBER 30 1999	1998
ESOP Convertible Preferred Stock, liquidation preference $35.88	3,493,477	3,581,964	$125	$129
Series A Fixed/Adjustable Rate Cumulative Preferred Stock, stated value $200	1,725,000	1,725,000	345	345
7-3/4% Cumulative Preferred Stock, stated value $200	1,000,000	1,000,000	200	200
Total			$670	$674

Each issue of outstanding preferred stock ranks in parity with all other outstanding preferred stock of the Company.

In fiscal 1998, MSDW Capital Trust I, a Delaware statutory business trust (the "Capital Trust"), all of the common securities of which are owned by the Company, issued $400 million of 7.10% Capital Securities (the "Capital Securities") that are guaranteed by the Company. The Capital Trust issued the Capital Securities and invested the proceeds in 7.10% Junior Subordinated Deferrable Interest Debentures issued by the Company, which are due February 28, 2038.

The Company has Capital Units outstanding which were issued by the Company and Morgan Stanley Finance plc ("MS plc"), a U.K. subsidiary. A Capital Unit consists of (a) a Subordinated Debenture of MS plc guaranteed by the Company and having maturities from 2015 to 2017 and (b) a related Purchase Contract issued by the Company, which may be accelerated by the Company beginning approximately one year after the issuance of each Capital Unit, requiring the holder to purchase one Depositary Share representing shares (or fractional shares) of the Company's Cumulative Preferred Stock. The aggregate amount of Capital Units outstanding was $583 million and $999 million at November 30, 1999 and 1998, respectively.

Effective March 1, 1999, the Company redeemed all of the outstanding 7.82% Capital Units and 7.80% Capital Units. The aggregate principal amount of the Capital Units redeemed was $352 million. During fiscal 1999, the Company repurchased in a series of transactions in the open market $64 million of the $134 million outstanding 8.03% Capital Units. During fiscal 1999, the Company retired these repurchased Capital Units.

The estimated fair value of the Capital Units approximated carrying value at November 30, 1999 and November 30, 1998.

In January 2000, the Company and MS plc called for redemption all of the outstanding 9.00% Capital Units on February 28, 2000. The aggregate principal amount of the Capital Units to be redeemed is $144 million.

In January 2000, all shares of the ESOP Convertible Preferred Stock were converted into common shares of the Company (see Note 12).

11 SHAREHOLDERS' EQUITY

MS&Co. and DWR are registered broker-dealers and registered futures commission merchants and, accordingly, are subject to the minimum net capital requirements of the Securities and Exchange Commission, the New York Stock Exchange and the Commodity Futures Trading Commission. MS&Co. and DWR have consistently operated in excess of these requirements. MS&Co.'s net capital totaled $3,515 million at November 30, 1999, which exceeded the amount required by $2,906 million. DWR's net capital totaled $765 million at November 30, 1999, which exceeded the amount required by $631 million. MSIL, a London-based broker-dealer subsidiary, is subject to the capital requirements of the Securities and Futures Authority, and MSDWJL, a Tokyo-based broker-dealer, is subject to the capital requirements of the Japanese Ministry of Finance. MSIL and MSDWJL have consistently operated in excess of their respective regulatory capital requirements.

Under regulatory capital requirements adopted by the Federal Deposit Insurance Corporation ("FDIC") and other bank regulatory agencies, FDIC-insured financial institutions must maintain (a) 3% to 5% of Tier 1 capital, as defined, to average assets ("leverage ratio") (b) 4% of Tier 1 capital, as defined, to risk-weighted assets ("Tier 1 risk-weighted capital ratio") and (c) 8% of total capital, as defined, to risk-weighted assets ("total risk-weighted capital ratio"). At November 30, 1999, the leverage ratio, Tier 1 risk-weighted capital ratio and total risk-weighted capital ratio of each of the Company's FDIC-insured financial institutions exceeded these regulatory minimums.

Certain other U.S. and non-U.S. subsidiaries are subject to various securities, commodities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These subsidiaries have consistently operated in excess of their local capital adequacy requirements. Morgan Stanley Derivative Products Inc., the Company's triple-A rated derivative products subsidiary, also has established certain operating restrictions which have been reviewed by various rating agencies.

The regulatory capital requirements referred to above, and certain covenants contained in various agreements governing indebtedness of the Company, may restrict the Company's ability to withdraw capital from its subsidiaries. At November 30, 1999, approximately $5.6 billion of net assets of consolidated subsidiaries may be restricted as to the payment of cash dividends and advances to the Company.

The Company repurchased approximately 50 million and 86 million shares of its common stock in fiscal 1999 and fiscal 1998, respectively. In an effort to enhance its ongoing stock repurchase program, the Company may sell put options on shares of its common stock to third parties. These put options entitle the holder to sell shares of the Company's common stock to the Company on certain dates at specified prices. As of November 30, 1999, put options were outstanding on an aggregate of 1.0 million shares of the Company's common stock. These put options expire in February 2000. The company may elect cash settlement of the put options instead of taking delivery of the stock.

Cumulative translation adjustments include gains or losses resulting from translating foreign currency financial statements from their respective functional currencies to U.S. dollars, net of hedge gains or losses and related tax effects. The Company uses foreign currency contracts and designates certain non-U.S. dollar currency debt as hedges to manage the currency exposure relating to its net monetary investments in non-U.S. dollar functional currency subsidiaries. Increases or decreases in the value of the Company's net foreign investments generally are tax-deferred for U.S. purposes, but the related hedge gains and losses are taxable currently. Therefore, the gross notional amounts of the contracts and debt designated as hedges exceed the Company's net foreign investments to result in effective hedging on an after-tax basis. The Company attempts to protect its net book value from the effects of fluctuations in currency exchange rates on its net monetary investments in non-U.S. dollar subsidiaries by selling the appropriate non-U.S. dollar currency in the forward market. However, under some circumstances, the Company may elect not to hedge its net monetary investments in certain foreign operations due to market conditions, including the availability of various currency contracts at acceptable costs. Information relating to the hedging of the Company's net monetary investments in non-U.S. dollar functional currency subsidiaries and their effects on cumulative translation adjustments is summarized below:

(dollars in millions)	AT NOVEMBER 30 1999	1998
Net monetary investments in non-U.S. dollar functional currency subsidiaries	$1,972	$1,364
Gross notional amounts of foreign exchange transactions and non-U.S. dollar debt designated as hedges[1]	$3,309	$2,239
Cumulative translation adjustments resulting from net investments in subsidiaries with a non-U.S. dollar functional currency	$ 57	$ 29
Cumulative translation adjustments resulting from realized or unrealized gains or losses on hedges, net of tax	(84)	(41)
Total cumulative translation adjustments	$ (27)	$ (12)

(1) *Notional amounts represent the contractual currency amount translated at respective fiscal year-end spot rates.*

12 EMPLOYEE COMPENSATION PLANS

The Company has adopted a variety of compensation plans for certain of its employees as well as the Company's non-employee directors. These plans are designed to facilitate a pay-for-performance policy, provide compensation commensurate with other leading financial services companies and provide for internal ownership in order to align the interests of employees with the long-term interests of the Company's shareholders. These plans are summarized below.

EQUITY-BASED COMPENSATION PLANS

The Company is authorized to issue up to approximately 590 million shares of its common stock in connection with awards under its equity-based compensation plans. At November 30, 1999, approximately 320 million shares were available for future grant under these plans.

STOCK OPTION AWARDS

Stock option awards have been granted pursuant to several equity-based compensation plans. Historically, these plans have generally provided for the granting of stock options having an exercise price not less than the fair value of the Company's common stock (as defined in the plans) on the date of grant. Such options generally become exercisable over a one-to-five-year period and expire seven to 10 years from the date of grant.

The following table sets forth activity relating to the Company's stock option awards (share data in millions):

	FISCAL 1999		FISCAL 1998		FISCAL 1997	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding at beginning of period	**126.6**	**$20.04**	128.2	$13.93	120.6	$ 8.52
Granted	**23.2**	**56.65**	31.2	34.39	40.4	24.08
Exercised	**(15.5)**	**17.12**	(30.6)	9.12	(29.8)	5.84
Forfeited	**(3.0)**	**23.88**	(2.2)	19.70	(3.0)	13.33
Options outstanding at end of period	**131.3**	**$26.76**	126.6	$20.04	128.2	$13.93
Options exercisable at end of period	**93.6**	**$25.21**	81.2	$19.69	88.6	$13.34

The following table presents information relating to the Company's stock options outstanding at November 30, 1999 (share data in millions):

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	AVERAGE REMAINING LIFE (YEARS)	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$4.00-$9.99	40.1	$ 8.75	5.1	33.5	$ 8.69
$10.00-$19.99	13.8	15.21	3.9	5.8	14.54
$20.00-$29.99	33.5	26.43	7.2	25.8	26.36
$30.00-$39.99	19.2	35.54	8.8	13.5	35.52
$40.00-$49.99	5.0	44.19	6.9	4.4	44.12
$50.00-$63.00	19.7	59.01	9.8	10.6	59.45
Total	131.3		6.8	93.6	

Deferred Compensation Awards

The Company has made deferred compensation awards pursuant to several equity-based compensation plans. These plans provide for the deferral of a portion of certain key employees' compensation with payments made in the form of the Company's common stock or in the right to receive unrestricted shares (collectively, "Restricted Stock"). Compensation expense for all such awards (including those subject to forfeiture) amounted to $699 million, $415 million and $347 million in fiscal 1999, fiscal 1998 and fiscal 1997, respectively. Compensation expense for Restricted Stock awards was determined based on the fair value of the Company's common stock (as defined in the plans). The number of Restricted Stock shares outstanding was 115 million at November 30, 1999, 118 million at November 30, 1998 and 124 million at November 30, 1997.

Restricted Stock awarded under these plans are subject to restrictions on sale, transfer or assignment until the end of a specified restriction period, generally five to 10 years from the date of grant. Holders of Restricted Stock generally may forfeit ownership of a portion of their award if employment is terminated before the end of the relevant restriction period. Holders of vested Restricted Stock generally will forfeit ownership in certain limited situations, including termination for cause during the restriction period.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, eligible employees may purchase shares of the Company's common stock at not less than 85% of the fair value on the date of purchase. Employees of the Company purchased 1.4 million shares of common stock in fiscal 1999, 1.2 million shares in fiscal 1998 and 1.0 million shares in fiscal 1997.

The discount to fair value was $9 million for fiscal 1999, $6 million for fiscal 1998 and $3 million for fiscal 1997. The plan is "non-compensatory" under APB No. 25, and, accordingly, no charge to earnings has been recorded for the amount of the discount to fair value.

Non-Employee Director Awards

The Company sponsors an equity-based plan for non-employee directors under which shares of the Company's common stock have been authorized for issuance in the form of option grants, stock awards or deferred compensation. The effect of these grants on results of operations was not material.

OTHER COMPENSATION PLANS

Carried Interest Plans

Under various Carried Interest Plans, certain key employees effectively participate in a portion of the Company's realized gains from certain of its investments in private equity transactions. Compensation expense for fiscal 1999, 1998 and 1997 related to these plans aggregated $5 million, $33 million and $38 million, respectively.

Real Estate Fund Plans

Under various plans, select employees and consultants to certain partnerships may participate in certain gains realized by the Company's real estate funds. Compensation expense relating to these plans aggregated $10 million, $3 million and $8 million for fiscal 1999, fiscal 1998 and fiscal 1997, respectively.

Profit Sharing Plans

The Company sponsors qualified profit sharing plans covering substantially all U.S. employees and also provides cash payment of profit sharing to employees of its international subsidiaries. Contributions are made to eligible employees at the discretion of the Board of Directors based upon the financial performance of the Company. Profit sharing expense for fiscal 1999, fiscal 1998 and fiscal 1997 was $153 million, $115 million and $113 million, respectively.

Employee Stock Ownership Plan

The Company has a $140 million leveraged employee stock ownership plan, funded through an independently managed trust. The Employee Stock Ownership Plan ("ESOP") was established to broaden internal ownership of the Company and to provide benefits to its employees in a cost-effective manner. Each of the 3,493,477 ESOP preferred shares outstanding at November 30, 1999 is held by the ESOP trust, is convertible into 6.6 shares of the Company's common stock and is entitled to annual dividends of $2.78 per preferred share. The ESOP trust funded its stock purchase through a loan of $140 million from the Company. The ESOP trust note, due September 19, 2005 (extendible at the option of the ESOP trust to September 19, 2010), bears a 10-3/8% interest rate per annum with principal payable without penalty on or before the due date. The ESOP trust expects to make principal and interest payments on the note from funds provided by dividends on the shares of convertible preferred stock and contributions from the Company, if required. The note receivable from the ESOP trust is reflected as a reduction in the Company's shareholders' equity. Shares allocated to employees generally may not be withdrawn until the employee's death, disability, retirement or termination.

Contributions to the ESOP by the Company and allocation of ESOP shares to employees are made annually at the discretion of the Board of Directors based on the financial performance of the Company. The cost of shares allocated to participants' accounts amounted to $5 million in fiscal 1999, $8 million in fiscal 1998 and $10 million in fiscal 1997. The ESOP debt service costs for fiscal 1999, fiscal 1998 and fiscal 1997 were paid from dividends received on preferred stock held by the plan and from Company contributions.

In January 2000, all shares of the ESOP Convertible Preferred Stock were converted into common shares of the Company.

PRO FORMA EFFECT OF SFAS NO. 123

Had the Company elected to recognize compensation cost pursuant to SFAS No. 123 for its stock option plans and the Employee Stock Purchase Plan, net income would have been reduced by $415 million, $214 million and $196 million for fiscal 1999, 1998 and 1997, respectively. Basic and diluted earnings per common share would have been reduced by $0.38, $0.19 and $0.17 for fiscal 1999, 1998 and 1997, respectively.

The weighted average fair value at date of grant for stock options granted during fiscal 1999, 1998 and 1997 was $29.76, $11.19 and $8.38 per option, respectively. The fair value of stock options at date of grant was estimated using the Black-Scholes option pricing model utilizing the following weighted average assumptions:

	FISCAL 1999	FISCAL 1998	FISCAL 1997
Risk-free interest rate	5.9%	4.9%	6.0%
Expected option life in years	5.6	4.8	6.0
Expected stock price volatility	38.6%	33.2%	28.0%
Expected dividend yield	1.1%	1.3%	1.3%

13 EMPLOYEE BENEFIT PLANS

The Company sponsors various pension plans for the majority of its worldwide employees. The Company provides certain other postretirement benefits, primarily health care and life insurance, to eligible employees. The Company also provides certain benefits to former or inactive employees prior to retirement. The following summarizes these plans:

PENSION PLANS

Substantially all of the U.S. employees of the Company and its U.S. affiliates are covered by non-contributory pension plans that are qualified under Section 401(a) of the Internal Revenue Code (the "Qualified Plans"). Unfunded supplementary plans (the "Supplemental Plans") cover certain executives. In addition to the Qualified Plans and the Supplemental Plans (collectively, the "U.S. Plans"), 10 of the Company's international subsidiaries also have pension plans covering substantially all of their employees. These pension plans generally provide pension benefits that are based on each employee's years of credited service and on compensation levels specified in the plans. For the Qualified Plans and the other international plans, the Company's policy is to fund at least the amounts sufficient to meet minimum funding requirements under applicable employee benefit and tax regulations. Liabilities for benefits payable under the Supplemental Plans are accrued by the Company and are funded when paid to the beneficiaries.

The following tables present information for the Company's pension plans on an aggregate basis.

Pension expense includes the following components:

(dollars in millions)	FISCAL 1999	FISCAL 1998	FISCAL 1997
U.S. Plans:			
Service cost, benefits earned during the period	$ 98	$72	$54
Interest cost on projected benefit obligation	80	78	67
Expected return on plan assets	(86)	(87)	(66)
Net amortization	8	1	1
Total U.S. plans	100	64	56
Total international plans	18	12	9
Net pension expense	$118	$76	$65

The following table provides the assumptions used in determining the Company's benefit obligation for the U.S. Plans:

	FISCAL 1999	FISCAL 1998
Weighted average discount rate	7.50%	6.75%
Rate of increase in future compensation levels	5.00%	5.00%
Expected long-term rate of return on plan assets	9.00%	9.00%

The following table provides a reconciliation of the changes in the U.S. Plans' benefit obligation and fair value of plan assets for fiscal 1999 and fiscal 1998, as well as a summary of the U.S. Plans' funded status at November 30, 1999 and 1998:

(dollars in millions)	**FISCAL 1999**	FISCAL 1998
Reconciliation of benefit obligation:		
Benefit obligation at beginning of year	$1,213	$1,089
Service cost	98	72
Interest cost	80	78
Plan amendments	—	4
Actuarial (gain) or loss	(77)	38
Benefits paid	(100)	(59)
Curtailment	—	(9)
Benefit obligation at end of year	$1,214	$1,213
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 981	$ 994
Actual return on plan assets	185	7
Employer contributions	88	39
Benefits paid	(100)	(59)
Fair value of plan assets at end of year	$1,154	$ 981
Funded status:		
Funded status	$ (60)	$ (232)
Unrecognized transition obligation	5	8
Unrecognized prior-service cost	27	28
Unrecognized (gain) or loss	(44)	136
Net amount recognized	$ (72)	$ (60)
Amounts recognized in the consolidated statements of financial condition consist of:		
Prepaid benefit cost	$ 44	$ 17
Accrued benefit liability	(117)	(107)
Intangible asset	1	30
Net amount recognized	$ (72)	$ (60)

For the Supplemental Plans, the aggregate accumulated benefit obligation was $90 million and $82 million at November 30, 1999 and 1998, respectively.

The Company also maintains a separate defined contribution pension plan which covers substantially all employees of the Company's U.K. subsidiaries (the "U.K. Plan"). Under the U.K. Plan, benefits are determined by the purchasing power of the accumulated value of contributions paid. In fiscal 1999, 1998 and 1997, the Company's expense related to the U.K. Plan was $25 million, $17 million and $15 million, respectively.

POSTRETIREMENT BENEFITS

The Company has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees, employees and dependents. At November 30, 1999 and 1998, the Company's accrued postretirement benefit costs were $99 million and $95 million, respectively.

POSTEMPLOYMENT BENEFITS

Postemployment benefits include, but are not limited to, salary continuation, supplemental unemployment benefits, severance benefits, disability-related benefits, and continuation of health care and life insurance coverage provided to former or inactive employees after employment but before retirement. These benefits were not material to the consolidated financial statements in fiscal 1999, 1998 and 1997.

14 INCOME TAXES

The provision for income taxes consists of:

(dollars in millions)	**FISCAL 1999**	FISCAL 1998	FISCAL 1997
Current:			
U.S. federal	$1,868	$1,199	$1,079
U.S. state and local	491	372	348
Non-U.S.	738	476	338
	3,097	2,047	1,765
Deferred:			
U.S. federal	37	(26)	(45)
U.S. state and local	(11)	1	(17)
Non-U.S.	(186)	(30)	(15)
	(160)	(55)	(77)
Provision for income taxes	$2,937	$1,992	$1,688

The following table reconciles the provision to the U.S. federal statutory income tax rate:

	FISCAL 1999	FISCAL 1998	FISCAL 1997
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
U.S. state and local income taxes, net of U.S. federal income tax benefits	3.6	4.6	5.1
Lower tax rates applicable to non-U.S. earnings	(2.3)	(2.4)	(1.1)
Other	1.7	(0.2)	0.5
Effective income tax rate	38.0%	37.0%	39.5%

As of November 30, 1999, the Company had approximately $3.1 billion of earnings attributable to foreign subsidiaries for which no provisions have been recorded for income tax that could occur upon repatriation. Except to the extent such earnings can be repatriated tax efficiently, they are permanently invested abroad. It is not practicable to determine the amount of income taxes payable in the event all such foreign earnings are repatriated, since such liability, if any, is dependent on circumstances existing if and when remittance occurs.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Significant components of the Company's deferred tax assets and liabilities at November 30, 1999 and 1998 are as follows:

(dollars in millions)	**NOV. 30, 1999**	NOV. 30, 1998
Deferred tax assets:		
Employee compensation and benefit plans	$1,486	$1,289
Loan loss allowance	282	371
Other valuation and liability allowances	593	604
Deferred expenses	163	—
Other	303	167
Total deferred tax assets	2,827	2,431
Deferred tax liabilities:		
Prepaid commissions	217	239
Valuation of inventory, investments and receivables	188	127
Other	194	237
Total deferred tax liabilities	599	603
Net deferred tax assets	$2,228	$1,828

Cash paid for income taxes was $1,736 million, $1,591 million and $1,251 million in fiscal 1999, 1998 and 1997, respectively.

15 SEGMENT AND GEOGRAPHIC INFORMATION

In fiscal 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The adoption of this statement did not have an effect on the Company's financial position, results of operations, earnings per share or cash flows. This statement establishes new standards for disclosures that relate to business operating segments ("segments"). The segment data for prior periods has been restated to reflect the adoption of SFAS No. 131. In addition, the operating results of Morgan Stanley Dean Witter Online ("MSDW Online"), the Company's provider of electronic brokerage services, is included within the Securities segment. Previously, the Company had included MSDW Online's results within its Credit Services segment.

The Company structures its segments primarily based upon the nature of the financial products and services provided to customers and the Company's management organization. The Company operates in three business segments: Securities, Asset Management and Credit Services through which it provides a wide range of financial products and services to its customers.

The Company's Securities business includes securities underwriting, distribution and trading; merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities; full-service and online brokerage services; research services; the trading of foreign exchange and commodities, as well as derivatives on a broad range of asset categories, rates and indices; securities lending; and private equity activities. The Company's Asset Management business provides global asset management advice and services to investors through a variety of product lines and brand names, including Morgan Stanley Dean Witter Advisors, Van Kampen Investments, Morgan Stanley Dean Witter Investment Management and Miller Anderson & Sherrerd. The Company's Credit Services business includes the issuance of the Discover Card, the Discover Platinum Card, the Morgan Stanley Dean Witter Card, the Private Issue Card and co-branded and affinity cards; and the operation of the Discover/NOVUS Network, a proprietary network of merchant and cash access locations.

Revenues and expenses directly associated with each respective segment are included in determining their operating results. Other revenues and expenses that are not directly attributable to a particular segment are allocated based upon the Company's allocation methodologies, generally based on each segment's respective revenues or other relevant measures. Selected financial information for the Company's segments is presented in the table below.

FISCAL 1999
(dollars in millions)

	SECURITIES	ASSET MANAGEMENT	CREDIT SERVICES	TOTAL
All other revenues	$ 15,427	$2,060	$ 2,157	$ 19,644
Net interest	948	52	1,365	2,365
Net revenues	16,375	2,112	3,522	22,009
Income before taxes	5,864	767	1,097	7,728
Provision for income taxes	2,183	319	435	2,937
Net income	3,681	448	662	4,791
Total assets(1)	$336,890	$4,927	$25,150	$366,967

FISCAL 1998
(dollars in millions)

	SECURITIES	ASSET MANAGEMENT	CREDIT SERVICES	TOTAL
All other revenues	$ 10,439	$1,676	$ 1,407	$ 13,522
Net interest	1,100	87	1,735	2,922
Net revenues	11,539	1,763	3,142	16,444
Gain on sale of businesses	—	323	362	685
Income before taxes and cumulative effect of accounting change	3,441	694	1,250	5,385
Provision for income taxes	1,199	264	529	1,992
Cumulative effect of accounting change	—	(117)	—	(117)
Net income	2,242	313	721	3,276
Total assets(1)	$292,867	$4,537	$20,186	$317,590

FISCAL 1997
(dollars in millions)

	SECURITIES	ASSET MANAGEMENT	CREDIT SERVICES	TOTAL
All other revenues	$ 9,261	$1,817	$ 978	$ 12,056
Net interest	763	64	1,950	2,777
Net revenues	10,024	1,881	2,928	14,833
Income before taxes(2)	3,026	565	757	4,274
Provision for income taxes(2)	1,185	230	284	1,688
Net income(2)	1,841	335	473	2,586
Total assets(1)	$272,761	$5,117	$24,409	$302,287

(1) *Corporate assets have been fully allocated to the Company's business segments.*
(2) *Fiscal 1997 total income before taxes, provision for income taxes and net income includes merger-related expenses of $74 million ($63 million net of taxes), which were not allocated to the respective segments.*

The Company operates in both U.S. and non-U.S. markets. The Company's non-U.S. business activities are principally conducted through European and Asian locations. The following table presents selected income statement information and the total assets of the Company's operations by geographic area. The principal methodologies used in preparing the geographic area data are as follows: commission revenues are recorded based on the location of the sales force; trading revenues are principally recorded based on location of the trader; investment banking revenues are based on location of the client; and asset management and portfolio service fees are recorded based on the location of the portfolio manager.

FISCAL 1999 *(dollars in millions)*	U.S.	EUROPE	ASIA	OTHER	ELIMINATIONS	TOTAL
Net revenues	$ 17,430	$ 3,741	$ 1,203	$ (42)	$ (323)	$ 22,009
Income before taxes	6,297	1,275	250	(94)	—	7,728
Total assets	364,852	164,410	37,626	17,698	(217,619)	366,967

FISCAL 1998 *(dollars in millions)*	U.S.	EUROPE	ASIA	OTHER	ELIMINATIONS	TOTAL
Net revenues	$ 12,837	$ 2,787	$ 1,023	$ 95	$ (298)	$ 16,444
Income before taxes and cumulative effect of accounting change	3,955	1,089	287	54	—	5,385
Total assets	328,450	139,923	25,712	9,138	(185,633)	317,590

FISCAL 1997 *(dollars in millions)*	U.S.	EUROPE	ASIA	OTHER	ELIMINATIONS	TOTAL
Net revenues	$ 12,464	$ 1,757	$ 866	$ 55	$ (309)	$ 14,833
Income before taxes	3,617	399	240	18	—	4,274
Total assets	298,923	126,138	30,656	8,805	(162,235)	302,287

16 BUSINESS ACQUISITION AND DISPOSITIONS

During the second quarter of fiscal 1999, the Company completed its acquisition of AB Asesores, the largest independent financial services firm in Spain. AB Asesores has leading positions in personal investment, asset management, institutional research and brokerage, and investment banking. Through its approximately 300 financial advisors, it offers its individual investors proprietary mutual funds and other financial products. This acquisition reflects the Company's strategic initiative to build international Securities and Asset Management businesses to serve the needs of individual investors. The Company's fiscal 1999 results include the operations of AB Asesores since March 25, 1999, the date of acquisition.

In fiscal 1998, the Company entered into several transactions reflecting its strategic decision to focus on growing its core Asset Management and Credit Services businesses.

In the fourth quarter of fiscal 1998, the Company completed the sale of its Global Custody business. The Company also sold its interest in the operations of SPS Transaction Services, Inc., a 73%-owned, publicly held subsidiary of the Company. In addition, the Company sold certain credit card receivables relating to its discontinued BRAVO® Card. The Company's aggregate net pre-tax gain resulting from these transactions was $685 million.

In addition, during fiscal 1998 the Company sold its Prime Option℠ MasterCard® portfolio, a business it had operated with NationsBank of Delaware, N.A., and its Correspondent Clearing business. The gains resulting from the sale of these businesses were not material to the Company's results of operations or financial condition.

17 QUARTERLY RESULTS (UNAUDITED)

(dollars in millions, except share and per share data)	1999 FISCAL QUARTER[2] FIRST	SECOND	THIRD	FOURTH	1998 FISCAL QUARTER FIRST	SECOND	THIRD	FOURTH
Total revenues	$8,405	$8,529	$8,370	$8,624	$7,585	$8,428	$7,498	$7,620
Interest expense	2,877	2,753	2,914	2,846	3,145	3,554	3,377	3,438
Provision for consumer loan losses	177	119	113	120	405	275	280	213
Net revenues	5,351	5,657	5,343	5,658	4,035	4,599	3,841	3,969
Total non-interest expenses	3,679	3,799	3,780	3,023	2,903	3,202	2,931	2,708
Gain on sale of businesses	—	—	—	—	—	—	—	685
Income before income taxes and cumulative effect of accounting change	1,672	1,858	1,563	2,635	1,132	1,397	910	1,946
Provision for income taxes	635	707	593	1,002	441	545	284	722
Income before cumulative effect of accounting change	1,037	1,151	970	1,633	691	852	626	1,224
Cumulative effect of accounting change	—	—	—	—	(117)	—	—	—
Net income	$1,037	$1,151	$ 970	$1,633	$ 574	$ 852	$ 626	$1,224
Basic earnings per share[1][3]:								
Income before cumulative effect of accounting change	$ 0.93	$ 1.03	$ 0.87	$ 1.50	$ 0.58	$ 0.72	$ 0.54	$ 1.08
Cumulative effect of accounting change	—	—	—	—	(0.10)	—	—	—
Net income	$ 0.93	$ 1.03	$ 0.87	$ 1.50	$ 0.48	$ 0.72	$ 0.54	$ 1.08
Diluted earnings per share[1][3]:								
Income before cumulative effect of accounting change	$ 0.88	$ 0.98	$ 0.83	$ 1.42	$ 0.55	$ 0.69	$ 0.51	$ 1.04
Cumulative effect of accounting change	—	—	—	—	(0.09)	—	—	—
Net income	$ 0.88	$ 0.98	$ 0.83	$ 1.42	$ 0.46	$ 0.69	$ 0.51	$ 1.04
Dividends to common shareholders[1]	$ 0.12	$ 0.12	$ 0.12	$ 0.12	$ 0.10	$ 0.10	$ 0.10	$ 0.10
Book value[1]	$12.47	$13.00	$13.27	$14.85	$11.24	$10.98	$11.07	$11.94
Stock price range[1][4]	$31.16-48.50	$44.53-57.10	$41.07-51.78	$43.19-63.63	$26.13-35.25	$34.88-42.22	$29.03-48.44	$19.22-37.38

(1) *Amounts have been retroactively adjusted to give effect for a two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on January 26, 2000.*

(2) *Certain reclassifications have been made to previously reported fiscal 1999 quarterly amounts.*

(3) *Summation of the quarters' earnings per common share may not equal the annual amounts due to the averaging effect of the number of shares and share equivalents throughout the year.*

(4) *Closing prices represent the range of sales per share on the New York Stock Exchange for the periods indicated. The number of stockholders of record at November 30, 1999 approximated 152,000. The number of beneficial owners of common stock is believed to exceed this number.*

officers and directors

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Sears, Roebuck and Co.

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Chief Operating Officer, Capital Cities/ABC, Inc.

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Chief Financial Officer

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Controller & Principal Accounting Officer

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ZURICH
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stockholder information

COMMON STOCK

Ticker Symbol: MWD

The common stock of Morgan Stanley Dean Witter & Co. is listed on the New York Stock Exchange and on the Pacific Exchange.

DIVIDENDS

Effective January 2000, Morgan Stanley Dean Witter & Co.'s Board of Directors increased the quarterly cash dividend to $0.20 per share of common stock.

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281
212-436-2000

SHARE PURCHASE AND DIVIDEND REINVESTMENT PLAN & STOCKHOLDER SERVICES

Morgan Stanley Dean Witter Trust FSB is the Record Keeper for the Share Purchase and Dividend Reinvestment Plan and the Transfer Agent for the Company's common stock. For more information about the plan or assistance with address changes, lost stock certificates and share ownership, contact:

Morgan Stanley Dean Witter Trust FSB
Harborside Financial Center, Plaza Two
Jersey City, NJ 07311-3977
800-622-2393

ANNUAL REPORT ON FORM 10-K AND STOCKHOLDER INQUIRIES

General information about the Company and copies of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission can be obtained at:

Online:
HTTP://WWW.MSDW.COM

Stockholder Helpline:
800-733-2307

INVESTOR RELATIONS

Security analysts, portfolio managers and representatives of financial institutions seeking information about the Company are invited to contact:

Investor Relations:
212-762-8131

CUSTOMER SERVICE PHONE NUMBERS

Private Client Group	
Branch Office Locator	1-877-937-MSDW
MSDW Online	1-800-688-6896
AAA Client Services	1-800-869-DEAN
MSDW Client Services	1-888-454-DWOL
Asset Management	
MSDW Family of Funds	1-800-869-FUND
MSDW Institutional / MAS Funds	1-800-548-7786
MSDW Closed End Funds	1-800-221-6726
Van Kampen Funds	1-800-341-2911
Discover Financial Services	
Discover Card Services	1-800-347-2683

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