MORGAN STANLEY DEAN WITTER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Introduction and Basis of Presentation

The Company

Morgan Stanley Dean Witter & Co. (the “Company”) is a 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 and distribution; merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities; full-service brokerage and financial advisory services; sales, trading, financing and market-making in equity and fixed income securities, foreign exchange and commodities, and derivatives; and private equity and other principal investing activities. The Company’s Asset Management business provides global asset management products and services to individual and institutional investors primarily through 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 and other proprietary general purpose credit cards; and the operation of Discover Business Services, a proprietary network of merchant and cash access locations in the U.S.

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 for the 12 months ended November 30, 2000 (“fiscal 2000”), November 30, 1999 (“fiscal 1999”) and November 30, 1998 (“fiscal 1998”) are prepared in accordance with accounting principles generally accepted in the U.S., 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 2000 purchase of Ansett Worldwide Aviation Services, the Company assumed $1,380 million of long-term borrowings.

In connection with the fiscal 1999 purchase of Morgan Stanley Dean Witter, S.V., S.A. (formerly AB Asesores), the Company issued 1.4 million shares of common stock having a fair value on the date of acquisition of $64 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 consumer 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 a borrower's ability to pay.

The Company uses the results of these evaluations to provide an allowance for consumer 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. The present value of the future net servicing revenues that the Company estimates 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 the liquidation of 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 that 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 that 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. 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, 2000 and 1999, the Company recorded obligations to return securities received as collateral of $8,353 million and $14,729 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, 2000 and 1999, after giving effect to reclassifications, the net increase in total assets and total liabilities was $5,515 million and $10,256 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 the 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 Company calculates earnings per share ("EPS") in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "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.

"Basic EPS" reflects no dilution from common stock equivalents, and "diluted EPS" 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.

Cardmember Rewards

Cardmember rewards, primarily the Cashback Bonus® award, pursuant to which the Company annually pays Discover Card cardmembers and Morgan Stanley Dean Witter Card cardmembers electing this feature a percentage of their purchase amounts ranging up to 1%, are based upon a cardmember's annual level and type of 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 accounts for its stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." 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 income statement accounts 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, 2000 and 1999, goodwill and other intangible assets of approximately $1.3 billion 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," 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 1998 was a decrease of $24 million, net of taxes. The effect on basic and diluted earnings per share was $0.02.

Deferred Compensation Arrangements

In accordance with Emerging Issues Task Force ("EITF") Issue 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested," assets of rabbi trusts are to be consolidated with those of the employer, and the value of the employer's stock held in rabbi trusts 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 its 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.

New Accounting Pronouncements

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. 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," which deferred the effective date of SFAS No. 133 for one year to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133." The Company adopted SFAS No. 133, as amended by SFAS No. 138, effective December 1, 2000. The Company estimates that it will record an after-tax charge to net income from the cumulative effect of the adoption of SFAS No. 133, as amended, of approximately $59 million and an after-tax decrease to other comprehensive income of approximately $13 million. The Company's adoption of SFAS No. 133, as amended, will affect the accounting for, among other things, the Company's hedging strategies, including those associated with certain financing activities.

In September 2000, the FASB issued SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125.” While SFAS No. 140 carries over most of the provisions of SFAS No. 125, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” it provides new standards for reporting financial assets transferred as collateral and new standards for the derecognition of financial assets, in particular transactions involving the use of special purpose entities. SFAS No. 140 also prescribes additional disclosures for collateral transactions and for securitization transactions accounted for as sales. The new collateral standards and disclosure requirements are effective for fiscal years ending after December 15, 2000, while the new standards for the derecognition of financial assets are effective for transfers made after March 31, 2001. The Company is in the process of evaluating the impact of adopting SFAS No. 140.

In March 1998, the AICPA issued SOP 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,” which is effective for financial statements for fiscal years beginning after December 15, 1998. SOP 98-1 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 adopted SOP 98-1 effective December 1, 1999. The adoption of SOP 98-1 did not have a material impact on the Company’s consolidated financial statements.

3. Consumer Loans

Consumer loans were as follows:

	Nov. 30, 2000	Nov. 30, 1999
	(dollars in millions)	
Credit card and consumer installment	$21,870	$20,998
Less:		
Allowance for consumer loan losses	780	769
Consumer loans, net	$21,090	$20,229

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

	Fiscal 2000	Fiscal 1999	Fiscal 1998
	(dollars in millions)		
Balance beginning of period	$ 769	$ 787	$ 884
Additions:			
Provision for consumer loan losses	810	529	1,173
Purchase of loan portfolios	—	—	1
Total additions	810	529	1,174
Deductions:			
Charge-offs	904	893	1,423
Recoveries	(105)	(120)	(170)
Net charge-offs	799	773	1,253
Other (1)	—	226	(18)
Balance end of period	$ 780	$ 769	$ 787

(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 $127 million, $116 million and $199 million in fiscal 2000, fiscal 1999 and fiscal 1998, respectively.

At November 30, 2000 and 1999, $5,467 million and $5,248 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, 2000, the Company had commitments to extend credit for consumer loans in the amount of $262 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 $9,760 million, $2,997 million and $4,466 million in fiscal 2000, fiscal 1999 and fiscal 1998, respectively. The uncollected balances of consumer loans sold through asset securitizations were $25,256 million and $16,977 million at November 30, 2000 and 1999, respectively.

The estimated fair value of the Company's consumer loans approximated carrying value at November 30, 2000 and 1999. The Company's domestic 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:

	Nov. 30, 2000	Nov. 30, 1999
	(dollars in millions)	
Demand, passbook and money market accounts	$ 1,589	$ 1,458
Consumer certificate accounts	1,649	1,698
$100,000 minimum certificate accounts	8,692	7,241
Total	$11,930	$10,397

The weighted average interest rates of interest bearing deposits outstanding during fiscal 2000 and fiscal 1999 were 6.4% and 5.9%, respectively.

At November 30, 2000 and 1999, the notional amounts of interest rate exchange agreements that hedged deposits outstanding were $493 million and $473 million and had fair values of $4 million and $6 million, respectively. Under these interest rate exchange agreements, the Company primarily pays floating rates and receives fixed rates. At November 30, 2000, the weighted average interest rate of the Company's deposits, including the effect of interest rate exchange agreements, was 6.4%.

At November 30, 2000, certificate accounts maturing over the next five years were as follows:

	(dollars in millions)
2001	$3,649
2002	2,022
2003	1,484
2004	1,426
2005	1,274

The estimated fair value of the Company's deposits, using current rates for deposits with similar maturities, approximated carrying value at November 30, 2000 and 1999.

5. Short-Term Borrowings

At November 30, 2000 and 1999, commercial paper of $18,352 million and $27,072 million, with weighted average interest rates of 6.0% and 5.3%, respectively, was outstanding.

At November 30, 2000 and 1999, the notional amounts of interest rate and currency swaps that hedged commercial paper outstanding were $557 million and $2,865 million and had fair values of $(1) million and $(3) million, respectively. These contracts had no material effect on the weighted average interest rates of commercial paper.

At November 30, 2000 and 1999, other short-term borrowings of $9,402 million and $11,170 million, respectively, 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 specified levels of shareholders' equity. The Company believes that the covenant restrictions will not impair the Company's ability to pay its current level of dividends. At November 30, 2000, 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, each as defined. At November 30, 2000, 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 $1.785 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, 2000, no borrowings were outstanding under the MSIL Facility.

MSDWJL, the Company's Tokyo-based broker-dealer subsidiary, maintains 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 70 billion Japanese yen. At November 30, 2000, no borrowings were outstanding under the MSDWJL 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	
	Fixed Rate	Floating Rate(2)	Index/Equity Linked	Fixed Rate	Floating Rate(2)	2000 Total	1999 Total
	(dollars in millions)						
Due in fiscal 2000	$ —	$ —	$ —	$ —	$ —	$ —	$ 6,902
Due in fiscal 2001	1,992	8,204	806	306	847	12,155	5,621
Due in fiscal 2002	1,628	3,203	373	91	982	6,277	4,041
Due in fiscal 2003	4,063	3,148	80	613	623	8,527	2,818
Due in fiscal 2004	2,316	465	163	124	3	3,071	3,205
Due in fiscal 2005	2,994	216	95	1,334	—	4,639	664
Thereafter	4,435	1,601	52	715	579	7,382	5,353
Total	$17,428	$16,837	$1,569	$3,183	$3,034	$42,051	$28,604
Weighted average coupon at fiscal year-end	7.0%	6.8%	n/a	4.1%	5.1%	6.5%	5.9%

(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 $20,163 million and $15,724 million at November 30, 2000 and 1999, respectively. The effective weighted average interest rate on all medium-term notes was 6.6% in fiscal 2000 and 5.3% in fiscal 1999. Maturities of these notes range from fiscal 2001 through fiscal 2029.

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 that 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, 2000 and 1999.

Other Borrowings

Included in the Company's long-term borrowings are subordinated notes (including the notes issued by MS&Co. discussed below) of $1,332 million and $1,356 million at November 30, 2000 and 1999, respectively. The effective weighted average interest rate on these subordinated notes was 7.1% in fiscal 2000 and 7.0% in fiscal 1999. 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 2001 through fiscal 2002. The stated maturities of these notes, which aggregate $4,873 million, are from fiscal 2001 to fiscal 2030.

At November 30, 2000, MS&Co., a U.S. broker-dealer subsidiary of the Company, had 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 had 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. On October 31, 2000, MS&Co. exercised its option to redeem the Series C Notes prior to the scheduled maturity, and all the Series C Notes were subsequently redeemed on December 1, 2000.

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 that effectively convert the borrowings into U.S. dollar obligations. The Company's use of swaps for asset and liability management affected its interest expense and effective average borrowing rate as follows:

	Fiscal 2000	Fiscal 1999	Fiscal 1998
	(dollars in millions)		
Net increase (reduction) in interest expense from swaps for the fiscal year	$ 68	$(22)	$(48)
Weighted average coupon of long-term borrowings at fiscal year-end(1)	6.5%	5.9%	6.1%
Effective average borrowing rate for long-term borrowings after swaps at fiscal year-end(1)	6.7%	5.8%	5.9%

(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 6.8% and 5.8% in fiscal 2000 and fiscal 1999, 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, 2000. Swaps utilized to hedge the Company's structured borrowings are presented at their redemption values:

	U.S. Dollar				Non-U.S. Dollar(1)			
	Receive Fixed Pay Floating	Receive Floating Pay Fixed	Receive Floating Pay Floating	Index/ Equity Linked	Receive Fixed Pay Floating	Receive Floating Pay Floating(2)	Nov. 30, 2000 Total	Nov. 30, 1999 Total
	(dollars in millions)							
Maturing in fiscal 2000	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 3,116
Maturing in fiscal 2001	1,834	—	85	806	306	320	3,351	2,949
Maturing in fiscal 2002	1,250	500	100	373	91	3	2,317	1,545
Maturing in fiscal 2003	1,225	—	—	80	393	544	2,242	1,183
Maturing in fiscal 2004	2,141	200	—	163	124	3	2,631	2,765
Maturing in fiscal 2005	2,757	—	—	95	1,334	—	4,186	379
Thereafter	2,759	500	20	52	665	529	4,525	4,144
Total	$11,966	$1,200	$205	$1,569	$2,913	$1,399	$19,252	$16,081
Weighted average at fiscal year-end(3)								
Receive rate	6.7%	6.6%	6.8%	n/a	3.8%	5.6%		
Pay rate	7.0%	6.9%	6.9%	n/a	5.6%	5.6%		

(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, 2000 and 1999, interest rate floor agreements with an aggregate notional value of $211 million and $610 million, respectively, were outstanding. Agreements outstanding at November 30, 2000 have expiration dates from fiscal 2001 to fiscal 2002 and an aggregate fair value of $0.4 million.

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 gain (loss) at fiscal year-end) is summarized in the table below:

	Fiscal 2000	Fiscal 1999
	(dollars in millions)	
Notional value at beginning of period	$16,081	$13,101
Additions	7,059	5,372
Matured	(2,673)	(1,804)
Terminated	(801)	(848)
Effect of foreign currency translation on non-U.S. dollar notional values and changes in redemption values on structured borrowings	(414)	260
Notional value at fiscal year-end	$19,252	$16,081
Unrecognized gain (loss) at fiscal year-end	$ 90	$ (243)

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 2000, fiscal 1999 and fiscal 1998.

7. Commitments and Contingencies

The Company has non-cancelable operating leases covering office space and equipment. At November 30, 2000, future minimum rental commitments under such leases (net of subleases, principally on office rentals) were as follows:

	(dollars in millions)
2001	$ 488
2002	409
2003	357
2004	316
2005	310
Thereafter	2,347

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 $422 million, $296 million and $274 million in fiscal 2000, fiscal 1999 and fiscal 1998, respectively.

The Company has an agreement with IBM Corporation, expiring in 2005, 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 fiscal 2002. The total investment in this project is estimated to be approximately $700 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, 2000 and 1999, the Company had approximately $6.1 billion and $6.3 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, 2000 approximately $900 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 were calculated as follows (in millions, except for per share data):

	Fiscal 2000	Fiscal 1999	Fiscal 1998
Basic EPS			
Income before cumulative effect of accounting change	$5,456	$4,791	$3,393
Cumulative effect of accounting change	—	—	(117)
Preferred stock dividend requirements	(36)	(44)	(55)
Net income available to common shareholders	$5,420	$4,747	$3,221
Weighted average common shares outstanding	1,096	1,097	1,152
Basic EPS before cumulative effect of accounting change	$ 4.95	$ 4.33	$ 2.90
Cumulative effect of accounting change	—	—	(0.10)
Basic EPS	$ 4.95	$ 4.33	$ 2.80

	Fiscal 2000	Fiscal 1999	Fiscal 1998
Diluted EPS			
Income before cumulative effect of accounting change	$5,456	$4,791	$3,393
Cumulative effect of accounting change	—	—	(117)
Preferred stock dividend requirements	(36)	(36)	(47)
Net income available to common shareholders	$5,420	$4,755	$3,229
Weighted average common shares outstanding	1,096	1,097	1,152
Effect of dilutive securities:			
Stock options	47	39	37
ESOP convertible preferred stock	2	24	24
Weighted average common shares outstanding and common stock equivalents	1,145	1,160	1,213
Diluted EPS before cumulative effect of accounting change	$ 4.73	$ 4.10	$ 2.76
Cumulative effect of accounting change	—	—	(0.09)
Diluted EPS	$ 4.73	$ 4.10	$ 2.67

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:

	Fiscal 2000	Fiscal 1999	Fiscal 1998
	(dollars in millions)		
Equities	$4,705	$3,065	$2,048
Fixed income	1,760	1,937	331
Foreign exchange	349	397	587
Commodities	579	431	193
Total principal transaction trading revenues	$7,393	$5,830	$3,159

Interest and dividend revenue 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.

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. 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.

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, 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.

The Company is an underwriter of, makes markets in, and acts as principal with respect to, 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 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, broker-dealers, investment funds and industrial companies.

Foreign Exchange

The Company is a market-maker in a number of foreign currencies. It actively trades currencies with its customers on a principal basis in the spot, forward and currency option markets earning a dealer spread. In connection with its market-making activities, the Company seeks to manage its market risk by entering into offsetting positions. 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.

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 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.

The counterparties to the Company's OTC commodity business 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 and Compliance, and Firm Risk Management 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. 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 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. Additional 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 in accordance with policies set by 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's trading businesses and the Firm Risk Management Department also use, as appropriate, measures such as sensitivity to changes in rates, prices, volatilities and time decay to monitor and report market risk exposures. 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 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, enter into risk reducing transactions, assign transactions to other counterparties or purchase credit protection 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, Germany, Italy and France), which, in the aggregate, represented approximately 12% of the Company's total assets at November 30, 2000. In addition, substantially all of the collateral held by the Company for resale agreements or bonds borrowed, which together represented approximately 24% of the Company's total assets at November 30, 2000, consist 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, 2000 and 1999, as well as the average fair value of those assets and liabilities for fiscal 2000 and 1999, are presented in the table that 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)			Fiscal Year-End Fair Values(3)				Average Fair Values(3)(4)			
			Assets		Liabilities		Assets		Liabilities	
2000	1999		2000	1999	2000	1999	2000	1999	2000	1999
			(dollars in billions at fiscal year-end)							
$3,140	$2,689	Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$10.6	$ 9.5	$11.5	$ 9.4	$10.4	$ 9.0	$ 9.5	$ 6.2
350	405	Foreign exchange forward and futures contracts and options	2.5	3.7	2.4	3.6	2.7	3.3	2.6	3.5
107	110	Equity security contracts (including equity swaps, futures contracts, and warrants and options)	7.2	7.1	5.9	7.3	8.4	5.9	6.9	5.4
252	170	Commodity forwards, futures, options and swaps	6.9	2.4	7.6	2.9	4.7	2.3	5.4	2.6
42	30	Mortgage-backed securities forward contracts, swaps and options	0.1	0.1	0.1	—	0.1	0.1	0.1	0.1
$3,891	$3,404	Total	$27.3	$22.8	$27.5	$23.2	$26.3	$20.6	$24.5	$17.8

(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 $357 billion and $455 billion, respectively, at November 30, 2000 and $399 billion and $401 billion, respectively, at November 30, 1999.

(3) These amounts represent carrying value (exclusive of collateral) at November 30, 2000 and 1999, 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, 2000 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, 2000 and 1999 are summarized in the following table, showing notional values by year of expected maturity:

	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
	(dollars in billions)				
At November 30, 2000					
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$ 608	$823	$608	$1,101	$3,140
Foreign exchange forward and futures contracts and options	344	6	—	—	350
Equity securities contracts (including equity swaps, futures contracts, and warrants and options)	76	21	8	2	107
Commodity forwards, futures, options and swaps	143	78	21	10	252
Mortgage-backed securities forward contracts, swaps and options	34	1	3	4	42
Total	$1,205	$929	$640	$1,117	$3,891
Percent of total	31%	24%	16%	29%	100%
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%

The credit quality of the Company's trading-related derivatives at November 30, 2000 and 1999 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:

	AAA	AA	A	BBB	Collateralized Non-Investment Grade	Other Non-Investment Grade	Total
				(dollars in millions)			
At November 30, 2000							
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$1,649	$3,964	$3,336	$1,113	$ 150	$ 396	$10,608
Foreign exchange forward contracts and options	112	909	1,144	111	—	195	2,471
Equity securities contracts (including equity swaps, warrants and options)	1,774	2,172	910	169	1,840	320	7,185
Commodity forwards, options and swaps	222	1,450	2,139	1,485	337	1,289	6,922
Mortgage-backed securities forward contracts, swaps and options	43	48	38	15	—	3	147
Total	$3,800	$8,543	$7,567	$2,893	$2,327	$2,203	$27,333
Percent of total	14%	31%	28%	11%	8%	8%	100%
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%

The Company also has obtained assets posted as collateral by investment grade counterparties amounting to $4.7 billion and $3.6 billion at November 30, 2000 and November 30, 1999, respectively.

10. Preferred Stock, Capital Units and Preferred Securities Issued by Subsidiaries

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

	Shares Outstanding at November 30		Balance at November 30	
	2000	1999	2000	1999
			(dollars in millions)	
ESOP Convertible Preferred Stock, liquidation preference $35.88	—	3,493,477	$ —	$125
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			$545	$670

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 ("MSF"), a U.K. subsidiary. A Capital Unit consists of (a) a Subordinated Debenture of MSF guaranteed by the Company and maturing in 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 the 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 $70 million and $583 million at November 30, 2000 and 1999, respectively.

In fiscal 2000, the Company and MSF redeemed all of the outstanding 8.4% Capital Units, 8.2% Capital Units and 9.0% Capital Units. The aggregate principal amount of the Capital Units redeemed was $513 million.

The estimated fair value of the Capital Units approximated carrying value at November 30, 2000 and November 30, 1999.

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 $4,510 million at November 30, 2000, which exceeded the amount required by $3,902 million. DWR's net capital totaled $1,331 million at November 30, 2000, which exceeded the amount required by $1,119 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 Financial Services Agency. 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, 2000, 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 that 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, 2000, approximately $6.2 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 48 million and 50 million shares of its common stock in fiscal 2000 and fiscal 1999, 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, 2000, put options were outstanding on an aggregate of 3 million shares of the Company's common stock. These put options have various expiration dates that range from January 2001 through April 2001. 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:

	At November 30	
	2000	1999
	(dollars in millions)	
Net monetary investments in non-U.S. dollar functional currency subsidiaries	$2,336	$1,972
Gross notional amounts of foreign exchange transactions and non-U.S. dollar debt designated as hedges(1)	$3,897	$3,309
Cumulative translation adjustments resulting from net investments in subsidiaries with a non-U.S. dollar functional currency	$ (211)	$ 57
Cumulative translation adjustments resulting from realized or unrealized gains or losses on hedges, net of tax	120	(84)
Total cumulative translation adjustments	$ (91)	$ (27)

(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. 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. Certain of 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, 2000, approximately 277 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 2000		Fiscal 1999		Fiscal 1998	
	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	131.3	$ 26.76	126.6	$ 20.04	128.2	$ 13.93
Granted	25.5	67.41	23.2	56.65	31.2	34.39
Exercised	(17.8)	21.26	(15.5)	17.12	(30.6)	9.12
Forfeited	(1.4)	40.10	(3.0)	23.88	(2.2)	19.70
Options outstanding at end of period	137.6	$ 34.87	131.3	$ 26.76	126.6	$ 20.04
Options exercisable at end of period	88.3	$ 26.74	93.6	$ 25.21	81.2	$ 19.69

The following table presents information relating to the Company's stock options outstanding at November 30, 2000 (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 – $ 19.99	44.0	$ 10.05	3.7	35.9	$ 9.62
$20.00 – $ 29.99	28.2	26.63	6.2	23.5	26.51
$30.00 – $ 49.99	21.5	37.08	7.4	16.9	37.32
$50.00 – $ 69.99	41.3	62.50	9.5	10.5	59.95
$70.00 – $106.99	2.6	85.72	7.9	1.5	90.38
Total	137.6		6.6	88.3	

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 $855 million, $699 million and $415 million in fiscal 2000, fiscal 1999 and fiscal 1998, 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, 2000 and 1999 and 118 million at November 30, 1998.

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 all or a portion of their award if employment is terminated before the end of the relevant restriction period. Holders of vested Restricted Stock generally will also forfeit ownership in certain limited situations, including termination for cause during the restriction period.

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 2000, fiscal 1999 and fiscal 1998 was $182 million, $153 million and $115 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. In January 2000, each share of the ESOP Convertible Preferred Stock was converted into 6.6 common shares of the Company. 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 common 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 $11 million in fiscal 2000, $5 million in fiscal 1999 and $8 million in fiscal 1998. The ESOP debt service costs for fiscal 2000 were paid from dividends received on stock held by the ESOP trust. The ESOP debt service costs for fiscal 1999 and fiscal 1998 were paid from dividends received on stock held by the ESOP trust and from Company contributions.

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 its employee stock purchase plan, net income would have been reduced by $488 million, $327 million and $214 million for fiscal 2000, fiscal 1999 and fiscal 1998, respectively. Basic and diluted earnings per common share would have been reduced by $0.45, $0.30 and $0.19 for fiscal 2000, fiscal 1999 and fiscal 1998, respectively.

The weighted average fair value at date of grant for stock options granted during fiscal 2000, fiscal 1999 and fiscal 1998 was $30.48, $23.58 and $11.19 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 2000	Fiscal 1999	Fiscal 1998
Risk-free interest rate	5.6%	5.9%	4.9%
Expected option life in years	5.3	5.6	4.8
Expected stock price volatility	43.4%	38.6%	33.2%
Expected dividend yield	1.1%	1.1%	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"), certain 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:

	Fiscal 2000	Fiscal 1999	Fiscal 1998
	(dollars in millions)		
U.S. Plans:			
Service cost, benefits earned during the period	$ 74	$ 98	$ 72
Interest cost on projected benefit obligation	88	80	78
Expected return on plan assets	(100)	(86)	(87)
Net amortization	6	8	1
Net settlements and curtailments	2	—	—
Total U.S. plans	70	100	64
Total international plans	4	16	11
Net pension expense	$ 74	$116	$ 75

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

	Fiscal 2000	Fiscal 1999
Weighted average discount rate	8.00%	7.50%
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 2000 and fiscal 1999 as well as a summary of the U.S. Plans' funded status at November 30, 2000 and 1999:

	Fiscal 2000	Fiscal 1999
	(dollars in millions)	
Reconciliation of benefit obligation:		
Benefit obligation at beginning of year	$1,214	$1,213
Service cost	74	98
Interest cost	88	80
Actuarial gain	(48)	(77)
Benefits paid	(84)	(100)
Settlements	(10)	—
Benefit obligation at end of year	$1,234	$1,214
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	$1,154	$ 981
Actual return on plan assets	158	185
Employer contributions	50	88
Benefits paid and settlements	(94)	(100)
Fair value of plan assets at end of year	$1,268	$1,154
Funded status:		
Funded status	$ 34	$ (60)
Unrecognized transition obligation	2	5
Unrecognized prior-service cost	25	27
Unrecognized (gain)	(153)	(44)
Net amount recognized	$ (92)	$ (72)
Amounts recognized in the consolidated statements of financial condition consist of:		
Prepaid benefit cost	$ 53	$ 44
Accrued benefit liability	(145)	(117)
Intangible asset	—	1
Net amount recognized	$ (92)	$ (72)

For the Supplemental Plans, the aggregate accumulated benefit obligation was $91 million and $90 million at November 30, 2000 and 1999, respectively.

The Company also maintains separate defined contribution pension plans that cover substantially all employees of certain non-U.S. subsidiaries. Under such plans, benefits are determined by the purchasing power of the accumulated value of contributions paid. In fiscal 2000, fiscal 1999 and fiscal 1998, the Company's expense related to these plans was $46 million, $27 million and $18 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, 2000 and 1999, the Company's accrued postretirement benefit liability was $106 million and $99 million, respectively.

Postemployment Benefits

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, 2000 and 1999 are as follows:

	Nov. 30, 2000	Nov. 30, 1999
	(dollars in millions)	
Deferred tax assets:		
Employee compensation and benefit plans	$2,078	$1,486
Loan loss allowance	284	282
Other valuation and liability allowances	690	405
Deferred expenses	138	163
Other	270	303
Total deferred tax assets	3,460	2,639
Deferred tax liabilities:		
Prepaid commissions	360	217
Other	369	194
Total deferred tax liabilities	729	411
Net deferred tax assets	$2,731	$2,228

Cash paid for income taxes was $3,401 million, $1,736 million and $1,591 million in fiscal 2000, fiscal 1999 and fiscal 1998, respectively.

The Company recorded income tax benefits of $467 million, $367 million and $370 million related to employee stock compensation transactions in fiscal 2000, fiscal 1999 and fiscal 1998, respectively. Such benefits were credited to paid-in capital.

15. Segment and Geographic Information

Pursuant to SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for disclosures that relate to business operating segments ("segments"), 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 and distribution; merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities; full-service brokerage and financial advisory services; sales, trading, financing and market-making in equity and fixed income securities, foreign exchange and commodities, and derivatives; and private equity and other principal investment activities. The Company's Asset Management business provides global asset management products and services to individual and institutional investors primarily through 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 and other proprietary general purpose credit cards; and the operation of Discover Business Services, a proprietary network of merchant and cash access locations in the U.S.

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 2000	Securities	Asset Management	Credit Services	Total
	(dollars in millions)			
All other net revenues	$ 18,494	$2,455	$ 2,420	$ 23,369
Net interest	1,486	71	1,501	3,058
Net revenues	$ 19,980	$2,526	$ 3,921	$ 26,427
Gain on sale of business	$ —	$ 35	$ —	$ 35
Income before taxes	$ 6,237	$1,145	$ 1,144	$ 8,526
Provision for income taxes	2,190	462	418	3,070
Net income	$ 4,047	$ 683	$ 726	$ 5,456
Total assets(1)	$395,641	$4,812	$26,341	$426,794

Fiscal 1999	Securities	Asset Management	Credit Services	Total
	(dollars in millions)			
All other net revenues	$ 15,364	$2,060	$ 2,157	$ 19,581
Net interest	948	52	1,365	2,365
Net revenues	$ 16,312	$2,112	$ 3,522	$ 21,946
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)	$337,558	$4,259	$25,150	$366,967

Fiscal 1998	Securities	Asset Management	Credit Services	Total
	(dollars in millions)			
All other net revenues	$ 10,400	$1,676	$ 1,407	$ 13,483
Net interest	1,100	87	1,735	2,922
Net revenues	$ 11,500	$1,763	$ 3,142	$ 16,405
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)	$293,401	$4,003	$20,186	$317,590

(1) Corporate assets have been fully allocated to the Company's business 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 2000	U.S.	Europe	Asia	Other	Eliminations	Total
			(dollars in millions)			
Net revenues	$ 19,843	$ 5,054	$ 1,684	$ 166	$ (320)	$ 26,427
Income before taxes	6,308	1,646	466	106	—	8,526
Total assets	468,102	210,781	28,025	15,577	(295,691)	426,794

Fiscal 1999	U.S.	Europe	Asia	Other	Eliminations	Total
			(dollars in millions)			
Net revenues	$ 17,101	$ 3,848	$ 1,192	$ 128	$ (323)	$ 21,946
Income before taxes	6,040	1,364	244	80	—	7,728
Total assets	367,524	164,974	37,610	14,478	(217,619)	366,967

Fiscal 1998	U.S.	Europe	Asia	Other	Eliminations	Total
			(dollars in millions)			
Net revenues	$ 12,768	$ 2,867	$ 973	$ 95	$ (298)	$ 16,405
Income before taxes and cumulative effect of accounting change	3,932	1,146	252	55	—	5,385
Total assets	325,562	144,711	23,458	9,492	(185,633)	317,590

16. Business Acquisitions and Dispositions

In December 2000, the Company announced that it had entered into a definitive agreement to acquire Quilter Holdings Limited ("Quilter"). Quilter is a leading U.K.-based investment management business providing segregated account management and advisory services to private individuals, pension funds and trusts. The transaction is subject to certain regulatory and other consents and is expected to be completed in the first quarter of fiscal 2001.

In fiscal 2000, the Company completed its acquisition of Ansett Worldwide Aviation Services ("Ansett Worldwide"). Ansett Worldwide is one of the world's leading aircraft leasing groups, supplying new and used commercial jet aircraft to airlines around the world. The Company's fiscal 2000 results include the operations of Ansett Worldwide since April 27, 2000, the date of acquisition.

In fiscal 1999, the Company completed its acquisition of Morgan Stanley Dean Witter, S.V., S.A. (formerly AB Asesores), the largest independent financial services firm in Spain. Morgan Stanley Dean Witter, S.V., S.A. has leading positions in personal investment, asset management, institutional research and brokerage. Through its financial advisors, it offers its individual investors proprietary mutual funds and other financial products. The Company's fiscal 1999 results include the operations of Morgan Stanley Dean Witter, S.V., S.A. since March 25, 1999, the date of acquisition.

In fiscal 1998, the Company completed the sale of its Global Custody business. At that time, the Company recorded a pre-tax gain of $323 million from the sale. Such gain included estimates for certain payments and purchase price adjustments which, under certain circumstances pursuant to the sales agreement, were payable by the Company to the buyer. As a result of the resolution of these payments and purchase price adjustments, during fiscal 2000, the Company recorded an additional pre-tax gain of $35 million related to the sale of the Global Custody business.

In fiscal 1998, the Company 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 $362 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.

17. Quarterly Results (unaudited)

	2000 Fiscal Quarter				1999 Fiscal Quarter(2)			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(dollars in millions, except share and per share data)							
Total revenues	$ 11,566	$ 11,692	$ 11,711	$ 10,444	$ 8,658	$ 8,779	$ 8,626	$ 8,927
Interest expense	3,932	4,420	5,242	4,582	3,142	3,015	3,184	3,174
Provision for consumer loan losses	223	204	175	208	177	119	113	120
Net revenues	7,411	7,068	6,294	5,654	5,339	5,645	5,329	5,633
Total non-interest expenses	4,979	4,773	4,419	3,765	3,667	3,787	3,766	2,998
Gain on sale of business	—	—	35	—	—	—	—	—
Income before income taxes	2,432	2,295	1,910	1,889	1,672	1,858	1,563	2,635
Provision for income taxes	888	837	664	681	635	707	593	1,002
Net income	$ 1,544	$ 1,458	$ 1,246	$ 1,208	$ 1,037	$ 1,151	$ 970	$ 1,633
Earnings per share(1)(3):								
Basic	$ 1.40	$ 1.32	$ 1.14	$ 1.10	$ 0.93	$ 1.03	$ 0.87	$ 1.50
Diluted	$ 1.34	$ 1.26	$ 1.09	$ 1.06	$ 0.88	$ 0.98	$ 0.83	$ 1.42
Dividends to common shareholders(1)	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.12	$ 0.12	$ 0.12	$ 0.12
Book value(1)	$ 15.31	$ 15.66	$ 16.19	$ 16.91	$ 12.47	$ 13.00	$ 13.27	$ 14.85
Stock price range(1)(4)	$ 59.97-71.38	$63.69-95.81	$75.25-107.58	$63.38-109.38	$31.16-48.50	$44.53-57.10	$41.07-51.78	$43.19-63.63

(1) Fiscal 1999 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 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) Amounts represent the range of closing prices per share on the New York Stock Exchange for the periods indicated. The number of stockholders of record at November 30, 2000 approximated 130,000. The number of beneficial owners of common stock is believed to exceed this number.