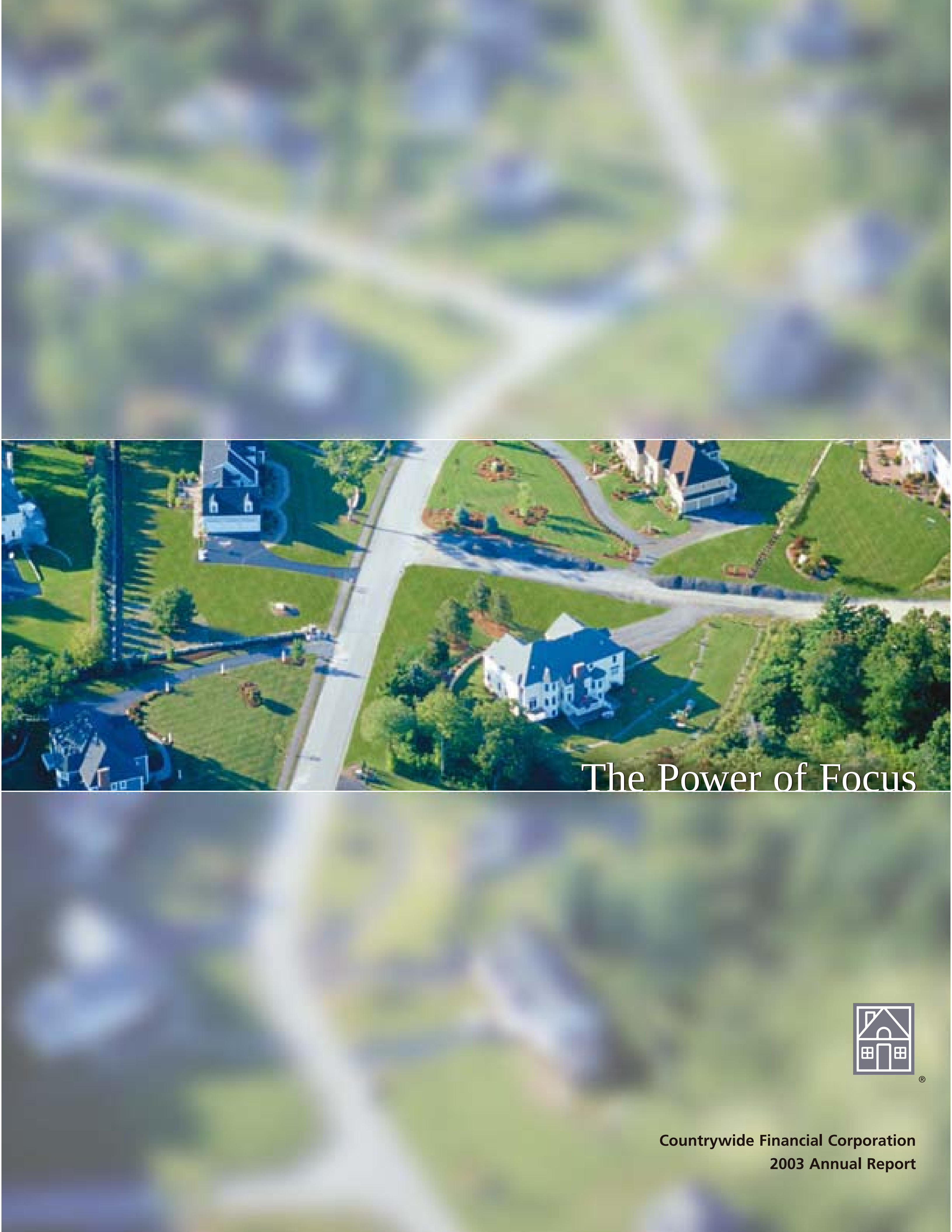


The Power of Focus

Countrywide Financial Corporation
2003 Annual Report

The Power of Focus: It could mean many things to different people. But in 1969, it meant the world to David Loeb and Angelo Mozilo. It meant harnessing their skills, experience, and passion to create a new company, Countrywide, dedicated to making the American Dream of homeownership a reality for as many people as possible. Thirty-four years and 34,000 employees later, Countrywide still maintains this same *Power of Focus.* It is a central element of our culture and the driving force that has empowered the Company to give millions of Americans the opportunity to experience the pride and satisfaction of becoming homeowners.

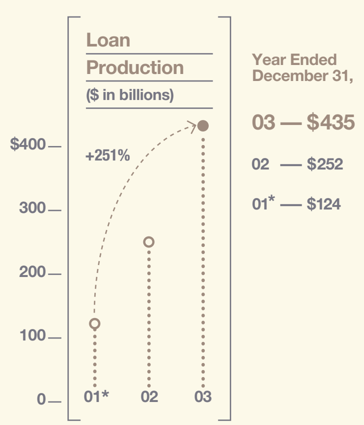
Since the beginning, our *Power of Focus* has driven us to develop and achieve ambitious goals, to create innovative solutions when confronted by daunting challenges, and to make Countrywide a true American success story. As the greatest year in our history, 2003 epitomizes the dream of our founders and the hard work, dedication and inspiration of our employees. Today, Countrywide is no longer the small, start-up home lender it was in its early years; it is now a diversified financial services powerhouse with a significant presence in the banking, insurance and investment banking industries, and with operations on three continents. And the heart of Countrywide — its people, passion and principles — has never beaten stronger.

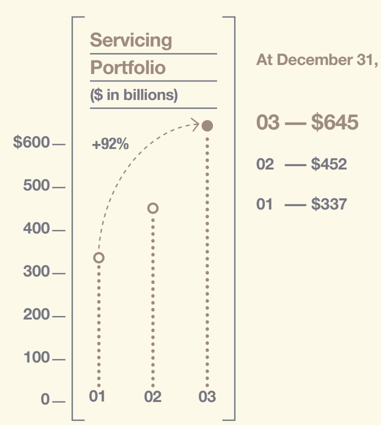
Financial Highlights

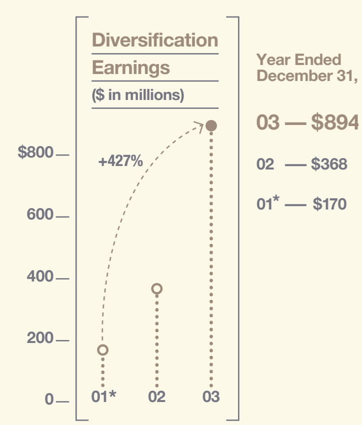
(Dollar amounts in millions, except per share data)	**Year Ended December 31, 2003**	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Revenues	**$ 8,027**	$ 4,318	$ 2,497
Net earnings	**$ 2,373**	$ 842	$ 486
Earnings per share – diluted [1]	**$ 12.47**	$ 4.87	$ 2.92
Total assets	**$97,950**	$58,031	$37,217
Common shareholders' equity	**$ 8,085**	$ 5,161	$ 4,088
Common shareholders' equity per share	**$ 43.82**	$ 30.58	$ 24.98

[1] Based on weighted average diluted common shares outstanding. Prior periods have been restated to reflect the 4-for-3 stock split in December 2003. Results do not reflect the 3-for-2 stock split declared in March 2004.

This Annual Report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, regarding management's beliefs, estimates, projections, and assumptions with respect to future operations. Actual operations and operating results in the future may vary materially from those projected herein and from past results discussed herein. Factors that could cause actual results to differ materially from historical results or those anticipated include, but are not limited to: the level of, and volatility of, interest rates; a general decline in U.S. housing prices or activity in the U.S. housing market; a loss of investment grade credit ratings that may result in increased financing costs or loss of access to debt and equity markets; a reduction in the availability of secondary markets for the Company's mortgage loan products; a reduction in government support of homeownership; a change in the Company's relationship with Government Sponsored Entities; ineffectiveness of the Company's hedging activities; the legal, regulatory and legislative environments in the markets in which the Company operates; the level of competition in each of the Company's business segments; the occurrence of natural disasters or other events or circumstances that could impact the level of claims in the Insurance segment; and other risks detailed in documents filed by the Company with the Securities and Exchange Commission from time to time. Words like "believe," "expect," "should," "may," "could," "anticipated," "promising," and other expressions that indicate future events and trends identify forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements.







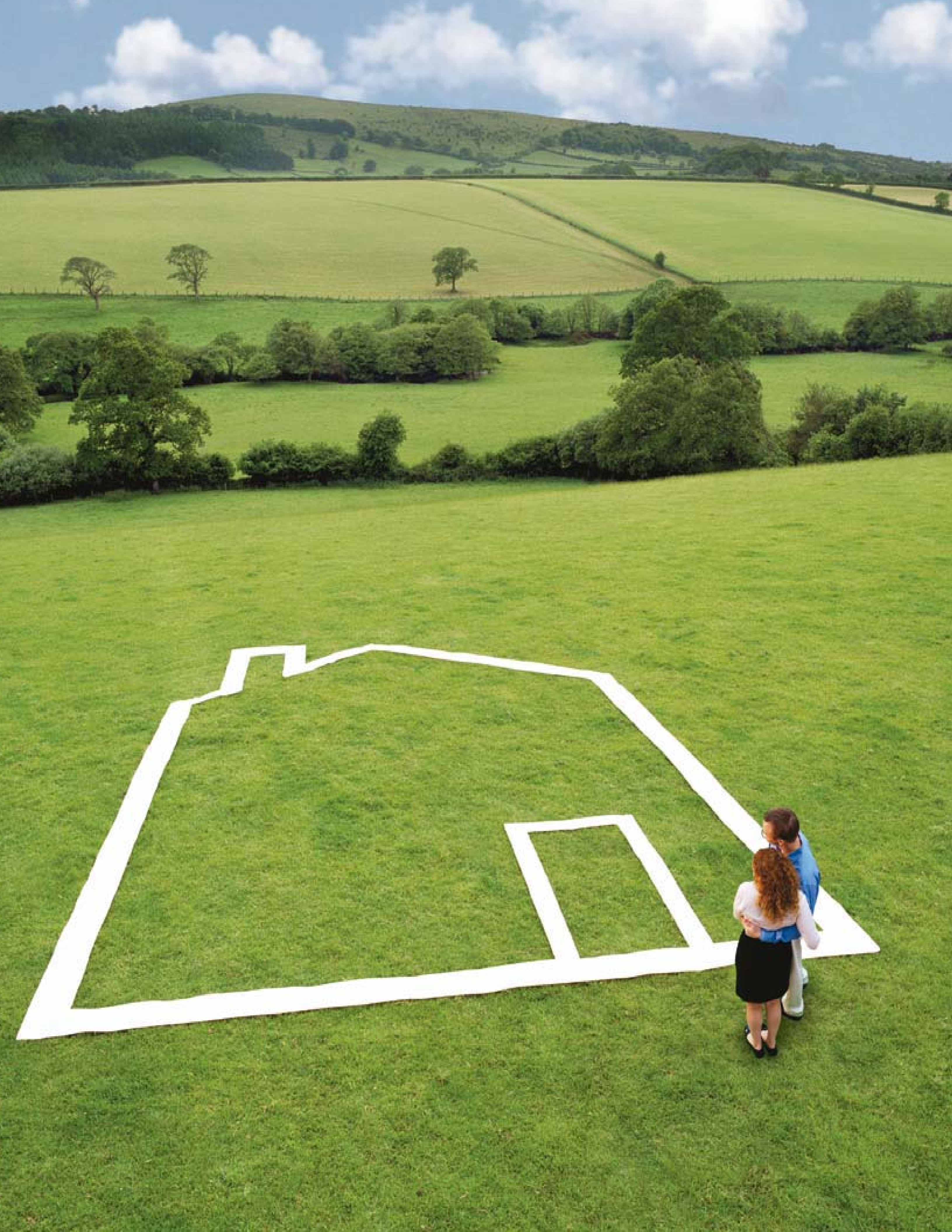
*Ten months ended December 31, 2001

Countrywide At A Glance

	OVERVIEW	CUSTOMERS	HOW WE REACH OUR CUSTOMERS	MAJOR COMPETITORS	2003 HIGHLIGHTS*	WORKFORCE**
MORTGAGE BANKING						
PRODUCTION						18,897
Countrywide Home Loans (CHL)						
Consumer Markets Division (CMD)	Originates loans directly to consumers financing a home	Consumers, realtors and home builders	466 branch offices, national sales force, inbound and outbound call centers, Internet, B2B and JV relationships	Washington Mutual, Wells Fargo, Chase, Bank of America	Funded $104 billion, up 68%	
Wholesale Lending Division (WLD)	Originates home loans through a network of independent mortgage brokers	Mortgage brokers	51 branch offices, 5 regional processing centers	Washington Mutual, Wells Fargo, Chase, ABN Amro	Funded $91 billion, up 36%	
Correspondent Lending Division (CLD)	Purchases closed loans from other lenders	Mortgage bankers, commercial banks, thrifts, savings & loans and credit unions	3 regional offices, national sales presence, B2B	Washington Mutual, Wells Fargo, Chase, GMAC-RFC, Wall Street firms, regional mortgage bankers	Funded $195 billion, up 78%	
Full Spectrum Lending (FSL)	Direct lender concentrating on debt consolidation and cash out refinance loans	Focus primarily on consumers with less than prime-quality credit	97 retail sales branches, 3 national sales centers and 2 B2B sales centers utilizing the Internet, direct mail, referral, portfolio recapture	Ameriquest, New Century, Citi Financial, Household, Washington Mutual, Wells Fargo, Chase, Aames	Funded $7.9 billion, up 121%	
SERVICING						6,069
Countrywide Home Loans (CHL)/ Countrywide Servicing LP	Collects and processes loan payments and provides customer service, escrow administration, investor accounting, collections, loss mitigation and foreclosure services	5.1 million consumers; other mortgage lenders	Servicing facilities located in Simi Valley & Lancaster, CA; Plano & Fort Worth, TX	Washington Mutual, Wells Fargo, Chase, Bank of America	$645 billion servicing portfolio, up 43% (includes $14 billion sub-servicing portfolio)	
CLOSING SERVICES						931
LandSafe	Provides appraisal services, credit reports, flood determinations, title insurance and escrow services	71% CHL; 29% external customers (based on revenues)	LandSafe's sales force, in coordination with other CHL sales teams; the Internet	First American, Fidelity National, LandAmerica Lender Services, Stewart Title, Old Republic	Completed 14.4 million appraisals, credit reports, flood determinations, home inspections, title insurance policies and escrow services, up 47%	
DIVERSIFIED BUSINESSES						
CAPITAL MARKETS						477
Countrywide Securities Corporation (CSC)	Underwrites, buys and sells debt securities (MBS, ABS, Government/agency debt)	1,300 institutional customers (broker-dealers, money managers, pension funds, insurance companies, banks, thrifts and other financial institutions)	CSC sales force	Wall Street broker-dealers and regional broker-dealers	$2.9 trillion in trading volume, up 43%; ranked 4th in non-agency MBS underwritings for 2003	
Countrywide Asset Management (CAM)	Specializes in the management and disposition of credit-sensitive residential mortgage loans	Mortgage lenders and investors	CSC and CLD sales forces	Specialized asset purchasers; C-BASS, Bayview Capital, CSFB, Bear Stearns, Lehman, RFC/Homecomings, Nomura, Goldman Sachs	Completed 10 securitizations of credit-sensitive mortgage loans; purchased $5.6 billion (principal balance) in total for CHL	
Countrywide Servicing Exchange (CSE)	Brokers bulk mortgage servicing rights	Large financial institutions that buy and sell bulk mortgage servicing rights	CSC sales force	Specialized servicing brokers; Phoenix Capital, Matrix Financial; Cohane-Rafferty	Brokered $30 billion in servicing rights	
BANKING						813
Countrywide Bank, a division of Treasury Bank, N.A.	Provides residential lending products (HELOCs, ARMs), deposit products (CDs, money market, checking and savings), and document custody services	Retail consumers, CHL and other businesses	Mortgage customers sourced by CHL, Internet, call centers and financial centers located primarily in CMD branch offices	Internet and traditional banks	Total assets reached $19.4 billion, up 279%	
Countrywide Warehouse Lending (CWL)	A non-depository institution that provides short-term secured financing of mortgage inventories to mortgage lenders	Mortgage lenders	4 regional sales offices; national sales presence	GMAC-RFC, Washington Mutual, Wall Street firms, regional mortgage bankers	$4.0 billion in average mortgage warehouse advances outstanding, up 135%	
INSURANCE						1,823
Balboa Reinsurance	Provides mezzanine layer of reinsurance on primary mortgage insurance (PMI) within CHL's servicing portfolio	Major mortgage insurance companies	Corporate relationships	Other major lenders	Net premiums earned of $129 million, up 55%	
Balboa Life & Casualty	Underwrites lender-placed property and auto insurance; voluntary homeowners, life, disability and renters insurance	Banks, mortgage lenders, finance companies, insurance agencies, builders, renters, and consumers	Internal sales force; independent insurance agents and Countrywide Insurance Services	Assurant, ZC Sterling and other direct writers of insurance	Net premiums earned of $604 million, up 26%	
Countrywide Insurance Services (CIS)	Insurance agencies providing consumers with property, casualty and life insurance policies	Retail consumers, which are primarily CHL mortgage customers	2 call centers, the Internet and direct mail	Allstate, State Farm, Farmers, Safeco and other retail insurance agencies	175,000 policies sold	
GLOBAL OPERATIONS						1,981
Global Home Loans (GHL)	A majority-owned subsidiary, forming largest third-party, end-to-end mortgage administrator in the U.K.	Major U.K. lenders	Branding, referrals and relationships	EDS, Home Loan Management, UNISYS	Sub-servicing portfolio at $106 billion; over 1 million loans	
UKValuation	A majority-owned subsidiary providing automated property valuations	U.K. lenders and surveyors	Branding, referrals and relationships	Hometrack Ltd.	Revenue increased by 59% over 2002	
Countrywide International Technology Holdings Ltd.	Develops and licenses mortgage processing and servicing technology	GHL and UKValuation	Corporate relationships	Lynx Financial Systems, UNISYS	Fully deployed the first stage of an automated underwriting system and the Global Arrears Processing System	
CENTRAL OFFICE	Supports operations company wide					3,307
						34,298 TOTAL

*Comparative prior year period is year ended 12/31/02

**Includes full-time employees, contractors, and temporary help



Letter to Shareholders

The quality of any company, whether private or public, is a direct reflection of the quality of the people within that company. Therefore, a best-of-breed entity can only be created and sustained by best-in-class individuals at all levels of the organization. Simply stated: **Countrywide is a *best-in-class* organization, because of our people, and because our people have focus.**

This year, 2003, certainly witnessed the *Power of Focus* as it was the greatest year in our 34-year history. Our 34,298 employees worked hard, made personal sacrifices and seized the opportunities presented to them. For their dedication, perseverance and focus, I am truly grateful.

Not only did the whole of Countrywide break through previous operational and financial records, but each of the parts demonstrated significant progress in their operational development, market penetration and profitability levels. Diluted earnings per share of $12.47 were an incredible 23% more than the prior three year-end periods combined!

I applaud the achievements of the entire Countrywide team for this outstanding performance. In particular, I would like to extend a special thank you to our President, Stan Kurland, who has worked by my side for the past 25 years to build and support all of the initiatives and operations that make up the fabric of Countrywide. The fingerprints from his vision and leadership are clearly evident in numerous facets of our business. Stan is an extraordinary business partner and a world-class executive.

“Diluted earnings per share of $12.47 were an incredible 23% more than the prior three year-end periods combined!”

Our mortgage bank, Countrywide Home Loans (CHL), continues to be the cornerstone for the success of our operations. Every origination channel within CHL—namely the Consumer Markets, Wholesale, and Correspondent divisions—is a leading player in its respective space. We continue to expand our sales teams, reinforce our infrastructure and employ proprietary, state-of-the-art, technologies to ensure that our market share objectives are realized. We now have over 7,500 well-trained and disciplined salespeople sourcing mortgage product, and we plan to continue growing that army for years to come. CHL has clearly established itself as a best-in-class lender for both consumers and institutions—evidenced by our movement to the #1 spot among originators in the fourth quarter of 2003. In addition, CHL's operations are among the most efficient in the industry: we achieved the largest market share point gain in both production and servicing among the top 10 players during 2003, and our flexible infrastructure allowed us to fund $202 billion more in loans than those that prepaid in total, resulting in net servicing portfolio growth of 43% to $645 billion.

Countrywide Securities Corporation (CSC) in our Capital Markets group ranks among the top 12 broker-dealers in the trading, buying and selling of mortgage-backed and asset-backed securities, and is one of the top five participants in underwriting private-label MBS and ABS deals. CSC is recognized for its focus, expertise and superb execution in the mortgage market, which fueled the increase in its trading volume to a record-breaking level of $2.9 trillion in 2003.

For the phenomenal growth and success of our origination activities and our Capital Markets effort, I want to recognize Dave Sambol. Dave came to Countrywide nearly 20 years ago, and his passion for innovation has adeptly transformed our mortgage banking and capital markets activities—not only with respect to market share impact, but more importantly, he has guided these companies to become among the most efficient and profitable in their respective industries. Dave's leadership in the Capital Markets division was supported by Ron Kripalani, CSC's Chief Executive who came to Countrywide in 1998 and has guided the growth of CSC to become a market leader.

In Countrywide's mortgage servicing operation, our customer portfolio now comprises more than five million homeowners. Our borrowers and mortgage investors enjoy the benefits of the Company's techno-centric and highly scalable infrastructure that makes our mortgage servicing platform one of the most efficient and lowest cost operations in the industry. With highly skilled teams—led by Richard DeLeo and located in Plano and Fort Worth, Texas as well as Simi Valley and Lancaster, California—we provide extended service hours to Countrywide's customers and at the same time protect against service disruption.

Countrywide Bank's performance has been absolutely outstanding in every regard, demonstrating Countrywide's ability to adapt quickly to changing environments and competitive pressures. With assets of $115 million upon acquisition in 2001, the Bank has been transformed into a formidable institution, where assets surpassed $19 billion this year. I commend Carlos Garcia and Jim Furash for their leadership and focus on teamwork, as this quality performance obviously does not happen by itself.

In our Insurance segment, Balboa Life and Casualty has completed an operational restructuring, delivering a record-breaking year of profit. This organization is ably led by an experienced team of executives who have focused Balboa on a course to deliver maximum profitability with the least amount of risk to Countrywide. I applaud both the individual and collective contributions put forth by Carlos Garcia and Drew Gissinger, as they have labored intensively to ensure that the Insurance group contributes substantially to our base of diversified earnings as we move ahead.

Global Home Loans (GHL), which processes and services approximately 10% of the single-family mortgage business in the U.K., has built an outstanding team of experienced, professional managers to lead it through its next stage of growth. Through two major facilities located in Leeds and Dartford, England, over 1,900 mortgage professionals have worked tirelessly day-in and day-out to position GHL as the best-in-class outsourcer of mortgage processing in the U.K. I want to recognize Michael Keating, who has served as our intermediary to effectively link our U.K. and U.S. operations and has built a strong base for us to spring from in 2004 and beyond.

The individuals who serve on Countrywide Financial's Board, as well as the Board of Countrywide Bank, are of the highest quality in terms of both skill set and integrity. For the work they do on behalf of our shareholders, I am most thankful. I also want to take this opportunity to express my gratitude to our shareholders, some of whom have maintained their confidence in, and ownership of, Countrywide for many years.

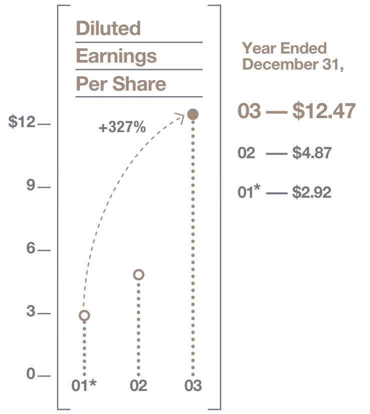
And finally, I want to pay tribute to my partner of many years, David Loeb, who passed away in 2003. David was a brilliant business strategist whose fresh perspectives on mortgage banking have had an immeasurable impact on

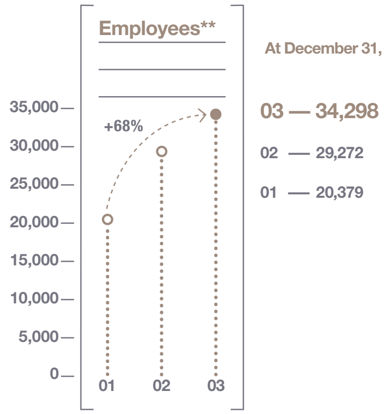
Countrywide's extraordinary past, present and future. He was a visionary whose ideas put Countrywide years ahead of the industry. A man of substance, he spoke sparingly, but thought deeply. He disliked idle conversation but loved a great debate. David challenged all of his colleagues to be better than they were the day before, a challenge that inspires Countrywide to this day.

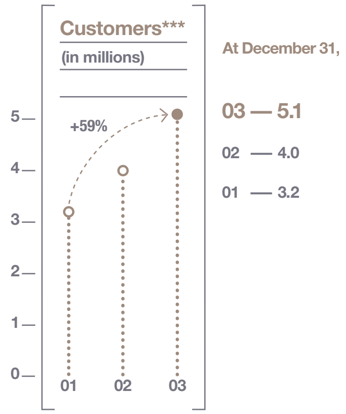
A chain is no stronger than its weakest link, and every one of our employees shares the willingness to put forth the effort necessary to achieve all of our strategic objectives. Countrywide will continue on its mission of serving consumers and institutions with its unique products and services, but more importantly, with its unparalleled execution. We will always remain mindful of our responsibilities to our shareholders. We will continue our mandate of building upon the success of Countrywide. And we will stay focused on our steadfast passion to fulfill the dreams of those desiring homeownership, so they too can share in the American Dream.

We enter 2004 with the highest level of intellectual and financial resources in our history. Irrespective of all our past record-breaking accomplishments, we are clearly now at the threshold of greatness and I am confident we will soon be recognized as one of the most admired and formidable financial services enterprises in America. Why? Because we had focus in 1969 when we started the company, we have focus today, and we will maintain our focus tomorrow. Join me in this journey ahead as we witness the true power of Countrywide's focus in 2004 and beyond.

Angelo R. Mozilo
Chairman and CEO







* Ten months ended December 31, 2001
** Includes full-time employees, contractors, and temporary help
*** Number of domestic loans serviced (includes warehoused loans and loans serviced for others)

Focus: Yesterday

Creating the Vision
While 2003 was a tremendously successful year for Countrywide, our company history has been marked by consistent operational and financial achievements that span more than three decades.

The pillars for this continuing success were built in 1969, when Angelo Mozilo and David Loeb drew up plans for their own mortgage company. While they started with a small operation, they were dreaming big and selected the name Countrywide because it embodied their aggressive vision. Angelo served as the loan officer, operating out of Anaheim, California, and David was the underwriter based in New York City. Despite the skepticism of their critics and a net worth of less than one million dollars, Angelo and David forged ahead with their innovative ideas about how mortgage banking could and should be done.

Their goal was lofty—to make the dream of homeownership a reality for as many Americans as possible—but their execution plan was clear: they were going to change the rules so they could educate consumers, provide affordable financing and lower the barriers to homeownership. For 34 years, we have met tough and challenging objectives, set new milestones and achieved remarkable success by remaining faithful to the original vision of the two men who founded Countrywide.

Changing the Rules
We owe much of our success to our founders who infused the Company with a strong entrepreneurial spirit. Countrywide's people have never been satisfied with doing business as usual—we see ourselves as pioneers. Along the way, we have literally created new rules or changed the game as necessary to better serve our customers. Many of our innovations, especially in technology and processes, have become industry standards.

In 1974, for example, we decided we had to break the mortgage banking mold in order to grow. Looking for new ways to reach potential home buyers, we created branch offices without salespeople, like neighborhood banks. We called this the "company store" model and opened our first branch in Whittier, California. In succeeding years, we spread this retail lending model into eight other states, moving us closer to our vision of truly becoming a "countrywide" financial institution.

The 1980s were a time of substantial growth for Countrywide. In that decade, we reached the $1 billion milestone in both loan servicing (1984) and loan production (1986). We also created separate wholesale and correspondent lending operations to serve the broker community and large institutional customers, dramatically increasing our loan production volume. During this decade, we also developed the industry's first computer-based origination and servicing systems. And we made our debut on the New York Stock Exchange (1985), under the ticker symbol CCR.

By 1992, we had become the nation's #1 mortgage originator. That year, we launched a national affordable lending program, now known as *We House America*, the cornerstone of our commitment to make homeownership more accessible for ethnic minorities and lower-income families. Throughout the 1990s, we continued to change the rules: we unveiled CLUES, an automatic underwriting program, and deployed a proprietary software package called EDGE to make the mortgage origination process simpler and easier.

As we entered the new century, we focused on broadening our reach, marketing the Countrywide name more aggressively and expanding our customer base to capitalize on the amazing strength and vitality of the U.S. housing market. Our emphasis on profitable growth has taken us to where we are today, a financial services powerhouse poised for even greater success. We will continue to succeed by staying focused on our roots—breaking down barriers to homeownership, making the homebuying process easier and striving to provide affordable housing for all.


Focus on...
Making homeownership a reality
Broadening our reach
Starting small...
Dreaming big
Lowering the barriers
Innovative ideas
Entrepreneurial spirit


Focus on...
Mortgage-centric operations
Best-in-class people
Leveraging our strong base
Strong operational growth
A premier financial services company
Capitalizing on synergies

Focus: Today

The Countrywide of today builds on the legacy of the Company's early years, imparting a solid foundation for our position as a leading diversified financial services provider. Over the years, we have evolved our business model and fine tuned our supporting strategies to transform the Company from its humble beginnings. Our present success capitalizes on the synergies of a complementary family of businesses, which today includes substantial Capital Markets, Banking, Insurance, and Global operations.

At the heart of this family is a continued focus on our core mortgage banking strengths. Our increased market share in loan origination and servicing—as well as our strong commitment to best-in-class people, technology and processes—have helped drive expansion into diverse financial arenas. As such, this has fueled a steady wave of financial and operational achievements.

Strengthening our Core

When it comes to loan production, Countrywide is an industry leader whose multi-channel origination strategy, varied loan products and remarkable ability to meet customer needs create a standard for the entire industry. Countrywide now touches one out of every eight home loans originated in America. By 2008, we expect that statistic to rise to one out of every three. During 2003, Countrywide funded an all-time high of $435 billion in mortgage loans, which enabled the Company once again to emerge as the #1 mortgage originator in the country during the 4th quarter of the year.

Our dedicated efforts to reduce the homeownership gap in America have increased our emphasis on becoming the lender of choice in the emerging markets—those focused on African-American, Asian and Hispanic demographic segments. During 2003, we solidified our commitment to these markets by challenging ourselves to fund $600 billion in home loans to minority and low- to moderate-income borrowers by the end of the decade. To date, we have funded $242 billion toward that goal.

A focus on attracting and retaining customers has resulted in substantial growth of our servicing portfolio to over five million loans with a collective principal balance of $645 billion—ranking us among the top three mortgage servicers in the country.

Extending our Reach

Countrywide has effectively leveraged its strong supporting base to expand into Capital Markets, Banking, Insurance and Global operations while still maintaining its focus on mortgage-centric operations. The increasing success of our diversification strategy is evident in the steady rise of the Company's earnings from these businesses. During 2003, diversification pre-tax earnings rose to $894 million, up 143% from the prior year and exceeded total Company pre-tax earnings for fiscal 2001.

The Company acquired Treasury Bank in May of 2001. Since then, the Bank has grown from $115 million in assets to $19.4 billion at the end of 2003. Similarly, Countrywide's Capital Markets division is fast becoming one of the leading fixed income investment banking and securities broker-dealers in the country. The recent designation of its subsidiary, Countrywide Securities Corporation, as a primary dealer of U.S. Government securities underscores its rising prominence. Balboa Insurance Group's efforts to refine its strategy and organizational structure over the last two years created strong operational growth for the company in 2003, resulting in net premiums earned of $733 million. Global operations grew substantially in 2003 as well, with Global Home Loans, our majority-owned third-party U.K. processing operation, ending the year with a sub-servicing portfolio of $106 billion.

Creating Operational Excellence

Countrywide's present operational and financial accomplishments are supported by a 34,000-person workforce, which is dedicated to continuously improving our processes to provide enhanced customer benefits. The Company's proprietary internal program, *FASTER*^{sm}, helps Countrywide boost productivity and enhance cost effectiveness. Since the program's inception in 2001, roughly 6,000 employees have been trained, at various levels of certification, in the *FASTER* performance management methodology which has resulted in approximately $244 million in productivity gains.

By successfully expanding its expertise beyond the boundaries of its core, Countrywide continues to reinvent itself as one of the premier financial services companies in the market today. This focus, combined with continued concentration on achieving the highest levels of operational efficiency, delivered record earnings of $2.4 billion, or $12.47 on a per share basis, in 2003.

Focus: Tomorrow

Countrywide's future begins in the near term, as market conditions eventually shift and the unprecedented refinance boom of the past three years ultimately comes to an end. Many companies have benefited from the vast increase in mortgage origination volume during the boom times, but Countrywide has used this period to build lasting foundations for future growth. As normalized market conditions return, Countrywide's proven business model, bolstered by more recent strategic enhancements, will once again demonstrate its versatility and prove its ability to deliver outstanding performance across a wide a range of environments. Over the longer term, the Company will use 2004 as a springboard to pursue its strategy of market dominance in mortgage finance, seeking to achieve 30% origination market share and a servicing portfolio of $1.9 trillion by year-end 2008.

The formulation and implementation of our strategies is led by our time-tested management team. This group combines skill, inspiration and experience (average tenure of 14 years among our top 24 executives) to navigate the cycles in our core mortgage banking business and build diverse new business lines to add growth and stability.

Production Strategies in a Post-Boom World

As market origination volume adjusts in the aftermath of the refinance boom, the strategic themes for Countrywide's mortgage production divisions include market share growth, margin optimization, productivity improvement, and technology and automation.

Aggressive market share growth has always been Countrywide's objective, and recent strategic endeavors enabled the Company's share of the origination market to nearly double over the last two years. Perhaps more importantly, Countrywide's share of the historically more stable home purchase market more than doubled during this period and now stands at 13%. This has been made possible in part by a bold strategy to rapidly build a world-class sales force, which today numbers over 7,500, with a goal to reach 10,000 by year-end 2004. This top-flight sales team is backed by ubiquitous presence (distribution capability in all significant market segments), one of the industry's broadest product lines (over 180 different mortgage loan programs), value-added technology placed at the fingertips of our retail customers and institutional business partners, and competitive pricing.

Margin optimization must counterbalance market share growth, as Countrywide's underlying principle is that growth must be profitable. The Company's success in this regard was demonstrated in the fourth quarter of 2003, when margins of 86 basis points were achieved in a declining volume environment which confounded many industry competitors. Productivity improvements are driven through the Company's process improvement methodology, *FASTER*, the use of technology to improve workflow, variable compensation arrangements and promotion of reduced documentation programs. Technology and automation projects include enhancement of management information systems, distribution and improvement of Internet-based transaction systems, and artificial intelligence programs.

The Natural Counterbalance of Production and Servicing

For decades, a fundamental element of Countrywide's strategy has been the natural counterbalance of our two Mortgage Banking sectors, production and servicing. During periods of low and falling interest rates, as the last three years have witnessed, increasing refinance volume brings increased profitability on the production side. Conversely, high and rising rates reduce mortgage prepayments, which ultimately results in increasing profitability on the servicing side. Countrywide took advantage of the recent refinance boom to generate enormous increases in its servicing portfolio, which now stands at $645 billion, up from $282 billion in November 2000—coinciding roughly with the start of this current refinance boom. In addition, the weighted average coupon of the portfolio decreased from 7.8% to 6.1% during the same period, which reduces the expected prepayment speeds in future years.

Through its aggressive production strategies and time-tested counterbalance strategy, Countrywide's Mortgage Banking segment is well-positioned to lead the Company into the future.

Focus on...

Market share dominance

Time-tested management team

Positioning for the future

Building our sales force

Margin optimization

Continuous productivity improvement

Focus on...

Banking

Expanded product menu

High-growth opportunities

Diversified businesses

Capital Markets

Broadening our earnings base

Global operations

Insurance

Focus: Tomorrow

Countrywide's future will increasingly feature growth in the diversified businesses outside of the Company's mortgage banking core. Since the mid-1990's, Countrywide has leveraged the physical and intellectual assets of its powerful mortgage banking platform to make synergistic, cost-effective entries into related businesses, including Capital Markets, Banking, Insurance and Global operations. These subsidiaries — some of which are more profitable today than the entire Company was just a few years ago — provide high-growth opportunities, while at the same time diversifying and broadening Countrywide's earnings base.

Capital Markets
In recent years, Countrywide Capital Markets (CCM), a mortgage-related investment banking operation, has been Countrywide's fastest growing subsidiary. Securities trading volume has grown from $647 billion for the twelve months ended December 31, 2000 to $2.9 trillion for 2003, which has substantially increased profitability with pre-tax earnings reaching $442 million in 2003. CCM's core strategy includes growth of existing products and services as well as diversification into new synergistic markets with the goal of becoming the preeminent fixed income securities trading and investment banking boutique by 2008. By providing unique product and proprietary research capabilities in mortgage-backed and asset-backed securities and the Government/agency debt sectors of the fixed income securities market, CCM plans to be in a position to support the business objectives of its institutional customers. In early 2004, Countrywide Securities Corporation, CCM's largest subsidiary, obtained primary dealer status with the Federal Reserve Bank of New York, with an eye toward becoming a top-tier U.S. Government securities dealer.

Countrywide Bank
Banking is expected to be one of the Company's biggest growth vehicles in the coming years, as the Bank's goals include having total assets of approximately $35 billion by the end of 2004 and $120 billion by 2008, based on the Bank's current pace of growth. Strategically, Countrywide Bank both benefits from and creates benefits for Countrywide's mortgage banking operations. The Bank's balance sheet growth has been fueled by access to the Company's tremendous mortgage asset-generating capability. Countrywide in turn benefits from the Bank through more diverse and lower cost funding sources. The Bank also leverages CHL's retail mortgage lending branch network into a unique and efficient retail deposit franchise. Instead of a typical bank branch averaging 3,000 square feet, employing eight people and holding $58 million in deposits, the Countrywide Bank model utilizes existing CHL mortgage branches to locate 360 square foot financial centers manned by one or two bank professionals, substantially lessening our operating costs. Mature financial centers (two years or older) average more than $100 million in deposits or nearly two times the commercial branch average. These Bank financial centers, which number 36 today, are planned to number 175 by the end of 2008.

Balboa Insurance
Balboa Insurance Group, which includes our insurance underwriting businesses (Balboa Life & Casualty and Balboa Reinsurance) and our agency (Countrywide Insurance Services), has now completed its restructuring efforts. In 2003, Balboa pared down less profitable product lines, enhanced its infrastructure for better margin optimization and reengineered lender-placed tracking operations. These cost reduction efforts, combined with a declining loss ratio and growth in premiums, resulted in 86% pre-tax earnings growth for the Insurance segment in 2003. Looking forward, the Insurance group will utilize sophisticated analytics; focus on high-margin, low volatility products; strive to achieve the lowest possible cost structure by targeting low-risk segments in the voluntary homeowners business (builder business, first time home buyers as well as profitable niches in the renters' market, and the life market tied to mortgage/loan transactions); and leverage the synergies within the whole of Countrywide to increase profits.

Global Operations
In 1999, Countrywide launched a bold new venture, forming an alliance with the British bank Woolwich plc, which was subsequently acquired by the U.K.-based international bank Barclays plc. A Countrywide-controlled entity, Global Home Loans (GHL) is the exclusive outsource provider for the combined mortgage operations of Woolwich and Barclays, and as such services a mortgage portfolio equivalent to $106 billion. In 2003, we relocated most of our Global operations management team to the U.K. to more effectively manage and build the business. Today, GHL sub-services approximately 10% of the U.K. mortgage market. Our goal is to drive that share to 20% by 2008. In early 2004, our Global operations embarked on another exciting initiative: establishing a beachhead in India through which we will seek to enhance overall productivity.

Foundation Behind The Focus

Countrywide's core values — People, Passion, Principles — form the foundation for the Company's dedicated focus on its employees, customers and shareholders. These core values provide a framework for the Company's ongoing efforts to build a best-in-class workforce. They frame the vision for our unrelenting pursuit of customer service excellence. And they create a lens through which our do-the-right-thing approach to improving shareholder value can be clearly brought into view. During 2003, the Company implemented several new measures to sharpen our focus and create an even stronger platform for our unique culture and competitive advantage.

Developing our People

Countrywide's people — our experienced employees — have formed the foundation of the Company's success. They are the very embodiment of the Company's ability to innovatively lead the industry. As the industry continues to change and as the Company grows and diversifies, it is imperative that our employees, particularly our leaders, be prepared to address new challenges.

Countrywide's leadership development program is designed to improve individual and organizational productivity and to create a consistent approach to managing toward common objectives. Launched in 2003, the comprehensive program includes a management development component, targeted toward individual contributors and middle management, and an executive development component, customized for the senior leaders of the Company. By developing an effective system for improving manager skills and creating a sophisticated approach to career pathing, Countrywide will further secure its long-term leadership position.

Demonstrating our Passion

Countrywide demonstrates its passionate focus on customers (consumers and business partners) through its commitment to improving its technology and processes. The Company's *PACE* program — which stands for Proudly Achieving Customer Expectations — is creating an ongoing dialogue with customers to continually identify new opportunities to increase customer satisfaction. By frequently surveying customers about their wants and needs, Countrywide is able to create effective service and performance standards, determine specific goals and actions necessary to foster improvement and build new customer-friendly processes. During the program's first six months of implementation, over half a million customers were surveyed. The results of these surveys will form the basis for creating an integrated, consistent customer experience that exceeds expectations across the Company.

Delivering our Principles

At Countrywide, our shareholder focus epitomizes our strong ethical principles. These principles lay the foundation for our sound corporate governance practices which, during the last year, were characterized by increasing investor communication channels and expanding the diverse talent and active oversight of our Board of Directors.

Countrywide's senior management team is committed to financial transparency and improved disclosure. To promote open communication with shareholders, the Company began hosting a series of investor forums, which provide investors and analysts with an opportunity to speak directly with the Company's senior executives. The forums are also webcast to allow investors who cannot attend in person to submit questions online. Additionally, to provide shareholders with increased financial disclosure and information, Countrywide recently launched a new corporate governance section of its Website.

Countrywide's Board of Directors oversees all aspects of the Company's operations. With 13 directors — 11 of them independent — the Board maintains two more directors than the average S&P 500 company. The two directors added in 2003 enhance the Board's banking and accounting expertise. Through active involvement in seven Board committees, a curriculum of continuing education and participation in the strategic planning process, Countrywide's Board of Directors increases the checks and balances that enable the Company to uphold its high ethical principles.

Behind Countrywide's focus on employees, customers and shareholders, its core values — People, Passion, Principles — provide a strong supporting foundation, strengthening the Company's overall vision.

Focus on...

Creating effective service standards

Building customer-friendly processes

People. Passion. Principles.

Developing our people

Sound corporate governance

Promoting open communication

Countrywide Financial Corporation Board of Directors










Top row, from left to right

Angelo R. Mozilo
Chairman of the Board since 1999. Previously Vice Chairman of the Board since 1969. Chief Executive Officer since 1998. Co-founded Countrywide Credit Industries in 1969.

Stanford L. Kurland
President since January 2004 and Chief Operating Officer since 1988. Chief Executive Officer of Countrywide Home Loans, Inc., since 1999, and President since 1995. Served on the Board since 1999.

Henry G. Cisneros
Founder, Chairman and Chief Executive Officer, American CityVista (a joint venture with KB Home). Previously served as Secretary, U.S. Department of Housing and Urban Development under President Clinton. Served on the Board since 2001. (1) (2) (6)

Jeffrey M. Cunningham
Chairman and Chief Executive Officer, Navigator Holdings LLC, an advisory firm specializing in media, conferences and eLearning. Previously served as President of CMGI and Group Publisher of Forbes, Inc. Served on the Board since 1998. (4) (6) (7)

Second row, from left to right

Robert J. Donato
Executive Vice President, Los Angeles Branch of UBS Financial Services, Inc. since 1997. Previously served as Director of Regional Institutional Sales for PaineWebber, Inc. Served on the Board since 1993. (1) (3) (4)

Michael E. Dougherty (Lead Director)
Founder and Chairman, Dougherty Financial Group LLC since 1977. Member of the Board of Directors of Definity Health Corporation and Chairman of Allina Hospitals and Clinics. Trustee for University of St. Thomas, St. Paul, Minnesota. Served on the Board since 1998. (1) (3) (5)

Ben M. Enis, Ph.D.
Founder and Chief Executive Officer of Enis Renewable Energy Systems, LLC and Chairman of the Board of Protection One Alarm Monitoring, Inc., a security alarm monitoring company. Served on the Board since 1984. (2) (4) (7)

Third row, from left to right

Edwin Heller
Attorney, Of Counsel to the law firm of Fried, Frank, Harris, Shriver & Jacobson since 1996. Previously, partner in firm for more than 35 years. Served on the Board since 1993. (2) (5) (6)

Gwendolyn S. King
President of Podium Prose, a corporate speakers bureau and speechwriting service. Previously served as Commissioner of the Social Security Administration under President George H.W. Bush and Deputy Assistant to the President, Director of Intergovernmental Affairs for the White House under President Reagan. Served on the Board since 2001. (1) (5) (6)

Martin R. Melone
Retired partner of Ernst & Young, LLP, an accounting firm. Member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants. Served on the Board since 2003. (1) (5)

Bottom row, from left to right

Oscar P. Robertson
President, Orchem Corporation, a specialty chemical manufacturer, which he founded in 1981. Serves on the Board of Trustees of the Lupus Foundation of America. Member of the National Basketball Association Hall of Fame. Served on the Board since 2000. (2) (3) (7)

Keith P. Russell
President of Russell Financial, Inc., a strategic and financial consulting firm. Previously served as Chairman of Mellon West, Vice-Chairman of Mellon Financial Corporation and Chief Operating Officer of Glendale Federal Bank. Serves as Director of Treasury Bank, N.A., an indirect subsidiary of the Company. Served on the Board since 2003. (1) (3)

Harley W. Snyder
President, HSC, Inc. and S-W Corporation. Consultant and Private Real Estate Investor. Director of the National Association of Realtors since 1972. Served on the Board since 1991. (3) (4) (7)

(1) Member of Audit & Ethics Committee
(2) Member of Community Affairs & Fair Lending Committee
(3) Member of Compensation Committee
(4) Member of Finance & Credit Committee
(5) Member of Nominating & Governance Committee
(6) Member of Strategic Planning Committee
(7) Member of Technology & Information Security Committee

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Selected Consolidated Financial Data

(Dollar amounts in thousands, except per share data)	**Year Ended December 31, 2003**	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001	Year Ended February 29, 2000
STATEMENT OF EARNINGS DATA[1]:					
Revenues:					
Gain on sale of loans and securities	**$ 5,890,325**	$ 3,471,218	$ 1,601,990	$ 907,973	$ 859,688
Interest income	**3,342,200**	2,253,296	1,806,596	1,324,066	978,656
Interest expenses	**(1,940,207)**	(1,461,066)	(1,474,719)	(1,330,724)	(904,713)
Net interest income (expense)	**1,401,993**	792,230	331,877	(6,658)	73,943
Loan servicing fees and other income from retained interests	**2,804,338**	2,028,922	1,367,381	1,227,474	1,043,838
Amortization of MSRs	**(2,069,246)**	(1,267,249)	(805,533)	(518,199)	(459,308)
Impairment/recovery of retained interests	**(1,432,965)**	(3,415,311)	(1,472,987)	(915,589)	262,939
Servicing hedge gains (losses)	**234,823**	1,787,886	908,993	797,148	(264,094)
Net loan servicing fees and other income from retained interests	**(463,050)**	(865,752)	(2,146)	590,834	583,375
Net insurance premiums earned	**732,816**	561,681	316,432	274,039	75,786
Commissions and other revenue	**464,762**	358,855	248,506	167,386	148,744
Total revenues	**8,026,846**	4,318,232	2,496,659	1,933,574	1,741,536
Expenses:					
Compensation expenses	**2,583,763**	1,771,287	968,232	702,626	621,205
Occupancy and other office expenses	**586,648**	447,723	291,571	262,370	261,303
Insurance claims expenses	**360,046**	277,614	134,819	106,827	23,420
Other operating expenses	**650,617**	478,585	313,418	275,716	204,410
Total expenses	**4,181,074**	2,975,209	1,708,040	1,347,539	1,110,338
Earnings before income taxes	**3,845,772**	1,343,023	788,619	586,035	631,198
Provision for income taxes	**1,472,822**	501,244	302,613	211,882	220,955
Net earnings	**$ 2,372,950**	$ 841,779	$ 486,006	$ 374,153	$ 410,243
PER SHARE DATA[2]:					
Basic	**$ 13.33**	$ 5.06	$ 3.03	$ 2.44	$ 2.72
Diluted	**$ 12.47**	$ 4.87	$ 2.92	$ 2.36	$ 2.64
Cash dividends declared per share	**$ 0.45**	$ 0.27	$ 0.32	$ 0.30	$ 0.30
Weighted average shares outstanding:					
Basic	**177,973,000**	166,320,000	160,452,000	153,243,000	150,777,000
Diluted	**190,375,000**	172,965,000	166,391,000	158,713,000	155,584,000
SELECTED BALANCE SHEET DATA AT END OF PERIOD[1]:					
Total assets	**$ 97,949,793**	$ 58,030,783	$ 37,216,804	$ 22,955,507	$ 15,822,328
Short-term debt	**$ 51,830,250**	$ 28,311,361	$ 15,210,374	$ 7,300,030	$ 2,529,302
Long-term debt	**$ 19,103,743**	$ 13,617,266	$ 10,897,481	$ 7,643,991	$ 7,253,323
Common shareholders' equity	**$ 8,084,716**	$ 5,161,133	$ 4,087,642	$ 3,559,264	$ 2,887,879
OPERATING DATA (Dollar amounts in millions)**:**					
Loan servicing portfolio[3]	**$ 644,855**	$ 452,405	$ 336,627	$ 293,600	$ 250,192
Volume of loans originated	**$ 434,864**	$ 251,901	$ 123,969	$ 68,923	$ 66,740

[1] Certain amounts in the Consolidated Financial Statements have been reclassified to conform to current year presentation.
[2] Adjusted to reflect subsequent stock dividends and splits. Excludes 3-for-2 stock split declared in March 2004.
[3] Includes warehoused loans and loans under subservicing agreements.

OVERVIEW

Countrywide's core business is residential mortgage banking. In recent years, we have expanded from our core mortgage banking business into related businesses. We have pursued this diversification to capitalize on meaningful opportunities to leverage our core mortgage banking business and to provide sources of earnings that are less cyclical than the mortgage banking business. We manage these businesses through five business segments — Mortgage Banking, Capital Markets, Banking, Insurance and Global Operations.

The mortgage banking business continues to be the primary source of our revenues and earnings. As a result, the primary influence on our operating results is the aggregate demand for mortgage loans in the U.S., which is affected by such external factors as prevailing mortgage rates and the strength of the U.S. housing market.

In 2003, total U.S. residential mortgage production reached a record level of $3.8 trillion, attributable in large part to historically low interest rates. Driven by this mortgage market, our mortgage banking operations achieved record earnings, as increased profits from loan production, enhanced by a significant increase in market share, more than offset losses attributable to the decline in value of our mortgage servicing rights. Our related businesses also benefited from low interest rates and the record level of mortgage production in 2003. As a result, our net earnings reached $2.4 billion in 2003, an increase of $1.5 billion, or 182%, from 2002.

For 2004, forecasters predict a 40% to 50% reduction in total U.S. mortgage production, due to an expected decline in mortgage refinance activity. We believe that a market within the forecasted range would still be favorable for our loan production business, although we would expect increased competitive pressures to have some impact on the profitability of that business. A reduction in mortgage refinance activity should result, however, in an increase in profitability from our investment in mortgage servicing rights. A decline in mortgage production would likely result in a reduction in mortgage securities trading and underwriting volume, which may negatively impact the profitability of our Capital Markets Segment. However, we expect earnings in our Banking Segment to increase, primarily as a result of growth in its mortgage loan portfolio.

The principal market risk we face is interest rate risk — the risk that the value of our assets or liabilities or our net interest income will change due to changes in interest rates. We manage this risk primarily through the natural counterbalance of our loan production operations and our investment in mortgage servicing rights, as well as through the use of various financial instruments including derivatives. The overall objective of our interest rate risk management activities is to reduce the variability of earnings caused by changes in interest rates.

We also face credit risk, primarily related to our residential mortgage production activities. Credit risk is the potential for financial loss resulting from the failure of a borrower or an institution to honor its contractual obligations to us. We manage mortgage credit risk principally by securitizing substantially all mortgage loans that we produce, and by only retaining high credit quality mortgages in our loan portfolio.

Our liquidity and financing requirements are significant. We meet these requirements in a variety of ways including use of the public corporate debt and equity markets, mortgage- and asset-backed securities markets, and increasingly in the future through the financing activities of our bank. The objective of our liquidity management is to ensure that adequate, diverse and reliable sources of cash are available to meet our funding needs on a cost-effective basis. Our ability to raise financing at the level and cost required to compete effectively is dependent on maintaining our high credit standing.

The mortgage industry has undergone rapid consolidation in recent years, and we expect this trend to continue in the future. Today the industry is dominated by large, sophisticated financial institutions. To compete effectively in the future, we will be required to maintain a high level of operational, technological and managerial expertise, as well as an ability to attract capital at a competitive cost. We believe that we will benefit from this consolidation through increased market share and rational price competition.

Countrywide is a diversified financial services company, with mortgage banking at its core. Our goal is to be the leader in the mortgage banking business in the future. We plan to leverage our position in mortgage banking to grow our related businesses.

As used in this report, references to "we," "our," "the Company" or "Countrywide" refer to Countrywide Financial Corporation and its consolidated subsidiaries unless otherwise indicated.

CRITICAL ACCOUNTING POLICIES

The accounting policies with the greatest impact on our financial condition and results of operations, and which require the most judgment, pertain to our mortgage securitization activities, our investments in MSRs and other retained interests, and to our use of derivatives to manage interest rate risk. Our critical accounting policies involve the following four areas: 1) accounting for gains on sales of loans and securities; 2) accounting for MSRs and other retained interests; 3) valuation of MSRs and other retained interests, and; 4) accounting for derivatives and our related interest rate risk management activities.

Gain on Sale of Loans and Securities

Substantially all of the mortgage loans we produce are sold in the secondary mortgage market, primarily in the form of securities. When we sell loans in the secondary mortgage market, we generally retain the MSRs. Depending on the type of securitization, there may be other interests we retain including interest-only securities, principal-only securities and residual securities, which we generally hold as available-for-sale securities.

We determine the gain on sale of a security, or loans, by allocating the carrying value of the underlying mortgage loans between securities or loans sold and the interests retained, based on their relative estimated fair values. The gain on sale we report is the difference between the cash proceeds from the sale and the cost allocated to the securities, or loans, sold.

Here is an example of how this accounting concept works:

Carrying value of mortgage loans underlying a security[1]	$ 1,000,000
Fair Values:	
Security	$ 990,000
Retained Interests	15,000
Total fair value	$ 1,005,000
Computation of gain on sale of security:	
Sales proceeds	$ 990,000
Less: allocated cost ($1,000,000 x $990,000/$1,005,000)	985,075
Gain on sale	$ 4,925
Initial recorded value of retained interests ($1,000,000 – $985,075)	$ 14,925

[1] The carrying value of mortgage loans includes the outstanding principal balance of the loans net of deferred origination costs and fees and any premiums or discounts.

Accounting for MSRs and Other Retained Interests

Once MSRs and other retained interests have been recorded, they must be periodically evaluated for impairment. Impairment occurs when the current fair value of the MSRs or other retained interests falls below the assets' carrying value.

If MSRs are impaired, the impairment is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a valuation allowance. If the value of the MSRs subsequently increases, the recovery in value is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a reduction in the valuation allowance. (As of December 31, 2003, the MSR impairment valuation allowance was $1.2 billion.) If impairment is deemed to be other than temporary, the valuation allowance is applied to reduce the cost-basis of the MSRs. MSRs cannot be carried above their amortized cost-basis.

For other retained interests, which we account for as available-for-sale securities, impairment is recognized as a reduction to shareholders' equity (net of tax). If the impairment is deemed to be other than temporary, it is recognized in current-period earnings. Once we record this impairment, we recognize subsequent increases in the value of other retained interests in earnings over the estimated remaining life of the investment through a higher effective yield.

In addition to periodic evaluation for impairment, MSRs are also subject to periodic amortization. We compute MSR amortization by applying the ratio of the net MSR cash flows projected for the current period to the estimated total remaining net MSR cash flows. The estimated total net MSR cash flows are determined at the beginning of each reporting period, using prepayment assumptions applicable at that time.

Valuation of MSRs and Other Retained Interests

Considerable judgment is required to determine the fair values of our retained interests. Unlike government securities and other highly liquid investments, the precise market value of retained interests cannot be readily determined, because these assets are not actively traded in stand-alone markets.

Our MSR valuation process combines the use of a sophisticated discounted cash flow model, extensive analysis of current market data, and senior financial management oversight to arrive at an estimate of fair value at each balance sheet date. The cash flow assumptions and prepayment assumptions used in our discounted cash flow model are based on empirical data drawn from the historical performance of our MSRs, which we believe are consistent with assumptions used by market participants valuing MSRs. The most critical assumptions used in the valuation of MSRs include mortgage prepayment speeds and the discount rate (projected LIBOR plus option-adjusted spread). These variables can and generally will change from quarter to quarter as market conditions and projected interest rates change. We determine the fairness of our MSR valuation quarterly by comparison to the following market data (as available): MSR trades, MSR broker valuations, prices of interest-only securities, and peer group MSR valuation surveys.

For the other retained interests, we also estimate fair value through the use of discounted cash flow models. The key assumptions used in the valuation of our other retained interests include mortgage prepayment speeds, discount rates, and for residual interests containing credit risk, the net lifetime credit losses. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Credit Risk Management" section of this document for further discussion of credit risk.) We have incorporated cash flow and prepayment assumptions based on our own empirical data drawn from the historical performance of the loans underlying our other residual interests, which we believe are consistent with assumptions other major market participants would use in determining the assets' fair value.

At December 31, 2003, the Company's investment in MSRs was as follows:

(Dollar amounts in millions)	Total Portfolio[1]		
Mortgage Rate	**Principal Balance**	**Percent of Total**	**MSR Balance**
6% and under	**$ 301,276**	**51.6%**	**$ 3,924**
6.01–7%	**208,584**	**35.7%**	**2,303**
7.01-8%	**52,261**	**8.9%**	**437**
8.01-9%	**14,409**	**2.5%**	**124**
9.01-10%	**4,065**	**0.7%**	**39**
over 10%	**3,752**	**0.6%**	**37**
6.1%[2]	**$ 584,347**	**100%**	**$ 6,864**

[1] Excludes subservicing and mortgage loans held for sale or investment.
[2] The weighted average mortgage rate.

The portfolio serviced for others has a weighted average service fee of 0.327%.

The following table shows the value sensitivity of our MSRs to the key assumptions we used to determine their fair values at December 31, 2003:

(Dollar amounts in thousands)	MSRs
Fair value of MSRs	$ 6,909,167
Carrying value of MSRs	$ 6,863,625
Carrying value as a percentage of loans serviced for others	1.2%
Weighted-average life (in years)	6.0
WEIGHTED-AVERAGE ANNUAL PREPAYMENT SPEED	20.8%
Impact of 10% adverse change	$ 395,797
Impact of 20% adverse change	$ 750,842
WEIGHTED-AVERAGE OAS[1]	4.3%
Impact of 10% adverse change	$ 112,781
Impact of 20% adverse change	$ 222,318

[1] *option-adjusted spread over LIBOR.*

The following table shows the value sensitivity of our other retained interests to the key assumptions we used to determine their fair values at December 31, 2003:

(Dollar amounts in thousands)	Other Retained Interests
Fair value of retained interests	$ 1,355,535
Weighted-average life (in years)	2.0
WEIGHTED-AVERAGE ANNUAL PREPAYMENT SPEED	30.6%
Impact of 10% adverse change	$ 82,729
Impact of 20% adverse change	$ 152,158
WEIGHTED-AVERAGE ANNUAL DISCOUNT RATE	20.4%
Impact of 10% adverse change	$ 22,585
Impact of 20% adverse change	$ 43,919
WEIGHTED-AVERAGE NET LIFETIME CREDIT LOSSES	1.9%
Impact of 10% adverse change	$ 30,426
Impact of 20% adverse change	$ 60,839

These sensitivities are hypothetical and should be used with caution. This information is furnished to provide the reader with a basis for assessing the sensitivity of the values presented to changes in key assumptions. As the figures indicate, changes in fair value based on a 10% variation in individual assumptions generally cannot be extrapolated. In addition, in the above table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which could magnify or counteract the sensitivities.

Derivatives and Interest Rate Risk Management Activities

We use derivatives extensively in connection with our interest rate risk management activities. We record all derivative instruments at fair value.

We may qualify some of our interest rate risk management activities for hedge accounting. To qualify for hedge accounting we must demonstrate, on an ongoing basis, that our interest rate risk management activity is highly effective. We use standard statistical measures to determine the effectiveness of our hedging activity. If we are unable to qualify certain interest rate risk management activities for hedge accounting, then the change in fair value of the associated derivative financial instruments would be reflected in current period earnings, while the change in fair value of the related asset or liability might not, thus creating a possible earnings mismatch. This issue is potentially most significant regarding MSRs, which absent the application of hedge accounting, are required to be carried at the lower of amortized cost or market.

In connection with our mortgage loan origination activities, we issue interest rate lock commitments ("IRLCs") to loan applicants and financial intermediaries. The IRLCs guarantee a loan's terms, subject to credit approval, for a period of time while the loan application is in process, typically between 7 and 60 days. IRLCs are derivative instruments and, therefore, are required to be recorded at fair value, with changes in fair value reflected in current period earnings. However, unlike most other derivative instruments, there is no active market for IRLCs that can be used to determine an IRLC's fair value. Consequently, we have developed a method for estimating the fair value of our IRLCs.

We estimate the fair value of an IRLC based on the change in estimated fair value of the underlying mortgage loan, given the probability that the loan will fund within the terms of the IRLC. The change in fair value of the underlying mortgage loan is based on quoted MBS prices. The change in fair value of the underlying mortgage loan is measured from the lock date. Therefore, at the time of issuance the estimated fair value of an IRLC is zero. (Subsequent to issuance, the value of an IRLC can be either positive or negative, depending on the change in value of the underlying mortgage loan.) The probability that the loan will fund within the terms of the IRLC is driven by a number of factors — in particular, the change, if any, in mortgage rates subsequent to the lock date. In general, the probability of funding increases if mortgage rates rise and decreases if mortgage rates fall. This is due primarily to the relative attractiveness of current mortgage rates compared to the applicant's committed rate. The probability that a loan will fund within the terms of the IRLC also is influenced by the source of the applications, age of the applications, purpose for the loans (purchase or refinance) and the application approval rate. We have developed closing ratio estimates using historical empirical data that take into account all of these variables, as well as renegotiations of rate and point commitments that tend to occur when mortgage rates fall. These closing ratio estimates are used to estimate the number of loans that we expect to fund within the terms of the IRLCs.

In March 2003, the SEC issued Staff Accounting Bulletin No. 105 — "Application of Accounting Principles to Loan Commitments" ("SAB No. 105"), which summarizes the views of the SEC staff regarding the application of generally accepted accounting principles to loan commitments accounted for as derivative instruments. Our current method used to estimate the fair value of IRLCs is consistent with SAB No. 105; therefore, SAB No. 105 will have no impact on the Company's financial condition or results of operations.

CHANGE IN FISCAL YEAR

Effective January 1, 2001, we changed our year-end from February 28 to December 31. For purposes of this Annual Report on Form 10-K, our consolidated statements of earnings, consolidated statement of common shareholders' equity, consolidated statements of cash flows and consolidated statements of comprehensive income consist of the years ended December 31, 2003, 2002 and the ten months ended December 31, 2001. We changed our year-end to conform our reporting periods to those required by the Board of Governors of the Federal Reserve for regulatory reporting purposes.

CHANGE OF CORPORATE NAME

On November 7, 2002, we changed our corporate name from Countrywide Credit Industries, Inc. to Countrywide Financial Corporation.

We believe our new name more accurately reflects the full array of products and services we offer to consumers and financial companies.

Stock Split Effected as a Stock Dividend

In the fourth quarter of 2003, we consummated a 4-for-3 stock split effected as a stock dividend. All references in the accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations to the number of common shares and earnings per share amounts have been restated accordingly.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2003 ("2003") TO THE YEAR ENDED DECEMBER 31, 2002 ("2002")

Consolidated Earnings Performance

Our diluted earnings per share for 2003 totaled $12.47, a 156% increase over diluted earnings per share for 2002. Net earnings were $2,373.0 million, a 182% increase from 2002. This earnings performance was driven by an increase in our mortgage loan production from $251.9 billion in 2002 to $434.9 billion in 2003. In addition, our non-mortgage banking businesses achieved a substantial overall increase in earnings in 2003.

Industry-wide, mortgage loan production reached a new record level of $3.8 trillion in 2003, up from $2.7 trillion during 2002 (Source: *Inside Mortgage Finance*). Approximately two-thirds of the mortgages produced in 2003 were refinances of existing mortgages that were triggered by historically low mortgage rates. These same low rates contributed to increased activity in the U.S. housing market, which also reached record levels in 2003.

The continued high demand for mortgages drove not only high production volumes for Countrywide, but also high production margins. The combination of high volumes and margins yielded Loan Production Sector pre-tax earnings of $4,087.9 million for 2003, an increase of $1,692.9 million from 2002.

The high levels of mortgage refinances and home purchases resulted in significant prepayments within our mortgage loan servicing portfolio during the period. This, along with the expectation of continued higher-than-normal prepayments in the future due to low mortgage rates, resulted in significant amortization and impairment of our MSRs and other retained interests in 2003. The combined amount of amortization and impairment of MSRs and other retained interests, net of Servicing Hedge gains, was $3,267.4 million, resulting in a pre-tax loss of $1,233.5 million in the Loan Servicing Sector for 2003, compared to a pre-tax loss of $1,489.8 million in 2002.

These factors combined to produce pre-tax earnings of $2,952.2 million in the Mortgage Banking Segment for 2003, an increase of $1,977.1 million, or 203%, from 2002.

Our non-mortgage banking businesses had combined pre-tax earnings of $893.6 million in 2003, an increase of 143% over 2002. Benefiting again from a favorable market environment, our Capital Markets Segment achieved pre-tax earnings of $442.3 million, up from $199.9 million in 2002. In addition, our Banking Segment increased its pre-tax earnings by $203.2 million over the prior year, driven primarily by growth in its portfolio of mortgage loans.

Operating Segment Results

Pre-tax earnings by segment are summarized below:

(Dollar amounts in thousands)	Year Ended December 31, 2003	Year Ended December 31, 2002
Mortgage Banking:		
Production	$ 4,087,866	$2,394,963
Servicing	(1,233,475)	(1,489,796)
Loan Closing Services	97,825	69,953
Total Mortgage Banking	2,952,216	975,120
Other Businesses:		
Capital Markets	442,303	199,876
Banking	287,217	83,971
Insurance	138,774	74,625
Global Operations	25,607	5,282
Other	(345)	4,149
Total Other Businesses	893,556	367,903
Pre-tax earnings	$ 3,845,772	$1,343,023

Mortgage loan production by segment and product is summarized below:

(Dollar amounts in millions)	Year Ended December 31, 2003	Year Ended December 31, 2002
Segment:		
Mortgage Banking	$ 398,310	$ 242,437
Capital Markets' conduit acquisitions	22,200	8,659
Treasury Bank	14,354	805
	$ 434,864	$ 251,901
Product:		
Prime	$ 396,934	$ 230,830
Prime Home Equity	18,103	11,650
Subprime	19,827	9,421
	$ 434,864	$ 251,901

Mortgage Banking Segment

Our Mortgage Banking Segment includes the Loan Production, Loan Servicing and Loan Closing Sectors. The Loan Production and Loan Closing Services Sectors generally perform at their best when mortgage rates are relatively low and loan origination volume is high. Conversely, the Loan Servicing Sector generally performs well when mortgage rates are relatively high and loan prepayments are low. The natural counterbalance of these sectors reduces the impact of changes in mortgage rates on our earnings. During 2003, historically low mortgage rates drove record levels of mortgage originations and prepayments industry-wide, which contributed to record profits in the Loan Production and Loan Closing Services Sectors and near record losses in the Loan Servicing Sector.

Loan Production Sector

The Loan Production Sector produces mortgage loans through the three production divisions of Countrywide Home Loans ("CHL") — Consumer Markets, Wholesale Lending and Correspondent Lending, as well as through Full Spectrum Lending, Inc.

The pre-tax earnings of the Loan Production Sector are summarized below:

	Years Ended December 31,			
	2003		2002	
(Dollar amounts in thousands)	**Dollars**	**Percent of Loan Production Volume**	Dollars	Percent of Loan Production Volume
Revenues	**$ 6,487,460**	**1.63%**	$ 3,914,687	1.62%
Expenses:				
Operating expenses	**2,001,584**	**0.50%**	1,272,411	0.53%
Allocated corporate expenses	**398,010**	**0.10%**	247,313	0.10%
Total expenses	**2,399,594**	**0.60%**	1,519,724	0.63%
Pre-tax earnings	**$ 4,087,866**	**1.03%**	$ 2,394,963	0.99%

Strong demand for residential mortgages enabled the Loan Production Sector to achieve significant growth in revenues and earnings in 2003 compared to 2002. This performance was enhanced by a significant increase in our market share during the year. Our mortgage origination market share was 11.6% in 2003, up from 9.4% in 2002 (Source: *Inside Mortgage Finance*). Ongoing favorable market conditions contributed to the continued high revenues earned, while high productivity levels helped keep unit costs low. These factors combined to produce continued high profit margins (pre-tax earnings as a percentage of loan volume) for the Loan Production Sector.

The following table shows total Mortgage Banking loan production volume by division:

(Dollar amounts in millions)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Correspondent Lending Division	**$ 194,948**	$ 109,474
Consumer Markets Division	**104,216**	62,189
Wholesale Lending Division	**91,211**	67,188
Full Spectrum Lending, Inc.	**7,935**	3,586
	$ 398,310	$ 242,437

Mortgage Banking loan production for 2003 increased 64% in comparison to 2002. All divisions, in particular Correspondent Lending, contributed to the increase in origination volume. The increase was due primarily to a rise in non-purchase loan production of 78%. An increase in purchase production of 39% also contributed to the higher origination volume. The increase in purchase loans is significant because this is the relatively stable growth component of the mortgage market, with average annual growth of 8% over the last 10 years. (The non-purchase, or refinance, component of the mortgage market is highly volatile because it is driven almost exclusively by prevailing mortgage rates.)

The following table summarizes Mortgage Banking loan production by purpose and interest rate type:

(Dollar amounts in millions)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Purpose:		
Purchase	**$ 115,750**	$ 83,552
Non-purchase	**282,560**	158,885
	$ 398,310	$ 242,437
Interest Rate Type:		
Fixed Rate	**$ 327,412**	$ 209,733
Adjustable Rate	**70,898**	32,704
	$ 398,310	$ 242,437

In 2003, 82% of our loan production was fixed rate, which reflects homeowner preferences for fixed rate mortgages in a low mortgage-rate environment. Management expects that a higher percentage of homeowners would potentially choose adjustable rate mortgages in a higher interest rate environment. Such a shift in homeowner preferences may favor portfolio lenders, which have a natural preference for adjustable rate mortgages, over mortgage bankers that rely more heavily on securitization.

As shown in the following table, the volume of Mortgage Banking Prime Home Equity and Subprime Mortgage Loans produced (which is included in the total volume of loans produced) increased 59% during the current period from the prior period:

(Dollar amounts in millions)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Prime Home Equity Loans	**$ 12,268**	$ 10,848
Subprime Mortgage Loans	**15,525**	6,590
	$ 27,793	$ 17,438
Percent of total loan production	**7.0%**	7.2%

Prime Home Equity and Subprime Mortgage Loans carry higher profit margins historically, and the demand for such loans is believed to be less rate sensitive than the demand for prime home loans. Consequently, Management believes these loans will be a significant component of the sector's future growth, in particular if mortgage rates should rise significantly.

A major source of intrinsic value derived from our MSRs is Countrywide's ability to retain its customers when they either refinance their loans or purchase new homes. We successfully retained a significant percentage of the customers who prepaid their mortgages during 2003. Our overall retention rate for 2003 was 40% as compared to 37% for 2002. Our retention rate increased for purchase customers and remained constant for refinance customers. Our retention rate for purchase customers was 27% for 2003 as compared to 21% for 2002. Our retention rate for refinance customers was 42% for 2003 and 2002.

During 2003, the Loan Production Sector operated at approximately 110% of planned operational capacity. The primary capacity constraint in our loan origination activities is the number of loan operations personnel we have on staff. Therefore, we measure planned capacity with reference to the number of loan operations personnel we have multiplied by the number of loans we expect each available loan operations staff person to process under normal conditions. As volume decreased toward the end of 2003, we began to make reductions in operations staff. From its peak, the total number of operations personnel has been reduced by approximately 3,000. As loan production volume continues to moderate, the operations staff will be further reduced accordingly. At the same time, a reduction in productivity to more sustainable levels will likely result in higher overall unit costs. We plan to continue building our sales staff despite any potential drop in loan origination volume as a primary way to increase market share.

The following table summarizes the Loan Production Sector workforce:

	Workforce At	
	December 31, 2003	December 31, 2002
Sales	**8,681**	6,090
Operations:		
Regular employees	**7,116**	5,621
Temporary staff	**504**	2,090
	7,620	7,711
Production technology	**748**	554
Administration and support	**1,848**	1,152
	18,897	15,507

The Consumer Markets Division continued to grow its commissioned sales force during the period. At December 31, 2003, its commissioned sales force numbered 3,484, an increase of 1,000 during the year. The primary focus of the commissioned sales force is to increase overall purchase market share. The commissioned sales force contributed $25.8 billion in purchase originations in 2003, a 91% increase over 2002. The purchase production generated by the commissioned sales force represented 71% of the Consumer Markets Division's purchase production for 2003.

Like the Consumer Markets Division, the Wholesale Lending Division and FSLI continued to grow their sales forces as a core strategy to increase market share. At December 31, 2003, the sales force in the Wholesale Lending Division numbered 886, an increase of 27% during the year. FSLI expanded its sales force by 981, or 96%, during 2003.

Loan Servicing Sector

The Loan Servicing Sector reflects the performance of the Company's investments in MSRs and other retained interests and associated risk management activities, as well as profits from subservicing activities in the United States. The Loan Servicing Sector includes a significant processing operation, consisting of approximately six thousand employees who service the Company's 5.1 million mortgage customers. How effectively this servicing operation manages costs and generates ancillary income from the portfolio has a significant impact on the long-term performance of this sector.

The following table summarizes the results for the Loan Servicing Sector:

	Year Ended December 31, 2003		Year Ended December 31, 2002	
(Dollar amounts in thousands)	**Amount**	**Percentage of Average Servicing Portfolio**	Amount	Percentage of Average Servicing Portfolio
Revenues	**$ 2,661,178**	**0.485%**	$ 2,050,031	0.542%
Servicing Hedge gains	**234,823**	**0.043%**	1,787,886	0.473%
Amortization	**(2,069,246)**	**(0.377)%**	(1,267,249)	(0.335)%
Impairment	**(1,432,965)**	**(0.261)%**	(3,415,311)	(0.904)%
Operating expenses	**(392,389)**	**(0.072)%**	(346,121)	(0.092)%
Allocated corporate expenses	**(84,126)**	**(0.015)%**	(86,502)	(0.022)%
Interest expense, net	**(150,750)**	**(0.028)%**	(212,530)	(0.056)%
Pre-tax loss	**$ (1,233,475)**	**(0.225)%**	$ (1,489,796)	(0.394)%
Average Servicing Portfolio	**$ 548,724,000**		$ 377,999,000	

The Loan Servicing Sector experienced continued losses during the recent period, driven by high amortization and impairment of the Company's retained interests. The amortization and impairment charges reflect the loss in value of the Company's retained interests, which was primarily due to the high level of actual and projected prepayments in the Company's mortgage servicing portfolio. In general, the value of the retained interests is closely linked to the estimated life of the underlying loans. As prepayments increase, the estimated life of the underlying loans decreases. The combined impairment and amortization charge was $3,502.2 million and $4,682.6 million during 2003 and 2002, respectively.

During 2003, the Servicing Hedge generated a gain of $234.8 million. This gain resulted from a decline in long-term Treasury and swap rates during the first part of 2003; these indices underlie the derivatives and securities that constitute the primary component of the Servicing Hedge. The Servicing Hedge gains generated in the early part of 2003 were partly offset by Servicing Hedge losses toward the end of the year as long-term Treasury and swap rates rose. Amortization and impairment, net of the Servicing Hedge, was $3,267.4 million for 2003, an increase of $372.7 million over 2002. In a stable interest rate environment, Management would expect no significant impairment and would expect to incur expenses related to the Servicing Hedge driven primarily by the composition of the hedge, the shape of the yield curve and the level of interest rate volatility.

During 2003, we securitized a portion of our net servicing fees ("excess servicing"). Proceeds from the sale of such securities amounted to $1,043.4 million. Securities not sold were classified as trading securities and included in "Investments in other financial instruments" at December 31, 2003. We believe such securitizations enable us to more efficiently manage our capital.

Despite the high level of prepayments, we increased our servicing portfolio to $644.9 billion at December 31, 2003, a 43% increase from December 31, 2002. At the same time, the overall weighted-average note rate of loans serviced for others declined from 6.9% to 6.1%.

Loan Closing Services Sector

This sector is comprised of the LandSafe companies, which provide credit reports, flood determinations, appraisals, property valuation services and title reports primarily to the Loan Production Sector but increasingly to third parties as well. Our integration of these previously outsourced services has provided not only incremental profits but also higher overall levels of service and quality control.

The LandSafe companies produced $97.8 million in pre-tax earnings, representing an increase of 40% from the year-ago period. The increase in LandSafe's pre-tax earnings was primarily due to the increase in our loan origination activity.

Non-Mortgage Banking Businesses

To leverage our mortgage banking platform, as well as to reduce the variability of earnings due to changes in mortgage interest rates, we have expanded into other financial services. These other businesses are grouped into the following segments: Capital Markets, Banking, Insurance and Global Operations.

Capital Markets Segment

Our Capital Markets Segment achieved pre-tax earnings of $442.3 million for 2003, an increase of $242.4 million, or 121%, from 2002. Total revenues were $676.0 million, an increase of $301.6 million, or 81% compared to 2002. Capital Markets took advantage of the highly favorable operating environment prevalent during 2003, consisting of a robust mortgage securities market, high mortgage securities price volatility, and low short-term financing costs.

The following table shows the pre-tax income of the Capital Markets segment:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Revenues:		
Conduit	**$ 269,592**	$ 111,333
Securities Trading	**199,149**	139,688
Underwriting	**171,958**	94,219
Brokering	**29,944**	20,740
Other	**5,360**	8,452
Total Revenues	**676,003**	374,432
Expenses:		
Operating expenses	**222,555**	172,290
Allocated corporate expenses	**11,145**	2,266
Total Expenses	**233,700**	174,556
Pre-tax income	**$ 442,303**	$ 199,876

During 2003, the Capital Markets Segment generated revenues totaling $269.6 million from its conduit activities, which includes brokering and managing the acquisition, sale or securitization of whole loans on behalf of CHL. Conduit revenues for 2003 increased 142% in comparison to 2002 as a result of an increase in the amount of mortgage loans sold that were acquired by the conduits. During 2003, the mortgage loans sold that were acquired by the conduits totaled $38.1 billion, an 81% increase in comparison to $21.1 billion in conduit loans sold in 2002.

Revenues from securities trading increased 43% to $199.1 million for 2003 due to a 43% increase in securities trading volume. The following table shows the composition of Countrywide Securities Corporation's ("CSC") securities trading volume, which includes intersegment trades with our mortgage banking operations, by instrument:

(Dollar amounts in millions)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Mortgage-backed securities	**$ 2,647,099**	$ 1,854,767
Government agency debt	**142,720**	77,117
Asset-backed securities	**50,944**	52,536
Other	**17,950**	8,426
Total securities trading volume[1]	**$ 2,858,713**	$ 1,992,846

[1] *Approximately 12% and 13% of the segment's total securities trading volume was with CHL during 2003 and 2002, respectively.*

In 2003, underwriting revenues totaled $172.0 million, an increase of 83% compared to 2002. This increase was attributable to a 74% increase in underwriting volume in 2003.

Effective January 15, 2004, CSC became a primary dealer. As a primary dealer, CSC is an authorized counterparty with the Federal Reserve Bank of New York in its open market operations. Management believes that CSC's status as a primary dealer will enhance our ability to compete in its core mortgage securities business by expanding its client base.

Banking Segment

The Banking Segment achieved pre-tax earnings of $287.2 million in 2003, as compared to $84.0 million for 2002. Following is the composition of pre-tax earnings by company:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Treasury Bank ("Bank")	**$ 222,986**	$ 51,721
Countrywide Warehouse Lending ("CWL")	**78,105**	32,560
Allocated corporate expenses	**(13,874)**	(310)
	$ 287,217	$ 83,971

The Bank produced pre-tax earnings of $223.0 million for 2003, an increase of $171.3 million over 2002. The overall increase was due to an increase in net interest income arising from growth in average earning assets combined with a $30.5 million increase in intersegment profits related to the Bank's document custodian services provided to our mortgage banking operations. Average earning assets increased to $12.4 billion during 2003, an increase of $9.0 billion in comparison to 2002. Asset growth was funded primarily by the transfer of custodial balances controlled by CHL from third-party banks to the Bank, three capital contributions from CFC, Federal Home Loan Bank advances, and growth in the Bank's retail deposit base. As of December 31, 2003, $5.9 billion of custodial balances controlled by CHL were placed as deposits in the Bank.

The Bank's annual pre-tax return on assets for 2003 was 1.8% as compared to 1.5% for 2002. The composition of the Bank's assets was as follows:

(Dollar amounts in thousands)	**December 31, 2003**	December 31, 2002
Cash	**$ 143,420**	$ 163,547
Short-term investments	**350,000**	300,000
Mortgage loans, net	**14,685,887**	1,902,793
Investment securities classified as available-for-sale	**3,563,917**	2,590,789
Other assets	**632,674**	153,690
Total	**$ 19,375,898**	$ 5,110,819

Our banking strategy entails holding loans in portfolio that historically would have been immediately securitized and sold in the secondary mortgage market. Management believes this strategy will increase earnings, as well as provide more stable earnings, over the long term; in the short term, reported profits will be impacted by the reduction in gains otherwise recognizable at time of sale.

CWL's pre-tax earnings increased $45.5 million in 2003. This was primarily due to growth in average outstanding mortgage warehouse advances partially offset by a decline in the average net spread from 2.1% during 2002 to 2.0% during 2003. For 2003, average mortgage warehouse advances outstanding were $4.0 billion, an increase of $2.3 billion in comparison to 2002. The increase in warehouse advances was largely attributable to growth in the overall mortgage originations market.

Insurance Segment

The Insurance Segment pre-tax earnings increased 86% over 2002, to $138.8 million for 2003. The following table shows pre-tax earnings by business line:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Balboa Reinsurance Company	**$ 102,113**	$ 84,514
Balboa Life and Casualty Operations[1]	**52,013**	1,145
Allocated corporate expenses	**(15,352)**	(11,034)
	$ 138,774	$ 74,625

[1] *Includes the Balboa Life and Casualty Group and the Countrywide Insurance Services Group.*

The following table shows net earned premiums:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Balboa Life and Casualty Operations	**$ 604,231**	$ 478,864
Balboa Reinsurance Company	**128,585**	82,817
	$ 732,816	$ 561,681

Our mortgage reinsurance business produced $102.1 million in pre-tax earnings, due primarily to a 55% increase in net earned premiums that was driven by growth in the Company's loan servicing portfolio, offset by a $31.5 million increase in insurance claims reserves. Insurance claims reserves are a function of expected remaining claims losses and premiums.

Our Life and Casualty insurance business produced pre-tax earnings of $52.0 million, an increase of $50.9 million from 2002. The growth in earnings was driven by a $125.4 million, or 26%, increase in net earned premiums during 2003 in comparison to 2002. The growth in net earned premiums was primarily attributable to growth in lender-placed insurance.

Our Life and Casualty insurance operations manage its insurance risk by reinsuring portions of its insured risk. Balboa seeks to earn profits by capitalizing on Countrywide's customer base and institutional relationships, as well as through operating efficiencies and sound underwriting.

Pre-tax earnings from the agency operations increased in 2003 due to a restructuring of the agency in 2002 to reduce costs and focus on profitable business lines.

Global Operations Segment

For 2003, our Global Operations Segment's pre-tax earnings totaled $25.6 million, representing an increase of $20.3 million in comparison to 2002. Results in the current period were positively impacted by growth in the portfolio of mortgage loans subserviced and the number of new mortgage loans processed on behalf of GHL's minority joint venture partner, Barclays plc.

Detailed Discussion of Consolidated Revenue and Expense Items

Gain on Sale of Loans and Securities

Gain on sale of loans and securities is summarized below for 2003 and 2002:

	Year Ended December 31, 2003		Year Ended December 31, 2002	
(Dollar amounts in thousands)	**Dollars**	**Percentage of Loans Sold**	Dollars	Percentage of Loans Sold
Mortgage Banking:				
Prime Mortgage Loans	**$ 5,073,107**	**1.40%**	$2,755,570	1.22%
Subprime Mortgage Loans	**452,866**	**4.43%**	390,721	4.51%
Prime Home Equity Loans	**15,566**	**1.90%**	230,774	3.21%
Production sector	**5,541,539**	**1.48%**	3,377,065	1.40%
Re-performing loans	**163,443**	**6.82%**	92,233	4.07%
	5,704,982		3,469,298	
Capital Markets:				
Trading securities	**(81,038)**		(98,879)	
Conduit activities	**237,449**		79,227	
	156,411		(19,652)	
Other	**28,932**		21,572	
	$ 5,890,325		$3,471,218	

Gain on sale of loans and securities increased in 2003 as compared to 2002 primarily due to higher prime mortgage loan production and sales volume combined with higher margins on prime mortgage loans. Margins on prime mortgage loans were high in both periods on a relative historical basis, due largely to the very favorable mortgage market environment that prevailed during those periods.

During 2003, we sold a small portion of prime home equity loans produced. We plan to hold the remaining prime home equity loans as investments in the form of available-for-sale securities or loans.

Re-performing loans are reinstated loans that had previously defaulted, and were consequently re-purchased from mortgage securities we issued. The increase in gain on sale of re-performing loans is due to an increase in the volume of loans sold. The note rate on these loans is typically higher than the current mortgage rate, and therefore, the margin on these loans is typically higher than margins on Prime Mortgage Loans.

Capital Markets' revenues from its trading activities consist of gains on the sale of securities and net interest income. In a very steep yield curve environment, which existed during both periods, trading revenues will derive largely or entirely from net interest income earned during the securities' holding period. As the yield curve flattens, the mix of revenues will shift toward gain on sale of securities. The increase in Capital Markets' gain on sale of loans related to its conduit activities was due to increased acquisitions and sales during 2003 in comparison to 2002.

In general, gain on sale of loans and securities is affected by numerous factors, including the volume and mix of loans sold, production channel mix, the level of price competition, the slope of the yield curve and the effectiveness of our associated interest rate risk management activities.

Net Interest Income

Net interest income is summarized below for the years ended 2003 and 2002:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Net interest income (expense):		
Mortgage loans and securities held for sale	**$ 796,940**	$ 491,765
Capital Markets securities trading portfolio	**448,099**	339,341
Banking Segment loans and securities	**335,404**	99,897
Re-performing loans	**138,399**	134,191
Custodial balances	**(212,561)**	(34,186)
Servicing Sector interest expense	**(254,285)**	(316,425)
Home equity AAA asset-backed securities	**90,496**	33,669
Insurance Segment investments	**34,101**	27,773
Other	**25,400**	16,205
Net interest income	**$ 1,401,993**	$ 792,230

The increase in net interest income from mortgage loans and securities held for sale reflects an increase in the average inventory resulting from increased production during 2003 as compared to 2002.

The increase in net interest income from the Capital Markets securities trading portfolio is attributable to an increase of 61% in the average inventory of securities held, which in turn was driven by an increase in trading activity. This increase was partially offset by a decrease in the average net spread earned from 4.1% in 2002 to 3.3% in 2003. The decrease in the average net spread is the result of a flatter yield curve.

The increase in net interest income from the Banking Segment was primarily attributable to year-over-year earning asset growth in both the Bank and CWL. Average assets in the Banking Segment increased to $16.4 billion during 2003, an increase of $11.2 billion over 2002. The average net spread earned increased slightly to 2.1% in 2003 from 1.9% in 2002.

Re-performing loans are reinstated loans that had previously defaulted and were consequently re-purchased from mortgage securities issued by Countrywide or others. Such loans are subsequently securitized and re-sold.

Net interest expense from custodial balances increased in 2003 due to the substantial increase in loan payoffs over 2002. We are obligated to pass through monthly interest to security holders on paid-off loans at the underlying security rates, which were substantially higher than the short-term rates earned by us on payoff float. The amount of such interest passed through to the security holders was $406.8 million and $218.8 million in 2003 and 2002, respectively. In addition, the earnings rate on the custodial balances, which is tied to short-term rates, declined from 1.6% during 2002 to 1.0% during 2003. Average custodial balances increased by $7.6 billion, or 68%, over 2002 due largely to the increase in loan payoffs.

Interest expense allocated to the Loan Servicing Sector decreased due primarily to a decline in short-term rates (a portion of our long-term debt is variable-rate), which was combined with a decrease in total Sector assets.

The increase in net interest income from home equity AAA asset-backed securities is due to an increase in the average inventory of securities held.

Loan Servicing Fees and Other Income from Retained Interests

Loan servicing fees and other income from retained interests are summarized below for 2003 and 2002:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Service fees, net of guarantee fees	**$ 1,917,014**	$ 1,439,001
Income from other retained interests	**410,346**	238,108
Prepayment penalties	**172,171**	118,215
Late charges	**151,665**	129,675
Global Operations Segment subservicing fees	**92,418**	49,742
Ancillary fees	**60,724**	54,181
	$ 2,804,338	$ 2,028,922

The increase in servicing fees, net of guarantee fees, was principally due to a 45% increase in the average servicing portfolio, partially offset by a reduction in the overall net service fee earned from 0.38% of the average portfolio balance during 2002 to 0.35% during 2003. The reduction in the overall net service fee was largely due to the securitization of excess service fees.

The increase in income from other retained interests was due primarily to a 33% increase in investment balances during 2003, combined with an increase in the average effective yield of these investments from 20% in 2002 to 25% in 2003. These investments include interest-only and principal-only securities as well as residual interests that arise from the securitization of nonconforming mortgage loans, particularly subprime home loans.

Higher prepayment penalty income in 2003 corresponded to the increase in subprime home loan payoffs during the year.

The increase in subservicing fees earned in the Global Operations Segment was due to growth in the portfolio subserviced and to an increase in fees earned per loan. The Global Operations subservicing portfolio was $106 billion and $92 billion at December 31, 2003 and 2002, respectively.

Amortization of Mortgage Servicing Rights

We recorded amortization of MSRs of $2,069.2 million during 2003 as compared to $1,267.2 million during 2002. The increase in amortization of MSRs was primarily due to a reduction in future estimated net MSR cash flows primarily due to forecasted higher mortgage prepayments in 2003 when compared to 2002, coupled with an increase in the cost basis of the MSRs related to the larger servicing portfolio.

Impairment or Recovery of Retained Interests and Servicing Hedge Gains

Impairment of retained interests and Servicing Hedge gains are detailed below for 2003 and 2002:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Impairment of retained interests:		
MSRs	**$ 1,326,741**	$ 3,304,991
Other retained interests (permanent)	**106,224**	110,320
	$ 1,432,965	$ 3,415,311
Servicing Hedge gains recorded through earnings	**$ 234,823**	$ 1,787,886

During 2003 and 2002, impairment of MSRs and other retained interests resulted from a reduction in the estimated fair value of those investments, which was primarily driven by the decline in mortgage rates during these periods.

Rising mortgage rates in the future should result in an increase in the estimated fair value of the MSRs and recovery of all or a portion of the impairment reserve. The MSR amortization rate, which is tied to the expected net cash flows from the MSRs, likewise should reduce as mortgage rates rise.

During the first part of 2003, long-term Treasury and swap rates declined, resulting in a Servicing Hedge gain of $234.8 million for 2003. During 2002, the Servicing Hedge generated a gain of $1,787.9 million.

The Servicing Hedge is intended to moderate the effect on earnings caused by changes in the estimated fair value of MSRs and other retained interests that generally result from changes in mortgage rates. Rising interest rates in the future will result in Servicing Hedge losses.

Net Insurance Premiums Earned

The increase in net insurance premiums earned is primarily due to a 30% increase in policies-in-force.

Commissions and Other Income

Commissions and other income consisted of the following for 2003 and 2002:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Global Operations Segment processing fees	**$ 78,043**	$ 48,404
Credit report fees, net	**69,424**	57,142
Appraisal fees, net	**68,922**	46,265
Insurance agency commissions	**52,865**	56,348
Title services	**49,922**	35,554
Other	**145,586**	115,142
	$ 464,762	$ 358,855

The increase in processing fees earned in the Global Operations Segment was due to growth in the number of loans processed.

The increase in credit report, appraisal and title service fees is primarily due to the increase in our loan origination volume.

The decrease in insurance agency commissions is due to discontinuation of the agency's home warranty and auto lines.

Compensation Expenses

Compensation expenses are summarized below for 2003 and 2002:

	Year Ended December 31, 2003			
(Dollar amounts in thousands)	**Mortgage Banking**	**Other Businesses**	**Corporate Administration**	**Total**
Base salaries	**$ 906,982**	**$ 232,910**	**$ 204,416**	**$1,344,308**
Incentive bonus and commissions	**1,063,431**	**156,453**	**66,080**	**1,285,964**
Payroll taxes and benefits	**266,590**	**44,333**	**48,297**	**359,220**
Deferral of loan origination costs	**(405,729)**	**—**	**—**	**(405,729)**
Total compensation expenses	**$ 1,831,274**	**$ 433,696**	**$ 318,793**	**$2,583,763**
Average workforce, including temporary staff	**25,415**	**5,003**	**3,142**	**33,560**

	Year Ended December 31, 2002			
(Dollar amounts in thousands)	Mortgage Banking	Other Businesses	Corporate Administration	Total
Base salaries	$ 630,209	$ 180,030	$ 166,123	$ 976,362
Incentive bonus and commissions	595,272	114,324	60,745	770,341
Payroll taxes and benefits	139,298	33,415	49,338	222,051
Deferral of loan origination costs	(197,467)	—	—	(197,467)
Total compensation expenses	$ 1,167,312	$ 327,769	$ 276,206	$ 1,771,287
Average workforce, including temporary staff	17,619	3,845	2,600	24,064

Compensation expenses increased $812.5 million, or 46%, during 2003 as compared to 2002.

Compensation expenses in the Mortgage Banking Segment increased primarily due to growth in the level of loan production activity. In the Loan Production Sector, compensation expenses increased $595.2 million, or 65%, reflecting a 64% increase in loan production coupled with a 55% increase in average staff. Salaries rose 55% and incentive bonus and commissions rose 79%. The relative increase in incentive bonuses and commissions reflects a shift toward a more incentive-based compensation structure within our loan production operations. In the Loan Servicing Sector, compensation expense rose $49.0 million, or 25%, as a result of an increase in average staff of 21% to support a 28% increase in the number of loans serviced and an 81% increase in the number of loan payoffs. Compensation expenses in the Loan Closing Services increased $19.7 million, or 36%, as a result of an increase in average staff of 18% to support increased activity in this sector.

Incremental direct costs associated with the origination of loans are deferred when incurred. When the related loan is sold, the costs deferred are included as a component of gain on sale. See "Note 2 — Summary of Significant Accounting Policies — Financial Statement Reclassifications" in the financial statement section of this Report for a further discussion of deferred origination costs.

Compensation expenses increased in all other business segments, reflecting their growth.

In our Insurance Segment, compensation expenses increased by $4.1 million, or 4%, as a result of an increase of 11% in average staff to support growth of 30% in net earned premiums and growth in the Insurance Segment's third-party insurance tracking operation.

In the Capital Markets Segment, incentive bonuses increased $35.1 million, or 34%, reflecting growth in revenues of 81%.

Banking Segment compensation expenses increased by $31.9 million, or 110%, to accommodate the growth of the Bank's operations, primarily in its labor-intensive mortgage document custodian business.

Compensation expenses in our Global Operations Segment increased $26.5 million, or 47%, as a result of an increase in average staff of 31% resulting from the addition of a facility to process the additional volume of loans serviced in GHL.

Compensation expenses for Corporate Administration increased $42.6 million, or 15%, in 2003 as compared to 2002 due to an increase in average staff of 21% to support the Company's overall growth.

Occupancy and Other Office Expenses

Occupancy and other office expenses for the year ended December 31, 2003 increased primarily to accommodate personnel growth in our loan production operations, which accounted for 67% of the increase, as well as growth in our corporate operations, which accounted for 26% of the increase in this expense.

Insurance Claims Expenses

Insurance claim expenses were $360.0 million, or 49%, of net insurance premiums earned for 2003, as compared to $277.6 million, or 49%, of net insurance premiums earned for 2002. The increase in insurance claim expenses was attributable to higher net premiums earned and an increase in insurance claims expenses of Balboa Reinsurance, of $31.5 million over 2002. Reinsurance claims expenses are a function of expected remaining losses and premiums. These increases were partially offset by improvement in the loss ratio at Balboa Life and Casualty. The loss ratio (including allocated loss adjustment expenses) of Balboa Life and Casualty was 55% and 58% for 2003 and 2002, respectively.

Other Operating Expenses

Other operating expenses for 2003 and 2002 are summarized below:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Insurance commission expense	**$ 138,853**	$ 117,030
Professional fees	**111,643**	57,748
Marketing expenses	**103,902**	86,278
Bad debt expense	**84,420**	73,457
Travel and entertainment	**63,295**	45,071
Software amortization and impairment	**46,136**	39,255
Insurance	**40,298**	19,779
Taxes and licenses	**32,323**	24,577
Deferral of loan origination costs	**(64,375)**	(41,445)
Other	**94,122**	56,835
	$ 650,617	$ 478,585

Insurance commission expense as a percentage of insurance premiums earned declined from 21% in 2002 to 19% in 2003 primarily due to reduced contingent commissions accruing to insurance agents as a result of higher than anticipated insured losses on certain lender-placed auto policies. Contingent commissions are paid only on certain lender-placed auto policies sourced through agents.

Professional fees increased from the prior period due primarily to increased legal costs and consulting services.

Bad debt expense consists primarily of losses during the period arising from unreimbursed servicing advances on defaulted loans, credit losses arising from repurchased or indemnified loans and defaulted VA-guaranteed loans. (See the "Credit Risk Management" section of this Report for a further discussion of credit risk.)

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2002 TO THE TEN MONTHS ENDED DECEMBER 31, 2001

Consolidated Earnings Performance

Our diluted earnings per share for the year ended December 31, 2002 totaled $4.87, a 67% increase over diluted earnings per share for the ten months ended December 31, 2001. Net earnings increased 73% from the ten months ended December 31, 2001. This earnings performance was driven mainly by the increased level of residential mortgage loans we produced — $251.9 billion during the year ended December 31, 2002 in comparison to $124.0 billion for the ten months ended December 31, 2001. In addition, the year ended December 31, 2002 is compared to a transition period consisting of ten months.

Industry-wide, residential mortgage originations were approximately $2.7 trillion during calendar 2002, up from approximately $2.0 trillion in calendar 2001 (Source: *Inside Mortgage Finance*). Approximately 62% of the residential mortgages produced in calendar 2002 were refinances of existing mortgages triggered by historically low mortgage rates. The balance of mortgages produced related to home purchases.

The record demand for residential mortgages not only drove record loan production volumes for Countrywide, but also high loan production margins. The combination of record volumes and high margins increased our Loan Production Sector pre-tax earnings to $2.4 billion for the year ended December 31, 2002, an increase of 162%, or $1.5 billion from the ten months ended December 31, 2001.

The high levels of mortgage refinances and home purchases in the year ended December 31, 2002 resulted in significant prepayments within our mortgage loan servicing portfolio during the year. This, along with the expectation of continued higher-than-normal prepayments due to historically low mortgage rates, resulted in significant amortization and impairment of the Company's MSRs and other retained interests in the year ended December 31, 2002. The combined amount of amortization and impairment of MSRs and other retained interests, net of Servicing Hedge gains, was $2.9 billion. This resulted in a pre-tax loss of $1.5 billion in the Loan Servicing Sector in the year ended December 31, 2002, $1.1 billion more than the pre-tax loss in the ten months ended December 31, 2001.

Overall, the Mortgage Banking Segment generated pre-tax earnings of $975.1 million for the year ended December 31, 2002, an increase of 58% over the ten months ended December 31, 2001.

Our non-mortgage banking businesses also were significant contributors to Countrywide's record earnings performance in the year ended December 31, 2002. In particular, our Capital Markets Segment had pre-tax earnings of $199.9 million for the year ended December 31, 2002, as compared to $81.2 million for the ten months ended December 31, 2001. Capital Markets has grown its core franchise significantly over the last five years and is now among the leading investment banking firms in its niche, the mortgage securities market. This segment continued to benefit from robust activity in the mortgage securities market, as well as from a highly favorable interest rate environment. In total, our non-mortgage banking businesses contributed $367.9 million in pre-tax earnings for the year ended December 31, 2002, an increase of 117% from $169.6 million for the ten months ended December 31, 2001.

Operating Segment Results

Pre-tax earnings by segment are summarized below:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Mortgage Banking:		
Production	$ 2,394,963	$ 915,130
Servicing	(1,489,796)	(350,810)
Closing Services	69,953	54,653
Total Mortgage Banking	975,120	618,973
Other Businesses:		
Capital Markets	199,876	81,160
Banking	83,971	12,431
Insurance	74,625	76,342
Global Operations	5,282	1,942
Other	4,149	(2,229)
Total Other Businesses	367,903	169,646
Pre-tax earnings	$ 1,343,023	$ 788,619

Mortgage loan production by segment and product is summarized below:

(Dollar amounts in millions)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Segment:		
Mortgage Banking	$ 242,437	$ 121,002
Capital Markets' conduit acquisitions	8,659	2,967
Treasury Bank	805	—
	$ 251,901	$ 123,969
Product:		
Prime	$ 230,830	$ 112,750
Prime Home Equity	11,650	5,639
Subprime	9,421	5,580
	$ 251,901	$ 123,969

Mortgage Banking Segment

The Mortgage Banking Segment includes Loan Production, Loan Servicing and Loan Closing Services.

Loan Production Sector

Our Loan Production Sector produces mortgage loans through CHL's three production divisions — Consumer Markets, Wholesale Lending and Correspondent Lending and through Full Spectrum Lending, Inc.

The pre-tax earnings of the Loan Production Sector are summarized below:

(Dollar amounts in thousands)	Year Ended December 31, 2002		Ten Months Ended December 31, 2001	
	Dollars	Percent of Loan Production Volume	Dollars	Percent of Loan Production Volume
Revenues	$ 3,914,687	1.62%	$ 1,760,608	1.46%
Expenses:				
Operating expenses	1,272,411	0.53%	704,204	0.58%
Allocated corporate expenses	247,313	0.10%	141,274	0.12%
Total expenses	1,519,724	0.63%	845,478	0.70%
Pre-tax earnings	$ 2,394,963	0.99%	$ 915,130	0.76%

Strong demand for mortgages enabled the Loan Production Sector to achieve significant growth in revenues and earnings in the year ended December 31, 2002 in comparison to the ten months ended December 31, 2001. This performance was enhanced by a significant increase in market share during the year. Our mortgage origination market share was 9.4% in calendar 2002, up from 6.6% in calendar 2001 (Source: *Inside Mortgage Finance*). Favorable market conditions allowed us to increase revenues earned on prime home loans, while high productivity levels during the year ended December 31, 2002 helped keep unit costs low. These factors combined to produce record profit margins (pre-tax earnings as a percentage of loan volume) for the Loan Production Sector.

The following table shows total loan volume by division:

(Dollar amounts in millions)	Mortgage Banking Loan Production	
	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Correspondent Lending Division	$ 109,474	$ 42,502
Wholesale Lending Division	67,188	39,312
Consumer Markets Division	62,189	37,357
Full Spectrum Lending, Inc.	3,586	1,831
	$ 242,437	$ 121,002

Our mortgage banking loan production for the year ended December 31, 2002 increased 100% in comparison to the ten months ended December 31, 2001. The increase was due to a rise in both purchase and non–purchase loan production of 86% and 109%, respectively. The increase in purchase-money loans is significant because this is the relatively stable growth component of the mortgage market, with average annual growth of 8% over the last 10 years. (The non-purchase, or refinance, component of the mortgage market is highly volatile because it is driven almost exclusively by prevailing mortgage rates.) All divisions, in particular Correspondent Lending, contributed to the increase in origination volume. The Correspondent Lending Division has benefited most from the consolidation trend in our industry. In calendar 2002, the top five correspondent lenders combined had a 58% share of the correspondent origination market, up from 37% in 1998.

The following table summarizes loan production by purpose and interest rate type:

(Dollar amounts in millions)	Mortgage Banking Loan Production	
	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Purpose:		
Purchase	$ 83,552	$ 45,036
Non-purchase	158,885	75,966
	$ 242,437	$ 121,002
Interest Rate Type:		
Fixed-Rate	$ 209,733	$ 107,306
Adjustable-Rate	32,704	13,696
	$ 242,437	$ 121,002

As shown in the following table, the volume of Prime Home Equity and Subprime Mortgage Loans produced (which is included in the total volume of loans we produced) increased 94% during the year ended December 31, 2002 as compared to the ten months ended December 31, 2001:

(Dollar amounts in millions)	Mortgage Banking Prime Home Equity and Subprime Mortgage Production	
	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Prime home equity loans	$ 10,848	$ 5,639
Subprime	6,590	3,418
	$ 17,438	$ 9,057
Percent of total loan production	7.2%	7.4%

Prime Home Equity and Subprime Mortgage Loans carry higher profit margins historically and the demand for such loans is believed to be less rate sensitive than the demand for prime home loans. Consequently, Management believes these loans will be a significant component of the sector's future growth, in particular if mortgage rates should rise significantly.

During the year ended December 31, 2002, the Loan Production Sector operated at approximately 114% of planned operational capacity. The primary capacity constraint in our loan origination activities is the number of loan operations personnel we have on staff. Therefore, we measure planned capacity by multiplying the number of loan operations personnel we have by the number of loans we expect each available loan operations staff person to process under normal conditions. In the year ended December 31, 2002, we continued to increase the number of sales and operations staff in our loan production divisions to capitalize on the current market environment.

In recent years, our Consumer Markets Division has commenced a fundamental restructuring of its business model primarily by building a "best-in-class" sales organization. This organization consists of a dedicated commissioned sales force and the attendant management, systems and operations support. In addition, the Consumer Markets Division has begun to centralize some of its processing operations to create more flexible processing capacity to support its expanded sales organization, as well as its growing portfolio retention effort. At December 31, 2002 the commissioned sales force (external home loan consultants) numbered 2,484, an increase of 1,090 during the year. The primary focus of the external home loan consultants is to increase overall purchase market share. External home loan consultants contributed $13.5 billion in purchase originations in the year ended December 31, 2002, a 119% increase over the ten months ended December 31, 2001. The purchase production generated by the external home loan consultants represented 63% of the Consumer Market Division's purchase production for the year ended December 31, 2002. At December 31, 2002, the Consumer Markets Division had 424 branches and 19 regional processing centers nationwide. During the year ended December 31, 2002, the regional processing centers handled 9.3% of the division's total loan volume.

Like the Consumer Markets Division, the Wholesale Lending Division has focused on improving its sales efforts. The division has created specialized sales units that cater to individual segments of the wholesale market (e.g., large regional and national brokers). In addition, the Wholesale Lending Division continued to make improvements in its business partner website ("CWBC.com"), which was used by its business partners in 93% of the loans produced by the division in the year ended December 31, 2002. To improve efficiency and quality control, the division centralized processing of its subprime loans in the year ended December 31, 2002.

During the year ended December 31, 2002, the Correspondent Lending Division added significant capacity by adding temporary staff, moving to multiple shifts, implementing accelerated training classes and increasing the use of electronic data interfaces with customers. This strategy allowed the division to quickly adjust to changes in the origination market.

Loan Servicing Sector

Our Loan Servicing Sector reflects the performance of the Company's investments in MSRs and other retained interests and associated risk management activities, as well as profits from subservicing activities in the United States. The Loan Servicing Sector incorporates a significant processing operation, consisting of approximately five thousand employees who service the Company's 4.0 million mortgage customers. How effectively this servicing operation manages costs and generates ancillary income from the portfolio has a significant impact on the long-term performance of this sector.

The following table summarizes the Loan Servicing Sector pre-tax loss:

	Year Ended December 31, 2002		Ten Months Ended December 31, 2001	
(Dollar amounts in thousands)	Amount	Percentage of Average Servicing Portfolio	Amount	Percentage of Average Servicing Portfolio[1]
Revenues	$ 2,050,031	0.542%	$ 1,557,049	0.608%
Servicing Hedge gains	1,787,886	0.473%	908,993	0.355%
Amortization	(1,267,249)	(0.335)%	(805,533)	(0.314)%
Impairment	(3,415,311)	(0.904)%	(1,472,987)	(0.575)%
Operating expenses	(346,121)	(0.092)%	(268,193)	(0.105)%
Allocated corporate expenses	(86,502)	(0.022)%	(55,921)	(0.022)%
Interest expense, net	(212,530)	(0.056)%	(214,218)	(0.084)%
Pre-tax loss	$ (1,489,796)	(0.394)%	$ (350,810)	(0.137)%
Average Servicing Portfolio	$377,999,000		$ 307,386,000	

[1] *Annualized.*

The Loan Servicing Sector experienced significant losses during the year ended December 31, 2002. This was expected, given the increasing level of refinance activity driven by mortgage rates that reached 40-year lows. The Company's MSRs and other retained interests represent the present value of cash flow streams that are closely linked to the expected life of the underlying servicing portfolio. The continued high level of actual and forecasted prepayment activity reduced the life of the servicing portfolio and thus the value of our MSRs and other retained interests, as reflected by the combined impairment and amortization charge of $4.7 billion incurred in the year ended December 31, 2002.

The Servicing Hedge generated a gain of $1.8 billion during the year ended December 31, 2002, which partially offset the combined impairment and amortization charge. Amortization and impairment, net of the Servicing Hedge, was $2.9 billion for the year ended December 31, 2002, an increase of $1.5 billion over the ten months ended December 31, 2001. In a stable interest rate environment, Management would expect no significant impairment and would expect to incur expenses related to the Servicing Hedge driven primarily by the composition of the hedge, the shape of the yield curve and the level of interest rate volatility.

During the year ended December 31, 2002, we securitized a portion of our net servicing fees ("excess servicing"). Proceeds from the sale of these securities amounted to $566.6 million. Management believes such securitizations enable us to more efficiently manage our capital.

Despite the level of prepayments, we increased our servicing portfolio to $452.4 billion at December 31, 2002, representing a 34% increase compared to December 31, 2001.

Loan Closing Services Sector

Our LandSafe companies produced $70.0 million in pre-tax earnings in the year ended December 31, 2002, representing a 28% increase over the ten months ended December 31, 2001. The increase in LandSafe's contribution to pre-tax earnings was primarily due to our increased loan production.

__Non-Mortgage Banking Businesses__

The Company's other business segments include Capital Markets, Banking, Insurance and Global Operations. Pre-tax earnings from these businesses increased $198.3 million, or 117%, to $367.9 million in the year ended December 31, 2002 compared to the ten months ended December 31, 2001.

Capital Markets Segment

Our Capital Markets Segment achieved pre-tax earnings of $199.9 million for the year ended December 31, 2002, an increase of $118.7 million, or 146% compared to the ten months ended December 31, 2001. Total revenues were $374.4 million, an increase of $188.2 million, or 101% compared to the ten months ended December 31, 2001. Total securities trading volume increased 70% to $2.0 trillion. This performance was largely driven by a highly favorable operating environment consisting of a robust mortgage securities market, high mortgage securities price volatility and low short-term financing costs.

The following table shows the pre-tax income of the Capital Markets Segment:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Revenues:		
Conduit	$ 111,333	$ 76,465
Securities Trading	139,688	69,245
Underwriting	94,219	39,103
Brokering	20,740	3,294
Other	8,452	(1,889)
Total Revenues	374,432	186,218
Expenses:		
Operating expenses	172,290	102,578
Allocated corporate expenses	2,266	2,480
Total Expenses	174,556	105,058
Pre-tax income	$ 199,876	$ 81,160

The following table shows the composition of CSC's securities trading volume, which includes intersegment trades with our mortgage banking operations, by instrument:

(Dollar amounts in millions)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Mortgage-backed securities	$ 1,854,767	$ 1,089,406
Government agency debt	77,117	48,346
Asset-backed securities	52,536	20,460
Other	8,426	11,142
	$ 1,992,846	$ 1,169,354

CSC has successfully increased its share of the mortgage securities market as evidenced by its league table rankings in industry publications. Most notably, CSC was ranked fourth in underwriting non-agency MBS in calendar 2002, up from seventh in calendar 2001 (Source: *Inside MBS and ABS*). The increase in market share is the result of increased sales penetration achieved through an expansion of the sales force, an increase in trading personnel, the effective use of market and product research to attract institutional customers and an increase in mortgage conduit activities during the year ended December 31, 2002. Approximately 13% of the segment's total trading volume was with CHL in the year ended December 31, 2002.

Banking Segment

Our Banking Segment commenced operations in calendar 2001. The segment achieved pre-tax earnings of $84.0 million for the year ended December 31, 2002. The following table shows the composition of pre-tax earnings by company.

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Treasury Bank ("Bank") [(1)]	$ 51,721	$ 120
Countrywide Warehouse Lending ("CWL")	32,560	12,541
Allocated corporate expenses	(310)	(230)
	$ 83,971	$ 12,431

[(1)] *Treasury Bank was acquired in May 2001.*

The Bank produced pre-tax earnings of $51.7 million for the year ended December 31, 2002. The overall increase in pre-tax earnings from the ten months ended December 31, 2001 was primarily due to an increase in net interest income arising from growth in average earning assets and approximately $18.0 million in intersegment profits resulting from document custodian services provided to our mortgage banking operation. Average earning assets increased to $3.4 billion for the year ended December 31, 2002, an increase of $2.8 billion in comparison to the ten months ended December 31, 2001. Asset growth was funded primarily by the transfer of mortgagor and investor impound accounts controlled by CHL from third-party banks to the Bank, a capital contribution from Countrywide Financial Corporation, Federal Home Loan Bank advances and growth in the Bank's retail deposit base. The Bank's pre-tax return on assets for the year ended December 31, 2002 was 1.5%. The composition of the Bank's assets was as follows:

(Dollar amounts in thousands)	December 31, 2002	December 31, 2001
Cash	$ 163,547	$ —
Short term investments	300,000	172,758
Mortgage loans, net	1,902,793	35,781
Investment securities classified as available-for-sale	2,590,789	615,513
Other assets	153,690	12,264
Total	$ 5,110,819	$ 836,316

CWL's pre-tax earnings increased by $20.0 million during the year ended December 31, 2002 in comparison to the ten months ended December 31, 2001. This was primarily due to the growth in average outstanding mortgage warehouse advances partially offset by a decline in the average net spread from 2.3% during the ten months ended December 31, 2001 to 2.1% during the year ended December 31, 2002. For the year ended December 31, 2002, average mortgage warehouse advances outstanding were $1.8 billion, an increase of $1.0 billion in comparison to the ten months ended December 31, 2001. The growth in average advances was primarily attributable to the overall increased level of mortgage originations.

Insurance Segment

Our Insurance Segment pre-tax earnings decreased 2% from the ten months ended December 31, 2001, to $74.6 million during the year ended December 31, 2002. The decline in pre-tax earnings was attributable to a significant reduction in pre-tax earnings in the Balboa Life and Casualty Operations. Following are the pre-tax earnings by business line:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Balboa Reinsurance Company	$ 84,514	$ 49,366
Balboa Life and Casualty Operations	1,145	30,596
Allocated corporate expenses	(11,034)	(3,620)
	$ 74,625	$ 76,342

The following table shows net earned premiums:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Balboa Life and Casualty Operations	$ 478,864	$ 267,572
Balboa Reinsurance	82,817	48,860
	$ 561,681	$ 316,432

Our mortgage reinsurance business produced $84.5 million in pre-tax earnings, a 71% increase in comparison to the ten months ended December 31, 2001, driven by a 69% increase in net earned premiums. The increase in net earned premiums resulted from a 25% increase in the number of policies-in-force driven by growth in our loan servicing portfolio, coupled with an overall increase in the ceded premium percentage.

Our Life and Casualty insurance operations produced a pre-tax earnings of $1.1 million, a decrease in earnings of $29.5 million, or 96%, compared to the ten months ended December 31, 2001. Although the prior period included only ten months, the additional two months of earnings in the year ended December 31, 2002 was more than offset by lower investment portfolio income and higher than expected claims costs related to certain homeowners' reinsurance contracts that were later terminated. Additional insurance claim expenses also were recorded related to certain other lender-placed insurance contracts due to observed losses higher than expectations. These lender-placed insurance contracts were later favorably renegotiated. These amounts were partially offset by a $211.3 million, or 79%, increase in premiums earned during the year ended December 31, 2002 compared to the ten months ended December 31, 2001. Balboa Life and Casualty's overall loss ratio was 58% and 51% in the year ended December 31, 2002 and in the ten months ended December 31, 2001, respectively.

Balboa manages its insurance risk by reinsuring portions of its insured risk. Balboa seeks to earn profits by capitalizing on Countrywide's customer base and institutional relationships, as well as through operating efficiencies and sound underwriting.

Balboa Reinsurance historically has not realized insurance losses, owing to a generally strong economy, an even stronger housing market and the age of the underlying insured loans. During the year, we revised our reinsurance contracts, to provide additional coverage in exchange for additional ceded premiums. Management expects Balboa Reinsurance to incur insurance losses in the future as the underlying insured loans continue to age.

Global Operations Segment

For the year ended December 31, 2002, our Global Operations Segment's pre-tax earnings totaled $5.3 million, representing an increase of $3.3 million in comparison to the ten months ended December 31, 2001. Results in the current period were positively affected by the recognition of higher technology licensing fees related to GHL's increased processing volumes for both originations and servicing.

In the fourth quarter of 2002, Global Home Loans Limited ("GHL") finalized an agreement with Barclays, plc, its joint venture partner, to provide origination processing, subservicing and delinquent servicing. GHL expanded its total volume of loans subserviced in the U.K. to over $91.8 billion, or over 1.2 million mortgage loans. In the future, GHL plans to provide its services to other financial institutions in the U.K.

Detailed Discussion of Consolidated Revenue and Expense Items

Gain on Sale of Loans and Securities

Gain on sale of loans and securities is summarized below for the year ended December 31, 2002 and the ten months ended December 31, 2001:

(Dollar amounts in thousands)	Year Ended December 31, 2002 Dollars	Year Ended December 31, 2002 Percentage of Loans Sold	Ten Months Ended December 31, 2001 Dollars	Ten Months Ended December 31, 2001 Percentage of Loans Sold
Mortgage Banking:				
Prime Mortgage Loans	$2,755,570	1.22%	$1,213,331	1.07%
Subprime Mortgage Loans	390,721	4.51%	229,178	5.29%
Prime Home Equity Loans	230,774	3.21%	56,303	3.86%
	3,377,065	1.40%	1,498,812	1.26%
Re-performing loans	92,233	4.07%	48,981	2.77%
	3,469,298		1,547,793	
Capital Markets:				
Trading securities	(98,879)		(19,209)	
Conduit activities	79,227		61,126	
	(19,652)		41,917	
Other	21,572		12,280	
	$3,471,218		$1,601,990	

Gain on sale of loans and securities increased in the year ended December 31, 2002 primarily due to higher production and sales volume and higher margins on Prime Mortgage Loans. Margins on Subprime Mortgage Loans and Prime Home Equity Loans declined primarily due to a change in production channel mix. WLD and CLD produced a larger percentage of these mortgages; these two divisions traditionally have lower margins than our retail channels. Margins on Prime Mortgage Loans were high in both periods on a relative historical basis, due largely to the very favorable mortgage market environment that prevailed during those periods. The market was characterized by record consumer demand for mortgages and modest price competition by historical industry standards. Management expects margins, particularly on prime home loans, to decline in the future as the level of mortgage originations subsides.

The reduction in Capital Markets' gain on sale of securities was largely due to the impact of the steepening yield curve on the mix of its revenues. Capital Markets' revenues from its trading activities consist of gains on the sale of securities and net interest income. In a very steep yield curve environment, trading revenues will derive largely or entirely from net interest income earned during the securities' holding period. As the yield curve flattens, the mix of revenues will shift toward gain on sale of securities.

In general, gain on sale of loans and securities is affected by numerous factors including the volume and mix of loans sold, production channel mix, the level of price competition and the slope of the yield curve.

Net Interest Income

Net interest income is summarized below for the year ended December 31, 2002 and for the ten months ended December 31, 2001:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Net interest income:		
Mortgage loans and securities held for sale	$ 491,765	$ 257,468
Capital Markets securities trading portfolio	339,341	123,623
Servicing Sector interest expense	(316,425)	(254,213)
Re-performing FHA and VA loans	134,191	55,161
Banking Segment loans and securities	99,897	20,508
Custodial balances	(34,186)	104,484
Home equity AAA asset-backed securities	33,669	—
Insurance Segment investments	27,773	21,921
Other	16,205	2,925
Net interest income	$ 792,230	$ 331,877

The increase in net interest income from mortgage loans and securities held for sale reflects the growth in mortgage production combined with a higher overall net earnings rate that was attributable to a relative decline in financing rates during the year ended December 31, 2002. We finance the major portion of our mortgage loans and securities held for sale at prevailing short-term borrowing rates, which declined relative to the rate earned on the loans and securities held for sale when compared to the ten months ended December 31, 2001.

The increase in net interest income from the Capital Markets securities trading portfolio is attributable to an increase in the average net spread earned, partially offset by a decrease in the average inventory of securities held. The increase in the average net spread was also attributable to the relative decline in short-term financing rates.

The increase in interest expense in the Loan Servicing Sector is due primarily to a full year of interest expense in the current period compared to ten months of interest expense in the prior period.

Re-performing FHA and VA loans are reinstated loans that had previously defaulted and were consequently re-purchased from mortgage securities issued by Countrywide or others. Such loans are subsequently securitized and re-sold. The increase in interest income related to this activity results from an increase in the volume of such loans purchased during the year ended December 31, 2002.

The increase in net interest income from the Banking Segment was largely attributable to year-over-year asset growth both in Treasury Bank and in our warehouse lending activities and in an increase in the average net spread from 1.80% in the ten months ended December 31, 2001 to 1.94% in the year ended December 31, 2002. Average assets in the Banking Segment increased to $5.2 billion in the year ended December 31, 2002, an increase of $3.8 billion in comparison to the ten months ended December 31, 2001.

Net interest income from custodial balances decreased due to a decline in the earnings rate, which is tied to short-term rates, from 3.2% in the ten months ended December 31, 2001 to 1.6% in the year ended December 31, 2002. The decrease in the earnings rate was partially offset by a $2.5 billion, or 28%, increase in the average custodial balances during the year ended December 31, 2002 compared to the ten months ended December 31, 2001, resulting from a larger portfolio and higher loan payoffs. (Custodial balances rise as loan payoffs increase because we hold the payoff funds for periods ranging from 2 to 45 calendar days, depending on the payoff date and the investor servicing agreement.) Net interest income from custodial balances decreased also as a result of the general requirement of loan servicers to pass through interest on paid-off loans at the underlying security rates, which were significantly higher than the short-term rates we earned. This reduced net interest income from custodial balances by $218.8 million and $133.5 million in the year ended December 31, 2002 and the ten months ended December 31, 2001, respectively.

The increase in net interest income from Prime Home Equity AAA asset-backed securities is due to an increase in the average balance of securities held.

Loan Servicing Fees and Other Income from Retained Interests

Loan servicing fees and other income from retained interests is summarized below for the year ended December 31, 2002 and the ten months ended December 31, 2001:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Service fees, net of guarantee fees	$ 1,439,001	$ 1,005,797
Income from other retained interests	238,108	135,918
Late charges	129,675	97,767
Prepayment penalties	118,215	74,814
Ancillary fees	54,181	35,943
Global Operations Segment subservicing fees	49,742	17,142
	$ 2,028,922	$ 1,367,381

The increase in servicing fees, net of guarantee fees, was due to a full year of earnings in the current period compared to ten months of earnings in the prior period, combined with a 23% increase in the average servicing portfolio. This increase was partially offset by a small reduction in the overall annualized net service fee earned from 0.39% of the average portfolio balance during the ten months ended December 31, 2001 to 0.38% during the year ended December 31, 2002. The reduction in the overall net service fee was largely due to the securitization of excess service fees during the year ended December 31, 2002.

The increase in income from other retained interests was due to a full year of earnings in the year ended December 31, 2002 compared to ten months of earnings in 2001, combined with a 20% increase in investment balances during the year ended December 31, 2002 and an increase in the yield of these investments from 16.2% in the ten months ended December 31, 2001 to 19.9% in the year ended December 31, 2002. These investments include interest-only and principal-only securities as well as residual interests that arise from the securitization of nonconforming mortgage loans, particularly Subprime Mortgage and Prime Home Equity Loans.

Higher prepayment penalty income in the year ended December 31, 2002 corresponded to the increase in Subprime loan payoffs during the year ended December 31, 2002.

The increase in subservicing fees earned in the Global Segment was primarily due to growth in the portfolio subserviced in the year ended December 31, 2002 combined with a change in accounting for GHL from the equity method to consolidation with CFC, resulting from an increase in our ownership interest in GHL in July 2001.

Amortization of Mortgage Servicing Rights

We recorded amortization of MSRs of $1,267.2 million during the year ended December 31, 2002 as compared to $805.5 million during the ten months ended December 31, 2001. The increase in amortization of MSRs was primarily due to a reduction in future estimated net MSR cash flows, primarily because of forecasted higher mortgage prepayments when compared to the year-ago period, coupled with an increase in the cost basis of the MSRs related to the larger servicing portfolio. In addition, the current period includes one year of amortization while the prior period includes only ten months. The MSR amortization rate should decline as mortgage rates rise.

Impairment or Recovery of Retained Interests and Servicing Hedge Gains

Impairment of retained interests and Servicing Hedge gains are detailed below for the year ended December 31, 2002 and the ten months ended December 31, 2001:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Impairment of retained interests:		
MSRs:		
Impairment	$ 3,304,991	$ 857,380
Reduction of MSR cost basis through application of hedge accounting:		
Change in fair value attributable to hedged risk	—	466,397
Total impairment of MSRs	3,304,991	1,323,777
Other retained interests (permanent)	110,320	149,210
	$ 3,415,311	$ 1,472,987
Servicing Hedge gains	$ 1,787,886	$ 908,993

Impairment of MSRs and other retained interests resulted from a reduction in the estimated fair value of those investments driven primarily by declining mortgage rates during the year ended December 31, 2002 and the ten months ended December 31, 2001. Rising mortgage rates in the future should result in an increase in the estimated fair value of the MSRs and recovery of all or a portion of the temporary impairment.

Servicing Hedge gains were driven by declining interest rates during the year ended December 31, 2002 and the ten months ended December 31, 2001. The Servicing Hedge is intended to moderate the effect on earnings caused by changes in the fair value of MSRs and other retained interests that generally result from changes in mortgage rates. Rising interest rates in the future will result in Servicing Hedge losses.

Net Insurance Premiums Earned

The increase in net insurance premiums earned is primarily due to an increase in policies-in-force and an overall rise in reinsurance premium rates. In addition, a full year of earnings is included in the current period compared to ten months of earnings in the prior period.

Commissions and Other Revenue

Commissions and other revenue consisted of the following in the year ended December 31, 2002 and the ten months ended December 31, 2001:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Credit report fees, net	$ 57,142	$ 35,179
Insurance agency commissions	56,348	39,222
Global Operations Segment processing fees	48,404	18,387
Appraisal fees, net	46,265	35,771
Title services	35,554	32,960
Other	115,142	86,987
	$ 358,855	$ 248,506

The increase in credit report, appraisal and title services fees is primarily due to an increase in our loan production.

The increase in insurance agency commission was primarily due to the increase in the policies-in-force combined with a full year of earnings in the current period compared to ten months of earnings in the prior period.

The increase in processing fees earned in the Global Segment was primarily due to growth in the number of loans processed combined with a change in accounting for GHL from the equity method to consolidation with CFC, resulting from an increase in our ownership interest in GHL in July 2001.

Compensation Expenses

Compensation expenses are summarized below for the year ended December 31, 2002 and the ten months ended December 31, 2001:

	Year Ended December 31, 2002			
(Dollar amounts in thousands)	Mortgage Banking	Other Businesses	Corporate Administration	Total
Base salaries	$ 630,209	$ 180,030	$ 166,123	$ 976,362
Incentive bonus and commissions	595,272	114,324	60,745	770,341
Payroll taxes and benefits	139,298	33,415	49,338	222,051
Deferral of loan origination costs	(197,467)	—	—	(197,467)
Total compensation expenses	$ 1,167,312	$ 327,769	$ 276,206	$ 1,771,287
Average workforce, including temporary staff	17,619	3,845	2,600	24,064

	Ten Months Ended December 31, 2001			
(Dollar amounts in thousands)	Mortgage Banking	Other Businesses	Corporate Administration	Total
Base salaries	$ 384,368	$ 93,397	$ 109,475	$ 587,240
Incentive bonus and commissions	299,107	64,375	25,201	388,683
Payroll taxes and benefits	74,748	9,378	30,978	115,104
Deferral of loan origination costs	(122,795)	—	—	(122,795)
Total compensation expenses	$ 635,428	$ 167,150	$ 165,654	$ 968,232
Average workforce, including temporary staff	12,661	2,268	2,031	16,960

Compensation expense increased $803.1 million, or 83%, during the year ended December 31, 2002 in comparison to the ten months ended December 31, 2001. The increase is due to a full year of expense in the current period compared to ten months of expense in the prior period combined with growth in all areas of Countrywide, which is discussed below.

Compensation expense in the Mortgage Banking Segment increased due to growth both in the level of loan production activity and in the size of the loan servicing portfolio. In the Production Sector, compensation expense increased 95% (salaries rose by 72% and incentive bonuses rose by 100%) as a result of a 50% increase in average staff to support 100% higher loan production. The relative increase in incentive bonuses reflects a shift toward a more incentive-based compensation structure within the Production Sector. In the Loan Servicing Sector, compensation expense rose 50% as a result of an increase in average staff of 20% to support a 34% increase in the loan servicing portfolio and a 66% increase in loan payoff activity combined with a full year of expense in the current period compared to ten months in the prior period.

Compensation expense increased in all of the other business segments, reflecting their growth.

In the Insurance Segment, compensation expense increased by a combined $44.3 million, or 86%, as a result of a 41% increase in average staff to support 80% growth in written premiums and growth in the Insurance Segment's third-party insurance tracking operation, combined with a full year of expense in the current period compared to the ten months in the prior period.

Banking Segment compensation expense increased by $23.6 million from the prior period's start-up level of operations to accommodate the growth of the Bank's operations, primarily in its labor-intensive mortgage document custodian business.

In the Capital Markets Segment, incentive bonuses increased $45.4 million, or 79%, reflecting growth in revenues of 101%.

The increase in compensation expense in the Global Segment of $31.6 million reflects a change in accounting for GHL from the equity method to consolidation with CFC, resulting from an increase in our ownership interest in GHL in July 2001.

Compensation expense for Corporate Administration increased $110.6 million, or 67%, due to an increase in average staff of 28% (of which approximately one-third were related to corporate technology) to support the overall growth of Countrywide and higher incentive bonuses earned based on our increased profitability.

Occupancy and Other Office Expenses

Occupancy and other office expenses for the year ended December 31, 2002 increased primarily to accommodate personnel growth in our loan production operations, which accounted for 56% of the increase, as well as in the non-mortgage banking businesses, which accounted for 30% of the increase in this expense.

Insurance Claims Expenses

Insurance claims expenses were $277.6 million, or 49% of net insurance premiums earned for the year ended December 31, 2002, as compared to $134.8 million, or 43% of net insurance premiums earned for the ten months ended December 31, 2001. The increased loss ratio was attributable to Balboa Life and Casualty, whose loss ratio (including allocated loss adjustment expenses) increased from 51% for the ten months ended December 31, 2001 to 58% for the year ended December 31, 2002, due to higher claims experience in both voluntary homeowners' and lender-placed insurance lines. The level of losses recognized in a period depends on many factors, one being the occurrence of natural disasters.

Other Operating Expenses

Other operating expenses for the year ended December 31, 2002 and the ten months ended December 31, 2001 are summarized below:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Insurance commission expense	$ 117,030	$ 84,158
Marketing expenses	86,278	54,068
Bad debt expense	73,457	54,442
Professional fees	57,748	43,877
Travel and entertainment	45,071	23,874
Software amortization and impairment	39,255	31,625
Taxes and licenses	24,577	14,943
Insurance	19,779	10,166
Deferral of loan origination costs	(41,445)	(32,027)
Other	56,835	28,292
	$ 478,585	$ 313,418

Insurance commission expense as a percentage of insurance premiums earned declined from 27% to 21% between the ten months ended December 31, 2001 and the year ended December 31, 2002. This decline was due to reduced contingent commissions accruing to insurance brokers as a result of higher-than anticipated insured losses from policies subject to the contingent commission arrangements.

Bad debt expense consists primarily of losses during the period arising from un-reimbursed servicing advances on defaulted loans, credit losses on repurchased or indemnified loans and defaulted VA-guaranteed loans. (See the "Credit Risk" section of this Report for a further discussion.)

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary market risk we face is interest rate risk. The most predominate type of interest rate risk at Countrywide is price risk, which is the risk that the value of our assets or liabilities will change due to changes in interest rates. To a lesser extent, interest rate risk also includes the risk that the net interest income from our mortgage loan and investment portfolios will change in response to changes in interest rates. From an enterprise perspective, we manage this risk through the natural counterbalance of our loan production and servicing businesses. We also use various financial instruments, including derivatives, to manage the interest rate risk related specifically to our committed pipeline, mortgage loan inventory and MBS held for sale, MSRs, trading securities and other retained interests as well as a portion of our debt. The overall objective of our interest rate risk management activities is to reduce the variability of earnings caused by changes in interest rates. Our Corporate Asset/Liability Management Committee ("ALCO"), which is comprised of several of the Company's senior financial executives, maintains oversight of this risk.

Committed Pipeline and Mortgage Inventory

We are exposed to price risk from the time an interest rate lock commitment ("IRLC") is made to a mortgage applicant (or financial intermediary) to the time the related mortgage loan is sold. During this period, we are exposed to losses if mortgage rates rise, because the value of the IRLC or mortgage declines. To manage this price risk, we use derivatives, primarily forward sales of MBS and options to buy and sell MBS, as well as options on Treasury futures contracts.

The committed pipeline consists of loan applications in process where we have issued IRLCs to the applicants (or financial intermediaries). IRLCs guarantee the rate and points on the underlying mortgage for a specified period, generally from seven to sixty days. Managing the price risk related to the Committed Pipeline is complicated by the fact that the ultimate percentage of applications that close within the terms of the IRLC is variable. The primary factor that drives the variability of the closing percentage is changes in mortgage rates. In general, the percentage of applications in the Committed Pipeline that ultimately close within the terms of the IRLC increases if mortgage rates rise and decreases if mortgage rates fall. This is due primarily to the relative attractiveness of current mortgage rates compared to the applicants' committed rates. The closing percentage is also influenced by the source of the applications, age of the applications, purpose for the loans (purchase or refinance) and the application approval rate. We have developed closing ratio estimates for the Committed Pipeline using empirical data taking into account all of these variables. Our closing ratio estimates also take into account renegotiations of rate and point commitments that tend to occur when mortgage rates fall. Our closing ratio estimates are revised periodically using the most current empirical data.

To manage the price risk associated with the Committed Pipeline, we use a combination of net forward sales of MBS and "put" and "call" options on MBS or Treasury Futures. As a general rule, we enter into forward sales of MBS in an amount equal to the portion of the Committed Pipeline expected to close, assuming no change in mortgage rates. We acquire put and call options to protect against the variability of loan closings caused by changes in mortgage rates, using our current closing ratio estimates to determine the amount of optional coverage required.

We manage the price risk related to our Mortgage Loan Inventory primarily by entering into forward sales of MBS. The value of these forward sales moves in opposite direction to the value of the Mortgage Loan Inventory. We review our Committed Pipeline and Mortgage Inventory risk profiles on a daily basis.

We use the following derivative instruments in our risk management activities related to the Committed Pipeline and Mortgage Loan Inventory:

- **Forward Sales of MBS**: represents an obligation to sell a MBS at a specific price in the future; therefore, its value increases as mortgage rates rise.
- **Forward Purchases of MBS:** represents an obligation to buy a MBS at a specific price in the future; therefore, its value increases as mortgage rates fall.
- **Long Call Options on MBS:** represents a right to buy a MBS at a specific price in the future; therefore, its value increases as mortgage rates fall.
- **Long Put Options on MBS:** represents a right to sell a MBS at a specific price in the future; therefore, its value increases as mortgage rates rise.
- **Long Call Options on Treasury Futures**: represents a right to acquire a Treasury futures contract at a specific price in the future; therefore, its value increases as the benchmark Treasury rate falls.
- **Long Put Options on Treasury Futures:** represents a right to sell a Treasury futures contract at a specific price in the future; therefore, its value increases as the benchmark Treasury rate rises.
- **Short Eurodollar Futures Contracts:** represents a standardized exchange-traded contract, the value of which is tied to spot Eurodollar rates at specified future dates; therefore, its value increases when Eurodollar rates rise.

Mortgage Servicing Rights (MSRs) and Other Retained Interests

Our MSRs and other retained interests, specifically interest-only securities and residual securities, are generally subject to loss in value when mortgage rates decline. Declining mortgage rates generally precipitate increased consumer refinancing activity. Increased refinancing activity reduces the life of the loans underlying the MSRs and other retained interests, thereby reducing their value. Reductions in the value of these assets impact earnings through impairment charges. To moderate the effect on earnings of impairment, we maintain a portfolio of financial instruments, including derivatives, which increase in aggregate value when interest rates decline (the "Servicing Hedge").

We currently use the following financial instruments in our Servicing Hedge:

- **Interest Rate Floors:** represents a right to receive cash if a reference interest rate falls below a contractual strike rate; therefore, its value increases as reference interest rates fall. The reference interest rates used in the Company's interest rate floors include mortgage rates, Treasury rates and U.S. dollar ("USD") LIBOR.
- **U.S. Treasury Securities:** consists of notes and bonds with maturities ranging generally from ten to thirty years. As interest rates decrease, the values of these securities generally increase.
- **Long Treasury Futures:** represent the agreement to purchase a treasury security at a specific price in the future; therefore, its value increases as the benchmark Treasury rate falls.
- **Long Call Options on Treasury and Eurodollar futures:** represents a right to acquire a Treasury or Eurodollar futures contract at a specific price in the future; therefore, its value increases as the benchmark Treasury or Eurodollar deposit rate falls.
- **Long Put Options on Treasury and Eurodollar futures:** represents a right to sell a Treasury or Eurodollar futures contract at a specific price in the future; therefore, its value increases as the benchmark Treasury or Eurodollar deposit rate rises.
- **Long Call Options on MBS:** represents a right to buy a MBS at a specific price in the future; therefore, its value increases as mortgage rates fall.
- **Forward Purchases of MBS:** represents an obligation to buy a MBS at a specific price in the future; therefore, its value increases as mortgage rates fall.
- **Interest Rate Swaps:** represents a mutual agreement to exchange interest rate payments; one party paying a fixed-rate and another paying a floating rate tied to a reference interest rate (e.g., USD LIBOR). For use in the Servicing Hedge, we receive the fixed rate and pay the floating rate; therefore, the contract increases in value as rates fall.
- **Receiver Swaptions:** represents a right to enter into a predetermined Interest Rate Swap at a future date in which, upon exercise of its right, we receive the fixed rate and pay the floating rate; therefore, the contract increases in value as rates fall.
- **Payor Swaptions:** represents a right to enter into a predetermined Interest Rate Swap at a future date in which, upon exercise of its right, we pay the fixed rate and receive the floating rate; therefore, the contract increases in value as rates rise.
- **Principal-Only Securities:** consist of mortgage trust principal-only securities and Treasury principal-only securities ("Strips"). These securities have been purchased at discounts to their par value. As interest rates decrease, the values of these securities generally increase.

These instruments are used in tandem to manage the overall risk profile of the MSRs and other retained interests. We review our retained interests risk profile on a daily basis.

Trading Activities

In connection with our Capital Markets activities, we maintain a trading portfolio of fixed-income securities, primarily MBS. We are exposed to price changes in our trading portfolio arising from interest rate changes during the period we hold the securities. To manage this risk, we use the following derivative instruments:

- Forward Sales of To-Be-Announced ("TBA") MBS: represents an obligation to sell agency pass-through MBS that have not yet been issued at a specific price and at a specific date in the future; therefore, its value increases as mortgage rates rise.

- Forward Purchases of TBA MBS: represents an obligation to purchase agency pass-through MBS that have not yet been issued at a specific price at a specific date in the future; therefore, its value increases as mortgage rates fall.

- Forward Sale of U.S. Treasury Securities: represents a standardized exchange-traded agreement to sell a specific quantity of U.S. Treasury securities for a specific price at a specific date in the future; therefore, its value increases when interest rates rise.

- Short Fed Funds and Eurodollar Futures Contracts: represents a standardized exchange-traded contract, the value of which is tied to spot Fed Funds or Eurodollar rates at specified future dates. The value of these contracts increases when Fed Funds or Eurodollar rates rise.

- Interest Rate Swaps: represents a mutual agreement to exchange interest rate payments with one party paying a fixed-rate and another paying a floating rate tied to a reference interest rate (e.g. USD LIBOR). For use in our trading portfolio risk management activities, we generally receive the floating rate and pay the fixed rate; therefore, its value generally increases in value as rates rise.

Treasury Bank

The primary component of Treasury Bank's earnings is net interest income derived from its mortgage loan and investment portfolios. At Treasury Bank, we invest primarily in adjustable rate and short duration residential mortgages. Our securities portfolio is comprised mostly of short-duration sequential collateralized mortgage obligations. We manage our interest rate risk primarily by investing in relatively simple, short duration assets, and matching the duration and re-pricing characteristics of our liabilities with those of our assets. Deposits are priced to encourage consumers to choose maturity terms consistent with our assets. In addition, the structure and terms of our borrowings are chosen to manage our interest rate risk.

Debt Securities

We determine the mix of fixed-rate and variable-rate debt as part of our overall interest rate risk management activities. We use Interest Rate Swaps to efficiently and cost-effectively achieve our desired mix of debt. Typically, terms of the Interest Rate Swaps match the terms of the underlying debt, resulting in an effective conversion of the debt rate.

Impact of Changes in Interest Rates on the Net Value of the Company's Interest Rate-Sensitive Financial Instruments

We perform various sensitivity analyses that quantify the net financial impact of changes in interest rates on our interest rate-sensitive assets, liabilities and commitments. These analyses incorporate assumed changes in the interest rate environment including selected hypothetical (instantaneous) parallel shifts in the yield curve.

Various modeling techniques are employed to value the financial instruments in connection with these sensitivity analyses. For mortgage loans, MBS, MBS forward contracts, collateralized mortgage obligations and MSRs, an option-adjusted spread ("OAS") model is used. The primary assumptions used in this model for purpose of these sensitivity analyses are the implied market volatility of interest rates and prepayment speeds. For options and interest rate floors, an option-pricing model is used. The primary assumption used in this model is implied market volatility of interest rates. Other retained interests are valued using zero volatility discounted cash flow models incorporating all relevant cash flows associated with these instruments. The primary assumptions used in these models are prepayment rates, discount rates and credit losses.

Utilizing these modeling techniques, the following table summarizes the estimated change in fair value of our interest rate-sensitive assets, liabilities and commitments as of December 31, 2003, given several hypothetical (instantaneous) parallel shifts in the yield curve:

Change in Interest Rate (basis points)	Change in Fair Value -100	-50	+50	+100
(Dollar amounts in millions)				
MSRs and other financial instruments:				
MSR and other retained interests	$ (2,486)	$ (1,212)	$ 1,032	$ 1,774
Impact of Servicing Hedge:				
Swap-based	1,411	557	(355)	(590)
Treasury-based	827	262	(125)	(9)
MSRs and other retained interests, net	(248)	(393)	552	1,175
Committed Pipeline	104	88	(172)	(393)
Mortgage Loan Inventory	818	481	(616)	(1,312)
Impact of associated derivative instruments:				
Mortgage-based	(1,109)	(653)	846	1,830
Treasury-based	229	78	(6)	39
Committed Pipeline and Mortgage Loan Inventory, net	42	(6)	52	164
Treasury Bank:				
Securities portfolio	91	55	(66)	(136)
Mortgage loans	206	103	(104)	(225)
Deposit liabilities	(90)	(45)	45	88
Federal Home Loan Bank Advances	(241)	(119)	115	228
	(34)	(6)	(10)	(45)
Notes payable and capital securities	(499)	(251)	249	496
Impact of associated derivative instruments:				
Swap-based	54	28	(31)	(64)
Notes payable and capital securities, net	(445)	(223)	218	432
Prime home equity line of credit senior securities	5	3	(3)	(6)
Other mortgage loans held for investment	(21)	(23)	41	65
Insurance company investment portfolios	33	18	(19)	(38)
Net change in fair value related to MSRs and other financial instruments	$ (668)	$ (630)	$ 831	$ 1,747
Net change in fair value related to broker-dealer trading securities	$ (1)	$ 2	$ (10)	$ (28)

The following table summarizes the estimated change in fair value of the Company's interest rate-sensitive assets, liabilities and commitments as of December 31, 2002, given several hypothetical (instantaneous) parallel shifts in the yield curve:

Change in Interest Rate (basis points)	Change in Fair Value -100	-50	+50	+100
(Dollar amounts in millions)				
Net change in fair value related to MSRs and other financial instruments	$ 45	$ (166)	$ 522	$ 1,112
Net change in fair value related to broker-dealer trading securities	$ 3	$ 2	$ (1)	$ (6)

During 2003, we reduced our reliance on derivatives to manage the interest rate risk related to our MSRs. We took this action in light of the incremental profits we expected to generate from our loan production operations if mortgage rates continued to decline. This strategy had the benefit of reducing our potential derivative losses in the event mortgage rates increased, which did occur in the last half of 2003.

These sensitivity analyses are limited in that they were performed at a particular point in time, are subject to the accuracy of various assumptions used, including prepayment forecasts and discount rates, and do not incorporate other factors that would impact the Company's overall financial performance in such scenarios, most significantly the impact of changes in loan production earnings that occur over time. In addition, not all of the changes in fair value would impact current period earnings. For example, MSRs are carried at the lower of cost or market; therefore, absent hedge accounting, the increase in the value of the MSRs that is recorded in current period earnings would be limited to recovery of the impairment reserve ($1.2 billion at December 31, 2003). Debt is carried at cost; therefore, absent hedge accounting, changes in the value of debt are not recorded in current period earnings. For these reasons, the preceding estimates should not be viewed as an earnings forecast.

Foreign Currency Risk

We occasionally issue medium-term notes denominated in a foreign currency. We manage the foreign currency risk associated with these medium-term notes through currency swap transactions. The terms of the currency swaps effectively translate the medium-term notes into U.S. dollar obligations, thereby eliminating the associated foreign currency risk. As a result, potential changes in the exchange rates of foreign currencies denominating such medium-term notes would not have a net financial impact on future earnings, fair values or cash flows.

CREDIT RISK MANAGEMENT

Credit risk is the potential for financial loss resulting from the failure of a borrower or an institution to honor its contractual obligations to us. Credit risk arises in many of our business activities including lending activities, trading activities and interest rate risk management activities. We actively manage credit risk to maintain credit losses within levels that achieve our profitability and return on capital objectives while meeting our expectations for consistent financial performance.

Our Credit Committee, which is comprised of our Chief Credit Officer and other senior executives, has primary responsibility for setting strategies to achieve the credit risk goals and objectives set by our Board of Directors. Those goals and objectives are documented in our Credit Policy.

Mortgage Credit Risk

Overview

In our mortgage lending activities, we manage our credit risk by producing high quality loans, employing proactive collection and loss mitigation efforts and selling the majority of the loans we produce on a non-recourse basis.

Loan Quality

Our Credit Policy establishes standards for the determination of acceptable credit risks. Those standards encompass borrower and collateral quality, underwriting guidelines, and loan origination standards and procedures.

Borrower quality includes consideration of the borrower's credit and capacity to pay. We assess credit and capacity to pay through the use of credit scores, application of a mortgage scorecard, and manual or automated underwriting of additional credit characteristics.

Collateral quality includes consideration of property value, condition, and marketability and is determined through physical inspections and the use of manual and automated valuation models.

Underwriting guidelines facilitate the uniform application of underwriting standards to all borrowers regardless of race, religion, or ethnic background. Uniformity in underwriting also provides a means for measuring and managing credit risk. This allows us, as well as government sponsored entities ("GSEs"), private investors, and the secondary markets in general, to assess risk, which provides us with more flexibility in the sale of loans.

Our conventional conforming and government underwriting guidelines comply with the guidelines established by Fannie Mae or Freddie Mac. Our underwriting guidelines for FHA-insured and VA-guaranteed mortgage loans comply with guidelines established by the U.S. Department of Housing and Urban Development and the Veterans Administration. Our underwriting guidelines for non-conforming mortgage loans, prime home equity loans, and subprime mortgage loans have been designed so that these loans are salable in the secondary mortgage market. We developed these guidelines to meet the requirements of private investors, rating agencies and third-party credit enhancement providers.

Our loan origination standards and procedures are designed to produce high quality loans. These standards and procedures encompass underwriter qualifications and authority levels, appraisal review requirements, fraud prevention, funds disbursement controls, training of our employees and on-going review of their work. We help to ensure that our origination standards are met by employing accomplished and seasoned management, underwriters, and processors and through the extensive use of technology. We also have a comprehensive training program for the continuing development of both our existing staff and new hires. In addition, we employ proprietary underwriting systems in our loan origination process that improve the consistency of underwriting standards, assess collateral adequacy, and help to prevent fraud, while at the same time increasing productivity.

In addition to our pre-funding controls and procedures, we employ an extensive post funding quality control process. Our quality control department, under the direction of the Chief Credit Officer, is responsible for completing comprehensive loan audits that consist of a re-verification of loan documentation, an in depth underwriting and appraisal review, and if necessary, a fraud investigation. We also employ a post-funding proprietary loan performance evaluation system. This system identifies fraud and poor performance of individuals and business entities associated with the origination of our loans. The combination of this system and our audit results allows us to evaluate and measure adherence to prescribed underwriting guidelines and compliance to laws and regulations to ensure that current loan production represents acceptable credit risk, as defined by the Board of Directors.

Sale of Loans

Nearly all of the mortgage loans that we originate are sold into the secondary mortgage market primarily in the form of securities, and to a lesser extent as whole loans. While we generally sell our prime mortgage loans on a non-recourse basis, either in the form of securities or whole loans, we do have potential liability under the representations and warranties we make to purchasers and insurers of the loans. In the event of a breach of such representations and warranties, we may be required to either repurchase the subject mortgage loans or indemnify the investor or insurer. In such cases, any subsequent credit loss on the mortgage loans is borne by Countrywide.

Securitization

As described below, the degree to which credit risk on the underlying loans is transferred through the securitization process depends on the structure of the securitization. Our prime first mortgage loans generally are securitized on a non-recourse basis, while prime home equity and subprime mortgage loans generally are securitized with limited recourse for credit losses.

Conforming Conventional Loans

Conforming conventional loans are generally pooled into mortgage-backed securities guaranteed by Fannie Mae. A small portion of these loans also have been sold to Freddie Mac or the Federal Home Loan Bank, through its Mortgage Partnership Finance Program. Subject to certain representations and warranties on the part of Countrywide, nearly all conventional loans securitized through Fannie Mae or Freddie Mac are sold on a non-recourse basis. Accordingly, credit losses are generally absorbed by Fannie Mae and Freddie Mac, not Countrywide. We pay guarantee fees to Fannie Mae and Freddie Mac on loans we securitize through these agencies. These fees include compensation to the respective agencies for their assumption of credit risk.

FHA-Insured and VA-Guaranteed Loans

FHA-insured and VA-guaranteed mortgage loans are generally pooled into mortgage-backed securities guaranteed by the Government National Mortgage Association ("Ginnie Mae"). A small portion of these loans have been sold to the Federal Home Loan Bank, through its Mortgage Partnership Finance Program. We are insured against foreclosure loss by the FHA or partially guaranteed against foreclosure loss by the VA. Fees charged by the FHA and VA for assuming such risks are paid directly by the mortgagors. We are exposed to credit losses on defaulted VA loans to the extent that the partial guarantee provided by the VA is inadequate to cover the total credit losses incurred. We pay guarantee fees to Ginnie Mae for Ginnie Mae's guarantee on its securities of timely payment of principal and interest. Ginnie Mae does not assume mortgage credit risk associated with the loans securitized under its program.

Non-conforming Conventional Prime Loans

Non-conforming conventional prime mortgage loans are generally pooled into "private-label" (non-agency) mortgage-backed securities. Such securitizations involve some form of credit enhancement, such as senior/subordinated structures or mortgage pool insurance. Securitizations that involve senior/subordinated structures contain securities that assume varying levels of credit risk. Holders of subordinated securities are compensated for the credit risk assumed through a higher yield. We generally sell the subordinated securities created in connection with these securitizations and thereby transfer the related credit loss exposure, other than as described above with respect to representations and warranties made when loans are securitized.

Prime Home Equity Loans

Prime Home Equity loans are generally pooled into private-label asset-backed securities. These securities generally are credit-enhanced through over-collateralization and guarantees provided by a third-party surety. In such securitizations, Countrywide is subject to limited recourse for credit losses through retention of a residual interest.

Subprime Mortgage Loans

Subprime Mortgage Loans generally are pooled into private-label mortgage backed securities. We generally securitize these loans with limited recourse for credit losses. Such limited recourse securitizations generally have contained mortgage pool insurance as the primary form of credit enhancement, coupled with a limited corporate guarantee provided by Countrywide and/or a retained residual interest. When mortgage pool insurance is used, the associated premiums are paid directly by Countrywide. We also have pooled a portion of our subprime loans into securities guaranteed by Fannie Mae. In such cases, we have paid Fannie Mae a guarantee fee in exchange for Fannie Mae assuming the credit risk of the underlying loans. In addition, we have securitized a portion of our Subprime Mortgage Loans on a limited recourse basis through the retention of a residual interest without the use of mortgage pool insurance.

Our exposure to credit losses related to our limited recourse securitization activities is limited to the carrying value of our subordinated interests and to the contractual limit of reimbursable losses under our corporate guarantees less the recorded liability for such guarantees. These amounts at December 31, 2003 are as follows:

(Dollar amounts in thousands)	**December 31, 2003**
Subordinated Interests:	
Prime home equity residual securities	**$ 320,663**
Prime home equity transferors' interests	**236,109**
Subprime residual securities	**370,912**
	$ 927,684
Corporate guarantees in excess of recorded reserves	**$ 149,554**

The carrying value of the residual securities is net of expected future credit losses. Related to our non-recourse and limited recourse securitization activities, the total credit losses incurred for 2003 and 2002 are summarized as follows:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Subprime securitizations with corporate guarantee	**$ 40,891**	$ 10,524
Subprime securitizations with retained residual interest	**36,699**	71,165
Repurchased or indemnified loans	**35,426**	15,274
Prime home equity securitizations with retained residual interest	**15,196**	7,964
Prime home equity securitizations with corporate guarantee	**2,763**	436
VA losses in excess of VA guarantee	**2,824**	3,213
	$ 133,799	$ 108,576

Mortgage Reinsurance

We provide mortgage reinsurance through contracts with several primary mortgage insurance companies on mortgage loans included in our servicing portfolio. Under these contracts, we absorb mortgage insurance losses in excess of a specified percentage of the principal balance of a given pool of loans, subject to a cap, in exchange for a portion of the pools' mortgage insurance premium. Approximately $67.4 billion of mortgage loans in our servicing portfolio are covered by such mortgage reinsurance contracts. The reinsurance contracts place limits on our maximum exposure to losses. At December 31, 2003, the maximum aggregate losses under the reinsurance contracts were $366.3 million. We are required to pledge securities to cover this potential liability. We recorded provisions for losses related to this activity of $38.6 million in 2003.

Mortgage Loans Held for Sale

At December 31, 2003, mortgage loans held for sale amounted to $24.1 billion. While the loans are in inventory, we bear credit risk after taking into consideration primary mortgage insurance (which is generally required for conventional loans with a loan-to-value ratio greater than 80%), FHA insurance or VA guarantees. Historically, credit losses related to loans held for sale have not been significant.

Portfolio Lending Activities

We have a growing portfolio of Prime Mortgage and Prime Home Equity Loans held for investment, primarily in our bank, which amounted to $22.0 billion at December 31, 2003. A portion of the prime home equity loans held in the bank are covered by a pool insurance policy that provides partial protection against credit losses. Otherwise, we generally retain full credit exposure on these loans. Our allowance for credit losses related to all mortgage loans held for investment amounted to $78.5 million at December 31, 2003.

We also provide short-term secured mortgage loan warehouse advances to various lending institutions, which totaled $1.9 billion at December 31, 2003. We incurred no credit losses related to this activity in 2003.

Counterparty Credit Risk

We have exposure to credit loss in the event of non-performance by our trading counterparties and counterparties to our various over-the-counter derivative financial instruments. We manage this credit risk by selecting only well-established, financially strong counterparties, spreading the credit risk among many such counterparties and by placing contractual limits on the amount of unsecured credit risk from any single counterparty. The aggregate amount of counterparty credit exposure at December 31, 2003, before and after collateral held by Countrywide, was as follows:

(Dollar amounts in millions)

Aggregate credit exposure before collateral held	**$ 856**
Less: collateral held	**(481)**
Net aggregate unsecured credit exposure	**$ 375**

For the year ended December 31, 2003, the Company incurred no credit losses due to non-performance of any of its counterparties.

LOAN SERVICING

The following table sets forth certain information regarding our servicing portfolio of single-family mortgage loans, including loans and securities held for sale or investment and loans subserviced for others, for the periods indicated.

(Dollar amounts in millions)	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Summary of changes in the servicing portfolio:		
Beginning owned servicing portfolio	**$ 441,267**	$ 327,541
Add: Loan production	**434,864**	251,901
Purchased MSRs	**6,944**	4,228
Less: Servicing Sold	**—**	(1,958)
Runoff[1]	**(252,624)**	(140,445)
Ending owned servicing portfolio	**630,451**	441,267
Subservicing portfolio	**14,404**	11,138
Total servicing portfolio	**$ 644,855**	$ 452,405
Composition of owned servicing portfolio at period end:		
Conventional mortgage loans	**$ 512,889**	$ 343,420
FHA-insured mortgage loans	**43,281**	45,252
VA-guaranteed mortgage loans	**13,775**	14,952
Subprime Mortgage Loans	**36,332**	21,976
Prime Home Equity Loans	**24,174**	15,667
Total owned servicing portfolio	**$ 630,451**	$ 441,267
Delinquent mortgage loans[2]:		
30 days	**2.35%**	2.73%
60 days	**0.72%**	0.87%
90 days or more	**0.84%**	1.02%
Total delinquent mortgage loans	**3.91%**	4.62%
Loans pending foreclosure[2]	**0.43%**	0.55%
Delinquent mortgage loans[2]:		
Conventional	**2.21%**	2.43%
Government	**13.29%**	12.61%
Subprime	**12.46%**	14.41%
Prime home equity	**0.73%**	0.80%
Total delinquent mortgage loans	**3.91%**	4.62%
Loans pending foreclosure[2]:		
Conventional	**0.21%**	0.23%
Government	**1.20%**	1.32%
Subprime	**2.30%**	2.93%
Prime Home Equity	**0.02%**	0.05%
Total loans pending foreclosure	**0.43%**	0.55%

(1) Runoff refers to scheduled principal repayments on loans and unscheduled prepayments (partial prepayments or total prepayments due to refinancing, modification, sale, condemnation or foreclosure).

(2) Expressed as a percentage of the total number of loans serviced excluding subserviced loans and loans purchased at a discount due to their non-performing status.

We attribute the overall decline in delinquencies in our servicing portfolio primarily to the relative overall increase in the conventional and prime home equity portfolios, which carry lower delinquency rates than the government and subprime portfolios. Management believes the delinquency rates in our servicing portfolio are consistent with industry experience for similar mortgage loan portfolios.

INFLATION

An increase in inflation would have the most significant impact on our mortgage banking and capital markets operations. Interest rates normally increase during periods of rising inflation. Historically, as interest rates increase, mortgage loan production decreases, particularly from loan refinancing. An environment of gradual interest rate increases may, however, signify an improving economy or increasing real estate values, which in turn may stimulate increased home buying activity. Generally, in such periods of reduced mortgage loan production the associated profit margins also decline due to increased competition among mortgage loan originators and to higher unit costs, thus further reducing our loan production earnings. Conversely, in a rising interest rate environment, our loan servicing earnings generally increase because mortgage prepayment rates tend to slow down, thereby extending the average life of our servicing portfolio and thus reducing the amortization and impairment of our MSRs. Within our broker-dealer operations, rising interest rates generally lead to a reduction in trading and underwriting activities in its primary niche, the mortgage securities market.

SEASONALITY

The mortgage banking industry is generally subject to seasonal trends. These seasonal trends reflect the pattern in the national housing market. Home sales typically rise during the spring and summer seasons and decline during the fall and winter seasons. Seasonality has less of an effect on mortgage refinancing activity, which is primarily driven by prevailing mortgage rates. In addition, mortgage delinquency rates typically rise temporarily in the winter months, driven by mortgagor payment patterns.

LIQUIDITY AND CAPITAL RESOURCES

We have significant short-term and long-term financing needs. Our short-term financing needs arise primarily from the warehousing of mortgage loans pending sale and the trading activities of our broker-dealer. Our long-term financing needs arise primarily from our investments in MSRs and other retained interests, along with the financial instruments acquired to manage the interest rate risk associated with those investments, as well as from the continued growth of our mortgage loan investment portfolio. As discussed in the following paragraphs, we meet our financing needs in a variety of ways, through the public corporate debt and equity markets, as well as the mortgage and asset-backed securities markets, and increasingly in the future through the deposit-gathering and other financing activities of our bank.

Liquidity Management

The objective of our liquidity management is to ensure that adequate reliable sources of cash are available to meet our potential near-term funding needs, including in times of stress within the financial markets. We manage our liquidity by financing our assets in a manner consistent with their liquidity profile. Assets that are considered illiquid are financed with long-term capital (equity and debt with a final maturity greater than six months). We stagger our long-term debt maturities and credit facility expirations to reduce refinancing risk. We also manage the timing of our short-term debt maturities to limit the amount maturing in any five day period. We diversify our financing programs, credit providers and debt investors and dealers to reduce reliance upon any one source of liquidity. Finally, we assess all sources of financing based upon its reliability, recognizing that certain financing programs are sensitive to temporary market disruptions.

We regularly forecast our potential funding needs over a three month horizon, taking into account debt maturities and potential peak balance sheet levels. Available reliable sources of liquidity are appropriately sized to meet potential future funding requirements. We currently have $52.5 billion in reliable sources of short-term liquidity, including secured and unsecured committed bank lines of credit and reusable mortgage purchase commitments totaling $28.2 billion. Our long-term debt typically consists of unsecured debt issued in the public corporate debt markets. At December 31, 2003, we had $18.2 billion in unsecured long-term debt outstanding. See "Note 14 — Notes Payable" in the financial statement section of this Report for additional descriptions of our committed financing programs.

Public Corporate Debt Markets

The public corporate debt markets are a key source of financing for us, due to their efficiency and low cost. Typically, we access these markets by issuing unsecured commercial paper and medium-term notes. We also have issued unsecured subordinated debt, convertible debt and trust-preferred securities. At December 31, 2003, we had a total of $22.9 billion in public corporate debt outstanding.

To maintain our desired level of access to the public corporate debt markets, it is critical for us to maintain investment-grade credit ratings. We have consistently maintained solid investment-grade credit ratings over the past twelve years. Given our current ratings, we generally have deep access to the public corporate debt markets. Current credit ratings at CHL, our primary issuer of public corporate debt, are as follows:

	Short-Term Ratings	Long-Term Ratings
Standard and Poors	A-1	A
Moody's Investors Service	P-2	A3
Fitch	F-1	A

Among other things, maintenance of our current investment grade ratings requires that we have high levels of liquidity, including access to alternative sources of funding such as committed bank stand-by lines of credit, as well as a conservative capital structure. Our policy is to maintain our regulatory capital ratios at levels that are above the "well-capitalized" standards defined by the Federal Reserve Board.

At December 31, 2003 and at December 31, 2002, CFC's regulatory capital ratios were as follows:

(Dollar amounts in thousands)	Minimum Required[1]	December 31, 2003 Ratio	December 31, 2003 Amount	December 31, 2002 Ratio	December 31, 2002 Amount
Tier 1 Leverage Capital	5.0%	**8.3%**	**$8,082,963**	7.6%	$4,703,839
Risk-Based Capital					
Tier 1	6.0%	**12.8%**	**$8,082,963**	12.2%	$4,703,839
Total	10.0%	**13.7%**	**$8,609,996**	13.6%	$5,230,840

[1] *Minimum required to qualify as "well-capitalized."*

Our primary source of equity capital is retained earnings. We also have $1.0 billion outstanding in trust-preferred securities that receive varying degrees of "equity treatment" from rating agencies, bank lenders and regulators. In addition, we currently have a $2.2 billion deferred tax liability related to our MSRs that would offset a portion of any potential loss in the value of our MSRs and which, to that extent, can be viewed as a supplement to our equity capital. From time to time, we engage in stock offerings as a means of increasing our capital base and supporting our growth.

Issues of concern to one or more credit rating agency in the past have included our significant investment in MSRs and other retained interests, our involvement in subprime lending, as well as our liquidity and capital structure. We maintain an active dialogue with all three rating agencies, meeting throughout the year to review operational and financial performance and to address specific areas of focus.

In the unlikely event our credit ratings were to drop below "investment grade", our access to the public corporate debt markets would be severely limited. (The cutoff for investment grade is generally considered to be a long-term rating of "BBB-", or three gradations below our lowest current rating.) In the event of a ratings downgrade below investment grade, we would be required to rely upon alternative sources of financing, such as bank lines and private debt placements (secured and unsecured). Furthermore, we would likely be unable to retain all of our existing bank credit commitments beyond the then existing maturity dates. As a consequence, our cost of financing would rise significantly and we may have to curtail some of our capital-intensive activities, such as our ongoing investment in MSRs and other retained interests. On the other hand, given the highly liquid nature of our mortgage inventory and broker-dealer trading portfolio, we would likely be able to arrange secured financing for such assets. Over the long-term, however, it would be difficult for us to compete effectively without investment grade ratings. Management believes the likelihood of a reduction in our credit ratings to below investment grade in the foreseeable future is remote.

Asset-Backed Financing Market

A growing source of funding for us is the asset-backed financing market. This form of financing generally involves the temporary transfer of legal ownership of assets to a separate legal entity (conduit) in exchange for short-term financing. Such financing programs generally have commercial bank sponsors that provide some form of credit enhancement to the program, for example, back-up lines of credit. Investors that purchase debt, typically commercial paper, issued by these conduits look primarily to the assets to ensure repayment, rather than to the credit standing of the companies that utilize the conduit for financing. We have used this market primarily to finance a significant portion of our mortgage loan inventory. Due to its liquid nature and short holding period, our mortgage loan inventory is a natural fit for this type of financing program. We utilize such programs as a cost-effective means to expand and diversify our sources of liquidity. At December 31, 2003, we had borrowed a total of $9.7 billion through such asset-backed financing programs.

Secondary Mortgage Market

We rely substantially on the secondary mortgage market. Nearly all mortgage loans that we produce are sold in the secondary mortgage market, primarily in the form of Mortgage-Backed Securities ("MBS") and asset-backed securities. The majority of the MBS we sell are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae (collectively, "Agency MBS"). We also issue non-Agency or "private-label" MBS and asset-backed securities. Private-label MBS and asset-backed securities are registered with the SEC and have separate credit ratings. Generally, private-label MBS and asset-backed securities require some form of credit enhancement, such as over-collateralization, senior-sub structures, primary mortgage insurance, Countrywide guarantees and/or private surety guarantees.

The Agency MBS market is extremely liquid. The private-label MBS market, particularly the subprime MBS market, is significantly less liquid, although we have enjoyed essentially uninterrupted access to these markets, albeit at varying costs.

We ensure our ongoing access to the secondary mortgage market by consistently producing quality mortgages and servicing those mortgages at levels that meet or exceed secondary mortgage market standards. As described elsewhere in this document, we have a major focus on ensuring the quality of our mortgage loan production and we make significant investments in personnel and technology in this regard.

Repurchase Agreements

We also utilize short-term repurchase agreements as a means of financing primarily securities as well as mortgage loans pending sale. Although this method of financing is uncommitted and short-term in nature, it has proven to be reliable and cost effective for us.

Bank Activities

Our goal is to increase the total assets of our bank from $19.4 billion as of December 31, 2003 to $120 billion in five years. We intend to accomplish this goal by using our loan origination operations to source loans for the bank to originate and place in its portfolio. Funding for this growth will come from a variety of sources, including transfers of custodial accounts controlled by CHL, secured advances from the Federal Home Loan Bank and retail deposits, primarily CDs, generated by the bank.

Cash Flow

Cash flow used by operating activities was $1.6 billion for 2003, compared to net cash used by operating activities of $3.5 billion for 2002. The reduction in cash flow used by operations for 2003 compared to 2002 was due primarily to a $4.6 billion net increase in mortgage loans held for sale offset by a decrease in other financial instruments.

Net cash used in investing activities was $34.5 billion for 2003, compared to $14.4 billion for 2002. The increase in net cash used in investing activities was primarily attributable to a $17.7 billion net increase in loans held for investment and a $1.7 billion net increase in additions to MSRs.

Net cash provided by financing activities during 2003 totaled $36.1 billion, compared to $18.0 billion during 2002. The increase in cash provided by financing activities during 2003 was comprised of a $3.8 billion net increase in bank deposit liabilities and a $13.5 billion net increase in the growth of short-term (primarily secured) borrowings.

OFF-BALANCE SHEET ARRANGEMENTS AND AGGREGATE CONTRACTUAL OBLIGATIONS

Off-Balance Sheet Arrangements and Guarantees

In the ordinary course of our business we engage in financial transactions that are not recorded on our balance sheet. (See Note 2 — "Summary of Significant Accounting Policies" in the financial statement section of this Report for a description of our consolidation policy.) Such transactions are structured to manage our interest rate credit or liquidity risks, diversify funding sources or to optimize our capital.

Substantially all of our off-balance sheet arrangements relate to the securitization of mortgage loans. Our mortgage loan securitizations are normally structured as sales, in accordance with SFAS 140, which involves the transfer of the mortgage loans to "qualifying special-purpose entities" that are not subject to consolidation. In a securitization, an entity transferring the assets is able to convert those assets into cash. Special-purpose entities used in such securitizations obtain cash to acquire the assets by issuing securities to investors. In a securitization, we customarily provide representations and warranties with respect to the mortgage loans transferred. In addition, we generally retain the right to service the transferred mortgage loans. We also generally have the right to repurchase mortgage loans from the special-purpose entity if the remaining outstanding balance of the mortgage loans falls to a level where the cost of servicing the loans exceeds the revenues we earn.

Our prime mortgage loans generally are securitized on a non-recourse basis, while prime home equity and subprime mortgage loans generally are securitized with limited recourse for credit losses. During 2003, we securitized $11.2 billion subprime and home equity loans with limited recourse for credit losses. Our exposure to credit losses related to our limited recourse securitization activities is limited to the carrying value of our subordinated interests and to the contractual limit of reimbursable losses under our corporate guarantees less the recorded liability for such guarantees. For a further discussion of our exposure to credit risk, see the section in this Report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Credit Risk."

Management does not believe that any of its off-balance sheet arrangements have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

The sales proceeds and cash flows from our securitizations for 2003 and additional information with respect to securitization activities are included in the financial statements section of this report (Note 9 — Securitizations).

Contractual Obligations

The following table summarizes our significant contractual obligations at December 31, 2003, with the exception of short-term borrowing arrangements and pension and post-retirement benefit plans:

(Dollar amounts in thousands)	Note[1]	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Obligations:						
Notes payable	14	$ 5,312,773	$ 8,059,504	$ 7,146,401	$ 3,883,468	$ 24,402,146
Time deposits	15	$ 850,300	$ 1,045,625	$ 1,266,755	$ 89,985	$ 3,252,665
Trust preferred securities	18	$ —	$ —	$ —	$ 1,000,000	$ 1,000,000
Operating leases	29	$ 88,615	$ 148,258	$ 88,783	$ 43,440	$ 369,096
Purchase obligations	—	$ 98,453	$ 22,168	$ 5,168	$ —	$ 125,789

[1] *See respective notes to the financial statements included in this Report.*

PROSPECTIVE TRENDS

United States Mortgage Market

Over the last decade, total mortgage indebtedness in the United States has grown at an average annual rate of eight percent. We believe that continued population growth, ongoing developments in the mortgage market and the prospect of relatively low interest rates support similar growth in the market for the foreseeable future. Some of the ongoing developments in the mortgage market that should fuel its growth include government-sponsored programs targeted to increase homeownership in low-income and minority communities, the growth of prime home equity lending as a major form of consumer finance, and the increasing efficiency of the secondary mortgage market that lowers the overall cost of homeownership.

In recent years, the level of complexity in the mortgage lending business has increased significantly due to several factors:

- The continuing evolution of the secondary mortgage market has resulted in a proliferation of mortgage products;
- Greater regulation imposed on the industry has resulted in increased costs and the need for higher levels of specialization; and
- Interest rate volatility has risen over the last decade. At the same time, homeowners' propensity to refinance their mortgages has increased as the refinance process has become more efficient and cost effective. The combined result has been large swings in the volume of mortgage loans originated from year to year. These volume swings have placed significant operational and financial pressures on mortgage lenders.

To compete effectively in this environment mortgage lenders must have a very high level of operational, technological and managerial expertise. In addition, the residential mortgage business has become more capital-intensive and therefore access to capital at a competitive cost is critical. Primarily as a result of these factors, the industry has undergone rapid consolidation.

Today, large, sophisticated financial institutions dominate the residential mortgage industry. These industry leaders are primarily commercial banks operating through their mortgage banking subsidiaries. Today, the top thirty mortgage lenders combined have a 79% share of the mortgage origination market, up from 58% five years ago.

Following is a year-over-year comparison of market share for the top five originators, according to *Inside Mortgage Finance*:

Institution	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Wells Fargo Home Mortgage	**12.5%**	12.4%
Washington Mutual	**11.6%**	11.6%
Countrywide	***11.6%***	*9.4%*
Chase Home Finance	**7.6%**	5.8%
Bank of America Mortgage[(1)]	**3.5%**	—
ABN Amro Mortgage Group[(1)]	**—**	4.4%
Total for Top Five	**46.8%**	43.6%

(1) *Comparative data not included for year in which the institution was not in the top five originators.*

This consolidation trend has naturally carried over to the loan servicing side of the mortgage business. Today, the top thirty mortgage servicers combined have a 64% share of the total mortgages outstanding, up from 53% five years ago. Following is a year-over-year comparison of market share for the top five servicers, according to *Inside Mortgage Finance*:

Institution	**Year Ended December 31, 2003**	Year Ended December 31, 2002
Washington Mutual	**9.9%**	11.2%
Wells Fargo Home Mortgage	**9.1%**	8.8%
Countrywide	***8.8%***	*7.0%*
Chase Home Finance	**6.4%**	6.6%
Bank of America Mortgage	**3.4%**	4.1%
Total for Top Five	**37.6%**	37.7%

We believe this consolidation trend will continue, as the aforementioned market forces will continue to drive out weak competitors. We believe Countrywide will benefit from this trend through increased market share. In addition, we believe that irrational price competition — which from time to time has plagued the industry — should lessen in the future.

Compared to Countrywide, the other industry leaders are less reliant on the secondary mortgage market as an outlet for adjustable rate mortgages, due to their greater portfolio lending capacity. This could place us at a competitive disadvantage in the future if the demand for adjustable rate mortgages increases significantly, the secondary mortgage market does not provide a competitive outlet for these loans and we are unable to develop a portfolio lending capacity similar to the competition's.

Housing Appreciation

Housing values affect us in several ways: rising housing values point to healthy demand for purchase-money mortgage financing; increased average loan balances; and a reduction in the risk of loss on sale of foreclosed real estate in the event a loan defaults. However, as housing values appreciate, prepayments of existing mortgages tend to increase as mortgagors look to tap the additional equity in their homes. Over the last several years, the housing price index has significantly outpaced the consumer price index and growth in personal income. Consequently, we expect housing values to increase at a slower rate in the coming years than in the past several years. Over the long term, we expect that housing appreciation will be positively correlated with both consumer price inflation and growth in personal income.

Regulatory Trends

The regulatory environments in which we operate have an impact on the activities in which we may engage, how the activities may be carried out and the profitability of those activities. Therefore, changes to laws, regulations or regulatory policies can affect whether and to what extent we are able to operate profitably. For example, proposed state and federal legislation targeted at predatory lending could have the unintended consequence of raising the cost or otherwise reducing the availability of mortgage credit for those potential borrowers with less than prime-quality credit histories. This could result in a reduction of otherwise legitimate subprime lending opportunities. Similarly, certain proposed state and federal privacy legislation, if passed, could have an adverse impact on our ability to cross-sell the non-mortgage products our various divisions offer to customers in a cost-effective manner.

Mortgage Originations

Following is the estimated total United States mortgage originations market for each of the last five years:

Calendar Year	United States Mortgage Originations
(Dollar amounts in billions)	
2003	**$ 3,760**
2002	$ 2,680
2001	$ 2,058
2000	$ 1,048
1999	$ 1,310

Source: Inside Mortgage Finance

Forecasters currently put the market for 2004 at between $1.8 trillion and $2.2 trillion. The forecasted reduction from 2003's historic level is attributable to an expected decline in mortgage refinance activity. We believe that a market within the forecasted range would still be favorable for our loan production business, although we would expect increased competitive pressures to have some impact on its profitability. This forecast would imply lessening pressure on our loan servicing business due to a reduction in mortgage loan prepayment activity. In our capital markets business, such a drop in mortgage originations would likely result in a reduction in mortgage securities trading and underwriting volume, which would have a negative impact on its profitability.

IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

On March 1, 2001, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting For Derivative Instruments And Hedging Activities," and SFAS Statement No. 138, "Accounting For Certain Derivative Instruments And Certain Hedging Activities — An Amendment of SFAS No. 133" (collectively, "SFAS 133"). Under SFAS 133, all derivative instruments are recognized on the balance sheet at fair value.

At the date of adoption, we recorded certain transition adjustments as required by SFAS 133. There was no impact on net earnings because of the transition adjustments. However, the transition adjustments had the following impact on our balance sheet (in millions):

Decrease in fair value of derivatives classified as assets	$ (93.7)
Increase in fair value of derivatives classified as liabilities	$ (107.2)
Decrease in book value of hedged borrowings	$ 107.2
Increase in book value of MSRs	$ 81.7
Increase in book value of inventory and other assets	$ 12.0

In November 1999, the Emerging Issues Task Force ("EITF") released Issue No. 99-20, titled "Recognition of Interest Income and Impairment on Purchased and Retained Interests in Securitized Financial Assets" ("EITF 99-20"). EITF 99-20 is effective for quarters beginning after March 15, 2001. Under the guidelines of EITF 99-20, the accounting treatment of interest income and impairment of beneficial interests in securitization transactions is modified such that beneficial interests which are determined to have an other-than-temporary impairment are required to be written down to fair value with a corresponding impairment charge to earnings. We adopted EITF 99-20 for the fiscal quarter ended August 31, 2001 and there was no material impact at adoption on our financial statements.

In September 2000, SFAS No. 140 "Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," ("SFAS 140") was issued, which replaced SFAS No. 125 (of the same title). SFAS 140 revises certain standards in the accounting for securitizations and other transfers of financial assets and collateral and requires some additional disclosures relating to securitization transactions and collateral, but it carries over most of SFAS 125's provisions. We included the collateral and disclosure provisions of SFAS 140 in our February 28, 2001 financial statements. All other provisions of this Statement were adopted on April 1, 2001, as required by the statement. The adoption of this statement had no material impact on our financial statements.

During June 2001, SFAS No. 141, "Business Combinations" ("SFAS 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") were issued.

SFAS 141 requires use of the purchase method of accounting for all business combinations initiated after June 30, 2001, provides specific guidance on how to identify the accounting acquirer in a business combination, provides specific criteria for recognizing intangible assets apart from goodwill, and requires additional financial statement disclosures regarding business combinations. SFAS 141 will impact our accounting for any business combinations that we may enter into in the future. However, SFAS 141's adoption had no impact on our present financial condition or results of operations.

SFAS 142 addresses the accounting for goodwill and other intangible assets after their initial recognition. SFAS 142 changes the accounting for goodwill and other intangible assets by replacing periodic amortization of the asset with an annual test of impairment of goodwill at either the reporting segment level or one level below, providing for similar accounting treatment for intangible assets deemed to have an indefinite life. Assets with finite lives will be amortized over their useful lives. SFAS 142 also provides for additional financial statement disclosures about goodwill and intangible assets. The provisions of SFAS 142 were applicable to us beginning in the year ending December 31, 2002. We have insignificant levels of goodwill and purchase-related intangible assets and the adoption of SFAS 142 had no material impact on our financial condition or results of operations.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") was issued. SFAS 144 retains the existing requirements to recognize and measure the impairment of long-lived assets to be held and used or to be disposed of by sale. However, SFAS 144 changes the scope and certain measurement requirements of existing accounting guidance. SFAS 144 also changes the requirements relating to reporting the effects of a disposal or discontinuation of a segment of a business. The adoption of SFAS 144 had no material impact on our financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), which is an interpretation of SFAS No. 5, "Accounting for Contingencies"; SFAS No. 57, "Related Party Disclosures"; and SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." FIN 45 clarifies the disclosure and liability recognition requirements relating to guarantees issued by an entity. Specifically, FIN 45 clarifies that entities are required to record guarantees at their fair values, including the value of the obligation to stand ready to perform over the term of the guarantee in the event the specified triggering events or conditions occur, regardless of whether the occurrence of the triggering events or conditions is deemed probable of occurring.

FIN 45 is effective for new guarantees issued or modification of guarantees made after December 31, 2002. FIN 45's disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45's measurement requirements did not have a significant impact on our financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which is an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 was amended in December 2003. FIN 46 requires business enterprises to consolidate variable interest entities which have one or more of the following characteristics:

1. The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties.

2. The equity investors lack one or more of the following essential characteristics of a controlling financial interest:

   a. The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights.

   b. The obligation to absorb the expected losses of the entity if they occur.

   c. The right to receive expected residual returns of the entity if they occur.

As discussed in Note 18 — Company-Obligated Capital Securities of Subsidiary Trusts, the Company has issued trust-preferred securities. Based on guidance related to FIN 46, the Company will cease consolidating the subsidiaries which have issued the trust-preferred securities during the quarter ending March 31, 2004. The primary effect of this de-consolidation will be for the Company to re-classify the trust-preferred securities from mezzanine equity to debt. Interest payments relating to the trust-preferred securities are presently charged to interest expense. Therefore, this change will have no effect on the Company's results of operations.

FIN 46 excludes qualifying special purpose entities subject to the reporting requirements of SFAS 140. FIN 46 applies upon formation to variable interest entities created after January 31, 2003, and to all variable interest entities in the first fiscal year or interim period beginning after June 15, 2003. At December 31, 2003, Countrywide's corporate structure included either companies whose accounts were consolidated into the Company's financial statements or which were classified as qualifying special purpose entities under SFAS 140. Therefore, the adoption of FIN 46 did not have an impact on the Company's financial statements at December 31, 2003.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133, clarifies when a derivative contains a financing component, amends the definition of an "underlying" to conform it to the language used in FIN 45. The adoption of SFAS 149 did not have a material effect on our financial condition or results of operations.

In May 2003, the FASB issued Statement No. 150 ("SFAS 150"), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity in its statement of financial position. On November 7, 2003, the FASB issued FASB Staff Position 150-3 ("FSP 150-3") deferring the effective date of SFAS 150 for certain mandatorily redeemable non-controlling interests. SFAS 150 would have required the reclassification of our trust-preferred securities from mezzanine financing to liabilities. However, the issuance of FSP 150-3 delayed this reclassification pending reconsideration of the issue by the FASB. The adoption of the remainder of SFAS 150 did not have a material effect on our financial condition or results of operation.

FORWARD-LOOKING STATEMENTS

Factors That May Affect Our Future Results

We make forward-looking statements in this report and in other reports we file with the SEC. In addition, we make forward-looking statements in press releases and our management might make forward-looking statements orally to analysts, investors, the media and others. Generally, forward-looking statements include:

- Projections of our revenues, income, earnings per share, capital expenditures, dividends, capital structure or other financial items
- Descriptions of our plans or objectives for future operations, products or services
- Forecasts of our future economic performance
- Descriptions of assumptions underlying or relating to any of the foregoing

Forward-looking statements give management's expectation about the future and are not guarantees. Words like "believe," "expect," "anticipate," "promise," "plan" and other expressions or words of similar meanings, as well as future or conditional verbs such as "will," "would," "should," "could," or "may" are generally intended to identify forward-looking statements. There are a number of factors, many of which are beyond our control that could cause actual results to differ significantly from management's expectations. Some of these factors are discussed below.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date they are made. We do not undertake to update them to reflect changes that occur after the date they are made.

General business, economic and political conditions may significantly affect our earnings

Our business and earnings are sensitive to general business and economic conditions in the United States. These conditions include short-term and long-term interest rates, inflation, fluctuations in both debt and equity capital markets, and the strength of the U.S. economy, and the local economies in which we conduct business. If any of these conditions worsen, our business and earnings could be adversely affected. For example, business and economic conditions that negatively impact household incomes could decrease the demand for our home loans and increase the number of customers who become delinquent or default on their loans; or, a rising interest rate environment could decrease the demand for loans.

In addition, our business and earnings are significantly affected by the fiscal and monetary policies of the federal government and its agencies. We are particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the United States. The Federal Reserve Board's policies influence the size of the mortgage origination market, which significantly impacts the earnings of our Loan Production Sector and the value of our investment in MSRs and other retained interests. The Federal Reserve Board's policies also influence the yield on our interest-earning assets and the cost of our interest-bearing liabilities. Changes in those policies are beyond our control and difficult to predict and can have a material effect on the Company's business, results of operations and financial condition.

Political conditions can also impact our earnings. Acts or threats of war or terrorism, as well as actions taken by the U.S. or other governments in response to such acts or threats, could impact business and economic conditions in the United States.

If we cannot effectively manage the volatility of our mortgage banking business, our earnings could be affected

The level and volatility of interest rates significantly affect the mortgage banking industry. For example, a decline in mortgage rates generally increases the demand for home loans as borrowers refinance, but also generally leads to accelerated payoffs in our mortgage servicing portfolio, which negatively impacts the value of our MSRs.

We attempt to manage interest rate risk in our mortgage banking business primarily through the natural counterbalance of our loan production and servicing operations. In addition, we also use derivatives extensively in order to manage the interest rate, or price risk, inherent in our assets, liabilities, and loan commitments. Our main objective in managing interest rate risk is to moderate the impact of changes in interest rates on our earnings over time. Our interest rate risk management strategies may result in significant earnings volatility in the short term. The success of our interest rate risk management strategy is largely dependent on our ability to predict the earnings sensitivity of our loan servicing and loan production operations in various interest rate environments. The success of this strategy impacts our net income. This impact, which can be either positive or negative, can be material.

Our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations.

We have identified several accounting policies as being "critical" to the presentation of our financial condition and results of operations because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be recorded under different conditions or using different assumptions. These critical accounting policies relate to our gain from sale of loans and securities, valuation of retained interests and interest rate management activities. Because of the inherent uncertainty of the estimates associated with these critical accounting policies, we cannot provide any assurance that we will not make significant adjustments to the related amounts recorded at December 31, 2003. For more information, please refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" section in this report.

The financial services industry is highly competitive

We operate in a highly competitive industry that could become even more competitive as a result of economic, legislative, regulatory and technological changes. Competition for mortgage loans comes primarily from large commercial banks and savings institutions. Many of our competitors have fewer regulatory constraints. For example, national banks and federal savings and loan institutions are not subject to certain state laws and regulations targeted at predatory lending practices and we could be at a competitive disadvantage with respect to fulfilling legitimate subprime credit opportunities. Another competitive consideration is that other companies have lower cost structures and others are less reliant on the secondary mortgage market for funding due to their greater portfolio lending capacity.

We face competition in such areas as mortgage product offerings, rates and fees, and customer service, both at the retail and institutional level. In addition, technological advances and heightened e-commerce activities have increased consumers' accessibility to products and services generally. This has intensified competition among banking as well as nonbanking companies in offering financial products and services, with or without the need for a physical presence.

Changes in regulations could adversely affect our business

We are heavily regulated by banking, mortgage lending and insurance laws at the federal, state and local levels, and proposals for further regulation of the financial services industry are continually being introduced. We are subject to many other Federal, State and local laws and regulations that affect our business, including those regarding taxation and privacy. Congress and state legislatures, as well as federal and state regulatory agencies, review such laws, regulations and policies and periodically propose changes that could affect us in substantial and unpredictable ways. Such changes could, for example, limit the types of financial services and products we offer, or increase our cost to offer such services and products. It is possible that one or more legislative proposals may be adopted or regulatory changes may be implemented that would have an adverse effect on our business. Our failure to comply with such laws or regulations, whether actual or alleged, could expose us to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, any of which could adversely affect our earnings.

We depend on the accuracy and completeness of information about customers and counterparties

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to institutional customers, we may assume that a customer's audited financial statements conform with GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our financial condition and results of operations could be negatively impacted to the extent we rely on financial statements that do not comply with GAAP or are materially misleading.

Other Factors

The above description of risk factors is not exhaustive. Other factors that could cause actual results to differ materially from historical results or those anticipated include, but are not limited to:

- A general decline in U.S. housing prices or activity in the U.S. housing market
- A loss of investment-grade credit ratings, which may result in increased cost of debt or loss of access to corporate debt markets
- A reduction in the availability of secondary markets for our mortgage loan products
- A reduction in government support of homeownership
- A change in our relationship with the housing-related government agencies and sponsored entities
- Ineffectiveness of our hedging activities
- The level of competition in each of our business segments
- The occurrence of natural disasters or other events or circumstances that could impact the level of claims in the Insurance segment

Other risk factors are described elsewhere herein as well as in other reports and documents that we file with or furnish to the SEC. Other factors that may not be described in any such report or document could also cause results to differ from our expectations. Each of these factors could by itself, or together with one or more other factors, adversely affect our business, results of operations and/or financial condition.

Consolidated Balance Sheets

(Dollar amounts in thousands, except per share data)	December 31, 2003	December 31, 2002
ASSETS		
Cash	**$ 633,467**	$ 613,280
Mortgage loans and mortgage-backed securities held for sale	**24,103,625**	15,042,072
Trading securities owned, at market value	**6,806,368**	5,983,841
Trading securities pledged as collateral, at market value	**4,118,012**	2,708,879
Securities purchased under agreements to resell	**10,348,102**	5,997,368
Loans held for investment, net	**26,368,055**	6,070,426
Investments in other financial instruments	**12,952,095**	10,901,915
Mortgage servicing rights, net	**6,863,625**	5,384,933
Property, equipment and leasehold improvements, net	**755,276**	576,688
Other assets	**5,001,168**	4,751,381
Total assets	**$97,949,793**	$58,030,783
Borrower and investor custodial accounts	**$14,426,868**	$16,859,667
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable	**$38,920,581**	$19,293,788
Securities sold under agreements to repurchase	**32,013,412**	22,634,839
Deposit liabilities	**9,327,671**	3,114,271
Accounts payable and accrued liabilities	**6,248,624**	5,342,442
Income Taxes Payable	**2,354,789**	1,984,310
Total liabilities	**88,865,077**	52,369,650
Commitments and contingencies	**—**	—
Company-obligated mandatorily redeemable capital trust pass-through securities of subsidiary trusts holding solely Company guaranteed related subordinated debt	**1,000,000**	500,000
Shareholders' equity		
Preferred stock — authorized, 1,500,000 shares of $0.05 par value; none issued and outstanding	**—**	—
Common stock — authorized, 500,000,000 shares of $0.05 par value; issued and outstanding, 184,490,593 and 168,751,111 shares at December 31, 2003 and 2002, respectively	**9,225**	6,330
Additional paid-in capital	**2,307,531**	1,657,144
Accumulated other comprehensive income	**164,526**	186,799
Retained earnings	**5,603,434**	3,310,860
Total shareholders' equity	**8,084,716**	5,161,133
Total liabilities and shareholders' equity	**$97,949,793**	$58,030,783
Borrower and investor custodial accounts	**$14,426,868**	$16,859,667

The accompanying notes are an integral part of these statements.

Consolidated Statements of Earnings

For the years ended December 31, 2003 and 2002 and the ten months ended December 31, 2001

(Dollar amounts in thousands, except per share data)	**Year Ended December 31, 2003**	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
REVENUES			
Gain on sale of loans and securities	**$5,890,325**	$ 3,471,218	$ 1,601,990
Interest income	**3,342,200**	2,253,296	1,806,596
Interest expense	**(1,940,207)**	(1,461,066)	(1,474,719)
Net interest income	**1,401,993**	792,230	331,877
Loan servicing fees and other income from retained interests	**2,804,338**	2,028,922	1,367,381
Amortization of mortgage servicing rights	**(2,069,246)**	(1,267,249)	(805,533)
Impairment of retained interests	**(1,432,965)**	(3,415,311)	(1,472,987)
Servicing hedge gains	**234,823**	1,787,886	908,993
Net loan servicing fees and other income from retained interests	**(463,050)**	(865,752)	(2,146)
Net insurance premiums earned	**732,816**	561,681	316,432
Commissions and other revenue	**464,762**	358,855	248,506
Total revenues	**8,026,846**	4,318,232	2,496,659
EXPENSES			
Compensation expenses	**2,583,763**	1,771,287	968,232
Occupancy and other office expenses	**586,648**	447,723	291,571
Insurance claims expenses	**360,046**	277,614	134,819
Other operating expenses	**650,617**	478,585	313,418
Total expenses	**4,181,074**	2,975,209	1,708,040
Earnings before income taxes	**3,845,772**	1,343,023	788,619
Provision for income taxes	**1,472,822**	501,244	302,613
NET EARNINGS	**$2,372,950**	$ 841,779	$ 486,006
Earnings per share			
Basic	**$ 13.33**	$ 5.06	$ 3.03
Diluted	**$ 12.47**	$ 4.87	$ 2.92

The accompanying notes are an integral part of these statements.

Consolidated Statement of Common Shareholders' Equity

For the years ended December 31, 2003 and 2002 and the ten months ended December 31, 2001

(Dollar amounts in thousands)	Number of Shares	Common Stock	Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
BALANCE AT FEBRUARY 28, 2001	117,732,249	$ 5,887	$1,307,679	$ 173,249	$2,072,449	$3,559,264
Cash dividends paid — $0.30 per common share	—	—	—	—	(33,268)	(33,268)
Stock options exercised	1,336,336	66	30,079	—	—	30,145
Tax benefit of stock options exercised	—	—	8,769	—	—	8,769
Contribution of common stock to defined contribution employee savings plan	191,007	10	8,675	—	—	8,685
Issuance of common stock	3,445,940	172	151,651	—	—	151,823
Other comprehensive loss, net of tax	—	—	—	(123,782)	—	(123,782)
Net earnings for the ten-month period	—	—	—	—	486,006	486,006
BALANCE AT DECEMBER 31, 2001	122,705,532	6,135	1,506,853	49,467	2,525,187	4,087,642
Cash dividends paid — $0.46 per common share	—	—	—	—	(56,106)	(56,106)
Stock options exercised	2,893,492	147	80,231	—	—	80,378
Tax benefit of stock options exercised	—	—	21,999	—	—	21,999
Contribution of common stock to defined contribution employee savings plan	324,837	16	14,612	—	—	14,628
Issuance of common stock	639,472	32	33,449	—	—	33,481
Other comprehensive income, net of tax	—	—	—	137,332	—	137,332
Net earnings for the year	—	—	—	—	841,779	841,779
BALANCE AT DECEMBER 31, 2002	126,563,333	6,330	1,657,144	186,799	3,310,860	5,161,133
Cash dividends paid — $0.59 per common share	—	—	—	—	(80,376)	(80,376)
Stock options exercised	5,562,507	277	175,769	—	—	176,046
Tax benefit of stock options exercised	—	—	88,031	—	—	88,031
Contribution of common stock to defined contribution employee savings plan	338,795	17	20,998	—	—	21,015
Issuance of common stock	5,959,123	298	367,892	—	—	368,190
4-for-3 stock split, December 18, 2003	46,066,835	2,303	(2,303)	—	—	—
Other comprehensive loss, net of tax	—	—	—	(22,273)	—	(22,273)
Net earnings for the year	—	—	—	—	2,372,950	2,372,950
BALANCE AT DECEMBER 31, 2003	**184,490,593**	**$ 9,225**	**$2,307,531**	**$164,526**	**$5,603,434**	**$8,084,716**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2003 and 2002 and the ten months ended December 31, 2001

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	**$ 2,372,950**	$ 841,779	$ 486,006
Adjustments to reconcile net earnings to net cash used by operating activities:			
Gain on sale of available-for-sale securities	**(132,296)**	(464,669)	(266,246)
Amortization and impairment of retained interests	**3,502,211**	4,682,560	2,278,520
Contribution of common stock to 401(k) Plan	**21,015**	14,628	8,685
Depreciation and other amortization	**110,082**	56,114	44,378
Deferred income taxes payable	**471,860**	109,064	302,305
Origination and purchase of loans held for sale	**(406,775,069)**	(251,900,626)	(123,968,784)
Sale and principal repayments of loans	**397,713,516**	247,463,263	115,328,093
Increase in mortgage loans and mortgage-backed securities held for sale	**(9,061,553)**	(4,437,363)	(8,640,691)
Decrease in other financial instruments	**6,986,590**	1,011,222	1,187,083
Increase in trading securities	**(2,231,660)**	(2,750,728)	(1,891,910)
Increase in securities purchased under agreements to resell	**(4,350,734)**	(1,678,248)	(1,209,564)
Increase in other assets	**(165,671)**	(2,161,509)	(548,197)
Increase in accounts payable and accrued liabilities	**906,182**	1,311,869	1,665,330
Net cash used by operating activities	**(1,571,024)**	(3,465,281)	(6,584,301)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to mortgage servicing rights, net	**(6,138,569)**	(4,436,328)	(2,395,939)
Additions to available-for-sale securities	**(10,862,056)**	(18,555,706)	(3,044,425)
Proceeds from sale of available-for-sale securities	**2,036,188**	10,772,705	2,514,241
Proceeds from sale of securitized mortgage servicing rights	**1,043,437**	566,603	—
Additions in loans held for investment	**(20,297,629)**	(2,619,614)	(2,014,225)
Purchase of property, equipment and leasehold improvements, net	**(260,639)**	(170,833)	(95,806)
Net cash used by investing activities	**(34,479,268)**	(14,443,173)	(5,036,154)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in short-term borrowings	**25,935,778**	12,470,610	7,108,609
Issuance of long-term debt	**2,402,650**	6,056,103	7,000,800
Repayment of long-term debt	**(5,220,209)**	(3,896,937)	(3,037,551)
Proceeds from long-term FHLB Advances	**5,800,000**	900,000	75,000
Repayment of long-term FHLB Advances	**(25,000)**	—	—
Issuance of Company-obligated mandatorily redeemable capital pass-through securities	**500,000**	—	—
Net increase in deposit liabilities	**6,213,400**	2,438,791	675,480
Issuance of common stock	**544,236**	113,859	190,653
Payment of dividends	**(80,376)**	(56,106)	(33,268)
Net cash provided by financing activities	**36,070,479**	18,026,320	11,979,723
Net increase in cash	**20,187**	117,866	359,268
Cash at beginning of period	**613,280**	495,414	136,146
Cash at end of period	**$ 633,467**	$ 613,280	$ 495,414
Supplemental cash flow information:			
Cash used to pay interest	**$ 1,685,721**	$ 1,359,582	$ 1,469,819
Cash used to pay income taxes	**$ 985,959**	$ 391,963	$ 5,215
Non-cash investing and financing activities:			
Unrealized (loss) gain on available-for-sale securities, net of tax	**$ (22,273)**	$ 137,332	$ (123,782)
Contribution of common stock to 401(k) plan	**$ 21,015**	$ 14,628	$ 8,685
Securitization of mortgage servicing rights	**$ 1,263,890**	$ 595,237	$ —

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2003 and 2002 and the ten months ended December 31, 2001

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
NET EARNINGS	**$2,372,950**	$ 841,779	$ 486,006
Other comprehensive income, net of tax:			
Unrealized gains (losses) on available for sale securities:			
Unrealized holding (losses) gains arising during the period, before tax	**(90,554)**	588,543	(81,066)
Income tax benefit (expense)	**33,380**	(220,900)	30,464
Unrealized holding (losses) gains arising during the period, net of tax	**(57,174)**	367,643	(50,602)
Less: reclassification adjustment for (gains) losses included in net earnings, before tax	**55,277**	(368,694)	(117,238)
Income tax benefit (expense)	**(20,376)**	138,383	44,058
Reclassification adjustment for (gains) losses included in net earnings, net of tax	**34,901**	(230,311)	(73,180)
Other comprehensive income (loss)	**(22,273)**	137,332	(123,782)
COMPREHENSIVE INCOME	**$2,350,677**	$ 979,111	$ 362,224

The accompanying notes are an integral part of these statements.

NOTE 1 — ORGANIZATION

Countrywide Financial Corporation (the "Company"), previously Countrywide Credit Industries, Inc., is a holding company which, through its principal subsidiary, Countrywide Home Loans, Inc. ("CHL") and other subsidiaries, is engaged primarily in the U.S. residential mortgage banking business, as well as other businesses that are generally tied to the U.S. residential mortgage market. In addition to residential mortgage banking, the Company's business activities fall into the following general categories: securities dealer, retail banking and mortgage warehouse lending, insurance underwriting and agency, and international mortgage loan processing and sub-servicing.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company's significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

Change in Fiscal Year

Effective January 1, 2001, the Company changed its fiscal year-end from February 28 to December 31. As a result of the change, the Company's Consolidated Statement of Earnings, Consolidated Statement of Common Shareholders' Equity, Consolidated Statement of Cash Flows and Consolidated Statement of Comprehensive Income for the period ended December 31, 2001 consist of the ten-month period March 1, 2001 through December 31, 2001. Summary comparative data for the ten-month period ended December 31, 2000 is presented in Note 4.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that materially affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The Company includes both operating and special purpose entities. Inclusion of these entities in the consolidated financial statements of the Company is based on its voting interests for operating entities, and on whether its special purpose entities are "qualifying special purpose entities" ("QSPEs") as specified by Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140").

For operating entities, the consolidated financial statements include the accounts of Countrywide Financial Corporation and all majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. Minority interests in the Company's majority-owned subsidiaries are included in "accounts payable and accrued liabilities" on the Company's balance sheets and the minority interest in the Company's earnings are charged to "other operating expenses," net of applicable income taxes. The Company has whole or majority ownership of all of its subsidiaries, and therefore has no equity method or cost-basis investees.

Countrywide has formed special purpose entities for the purpose of facilitating the sale of its loans. The beneficial interests in these entities are held by third-parties. The structure of these entities limits their activities to holding the transferred assets and transferring cash collected to the entities' beneficial interest holders. These special purpose entities meet the definition of QSPEs as detailed in SFAS 140 and the accounts of these QSPEs are not included in the consolidated financial statements.

The Company has also formed special purpose entities to facilitate the financing of loans and securities, primarily loans and securities held for sale, or to hold interests retained in securitization. The accounts of these entities are included in the consolidated financial statements as the structure of the entities is such that the Company retains control, as defined by SFAS 140, of the assets transferred to these entities.

Financial Statement Reclassifications

Certain amounts reflected in the Consolidated Financial Statements for the year ended December 31, 2002 and the ten-month period ended December 31, 2001 have been reclassified to conform to the presentation for the year ended December 31, 2003.

Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" requires that certain nonrefundable fees and the related incremental direct costs associated with originating loans be deferred when incurred. How these deferred amounts are recognized in income is based on whether the loans are held for investment or are held for sale.

Net deferred amounts relating to loans held for investment generally are recognized over the life of the loan using the interest method of amortization. In the case of mortgage loans held for sale, the deferred costs are recognized when the loan is sold. These deferred amounts have been classified as a component of the gain on the sale of the loans in this period and previously reported amounts have been reclassified to agree with the current presentation. This reclassification had no impact on reported earnings in the current period or in any prior period. The deferral of origination expenses had the following effect on operating expenses for the periods presented:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Total operating expenses	**$ 4,651,178**	$ 3,214,121	$ 1,862,862
Deferral of origination expenses	**(470,104)**	(238,912)	(154,822)
Total expenses, net	**$ 4,181,074**	$ 2,975,209	$ 1,708,040

In the fourth quarter of 2003, the Company consummated a 4-for-3 stock split effected as a stock dividend. All references in the accompanying consolidated balance sheet, consolidated statements of earnings and notes to consolidated financial statements to the number of common shares and earnings per share amounts have been restated accordingly.

Derivative Financial Instruments

The Company utilizes derivative financial instruments extensively in connection with its interest rate risk management activities. In addition, the Company uses derivatives to manage the foreign currency risk related to its foreign currency denominated indebtedness. (See Note 10 for further discussion.)

On March 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting For Derivative Instruments And Hedging Activities," and Statement of Financial Accounting Standards No. 138, "Accounting For Certain Derivative Instruments And Certain Hedging Activities — An Amendment of FASB Statement No. 133" (collectively, "SFAS 133"). Under SFAS 133, all derivative financial instruments are recognized on the balance sheet at fair value.

At the date of adoption, the Company recorded certain transition adjustments as required by SFAS 133. There was no impact on net earnings because of the transition adjustments. However, the transition adjustments had the following impact on the Company's balance sheet (in millions):

Decrease in fair value of derivatives classified as assets	$	(93.7)
Increase in fair value of derivatives classified as liabilities	$	(107.2)
Decrease in book value of indebtedness	$	107.2
Increase in book value of MSRs	$	81.7
Increase in book value of mortgage inventory and other assets	$	12.0

The Company designates every derivative instrument as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge) or a free-standing derivative instrument. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability attributable to the hedged risk are recorded in current period earnings. For a cash flow hedge, to the extent that it is an effective hedge, changes in the fair value of the derivative are recorded in other comprehensive income within shareholders' equity and subsequently reclassified to earnings in the same period(s) that the hedged transaction impacts net earnings; to the extent a cash flow hedge is ineffective, the ineffective portion of the hedge is reported in current period earnings. For free-standing derivative instruments, changes in the fair values are reported in current period earnings.

The Company formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet. The Company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether the derivative instruments used are highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued.

The Company discontinues hedge accounting when (1) it determines that a derivative instrument is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (2) a derivative instrument expires or is sold, terminated, or exercised; or (3) a derivative instrument is de-designated as a hedge instrument. When hedge accounting is discontinued, the derivative instrument continues to be carried on the balance sheet at its fair value. However, the carrying value of the previously hedged asset or liability is no longer adjusted for changes in fair value. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative instrument continues to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income are recognized in current period earnings. When hedge accounting is discontinued because the hedging instrument is sold or terminated, the amount reported in other comprehensive income to the date of sale or termination is reported in other comprehensive income until the forecasted transaction impacts earnings. In all situations in which hedge accounting is discontinued, the derivative instrument is carried at its fair value on the balance sheet, with changes in its fair value recognized in current period earnings.

The Company occasionally purchases or originates financial instruments that contain an embedded derivative instrument. At inception, the Company assesses whether the economic characteristics of the embedded derivative instrument are clearly and closely related to the economic characteristics of the financial instrument (host contract), whether the financial instrument that embodies both the embedded derivative instrument and the host contract is currently measured at fair value with changes in fair value reported in earnings, and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument.

If the embedded derivative instrument is determined not to be clearly and closely related to the host contract, is not currently measured at fair value with changes in fair value reported in earnings, and the embedded derivative instrument would qualify as a derivative instrument, the embedded derivative instrument is recorded apart from the host contract and carried at fair value with changes recorded in current period earnings.

Sales, Securitizations and Servicing of Financial Instruments

The Company securitizes substantially all of the mortgage loans it produces, and sells those securities on a regular basis in the secondary mortgage market. By-products of those securitizations are certain retained interests, including mortgage servicing rights ("MSRs"), interest-only securities, principal-only securities, and residual securities, which the Company generally holds as long-term investments. (See Note 9 for a description of MSRs.)

When the Company securitizes mortgage loans, it allocates the acquisition cost of the mortgage loans between the security sold and the retained interests, based on their relative fair values. The reported gain is the difference between the cash proceeds from the sale of the security or loan and its allocated cost. The cost allocated to the retained interests is classified accordingly on the balance sheet.

Once recorded, retained interests are periodically evaluated for impairment. Impairment occurs when the current fair value of the retained interest is less than its carrying value.

If MSRs are impaired, the impairment is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a valuation allowance. If the value of the MSRs subsequently increases, the recovery in value is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a reduction in the valuation allowance. For purposes of performing its MSR impairment evaluation, the Company stratifies its servicing portfolio on the basis of certain risk characteristics including loan type (fixed-rate or adjustable-rate) and note rate. Fixed-rate loans are stratified into note rate pools of fifty basis points for note rates between 6% and 10% and single pools for note rates above 10% and below 6%. Management periodically reviews the various impairment strata to determine whether the value of the impaired MSRs in a given stratum is likely to recover. When management deems recovery of the value to be unlikely in the foreseeable future, a permanent impairment write-down of the underlying MSRs to its estimated recoverable value is charged to the valuation allowance. MSRs cannot be carried above their amortized cost.

Impairment of other retained interests is recognized as a reduction to shareholders' equity (net of tax). If the impairment is deemed to be other than temporary, it is recognized in current-period earnings. Once permanently impaired, subsequent increases in the value of other retained interests are recognized in earnings over the estimated remaining life of the investment through a higher effective yield.

Other retained interests are classified as available-for-sale securities and are carried at estimated fair value in the consolidated balance sheets.

See Note 9 for further discussion concerning the valuation of MSRs and other retained interests.

Loans

Mortgage Loans and Mortgage-Backed Securities ("MBS") Held for Sale

Mortgage Loans Held for Sale are recorded at the principal amount outstanding net of deferred origination costs and fees and any premiums or discounts. Loan origination fees, as well as discount points and incremental direct origination costs, are initially recorded as an adjustment of the cost of the loan and are reflected in earnings when the loan is sold.

The cost-basis of Mortgage Loans Held for Sale is adjusted to reflect changes in the loans' fair value as applicable through fair value hedge accounting. Mortgage Loans Held for Sale are carried at the lower of adjusted cost or market, which is computed by the aggregate method (unrealized losses are offset by unrealized gains). The market value of Mortgage Loans Held for Sale is generally based on quoted market prices for MBS.

Loans Held for Investment

Loans held for investment are carried at amortized cost reduced by a valuation allowance for credit losses inherent in the portfolio as of the balance sheet date. A loan's cost includes its unpaid principal balance along with unearned income comprised of fees charged to borrowers offset by incremental direct origination costs for loans originated by the Company or any premiums or discounts paid for loans purchased. Unearned income is amortized over the loan's contractual life. For revolving lines of credit, unearned income is amortized using the straight-line method. For other loans, unearned income is amortized using the interest method of accounting.

The allowance for loan losses is a valuation allowance established to provide for probable credit losses inherent in the portfolio of loans held for investment as of the balance sheet date. The Company estimates the level of its allowance for loan losses based on observed delinquency, default and loss experience, current portfolio delinquency and the results of the Company's ongoing quality control and compliance monitoring activities.

Interest Income Recognition

Interest income is accrued as earned. Loans are placed on nonaccrual status when any portion of principal or interest is ninety days past due, or earlier when concern exists as to the ultimate collectibility of principal or interest. When a loan is placed on nonaccrual status the accrued and unpaid interest is reversed and the loan is accounted for on the cash basis. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

Trading Securities

Trading securities consist of mortgage securities purchased by the Company's broker-dealer subsidiary. These securities, along with associated derivative instruments used to manage price risk, are recorded at fair value on a trade date basis, and gains and losses, both realized and unrealized, are included in Gain on Sale of Loans and Securities in the statement of earnings.

Investments in Other Financial Instruments

Investments in Other Financial Instruments include mortgage-backed and government agency securities, securitized excess servicing fees, derivative hedging instruments, and certain interests retained in securitization. The Company carries all of these assets at their estimated fair values. How the changes in fair value of the securities are recognized is dependent on how the Company has classified the respective assets:

- Securitized excess service fees have been classified as trading securities; therefore, changes in the fair value of securitized excess servicing fees are recognized in current period earnings;

- All other securities have been classified as available-for-sale securities; therefore, unrealized gains or losses, net of deferred income taxes, are excluded from earnings and reported as accumulated other comprehensive income, which is a separate component of shareholders' equity. Realized gains and losses on sales of these assets are computed by the specific identification method at the time of disposition and are recorded in earnings. Unrealized losses that are other than temporary are recognized in earnings in the period that the other-than temporary impairment is identified.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Transactions involving purchases of securities under agreements to resell or sales of securities under agreements to repurchase are recorded at their contractual amounts plus accrued interest and accounted for as collateralized financings, except where the Company does not have an agreement to sell (or purchase) the same or substantially the same securities before maturity at a fixed or determinable price.

Certain of the Company's securities lending arrangements include master netting agreements whereby the counterparties are entitled and intend to settle their positions "net." Where such arrangements are in place, the Company includes the net asset or liability in its balance sheet. At December 31, 2003, $12.6 billion of borrowings were offset against securities purchased under agreements to resell under master netting arrangements.

Deferred Acquisition Costs

The Company's insurance carrier subsidiary, Balboa Life and Casualty ("Balboa"), incurs acquisition costs which vary with and are directly related to acquisition of new insurance policies, consisting primarily of commissions, premium taxes, and certain other underwriting costs. These costs are deferred and amortized as the related premiums are earned. Deferred acquisition costs are limited to amounts estimated to be recoverable from the related premiums and anticipated investment income less anticipated losses, loss adjustment expenses, and policy maintenance expenses. Deferred acquisition costs totaling $82.2 million and $100.2 million were included in other assets at December 31, 2003 and 2002, respectively. Amortization of policy acquisition costs totaling $184.2 million, $98.8 million and $42.0 million were included in other operating expenses for the years ended December 31, 2003 and 2002 and the ten months ended December 31, 2001, respectively.

Liability for Insurance Losses

For Balboa's property and casualty policies, the liability for losses and loss adjustment expenses consists of a liability for the unpaid portion of estimated ultimate losses and loss adjustment expenses on claims reported through the end of the accounting period and a liability for the estimated losses and loss adjustment expenses relating to incidents incurred but not reported as of the balance sheet date.

For credit life and disability policies, the liability for losses provides for future claims, estimated based upon statutory standards, on all policies-in-force at the end of the period, as well as the present value of amounts not yet due on disability claims. The liability for policy and contract claims represents the estimated ultimate net cost of all reported and unreported claims incurred through the end of the period, except for the present value of amounts not yet due on disability claims, which are included in the liability for life and disability policies.

The liability for insurance losses is established using statistical analyses and is subject to the effects of trends in claim severity and frequency and other factors. The estimate is continually reviewed and as adjustments to the liability become necessary, such adjustments are reflected in current earnings.

For mortgage reinsurance, the liability for insured losses is accrued in proportion to the amount of revenue recognized based on management's assessment of the ultimate liability to be paid over the current and expected renewal period of the contracts. The remaining liability to be paid, along with reinsurance revenues to be earned are estimated based on the Company's historical experience of defaults, losses and prepayments.

Collateral

The Company reports assets it has pledged as collateral in secured borrowing and other arrangements when the secured party cannot sell or repledge the assets or the Company can substitute collateral or otherwise redeem it on short notice. The Company generally does not report assets received as collateral in secured lending and other arrangements since the debtor typically has the right to redeem the collateral on short notice.

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Leasehold improvements are amortized over the lesser of the life of the lease or service lives of the improvements using the straight-line method. Renovations and improvements that add utility or significantly extend the useful life of assets are capitalized. Repair and maintenance costs are expensed as incurred.

Capitalized Software Costs

Internal software development costs are capitalized to the extent of external direct costs of materials and services consumed in developing or obtaining internal-use computer software and, salary costs relating to employees' time spent on the software project during the application development stage. Internally-developed software is amortized over six to ten years using the straight-line method.

Loan Servicing Fees

Loan Servicing Fees and other remuneration are received by the Company for servicing residential mortgage loans. Loan Servicing Fees are recorded net of guarantee fees paid by the Company in connection with its securitization activities. Loan Servicing Fees are recognized as earned over the life of the servicing portfolio.

Income from Other Retained Interests

Income from Other Retained Interests represents the yield on interest-only securities, principal-only securities and residual interests retained in securitization. Income on these investments is recognized using the interest method.

Insurance Premiums

Property and casualty and credit life and disability premiums are earned over the term of the policies on a pro-rata basis for all policies except for lender-placed insurance and Guaranteed Auto Protection ("GAP"), which provides coverage for leased automobiles' residual value. For lender-placed insurance, earnings are "slowed," or earned later in the life of the policy, due to high cancellation rates experienced early in the life of the policy. For GAP insurance, revenue recognition is correlated to the exposure and accelerated over the life of the contract. Premiums applicable to the unexpired term of policies-in-force are recorded as unearned premiums. Mortgage reinsurance premiums are recognized as earned over the life of the policy.

Stock-Based Compensation

The Company generally grants stock options to employees for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant. The Company recognizes compensation expense related to its stock option plans only to the extent that the fair value of the shares at the grant date exceeds the exercise price.

Had the estimated fair value of the options granted been included in compensation expense, the Company's net earnings and earnings per share would have been as follows:

(Dollar amounts in thousands, except per share data)	**Year Ended December 31, 2003**	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Net Earnings			
As reported	**$ 2,372,950**	$ 841,779	$ 486,006
Deduct: Stock based employee compensation, net of taxes	**$ 28,186**	$ 25,930	$ 23,305
Pro forma	**$ 2,344,764**	$ 815,849	$ 462,701
Basic Earnings Per Share			
As reported	**$ 13.33**	$ 5.06	$ 3.03
Pro forma	**$ 13.17**	$ 4.91	$ 2.88
Diluted Earnings Per Share			
As reported	**$ 12.47**	$ 4.87	$ 2.92
Pro forma	**$ 12.32**	$ 4.72	$ 2.78

The fair value of each option grant is estimated on the date of grant using a Black-Scholes option-pricing model that has been modified to consider cash dividends to be paid. To determine periodic compensation expense for purposes of this pro forma disclosure, the fair value of each option grant is amortized over the options' vesting period. The weighted-average assumptions used to value the option grants and the resulting average estimated values were as follows:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Weighted Average Assumptions:			
Dividend yield	**0.8%**	1.0%	0.7%
Expected volatility	**33%**	33%	29%
Risk-free interest rate	**2.3%**	3.8%	4.9%
Annual expected life (in years)	**4.4**	4.2	5.0
Fair value of options	**$ 13.40**	$ 9.32	$ 9.76

Income Taxes

The Company utilizes an asset and liability approach in its accounting for income taxes. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis carrying amounts of assets and liabilities.

Borrower and Investor Custodial Accounts

The Company holds, as custodian, funds collected from borrowers whose loans it services. These funds include loan payments pending remittance to investors and funds collected from borrowers to ensure timely payment of hazard and primary mortgage insurance and property taxes related to the properties securing the loans. These funds are not owned by the Company. These funds are held in trust and are shown on the Statement of Financial Condition for disclosure purposes only. As of December 31, 2003, $5.9 billion of the borrower and investor custodial accounts were placed as deposits in Treasury Bank and are included in bank deposit liabilities.

Implementation of New Accounting Standards

As more fully disclosed in the preceding caption, "Derivative Financial Instruments," the Company adopted SFAS 133 in March 2001.

In November 1999, the Emerging Issues Task Force ("EITF") released Issue No. 99-20, titled "Recognition of Interest Income and Impairment on Purchased and Retained Interests in Securitized Financial Assets" ("EITF 99-20"). EITF 99-20 is effective for quarters beginning after March 15, 2001. Under the guidelines of EITF 99-20, the accounting treatment of interest income and impairment of beneficial interests in securitization transactions is modified such that beneficial interests which are determined to have an other-than-temporary impairment are required to be written down to fair value with a corresponding impairment charge to earnings. The Company adopted EITF 99-20 for the fiscal quarter ended August 31, 2001 and there was no material impact at adoption on the Company's financial statements.

In September 2000, the Financial Accounting Standards Board ("FASB") issued SFAS No. 140 ("SFAS 140"), "Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which replaces SFAS No. 125 (of the same title). SFAS 140 revises certain standards in the accounting for securitizations and other transfers of financial assets and collateral, and requires some additional disclosures relating to securitization transactions and collateral, but it carries over most of SFAS 125's provisions. The collateral and disclosure provisions of SFAS 140 were included in the February 28, 2001 financial statements. All other provisions of this Statement were adopted on April 1, 2001, as required by the statement. The adoption of this statement did not have a material impact on the Company's financial statements.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142").

SFAS 141 requires use of the purchase method of accounting for all business combinations initiated after June 30, 2001, provides specific guidance on how to identify the accounting acquirer in a business combination, provides specific criteria for recognizing intangible assets apart from goodwill and requires additional financial statement disclosures regarding business combinations. SFAS 141 will impact the Company's accounting for any business combinations it may enter into in the future. However, SFAS 141's adoption did not have an impact on the Company's present financial condition or results of operations.

SFAS 142 addresses the accounting for goodwill and other intangible assets after their initial recognition. SFAS 142 changes the accounting for goodwill and other intangible assets by replacing periodic amortization of the asset with an annual test of impairment of goodwill at either the reporting segment level or one level below, providing for similar accounting treatment for intangible assets deemed to have an indefinite life. Assets with finite lives will be amortized over their useful lives. SFAS 142 also provides for additional financial statement disclosures about goodwill and intangible assets. The provisions of SFAS 142 are applicable to the Company for the year ended December 31, 2002. The Company has insignificant levels of goodwill and intangible assets and the adoption of SFAS 142 did not have a material impact on the Company's financial condition or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 retains the existing requirements to recognize and measure the impairment of long-lived assets to be held and used or to be disposed of by sale. However, SFAS 144 changes the scope and certain measurement requirements of existing accounting guidance and also changes the requirements relating to reporting the effects of a disposal or discontinuation of a segment of a business. The provisions of SFAS 144 are applicable to the Company for the year ended December 31, 2002. The adoption of SFAS 144 did not have a material impact on the Company's financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), which is an interpretation of SFAS No. 5; "Accounting for Contingencies," SFAS No. 57; "Related Party Disclosures," and SFAS No. 107; "Disclosures About Fair Value of Financial Instruments." FIN 45 clarifies the disclosure and liability recognition requirements relating to guarantees issued by an entity. Specifically, FIN 45 clarifies that entities are required to record guarantees at their fair values, including the value of the obligation to stand ready to perform over the term of the guarantee in the event the specified triggering events or conditions occur, regardless of whether the occurrence of the triggering events or conditions is deemed probable of occurring.

FIN 45 is effective for new guarantees issued or modification of guarantees made after December 31, 2002. FIN 45's disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45's measurement requirements did not have a significant impact on Countrywide's financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which is an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 was amended in December 2003. FIN 46 requires business enterprises to consolidate variable interest entities which have one or more of the following characteristics:

1. The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties.
2. The equity investors lack one or more of the following essential characteristics of a controlling financial interest:
   a. The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights.
   b. The obligation to absorb the expected losses of the entity if they occur.
   c. The right to receive expected residual returns of the entity if they occur.

As discussed in Note 18 — Company-Obligated Capital Securities of Subsidiary Trusts, the Company has issued trust-preferred securities. Based on guidance related to FIN 46, the Company will cease consolidating the subsidiaries which have issued the trust-preferred securities during the quarter ending March 31, 2004. The primary effect of this de-consolidation will be for the Company to re-classify the trust-preferred securities from mezzanine equity to debt. Interest payments relating to the trust-preferred securities are presently charged to interest expense. Therefore, this change will have no effect on the Company's results of operations.

FIN 46 excludes qualifying special purpose entities subject to the reporting requirements of SFAS 140. FIN 46 applies upon formation to variable interest entities created after January 31, 2003, and to all variable interest entities in the first fiscal year or interim period beginning after June 15, 2003. At December 31, 2003, Countrywide's corporate structure included either companies whose accounts were consolidated into the Company's financial statements or which were classified as qualifying special purpose entities under SFAS 140. Therefore, the adoption of FIN 46 did not have an impact on the Company's financial statements at December 31, 2003.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133, clarifies when a derivative contains a financing component, amends the definition of an "underlying" to conform it to the language used in FIN 45. The adoption of SFAS 149 did not have a material effect on the Company's financial condition or results of operations.

In May 2003, the FASB issued Statement No. 150 ("SFAS 150"), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity in its statement of financial position. On November 7, 2003, the FASB issued FASB Staff Position 150-3 ("FSP 150-3") deferring the effective date of SFAS 150 for certain mandatorily redeemable non-controlling interests. SFAS 150 would have required the reclassification of the Company's trust-preferred securities from mezzanine financing to liabilities. However, the issuance of FSP 150-3 delayed this reclassification pending reconsideration of the issue by the FASB. The adoption of the remainder of SFAS 150 did not have a material effect on the Company's financial condition or results of operations.

NOTE 3 — EARNINGS PER SHARE

Basic earnings per share is determined using net earnings divided by the weighted average shares outstanding during the period. Diluted earnings per share is computed by dividing net earnings available to common shareholders by the weighted average shares outstanding, assuming all potential dilutive common shares were issued.

The following table summarizes the basic and diluted calculations for the years ended December 31, 2003 and 2002 and the ten months ended December 31, 2001:

(Amounts in thousands, except per share data)	Year Ended December 31, 2003 Net Earnings	Shares	Per-Share Amount
Net earnings	**$ 2,372,950**		
Basic EPS			
Net Earnings	**$ 2,372,950**	**177,973**	**$ 13.33**
Effect of convertible debentures	**792**	**2,603**	
Effect of dilutive stock options	**—**	**9,799**	
Diluted EPS			
Net Earnings available to common shareholders	**$ 2,373,742**	**190,375**	**$ 12.47**

(Amounts in thousands, except per share data)	Year Ended December 31, 2002 Net Earnings	Shares	Per-Share Amount
Net earnings	$ 841,779		
Basic EPS			
Net Earnings	$ 841,779	166,320	$ 5.06
Effect of convertible debentures	—	—	
Effect of dilutive stock options	—	6,645	
Diluted EPS			
Net Earnings available to common shareholders	$ 841,779	172,965	$ 4.87

(Amounts in thousands, except per share data)	Ten Months Ended December 31, 2001 Net Earnings	Shares	Per-Share Amount
Net earnings	$ 486,006		
Basic EPS			
Net Earnings	$ 486,006	160,452	$ 3.03
Effect of convertible debentures	—	—	
Effect of dilutive stock options	—	5,939	
Diluted EPS			
Net Earnings available to common shareholders	$ 486,006	166,391	$ 2.92

During the years ended December 31, 2003 and 2002 and the ten months ended December 31, 2001, options to purchase 1.4 million shares, 1.2 million shares and 1.7 million shares, respectively, were outstanding but not included in the computation of earnings per share because they were anti-dilutive.

As more fully discussed in Note 14, the Company has outstanding debentures convertible into common stock of the Company upon the stock reaching certain specified levels, or if the credit ratings of the debentures drops below investment grade. At December 31, 2003, the conditions providing the holders of the debentures the right to convert their securities to shares of common stock during the quarter ending March 31, 2004 had been met; therefore, the effect of conversion of the debentures was included in the Company's calculation of diluted earnings per share.

NOTE 4 — TRANSITION PERIOD COMPARATIVE DATA

Effective January 1, 2001, the Company changed its fiscal year from February 28 to December 31. Information for the transition period is representative of the ten months beginning March 1, 2001 through December 31, 2001.

The following table presents certain financial information for the ten-months ended December 31, 2001 and December 31, 2000, respectively:

(Amounts in thousands, except per share data)	Ten Months Ended December 31, 2001	(Unaudited) Ten Months Ended December 31, 2000
Revenues	$ 2,496,659	$ 1,530,650
Expenses	1,708,040	1,105,765
Earnings before income taxes	788,619	424,885
Provision for income taxes	302,613	153,200
Net earnings	$ 486,006	$ 271,685
Earnings per share:		
Basic	$ 3.03	$ 1.78
Diluted	$ 2.92	$ 1.72
Weighted average common shares outstanding:		
Basic	160,452	152,660
Diluted	166,391	157,756

NOTE 5 — TRADING SECURITIES

Trading securities, which consist of trading securities owned and trading securities pledged as collateral, at December 31, 2003 and 2002 include the following:

(Dollar amounts in thousands)	**December 31, 2003**	December 31, 2002
Mortgage pass-through securities:		
Fixed-rate	**$ 8,523,439**	$ 6,948,203
Adjustable-rate	**476,514**	446,770
	8,999,953	7,394,973
Collateralized mortgage obligations	**1,362,446**	959,881
Agency debt securities	**243,790**	266,699
U.S. Treasury securities	**192,174**	20,059
Asset-backed securities	**99,774**	35,620
Negotiable certificates of deposits	**26,243**	15,488
	$10,924,380	$ 8,692,720

As of December 31, 2003, $10.0 billion of the Company's trading securities had been pledged as collateral for financing purposes, of which the counterparty has the contractual right to sell or re-pledge $4.1 billion. For the year ended December 31, 2003, the Company recorded $26.2 million in gains on trading securities that related to trading securities still held at the reporting date.

NOTE 6 — SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or may return collateral pledged when appropriate.

As of December 31, 2003, the Company had accepted collateral with a fair value of $11.8 billion for which it had the contractual ability to sell or re-pledge. As of December 31, 2003, the Company had re-pledged $10.8 billion of such collateral for financing purposes, of which $1.2 billion related to amounts offset against securities purchased under agreements to resell under master netting arrangements.

As of December 31, 2002, the Company had accepted collateral with a fair value of $5.9 billion for which it had the contractual ability to sell or re-pledge. As of December 31, 2002, the Company had re-pledged $5.7 billion of such collateral for financing purposes.

NOTE 7 — MORTGAGE SERVICING RIGHTS

The activity in Mortgage Servicing Rights ("MSRs") for the years ended December 31, 2003 and 2002 and the ten months ended December 31, 2001 is as follows:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Mortgage Servicing Rights			
Balance at beginning of period	**$ 7,420,946**	$ 7,051,562	$ 5,876,121
Additions	**6,138,569**	4,436,328	2,395,939
Securitization of MSRs	**(1,263,890)**	(621,047)	—
Amortization	**(2,069,246)**	(1,267,249)	(805,533)
Change in fair value attributable to hedged risk	**—**	—	(466,397)
SFAS 133 transition adjustment	**—**	—	81,705
Application of valuation allowance to write down permanently impaired MSRs	**(2,161,205)**	(2,178,648)	(30,273)
Balance before valuation allowance at end of period	**8,065,174**	7,420,946	7,051,562
Valuation Allowance for Impairment of Mortgage Servicing Rights			
Balance at beginning of period	**(2,036,013)**	(935,480)	(108,373)
Additions	**(1,326,741)**	(3,304,991)	(857,380)
Application of valuation allowance to securitization of MSRs	**—**	25,810	—
Application of valuation allowance to write down permanently impaired MSRs	**2,161,205**	2,178,648	30,273
Balance at end of period	**(1,201,549)**	(2,036,013)	(935,480)
Mortgage Servicing Rights, net	**$ 6,863,625**	$ 5,384,933	$ 6,116,082

The estimated fair value of mortgage servicing rights was $6.9 billion, $5.4 billion and $6.1 billion as of December 31, 2003, 2002 and 2001, respectively. (See Note 9 — "Securitizations" for discussion of the valuation of MSRs.)

The following table summarizes the Company's estimate of amortization of its existing MSRs for the five-year period ending December 31, 2008. This projection was developed using the assumptions made by management in its December 31, 2003 valuation of MSRs. The assumptions underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time. Therefore, the following estimates will change in a manner and amount not presently determinable by management.

(Dollar amounts in thousands)	Estimated MSR Amortization
Year Ended December 31,	
2004	$ 1,530,637
2005	1,283,253
2006	1,048,182
2007	846,493
2008	679,690
Five-year total	$ 5,388,255

NOTE 8 — INVESTMENTS IN OTHER FINANCIAL INSTRUMENTS

Investments in other financial instruments as of December 31, 2003 and 2002 include the following:

(Dollar amounts in thousands)	**December 31, 2003**	December 31, 2002
Home equity AAA asset-backed senior securities	**$ 4,622,810**	$ 3,470,858
Securitized excess servicing fees	**190,331**	—
Servicing hedge instruments:		
Derivative instruments	**642,019**	1,592,550
U.S. Treasury securities	**1,148,922**	—
Principal-only securities	**—**	779,125
Total servicing hedge instruments	**1,790,941**	2,371,675
Debt hedge instruments:		
Interest rate and foreign currency swaps	**165,891**	—
Other interests retained in securitization:		
Subprime residual securities	**370,912**	71,251
Prime home equity residual securities	**320,663**	437,060
Subprime AAA interest-only securities	**310,020**	522,985
Prime home equity line of credit transferor's interest	**236,109**	233,658
Nonconforming interest-only and principal-only securities	**130,300**	150,967
Prime home equity interest-only securities	**33,309**	109,438
Other	**56,592**	78,241
Total other interests retained in securitizations	**1,457,905**	1,603,600

NOTE 8 (CONTINUED)

(Dollar amounts in thousands)	December 31, 2003	December 31, 2002
Insurance and banking investment portfolios:		
Mortgage-backed securities	**$ 4,440,676**	$ 3,204,737
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	**283,453**	247,470
Other	**88**	3,575
Investment in other financial instruments	**$12,952,095**	$10,901,915

All of the securities listed above are classified as available-for-sale, with the exception of the securitized excess servicing fees.

At December 31, 2003, the Company had pledged $4.4 billion of home equity-backed securities to secure repurchase agreements, and $546.9 million of mortgage-backed securities to secure Federal Home Loan Bank advances. Amortized cost and fair value of available-for-sale securities as of December 31, 2003 and December 31, 2002 are as follows:

	December 31, 2003			
(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Home equity AAA asset-backed senior securities	**$ 4,445,574**	**$ 177,236**	**$ —**	**$ 4,622,810**
Other interests retained in securitization	**1,356,420**	**102,798**	**(1,313)**	**1,457,905**
Mortgage-backed securities	**4,476,600**	**38,869**	**(74,793)**	**4,440,676**
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	**1,433,436**	**41,542**	**(42,603)**	**1,432,375**
Other	**86**	**2**	**—**	**88**
	$11,712,116	**$ 360,447**	**$ (118,709)**	**$11,953,854**

	December 31, 2002			
(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Home equity AAA asset-backed senior securities	$ 3,366,477	$ 104,381	$ —	$ 3,470,858
Other interests retained in securitization	1,452,467	151,133	—	1,603,600
Principal-only securities	746,479	34,212	(1,566)	779,125
Mortgage-backed securities	3,179,332	25,414	(9)	3,204,737
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	237,076	10,394	—	247,470
Other	2,267	1,449	(141)	3,575
	$ 8,984,098	$ 326,983	$ (1,716)	$9,309,365

At December 31, 2003, the Company did not hold any securities classified as available-for-sale that had been in a continuous unrealized loss position for more than twelve months.

Gross gains and losses realized on the sales of available-for-sale securities are as follows:

(Dollar amounts in thousands)	Year Ended December 31, 2003	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Home equity AAA asset-backed senior securities:			
Gross realized gains	**$ 5,740**	$ 155,554	$ —
Gross realized losses	**—**	—	—
Net	**5,740**	155,554	—
Other interests retained in securitization:			
Gross realized gains	**27,435**	21,556	141
Gross realized losses	**(9,227)**	(2,244)	(248)
Net	**18,208**	19,312	(107)
Principal-only securities:			
Gross realized gains	**99,671**	311,324	250,322
Gross realized losses	**—**	(35,369)	—
Net	**99,671**	275,955	250,322
Mortgage-backed securities:			
Gross realized gains	**4,900**	4,968	3,365
Gross realized losses	**(234)**	(269)	(117)
Net	**4,666**	4,699	3,248
U.S. Treasury securities and obligations of U.S. Government corporations and agencies:			
Gross realized gains	**2,677**	9,705	5,428
Gross realized losses	**—**	(1,499)	—
Net	**2,677**	8,206	5,428
Other:			
Gross realized gains	**1,334**	12,942	8,154
Gross realized losses	**—**	(11,999)	(799)
Net	**1,334**	943	7,355
Total gains and losses on available-for-sale securities:			
Gross realized gains	**141,757**	516,049	267,410
Gross realized losses	**(9,461)**	(51,380)	(1,164)
Net	**$ 132,296**	$ 464,669	$ 266,246

NOTE 9 — SECURITIZATIONS

The Company routinely originates, securitizes and sells mortgage loans into the secondary mortgage market. In general, prime mortgage loan securitizations are structured without recourse to the Company.

However, the Company generally has limited recourse on the prime home equity and subprime mortgage loans it securitizes through retention of a subordinated interest or through a corporate guarantee of losses up to a negotiated maximum amount. While the Company generally does not retain credit risk on the prime mortgage loans it securitizes, it does have potential liability under representations and warranties it makes to purchasers and insurers of the loans. At December 31, 2003, the Company had a liability for losses relating to representations and warranties included in other liabilities totaling $90.7 million. The Company recognized gains of $5.5 billion from sales of mortgage loans in securitizations in the year ended December 31, 2003.

When the Company securitizes mortgage loans it generally retains the MSRs and, depending on the nature of the securitization, may also retain interest-only securities, principal-only securities and subordinated and residual interests.

MSRs arise from contractual agreements between the Company and investors (or their agents) in MBS and mortgage loans. The value of MSRs is derived from the net positive cash flows associated with the servicing contract. Under these contracts, the Company performs loan servicing functions in exchange for fees and other remuneration. The servicing functions typically performed include: collecting and remitting loan payments, responding to borrower inquiries, accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums, counseling delinquent mortgagors, supervising foreclosures and property dispositions, and generally administering the loans. For performing these functions, the Company receives a servicing fee ranging generally from 0.25% to 0.50% annually on the remaining outstanding principal balances of the loans. The servicing fees are collected from the monthly payments made by the mortgagors. In addition, the Company generally receives other remuneration consisting of float benefits derived from collecting and remitting mortgage payments, as well as rights to various mortgagor-contracted fees such as late charges, reconveyance charges, and prepayment penalties. In addition, the Company generally has the right to solicit the mortgagors for other products and services, such as second mortgages and insurance, as well as a new first mortgage for those considering refinancing or purchasing a new home.

Considerable judgment is required to determine the fair values of our retained interests. Unlike government securities and other highly liquid investments, the precise market value of retained interests cannot be readily determined, because these assets are not actively traded in stand-alone markets.

The Company's MSR valuation process combines the use of a sophisticated discounted cash flow model, extensive analysis of current market data, and senior financial management oversight to arrive at an estimate of fair value at each balance sheet date. The cash flow assumptions and prepayment assumptions used in the discounted cash flow model are based on the Company's own empirical data drawn from the historical performance of its MSRs, which management believes are consistent with assumptions used by market participants valuing MSRs. The most critical assumptions used in the valuation of MSRs include mortgage prepayment speeds and the discount rate (projected LIBOR plus option-adjusted spread). These variables can and generally will change from quarter to quarter as market conditions and projected interest rates change. The Company determines the fairness of its MSR valuation quarterly by comparison to the following market data (as available): MSR trades, MSR broker valuations, prices of interest-only securities, and peer group MSR valuation surveys.

For the other retained interests, the Company also estimates fair value through the use of discounted cash flow models. The key assumptions used in the valuation of its other retained interests include mortgage prepayment speeds, discount rates, and for residual interests containing credit risk, the net lifetime credit losses. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Credit Risk Management" section of this document for further discussion of credit risk.) The Company has incorporated cash flow and prepayment assumptions based on its own empirical data drawn from the historical performance of the loans underlying its other residual interests, which management believes are consistent with assumptions other major market participants would use in determining the assets' fair value.

Key economic assumptions used in determining the fair value of MSRs at the time of securitization are as follows:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Weighted-average life (in years)	**6.0**	5.8	7.6
Weighted-average annual prepayment speed	**16.9%**	15.8%	11.8%
Weighted-average OAS[1]	**4.6%**	3.7%	N/A
Weighted average annual discount rate	**N/A**	N/A	10.9%

[1] *Option-adjusted spread over LIBOR.*

Key economic assumptions used in determining the fair value of other retained interests at the time of securitization are as follows:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Weighted-average life (in years)	**2.4**	2.7	3.9
Weighted-average annual prepayment speed	**28.0%**	30.4%	26.1%
Weighted-average annual discount rate	**22.6%**	14.9%	14.6%
Weighted-average lifetime credit losses	**1.5%**	0.8%	0.5%

The following table summarizes cash flows between the Company and securitization special purpose entities:

(Dollar amounts in thousands)	Year Ended December 31, 2003	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Proceeds from new securitizations	**$346,180,875**	$222,405,901	$103,829,423
Proceeds from collections reinvested in securitizations	**$ 1,844,332**	$ 1,431,896	$ 606,017
Service fees received	**$ 1,461,747**	$ 1,179,137	$ 811,488
Purchases of delinquent loans	**$ (3,715,193)**	$ (3,712,399)	$ (4,303,894)
Servicing advances	**$ (2,519,583)**	$ (1,520,422)	$ (880,301)
Repayment of servicing advances	**$ 2,124,564**	$ 1,376,068	$ 755,175
Other cash flows received on retained interests[a]	**$ 1,237,183**	$ 974,892	$ 617,205

(a) Represents cash flows received on retained interests other than servicing fees.

Key economic assumptions used in subsequently measuring the fair value of the Company's MSRs at December 31, 2003, 2002 and 2001, and the effect on the fair value of those MSRs from adverse changes in those assumptions, are as follows:

(Dollar amounts in thousands)	December 31, 2003	December 31, 2002	December 31, 2001
Fair value of mortgage servicing rights	**$6,909,167**	$5,384,933	$6,116,082
Weighted-average remaining life (in years)	**6.0**	5.6	5.9
WEIGHTED-AVERAGE ANNUAL PREPAYMENT SPEED	**20.8%**	21.7%	17.2%
Impact of 10% adverse change	**$ 395,797**	$ 350,673	$ 230,304
Impact of 20% adverse change	**$ 750,842**	$ 660,276	$ 441,858
WEIGHTED-AVERAGE OAS	**4.3%**	3.6%	N/A
WEIGHTED-AVERAGE ANNUAL DISCOUNT RATE	**N/A**	N/A	11.1%
Impact of 10% adverse change	**$ 112,781**	$ 67,279	$ 245,260
Impact of 20% adverse change	**$ 222,318**	$ 133,801	$ 472,130

Key economic assumptions used in subsequently measuring the fair value of the Company's other retained interests at December 31, 2003, 2002 and 2001, and the effect on the fair value of those other retained interests from adverse changes in those assumptions are as follows:

(Dollar amounts in thousands)	December 31, 2003	December 31, 2002	December 31, 2001
Fair value of other retained interests	**$1,355,535**	$1,291,701	$ 986,663
Weighted-average life (in years)	**2.0**	2.1	3.3
WEIGHTED-AVERAGE ANNUAL PREPAYMENT SPEED	**30.6%**	34.3%	28.2%
Impact of 10% adverse change	**$ 82,729**	$ 119,073	$ 69,513
Impact of 20% adverse change	**$ 152,158**	$ 220,544	$ 130,807
WEIGHTED-AVERAGE ANNUAL DISCOUNT RATE	**20.4%**	15.0%	15.2%
Impact of 10% adverse change	**$ 22,585**	$ 25,017	$ 20,139
Impact of 20% adverse change	**$ 43,919**	$ 44,250	$ 39,105
WEIGHTED-AVERAGE LIFETIME CREDIT LOSSES	**1.9%**	3.4%	3.0%
Impact of 10% adverse change	**$ 30,426**	$ 28,777	$ 25,280
Impact of 20% adverse change	**$ 60,839**	$ 57,205	$ 50,560

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in individual assumptions generally cannot be extrapolated. Also, in the above tables, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another which might magnify or counteract the sensitivities.

The following table presents information about delinquencies and components of prime home equity and subprime loans for which the Company has retained some level of credit risk:

(Dollar amounts in thousands)	December 31, 2003	December 31, 2002
Prime home equity and subprime loans:		
Total principal amount	**$ 30,860,647**	$17,228,847
Principal amount 60 days or more past due	**$ 904,658**	$ 709,587
Comprised of:		
Loans and securities sold	**$ 15,826,880**	$12,218,607
Loans and securities held for sale or available	**15,033,767**	5,010,240
	$ 30,860,647	$17,228,847

The Company incurred credit losses of $95.5 million and $90.1 million related to the mortgage loans above during the years ended December 31, 2003 and 2002, respectively.

NOTE 10 — FINANCIAL INSTRUMENTS

Derivative Financial Instruments

The primary market risk facing the Company is interest rate risk. The most predominate type of interest rate risk at Countrywide is price risk, which is the risk that the value of our assets or liabilities will change due to changes in interest rates. To a lesser extent, interest rate risk also includes the risk that the net interest income from our mortgage loan and investment portfolios will change in response to changes in interest rates. From an enterprise perspective, the Company manages this risk through the natural counterbalance of its loan production and servicing businesses along with various financial instruments, including derivatives, which are used to manage the interest rate risk related specifically to its committed pipeline, mortgage loan inventory and MBS held for sale, MSRs, trading securities and other retained interests, as well as a portion of its debt. The overall objective of the Company's interest rate risk management activities is to reduce the variability of earnings caused by changes in interest rates.

Risk Management Activities Related to Mortgage Loan Inventory and Committed Pipeline

Description of Risk Management Activities

The Company is exposed to price risk relative to its Mortgage Loan Inventory and its Committed Pipeline. The Mortgage Loan Inventory is comprised of mortgage loans and MBS held by the Company pending sale. The Mortgage Loan Inventory is presently held on average 30 days. The Committed Pipeline is comprised of loan applications in process where the Company has provided an interest rate lock commitment ("IRLC"). IRLCs guarantee the rate and points on the underlying mortgage for a specified period, generally from seven to sixty days.

The Company is exposed to price risk from the time an IRLC is made to a mortgage applicant (or financial intermediary) to the time the related mortgage loan is sold. During this period, the Company is exposed to losses if mortgage rates rise, because the value of the IRLC or mortgage loan declines. To manage this price risk the Company utilizes derivatives, primarily forward sales of MBS and options to buy and sell MBS, as well as options on Treasury futures contracts. Certain of these transactions qualify as "fair value" hedges under SFAS 133. (See the following section titled "Accounting for Risk Management Activities" for further discussion.)

The price risk management of the Committed Pipeline is complicated by the fact that the ultimate percentage of applications that close within the terms of the IRLC is variable. The probability that the loan will fund within the terms of the IRLC is driven by a number of factors, in particular the change, if any, in mortgage rates subsequent to the lock date. In general, the probability increases if mortgage rates rise, and decreases if mortgage rates fall. This is due primarily to the relative attractiveness of current mortgage rates compared to the applicant's committed rate. The probability that a loan will fund within the terms of the IRLC is also influenced by the source of the application, age of the application, purpose for the loan (purchase or refinance), and the application approval rate. The Company has developed closing ratio estimates using its historical data that take into account all of these variables, as well as renegotiations of rate and point commitments that tend to occur when mortgage rates fall. The closing ratio estimates are utilized to estimate the quantity of loans that will fund within the terms of IRLCs.

To manage the price risk associated with the Committed Pipeline, the Company uses a combination of net forward sales of MBS and put and call options on MBS or Treasury futures. As a general rule, the Company enters into forward sales of MBS in an amount equal to the portion of the Committed Pipeline expected to close, assuming no change in mortgage rates. The Company acquires put and call options to protect against the variability of loan closings caused by changes in mortgage rates, by using the current closing ratio estimates to determine the amount of optional coverage required.

The Company manages the price risk related to the Mortgage Loan Inventory primarily by entering into forward sales of MBS. The value of these forward sales moves in opposite direction to the value of the Mortgage Loan Inventory. The Company reviews its Committed Pipeline and Mortgage Inventory risk profiles on a daily basis.

The Company uses the following derivative instruments in its risk management activities related to the Committed Pipeline and Mortgage Loan Inventory:

- **Forward Sales of MBS:** represents an obligation to sell a MBS at a specific price in the future; therefore, its value increases as mortgage rates rise.
- **Forward Purchases of MBS:** represents an obligation to buy a MBS at a specific price in the future; therefore, its value increases as mortgage rates fall.
- **Long Call Options on MBS**: represents a right to buy a MBS at a specific price in the future; therefore, its value increases as mortgage rates fall.
- **Long Put Options on MBS:** represents a right to sell a MBS at a specific price in the future; therefore, its value increases as mortgage rates rise.
- **Long Call Options on Treasury Futures:** represents a right to acquire a Treasury futures contract at a specific price in the future; therefore, its value increases as the benchmark Treasury rate falls.
- **Long Put Options on Treasury Futures:** represents a right to sell a Treasury futures contract at a specific price in the future; therefore, its value increases as the benchmark Treasury rate rises.
- **Short Eurodollar Futures Contracts:** represents standardized exchange-traded contracts, the value of which is tied to spot Eurodollar rates at specified future dates. The value of these futures contracts increases when Eurodollar rates rise.

The following table summarizes the balance or notional amounts, as applicable, of Mortgage Loan Inventory, Committed Pipeline and the related derivatives instruments at December 31, 2003:

(Dollar amounts in billions)	December 31, 2003
Mortgage Loan Inventory:	
Fixed rate	$ 13.6
Adjustable rate	10.5
Total	$ 24.1
Committed Pipeline	
Fixed rate	$ 12.5
Adjustable rate	7.0
Total	$ 19.5
Mandatory Forward Trades	
Sales	$ (52.7)
Buys	25.9
Net mandatory positions	$ (26.8)
Long MBS Options	
Calls	$ 0.8
Puts	(3.0)
Net long MBS options	$ (2.2)
Long Treasury Options	
Calls	$ 6.2
Puts	(1.3)
Net long Treasury Options	$ 4.9
Short Interest Rate Futures	$ (20.1)

Accounting for Risk Management Activities

In general, the risk management activities connected with 80% or more of the fixed rate Mortgage Inventory has qualified as a "fair value" hedge under SFAS 133. The Company recognized pre-tax losses of $72.8 million and $2.4 million, representing the ineffective portion of such fair value hedges of Mortgage Inventory, for the years ended December 31, 2003 and 2002, respectively. This amount along with the change in the fair value of the derivative instruments that were not designated as hedge instruments under SFAS 133 are included in gain on sale of loans in the consolidated statements of earnings. The derivative instruments that did not qualify as hedges under SFAS 133 were primarily those used to manage the price risk related to a portion of the Company's adjustable rate and non-conforming mortgage inventory.

IRLCs are derivative instruments as defined by SFAS 133. As such, IRLCs are recorded at fair value with changes in fair value recognized in current period earnings (as a component of gain on sale of loans). The Company estimates the fair value of an IRLC based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the IRLC. The change in fair value of the underlying mortgage loan is based upon quoted MBS prices. The change in fair value of the underlying mortgage loan is measured from the lock date. Therefore, at the time of issuance the estimated fair value of an IRLC is zero. (Subsequent to issuance, the value of an IRLC can be either positive or negative, depending on the change in value of the underlying mortgage loan.) Closing ratios derived from the Company's recent historical empirical data are utilized to estimate the quantity of mortgage loans that will fund within the terms of the IRLCs. Because IRLCs are derivatives under SFAS 133, the associated risk management activities of the Committed Pipeline do not qualify for hedge accounting under SFAS 133. The "freestanding" derivative instruments that are used to manage the price risk in the Committed Pipeline are marked to fair value and recorded as a component of gain on sale of loans in the statement of earnings.

Risk Management Activities Related to Mortgage Servicing Rights (MSRs) and Other Retained Interests

Description of Risk Management Activities

MSRs and other retained interests, specifically interest-only securities and residual securities, are generally subject to a loss in value when mortgage interest rates decline. MSRs and other retained interests represent the present value of cash flow streams that are closely linked to the expected life of the underlying loan servicing portfolio. Declining mortgage interest rates generally precipitate increased mortgage refinancing activity, which decreases the expected life of the loans in the servicing portfolio, thereby decreasing the value of the MSRs and other retained interests. Reductions in the value of these assets impacts earnings through impairment charges. To moderate the effect on earnings of impairment, the Company maintains a portfolio of financial instruments, including derivatives, which increase in aggregate value when interest rates decline. This portfolio of financial instruments is collectively referred to herein as the "Servicing Hedge". A portion of the Servicing Hedge has in the past qualified as a "fair value" hedge under SFAS 133 (see the following section titled "Accounting for Risk Management Activities" for further discussion).

The Company currently uses the following financial instruments in its Servicing Hedge:

- **Interest Rate Floors:** represents a right to receive cash if a reference interest rate falls below a contractual strike rate; therefore, its value increases as the reference interest rate falls. The reference interest rates used in the Company's interest rate floors include mortgage rates, Treasury rates, and U.S. dollar ("USD") LIBOR.
- **U.S. Treasury Securities:** consists of notes and bonds with maturities ranging generally from ten to thirty years. As interest rates decrease, the values of these securities generally increase.
- **Long Treasury Futures:** represent the agreement to purchase a treasury security at a specific price in the future; therefore, its value increases as the benchmark Treasury rate falls.
- **Long Call Options on Treasury and Eurodollar Futures:** represents a right to acquire a Treasury or Eurodollar futures contract at a specific price in the future; therefore, its value increases as the benchmark Treasury or Eurodollar deposit rate falls.
- **Long Put Options on Treasury and Eurodollar Futures:** represents a right to sell a Treasury or Eurodollar futures contract at a specific price in the future; therefore, its value increases as the benchmark Treasury or Eurodollar deposit rate rises.
- **Long Call Options on MBS:** represents a right to buy a MBS at a specific price in the future; therefore, its value increases as mortgage rates decline.

- **Forward Purchases of MBS:** represents an obligation to buy a MBS at a specific price in the future; therefore, its value increases as mortgage rates fall.
- **Interest Rate Swaps**: represents a mutual agreement to exchange interest rate payments; one party paying a fixed rate and another paying a floating rate tied to a reference interest rate (e.g., USD LIBOR). For use in the Servicing Hedge, the Company generally receives the fixed rate and pays the floating rate; therefore, the contract increases in value as interest rates decline.
- **Receiver Swaptions:** represents a right to enter into a predetermined Interest Rate Swap at a future date in which, upon exercise of its right, the Company receives the fixed rate and pays the floating rate; therefore, the contract increases in value as interest rates decline.
- **Payor Swaptions:** represents a right to enter into a predetermined Interest Rate Swap at a future date in which, upon exercise of its right, the Company pays the fixed rate and receives the floating rate; therefore, the contract generally increases in value as interest rates rise.
- **Principal-Only Securities:** consist of mortgage trust principal-only securities and Treasury principal-only securities ("Strips"). These securities have been purchased at discounts to their par value. As interest rates decrease, the values of these securities generally increase.

These instruments are used in tandem to manage the overall risk portfolio of the MSRs and other retained interests. The Company reviews its retained interests risk profile on a daily basis.

The following table summarizes the notional amounts of derivative contracts included in the Servicing Hedge:

(Dollar amounts in millions)	Balance, December 31, 2002	Additions	Dispositions/ Expirations	**Balance, December 31, 2003**
Interest Rate Floors	$ 7,500	$ —	$ (7,500)	**$ —**
Long Call Options on Interest Rate Futures	$ 24,000	$ 148,725	$ (101,975)	**$ 70,750**
Long Put Options on Interest Rate Futures	$ 39,000	$ 118,175	$ (64,500)	**$ 92,675**
Interest Rate Swaps	$ 11,850	$ 9,500	$ (10,750)	**$ 10,600**
Interest Rate Caps	$ 800	$ —	$ —	**$ 800**
Interest Rate Swaptions	$ 10,750	$ 30,500	$ (18,250)	**$ 23,000**
Interest Rate Futures	$ —	$ 2,200	$ —	**$ 2,200**

The Servicing Hedge is intended to reduce the impact on reported earnings of MSRs and other retained interest impairment that generally results from a decline in mortgage rates. Should mortgage rates increase the value of the MSRs and other retained interests are expected to increase while the value of the Servicing Hedge is expected to decrease. With respect to the various options and floors included in the Servicing Hedge, the Company is not exposed to loss beyond its initial outlay to acquire these derivative instruments, plus any unrealized gains recognized to date. With respect to the interest rate swap contracts and interest rate futures contracts included in the Servicing Hedge as of December 31, 2003, the Company estimates that its maximum exposure to loss over the contractual terms is $1.1 billion and $452 million, respectively.

Accounting for Risk Management Activities

The changes in fair value of derivative contracts included in the Servicing Hedge are recorded as a component of the gain or loss from the Servicing Hedge in the statement of earnings. Principal-only and U.S. Treasury securities included in the Servicing Hedge are held as available-for-sale securities. The changes in fair value of such securities included in the Servicing Hedge are recorded in accumulated other comprehensive income. Realized gains or losses on sales of these securities are recorded as a component of the gain or loss from the Servicing Hedge in the statement of earnings.

During the nine months ended November 30, 2001, a portion of the Servicing Hedge qualified as a "fair value" hedge under SFAS 133. At no other time has any portion of the Servicing Hedge qualified as a hedge under SFAS 133.

In a "fair value" hedge under SFAS 133, the cost basis of the MSRs is adjusted for the change in fair value of the MSRs attributable to the hedged risk, with a corresponding amount included as a component of impairment or recovery of retained interests in the statement of earnings.

The following table summarizes the change in fair value of the MSRs and the related derivative instruments that qualified for hedge accounting under SFAS 133 for the nine months ended November 30, 2001:

(Dollar amounts in millions)	Nine Months Ended November 30, 2001
Change in fair value of MSRs attributable to hedged risk	$ (466.4)
Change in fair value of hedge instruments	480.7
Hedge ineffectiveness under SFAS 133	$ 14.3

The Company recognized in earnings for the ten months ended December 31, 2001 a gain of $14.3 million, which represents the amount of hedge ineffectiveness for the portion of the Servicing Hedge that qualified as a "fair value" hedge under SFAS 133. There was no portion of the related hedge instruments' gain or loss that was excluded from the assessment of hedge effectiveness.

Risk Management Activities Related to Issuance of Long-Term Debt

The Company enters into interest rate swap contracts which enable it to convert a portion of its fixed-rate, long-term debt to U.S. dollar LIBOR-based floating-rate debt (notional amount of $1.2 billion) and to enable the Company to convert a portion of its foreign currency-denominated fixed-rate, long-term debt to U.S. dollar LIBOR-based floating-rate debt (notional amount of $96.4 million). These transactions are designed as fair value hedges under SFAS 133. For the years ended December 31, 2003 and 2002, the Company recognized a pre-tax gain of $0.02 million and $3.1 million, representing the ineffective portion of such fair value hedges of debt. This amount is included in interest charges in the statement of earnings.

The Company also enters into interest rate swap contracts which enable it to convert a portion of its floating-rate, long-term debt to fixed-rate, long-term debt (notional amount of $779.9 million) and to convert a portion of its foreign currency-denominated, fixed-rate, long-term debt to U.S. dollar fixed-rate debt (notional amount of $1.2 billion). These transactions are designed as cash flow hedges under SFAS 133. For the years ended December 31, 2003 and 2002, the Company recognized a pre-tax loss of $0.05 million and $0.5 million, representing the ineffective portion of such cash flow hedges. As of December 31, 2003, deferred net gains or losses on derivative instruments included in other comprehensive income that are expected to be reclassified as earnings during the next 12 months are not considered to be material.

Payments on interest rate swaps are based on a specified notional amount. In connection with the debt fair value hedges, the Company has entered into swaps in which the rate received is fixed and the rate paid is adjustable and is indexed to LIBOR ("Receiver Swap"). In connection with the debt cash flow hedges, the Company has entered into swaps in which the rate paid is fixed and the rate received is adjustable and is indexed to LIBOR ("Payer Swap").

The following summarizes the notional amounts of and the average interest rates on the swaps as of December 31, 2003:

(Dollar amounts in millions)	Notional Amount	Fixed Rate	Floating Rate
Receiver swaps	$ 1,284	6.17%	1.47%
Payer swaps	$ 2,028	3.86%	2.97%

Payments are due periodically through the termination date of each contract. The contracts expire between March, 2004 and June, 2027.

Risk Management Activities Related to the Broker-Dealer Securities Trading Portfolio

In connection with its broker-dealer activities, the Company maintains a trading portfolio of fixed income securities, primarily MBS. The Company is exposed to price changes in its trading portfolio arising from interest rate changes during the period it holds the securities. To manage this risk, the Company utilizes the following derivative instruments:

- **Forward Sales of To-Be Announced ("TBA") MBS:** represents an obligation to sell agency pass-through MBS that have not yet been issued at a specific price and at a specific date in the future; therefore, its value increases as mortgage rates rise.

- **Forward Purchases of TBA MBS:** represents an obligation to purchase agency pass-through MBS that have not yet been issued at a specific price at a specific date in the future; therefore, its value increases as mortgage rates fall.

- **Forward Sale of U.S. Treasury Securities:** represents a standardized exchange-traded agreement to sell a specific quantity of U.S. Treasury securities for a specific price at a specific date in the future; therefore, its value increases when interest rates rise.

- **Short Fed Funds and Eurodollar Futures Contracts:** represents a standardized exchange-traded contract, the value of which is tied to spot Fed Funds or Eurodollar rates at specified future dates. The value of these contracts increases when Fed Funds or Eurodollar rates rise.

- **Interest Rate Swaps:** represents a mutual agreement to exchange interest rate payments; one party paying a fixed rate and another paying a floating rate tied to a reference interest rate (e.g. USD LIBOR). For use in its trading portfolio risk management activities, the Company receives the floating rate and pays the fixed rate; therefore, its value increases as rates rise.

The following summarizes the notional amounts of the derivative contracts included in the broker-dealer's trading portfolio, at December 31, 2003:

(Dollar amounts in millions)	Notional Amount
Forward contracts to sell MBS	$ 57,763
Forward contracts to purchase MBS	$ 48,997
Short futures contracts	$ 8,626
Long futures contracts	$ 1,050
Interest rate swap contracts	$ 57

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments as of December 31, 2003 and 2002 is made by the Company using available market information and appropriate valuation methods. In some cases considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

(Dollar amounts in thousands)	December 31, 2003 Carrying Amount	December 31, 2003 Estimated Fair Value	December 31, 2002 Carrying Amount	December 31, 2002 Estimated Fair Value
Assets:				
Mortgage loans and mortgage-backed securities held for sale	$ 24,213,480	$ 24,559,247	$15,271,373	$15,308,549
Trading securities owned	6,806,368	6,806,368	5,983,841	5,983,841
Trading securities pledged as collateral	4,118,012	4,118,012	2,708,879	2,708,879
Securities purchased under agreements to resell	10,348,102	10,348,102	5,997,368	5,997,368
Loans held for investment	26,368,055	27,002,784	6,070,426	6,098,312
Investments in other financial instruments	12,952,095	12,952,095	10,901,915	10,901,915
Liabilities:				
Notes payable	38,920,581	39,555,680	19,293,788	20,278,428
Securities sold under agreements to repurchase	32,013,412	32,013,412	22,634,839	22,634,839
Securities sold not yet purchased	1,469,644	1,469,644	446,230	446,230
Deposit liabilities	9,335,497	9,269,046	3,114,271	3,111,222
Corporate guarantees	94,777	94,777	116,665	116,665
Company-obligated mandatorily redeemable capital trust pass-through securities of subsidiary trusts holding solely Company guaranteed related subordinated debt	1,000,000	1,079,994	500,000	581,881
Derivatives:				
Interest rate floors	—	—	95,517	95,517
Forward contracts on MBS	(284,991)	(284,991)	(515,887)	(515,887)
Options on MBS	19,551	19,551	11,205	11,205
Options on interest rate futures	110,279	110,279	126,339	126,339
Interest rate caps	126	126	338	338
Swaptions	214,502	214,502	292,513	292,513
Interest rate swaps	513,408	513,408	1,157,046	1,157,046
Futures	(10,327)	(10,327)	(20,912)	(20,912)
Interest rate lock commitments	58,324	58,324	226,038	226,038

The fair value estimates as of December 31, 2003 and 2002 were based on pertinent information that was available to management as of the respective dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The following describes the methods used by the Company in estimating fair values:

Mortgage Loans and Mortgage-Backed Securities Held for Sale

Fair value is estimated using the quoted market prices for securities backed by similar types of loans and dealer commitments to purchase loans on a servicing-retained basis.

Trading Securities

Fair value is estimated using quoted market prices.

Securities Purchased Under Agreements to Resell

These financial instruments are recorded at accreted cost, which approximates fair value.

Loans Held for Investment

Fair value is estimated through the use of discounted cash flow models. Re-warehoused FHA-insured and VA-guaranteed loans and warehouse lending advances are recorded at realizable value, which approximates fair value.

Investments in Other Financial Instruments:

Principal-Only-Securities

Fair value is estimated through the use of a proprietary, "static" (single rate path) discounted cash flow model. The Company has incorporated mortgage prepayment assumptions in its valuation model that it believes other major market participants would consider in deriving the fair value of principal-only securities.

Other Interests Retained in Securitization
Fair value is estimated through the use of proprietary, "static" (single rate path) discounted cash flow models. The Company has incorporated mortgage prepayment and credit loss assumptions in its valuation models that it believes other major market participants would consider in deriving the fair value of its retained interests.

Mortgage-Backed Securities
Fair value is estimated using quoted market prices.

Collateralized Mortgage Obligations
Fair value is estimated using quoted market prices.

U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies
Fair value is estimated using quoted market prices.

Other Financial Instruments
Other financial instruments are primarily composed of tax-exempt municipal bonds, asset-backed securities, and foreign government bonds. Fair value is estimated using quoted market prices.

Notes Payable
Fair value is estimated by discounting remaining payments using applicable current market rates.

Securities Sold Under Agreements to Repurchase
These financial instruments are recorded at their accreted balances which approximate fair value.

Securities Sold Not Yet Purchased
Fair value is estimated using quoted market prices.

Deposit Liabilities
The fair value for the checking account liability is equal to the amount payable on demand at the reporting date. (This value is also the carrying amount.) The fair value of money market accounts and certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar accounts.

Corporate Guarantees
Fair value is estimated through the use of a proprietary two part loss model: a loan-level frequency model estimated with survival analysis, and a loan-level severity model estimated with multiple least square regressions. The modeling process incorporates the use of relevant risk factors.

Company Obligated Mandatorily Redeemable Capital Trust Pass-Through Securities
Fair value is estimated as the present value of future contracted cash flows based upon current market prices for U.S. Treasury notes of similar characteristics adjusted for the estimated credit premium or discount for the Company.

Derivatives
Fair value is defined as the amount that the Company would receive or pay to terminate the contracts at the reporting date. Market or dealer quotes are available for many derivatives; otherwise, pricing or valuation models are applied using current market information to estimate fair value. The Company estimates the fair value of an IRLC based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the IRLC. The change in fair value of the underlying mortgage loan is based upon quoted MBS prices. The change in fair value of the underlying mortgage loan is measured from the lock date. Therefore, at the time of issuance the estimated fair value of an IRLC is zero. (Subsequent to issuance, the value of an IRLC can be either positive or negative depending on the change in value of the underlying mortgage loan.) Closing ratios, derived using the Company's recent historical empirical data, are utilized to estimate the quantity of mortgage loans that will fund within the terms of the IRLCs.

Counterparty Credit Risk

The Company is exposed to credit loss in the event of non-performance by its trading counterparties and counterparties to its various over-the-counter (non-exchange-traded) financial instruments. The Company manages this credit risk by selecting only well-established, financially strong counterparties, spreading the credit risk among many such counterparties, and by placing contractual limits on the amount of unsecured credit risk from any single counterparty. The Company's exposure to credit risk in the event of default by a counterparty is the current cost of replacing the contracts, net of any available collateral retained by the Company.

The total amount of counterparty credit exposure as of December 31, 2003, before and after applicable collateral held, is as follows:

(Dollar amounts in millions)	
Total credit exposure before collateral held	**$ 856**
Less: collateral held	**(481)**
Net unsecured credit exposure	**$ 375**

NOTE 11 — PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements consist of the following:

(Dollar amounts in thousands)	Useful Lives (Years)	**December 31, 2003**	December 31, 2002
Buildings	19–40	**$ 274,153**	$ 252,689
Equipment	5–10	**756,843**	556,135
Leasehold improvements	2–10	**94,736**	72,268
		1,125,732	881,092
Less: accumulated depreciation and amortization		**(416,526)**	(349,834)
		709,206	531,258
Land		**46,070**	45,430
		$ 755,276	$ 576,688

Depreciation and amortization expense amounted to $82.1 million, $41.2 million and $45.7 million for the years ended December 31, 2003, 2002 and the ten months ended December 31, 2001, respectively.

NOTE 12 — LOANS HELD FOR INVESTMENT AND ALLOWANCE FOR LOAN LOSSES

Loans held for investment as of December 31, 2003 and 2002 include the following:

(Dollar amounts in thousands)	December 31, 2003	December 31, 2002
Mortgage loans	$21,999,881	$ 2,245,419
Defaulted FHA-insured and VA-guaranteed mortgage loans repurchased from securities	2,560,454	1,707,767
Warehouse lending advances secured by mortgage loans	1,886,169	2,159,289
	$26,446,504	$ 6,112,475

At December 31, 2003, mortgage loans held for investment totaling $5.5 billion and $9.8 billion were pledged to secure securities sold under agreements to repurchase and Federal Home Loan Bank advances, respectively.

At December 31, 2003, the Company had accepted collateral with a fair value of $2.0 billion securing warehouse lending advances for which it had the contractual ability to sell or re-pledge. As of December 31, 2003, no such mortgage loan collateral had been re-pledged.

Total allowance for loan losses as of December 31, 2003 and December 31, 2002 are $78.4 million and $42.0 million, respectively.

Changes in the allowance for the loan losses were as follows:

(Dollar amounts in thousands)	December 31, 2003	December 31, 2002
Balance, beginning of the year	$ 42,049	$ 31,866
Provision for loan losses	48,107	25,260
Charge-offs	(14,860)	(17,506)
Recoveries	3,153	2,429
Balance, end of the year	$ 78,449	$ 42,049

NOTE 13 — OTHER ASSETS

Other assets as of December 31, 2003 and 2002 include the following:

(Dollar amounts in thousands)	December 31, 2003	December 31, 2002
Reimbursable servicing advances	$ 1,031,835	$ 647,284
Securities broker-dealer receivables	742,139	544,296
Borrowers' principal and interest payments due from custodial accounts	551,823	60,499
Derivative margin accounts	458,965	919,749
Investment in Federal Reserve Bank and Federal Home Loan Bank stock	394,110	67,820
Interest receivable	242,669	141,148
Capitalized software, net	235,713	188,435
Prepaid expenses	204,570	168,678
Cash surrender value of assets held in trust for deferred compensation	115,491	72,500
Restricted cash	281,477	84,177
Receivables from sale of securities	105,325	1,452,513
Federal funds sold	100,000	—
Other assets	537,051	404,282
	$ 5,001,168	$ 4,751,381

At December 31, 2003, the Company had pledged $609.7 million of other assets to secure repurchase agreements, of which the counterparty has the right to sell or re-pledge the entire amount.

NOTE 14 — NOTES PAYABLE

Notes payable as of December 31, 2003 and 2002 consist of the following:

(Dollar amounts in thousands)	December 31, 2003	December 31, 2002
Medium-term notes, various series:		
Fixed rate	$12,724,998	$ 13,065,268
Floating rate	3,848,023	3,695,624
	16,573,021	16,760,892
Asset-backed commercial paper	9,699,053	—
Federal Home Loan Bank advances	6,875,000	1,000,000
Unsecured commercial paper	4,819,382	123,207
Convertible debentures	515,198	510,084
Secured notes payable	29,259	21,553
Secured revolving credit facility	—	878,052
Unsecured notes payable	409,668	—
	$38,920,581	$ 19,293,788

Medium-Term Notes

As of December 31, 2003, outstanding medium-term notes issued by Countrywide Home Loans ("CHL") under various shelf registrations filed with the Securities and Exchange Commission or issued by CHL under its Euro medium-term note program were as follows:

	Outstanding Balance			Interest Rate		Maturity Date	
(Dollar amounts in thousands)	Floating-Rate	Fixed-Rate	Total	From	To	From	To
Series B	$ —	$ 100,000	$ 100,000	6.77%	6.81%	August 2004	August 2005
Series C	—	26,000	26,000	6.48%	7.04%	March 2004	March 2004
Series D	—	150,000	150,000	6.88%	6.88%	September 2005	September 2005
Series E	—	490,000	490,000	6.49%	7.26%	May 2004	October 2008
Series F	85,000	533,685	618,685	1.66%	6.84%	October 2004	April 2013
Series H	—	1,646,980	1,646,980	6.25%	8.00%	June 2004	September 2019
Series J	35,000	2,759,496	2,794,496	1.87%	7.05%	June 2004	August 2016
Series K	1,155,000	4,430,730	5,585,730	1.40%	7.05%	January 2004	June 2022
Series L	2,307,000	1,025,000	3,332,000	1.30%	6.00%	April 2004	May 2023
Euro Notes	266,023	1,247,994	1,514,017	1.42%	6.10%	March 2004	January 2009
Sub-total	3,848,023	12,409,885	16,257,908				
Basis adjustment through application of hedge accounting	—	315,113	315,113				
Total	$ 3,848,023	$12,724,998	$16,573,021				

As of December 31, 2003, $1.3 billion of foreign currency-denominated medium-term notes were outstanding. Such notes are denominated in Yen, Deutsche Marks, French Francs, Portuguese Escudos and Euros. These notes have been effectively converted to U.S. dollars through currency swaps.

Asset-Backed Commercial Paper

In April 2003, the Company formed a wholly-owned special purpose entity for the purpose of issuing commercial paper in the form of short-term secured liquidity notes ("SLNs") to finance certain of its Mortgage Loan Inventory. The entity issues short-term notes with maturities of up to 180 days, extendable to 300 days. The SLNs bear interest at prevailing money market rates approximating LIBOR. The SLN program's capacity, based on aggregate commitments from underlying credit enhancers, was $18.2 billion at December 31, 2003. The Company has pledged $10.0 billion in mortgage loans to secure the asset-backed commercial paper. For the year ended December 31, 2003, the average borrowings under this facility totaled $7.9 billion, and the weighted average interest rate borne by the commercial paper was 1.18%. At December 31, 2003, the weighted average interest rate borne by the commercial paper was 1.16%.

Federal Home Loan Bank Advances

As of December 31, 2003, outstanding advances from the Federal Home Loan Bank were as follows:

Maturity	Amount	Rate
	(Dollar amounts in thousands)	
2004	$ 100,000	3.31%
2005	700,000	2.89%
2006	1,750,000	2.65%
2007	1,675,000	3.11%
2008	1,425,000	3.42%
2009	475,000	4.00%
2010	750,000	3.93%
	$ 6,875,000	

All of the advances have fixed interest rates. The advances are secured by $10.3 billion of mortgage loans.

Convertible Debentures

The Company has issued zero-coupon Liquid Yield Option Notes ("LYONs"), with an aggregate face value of $675 million, or $1,000 per note, due upon maturity on February 8, 2031. The LYONs were issued at a discount to yield 1.0% to maturity, or 8.25% to the first call date. The LYONs are senior indebtedness of the Company.

Holders of LYONs may require the Company to repurchase all or a portion of their LYONs at the original issue price plus accrued original issue discount on the following dates:

Repurchase Date	Repurchase Price
February 8, 2004	$ 763.89
February 8, 2006	$ 779.28
February 8, 2011	$ 819.14
February 8, 2016	$ 861.03
February 8, 2021	$ 905.06
February 8, 2026	$ 951.35

The Company may pay the purchase price in cash, common stock or a combination thereof.

Beginning on February 8, 2006 and on any date thereafter, the Company may redeem the LYONs at the original issue price plus accrued original issue discount.

Holders of LYONs may surrender LYONs for conversion into 15.43 shares of the Company's common stock per LYON in any calendar quarter, if, as of the last day of the preceding calendar quarter, the closing sale price of the Company's common stock, for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding calendar quarter, is more than a specified percentage, beginning at 135% and declining 0.21% per quarter thereafter, of the accreted conversion price per share of common stock on the last day of trading of such preceding calendar quarter (the "Contingent Conversion

Stock Price"). The accreted conversion price per share is equal to the original issue price of a LYON plus the accrued original issue discount, with that sum divided by the number of shares to be issued upon a conversion of a LYON. The Contingent Conversion Stock Price at December 31, 2003 was $87.44 per share. At December 31, 2003, the LYONs conversion contingency had been met, making the notes convertible during the first quarter of 2004. Convertibility of the LYONs in subsequent quarters will depend on the Company's future stock price performance.

Holders may also surrender a LYON for conversion during any period in which the credit rating assigned to the LYONs by either Moody's or Standard & Poor's falls below investment grade level.

Maturities of Notes Payable

Maturities of notes payable are as follows:

(Dollar amounts in thousands)	
Year ended December 31,	
2004	$ 19,816,838
2005	3,288,493
2006	4,665,240
2007	4,575,221
2008	2,460,235
Thereafter	3,799,441
Total principal	$ 38,605,468
Basis adjustment through the application of hedge accounting	315,113
Total	$ 38,920,581

Commercial Paper and Backup Credit Facilities

As of December 31, 2003, CHL had unsecured credit agreements (revolving credit facilities) with a group of commercial banks permitting CHL to borrow an aggregate maximum amount of $5.5 billion. The composition of the facilities was as follows:

	December 31, 2003	
(Dollar amounts in billions)	**Amount**	**Expiration Date**
Number of Bank Participants		
21	**$ 2.35**	**December 17, 2006**
20	**1.50**	**December 13, 2004**
14	**1.65**	**June 13, 2004**
	$ 5.50	

As consideration for these facilities, CHL pays annual commitment fees of $4.9 million. The purpose of these credit facilities is to provide liquidity backup for CHL's commercial paper program. No amount was outstanding under these revolving credit facilities at December 31, 2003. All of the facilities contain various financial covenants and restrictions, certain of which require the Company and CHL to maintain specified net worth amounts and that limit the amount of dividends that can be paid by the Company or CHL. Management believes the Company is in compliance with those covenants and restrictions. For the year ended December 31, 2003, the average commercial paper outstanding was $2.1 billion and the weighted average borrowing rate was 1.22%.

Pre-Sale Funding Facilities

As of December 31, 2003, CHL had uncommitted revolving credit facilities that are secured by conforming mortgage loans held for sale. As of December 31, 2003, the Company had no outstanding borrowings under any of these facilities.

NOTE 15 — DEPOSITS

Deposits as of December 31, 2003 and 2002 include the following:

(Dollar amounts in thousands)	**December 31, 2003**	December 31, 2002
Escrow account deposit and other savings accounts	**$ 5,975,461**	$ 2,318,511
Time deposits	**3,252,665**	793,173
Checking account deposits	**99,545**	2,587
	$ 9,327,671	$ 3,114,271

The total of time certificates of deposit and other time deposits issued and outstanding were $3.3 billion and $793 million at December 31, 2003 and 2002, respectively. Substantially all of those deposits were interest bearing. The contractual maturities of those deposits are shown in the following table:

(Dollar amounts in thousands)	**December 31, 2003**	December 31, 2002
2004	**$ 850,300**	$ 287,622
2005	**622,479**	193,503
2006	**423,146**	107,684
2007	**379,986**	28,523
2008	**886,769**	175,841
Thereafter	**89,985**	—
	$ 3,252,665	$ 793,173

The amount of time deposits with a denomination of $100,000 or more was approximately $1.7 billion and $295 million at December 31, 2003 and 2002, respectively.

The contractual maturities of time deposits with denominations of $100,000 or more are shown in the following table:

(Dollar amounts in thousands)	**December 31, 2003**
Three months or less	**$ 1,490**
After three months through six months	**37,722**
After six months through twelve months	**180,124**
After twelve months	**1,443,756**
Total	**$ 1,663,092**

There were no demand deposit overdrafts at December 31, 2003 and 2002.

NOTE 16 — COMMITTED REUSABLE PURCHASE FACILITIES

As of December 31, 2003, the Company had in place a reusable $4.0 billion commitment from a multi-seller asset-backed commercial paper conduit to purchase conventional, conforming loans held for sale from the Company. As consideration for the facility, CHL pays annual commitment fees of $5.0 million.

This multi-seller commercial paper conduit was established and is owned by several major, third-party financial institutions. Using funds raised through the issuance of commercial paper, these conduits purchase residential mortgage loans from the Company, either directly or through a trust or other vehicle. The Company has no obligation to repurchase loans from this conduit other than for breach of representations and warranties made by the Company in connection with the sale of the loans. The Company has no direct or indirect financial ownership or other interest in the conduit. Accordingly, transfers of loans to this facility are accounted for as sales.

NOTE 17 — SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company routinely enters short-term financing arrangements to sell securities under agreements to repurchase. The repurchase agreements are collateralized by mortgage loans and securities. All securities underlying repurchase agreements are held in safekeeping by broker-dealers or banks. All agreements are to repurchase the same, or substantially identical, securities.

The weighted-average borrowing rate for these arrangements for the year ended December 31, 2003 was 1.15%. The weighted average borrowing rate on repurchase agreements outstanding as of December 31, 2003 was 1.24%. The repurchase agreements had a weighted-average maturity of two days at December 31, 2003. At December 31, 2003, repurchase agreements were secured by $2.5 billion of loans held for sale and MBS held for sale, $10.0 billion of trading securities, $11.2 billion of securities purchased under agreements to resell, $4.4 billion in investments in other financial instruments, and $5.5 billion of loans held for investment.

NOTE 18 — COMPANY-OBLIGATED CAPITAL SECURITIES OF SUBSIDIARY TRUSTS

Countrywide Capital I (the "Subsidiary Trust I"), a subsidiary trust of the Company, has outstanding $300 million of 8% Capital Trust Pass-through Securities (the "8% Capital Securities"). In connection with the Subsidiary Trust I issuance of the 8% Capital Securities, CHL issued to the Subsidiary Trust I, $309 million of its 8% Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debt Securities I"). The Subordinated Debt Securities I are due on December 15, 2026, with interest payable semi-annually on June 15 and December 15 of each year. The Company has the right to redeem at par, plus accrued interest, the 8% Capital Securities at any time on or after December 15, 2006. The sole assets of the Subsidiary Trust I are, and will be, the Subordinated Debt Securities I.

Countrywide Capital III (the "Subsidiary Trust III"), a subsidiary trust of the Company, has outstanding $200 million of 8.05% Subordinated Capital Income Securities, Series A (the "8.05% Capital Securities"). In connection with the Subsidiary Trust III issuance of 8.05% Capital Securities, CHL issued to the Subsidiary Trust III, $206 million of its 8.05% Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debt Securities III"). The Subordinated Debt Securities III are due on June 15, 2027 with interest payable semi-annually on June 15 and December 15 of each year. The sole assets of the Subsidiary Trust III are, and will be, the Subordinated Debt Securities III.

In April 2003, Countrywide Capital IV (the "Subsidiary Trust IV"), a subsidiary trust of the Company, issued $500 million of 6.75% preferred securities, which are fully and unconditionally guaranteed by the Company and CHL (the "6.75% Securities"). In connection with the issuance by Countrywide Capital IV of the 6.75% Securities, the Company issued to Countrywide Capital IV $500 million of its 6.75% Junior Subordinated Debentures, which are fully and unconditionally guaranteed by CHL (the "Subordinated Debentures"). Countrywide Capital IV exists for the sole purpose of issuing the 6.75% Securities and investing the proceeds in the Subordinated Debentures. The Subordinated Debentures are due on April 1, 2033, with interest payable quarterly on January 1, April 1, July 1 and October 1 of each year. The Company has the right to redeem, at 100% of their principal amount plus accrued and unpaid interest to the date of redemption, the 6.75% Securities at any time on or after April 11, 2008.

In relation to Subsidiary Trusts I and III, the Company has the right to defer payment of interest by extending the interest payment period, from time to time, for up to 10 consecutive semi-annual periods. If interest payments on the debentures are so deferred, the Company may not declare or pay dividends on, or make a distribution with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any of its capital stock.

In relation to Subsidiary Trust IV, the Company has the right to defer payment of interest on the Subordinated Debentures for up to 20 consecutive quarterly periods by extending the payment period. If interest payments on the Subordinated Debentures are so deferred, the Company may not, among other things, declare or pay dividends on, or make a distribution with the respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any of its capital stock.

NOTE 19 — SHAREHOLDERS' EQUITY

In January 2000, the Company entered a three-year equity put option agreement with National Indemnity Company ("National Indemnity"), a property and casualty insurance company, which is a subsidiary of Berkshire Hathaway, Inc. The Company terminated the put option agreement on January 2, 2002, and paid a termination fee of $0.2 million.

In February 1988, the Board of Directors of the Company declared a dividend distribution of one preferred stock purchase right ("Right") for each outstanding share of the Company's common stock. As a result of stock splits and stock dividends, 0.399 of a Right is presently associated with each outstanding share of the Company's common stock issued before the Distribution Date (as defined below). Each Right, when exercisable, entitles the holder to purchase from the Company one one-hundredth of a share of Series A Participating Preferred Stock, par value $0.05 per share, of the Company (the "Series A Preferred Stock"), at a price of $145, subject to adjustments in certain cases to prevent dilution.

The Rights are evidenced by the common stock certificates and are not exercisable or transferable, apart from the common stock, until the date (the "Distribution Date") of the earlier of a public announcement that a person or group, without prior consent of the Company, has acquired 20% or more of the common stock ("Acquiring Person"), or ten days (subject to extension by the Board of Directors) after the commencement of a tender offer made without the prior consent of the Company.

In the event a person becomes an Acquiring Person, then each Right (other than those owned by the Acquiring Person) will entitle its holder to purchase, at the then current exercise price of the Right, that number of shares of common stock, or the equivalent thereof, of the Company, which at the time of such transaction, would have a market value of two times the exercise price of the Right. The Board of Directors of the Company may delay the exercise of the Rights during the period in which they are exercisable only for Series A Preferred Stock (and not common stock).

In the event that, after a person has become an Acquiring Person, the Company is acquired in a merger or other business combination, as defined for the purposes of the Rights, each Right (other than those held by the Acquiring Person) will entitle its holder to purchase, at the then current exercise price of the Right, that number of shares of common stock, or the equivalent thereof, of the other party (or publicly-traded parent thereof) to such merger or business combination which at the time of such transaction would have a market value of two times the exercise price of the Right. In November 2001, the Company extended the life of the Rights to February 10, 2012.

On October 23, 2003, the Company also declared a 4-for-3 split of the Company's $0.05 par value common stock, effected as a stock dividend payable on December 18, 2003 to shareholders of record on December 2, 2003. As a result of the split, approximately 46.1 million additional shares were issued. All references in the accompanying consolidated balance sheets, consolidated statements of earnings, and notes to consolidated financial statements to the number of common shares and earnings per share amounts have been restated to reflect the stock split.

NOTE 20 — EMPLOYEE BENEFITS

Stock Option Plans

The Company has stock option plans (the "Plans") that provide for the granting of both qualified and non-qualified options and shares of restricted stock to employees and directors. Options are generally granted at the average market price of the Company's common stock on the date of grant and are exercisable beginning one year from the date of grant and expire up to ten years from the date of grant. Options vest over a period of three to four years.

Stock option transactions under the Plans were as follows:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Number of Shares:			
Outstanding options at beginning of year	**22,016,293**	21,548,280	17,910,196
Options granted	**5,660,878**	4,801,341	6,418,164
Options exercised	**(7,403,211)**	(3,857,989)	(1,781,781)
Options expired or cancelled	**(477,452)**	(475,339)	(998,299)
Outstanding options at end of year	**19,796,508**	22,016,293	21,548,280
Weighted Average Exercise Price:			
Outstanding options at beginning of year	**$ 25.88**	$ 23.81	$ 21.18
Options granted	**47.12**	31.55	29.79
Options exercised	**23.93**	21.25	18.26
Options expired or canceled	**33.65**	28.28	26.87
Outstanding options at end of year	**$ 32.48**	$ 25.88	$ 23.81
Options exercisable at end of year	**8,626,821**	11,585,880	11,037,119
Options available for future grant	**7,727,668**	4,821,133	9,266,512

Status of the outstanding stock options under the Plans as of December 31, 2003 was as follows:

	Outstanding Options			Exercisable Options	
Exercise Price Range	Weighted Average Remaining Contractural Life (Years)	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$11.93–$15.90	**1.0**	**237,788**	**$ 13.26**	**237,788**	**$ 13.26**
$15.91–$19.88	**2.1**	**3,413,506**	**17.54**	**3,413,506**	**17.54**
$19.89–$23.85	**2.9**	**882,325**	**20.52**	**878,585**	**20.52**
$23.86–$31.80	**7.2**	**6,737,054**	**29.33**	**2,698,461**	**29.33**
$31.81–$39.88	**7.4**	**3,216,303**	**34.98**	**1,397,988**	**34.63**
$39.89–$60.00	**9.3**	**5,291,532**	**47.33**	**493**	**47.94**
$60.01–$80.78	**9.9**	**18,000**	**75.48**	**—**	**—**
$11.93–$80.78	**6.6**	**19,796,508**	**$ 32.48**	**8,626,821**	**$ 24.18**

Pension Plan

The Company has a defined benefit pension plan (the "Plan") covering substantially all of its employees. The Company's policy is to contribute the amount actuarially determined to be necessary to pay the benefits under the Plan, and in no event to pay less than the amount necessary to meet the minimum funding standards of ERISA. In the year ended December 31, 2003, the Company made the maximum tax-deductible contribution to the Plan.

In the year ended December 31, 2003, the Company changed certain of its actuarial assumptions. Specifically, the discount rate was lowered from 6.5% to 6.0%. This change resulted in an increase of $11.0 million to the accumulated benefit obligation at December 31, 2003. In the ten-month period ended December 31, 2001, the Company amended the Plan to include employee sales commissions in the calculation of benefit obligations, resulting in an additional plan obligation of $4.2 million at December 31, 2001. The following plan information was measured as of December 31, 2003.

The following table sets forth the Plan's funded status and amounts recognized in the Company's financial statements:

(Dollar amounts in thousands)	**December 31, 2003**	December 31, 2002
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 142,068**	$ 73,622
Service cost	**32,250**	16,296
Interest cost	**9,935**	5,688
Actuarial loss	**24,260**	26,889
Benefits paid	**(1,037)**	(927)
Change in discount rate	**10,951**	20,500
Benefit obligation at end of year	**$ 218,427**	$ 142,068
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 56,597**	$ 35,733
Actual return on plan assets	**14,744**	(3,939)
Employer contribution	**27,055**	25,730
Benefits paid	**(1,037)**	(927)
Fair value of plan assets at end of year	**$ 97,359**	$ 56,597
Funded status at end of year	**$ (121,068)**	$ (85,471)
Unrecognized net actuarial loss	**95,714**	74,606
Unrecognized prior service cost	**4,057**	4,406
Net amount recognized	**$ (21,297)**	$ (6,459)

The accumulated benefit obligation for all defined benefit pension plans was $108 million and $68 million at December 31, 2003 and 2002.

The following table sets forth the components of net periodic benefit cost for the years ended December 31, 2003 and 2002 and the ten-month period ended December 31, 2001:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Service cost	**$ 32,250**	$ 16,296	$ 9,166
Interest cost	**9,935**	5,688	3,566
Expected return on plan assets	**(4,810)**	(3,447)	(2,364)
Amortization of prior service cost	**349**	350	291
Amortization of unrecognized transition asset	**—**	(12)	(59)
Recognized net actuarial loss	**4,169**	1,081	406
Net periodic benefit cost	**$ 41,893**	$ 19,956	$ 11,006

The weighted-average assumptions used in calculating the amounts above for the years ended December 31, 2003 and 2002 were as follows:

	December 31, 2003	December 31, 2002
Discount rate	**6.00%**	6.50%
Expected long-term return on plan assets	**7.50%**	7.50%
Rate of compensation increase	**5.00%**	5.00%

Pension expense for the years ended December 31, 2003 and 2002 and the ten-month period ended December 31, 2001 was $41.9 million, $20.0 million and $11.0 million, respectively. The Company makes contributions to the Plan in amounts that are deductible in accordance with federal income tax regulations.

The Company reviews historical rates of return for equity and fixed income securities, as well as current economic conditions, to determine the expected long term rate of return on plan assets. The Plan's total portfolio is currently estimated to return 6.0% above the rate of inflation over the long term. The assumed rate of return is based on 70% of the portfolio being invested in equities yielding a 7% real return, and the remaining 30% of assets being invested in fixed income securities yielding a 3.8% real return. Consideration is given to diversification and periodic rebalancing of the portfolio based on prevailing market conditions.

The Company's pension plan weighted-average asset allocations at December 31, 2003 and 2002, by asset category are as follows:

		Plan Assets At December 31,	
Asset Category	Target Allocation 2004	**2003**	2002
Equity securities	60%–80%	**71%**	70%
Debt securities	25%–35%	**28%**	29%
Other	0%–5%	**1%**	1%
Total		**100%**	100%

The Company's pension trust assets are invested with a long term focus to achieve a return on investment that is based on levels of liquidity and investment risk that management believes are prudent and reasonable. The investment portfolio contains a diversified blend of equity and fixed income investments. The equity investments are diversified across U.S. and non-U.S. equities, as well as value, growth, and medium and large capitalizations. The portfolio's asset mix is reviewed regularly, and the portfolio is rebalanced based on existing market conditions. Investment risk is measured and monitored on a regular basis through quarterly portfolio reviews, annual liability measurements and periodic asset/liability analyses.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(Dollar amounts in thousands)	Pension Benefits
2004	$ 890
2005	1,019
2006	1,236
2007	1,790
2008	2,285
2009–2013	27,326
	$ 34,546

Defined Contribution Plan

The Company has a defined contribution plan ("401(k) Plan") covering all full-time employees of the Company who have at least one year of service and are age 21 or older. Participants may contribute up to 16 percent of pre-tax annual compensation, as defined in the plan agreement. Participants may also contribute, at the discretion of the plan administrator, amounts representing distributions from other qualified defined benefit or contribution plans. The Company makes a discretionary matching contribution equal to 50 percent of the participant contributions up to a maximum contribution of 6 percent of the participants' base compensation, as defined in the plan agreement. The 401(k) Plan is subject to the provisions of ERISA. The Company recorded $21.0 million, $14.6 million, and $8.7 million in expense for matching contributions for the years ended December 31, 2003 and 2002 and the ten months ended December 31, 2001, respectively.

NOTE 21 — INCOME TAXES

Components of the provision for income taxes are as follows:

(Dollar amounts in thousands)	**Year Ended December 31, 2003**	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Current taxes:			
Federal	**$ 982,997**	$ 262,610	$ 164,989
State	**136,442**	38,309	24,705
Foreign	**9,194**	1,626	214
	1,128,633	302,545	189,908
Deferred taxes:			
Federal	**289,820**	174,421	95,936
State	**54,369**	24,278	16,769
	344,189	198,699	112,705
Provision for income taxes	**$ 1,472,822**	$ 501,244	$ 302,613

The following is a reconciliation of the statutory federal income tax rate to the effective income tax rate as reflected in the consolidated statements of earnings:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
State income and franchise taxes, net of federal tax effect	**3.4%**	3.7%	3.5%
Other	**(0.1)%**	(1.4)%	(0.1)%
Effective income tax rate	**38.3%**	37.3%	38.4%

The components of income taxes payable are as follows:

(Dollar amounts in thousands)	**December 31, 2003**	December 31, 2002
Taxes currently payable	**$ 124,844**	$ 79,449
Deferred income taxes payable	**2,229,945**	1,904,861
	$ 2,354,789	$ 1,984,310

The tax effects of temporary differences that gave rise to deferred income tax assets and liabilities are presented below:

(Dollar amounts in thousands)	**December 31, 2003**	December 31, 2002
Deferred income tax assets:		
Employee benefits	**$ 114,036**	$ 68,118
Allowance for losses	**65,064**	42,230
Other	**109,437**	29,479
	288,537	139,827
Deferred income tax liabilities:		
Mortgage servicing rights	**2,190,185**	1,385,848
Depreciation and amortization	**91,100**	51,893
Mortgage guaranty insurance tax and loss bonds	**66,825**	32,468
Gain on available-for-sale securities	**68,113**	125,531
Deferred servicing hedge gains	**28,409**	414,014
Other	**73,850**	34,934
	2,518,482	2,044,688
Deferred income taxes payable	**$ 2,229,945**	$ 1,904,861

NOTE 22 — REGULATORY AND AGENCY CAPITAL REQUIREMENTS

In connection with the acquisition of Treasury Bank, CFC became a bank holding company. As a result, the Company is subject to regulatory capital requirements imposed by the Board of Governors of the Federal Reserve. The Company is also subject to U.S. Department of Housing and Urban Development, Fannie Mae, and Freddie Mac and Government National Mortgage Association ("Ginnie Mae") net worth requirements.

Regulatory capital is assessed for adequacy by three measures: Tier 1 Leverage Capital, Tier 1 Risk-Based Capital and Total Risk-Based Capital. Tier 1 Leverage Capital includes common shareholders' equity, preferred stock and capital securities that meet certain guidelines detailed in the capital regulations, less goodwill, the portion of MSRs not includable in regulatory capital (generally, the carrying value of MSRs in excess of Tier 1 Capital, net of associated deferred taxes) and other adjustments. Tier 1 Leverage Capital is measured with respect to average assets during the quarter. The Company is required to have a Tier 1 Leverage Capital ratio of 4.0% to be considered adequately capitalized and 5.0% to be considered well capitalized.

The Tier 1 Risk-Based Capital ratio is calculated as a percent of risk-weighted assets at the end of the quarter. The Company is required to have a Tier 1 Risk-Based Capital ratio of 4.0% to be considered adequately capitalized and 6.0% to be considered well capitalized.

Total Risk-Based Capital includes preferred stock and capital securities excluded from Tier 1 Capital, mandatory convertible debt, and subordinated debt that meets certain regulatory criteria. The Total Risk-Based Capital ratio is calculated as a percent of risk-weighted assets at the end of the quarter. The Company is required to have a Total Risk-Based Capital ratio of 8.0% to be considered adequately capitalized and 10.0% to be considered well capitalized.

The following table presents the actual capital ratios and amounts, and minimum required capital ratios for the Company to maintain a "well-capitalized" status by the Board of Governors of the Federal Reserve at December 31, 2003 and at December 31, 2002:

		December 31, 2003	
(Dollar amounts in thousands)	Minimum Required(1)	Ratio	Amount
Tier 1 Leverage Capital	5.0%	8.3%	$ 8,082,963
Risk-Based Capital			
Tier 1	6.0%	12.8%	$ 8,082,963
Total	10.0%	13.7%	$ 8,609,996

		December 31, 2002	
(Dollar amounts in thousands)	Minimum Required(1)	Ratio	Amount
Tier 1 Leverage Capital	5.0%	7.6%	$ 4,703,839
Risk-Based Capital			
Tier 1	6.0%	12.2%	$ 4,703,839
Total	10.0%	13.6%	$ 5,230,840

(1) *Minimum required to qualify as "well-capitalized."*

The Company and CHL are required to maintain specified levels of shareholders' equity to remain a seller/servicer in good standing by Fannie Mae, Freddie Mac, the U.S. Department of Housing and Urban Development, and Ginnie Mae. Such equity requirements generally are tied to the size of CHL's servicing portfolio. At December 31, 2003, the Company and CHL's equity requirements for these agencies ranged up to $750 million. The Company had agency capital of $7.9 billion and CHL had agency capital ranging from $2.5 billion to $3.3 billion at December 31, 2003.

NOTE 23 — SEGMENTS AND RELATED INFORMATION

The Company has five business segments which include: Mortgage Banking, Capital Markets, Banking, Insurance, and Global Operations.

The Mortgage Banking Segment is comprised of three distinct sectors: Loan Production, Loan Servicing, and Loan Closing Services.

The Loan Production Sector of the Mortgage Banking segment originates prime and subprime mortgage loans through a variety of channels on a national scale. Through the Company's retail branch network, which consists of the Consumer Markets Division and Full Spectrum Lending, Inc., the Company sources mortgage loans directly from consumers, as well as through real estate agents and home builders. The Wholesale Lending Division sources mortgage loans primarily from mortgage brokers. The Correspondent Lending Division acquires mortgage loans from other financial institutions. The Loan Servicing Sector of the Mortgage Banking Segment includes investments in MSRs and other retained interests, as well as the Company's loan servicing operations and subservicing for other domestic financial institutions. The Loan Closing Services Sector of the Mortgage Banking segment is comprised of the LandSafe companies, which provide credit reports, appraisals, title reports and flood determinations to the Company's Loan Production Sector, as well as to third parties.

The Capital Markets Segment primarily includes the operations of Countrywide Securities Corporation, a registered broker-dealer specializing in the mortgage securities market. In addition, it includes the operations of Countrywide Asset Management Corporation, Countrywide Servicing Exchange and CCM International Ltd.

The Banking Segment's operations are comprised of Treasury Bank, National Association ("Treasury Bank" or the "Bank"), and of Countrywide Warehouse Lending. Treasury Bank invests primarily in mortgage loans sourced from the Loan Production Sector. Countrywide Warehouse Lending provides temporary financing secured by mortgage loans to third-party mortgage lenders.

The Insurance Segment activities include Balboa Life and Casualty Group, a national provider of property, life, and liability insurance; Balboa Reinsurance Company, a primary mortgage reinsurance company; and Countrywide Insurance Services, Inc., a national insurance agency offering a specialized menu of insurance products directly to consumers.

The Global Segment operations include those of Global Home Loans Limited, a provider of loan origination processing and servicing in the United Kingdom; UKValuation Limited, a provider of property valuation services in the UK; and Countrywide International Technology Holdings Limited, a licensor of loan origination processing, servicing, and residential real estate value assessment technology.

In general, intercompany transactions are recorded on an arms-length basis. However, the rate at which the Bank reimburses CHL for origination costs incurred on mortgage loans funded by the Bank is determined on an incremental cost basis, which is less than the rate that the Bank would pay to a third party.

Included in the tables below labeled "Other" are the holding company activities and certain reclassifications to conform management reporting to the consolidated financial statements:

(Dollar amounts in thousands)	For the Year Ended December 31, 2003										
	Mortgage Banking				Other Businesses						
	Loan Production	Loan Servicing	Closing Services	Total	Capital Markets	Banking	Insurance	Global Operations	Other	Total	Grand Total
Revenues External	$ 6,623,715	$ (754,249)	$ 217,052	$ 6,086,518	$ 572,466	$ 415,564	$ 831,719	$ 199,236	$ (78,657)	$ 1,940,328	$ 8,026,846
Inter-segment	(136,255)	69,933	—	(66,322)	103,537	3,660	—	—	(40,875)	66,322	—
Total Revenues	$ 6,487,460	$ (684,316)	$ 217,052	$ 6,020,196	$ 676,003	$ 419,224	$ 831,719	$ 199,236	$ (119,532)	$ 2,006,650	$ 8,026,846
Segment Earnings (pre-tax)	$ 4,087,866	$ (1,233,475)	$ 97,825	$ 2,952,216	$ 442,303	$ 287,217	$ 138,774	$ 25,607	$ (345)	$ 893,556	$ 3,845,772
Segment Assets	$ 35,643,000	$ 14,331,000	$ 63,000	$ 50,037,000	$ 25,627,000	$ 21,212,174	$ 1,576,000	$ 199,000	$ (701,381)	$ 47,912,793	$ 97,949,793

(Dollars amounts in thousands)	For the Year Ended December 31, 2002										
	Mortgage Banking				Other Businesses						
	Loan Production	Loan Servicing	Closing Services	Total	Capital Markets	Banking	Insurance	Global Operations	Other	Total	Grand Total
Revenues External	$ 3,960,247	$ (1,031,351)	$ 159,149	$ 3,088,045	$ 346,089	$ 138,517	$ 650,423	$ 114,839	$ (19,681)	$ 1,230,187	$ 4,318,232
Inter-segment	(45,560)	30,890	—	(14,670)	28,343	(5,669)	—	—	(8,004)	14,670	—
Total Revenues	$ 3,914,687	$ (1,000,461)	$ 159,149	$ 3,073,375	$ 374,432	$ 132,848	$ 650,423	$ 114,839	$ (27,685)	$ 1,244,857	$ 4,318,232
Segment Earnings (pre-tax)	$ 2,394,963	$ (1,489,796)	$ 69,953	$ 975,120	$ 199,876	$ 83,971	$ 74,625	$ 5,282	$ 4,149	$ 367,903	$ 1,343,023
Segment Assets	$ 16,540,563	$ 12,360,466	$ 62,426	$ 28,963,455	$ 20,328,804	$ 7,190,504	$ 1,405,118	$ 134,949	$ 7,953	$ 29,067,328	$ 58,030,783

(Dollar amounts in thousands)	For the Ten Months Ended December 31, 2001										
	Mortgage Banking				Other Businesses						
	Loan Production	Loan Servicing	Closing Services	Total	Capital Markets	Banking	Insurance	Global Operations	Other	Total	Grand Total
Revenues External	$ 1,762,083	$ (26,696)	$ 116,354	$ 1,851,741	$ 184,743	$ 23,428	$ 393,067	$ 42,638	$ 1,042	$ 644,918	$ 2,496,659
Inter-segment	(1,475)	—	—	(1,475)	1,475	—	—	—	—	1,475	—
Total Revenues	$ 1,760,608	$ (26,696)	$ 116,354	$ 1,850,266	$ 186,218	$ 23,428	$ 393,067	$ 42,638	$ 1,042	$ 646,393	$ 2,496,659
Segment Earnings (pre-tax)	$ 915,130	$ (350,810)	$ 54,653	$ 618,973	$ 81,160	$ 12,431	$ 76,342	$ 1,942	$ (2,229)	$ 169,646	$ 788,619
Segment Assets	$ 11,183,000	$ 10,713,000	$ 51,733	$ 21,947,733	$ 11,587,000	$ 2,235,579	$ 1,178,000	$ 83,080	$ 185,412	$ 15,269,071	$ 37,216,804

NOTE 24 — QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables reflect summarized, unaudited quarterly data for each quarter in the years ended December 31, 2003 and 2002:

(Dollar amounts in thousands, except per share data)	Three Months Ended March 31	June 30	September 30	December 31
Year Ended December 31, 2003				
Revenue	**$ 1,450,624**	**$ 1,635,537**	**$ 2,934,436**	**$ 2,006,249**
Expenses	**$ 926,056**	**$ 1,014,215**	**$ 1,160,544**	**$ 1,080,259**
Provision for income taxes	**$ 198,277**	**$ 238,461**	**$ 673,825**	**$ 362,259**
Net earnings	**$ 326,291**	**$ 382,861**	**$ 1,100,067**	**$ 563,731**
Earnings per share(1)				
Basic	**$ 1.92**	**$ 2.17**	**$ 6.07**	**$ 3.07**
Diluted	**$ 1.83**	**$ 2.05**	**$ 5.78**	**$ 2.74**

(Dollar amounts in thousands, except per share data)	Three Months Ended March 31	June 30	September 30	December 31
Year Ended December 31, 2002				
Revenue	$ 873,347	$ 959,918	$ 1,158,599	$ 1,326,368
Expenses	$ 607,253	$ 654,644	$ 794,391	$ 918,921
Provision for income taxes	$ 98,535	$ 114,418	$ 135,721	$ 152,570
Net earnings	$ 167,559	$ 190,856	$ 228,487	$ 254,877
Earnings per share(1)				
Basic	$ 1.02	$ 1.15	$ 1.36	$ 1.51
Diluted	$ 0.99	$ 1.11	$ 1.31	$ 1.45

(1) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share amounts may not equal the annual amount. This is caused by rounding and the averaging effect of the number of share equivalents utilized throughout the year, which changes with the market price of the common stock.

NOTE 25 — SUMMARIZED FINANCIAL INFORMATION

Summarized financial information for Countrywide Financial Corporation and subsidiaries is as follows:

(Dollar amounts in thousands)	At December 31, 2003 Countrywide Financial Corporation	Countrywide Home Loans, Inc.	Consolidated Countrywide Capital Trusts	Other Subsidiaries	Eliminations	Consolidated
Balance Sheets:						
Mortgage loans and mortgage-backed securities held for sale	**$ —**	**$ 24,068,487**	**$ —**	**$ 35,138**	**$ —**	**$ 24,103,625**
Mortgage servicing rights, net	**—**	**6,863,625**	**—**	**—**	**—**	**6,863,625**
Trading Securities	**—**	**—**	**—**	**10,924,380**	**—**	**10,924,380**
Securities purchased under agreement to resell	**—**	**110,000**	**—**	**21,553,496**	**(11,315,394)**	**10,348,102**
Loans held for investment, net	**—**	**11,681,056**	**—**	**14,687,531**	**(532)**	**26,368,055**
Investments in other financial instruments	**34,141**	**2,600,461**	**—**	**10,283,046**	**34,447**	**12,952,095**
Other assets	**9,410,093**	**6,646,851**	**1,041,364**	**17,819,719**	**(28,528,116)**	**6,389,911**
Total assets	**$ 9,444,234**	**$ 51,970,480**	**$ 1,041,364**	**$ 75,303,310**	**$ (39,809,595)**	**$ 97,949,793**
Indebtedness	**$ 1,266,575**	**$ 42,042,516**	**$ 30,943**	**$ 16,679,720**	**$ (21,099,173)**	**$ 38,920,581**
Deposit liabilities	**—**	**—**	**—**	**9,327,671**	**—**	**9,327,671**
Other liabilities	**92,943**	**6,630,780**	**10,421**	**45,341,971**	**(11,459,290)**	**40,616,825**
Company-obligated mandatorily redeemable capital trust pass-through securities	**—**	**—**	**1,000,000**	**—**	**—**	**1,000,000**
Equity	**8,084,716**	**3,297,184**	**—**	**3,953,948**	**(7,251,132)**	**8,084,716**
Total liabilities and equity	**$ 9,444,234**	**$ 51,970,480**	**$ 1,041,364**	**$ 75,303,310**	**$ (39,809,595)**	**$ 97,949,793**

(Dollar amounts in thousands)	Countrywide Financial Corporation	Countrywide Home Loans, Inc.	Consolidated Countrywide Capital Trusts	Other Subsidiaries	Eliminations	Consolidated
	Year Ended December 31, 2003					
Statements of Earnings:						
Revenues	**$ 73,676**	**$ 4,839,833**	**$ —**	**$ 3,323,464**	**$ (210,127)**	**$ 8,026,846**
Expenses	**9,871**	**2,590,090**	**—**	**1,791,834**	**(210,721)**	**4,181,074**
Provision for income taxes	**24,565**	**866,151**	**—**	**581,934**	**172**	**1,472,822**
Equity in net earnings of subsidiaries	**2,333,710**	**—**	**—**	**—**	**(2,333,710)**	**—**
Net earnings	**$ 2,372,950**	**$ 1,383,592**	**$ —**	**$ 949,696**	**$ (2,333,288)**	**$ 2,372,950**

(Dollar amounts in thousands)	Countrywide Financial Corporation	Countrywide Home Loans, Inc.	Consolidated Countrywide Capital Trusts	Other Subsidiaries	Eliminations	Consolidated
	At December 31, 2002					
Balance Sheets:						
Mortgage loans and mortgage-backed securities held for sale	$ —	$ 14,071,500	$ —	$ 970,572	$ —	$ 15,042,072
Mortgage servicing rights, net	—	5,384,933	—	—	—	5,384,933
Trading Securities	—	—	—	8,692,720	—	8,692,720
Securities purchased under agreements to resell	—	—	—	13,947,108	(7,949,740)	5,997,368
Loans held for investment, net	—	4,171,513	—	1,898,913	—	6,070,426
Investments in other financial instruments	155,410	2,828,660	—	7,839,838	78,007	10,901,915
Other assets	5,829,617	4,994,659	517,202	6,051,032	(11,451,161)	5,941,349
Total assets	$ 5,985,027	$ 31,451,265	$ 517,202	$ 39,400,183	$ (19,322,894)	$ 58,030,783
Indebtedness	$ 745,997	$ 23,228,251	$ 15,479	$ 1,979,223	$ (6,675,162)	$ 19,293,788
Deposit liabilities	—	—	—	3,114,271	—	3,114,271
Other liabilities	77,897	5,993,948	1,723	31,884,434	(7,996,411)	29,961,591
Company-obligated mandatorily redeemable capital trust pass-through securities	—	—	500,000	—	—	500,000
Equity	5,161,133	2,229,066	—	2,422,255	(4,651,321)	5,161,133
Total liabilities and equity	$ 5,985,027	$ 31,451,265	$ 517,202	$ 39,400,183	$ (19,322,894)	$ 58,030,783

(Dollar amounts in thousands)	Countrywide Financial Corporation	Countrywide Home Loans, Inc.	Consolidated Countrywide Capital Trusts	Other Subsidiaries	Eliminations	Consolidated
	Year Ended December 31, 2002					
Statements of Earnings:						
Revenues	$ 10,650	$ 2,263,077	$ —	$ 2,117,884	$ (73,379)	$ 4,318,232
Expenses	12,117	1,787,907	—	1,247,944	(72,759)	2,975,209
Provision for income taxes	(550)	178,140	—	324,000	(346)	501,244
Equity in net earnings of subsidiaries	842,696	—	—	—	(842,696)	—
Net earnings	$ 841,779	$ 297,030	$ —	$ 545,940	$ (842,970)	$ 841,779

Summarized information for Countrywide Capital Trusts is as follows:

	At December 31, 2003			
(Dollar amounts in thousands)	Countrywide Capital IV	Countrywide Capital Trust	Countrywide Capital III	Consolidated
Balance Sheets:				
Mortgage loans and mortgage-backed securities held for sale	$ —	$ —	$ —	$ —
Mortgage servicing rights, net	—	—	—	—
Other assets	524,162	310,310	206,892	1,041,364
Total assets	$ 524,162	$ 310,310	$ 206,892	$ 1,041,364
Indebtedness	$ 15,464	$ 9,279	$ 6,200	$ 30,943
Deposit liabilities	—	—	—	—
Other liabilities	8,698	1,031	692	10,421
Company-obligated mandatorily redeemable capital trust pass-through securities	500,000	300,000	200,000	1,000,000
Equity	—	—	—	—
Total liabilities and equity	$ 524,162	$ 310,310	$ 206,892	$ 1,041,364

	Year Ended December 31, 2003			
(Dollar amounts in thousands)	Countrywide Capital IV	Countrywide Capital Trust	Countrywide Capital III	Consolidated
Statements of Earnings:				
Revenues	$ —	$ —	$ —	$ —
Expenses	—	—	—	—
Provision for income taxes	—	—	—	—
Equity in net earnings of subsidiaries	—	—	—	—
Net earnings	$ —	$ —	$ —	$ —

	At December 31, 2002			
(Dollar amounts in thousands)	Countrywide Capital IV	Countrywide Capital Trust	Countrywide Capital III	Consolidated
Balance Sheets:				
Mortgage loans and mortgage-backed securities held for sale	$ —	$ —	$ —	$ —
Mortgage servicing rights, net	—	—	—	—
Other assets	—	310,310	206,892	517,202
Total assets	$ —	$ 310,310	$ 206,892	$ 517,202
Indebtedness	$ —	$ 9,279	$ 6,200	$ 15,479
Deposit liabilities	—	—	—	—
Other liabilities	—	1,031	692	1,723
Company-obligated mandatorily redeemable capital trust pass-through securities	—	300,000	200,000	500,000
Equity	—	—	—	—
Total liabilities and equity	$ —	$ 310,310	$ 206,892	$ 517,202

	Year Ended December 31, 2002			
(Dollar amounts in thousands)	Countrywide Capital IV	Countrywide Capital Trust	Countrywide Capital III	Consolidated
Statements of Earnings:				
Revenues	$ —	$ —	$ —	$ —
Expenses	—	—	—	—
Provision for income taxes	—	—	—	—
Equity in net earnings of subsidiaries	—	—	—	—
Net earnings	$ —	$ —	$ —	$ —

NOTE 26 — BUSINESS ACQUISITIONS

In May 2001, the Company acquired all of the outstanding common stock of Treasury Bank for a cash price of $3.2 million. The acquisition of Treasury Bank was accounted for using the purchase method of accounting. Accordingly, a portion of the purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair market value at the date of acquisition. The fair value of identifiable assets acquired and liabilities assumed was $75.3 million and $72.6 million, respectively. The acquisition did not have a material impact on the Company's earnings per share.

NOTE 27 — LOAN SERVICING

The following table sets forth certain information regarding the Company's servicing portfolio of single-family mortgage loans, including loans and securities held-for-sale and loans subserviced for others, for the periods indicated:

(Dollar amounts in millions)	December 31, 2003	December 31, 2002
Summary of changes in the servicing portfolio:		
Beginning owned servicing portfolio	$ 441,267	$ 327,541
Add: Loan production	434,864	251,901
Bulk servicing acquired	6,944	4,228
Less: Servicing sold	—	(1,958)
Runoff[1]	(252,624)	(140,445)
Ending owned servicing portfolio	630,451	441,267
Subservicing portfolio	14,404	11,138
Total servicing portfolio	$ 644,855	$ 452,405
Composition of owned servicing portfolio at period end:		
Conventional mortgage loans	$ 512,889	$ 343,420
FHA-insured mortgage loans	43,281	45,252
VA-guaranteed mortgage loans	13,775	14,952
Subprime mortgage loans	36,332	21,976
Prime home equity loans	24,174	15,667
Total owned servicing portfolio	$ 630,451	$ 441,267
Delinquent mortgage loans[2]:		
30 days	2.35%	2.73%
60 days	0.72%	0.87%
90 days or more	0.84%	1.02%
Total delinquent mortgage loans	3.91%	4.62%
Loans pending foreclosure[2]	0.43%	0.55%
Delinquent mortgage loans[2]:		
Conventional	2.21%	2.43%
Government	13.29%	12.61%
Subprime	12.46%	14.41%
Prime home equity	0.73%	0.80%
Total delinquent mortgage loans	3.91%	4.62%

	December 31, 2003	December 31, 2002
Loans pending foreclosure[2]:		
Conventional	0.21%	0.23%
Government	1.20%	1.32%
Subprime	2.30%	2.93%
Prime home equity	0.02%	0.05%
Total loans pending foreclosure	0.43%	0.55%

(1) Runoff refers to scheduled principal repayments on loans and unscheduled prepayments (partial prepayments or total prepayments due to refinancing, modification, sale, condemnation or foreclosure).
(2) Expressed as a percentage of the total number of loans serviced excluding subserviced loans and loans purchased at a discount due to their non-performing status.

Properties securing the mortgage loans in the Company's servicing portfolio are geographically disbursed. The following is a summary of the geographical distribution of loans included in the Company's servicing portfolio for states with more than five percent of the servicing portfolio (as measured by unpaid principal balance) at December 31, 2003:

(Dollar amounts in millions) State	Unpaid Principal Balance	% Total Balance
California	$ 172,970	27%
Texas	33,213	5%
Florida	33,619	5%
All other states	405,053	63%
Total	$ 644,855	100%

Servicing Compensation

As compensation for performance of servicing functions under its various loan servicing contracts, the Company is paid a monthly service fee that is generally expressed as a percentage of the current unpaid principal balance of the underlying loans. The loan servicing contracts generally specify a base service fee of between 0.25% and 0.50% per annum. With regard to its servicing contracts with Fannie Mae, Freddie Mac and Ginnie Mae, the Company can effectively retain a larger net service fee principally through its methods of securitization. In general, the larger the net servicing fee retained, the smaller the net cash proceeds received upon securitization. Therefore, the decision to retain net service fees above the contractual minimum amounts is based on the Company's assessment of the underlying economics. As of December 31, 2003, the weighted average service fee, net of applicable guarantee fees, of the Company's portfolio of loans serviced for others was 0.327% per annum.

In addition to service fees, the Company is generally entitled to float benefits related to its collection of mortgagor principal, interest, tax and insurance payments. The amount of float varies depending on the terms of the servicing contract and timing of receipt of payments from the mortgagors. The Company also is generally entitled to various fees that it collects associated with the mortgages such as late charges, prepayment penalties and re-conveyance fees, among others. The Company also generally has the right to solicit the mortgagors for other products and services that it offers, such as insurance and second mortgage loans. The value of the net service fees and other related income in excess of the cost to service the loans, including the costs of advances on behalf of delinquent mortgagors, underlies the Company's investment in MSRs.

As part of its loan servicing responsibilities, the Company is required to advance funds to cover delinquent scheduled principal and interest payments to security holders, as well as to cover delinquent tax and insurance payments to maintain the status of the loans. The Company had $1.0 billion of such advances outstanding at December 31, 2003 included in other assets. Generally, servicing advances are recoverable from either the mortgagor, the insurer of the loan, or the investor through the non-recourse provision of the loan servicing contract. These advances are recorded on the balance sheet at realizable value.

NOTE 28 — CREDIT LOSSES RELATED TO SECURITIZED LOANS

Nearly all of the mortgage loans produced by the Company are securitized and sold into the secondary mortgage market. While the Company generally securitizes prime mortgage loans on a non-recourse basis, it does have potential liability under the representations and warranties made to purchasers and insurers of the securities. In the event of a breach of such representations and warranties, the Company may be required to either repurchase the subject mortgage loans or indemnify the investor or insurer. In such cases, any subsequent credit loss on the mortgage loans is borne by Countrywide.

Securitization

As described below, the degree to which credit risk on the underlying loans is transferred through the securitization process depends on the structure of the securitization. Prime first mortgage loans generally are securitized on a non-recourse basis, while prime home equity and subprime mortgage loans generally are securitized with limited recourse for credit losses.

Conforming Conventional Loans

Conforming conventional loans are generally pooled into mortgage-backed securities guaranteed by Fannie Mae. A small portion of these loans also have been sold to Freddie Mac or the Federal Home Loan Bank, through its Mortgage Partnership Finance Program. Subject to certain representations and warranties on the part of the Company, substantially all conventional loans securitized through Fannie Mae or Freddie Mac are sold on a non-recourse basis. Accordingly, credit losses are generally absorbed by Fannie Mae and Freddie Mac and not the Company. The Company pays guarantee fees to Fannie Mae and Freddie Mac on loans it securitizes through these agencies, which include compensation to the respective agencies for their assumption of credit risk.

FHA-Insured and VA-Guaranteed Loans

FHA-insured and VA-guaranteed mortgage loans are generally pooled into mortgage-backed securities guaranteed by Ginnie Mae. A small portion of these loans have been sold to the Federal Home Loan Bank, through its Mortgage Partnership Finance Program. The Company is insured against foreclosure loss by the FHA or partially guaranteed against foreclosure loss by the VA. Fees charged by the FHA and VA for assuming such risks are paid by the mortgagors. The Company is exposed to credit losses on defaulted VA loans to the extent that the partial guarantee provided by the VA is inadequate to cover the total credit losses incurred. The Company pays guarantee fees to Ginnie Mae for Ginnie Mae's guarantee on its securities of timely payment of principal and interest. Ginnie Mae does not assume mortgage credit risk associated with the loans securitized under its program.

Non-conforming Conventional Loans

Non-conforming conventional prime mortgage loans are generally pooled into "private-label" (non-agency) mortgage-backed securities. Such securitizations involve some form of credit enhancement, such as senior/subordinated structures or mortgage pool insurance. Securitizations that involve senior/subordinated structures contain securities that assume varying levels of credit risk. Holders of subordinated securities are compensated for the credit risk assumed through a higher yield. The Company generally sells the subordinated securities created in connection with these securitizations and thereby transfers the related credit loss exposure, other than as described above with respect to representations and warranties made when loans are securitized.

Prime Home Equity Loans

Prime home equity loans are generally pooled into private-label asset-backed securities. These securities generally are credit-enhanced through over-collateralization and guarantees provided by a third-party surety. In such securitizations, the Company is subject to limited recourse for credit losses through retention of a residual interest.

Subprime Loans

Subprime loans generally are pooled into private-label mortgage backed securities. The Company generally securitizes these loans with limited recourse for credit losses. Such limited recourse securitizations generally have contained mortgage pool insurance as the primary form of credit enhancement, coupled with a limited corporate guarantee provided by Countrywide and/or a retained residual interest. When mortgage pool insurance is used, the associated premiums are paid directly by the Company. We also have pooled a portion of our subprime loans into securities guaranteed by Fannie Mae. In such cases, the Company has paid Fannie Mae a guarantee fee in exchange for Fannie Mae assuming the credit risk of the underlying loans. In addition, the Company has securitized a portion of our subprime loans on a limited recourse basis through the retention of a residual interest without the use of mortgage pool insurance.

The Company's exposure to credit losses related to its limited recourse securitization activities is limited to the carrying value of its subordinated interests and to the contractual limit of reimbursable losses under its corporate guarantees less the recorded liability for such guarantees. These amounts at December 31, 2003 are as follows:

(Dollar amounts in thousands)	December 31, 2003
Subordinated Interests:	
Prime home equity residual securities	$ 320,663
Prime home equity transferors' interests	236,109
Subprime residual securities	370,912
	$ 927,684
Corporate guarantees in excess of recorded reserves	$ 149,554

The carrying value of the residual securities is net of expected future credit losses. Related to the Company's non-recourse and limited recourse securitization activities, the total credit losses incurred for the years ended December 31, 2003 and 2002 are summarized as follows:

(Dollar amounts in thousands)	Year Ended December 31, 2003	Year Ended December 31, 2002
Subprime securitizations with corporate guarantee	$ 40,891	$ 10,524
Subprime securitizations with retained residual interest	36,699	71,165
Repurchased or indemnified loans	35,426	15,274
Prime home equity securitizations with retained residual interest	15,196	7,964
Prime home equity securitizations with corporate guarantee	2,763	436
VA losses in excess of VA guarantee	2,824	3,213
	$ 133,799	$ 108,576

NOTE 29 — COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company and certain subsidiaries are defendants in various legal proceedings involving matters generally incidental to their business. Although it is difficult to predict the ultimate outcome of these proceedings, management believes, based on discussions with counsel, that any ultimate liability will not materially affect the consolidated financial position or results of operations of the Company and its subsidiaries.

Commitments to Buy or Sell Mortgage-Backed Securities and Other Derivatives Contracts

In connection with its open commitments to buy or sell MBS and other derivative contracts, the Company may be required to maintain margin deposits. With respect to the MBS commitments, these requirements are generally greatest during periods of rapidly declining interest rates. With respect to other derivative contracts, margin requirements are generally greatest during periods of increasing interest rates. The total such margin deposits placed by the Company at December 31, 2003 was $293.9 million.

Lease Commitments

The Company leases office facilities under lease agreements extending through July 31, 2013. Future minimum annual rental commitments under these non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

(Dollar amounts in thousands) Year ended December 31,	
2004	$ 88,615
2005	78,408
2006	69,850
2007	53,466
2008	35,317
Thereafter	43,440
	$ 369,096

Rent expense was $109.7 million, $80.0 million and $48.6 million for the years ended December 31, 2003 and 2002 and the ten-month period ended December 31, 2001, respectively.

Restrictions on Transfers of Funds

The Company and certain of its subsidiaries are subject to regulatory and credit agreement restrictions which limit their ability to transfer funds to the Company through intercompany loans, advances or dividends. Pursuant to revolving credit facilities existing at December 31, 2003, the Company and CHL are required to maintain minimum consolidated net worth of $2.5 billion and $1.5 billion, respectively.

Mortgage Reinsurance

Countrywide has entered mortgage reinsurance agreements with several primary mortgage insurance companies. Under these agreements, the Company is obligated to absorb mortgage insurance losses in excess of a specified percentage of the principal balance of a given pool of loans, subject to a cap, in exchange for a portion of the pools' mortgage insurance premiums. Approximately $67.4 billion of the servicing portfolio is covered by such mortgage reinsurance agreements. Management believes it has adequate valuation allowances in place to cover anticipated losses.

NOTE 30 — SUBSEQUENT EVENTS

On January 26, 2004, the Company's Board of Directors declared a dividend of $0.22 per share payable March 1, 2004 to shareholders of record on February 11, 2004.

On January 9, 2004, Countrywide's stockholders approved an amendment to the Company's Restated Certificate of Incorporation increasing the number of shares of common stock the Company has the authority to issue to 500,000,000.

Report of Independent Certified Public Accountants

Board of Directors and Shareholders
Countrywide Financial Corporation

We have audited the accompanying consolidated balance sheets of Countrywide Financial Corporation and Subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of earnings, common shareholders' equity, cash flows and comprehensive income for the years ended December 31, 2003 and 2002, and the ten month period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Countrywide Financial Corporation and Subsidiaries as of December 31, 2003 and 2002 and the consolidated results of their operations and their consolidated cash flows for the years ended December 31, 2003 and 2002, and the ten month period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Los Angeles, California
February 27, 2004

Common Stock and Dividend Information

The Company's common stock is listed on the New York Stock Exchange, the NASDAQ National Market and the Pacific Stock Exchange (Symbol: CFC). The following table sets forth the high and low sales prices (as reported by the New York Stock Exchange) for the Company's common stock and the amount of cash dividends declared during the last two periods:

	For the Year Ended December 31, 2002		
	Stock Price		
Period Ended	High	Low	Cash Dividends Declared
March 31, 2002	$ 34.09	$ 28.21	$ 0.00
June 30, 2002	$ 37.74	$ 33.08	$ 0.10
September 30, 2002	$ 41.25	$ 29.63	$ 0.08
December 31, 2002	$ 39.75	$ 31.76	$ 0.09

	For the Year Ended December 31, 2003		
	Stock Price		
Period Ended	**High**	**Low**	**Cash Dividends Declared**
March 31, 2003	**$ 44.03**	**$ 37.87**	**$ 0.09**
June 30, 2003	**$ 59.05**	**$ 43.28**	**$ 0.10**
September 30, 2003	**$ 59.48**	**$ 47.63**	**$ 0.11**
December 31, 2003	**$ 81.81**	**$ 58.15**	**$ 0.15**

The Company has declared and paid cash dividends on its common stock quarterly since 1982. The Board of Directors of the Company declares dividends based on its review of the most recent quarter's profitability along with the Company's earnings prospects and capital requirements. Effective January 1, 2001, the Company changed its fiscal year. As a result, no dividend was declared in the quarter ended March 31, 2002 as the previous period (the month of December 31, 2001) was the short period in the transition year. In recognition of this change, the Board of Directors supplemented the dividend declared during the quarter ended June 30, 2002, to provide shareholders a return for the one-month period. During the years ended December 31, 2003 and 2002, the Company declared quarterly cash dividends totaling $0.45 and $0.27 per share, respectively.

The ability of the Company to pay dividends in the future is limited by the earnings, cash position and capital needs of the Company, general business conditions and other factors deemed relevant by the Company's Board of Directors. The Company is prohibited under certain of its debt agreements, including its guarantee of Countrywide Home Loan's revolving credit facility, from paying dividends on any capital stock (other than dividends payable in capital stock or stock rights) if in default, otherwise the Company may pay dividends in an aggregate amount not to exceed the greater of: (i) the after-tax net income of the Company, determined in accordance with generally accepted accounting principles, for the fiscal year to the end of the quarter to which the dividends relate, or (ii) the aggregate amount of dividends paid on common stock during the immediately preceding year. The ability of the Company to pay dividends may also be limited by the Federal Reserve Board if it determines that the payment of dividends by the Company would hinder its ability to serve as a source of strength for Treasury Bank or would otherwise be detrimental to the continued viability of Treasury Bank or the Company.

The primary source of funds for payments to stockholders by the Company is dividends received from its subsidiaries. Accordingly, such payments by the Company in the future also depend on various restrictive covenants in the debt obligations of its subsidiaries, the earnings, the cash position and the capital needs of its subsidiaries, as well as laws and regulations applicable to its subsidiaries. Unless the Company and Countrywide Home Loans each maintains specified minimum levels of net worth and certain other financial ratios, dividends cannot be paid by the Company and Countrywide Home Loans to remain in compliance with certain of Countrywide Home Loans' debt obligations (including its revolving credit facility). See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

As of December 31, 2003 there were 1,966 shareholders of record of the Company's common stock, with 184,490,593 common shares outstanding.

Production Office Locations

CONSUMER MARKETS DIVISION

Western Division — Dan A. Hanson, *Division Executive Vice President*

Region 5
Regional Vice President
Debra Lynn Goodrich

- Benicia, CA
- Chico, CA
- Citrus Heights, CA
- Fairfield, CA
- Folsom, CA
- Medford, OR
- Modesto, CA
- Roseville, CA
- Sacramento, CA
- Salem, OR
- Santa Rosa, CA
- Stockton, CA

Region 7
Regional Vice President
Lisa Bennett Harding

- Carlsbad, CA[2]
- Chula Vista, CA
- Corona, CA[2]
- El Cajon, CA
- Escondido, CA
- Palm Desert, CA
- Riverside, CA[4]
- San Diego, CA[4]
- San Marcos, CA
- Temecula, CA[2]

Region 9
Regional Vice President
David J. Bochsler

- Anchorage, AK
- Bellevue, WA
- Boise, ID
- Eagle, ID
- Everett, WA
- Federal Way, WA
- Lake Oswego, OR
- Lakewood, WA
- Lynwood, WA
- Nampa, ID
- Portland, OR[2]
- Seattle, WA[2]
- Spokane, WA

Region 29
Regional Vice President
Mark R. Huddleston

- Antioch, CA
- Concord, CA[2]
- Cupertino, CA
- Fremont, CA
- Oakland, CA
- Pearl City, HI
- Pleasanton, CA
- Reno, NV
- San Francisco, CA
- San Jose, CA
- San Mateo, CA
- South San Francisco, CA

Region 44
Regional Vice President
Michael Querrey

- Glendale, CA
- Henderson, NV[2]
- Las Vegas, NV[4]
- Santa Clarita, CA
- Santa Monica, CA
- Westlake Village, CA
- Woodland Hills, CA

Region 45
Regional Vice President
Thomas Hunt

- Aliso Viejo, CA
- Arcadia, CA
- Brea, CA
- Fountain Valley, CA
- Fullerton, CA
- Huntington Beach, CA
- Irvine, CA
- Lakewood, CA
- Long Beach, CA
- Los Angeles, CA
- Mission Viejo, CA[2]
- Montebello, CA
- Pasadena, CA
- Puente Hills, CA
- San Dimas, CA
- Santa Ana, CA[2]
- South Gate, CA
- Torrance, CA
- Tustin, CA
- Whittier, CA

Region 46
Regional Vice President
Mark E. Kemp

- Bakersfield, CA[2]
- Clovis, CA
- Fresno, CA
- Lancaster, CA
- Merced, CA
- Redlands, CA[2]
- Salinas, CA
- San Luis Obispo, CA
- Santa Barbara, CA
- Santa Maria, CA
- Upland, CA
- Ventura, CA
- Visalia, CA

Midwest Division — Robert Brown, *Division Executive Vice President*

Region 10
Regional Vice President
Cathy Ann Gibb

- Baton Rouge, LA
- Beaumont, TX
- College Station, TX
- Hattiesburg, MS
- Houston, TX[6]
- Jackson, MS
- Kingwood, TX
- Mandeville, LA
- Metairie, LA[2]
- Missouri City, TX
- New Orleans, LA
- Pearland, TX
- Post Oak, TX
- Shenandoah, TX
- Shreveport, LA
- Sugar Land, TX
- The Woodlands, TX

Region 11
Regional Vice President
Michael W. Garmone

- Canton, OH
- Cleveland, OH
- Cuyahoga Falls, OH
- Erie, PA
- Gahanna, OH
- Hillard, OH
- Mentor, OH
- Monroeville, PA
- Morgantown, WV
- Pittsburgh, PA[2]
- Scott Depot, WV
- Solon, OH
- Strongsville, OH
- Warren, OH
- West Worthington, OH
- Westlake, OH
- Woodmere, OH

Region 14
Regional Vice President
Larry Wade Gunnin

- Birmingham, AL
- Fort Walton Beach, FL
- Huntsville, AL
- Johnson City, TN
- Knoxville, TN
- Madison, TN
- Memphis, TN
- Mobile, AL
- Montgomery, AL
- Murfreesboro, TN
- Nashville, TN
- Panama City, FL
- Pensacola, FL

Region 20
Regional Vice President
Mark C. Stevens

- Ann Arbor, MI
- Clarkston, MI
- Detroit, MI
- Grand Rapids, MI
- Kalamazoo, MI
- Novi, MI
- Okemos, MI
- Toledo, OH
- Troy, MI
- Woodhaven, MI

Region 39
Regional Vice President
Richard A. Phillips

- Avon, IN
- Cincinnati, OH[3]
- Dayton, OH
- Elizabethtown, KY
- Evansville, IN
- Fishers, IN
- Fort Mitchell, KY
- Greenwood, IN
- Indianapolis, IN[3]
- Lexington, KY
- Louisville, KY[2]
- Mishawaka, IN
- New Albany, IN
- Paducah, KY
- Schereville, IN
- Speedway, IN
- Springfield, OH
- Troy, OH

Northeast Division — James Comosa, *Division Executive Vice President*

Region 3
Regional Vice President
Wayne Rogers

- Broomall, PA
- Cherry Hill, NJ
- Frazer, PA
- Hamilton, NJ
- Huntingdon Valley, PA
- Lancaster, PA
- Lansdale, PA
- Manalapan, NJ[2]
- Mays Landing, NJ
- Mechanicsburg, PA
- Media, PA
- Newark, DE
- Newtown, PA
- Philadelphia, PA
- Sewell, NJ
- Shrewsbury, NJ[2]
- Tom's River, NJ[2]
- Trexlertown, PA
- Wyoming, PA
- Wyomissing, PA
- York, PA

Region 33
Regional Vice President
Eric P. Declercq

- Bloomfield, NJ
- Brooklyn, NY
- Danbury, CT
- Forest Hills, NY
- Hauppauge, NY
- Milford, CT
- Milltown, NJ
- Morristown, NJ
- Newark, NJ
- Newburgh, NY
- Raritan, NJ
- Staten Island, NY
- Wantagh, NY
- Wayne, NJ
- Westfield, NJ
- Yorktown Heights, NY

Region 47
Regional Vice President
Lawrence Brian Koss

- Amherst, NY
- Boston, MA[2]
- Burlington, MA
- Dedham, MA
- Hartford, CT
- Latham, NY
- Merrimack, NH
- North Syracuse, NY
- Peabody, MA
- Saratoga Springs, NY
- Shrewsbury, MA
- Somersworth, NH
- South Portland, ME
- Southington, CT
- Taunton, MA
- Waltham, MA
- Warwick, RI
- Webster, NY
- West Springfield, MA
- Williamsville, NY

Production Office Locations (continued)

Southeast Division — Phyllis Bucklew, *Division Executive Vice President*

Region 18
Acting Regional Vice President
Phyllis Bucklew

Atlanta, GA(2)
Chattanooga, TN
Duluth, GA
Marietta, GA
Peachtree City, GA
Riverdale, GA
Roswell, GA
Stockbridge, GA
Stone Mountain, GA
Woodstock, GA

Region 22
Regional Vice President
Karyn T. Wilson

Alexandria, VA
Bel Air, MD
Charlottesville, VA
Cockeysville, MD
Easton, MD
Fairfax, VA
Frederick, MD
Gaithersburg, MD
Glen Allen, VA
Greenbelt, MD
Lake Ridge, VA
Laurel, MD
Newport News, VA
Richmond, VA(2)
Roanoke, VA
Severna Park, MD
Virginia Beach, VA(2)
Waldorf, MD(2)
Washington, DC
Yorktown, VA

Region 28
Regional Vice President
Frankie S. McGrew

Altamonte Springs, FL
Brandon, FL
Clearwater, FL
Clermont, FL
Daytona Beach, FL
Gainesville, FL
Indian Shores, FL
Jacksonville, FL(2)
Jacksonville Beach, FL
Lake Mary, FL
Merritt Island, FL
New Port Richey, FL
Orlando, FL
Satellite Beach, FL
Tampa, FL
Winter Springs, FL

Region 36
Regional Vice President
Edward Charles Rogers

Boca Raton, FL
Boynton Beach, FL
Fort Myers, FL
Lakeland, FL
Miami, FL(3)
Miami Lakes, FL
Naples, FL
Pembroke Pine, FL
Port Charlotte, FL
Port St. Lucie, FL
Sarasota, FL
Sunrise, FL
West Palm Beach, FL

Region 40
Regional Vice President
David L. Jones

Asheville, NC
Charleston, SC
Charlotte, NC(4)
Columbia, SC
Durham, NC
Greensboro, NC
Greenville, SC
Hilton Head, SC
Jacksonville, NC
Myrtle Beach, SC
New Bern, NC
Raleigh, NC
Wilmington, NC
Winston Salem, NC

Central Division — Timothy J. Cranston, *Division Executive Vice President*

Region 12
Regional Vice President
Sherrie A. Brozovich

Aurora, CO
Boulder, CO
Castle Rock, CO
Centennial, CO
Cheyenne, WY
Colorado Springs, CO(2)
Denver, CO(2)
Evergreen, CO
Fort Collins, CO
Grand Junction, CO
Greeley, CO
Lakewood, CO
Littleton, CO
Pueblo,CO
Westminster, CO

Region 16
Regional Vice President
James J. Sabino

Appleton, WI
Arlington Heights, IL
Bloomingdale, IL
Brookfield, WI
Chicago, IL(4)
Crystal Lake, IL
Elgin, IL
Glenview, IL
Green Bay, WI
Hinsdale, IL
Janesville, WI
Joliet, IL
Libertyville, IL
Lombard, IL
Madison, WI
Menominee, MI
Naperville, IL
Orland Park, IL(2)
Peoria, IL
Racine, WI
Rockford, IL
Schaumburg, IL
Sheboygan, WI(2)
Shorewood, IL
Springfield, IL
Wausau, WI
West Allis, WI

Region 17
Regional Vice President
Lisa N. Farrar

Albuquerque, NM(3)
Flagstaff, AZ
Gilbert, AZ
Glendale, AZ
Goodyear, AZ
Lake Havasu, AZ
Mesa, AZ
Phoenix, AZ(2)
Prescott, AZ
Scottsdale, AZ
Sierra Vista, AZ
Tempe, AZ
Tucson, AZ(2)

Region 25
Regional Vice President
Edward Henson

Arlington, TX
Dallas, TX(4)
Desoto, TX
Flower Mound, TX
Fort Worth, TX
Lewisville, TX
Little Rock, AR
Longview, TX
McKinney, TX
North Arlington,TX
Plano,TX
Southlake, TX

Region 26
Regional Vice President
Cherry J. Scott-Little

Abilene,TX
Amarillo, TX
Austin, TX(2)
Corpus Christi, TX
Edmond, OK
El Paso, TX
Killeen, TX
Lawton, OK
Lubbock, TX
Midland, TX
Norman, TX
Oklahoma City, OK
San Antonio, TX(2)
Tulsa, OK

Region 34
Acting Regional Vice President
Timothy J. Cranston

Billings, MT
Ogden, UT
Orem, UT
Salt Lake City, UT(2)
Sandy, UT
West Jordan, UT

Region 35
Regional Vice President
Richard M. Monley

Columbia, MO
Fenton, MO
Kansas City, MO(2)
Lawrence, KS
Lee's Summit, MO
Lenexa, KS
O'Fallon, MO
Overland Park, KS
Springfield, MO
St. Louis, MO
Topeka, KS
Wichita, KS

Region 55
Regional Vice President
Brett Allen Toyne

Bloomington, MN
Cedar Rapids, IA(2)
Davenport, IA
Lakeville, MN
Lincoln, NE
Marshalltown, IA
Omaha, NE
Urbandale, IA
Woodbury, MN(2)

WHOLESALE LENDING DIVISION

Prime Lending

Eastern Division — Joseph Harvey, *Division Executive Vice President*

Region 78	Region 83	Region 92	Region 95	Region 96
Senior Regional Vice President	*Division Executive Vice President*	*Senior Regional Vice President*	*Senior Regional Vice President*	*Senior Regional Vice President*
Tim Koger	Joseph Harvey	Jay Talbert	Dennis Patchett	Randy Wilcox
Detroit, MI Grand Rapids, MI Indianapolis, IN Lisle, IL Milwaukee, WI Minn/St. Paul, MN St. Louis, MO	Boca Raton, FL Miami, FL Orlando, FL Tampa, FL	Danvers, MA East Hanover, NJ Hartford, CT Long Island, NY	Cleveland, OH Columbus, OH DC/Metro, VA Louisville, KY Philadelphia, PA Pittsburgh, PA	Atlanta, GA Birmingham, AL Charlotte, NC Nashville, TN New Orleans, LA Raleigh, NC

Western Division — Eric Spence, *Division Executive Vice President*

Region 81	Region 85	Region 91	Region 98
Senior Regional Vice President	*Senior Regional Vice President*	*Senior Regional Vice President*	*Senior Regional Vice President*
Belinda Everette	Keith Ryan	Jeff Garrison	Debbie Hood
Austin, TX Dallas, TX Houston, TX Kansas City, KS Oklahoma City, OK Phoenix, AZ	Alamo, CA Fresno, CA Las Vegas, NV Marin County, CA Sacramento, CA San Jose, CA	El Segundo, CA Pasadena, CA Rancho Cucamonga, CA San Diego, CA Santa Ana, CA Woodland Hills, CA	Boise, ID Denver, CO Honolulu, HI Portland, OR Salt Lake City, UT Seattle, WA

Prime Lending Fulfillment Centers

Anaheim, CA	Jacksonville, FL
1st Vice President	*1st Vice President*
Ross Wroblewski	Susan Morgan

Specialty Lending Group

Eastern Division — David Griggs, *Divisional Sales Manager*

Region 301	Region 304	Region 312	Region 314
Regional Sales Manager	*Regional Sales Manager*	*Regional Sales Manager*	*Divisonal Sales Manager*
Trent Williams	Jarret Kilpatrick	Tim Hose	David Griggs
Northeast	Florida / Tennessee	Carolinas	Broker Direct—Jacksonville

Central Division — Jeffery Keeland, *Divisional Sales Manager*

Region 302	Region 303	Region 305	Region 310
Regional Sales Manager	*Regional Sales Manager*	*Regional Sales Manager*	*Regional Sales Manager*
Tino Martinez	Marilyn Mocilnikar	Julianne James	Melissa Condensa
Midwest	Ohio Valley	Texas	Broker Direct —Plano

Western Division — William Passan, *Divisional Sales Manager*

Region 308	Region 309
Regional Sales Manager	*Regional Sales Manager*
Kevin Gray	Peter Palermo
Northwest	Great Plains

California Division — Steven Curry, *Divisional Sales Manager*

Region 306	Region 307	Region 311
Regional Sales Manager	*Regional Sales Manager*	*Regional Sales Manager*
Jeff Newcome	Todd Kesterson	Nicholas Pabarcus
Central California	Northern California	Southern California

Specialty Lending Group Fulfillment Centers

Anaheim, CA	Plano, TX	Jacksonville, FL
Senior Vice President	*Senior Vice President*	*Senior Vice President*
Gaylen Benson	Brian Bazar	Brian McGinnis

CORRESPONDENT LENDING DIVISION

Offices

EVP Regional Sales/Marketing	EVP Regional Sales/Marketing	EVP Regional Sales/Marketing	SVP Non Prime Sales
Russell Anderson	Joseph Kresser	Rex Adams	Karen Bausman
West Hills, CA	Pittsburgh, PA	Plano, TX	Lansdale, PA

FULL SPECTRUM LENDING, INC.

Western Division — Scott Bridges, *Division Senior Vice President*

Region 492	Region 494	Region 498	Region 499	Region 607
Regional Vice President	*Regional Vice President*	*Regional Vice President*	*Regional Vice President*	*Regional Vice President*
Lewis Wehner	Shaun Patrickus	Wade Comeaux	Steven Hauser	Steven Light
Alta Loma, CA Burbank, CA Las Vegas, NV Northridge, CA Riverside, CA San Diego, CA Ventura, CA	Eden Prairie, MN Oakbrook Terrace, IL Burr Ridge, IL Rolling Meadows, IL Roseville, MN St. Louis, MO Vernon Hills, IL	Arlington, TX Austin, TX Bellaire, TX Clear Lake City, TX Dallas, TX Memphis, TN Metairie, LA Nashville, TN San Antonio, TX Tulsa, OK	Albuquerque, NM Fresno, CA Glendale, AZ San Jose, CA San Mateo, CA Tempe, AZ Walnut Creek, CA	Brookfield, WI Colorado Springs, CO Davenport, IA Denver, CO Englewood, CO Overland Park, KS

Region 720	Region 831	Region 834
Regional Vice President	*Regional Vice President*	*Regional Vice President*
Rich Ferre	Wayne Waldron	Louis De Vita
Honolulu, HI Reno, NV Roseville, CA Sacramento, CA[2] Santa Rosa, CA	Brea, CA Chula Vista, CA Escondido, CA Lake Forest, CA Long Beach, CA Orange, CA San Dimas, CA	Bellevue, WA Bothell, WA Federal Way, WA Taylorsville, UT Vancouver, WA

Eastern Division — Robert D. Davis, *Division Senior Vice President*

Region 493	Region 495	Region 497	Region 835	Region 836
Regional Vice President	*Regional Vice President*	*Regional Vice President*	*Regional Vice President*	*Regional Vice President*
Khristopher Hale	Timothy Caryl	John Mauk	Nicholas Markopoulos	William Zielke
Akron, Oh Cincinnati, OH Dublin, OH Indianapolis, IN Livonia, MI Lexington, KY Strongsville, OH Troy, MI	Charlotte, NC Columbia, SC Greensboro, NC Hampton, VA Louisville, KY Marietta, GA Norfolk, VA Raleigh, NC Richmond, VA	Camp Hill, PA Edison, NJ Ellicott City, MD Forest Hills, NY Howell, NJ Lake Success, NY Philadelphia, PA Springfield, NJ Vienna, VA Voorhees, NJ	Braintree, MA Farmington, CT Garden City, NY Milford, CT Tarrytown, NY Wakefield, MA Warwick, RI Worcester, MA	Altamonte Springs, FL Birmingham, AL Jacksonville, FL Miami, FL Tampa, FL[2] West Palm Beach, FL

National Sales Center Division — Archie Green, *Division Senior Vice President*

Region 488	Region 490	Region 654	Region 692	Region 698
Regional Vice President	*Regional Vice President*	*Regional Vice President*	*Regional Vice President*	*Regional Vice President*
Brian Dunn	James Hart	Ed Fay	Paul Sellers	Patrick Dasher
Rosemead, CA Simi Valley, CA	Rosemead, CA	Rolling Meadows, IL	Rosemead, CA	Plano, TX

Region 699	Region 830	Region 890	Region 891
Regional Vice President	*Regional Vice President*	*Regional Vice President*	*Regional Vice President*
James Hart	Tony Taveekanjana	Paul Ramirez	Mark Dusza
Rosemead, CA	Plano, TX Rosemead, CA Rolling Meadows, IL	Van Nuys, CA	Plano, TX

Subsidiary Officers

MORTGAGE BANKING

Stanford L. Kurland
Chairman of the Board and Chief Executive Officer,
Countrywide Home Loans, Inc.

David Sambol
President and Chief Operating Officer,
Countrywide Home Loans, Inc.

Production and Settlement Services

Joe D. Anderson
Senior Managing Director,
Consumer Markets Division

Todd A. Dal Porto
Senior Managing Director,
Wholesale Lending Division

Douglas E. Jones
Senior Managing Director and President,
Institutional Mortgage Services Group

Jack W. Schakett
Senior Managing Director and Chief Operations Officer,
Institutional Mortgage Services Group

Mark E. Elbaum
Managing Director and Chief Financial Officer,
Mortgage Production Segment

Farzad Abolfathi
Managing Director,
Application Development

Steve Boland
Managing Director and President,
LandSafe Inc.

G. Richard Bright
Managing Director,
Production Support

David Doyle
Managing Director,
Consumer Direct Production

Brian S. Hale
Managing Director,
National Production,
Consumer Markets Division

Kenneth Earl Harthausen
Managing Director,
Business to Business,
Consumer Markets Division

Preston R. James, Jr.
Managing Director and Chief Operating Officer,
Wholesale Lending Division

Carla Navas
Managing Director and Chief Operating Officer,
Correspondent Lending

Sam Ourfalian
Managing Director,
Information Technology,
Correspondent Lending

Brian A. Robinett
Managing Director, Prime Lending,
Wholesale Lending Division

Deborah L. Rosen
Managing Director,
Specialty Lending Group,
Wholesale Lending Division

Russ Smith
Managing Director and Chief Operating Officer,
Consumer Markets Division

Stephen W. G. Smith
Managing Director and Chief Financial Officer,
Consumer Markets Division

John Stewart
Managing Director,
Strategic Business Development,
Consumer Markets Division

Paul Szymanski
Managing Director and Chief Financial Officer,
Institutional Mortgage Services Group

Subprime Operations

Gregory A. Lumsden
Senior Managing Director,
President and Chief Executive Officer,
Full Spectrum Lending, Inc.

Cliff Kitashima
Managing Director,
Chief Credit and Compliance Officer,
Full Spectrum Lending, Inc.

Pete Kucma
Managing Director and Chief Operating Officer,
Full Spectrum Lending, Inc.

Lloyd Sargeant
Managing Director,
Full Spectrum Lending, Inc.

Loan Administration

Richard DeLeo
Senior Managing Director,
Loan Administration

Steve R. Bailey
Managing Director and Chief Operating Officer,
Customer Contact Loan Administration

Dorianne Cotter
Managing Director,
Loan Administration Systems Development

Richard A. Hildebrand
Managing Director,
Bankruptcy, Foreclosure and Real Estate Management

Kevin Meyers
Managing Director and Chief Finanical Officer,
Loan Administration

Richard Wilson
Managing Director,
Document Management Services,
Loan Administration

CAPITAL MARKETS

Ranjit Kripalani
Senior Managing Director,
President and Chief Executive Officer

Anand Bhattacharya
Managing Director,
Fixed Income Strategy and Research

J. Grant Couch, Jr.
Managing Director and Chief Operating Officer

Nancy De Liban
Managing Director, Structured Finance and Banking

Susan M. Estes
Managing Director, Department Head
U.S. Treasury Trading

Steven Hively
Managing Director,
Chief Financial Officer and Treasurer

Michael Schloessmann
Managing Director, Transaction Management

BANKING

Carlos M. Garcia
Executive Managing Director and Chairman,
Banking and Insurance Operations

Andrew Gissinger, III
Senior Managing Director, Vice Chairman and
Chief Executive Officer,
Banking and Insurance Operations

James S. Furash
Senior Managing Director,
President and Chief Executive Officer

Paul Decoff
Managing Director and Chief Operations Officer

S. Dean Lesiak
Managing Director and Chief Risk Officer

Michael L. Muir
Managing Director and Chief Financial Officer

INSURANCE

Robert James
Managing Director, President and Chief Operating Officer

Craig L. Carson
Managing Director and Chief Marketing Officer

Mark A. McElroy
Managing Director and Chief Operations Officer

Thomas Scrivener
Managing Director,
Chief Financial Officer and Treasurer

GLOBAL

Michael Keating
Senior Managing Director, Global Operations

Simon Hinshelwood
Managing Director and Chief Executive Officer,
Global Home Loans

Tom Jones
Managing Director and President,
CW (U.K.) Services

Directors and Corporate Officers

BOARD OF DIRECTORS

Angelo R. Mozilo
Chairman of the Board and Chief Executive Officer

Stanford L. Kurland
President and Chief Operating Officer

Henry G. Cisneros
Founder, Chairman and Chief Executive Officer
American CityVista
Residential Housing Developer

Jeffrey M. Cunningham
Chairman and Chief Executive Officer,
Navigator Holdings, LLC
Advisory firm specializing in media,
conferences and eLearning

Robert J. Donato
Executive Vice President, Los Angeles Branch
UBS Financial Services, Inc.
Securities/Investment Advisory Services

Michael E. Dougherty (Lead Director)
Founder and Chairman
Dougherty Financial Group, LLC
Financial Services Firm

Ben M. Enis, Ph.D.
Founder and Chief Executive Officer
Enis Renewable Energy Systems LLC
Develops Compressed Air Energy Storage (CAES) Technologies

Edwin Heller
Attorney, Of Counsel,
Fried, Frank, Harris, Shriver and Jacobson
Law Firm

Gwendolyn S. King
President
Podium Prose
Corporate Speakers Bureau and Speechwriting Service

Martin R. Melone
Retired Partner
Ernst & Young, LLP
Accounting Firm

Oscar P. Robertson
President
Orchem Corporation, Specialty Chemical Manufacturer

Keith P. Russell
President
Russell Financial, Inc.
Strategic and Financial Consulting Firm

Harley W. Snyder
President, HSC, Inc. and S-W Corporation
Real Estate Consulting and Investment Firm

CORPORATE OFFICERS

Angelo R. Mozilo*
Chairman of the Board and Chief Executive Officer

Stanford L. Kurland*
President and Chief Operating Officer

David Sambol*
Executive Managing Director and
Chief of Mortgage Banking and Capital Markets

Carlos M. Garcia*
Executive Managing Director and
Chief of Banking and Insurance Operations

Thomas Keith McLaughlin*
Executive Managing Director and
Chief Financial Officer

CORPORATE OFFICERS (continued)

Joe D. Anderson
Senior Managing Director,
Consumer Markets Division

Andrew S. Bielanski
Senior Managing Director,
Marketing

Thomas H. Boone*
Senior Managing Director and
Chief Administrative Officer

Todd A. Dal Porto
Senior Managing Director,
Wholesale Lending Division

Richard DeLeo*
Senior Managing Director,
Loan Administration

James S. Furash
Senior Managing Director,
President and CEO of Treasury Bank NA

Andrew Gissinger, III*
Senior Managing Director,
Banking and Insurance Operations

Douglas E. Jones
Senior Managing Director and President,
Institutional Mortgage Services Group

Richard K. Jones
Senior Managing Director and
Chief Information Officer

Michael Keating
Senior Managing Director,
Global Operations

Ranjit Kripalani
Senior Managing Director,
Countrywide Capital Markets

Nicholas Krsnich*
Senior Managing Director and
Chief Investment Officer

Gregory A. Lumsden
Senior Managing Director and President,
Full Spectrum Lending, Inc.

Anne D. McCallion*
Senior Managing Director,
Finance

Sandor E. Samuels*
Senior Managing Director and
Chief Legal Officer

Jack W. Schakett
Senior Managing Director and Chief Operating Officer,
Institutional Mortgage Services Group

Eric P. Sieracki*
Senior Managing Director,
Investor Relations and Corporate Development

Jeffrey K. Speakes*
Senior Managing Director and
Chief Economist

David A. Spector*
Senior Managing Director,
Secondary Marketing

CORPORATE OFFICERS (continued)

John Ardy
Managing Director,
Corporate Operations Management

David J. Bigelow
Managing Director,
Investor Relations

Susan E. Bow
Managing Director, General Counsel,
Corporate and Securities, and Corporate Secretary

Mark DeJesse
Managing Director and
Chief Trading Officer

Alan Frelix
Managing Director,
Strategic Planning

Marshall M. Gates
Managing Director, Executive Administration

Ed Godycki
Managing Director,
Application Development

Leora I. Goren
Managing Director,
Human Resources

John McMurray
Managing Director and
Chief Credit Officer

Laura K. Milleman*
Managing Director and
Chief Accounting Officer

Barry Pyle
Managing Director,
Corporate Development

Jennifer S. Sandefur
Managing Director and Treasurer

Kathy Schwartz
Managing Director,
Financial Planning

Walter J. Smiechewicz
Managing Director,
Enterprise Risk Assessment

Iain Stobie
Managing Director,
Artificial Intelligence Development

Steven Sylvers
Managing Director,
Taxation

Mark Upson
Managing Director,
Administration

Richard B. Wentz
Managing Director, General Counsel,
Mortgage Banking Operations, and Assistant Secretary

Howard Wexler
Managing Director, Deputy General Counsel,
Banking, Insurance and International

*Section 16 Executive Officer

ADJUSTABLE RATE MORTGAGE (ARM) — A mortgage loan that allows the lender to adjust the interest rate in accordance with a specified index periodically and as agreed to at the beginning of the loan.

ASSET-BACKED SECURITY (ABS) — A debt security that is backed by an underlying asset such as mortgages, auto loans, student loans, or credit card debt.

BROKER-DEALER — A firm that buys and sells securities for itself and other parties.

COMMERCIAL PAPER (CP) — Short-term obligations issued by a corporation or bank to finance items such as mortgage fundings, inventory, and accounts receivable. Typical maturities range from overnight to 270 days.

DELINQUENCY — The instance where a borrower fails to make their payment by the due date specified in the mortgage agreement.

DERIVATIVE — A financial security whose value is derived from an underlying security or interest rate.

DISTRESSED ASSET (LOAN) — A loan that has a delinquent pay history or other defect that impairs the value of the loan.

EARNED PREMIUM — The portion of a premium paid by an insured that has been allocated to the insurance company's loss experience, expenses, and profit year-to-date.

ESCROW BALANCES — Funds held by a mortgage servicer that derive from payments made by borrowers for principal/interest (PI) and taxes/insurance (TI). The PI funds are ultimately remitted by the servicer to the MBS investors and the TI funds are remitted to tax authorities and insurance providers.

FEDERAL RESERVE — As a financial holding company, Countrywide is regulated by the Federal Reserve. The Federal Reserve also serves as the country's central bank, conducts the nation's monetary policy, and maintains the stability of the financial system.

FDIC INSURANCE — Insurance provided by the Federal Deposit Insurance Corporation, a government entity, on bank deposits to maintain the stability of and public confidence in the nation's financial system. Accounts with Countrywide Bank, a division of Treasury Bank, N.A., are FDIC insured up to an aggregate of $100,000 per depositor.

FHLB ADVANCES — Funding provided by Federal Home Loan Banks, a group of 12 banks that were created in 1932 to improve the supply of funds to local lenders. Countrywide's Treasury Bank, N.A. is a member of the Federal Home Loan Bank of Atlanta. All FHLBs are regulated by the Federal Housing Finance Board, an independent regulatory agency of the executive branch of the U.S. Government.

FORECLOSURE — The judicial process where a property owner's right to a property is terminated due to default on their mortgage payments.

GOVERNMENT SPONSORED ENTITY (GSE) — Private organizations with government charters whose function is to provide liquidity for the residential loan market. GSEs purchase loans from lenders and assume risk for the asset, thereby protecting the investors in the MBS.

GUARANTY FEE — A fee charged by GSEs to lenders to guarantee timely payment of principal and interest from the mortgages underlying an MBS.

HELOC (HOME EQUITY LINE OF CREDIT) — A type of second mortgage where the borrower is approved for a certain credit limit (based upon the equity in the home). The borrower may draw on that credit line until the limit is reached and is initially required to only pay interest on the amount drawn.

HOMEOWNERS INSURANCE — Package policy that combines (1) coverage against the insured's property being destroyed or damaged and (2) coverage for liability exposure of the insured. Homeowners policies cover both individuals, as well as property. In addition to the insured, those covered include his/her spouse, their relatives, and any others under 21 who are residents of the insured's household.

HOME WARRANTY INSURANCE — Covers a wide array of home appliance mechanical breakdowns.

INTEREST ONLY (I/O) STRIP — A security whose cash flows are based entirely on the interest payments of a specific pool or tranche within a mortgage-backed security.

INTEREST RATE SWAP — An agreement by which two parties agree to "swap" interest payment streams. Commonly, parties will swap fixed for floating interest rates.

INSURANCE AGENCY — A company that sells insurance to consumers but does not assume the insurance risk.

INSURANCE CARRIER — A company that underwrites and assumes the insurance risk.

INSURANCE LOSS RATIO — The relationship of incurred losses plus loss adjustment expense to earned premiums, expressed as a percentage.

JUMBO LOAN — A mortgage loan where the amount borrowed is greater than $333,700.

LENDER-PLACED INSURANCE — Also referred to as creditor-placed insurance. An insurance policy placed by the lender to protect the asset (auto/property) when the borrower has failed to maintain adequate coverage.

LOAN SERVICING — The function of collecting mortgage payments from the borrower and also providing the relevant customer service. Duties also include investor accounting, escrow administration, foreclosure services and loss mitigation.

MACRO-HEDGE STRATEGY — CFC's strategy to appropriately balance its production and mortgage servicing businesses.

MEDIUM-TERM NOTES (MTN) — Corporate debt obligation with scheduled principal and interest payment dates, usually between 1–10 years.

MORTGAGE-BACKED SECURITY (MBS) — A security backed by pools of mortgages. Payments made by borrowers on the underlying mortgages are passed on to investors.

MORTGAGE CATASTROPHE INSURANCE — Provides coverage above that of a traditional homeowner insurance policy. Typical coverage includes paying the mortgage for up to 24 months, paying a portion of the deductible on the primary homeowners insurance policy in addition to other benefits.

MORTGAGE SERVICING RIGHTS (MSR) — The capitalized asset that represents the value of the servicing fees to be realized over the life of the loan.

OFFICE OF THE COMPTROLLER OF THE CURRENCY (OCC) — The administrator of national banks and the primary regulator of Treasury Bank, N.A. The OCC is a bureau of the U.S. Department of the Treasury.

PIPELINE — Loans at various stages of the origination process that have not yet funded.

POOLING — The process of grouping together mortgage loans with similar characteristics.

PREPAYMENT SPEEDS — The rate at which a mortgage debt is paid off prior to its due date. Prepayment speed is expressed as a percentage and calculated as follows: Annualized Total Prepayments/Servicing Volume.

PRIMARY MORTGAGE INSURANCE (PMI) — Insurance written by a private mortgage insurance company to protect the lender from payment default by the borrower. Usually required if the loan-to-value ratio exceeds 80%.

REINSURANCE — A form of insurance that insurance companies buy for their own protection. Assumed reinsurance: To accept part or all of the risk of a primary insurer or other reinsurer. Ceded reinsurance: To transfer risk from an insurance company to a reinsurance company.

REPLACEMENT COST — The cost to replace an insured's damaged or destroyed property with like kind and quality. Equivalent to the actual cash value, minus wear and tear (physical depreciation) and obsolescence.

RESIDUAL VALUE — The present value of cash flows to be received by the residual holder after senior investor debt service and credit enhancement.

SECONDARY MORTGAGE MARKET — The market where lenders and investors buy and sell existing mortgages and MBS securities.

SECURITIZATION — The process of pooling loans into mortgage-backed securities for sale into the secondary mortgage market.

SERVICE FEE — A fee paid to a servicer for administering mortgages on behalf of investors that represents a percentage of the outstanding balance of the loan.

SERVICING HEDGE — CFC's strategy to protect the value of its investment in MSRs from the effects of increased prepayment activity that generally occurs in declining interest rate environments.

SERVICING PORTFOLIO — The total dollar value of all outstanding loan balances administered by the servicer.

SUBPRIME (OR BC LENDING) — A mortgage loan for borrowers with less than perfect credit.

SUBSERVICING — An arrangement where the owner of servicing rights contracts out the loan administration duties to another party.

UNPAID PRINCIPAL BALANCE (UPB) — The outstanding principal balance on a mortgage loan.

WEIGHTED AVERAGE COUPON (WAC) — The weighted average of the interest rates of loans within a pool or portfolio. The weighting factor is the UPB of the loan.

Corporate Information

ACCOUNTANTS

2003
Grant Thornton LLP
100 Wilshire Boulevard, Suite 300
Los Angeles, CA 90017-2464

2004
KPMG LLP
355 South Grand Avenue, Suite 2000
Los Angeles, CA 90071-1568

REGISTRAR AND TRANSFER AGENT

The Bank of New York
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
(800) 524-4458

CORPORATE HEADQUARTERS

4500 Park Granada
Calabasas, CA 91302-1613
(818) 225-3000

COUNTRYWIDE REGIONAL CENTERS

5220 Las Virgenes Road
Calabasas, CA 91302
(818) 871-4000

8501, 8511 and 8521 Fallbrook Avenue
West Hills, CA 91304
(818) 316-8000

26745, 26775 Malibu Hills Road
Calabasas Hills, CA 91301
(818) 871-2300

400 Countrywide Way
Simi Valley, CA 93065
(805) 520-5100

450 American Street
Simi Valley, CA 93065
(805) 520-5100

1757, 1800 Tapo Canyon Road
Simi Valley, CA 93063
(805) 577-4200

5898 Condor Drive
Moorpark, CA 93021
(805) 553-6000

994 Flower Glen Road
Simi Valley, CA 93065
(805) 955-3200

COUNTRYWIDE REGIONAL CENTERS

(continued)

35 North Lake Avenue
Pasadena, CA 91101
(626) 304-8400

1515 Walnut Grove Avenue
Rosemead, CA 91770
(626) 927-3000

7105 Corporate Drive, Bldgs A, B and C
Plano, TX 75024
(972) 608-6000

225 West Hillcrest Drive
Thousand Oaks, CA 91360
(805) 496-4042

29851 Agoura Road
Agoura Hills, CA 91301
(818) 575-1500

3349 Michelson Drive, Suite 200
Irvine, CA 92612
(949) 222-8000

176,177 Countrywide Way
Lancaster, CA 93536
(661) 951-5100

6303 Owensmouth Boulevard., 11th Floor
Woodland Hills, CA 91367
(818) 313-6100

6400 Legacy Drive
Plano, TX 75024
(972) 608-6000

2900 Madera Road
Simi Valley, CA 93065
(805) 955-1179

2555 West Chandler Boulevard
Chandler, AZ 85224
(480) 224-5000

5401 North Beach Street
Fort Worth, TX 76137
(972) 608-6000

Inquiries Regarding Your Stock Holdings

In all correspondence or telephone inquiries, please mention Countrywide Financial Corporation, your name as printed on your share certificate, your social security number, your address and your telephone number.

Registered Shareholders

(Shares held in your name)
Address shareholder inquiries to:

The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
(800) 524-4458
www.stockbny.com
Shareowner-svcs@bankofny.com

Send certificates for transfer and address changes to:

The Bank of New York
Receive and Deliver Department
P.O. Box 11002
Church Street Station
New York, NY 10286-1002
(800) 524-4458
www.stockbny.com

Beneficial Shareholders

(Shares held by your broker in the name of the brokerage house)
Questions should be directed to your broker.

Employee Stock Option Participants

Questions regarding your account, outstanding options or shares received through option exercises should be addressed to:

Countrywide Financial Corporation
Equity Benefit Plan Administration
4500 Park Granada
MS CH–11
Calabasas, CA 91302-1613
(818) 225-3456

Employee 401(k) Benefit Plan Participants

Questions regarding your 401(k) statements, loan provisions, fund transfers or other plan matters should be addressed to:

Countrywide Financial Corporation
Human Resources: Employees Benefits Department
55 North Lake Ave.
MS 55–56
Pasadena, CA 91101
(800) 881-4968

Dividend Reinvestment Plan

By enrolling in Countrywide Financial Corporation's Dividend Reinvestment and Optional Cash Stock Purchase Plan, shareholders may reinvest cash dividends on all, or some portion, of their common stock and may purchase the Company's common stock on a monthly basis with optional cash payments. Information on this Plan is available from:

The Bank of New York
Securities Transfer Division
Dividend Reinvestment
P.O. Box 1958
Newark, NJ 07101-9774
(800) 524-4458

Company Information

Shareholders with questions regarding Countrywide Financial Corporation or who are interested in obtaining a copy of the Company's Annual Report on Form 10-K without exhibits, as filed with the Securities and Exchange Commission, for the year ended December 31, 2003, should contact:

Countrywide Financial Corporation
Investor Relations
4500 Park Granada
MS CH-19
Calabasas, CA 91302-1613
(818) 225-3550

Investor Relations Contacts

David J. Bigelow
Managing Director, Investor Relations
David_Bigelow@countrywide.com

or

Lisa Riordan
Senior Vice President, Investor Relations
Lisa_Riordan@countrywide.com

The Company has a website located at www.countrywide.com and makes its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports available, free of charge on the website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. You may also receive Email Alerts when press releases, presentations, annual reports and SEC filings are added to our website. Simply click on "Shareholder Services" when you enter the Investor Relations Home Page and choose the "Email Alerts" option.

Countrywide Financial NASDAQ LISTED

CFC LISTED NYSE

Annual Shareholders' Meeting

The Annual Meeting of Shareholders will be held on Wednesday, June 16, 2004, at 9:30 a.m. (CDT):

Westin Stonebriar Resort
The Town & Country Ballroom
1549 Legacy Drive
Frisco, TX 75034

Mortgage Products

If you are in the process of purchasing a new home, are interested in refinancing or obtaining a home equity loan or would like to know about our diversified financial products and services, we are ready to serve you. A special unit of our Company is dedicated to responding to your inquiries and ensuring that you are satisfied.

Please call the Shareholder Hotline at (800) 544-8191.

Banking Products

Countrywide Bank, a division of Treasury Bank, N.A., is pleased to offer great rates on deposit products, including certificates of deposit, money market accounts, savings accounts, and interest-bearing checking accounts. For our current rates or to apply, please visit one of our Financial Centers, call our customer care center at 877-CWBANK-5 (877-292-2655) or visit us through the Internet at www.countrywidebank.com.

Insurance Products

Countrywide Insurance Services, Inc. is also pleased to offer you personally tailored and competitive insurance products and services.

Please call (888) 237-4953, Ext. 3214, for a quote.

You may also reach us through the Internet at www.countrywide.com or www.cwinsurance.com

CEO & CFO Certifications

The Company has filed the certifications of its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2, respectively, in its Annual Report on Form 10-K for the year-ended December 31, 2003.

Countrywide Financial℠

Design: PRAXIS advertising and design, Los Angeles | Photography: Rex Gelert | Models include members of the Countrywide family | Printing: Lithographix

Countrywide Financial Corporation
4500 Park Granada
Calabasas, CA 91302-1613
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