

# Countrywide Credit Industries, Inc.

Transforming into a diversified financial services provider



2000 Annual Report

## COMPANY PROFILE

Founded in 1969, Countrywide Credit Industries, Inc. is a member of the S&P 500, the Fortune 500 and the Forbes 500. The Company provides consumer and business-to-business financial services in domestic and international markets. Consumer businesses include residential mortgages, loan closing services, consumer insurance and other financial products. Business-to-business activities encompass capital markets, processing and technology, and insurance products. In conjunction with its lending operations, the Company retains certain mortgage-related investments. The Company is headquartered in Calabasas, California and has more than 11,000 employees with over 550 offices.

Principal subsidiaries of the Company include Countrywide Home Loans, Inc., which originates, purchases, securitizes, sells and services home loans; Full Spectrum Lending, Inc., a sub-prime residential lender; LandSafe, Inc., a provider of loan closing services; Countrywide Insurance Services, Inc., a full service insurance agency; Countrywide Capital Markets, a mortgage-related investment banker; and Balboa Life and Casualty, a national provider of property, liability and life insurance. In addition, Countrywide owns 50 percent of Global Home Loans, Limited, a European mortgage banking joint venture.

For more information, please visit Countrywide's website at [www.countrywide.com](http://www.countrywide.com).

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Certain of the information included in this Annual Report may contain forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from historical results or those anticipated due to a number of factors such as the direction of interest rates, competitive conditions, expense management 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," and other expressions, which indicate future events and trends, identify forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

# Financial Highlights

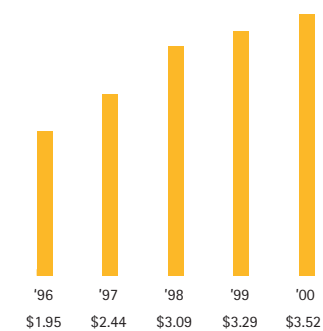
(Dollar amounts in millions, except per-share data)	Fiscal Year Ended February 29 (28),		
	2000	1999	1998
Revenues	\$ 2,019	\$ 1,979	\$ 1,509
Net earnings	\$ 410	\$ 385	\$ 345
Total assets	\$ 15,822	\$ 15,648	\$ 12,183
Common shareholders' equity	\$ 2,888	\$ 2,519	\$ 2,088
Earnings per share — diluted <sup>(1) (2) (3)</sup>	\$ 3.52	\$ 3.29	\$ 3.09
Common shareholders' equity per share (at year-end)	\$ 25.45	\$ 22.37	\$ 19.12

<sup>(1)</sup> Based on weighted average dilutive common shares outstanding.

<sup>(2)</sup> Earnings per share for Fiscal Year 1998 include a \$57.4 million gain on sale of subsidiary. Excluding the non-recurring gain on sale of subsidiary, diluted earnings per share would have been \$2.78.

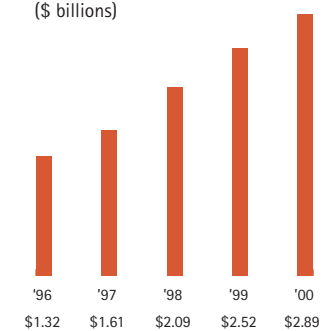
<sup>(3)</sup> Earnings per share for Fiscal Year 2000 include a \$25.0 million tax benefit primarily related to a corporate reorganization. Excluding the non-recurring tax benefit, diluted earnings per share would have been \$3.31.

DILUTED EARNINGS  
PER SHARE  
(\$)



Fiscal Year ended February 29 (28)

COMMON  
SHAREHOLDERS'  
EQUITY  
(\$ billions)



Fiscal Year ended February 29 (28)

## Letter to Shareholders

Once a singularly focused mortgage bank, Countrywide has in recent years developed a strategic plan to become a diversified provider of financial services to retail and institutional customers domestically and internationally. This year's Annual Report describes our new business model.

### Transforming Countrywide

From its inception in 1969 until the mid-1990s, Countrywide focused almost exclusively on becoming one of America's leading home finance companies. Throughout that period, the Company achieved rapid, profitable growth and became a well-recognized mortgage banking company among consumers and investors. Evidence of this growth and industry prominence is Countrywide's inclusion in the S&P 500, the Fortune 500 and the Forbes 500.

Over the last five years, however, Countrywide has begun to transform itself into a diversified, growth-oriented financial services supermarket with plans to operate on a global scale. Initially, this strategy involved gradual expansion into businesses closely related to home lending, such as loan closing services and non-core loan products. More recently, however, we have taken decisive steps to grow aggressively in other financial business sectors, including capital markets and insurance, as well as in new geographic markets, starting in Europe.

This new strategic direction is expected to enhance shareholder value in several ways. First, by expanding its range of businesses and markets, the Company creates new opportunities for growth. Second, the development of new business combinations and core competencies promotes new synergies. Third, since many of these new businesses may be subject to different cycles and economic factors than our traditional mortgage banking segment, the Company's sensitivity to interest rates is reduced and earnings stability is enhanced.

The five major elements of our new business model are Consumer Businesses, Mortgage-Related Investments, Capital Markets, Processing and Technology, and Business-to-Business Insurance.

### Consumer Businesses

Today, in addition to our primary home loan products, Countrywide offers a wide array of financial products and services, including sub-prime and home equity loans, loan closing services, and personal lines insurance products. Countrywide's customers can access these products through a convenient, seamless combination of channels, including our network of more than 550 offices, our state-of-the-art call centers, and our recently redesigned Internet sites.

### Mortgage-Related Investments

In conjunction with its lending operations, Countrywide retains an investment in mortgage servicing rights, residual interests and other mortgage-related assets. These investments provide two major strategic benefits. First, they position us to service the underlying loans, which empowers us to develop, maintain and enhance millions of customer relationships. Second, they generate returns which are counter-cyclical to loan origination income, which enhances our ability to generate stable overall returns despite changing interest rates.

### Capital Markets

One of Countrywide's most successful business-to-business diversification efforts has been in capital markets, where Countrywide leverages its extensive expertise and third-party relationships to provide products and services for institutional clients. Countrywide's capital markets operations include a correspondent lending division, a securities broker-dealer, a broker of servicing assets, and a manager of mortgage assets.

### Processing and Technology

Countrywide's focus on mortgage banking has enabled us to develop world class operating expertise and advanced systems technology in the area of financial transaction processing. These core competencies have afforded us not only a sizable competitive edge in our mortgage-related businesses, but have also positioned us as a front-runner in penetrating financial services business-to-business markets in the U.S. and abroad.

### Business-to-Business Insurance

In November, Countrywide acquired Balboa Life & Casualty, one of the nation's leading providers of creditor-placed automobile and homeowners insurance coverage. This acquisition creates synergies with our Countrywide Insurance Services (CIS) subsidiary, one of the nation's largest retail personal lines insurance agencies, and positions us as a prominent business-to-business provider of creditor-placed insurance products.

### Fiscal Year 2000 Performance

Countrywide's fiscal year ending February 29, 2000 ("Fiscal 2000") was highlighted by record earnings of \$410 million (versus \$385 million for the prior year) and record diluted earnings per share of \$3.52 (versus \$3.29 in fiscal year 1999 ("Fiscal 1999")). Fiscal 2000 earnings included non-recurring tax benefits of \$25 million or \$0.22 per diluted share.

Over the past year, we saw the end of the largest mortgage refinance boom in U.S. history, which had a significant impact on our consumer mortgage business. Consumer mortgage originations, generated through our retail and mortgage broker channels, were \$40.5 billion (total fundings, which include both consumer and correspondent loans, were \$66.7 billion), the second-highest total in company history, despite a significant decline in refinance volume during the second half of the year.

Fiscal 2000 also saw electronic commerce ("e-commerce") emerge as a significant new consumer mortgage origination channel. Consumer e-commerce accounted for 11 percent of total fundings and 18 percent of consumer mortgage originations. LandSafe, Inc., which offers a wide range of loan closing services, completed nearly 2.3 million appraisal, credit reporting, flood zone determination and title orders over the fiscal year. Business-to-consumer insurance ended the year with 433,000 policies in force, an increase of more than 100,000 policies from the beginning of the year.

In the capital markets arena, our Correspondent Lending Division generated \$26.2 billion in home mortgages, with 19 percent coming through the e-commerce channel. Countrywide Securities Corporation achieved total trading volume for the year of \$407.3 billion.

In the processing and technology sector, Countrywide's servicing portfolio grew by 16 percent, to nearly \$250 billion. In addition, our European mortgage banking joint venture commenced its operations, and now processes and services loans on behalf of our joint venture partner, Woolwich, plc.

### The Future

Countrywide is committed to building value and prudent growth. Our financial and operational strength, combined with significant growth opportunities domestically and abroad, sets us apart from our competition. Our continued development as a diversified financial services provider will create exciting opportunities for continued leadership and growth. We thank you for your past support, and we invite you to join us in our ongoing transformation.



ANGELO R. MOZILO  
Chairman, CEO & President



STANFORD L. KURLAND  
Senior Managing Director & COO

# Countrywide's Transformation at a Glance

## CONSUMER BUSINESSES

### MORTGAGES

#### CONSUMER LOANS

##### Consumer Markets Division

- Lends directly to consumers. Borrowers who are buying or refinancing a home make contact through a branch office, over the telephone or through the Internet.
- Funded \$20.0 billion in loans in Fiscal 2000.

##### Wholesale Lending Division

- Lends to consumers through a network of nearly 15,000 mortgage brokers.
- Funded \$19.1 billion in loans in Fiscal 2000.

##### Full Spectrum Lending, Inc.

- Lends directly to sub-prime consumers through a nationwide network of 46 branches.
- Funded \$1.4 billion in loans in Fiscal 2000.

Note: e-Commerce, which includes telemarketing and Internet fundings, is a growing and important component of our consumer lending businesses. Consumer e-commerce loan fundings represented 18 percent of total consumer loan fundings in Fiscal 2000.

#### LOAN CLOSING SERVICES

Through LandSafe, Inc., Countrywide offers an array of loan closing services, including residential property appraisals, credit reporting services for residential mortgage transactions, flood zone determinations on individual properties, pre-purchase home inspections, title searches and closing services for residential mortgage transactions.

- Completed nearly 2.3 million appraisal, credit reporting, flood zone determination and title orders in Fiscal 2000.

### CONSUMER INSURANCE

Countrywide offers retail property and casualty insurance, as well as life and disability insurance products directly to consumers through Countrywide Insurance Services, Inc.

- \$176.6 million in annualized premiums at February 29, 2000.
- 433,000 policies in force at February 29, 2000.

## MORTGAGE-RELATED INVESTMENTS

In connection with Countrywide's mortgage banking activities, the Company retains certain mortgage-related assets, which include capitalized mortgage servicing rights and residual interests. In addition, the Company also manages a servicing hedge which protects these investments against prepayment risk.

## INSTITUTIONAL BUSINESSES

### CAPITAL MARKETS

#### CORRESPONDENT LENDING

- Countrywide purchases closed loans from mortgage bankers, commercial banks, and other financial institutions.
- Funded \$26.2 billion in Fiscal 2000.
- e-Commerce fundings represented 19 percent of total correspondent loan fundings in Fiscal 2000.

#### COUNTRYWIDE CAPITAL MARKETS

##### Countrywide Securities Corporation

- Specializes in trading and underwriting of fixed income products, with an emphasis on mortgages and mortgage-related products, agency and corporate debt, and certificates of deposit.
- Total trading volume for Fiscal 2000 was \$407.3 billion.

##### Countrywide Servicing Exchange

- Brokers bulk servicing for third parties and arranges mortgage servicing purchases for Countrywide Home Loans.

##### Countrywide Asset Management Corporation

- Specializes in the purchase, acquisition, servicing, management and disposition of residential mortgage assets, including mortgage servicing rights.

### PROCESSING AND TECHNOLOGY

#### Services total domestic portfolio of \$250.2 billion

- \$247.3 billion portfolio for Countrywide Home Loans at February 29, 2000.
- \$2.9 billion portfolio for sub-servicing for other lenders at February 29, 2000.

#### 50 percent ownership of Global Home Loans, Limited (GHL)

- GHL services Woolwich, plc's loan portfolio which was more than \$40.0 billion US in 1999.
- GHL processes Woolwich loan originations which were more than \$10.0 billion US in 1999.

### B2B INSURANCE

Countrywide serves the insurance needs of institutional clients, business partners, and their customers through Balboa Life and Casualty ("Balboa"), a national property, liability, and life insurance carrier, and DirectNet Insurance, which offers a wide array of insurance products through its website, call centers, and direct-mail efforts.

- Balboa's net written premiums for the twelve month period ending February 29, 2000 were \$190.1 million. Balboa was acquired on November 30, 1999.

Countrywide empowers consumers by providing a wide range of financial services available through a flexible, convenient network which interconnects local branches, advanced telephony and our highly-regarded Internet site

Countrywide's menu of consumer businesses was once limited almost entirely to prime credit quality first mortgages. The Company's consumer product offering now also includes non-core mortgage products, loan closing services, and insurance products. Countrywide plans to add more consumer financial products and services in the future, including banking services and investment products.

Non-core mortgage products include sub-prime mortgages, which give borrowers with less than perfect credit the chance to own homes, and prime-quality home equity loans, which provide homeowners with financial flexibility and liquidity. Both of these products help stabilize Countrywide's earnings, as they are less sensitive to interest rates than are prime credit quality first mortgages.

Countrywide's consumer mortgage businesses derive synergies from the Company's ownership of mortgage servicing rights. Our mortgage servicing customer base provides the Company with fertile cross-selling opportunities which enable Countrywide to better serve its customers' financial needs.

Loan closing services offered through our LandSafe subsidiary include appraisals, credit reports, flood certificates, property inspection, and title insurance. Other loan closing products include mortgage insurance and related reinsurance. Integrating these services into the overall lending process allows

Countrywide to more quickly and efficiently provide a higher quality of individual customer service, while also increasing the profitability associated with each loan.

Consumer insurance products include home-owners, automobile, and life and disability insurance coverages, as well as home warranties. The Company sells these products through its subsidiary Countrywide Insurance Services (CIS), which is one of the nation's largest retail personal lines insurance agencies. Countrywide's acquisition of Balboa Life & Casualty benefits our retail insurance effort, because CIS can now obtain a wider menu of products from an affiliated insurance carrier.

Countrywide customers can purchase any and all of these products through any one or a combination of convenient, flexible venues.

We provide our customers a high degree of flexibility and convenience through our multi-channel "clicks-and-bricks" approach, which integrates our nationwide network of local branches with an advanced telephony system and a content-rich, user-friendly Internet site.

## CONSUMER BUSINESSES

- Home loans
- Loan closing services
- Personal lines insurance





Countrywide's operations are enhanced through the retention of certain mortgage-related assets, which empower the Company to form synergistic customer relationships and mitigate interest rate cyclicality

Countrywide is one of the largest securitizers of residential mortgage loans in the U.S. As a result of this activity, the Company retains assets related to the servicing of the securitized loans, including mortgage servicing rights for conventional and government loans, residual interests in asset-backed securities and other mortgage-related assets. These investments provide a long-term, annuitous cash flow stream over the life of the underlying loans.

In order to protect its investment in mortgage servicing rights and related assets, Countrywide purchases financial instruments designed to mitigate prepayment risk. This servicing hedge is an integral part of our overall risk management strategy, and has a highly successful eight-year track record. These assets are also considered to be a component of mortgage-related investments.

The investment in and management of these mortgage-related assets is a major part of the strategic foundation of the Company for two reasons. First, by retaining the right to service the underlying loans, we become the point of primary contact for our 2.6 million borrowers,

with whom we have monthly communication. Through this relationship, we derive the opportunity to sell additional products and services, such as second mortgages, insurance products, credit cards and investment products. In addition, we have the opportunity to increase the retention of current customers who are buying new homes or refinancing existing mortgages.

The second important strategic consideration is risk management. The mortgage business, in general, can be sensitive to interest rate changes. Specifically, the profitability of mortgage origination tends to be higher when interest rates fall, because refinance activity increases. Mortgage servicing, on the other hand, tends to be more profitable when interest rates rise. Thus, retention of mortgage servicing rights and related assets helps the Company maintain earnings stability even in the presence of interest rate volatility.

Countrywide's retention of mortgage-related assets is a critical part of our overall operations. This investing activity serves as a foundation for many of our other major business lines.

## MORTGAGE-RELATED INVESTMENTS

- Counter-balanced operations
- Earnings stability
- Foundation for cross-selling



## Countrywide leverages its mortgage expertise and network of relationships to provide unique and extensive capital markets-related products and services to institutional clients

One of Countrywide's most innovative and successful business-to-business diversification efforts has been its entry into capital markets business lines. This effort began in the early 1980s, when the Company established a correspondent lending operation, one of the first of its kind, which provided banks, thrifts, and credit unions with the opportunity to sell closed loans to Countrywide on a servicing-released basis. Today, Countrywide's Correspondent Lending Division is one of the nation's leaders in this channel, working with nearly 1,900 business partners. In addition, our capital markets activity is supplemented with four subsidiaries providing mortgage-related securities trading and investment banking services to other financial institutions.

The first of these subsidiaries is Countrywide Securities Corporation (CSC), an NASD-registered broker-dealer formed in 1981 to provide a distribution outlet directly to institutional investors and regional broker dealers for the mortgage-backed securities created by the Company. CSC has grown to become one of the nation's largest securities dealers specializing in the mortgage-related sector of the fixed income securities markets. In addition to underwriting and trading a comprehensive product line of mortgage and asset-backed

securities and mortgage whole loans, CSC also underwrites and trades government agency debt securities, Countrywide medium-term notes and bank certificates of deposit.

Another of our capital markets subsidiaries is Countrywide Servicing Exchange (CSE), a brokerage advisory firm specializing in the valuation and sale of mortgage servicing rights. The purchase and sales of loan servicing rights developed into a separate industry offshoot during the mid-1980s, and CSE was formed shortly thereafter. Today, CSE ranks number one in the brokering of servicing transactions. Together with CSC, CSE also advises clients in asset and business sale transactions and, in the last year, served as advisor in three significant M&A transactions.

Countrywide's newest capital markets subsidiaries include Countrywide Asset Management Corporation (CAMCO) and Countrywide Warehouse Lending, Inc. (CWL). CAMCO specializes in the acquisition, servicing, management and disposition of distressed and credit-sensitive residential mortgage loan assets. CWL acts as a warehouse lender to small and medium-sized mortgage bankers.

Collectively, Countrywide's Correspondent Lending Division and capital markets subsidiaries provide a strong expansion platform to capitalize on the expected rapid growth in investment banking and capital markets globally over the next five years.

# CAPITAL MARKETS

- Correspondent lending
- Securities broker-dealer
- Loan servicing brokerage
- Acquisition and disposition of mortgage assets

## Countrywide's expertise and technology in financial transaction processing provide us with the platform to expand our business-to-business relationships domestically and internationally

Over the last three decades, Countrywide has been focused on mortgage banking. This unique, singular focus has empowered the Company to thrive and grow relative to larger and more diversified competitors.

Countrywide has succeeded in this highly competitive environment by combining unmatched operating expertise with sophisticated computer systems technology. This has given us a competitive edge in terms of processing efficiency and operational scale relative to our competition. Processing expertise and technology have always been Countrywide's core competencies, as the Company's many achievements demonstrate. These achievements include the development of a highly automated loan origination system; the first artificial intelligence underwriting system; and proprietary, AS400® computer-based loan servicing systems.

Until recently, Countrywide applied its operational expertise and loan origination processing and servicing technology almost exclusively for use in its own mortgage banking operations. Now, however, this is changing. Countrywide is proactively seeking out opportunities to leverage its processing expertise by offering services to existing and potential business partners.

This new business-to-business deployment of our processing capability is already well underway. The most dramatic example is Global Home Loans (GHL), our European mortgage banking joint venture with U.K.-based Woolwich, plc. GHL, which licenses loan processing and servicing technology from Countrywide, is already handling all of Woolwich's new mortgage originations and servicing portfolio. GHL expects to begin signing up third-party clients in the near future.

Our processing capability has direct applications domestically as well. Countrywide already sub-services the portfolios of several other mortgage companies, and we are planning to aggressively expand our presence in this area. In addition, we have developed a number of servicing-related businesses for Countrywide which may have business-to-business potential, including tax services, field services, property management and foreclosure processing. We also provide loan processing services to our business partners. Finally, Countrywide believes its fulfillment expertise and advanced technological systems will have applications across other industries, thereby creating broad opportunities for growth.



# PROCESSING AND TECHNOLOGY

- Loan servicing for Countrywide borrowers
- Domestic sub-servicing and loan processing
- International technology, sub-servicing and loan processing
- International consulting services



## Through its acquisition of Balboa Life & Casualty, Countrywide has become a major provider of creditor-placed and personal lines insurance products

On November 30, 1999, a new chapter in Countrywide's history commenced with the Company's purchase of Balboa Life & Casualty, one of the nation's largest providers of creditor-placed automobile and homeowners insurance. This acquisition leverages Countrywide's considerable pre-existing insurance underwriting, retail distribution, and policy management experience and success, developed over 30 years through Countrywide Insurance Services (CIS), one of the nation's largest retail personal lines insurance agencies.

In addition to the significant synergies expected through the partnership of CIS and Balboa, we anticipate that Balboa's strong business-to-business market presence will represent a significant growth opportunity. The acquisition of Balboa positions Countrywide as a pre-eminent provider of insurance products which financial institutions can market to their retail customers, either on a voluntary or creditor-placed basis. Balboa already enjoys an outstanding reputation for customer service and product quality, which makes it a natural choice by many financial institutions to meet their customers' insurance coverage needs. Countrywide's retail insurance distribution platform and strong Correspondent Lending

and Capital Markets institutional customer relationships will also enable Balboa to extend its industry reach. In addition, CIS is establishing DirectNet Insurance, an Internet-empowered operation which offers business partners and their customers a wide array of insurance products available through its website, call centers, and direct-mail efforts. DirectNet plans to individually tailor an appropriate marketing and fulfillment plan with each business partner to enable financial institutions to provide insurance coverages to their customers. This will enable financial institutions to provide these services without the major infrastructure investment normally required. DirectNet will also provide regional and national business partners with greater insurance carrier and product choice to better serve customers' needs. Together, CIS and Balboa create a partnership which provides Countrywide with a dynamic new business-to-business growth opportunity within the insurance arena.

# BUSINESS-TO-BUSINESS INSURANCE

- Creditor-placed insurance
- Insurance carrier-agency synergies
- Private-label agency for business partners

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# Selected Consolidated Financial Data

(Dollar amounts in thousands, except per-share data)	Year ended February 29(28),				
	2000	1999	1998	1997	1996
<b>Statement of Earnings Data<sup>(1)</sup>:</b>					
<b>Revenues:</b>					
Loan origination fees	\$ 406,458	\$ 623,531	\$ 301,389	\$ 193,079	\$ 199,724
Gain on sale of loans	557,743	699,433	417,427	247,450	92,341
Loan production revenue	964,201	1,322,964	718,816	440,529	292,065
Interest earned	998,646	1,029,066	584,076	457,005	364,531
Interest charges	(930,294)	(983,829)	(568,359)	(423,447)	(337,655)
Net interest income	68,352	45,237	15,717	33,558	26,876
Loan servicing income	1,192,789	1,023,700	907,674	773,715	620,835
Amortization and impairment/recovery of mortgage servicing rights, net of servicing hedge	(445,138)	(600,766)	(328,845)	(226,686)	(142,676)
Net loan administration income	747,651	422,934	578,829	547,029	478,159
Commissions, fees and other income	234,047	187,867	138,217	91,346	63,642
Gain on sale of subsidiary	4,424	—	57,381	—	—
Total revenues	2,018,675	1,979,002	1,508,960	1,112,462	860,742
<b>Expenses:</b>					
Salaries and related expenses	689,768	669,686	424,321	286,884	229,668
Occupancy and other office expenses	276,802	270,483	182,335	129,877	106,298
Guarantee fees	195,928	181,117	172,692	159,360	121,197
Marketing expenses	72,930	64,510	42,320	34,255	27,115
Other operating expenses	152,049	161,401	121,746	80,188	50,264
Total expenses	1,387,477	1,347,197	943,414	690,564	534,542
Earnings before income taxes	631,198	631,805	565,546	421,898	326,200
Provision for income taxes	220,955	246,404	220,563	164,540	130,480
Net earnings	\$ 410,243	\$ 385,401	\$ 344,983	\$ 257,358	\$ 195,720
<b>Per Share Data<sup>(2)</sup>:</b>					
Basic <sup>(3)</sup>	\$ 3.63	\$ 3.46	\$ 3.21	\$ 2.50	\$ 1.99
Diluted <sup>(3)</sup>	\$ 3.52	\$ 3.29	\$ 3.09	\$ 2.44	\$ 1.95
Cash dividends per share	\$ 0.40	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32
<b>Weighted average shares outstanding:</b>					
Basic	113,083,000	111,414,000	107,491,000	103,112,000	98,352,000
Diluted	116,688,000	117,045,000	111,526,000	105,677,000	100,270,000
<b>Selected Balance Sheet Data at End of Period<sup>(1)</sup>:</b>					
Total assets	\$15,822,328	\$15,648,256	\$12,183,211	\$7,689,090	\$8,321,652
Short-term debt	\$ 2,911,410	\$ 5,065,934	\$ 4,043,774	\$2,567,420	\$4,423,738
Long-term debt	\$ 7,253,323	\$ 5,953,324	\$ 4,195,732	\$2,367,661	\$1,911,800
Common shareholders' equity	\$ 2,887,879	\$ 2,518,885	\$ 2,087,943	\$1,611,531	\$1,319,755
<b>Operating Data (dollar amounts in millions):</b>					
Loan servicing portfolio <sup>(4)</sup>	\$ 250,192	\$ 215,489	\$ 182,889	\$ 158,585	\$ 136,835
Volume of loans originated	\$ 66,740	\$ 92,881	\$ 48,772	\$ 37,811	\$ 34,584

<sup>(1)</sup> Certain amounts in the Consolidated Financial Statements have been reclassified to conform to current year presentation.

<sup>(2)</sup> Adjusted to reflect subsequent stock dividends and splits.

<sup>(3)</sup> Earnings per share for Fiscal 1998 include a \$57.4 million gain on sale of subsidiary. Excluding the non-recurring gain on sale of subsidiary, basic and diluted earnings per share would have been \$2.88 and \$2.78, respectively.

<sup>(4)</sup> Includes warehoused loans and loans under subservicing agreements.

# Management's Discussion and Analysis

## of Financial Condition and Results of Operations

### GENERAL

The Company's business strategy is primarily focused on five areas: loan production, loan servicing, capital markets, insurance and other businesses ancillary to mortgage lending. Loan production and loan servicing comprise the Company's mortgage banking business. See "Business — Mortgage Banking Operations," "Business — Capital Markets," "Business — Insurance Segment" and "Business — Other Operations." The Company intends to continue its efforts to expand its operations in each of these areas. A strong production capability and a growing servicing portfolio are the primary means used by the Company to reduce the sensitivity of its earnings to changes in interest rates because the effect of interest rate changes on loan production income is counter cyclical to their effect on servicing income. The operations of the capital markets segment include trading mortgage-backed securities ("MBS") and other mortgage-related assets as well as brokering service contracts and bulk purchases and sales of whole loans. The operations of the insurance segment includes acting as an agent and carrier in the sale of insurance, including homeowners, fire, flood, earthquake, life and disability and creditor-placed auto and homeowner insurance. Other complementary services offered include title insurance agent and escrow services, appraisal and credit reporting services.

The Company's results of operations historically have been influenced primarily by the level of demand for mortgage loans, which is affected by such external factors as the level and direction of interest rates, and the strength of the overall economy and the economy in each of the Company's lending markets.

The fiscal year ended February 28, 1998 ("Fiscal 1998") was a then record year for the Company in terms of revenues and net earnings from its ongoing operations. Loan production increased to \$48.8 billion, up from \$37.8 billion in the prior year. The Company attributed the increase in production to: (i) lower interest rates; (ii) the generally strong economy and home purchase market; (iii) the continued implementation of a national advertising campaign aimed at developing a brand identity for Countrywide and reaching the consumer directly; and (iv) increased expansion of the Consumer Markets and Wholesale branch networks, including the new retail sub-prime branches. For calendar 1997, the Company ranked second in the amount of single-family mortgage originations nationwide. For calendar 1997, the Company's market share increased to approximately 5.1% of the estimated \$850 billion single-family mortgage origination market, up from approximately 4.8% of the estimated \$800 billion single-family mortgage origination market for 1996. During Fiscal 1998, the Company's loan servicing portfolio grew to \$182.9 billion, up from \$158.6 billion at the end of Fiscal 1997. This growth resulted from the Company's loan production during the year and bulk servicing acquisitions amounting to \$1.0 billion. The increase in the loan servicing portfolio was partially offset by prepayments, partial prepayments and scheduled amortization of \$24.3 billion. The prepayment rate in the servicing portfolio was 15%, up from the prior year due to the lower mortgage interest rate environment in Fiscal 1998.

During Fiscal 1998, the Company sold the assets, operations and employees of Countrywide Asset Management Corporation ("CAMC"), then a wholly-owned subsidiary of the Company to IndyMac Mortgage Holdings, Inc. (formerly INMC Mortgage Holdings, Inc.) ("INMC"). CAMC was formerly the manager of INMC. The Company received 3,440,800 newly issued common shares of INMC as consideration.

The fiscal year ended February 28, 1999 ("Fiscal 1999") was another record year for the Company in terms of revenues and net earnings. Loan production increased to \$92.9 billion, an all-time Company record, up from \$48.8 billion in the prior year. The Company attributed the increase in production to: (i) an increase in the overall mortgage market driven largely by refinances; (ii) the generally strong economy and home purchase market; and (iii) an increase in the Company's market share, driven largely by the expansion of its Consumer Markets Home Finance Network and Consumer Markets and Wholesale branch networks, including the new retail sub-prime branches. For calendar 1998, the Company ranked second in the amount of single-family mortgage originations nationwide. During calendar 1998, the Company's market share increased to approximately 6.1%, up from approximately 5.1% in calendar 1997. During Fiscal 1999, the Company's loan servicing portfolio grew to \$215.5 billion, up from \$182.9 billion at the end of Fiscal 1998. This growth resulted from the Company's loan production during the year and bulk servicing acquisitions amounting to \$4.6 billion. This growth in the loan servicing portfolio was partially offset by prepayments, partial prepayments and scheduled amortization of \$53.2 billion and the transfer out of \$6.5 billion of subservicing. The prepayment rate in the servicing portfolio was 28%, up from the prior year due to increased refinance activity driven by the lower mortgage interest rate environment in Fiscal 1999.

The fiscal year ended February 29, 2000 ("Fiscal 2000") was again a record year for the Company in terms of revenues and net earnings. Loan production decreased to \$66.7 billion, down from \$92.9 billion in the prior year. The Company attributed the decrease in production primarily to a decrease in the overall mortgage market driven largely by a decrease in refinance activity, combined with a slight decrease in the Company's market share. For calendar 1999 the Company ranked third in the amount of single-family mortgage originations nationwide. During calendar 1999 the Company's market share decreased to approximately 5.9% down from approximately 6.1% in calendar 1998. During Fiscal 2000, the Company's loan servicing portfolio grew to \$250.2 billion, up from \$215.5 billion at the end of Fiscal 1999. This growth resulted from the Company's strong loan production during the year and bulk servicing acquisitions amounting to \$2.0 billion. This growth in the loan servicing portfolio was partially offset by prepayments, partial prepayments and scheduled amortization of \$28.5 billion. The prepayment rate in the servicing portfolio was 13%, down from 28% the prior year due to the higher mortgage interest rate environment in Fiscal 2000.

## RESULTS OF OPERATIONS

### Fiscal 2000 Compared with Fiscal 1999

Revenues for Fiscal 2000 increased 2% to \$2,018.7 million, up from \$1,979.0 million for Fiscal 1999. Net earnings increased 6% to \$410.2 million for Fiscal 2000, up from \$385.4 million for Fiscal 1999. The slight increase in revenues for Fiscal 2000 compared to Fiscal 1999 was primarily attributed to the loan servicing, capital markets and insurance segments, together with increased production of non-traditional loan products (home equity and sub-prime loans). This was largely offset by a decline in traditional prime loan originations, attributable to the market-wide decline in loan refinancings. Included in net earnings in Fiscal 2000 was a nonrecurring tax benefit of \$25 million that related primarily to a corporate reorganization.

The total volume of loans produced by the Company in Fiscal 2000 decreased 28% to \$66.7 billion, down from \$92.9 billion for Fiscal 1999. The decrease in loan production was primarily due to a decrease in the mortgage origination market, driven largely by a reduction in refinance activity, combined with a slight decrease in the Company's market share.

Total loan production by purpose and by interest rate type is summarized below.

(Dollar amounts in millions)	Loan Production	
	Fiscal 2000	Fiscal 1999
Purchase	\$43,594	\$39,681
Refinance	23,146	53,200
Total	<u>\$66,740</u>	<u>\$92,881</u>
Fixed Rate	\$57,178	\$88,334
Adjustable Rate	9,562	4,547
Total	<u>\$66,740</u>	<u>\$92,881</u>

Total loan production by Division is summarized below.

(Dollar amounts in millions)	Loan Production	
	Fiscal 2000	Fiscal 1999
Consumer Markets Division	\$19,967	\$28,508
Wholesale Lending Division	19,116	30,917
Correspondent Lending Division	26,240	32,748
Full Spectrum Lending, Inc.	1,417	708
Total	<u>\$66,740</u>	<u>\$92,881</u>

The factors which affect the relative volume of production among the Company's Divisions include the price competitiveness of each Division's various product offerings, the level of mortgage lending activity in each Division's market and the success of each Division's sales and marketing efforts.

Non-traditional loan production (which is included in the Company's total volume of loans produced) is summarized below.

(Dollar amounts in millions)	Non-Traditional Loan Production	
	Fiscal 2000	Fiscal 1999
Sub-prime	\$4,156	\$2,496
Home Equity Loans	3,636	2,221
Total	<u>\$7,792</u>	<u>\$4,717</u>

During Fiscal 2000 and Fiscal 1999, the Company received 925,604 and 1,194,833 new loan applications, respectively, at an average daily rate of \$383 million and \$540 million, respectively. The factors that affect the percentage of applications received and funded during a given time period include the movement and direction of interest rates, the average length of loan commitments issued, the creditworthiness of applicants, the production Divisions' loan processing efficiency and loan pricing decisions.

Loan origination fees decreased in Fiscal 2000 as compared to Fiscal 1999 primarily due to lower production and a change in the divisional mix. The Consumer Markets and Wholesale Lending Divisions (which, due to their higher cost structure, charge higher origination fees per dollar loaned) comprised a lower percentage of total production in Fiscal 2000 than in Fiscal 1999. Gain on sale of loans also decreased in Fiscal 2000 as compared to Fiscal 1999 primarily due to lower production volume and reduced margins on prime credit quality mortgages. These declines were partially offset by increased sales during Fiscal 2000 of higher margin home equity and sub-prime loans (which, due in part to their higher cost structure charge a higher price per dollar loaned). The sale of home equity loans contributed \$87 million and \$65 million to gain on sale of loans in Fiscal 2000 and Fiscal 1999, respectively. Sub-prime loans contributed \$186 million to the gain on sale of loans in Fiscal 2000 and \$92 million in Fiscal 1999. In general, loan origination fees and gain (loss) on sale of loans are affected by numerous factors including the volume and mix of loans produced and sold, loan pricing decisions, interest rate volatility and the general direction of interest rates.

# Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

Net interest income (interest earned net of interest charges) increased to \$68.4 million for Fiscal 2000, up from \$45.2 million for Fiscal 1999. Net interest income is principally a function of: (i) net interest income earned from the Company's mortgage loan warehouse (\$149.5 million and \$118.2 million for Fiscal 2000 and Fiscal 1999, respectively); (ii) interest expense related to the Company's investment in servicing rights (\$324.2 million and \$351.2 million for Fiscal 2000 and Fiscal 1999, respectively) and (iii) interest income earned from the custodial balances associated with the Company's servicing portfolio (\$216.4 million and \$270.4 million for Fiscal 2000 and Fiscal 1999, respectively). The Company earns interest on, and incurs interest expense to carry, mortgage loans held in its warehouse. The increase in net interest income from the mortgage loan warehouse was primarily attributable to an increase in inventory levels as a result of a longer warehouse period combined with a higher net earnings rate during Fiscal 2000. The decrease in interest expense on the investment in servicing rights resulted primarily from a decrease in the payments of interest to certain investors pursuant to customary servicing arrangements with regard to paid-off loans in excess of the interest earned on these loans through their respective payoff dates ("Interest Costs Incurred on Payoffs") as a result of lower prepayments. The decline in Interest Cost Incurred on Payoffs was partially offset by additional interest expense from a larger servicing portfolio. The decrease in net interest income earned from the custodial balances was primarily related to a decrease in the average custodial balances caused by decrease in the amount of prepayments.

During Fiscal 2000, loan servicing income before amortization increased primarily due to growth of the loan servicing portfolio. As of February 29, 2000, the Company serviced \$250.2 billion of loans (including \$2.9 billion of loans subserviced for others), compared to \$215.5 billion (including \$2.2 billion of loans subserviced for others) as of February 28, 1999, a 16% increase. The growth in the Company's servicing portfolio during Fiscal 2000 was the result of loan production volume and the acquisition of bulk servicing rights, partially offset by prepayments, partial prepayments and scheduled amortization of mortgage loans.

During Fiscal 2000, the annual prepayment rate of the Company's servicing portfolio was 13%, compared to 28% for Fiscal 1999. The prepayment rate is primarily affected by the level of refinance activity, which in turn is driven by the relative level of mortgage interest rates, as well as activity in the resale home market. The weighted average interest rate of the mortgage loans in the Company's servicing portfolio as of February 29(28), 2000 and 1999 was 7.5%.

The Company recorded MSR amortization and net impairment recovery for Fiscal 2000 totaling \$181.0 million (consisting of amortization amounting to \$459.3 million and recovery of previous impairment of \$278.3 million), compared to \$1,013.6 million of amortization and impairment (consisting of amortization amounting to \$556.4 million and impairment of \$457.2 million) for Fiscal 1999. The primary factors affecting the amount of amortization and impairment of the MSRs recorded in an accounting period are the level of prepayments during the period and the change, if any, in estimated future prepayments. To mitigate the effect on earnings of MSR impairment that may result from increased current and projected future prepayment activity, the Company acquires financial instruments, including derivative contracts, that increase in aggregate value when interest rates decline (the "Servicing Hedge").

In Fiscal 2000, the Company recognized a net expense of \$264.1 million from its Servicing Hedge. The net expense included unrealized net losses of \$230.9 million and realized net losses of \$33.2 million from the sale of various financial instruments that comprise the Servicing Hedge net of premium amortization. In Fiscal 1999, the Company recognized a net gain of \$412.8 million from its Servicing Hedge. The net gain included unrealized net gains of \$26.1 million and realized net gains of \$386.7 million from the sale of various financial instruments that comprise the Servicing Hedge net of premium amortization. The historical correlation of the Servicing Hedge and the MSRs has been very high. However, given the complexity and uncertainty inherent in hedging MSRs, there can be no assurance that future results will match the historical performance of the Servicing Hedge.

The financial instruments that comprised the Servicing Hedge include interest rate floors, principal only securities ("P/O Securities"), options on interest rate swaps ("Swaptions"), options on MBS, options on interest rate futures, interest rate futures, interest rate swaps, interest rate swaps with the Company's maximum payment capped ("Capped Swaps") and interest rate caps.

With the Capped Swaps, the Company receives and pays interest on a specified notional amount. The rate received is fixed. The rate paid is adjustable, is indexed to the London Interbank Offered Rates for U.S. dollar deposits ("LIBOR") and has a specified maximum or "cap."

With Swaps, the Company receives and pays interest on a specified notional amount. 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") as well as Swaps in which the rate paid is fixed and the rate received is adjustable and is indexed to LIBOR ("Payor Swap").

The Swaptions consist of options to enter into a receive-fixed, pay-floating interest rate swap ("Receiver Swaption") and options to enter into a pay-fixed, receive-floating interest rate swap ("Payor Swaption") at a future date or to settle the transaction for cash.

An option on MBS gives the holder the right to call a mortgage-backed security at a predetermined price.

The P/O securities consist of certain tranches of collateralized mortgage securities ("CMOs"), mortgage trust principal-only securities and treasury principal-only strips. These securities have been purchased at deep discounts to their par values. As interest rates decrease, prepayments on the collateral underlying the CMOs and mortgage trust principal-only securities should increase. This results in a decline in the average lives of the P/O securities and a corresponding increase in the present values of their cash flows. Conversely, as interest rates increase, prepayments on the collateral

underlying the CMOs and mortgage trust principal-only securities should decrease. This would result in an increase in the average lives of the P/O Securities and a decrease in the present values of their cashflows. The prices of the treasury principal-only strips are determined by the discount rate used to determine their present value, as interest rates decline the discount rate applied to the maturity principal payment declines, resulting in an increase in the price.

The Servicing Hedge is designed to protect the value of the MSRs from the effects of increased prepayment activity that generally results from declining interest rates. To the extent that interest rates increase, the value of the MSRs increases while the value of the hedge instruments declines. With respect to the floors, options on interest rate futures and MBS, caps, Swaptions and P/O securities, the Company is not exposed to loss beyond its initial outlay to acquire the hedge instruments plus any unrealized gains recognized to date. The Company's exposure to loss on futures is related to changes in the LIBOR rate over the life of the contract. The Company was not a party to any futures contract at February 29, 2000. With respect to the Interest Rate Swaps contracts entered into by the Company as of February 29, 2000, the Company estimates that its maximum exposure to loss over the contractual terms is \$1 million. With respect to the Capped Swaps contracts entered into by the Company as of February 29, 2000, the Company estimates that its maximum exposure to loss over the contractual terms is \$4 million.

Salaries and related expenses are summarized below for Fiscal 2000 and Fiscal 1999.

(Dollar amounts in thousands)	Fiscal 2000				Total
	Production Activities	Loan Administration	Corporate Administration	Other Activities	
Base Salaries	\$232,408	\$55,219	\$103,088	\$ 66,044	\$456,759
Incentive Bonus	97,619	509	20,794	27,029	145,951
Payroll Taxes and Benefits	45,785	11,247	20,174	9,852	87,058
Total Salaries and Related Expenses	<u>\$375,812</u>	<u>\$66,975</u>	<u>\$144,056</u>	<u>\$102,925</u>	<u>\$689,768</u>
Average Number of Employees	5,695	1,985	2,128	1,127	10,935

(Dollar amounts in thousands)	Fiscal 1999				Total
	Production Activities	Loan Administration	Corporate Administration	Other Activities	
Base Salaries	\$212,591	\$45,412	\$ 90,953	\$45,383	\$394,339
Incentive Bonus	147,695	601	20,706	20,357	189,359
Payroll Taxes and Benefits	52,821	10,429	15,170	7,568	85,988
Total Salaries and Related Expenses	<u>\$413,107</u>	<u>\$56,442</u>	<u>\$126,829</u>	<u>\$73,308</u>	<u>\$669,686</u>
Average Number of Employees	5,512	1,740	1,823	872	9,947

The amount of salaries increased during Fiscal 2000 reflecting growth in the non-mortgage banking subsidiaries, the continued expansion of the consumer branch network, including the retail sub-prime branches and a larger servicing portfolio. These increases were partially offset by a reduction in the processing work force in the production divisions as production declined. The number of production employees declined from 6,365 at February 28, 1999 to 5,039 at February 29, 2000. Incentive bonuses earned during Fiscal 2000 decreased primarily due to the reduction in loan production.

Occupancy and other office expenses for Fiscal 2000 increased to \$276.8 million from \$270.5 million for Fiscal 1999. This was primarily due to: (i) the continued expansion of the consumer branch network; (ii) a larger servicing portfolio; and (iii) growth in the Company's non-mortgage banking activities, partially offset by a reduction in temporary personnel expense as a result of decreased production.

Guarantee fees represent fees paid to Fannie Mae and Ginnie Mae ("GSEs") to guarantee timely and full payment of principal and interest on MBS and to transfer the credit risk of the loans in the servicing portfolio sold to these entities. For Fiscal 2000, guarantee fees increased 8% to \$195.9 million, up from \$181.1 million for Fiscal 1999. The increase resulted from an increase in the servicing portfolio, changes in the mix of the portfolio sold to the GSEs and terms negotiated at the time of loan sales.

Marketing expenses for Fiscal 2000 increased 13% to \$72.9 million, up from \$64.5 million for Fiscal 1999. This increase primarily related to the company's growing non-traditional loan products.

Other operating expenses for Fiscal 2000 decreased from Fiscal 1999 by 6%. This decrease was due primarily to a reduction in reserves for bad debts due mainly to improved property values nationally.

In Fiscal 2000, the Company initiated a corporate reorganization related to its servicing operations. As a result of the reorganization, future state income tax liabilities are expected to be less than the amounts that were previously recorded as deferred income tax expense and liability in the Company's financial statements. The expected reduction in tax liabilities was reflected as a reduction in deferred state income tax expense in Fiscal 2000.

# Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

The Company's pre-tax earnings by segment are summarized below.

(Dollar amounts in thousands)	Pre-Tax Earnings	
	Fiscal 2000	Fiscal 1999
Loan Production	\$259,869	\$556,213
Loan Servicing	312,182	20,130
Capital Markets	32,124	26,529
Insurance	13,485	3,325
Other Activities	13,538	25,608
Pre-tax Earnings	<u>\$631,198</u>	<u>\$631,805</u>

**Profitability of Loan Production Segment** Loan production segment activities include loan origination and purchases, warehousing and sales. The decrease in pre-tax earnings of \$296.3 million in Fiscal 2000 as compared to Fiscal 1999 was primarily attributable to lower production and reduced margins on prime credit quality first mortgages driven by a significant reduction in refinances. These factors were partially offset by increased production and sales of higher margin home equity and sub-prime loans.

**Profitability of Servicing Segment** Loan servicing segment activities include administering the loans in the servicing portfolio, acting as tax payment agent, marketing foreclosed properties and acting as reinsurer. The increase in pre-tax earnings of \$292.1 million in Fiscal 2000 as compared to Fiscal 1999 was primarily due to an increase in servicing revenues resulting from servicing portfolio growth combined with a reduction in the MSR amortization and recovery of previous MSR impairment attributable to the decline in refinance activity. These positive factors were partially offset by higher servicing costs driven by the increase in the servicing portfolio.

**Profitability of Capital Markets Segment** Capital Markets segment activities include primarily the operations of CSC, a registered broker dealer specializing in the secondary mortgage market. The increase in pre-tax earnings of \$5.6 million in Fiscal 2000 as compared to Fiscal 1999 was primarily due to increased trading volumes.

**Profitability of Insurance Segment** Insurance segment activities include the operations of an insurance agency, Countrywide Insurance Services ("CIS"), that provides homeowners, life, disability, automobile as well as other forms of insurance. In addition, this segment includes the activities of Balboa Life and Casualty ("Balboa"), an insurance carrier that specializes in creditor-placed automobile and homeowner insurance. The increase in pre-tax earnings of \$10.2 million in Fiscal 2000 as compared to Fiscal 1999 was primarily due to the acquisition of Balboa on November 30, 1999.

**Profitability of Other Activities** In addition to loan production, loan servicing, capital markets and insurance, the Company offers other ancillary products and services related to its mortgage banking activities, primarily through its subsidiary, LandSafe, Inc. Through several subsidiaries, LandSafe, Inc. acts as a title insurance agent and a provider of settlement, escrow, appraisal and credit reporting, and home inspection and flood zone determination services. In addition, through its subsidiaries, LandSafe, Inc. provides property profiles to realtors, builders, consumers, mortgage brokers and other financial institutions. For Fiscal 2000, Landsafe Inc. contributed \$13.2 million to the Company's pre-tax income compared to \$25.2 million for Fiscal 1999. The decrease in the profitability of LandSafe Inc. resulted primarily from decreased title business attributable to the decline in refinance activity.

During Fiscal 2000, the Company sold Countrywide Financial Services, Inc. which resulted in a \$4.4 million pre-tax gain.

## Fiscal 1999 Compared with Fiscal 1998

Revenues from ongoing operations for Fiscal 1999 increased 36% to \$1,979.0 million, up from \$1,451.6 million for Fiscal 1998. Net earnings from ongoing operations increased 24% to \$385.4 million for Fiscal 1999, up from \$310.0 million for Fiscal 1998. Revenues and net earnings from ongoing operations for Fiscal 1998 exclude a nonrecurring pre-tax gain of \$57.4 million on the sale of CAMC. The increase in revenues and net earnings from ongoing operations for Fiscal 1999 compared to Fiscal 1998 was primarily attributed to higher loan production volume, an increase in the size of the Company's servicing portfolio as well as continued growth in the Company's non-mortgage banking subsidiaries. These positive factors were partially offset by an increase in amortization of the servicing asset and an increase in expenses in Fiscal 1999 over Fiscal 1998.

The total volume of loans produced by the Company in Fiscal 1999 increased 90% to \$92.9 billion, up from \$48.8 billion for Fiscal 1998. The increase in loan production was primarily due to an increase in the Company's market share, driven largely by the expansion of the Company's Consumer Markets Home Finance Network and Consumer Markets and Wholesale branch networks, including the retail sub-prime branches, combined with an increase in the overall mortgage market driven largely by refinances. Total loan production by purpose and by interest rate type is summarized below.

(Dollar amounts in millions)	Loan Production	
	Fiscal 1999	Fiscal 1998
Purchase	\$39,681	\$28,990
Refinance	53,200	19,782
Total	<u>\$92,881</u>	<u>\$48,772</u>
Fixed Rate	\$88,334	\$37,486
Adjustable Rate	4,547	11,286
Total	<u>\$92,881</u>	<u>\$48,772</u>

Total loan production by Division is summarized below.

(Dollar amounts in millions)	Loan Production	
	Fiscal 1999	Fiscal 1998
Consumer Markets Division	\$28,508	\$13,339
Wholesale Lending Division	30,917	15,731
Correspondent Lending Division	32,748	19,562
Full Spectrum Lending, Inc.	708	140
Total	<u>\$92,881</u>	<u>\$48,772</u>

The factors which affect the relative volume of production among the Company's Divisions include the price competitiveness of each Division's product offerings, the level of mortgage lending activity in each Division's market and the success of each Division's sales and marketing efforts.

Non-traditional loan production (which is included in the Company's total volume of loans produced) is summarized below.

(Dollar amounts in millions)	Non-Traditional Loan Production	
	Fiscal 1999	Fiscal 1998
Sub-prime	\$2,496	\$1,552
Home Equity Loans	2,221	1,463
Total	<u>\$4,717</u>	<u>\$3,015</u>

During Fiscal 1999 and Fiscal 1998, the Company received 1,194,833 and 714,668 new loan applications, respectively, at an average daily rate of \$540 million and \$306 million, respectively. The factors that affect the percentage of applications received and funded during a given time period include the movement and direction of interest rates, the average length of loan commitments issued, the creditworthiness of applicants, the production Divisions' loan processing efficiency and loan pricing decisions.

Loan origination fees increased in Fiscal 1999 as compared to Fiscal 1998 primarily due to higher production. In addition, the Consumer Markets and Wholesale Lending Divisions (which, due to their higher cost structure, charge higher origination fees per dollar loaned) comprised a greater percentage of total production in Fiscal 1999 than in Fiscal 1998. Gain on sale of loans also increased in Fiscal 1999 as compared to Fiscal 1998 primarily due to higher production volume. This positive factor was partially offset by reduced margins on home equity and sub-prime loans. The sale of home equity loans contributed \$65 million and \$62 million to gain on sale of loans in Fiscal 1999 and Fiscal 1998, respectively. Sub-prime loans contributed \$92 million to the gain on sale of loans in Fiscal 1999 and \$70 million in Fiscal 1998. In general, loan origination fees and gain (loss) on sale of loans are affected by numerous factors including the volume and mix of loans produced and sold, loan pricing decisions, interest rate volatility and the general direction of interest rates.

Net interest income (interest earned net of interest charges) increased to \$45.2 million for Fiscal 1999, up from \$15.7 million for Fiscal 1998. Net interest income is principally a function of: (i) net interest income earned from the Company's mortgage loan warehouse (\$118.2 million and \$74.5 million for Fiscal 1999 and Fiscal 1998, respectively); (ii) interest expense related to the Company's investment in servicing rights (\$351.2 million and \$219.4 million for Fiscal 1999 and Fiscal 1998, respectively) and (iii) interest income earned from the custodial balances associated with the Company's servicing portfolio (\$270.4 million and \$151.0 million for Fiscal 1999 and Fiscal 1998, respectively). The Company earns interest on, and incurs interest expense to carry, mortgage loans held in its warehouse. The increase in net interest income from the mortgage loan warehouse was primarily attributable to higher production levels. The increase in interest expense on the investment in servicing rights resulted primarily from a larger servicing portfolio and an increase in Interest Costs Incurred on Payoffs. The increase in net interest income earned from the custodial balances was related to an increase in the average custodial balances caused by growth of the servicing portfolio and an increase in the amount of prepayments.

# Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

During Fiscal 1999, loan servicing income before amortization increased primarily due to growth of the loan servicing portfolio. As of February 28, 1999, the Company serviced \$215.5 billion of loans (including \$2.2 billion of loans subserviced for others), compared to \$182.9 billion (including \$6.7 billion of loans subserviced for others) as of February 28, 1998, an 18% increase. The growth in the Company's servicing portfolio during Fiscal 1999 was the result of increased loan production volume and the acquisition of bulk servicing rights. This was partially offset by prepayments, partial prepayments, scheduled amortization of mortgage loans and the transfer back to INMC of \$6.5 billion of subservicing.

During Fiscal 1999, the annual prepayment rate of the Company's servicing portfolio was 28%, compared to 15% for Fiscal 1998. The prepayment rate is primarily affected by the level of refinance activity, which in turn is driven by the relative level of mortgage interest rates, as well as activity in the resale home market. The weighted average interest rate of the mortgage loans in the Company's servicing portfolio as of February 28, 1999 was 7.5% compared to 7.8% as of February 28, 1998.

The Company recorded amortization and net impairment of its MSR's for Fiscal 1999 totaling \$1,013.6 million (consisting of amortization amounting to \$556.4 million and impairment of \$457.2 million), compared to \$561.8 million of amortization and impairment (consisting of amortization amounting to \$300.3 million and impairment of \$261.5 million) for Fiscal 1998. The factors affecting the amount of amortization and impairment of the MSR's recorded in an accounting period include the level of prepayments during the period, the change in estimated future prepayments and the amount of Servicing Hedge gains or losses.

In Fiscal 1999, the Company recognized a net gain of \$412.8 million from its Servicing Hedge. The net gain included unrealized net gains of \$26.1 million and realized net gains of \$386.7 million from the sale of various financial instruments that comprise the Servicing Hedge net of premium amortization. In Fiscal 1998, the Company recognized a net gain of \$233.0 million from its Servicing Hedge. The net gain included unrealized gains of \$182.2 million and net realized gains of \$50.8 million from the sale of various financial instruments that comprise the Servicing Hedge net of premium amortization. The historical correlation of the Servicing Hedge and the MSR's has been very high. However, given the complexity and uncertainty inherent in hedging MSR's, there can be no assurance that future results will match the historical performance of the Servicing Hedge.

During Fiscal 1999, the Company acquired bulk servicing rights for loans with principal balances aggregating \$4.6 billion at a price of 1.21% of the aggregate outstanding principal balances. During Fiscal 1998, the Company acquired bulk servicing rights for loans with principal balances aggregating \$1.0 billion at a price of 1.13% of the aggregate outstanding principal balances.

Salaries and related expenses are summarized below for Fiscal 1999 and Fiscal 1998.

(Dollar amounts in thousands)	Fiscal 1999				
	Production Activities	Loan Administration	Corporate Administration	Other Activities	Total
Base Salaries	\$212,591	\$45,412	\$ 90,953	\$45,383	\$394,339
Incentive Bonus	147,695	601	20,706	20,357	189,359
Payroll Taxes and Benefits	52,821	10,429	15,170	7,568	85,988
Total Salaries and Related Expenses	<u>\$413,107</u>	<u>\$56,442</u>	<u>\$126,829</u>	<u>\$73,308</u>	<u>\$669,686</u>
Average Number of Employees	5,512	1,740	1,823	872	9,947

(Dollar amounts in thousands)	Fiscal 1998				
	Production Activities	Loan Administration	Corporate Administration	Other Activities	Total
Base Salaries	\$134,776	\$39,987	\$70,305	\$29,436	\$274,504
Incentive Bonus	76,854	251	16,570	11,306	104,981
Payroll Taxes and Benefits	22,956	7,518	10,581	3,781	44,836
Total Salaries and Related Expenses	<u>\$234,586</u>	<u>\$47,756</u>	<u>\$97,456</u>	<u>\$44,523</u>	<u>\$424,321</u>
Average Number of Employees	3,329	1,518	1,404	682	6,933

The amount of salaries increased during Fiscal 1999 reflecting the Company's strategy of expanding and enhancing its Consumer Markets and Wholesale branch networks, including new retail sub-prime branches. In addition, a larger servicing portfolio and growth in the Company's non-mortgage banking subsidiaries also contributed to the increase. Incentive bonuses earned during Fiscal 1999 increased primarily due to higher production and a change in divisional production mix.

Occupancy and other office expenses for Fiscal 1999 increased to \$270.5 million from \$182.3 million for Fiscal 1998. This was primarily due to: (i) the continued effort by the Company to expand its Consumer Markets and Wholesale branch networks, including new retail sub-prime branches; (ii) higher loan production; (iii) a larger servicing portfolio; and (iv) growth in the Company's non-mortgage banking activities.

Guarantee fees represent fees paid to Fannie Mae and Ginnie Mae in order for these Government Sponsored Entities ("GSEs") to agree to guarantee timely and full payment of principal and interest on MBS and to transfer the credit risk of the loans in the servicing portfolio sold to these entities. For Fiscal 1999, guarantee fees increased 5% to \$181.1 million, up from \$172.7 million for Fiscal 1998. The increase resulted from an increase in the servicing portfolio, changes in the mix of the portfolio sold to the GSEs and terms negotiated at the time of loan sales.

Marketing expenses for Fiscal 1999 increased 52% to \$64.5 million, up from \$42.3 million for Fiscal 1998, reflecting the increased mortgage market and the Company's continued implementation of a marketing plan to increase its consumer brand awareness.

Other operating expenses for Fiscal 1999 increased from Fiscal 1998 by \$39.7 million, or 33%. This increase was due primarily to higher loan production, a larger servicing portfolio, increased systems development and growth in the Company's non-mortgage banking subsidiaries.

The Company's pre-tax earnings by segment are summarized below.

(Dollar amounts in thousands)	Pre-Tax Earnings	
	Fiscal 1999	Fiscal 1998
Loan Production	\$556,213	\$245,121
Loan Servicing	20,130	207,487
Capital Markets	26,529	19,287
Insurance	3,325	7,522
Sale of Subsidiary	—	57,381
Other Activities	25,608	28,748
Total	<u>\$631,805</u>	<u>\$565,546</u>

**Profitability of Loan Production Segment** Loan production segment activities include loan origination and purchases, warehousing and sales. The increase in pre-tax earnings of \$311.1 million in Fiscal 1999 as compared to Fiscal 1998 was primarily attributable to increased production volume and margins and a shift in production towards the Consumer Markets and Wholesale Divisions. These positive results were partially offset by higher production costs.

**Profitability of Servicing Segment** Loan servicing segment activities include administering the loans in the servicing portfolio, acting as tax payment agent, marketing foreclosed properties and acting as reinsurer. The decrease in pre-tax earnings of \$187.4 million in Fiscal 1999 as compared to Fiscal 1998 was primarily attributed to increased amortization of MSRs, increased Interest Costs Incurred on Payoffs and a reduction in the performance of residuals and other interests retained in securitization. These negative factors were partially offset by the increase in servicing fees, miscellaneous income and interest earned on escrow balances derived by the larger servicing portfolio.

**Profitability of Capital Markets Segment** Capital Markets segment activities include primarily the operations of CSC, a registered broker dealer specializing in the secondary mortgage market. The increase in pre-tax earnings of \$7.2 million in Fiscal 1999 as compare to Fiscal 1998 was primarily due to increased trading volumes driven largely by CHL's increased loan originations and sales.

**Profitability of Insurance Segment** Insurance segment activities include the operations of CIS, an insurance agency that provides homeowners, life, disability, automobile insurance and various other coverage. The decrease in pre-tax earnings of \$4.2 million occurred despite an increase in policies sold and was primarily due to an increase in advertising and salaries reflecting as aggressive expansion efforts.

**Profitability of Other Activities** In addition to loan production, loan servicing, capital markets and insurance segment, the Company offers ancillary products and services related to its mortgage banking activities, primarily through its subsidiary, LandSafe, Inc. Through several subsidiaries, LandSafe, Inc. acts as a title insurance agent and a provider of settlement, escrow, appraisal and credit reporting and home inspection services. During Fiscal 1999, LandSafe, Inc., through a subsidiary, began providing flood zone determination services. In addition, LandSafe, Inc. provides property profiles to realtors, builders, consumers, mortgage brokers and other financial institutions. For Fiscal 1999, LandSafe Inc. contributed \$25.2 million to the Company's pre-tax income compared to \$10.1 million for Fiscal 1998. The increase in the profitability of LandSafe Inc. resulted primarily from expanded services and the Company's increased loan production.

The Company's other activities also include the operations of its holding company, Countrywide Credit Industries, Inc. ("CCI") and Countrywide Financial Services, Inc. The operations of other activities, excluding LandSafe Inc., incurred pre-tax income of \$0.4 million during Fiscal 1999 compared to pre-tax income of \$18.6 million during Fiscal 1998. This decrease in pre-tax income primarily resulted from: (i) a decrease in CCI net interest income related to a receivable from CHL that was eliminated by a capital contribution during Fiscal 1999 and (ii) the discontinuance of management fees received prior to the sale of Countrywide Asset Management Corporation ("CAMC").

During Fiscal 1998, CAMC, a subsidiary of the Company, was sold to INMC Mortgage Holdings, Inc., ("INMC") a publicly traded real estate investment trust for 3,440,800 newly issued common shares of INMC stock. These shares are subject to resale restrictions which apply to the shares from the date of issuance through July 2000. The sale resulted in a \$57.4 million pre-tax gain.

# Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The primary market risk facing the Company is interest rate risk. From an enterprise perspective, the Company manages this risk by striving to balance its loan origination and loan servicing business segments, which are counter cyclical in nature. In addition, the Company utilizes various financial instruments, including derivatives contracts, to manage the interest rate risk related specifically to its committed pipeline, mortgage loan inventory and MBS held for sale, MSRs, mortgage-backed securities retained in securitizations, trading securities and debt securities. The overall objective of the Company's interest rate risk management policies is to offset changes in the values of these items resulting from changes in interest rates. The Company does not speculate on the direction of interest rates in its management of interest rate risk.

As part of its interest rate risk management process, the Company performs various sensitivity analyses that quantify the net financial impact of changes in interest rates on its interest rate-sensitive assets, liabilities and commitments. These analyses incorporate scenarios including selected hypothetical (instantaneous) parallel shifts in the yield curve. Various modeling techniques are employed to value the financial instruments. For mortgages, MBS and MBS forward contracts and CMOs, an option-adjusted spread ("OAS") model is used. The primary assumptions used in this model 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. MSRs and residual interests are valued using discounted cash flow models. The primary assumptions used in these models are prepayment rates, discount rates and credit losses.

Utilizing the sensitivity analyses described above, as of February 29, 2000, the Company estimates that a permanent 0.50% reduction in interest rates, all else being constant, would result in a \$1.4 million after-tax loss related to its trading securities and there would be no loss related to its other financial instruments. As of February 29, 2000, the Company estimates that this combined after-tax loss of \$1.4 million is the largest such loss that would occur within the range of reasonably possible interest rate changes. These sensitivity analyses are limited by the fact that they are performed at a particular point in time, are subject to the accuracy of various assumptions used including prepayment forecasts, and do not incorporate other factors that would impact the Company's overall financial performance in such a scenario. Consequently, the preceding estimates should not be viewed as a forecast.

An additional, albeit less significant, market risk facing the Company is foreign currency risk. The Company has issued foreign currency denominated medium-term notes (See Note F). The Company manages the foreign currency risk associated with such medium-term notes by entering into currency swaps. The terms of the currency swaps effectively translate the foreign currency denominated medium-term notes into U.S. dollars, thereby eliminating the associated foreign currency risk (subject to the performance of the various counterparties to the currency swaps). As a result, hypothetical 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.

## INFLATION

Inflation affects the Company most significantly in the areas of loan production and servicing. Interest rates normally increase during periods of high inflation and decrease during periods of low inflation. Historically, as interest rates increase, loan production decreases, particularly from loan refinancings. Although in an environment of gradual interest rate increases, purchase activity may actually be stimulated by an improving economy or the anticipation of increasing real estate values. In such periods of reduced loan production, production margins may decline due to increased competition resulting from overcapacity in the market. In a higher interest rate environment, servicing-related earnings are enhanced because prepayment rates tend to slow down thereby extending the average life of the Company's servicing portfolio and reducing amortization and impairment of the MSRs, as well as Interest Costs Incurred on Payoffs, and because the rate of interest earned from the custodial balances tends to increase. Conversely, as interest rates decline, loan production, particularly from loan refinancings, increases. However, during such periods, prepayment rates tend to accelerate (principally on the portion of the portfolio having a note rate higher than the then-current interest rates), thereby decreasing the average life of the Company's servicing portfolio and adversely impacting its servicing-related earnings primarily due to increased amortization and impairment of the MSRs, a decreased rate of interest earned from the custodial balances and increased Interest Costs Incurred on Payoffs. The Servicing Hedge is designed to mitigate the impact of changing interest rates on servicing-related earnings.

## SEASONALITY

The mortgage banking industry is generally subject to seasonal trends. These trends reflect the general national pattern of sales and resales of homes, although refinancings tend to be less seasonal and more closely related to changes in interest rates. Sales and resales of homes typically peak during the spring and summer seasons and decline to lower levels from mid-November through February. In addition, delinquency rates typically rise in the winter months, which results in higher servicing costs. However, late charge income has historically been sufficient to offset such incremental expenses.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's principal financing needs are the financing of its mortgage loan inventory, investment in MSRs and the trading securities of its broker-dealer subsidiary. To meet these needs, the Company currently utilizes commercial paper supported by the revolving credit facility, medium-term notes, senior debt, MBS repurchase agreements, subordinated notes, pre-sale funding facilities, redeemable capital trust pass-through securities, securitization of servicing fee income and cash flow from operations. In addition, in the past the Company has utilized whole loan repurchase agreements, servicing-secured bank facilities, private placements of unsecured notes and other financings, direct borrowings from the revolving credit facility and public offerings of common and preferred stock. The Company strives to maintain sufficient liquidity in the form of unused, committed lines of credit, to meet anticipated short-term cash requirements as well as to provide for potential sudden increases in business activity driven by changes in the market environment.

Certain of the debt obligations of the Company and Countrywide Home Loans, Inc. ("CHL") contain various provisions that may affect the ability of the Company and CHL to pay dividends and remain in compliance with such obligations. These provisions include requirements concerning net worth and other financial covenants. These provisions have not had, and are not expected to have, an adverse impact on the ability of the Company and CHL to pay dividends.

The principal financing needs of CCM consist of the financing of its inventory of securities and mortgage loans. Its securities inventory is financed primarily through MBS repurchase agreements. CCM also has access to a \$200 million secured bank loan facility and a lending facility with CHL.

The securities industry is highly competitive and fragmented. CCM competes with large global investment banks and broker-dealers, as well as smaller regional broker-dealers. CCM competes by specializing in mortgage related fixed income securities and through its affiliation with CHL, which allow it to offer information, products and services tailored to the unique needs of participants in the mortgage related debt securities markets.

The primary cash needs for CIG are to meet short-term and long-term obligations to policyholders (payment of policy benefits), costs of acquiring new business (principally commissions) and the purchases of new investments. To meet these needs, CIG currently utilizes cash flow provided from operations as well as maturities and sales of invested assets.

The lender-placed collateral protection insurance market is dominated by a few providers competing on overall financial strength of the insurer, premium rates, policy terms and conditions, services offered, reputation and broker compensation. The voluntary property and casualty and life and disability marketplace is dominated by large, brand name providers and is driven mostly by price and name recognition. GIC competes by providing high quality service and pricing its products at competitive rates.

The Company continues to investigate and pursue alternative and supplementary methods to finance its growing operations through the public and private capital markets. These may include such methods as mortgage loan sale transactions designed to expand the Company's financial capacity and reduce its cost of capital and the securitization of servicing income cash flows.

In connection with its derivative contracts, the Company may be required to deposit cash or certain government securities or obtain letters of credit to meet margin requirements. The Company considers such potential margin requirements in its overall liquidity management.

In the course of the Company's mortgage banking operations, the Company sells the mortgage loans it originates and purchases to investors but generally retains the right to service the loans, thereby increasing the Company's investment in MSRs. The Company views the sale of loans on a servicing-retained basis in part as an investment vehicle. Significant unanticipated prepayments in the Company's servicing portfolio could have a material adverse effect on the Company's future operating results and liquidity.

### Cash Flows

**Operating Activities** In Fiscal 2000, the Company's operating activities provided cash of approximately \$2.4 billion on a short-term basis primarily as a result of a decrease in its mortgage loans and MBS held for sale. In Fiscal 1999, operating activities used approximately \$1.0 billion on a short-term basis primarily to support the increase in its mortgage loans and MBS held for sale. In Fiscal 1998, the Company's operating activities used cash of approximately \$2.5 billion.

**Investing Activities** The primary investing activities for which cash was used by the Company was the investment in MSRs and the acquisition of Balboa. Net cash used by investing activities was \$1.6 billion for Fiscal 2000, \$1.8 billion for Fiscal 1999 and \$1.1 billion for Fiscal 1998.

**Financing Activities** Net cash used by financing activities amounted to \$0.9 billion for Fiscal 2000. Net cash provided by financing activities amounted to \$2.8 billion for Fiscal 1999. Net cash used by financing activities amounted to \$3.6 billion for Fiscal 1998. The increase or decrease in cash flow from financing activities was primarily the result of the change in the Company's mortgage loan inventory and investment in MSRs.

# Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

## PROSPECTIVE TRENDS

### Applications and Pipeline of Loans in Process

For the month ended March 31, 2000, the Company received new loan applications at an average daily rate of \$353 million. As of March 31, 2000, the Company's pipeline of loans in process was \$9.0 billion. This compares to a daily application rate for the month ended in March 31, 1999 of \$537 million and a pipeline of loans in process as of March 31, 1999 of \$14.2 billion. The size of the pipeline is generally an indication of the level of future fundings, as historically 37% to 77% of the pipeline of loans in process has funded. In addition, the Company's LOCK 'N SHOP® Pipeline as of March 31, 2000 was \$3.1 billion and as of March 31, 1999 was \$2.5 billion. Future application levels and loan fundings are dependent on numerous factors, including the level of demand for mortgage loans, the level of competition in the market, the direction of interest rates, seasonal factors and general economic conditions.

### Market Factors

Loan production decreased 28% from Fiscal 1999 to Fiscal 2000. This decrease was primarily due to a smaller mortgage origination market, driven by reduced refinances, combined with a slight decrease in the Company's market share. Home purchase related loan production increased during the same period.

The prepayment rate in the servicing portfolio decreased from 28% in Fiscal 1999 to 13% in Fiscal 2000. This was due primarily to a smaller mortgage origination refinance market.

The Company's California mortgage loan production (as measured by principal balance) constituted 22% of its total production during Fiscal 2000 and 25% during Fiscal 1999. The Company is continuing its efforts to expand its production capacity outside of California. Some regions in which the Company operates have experienced slower economic growth, and real estate financing activity in these regions has been impacted negatively. The Company has striven to diversify its mortgage banking activities geographically to mitigate such effects.

The delinquency rate in the Company's servicing portfolio, excluding sub-servicing, increased to 3.97% at February 29, 2000 from 3.55% as of February 28, 1999. The Company believes that this increase was primarily the result of changes in portfolio mix and aging. Sub-prime loans (which tend to experience higher delinquency rates than prime loans) represented approximately 3% of the total portfolio as of February 29, 2000, up from 1% as of February 28, 1999. In addition, the weighted average age of the prime credit quality loans in the portfolio increased to 29 months at February 29, 2000 from 26 months in February 28, 1999. Delinquency rates tend to increase as loans age, reaching a peak at three to five years of age. However, because the loans in the portfolio are generally serviced on a non-recourse basis, the Company's exposure to credit loss resulting from increased delinquency rates is substantially limited. Furthermore, related late charge income has historically been sufficient to offset incremental servicing expenses resulting from an increased delinquency rate.

The percentage of loans in the Company's servicing portfolio, excluding sub-servicing, that are in foreclosure increased to 0.39% as of February 29, 2000 from 0.31% as of February 28, 1999. Because the Company services substantially all conventional loans on a non-recourse basis, foreclosure losses are generally the responsibility of the investor or insurer and not the Company. While the Company does not generally retain credit risk with respect to the conventional prime credit quality first mortgage loans it sells, it does have potential liability under representations and warranties made to purchasers and insurers of the loans. In the event of a breach of these representations and warranties, the Company may be required to repurchase a mortgage loan and any subsequent loss on the mortgage loan may be borne by the Company. Similarly, government loans serviced by the Company (24% of the Company's servicing portfolio as of February 29, 2000) are insured by the Federal Housing Administration or partially guaranteed against loss by the Department of Veterans Administration. The Company is exposed to credit losses to the extent that the partial guarantee provided by the Department of Veterans Administration is inadequate to cover the total credit losses incurred. The Company retains credit risk on the home equity and sub-prime loans it securitizes, through retention of a subordinated interest. As of February 29, 2000, the Company had investments in such subordinated interests amounting to \$570.4 million. The Company incurred bad debt expenses totaling \$15.4 million and \$23.6 million in Fiscal 2000 and Fiscal 1999, respectively, related to the credit risk described above.

### Servicing Hedge

As previously discussed, the Company's Servicing Hedge is designed to protect the value of its investment in MSRs from the effects of increased prepayment activity that generally results from declining interest rates. In periods of increasing interest rates, the value of the Servicing Hedge generally declines and the value of MSRs generally increases. The historical correlation of the Servicing Hedge and the MSRs has been very high. However, given the complexity and uncertainty inherent in hedging MSRs, there can be no assurance that future results will match the historical performance of the Servicing Hedge.

### Implementation of New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize the fair value of all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of

the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. This statement will become effective in the fiscal year ended February 28, 2002. The Company has not yet determined the impact upon adoption of this standard on the Consolidated Financial Statements.

In October 1998, the Financial Accounting Standards Board issued SFAS No. 134, Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise ("SFAS No. 134"). SFAS No. 134 is an amendment of SFAS No. 65, Accounting for Certain Mortgage Banking Activities. It requires that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities and other retained interests based on its ability and intent to sell or hold those instruments. The Company adopted this statement in October 1998 and, accordingly, reclassified mortgage-backed securities retained in securitization as available for sale securities.

#### **Year 2000 Update**

Reflecting the work completed on the Company's Year 2000 program, the Company's computer systems and business processes successfully handled the date change from December 31, 1999 to January 1, 2000. The Company is not aware of any significant year 2000 problems encountered internally or with third parties with which it does business, including customers, counterparties and others, the global financial market infrastructure, and the utility infrastructure on which all corporations rely.

Based on operations since January 1, 2000, the Company does not expect any significant impact to its ongoing operations as a result of the year 2000 issue. However, although remote, it is possible that the full impact of year 2000 issues has not been fully recognized and no assurances can be given that year 2000 problems will not emerge. To the extent any Year 2000 issues arise, that could expose the Company to certain risks, such as the nonperformance by third parties of obligations to the Company.

The pre-tax cost associated with the required systems modifications and conversions totaled approximately \$32.3 million of which all had been incurred through February 29, 2000. The Company had previously estimated the cost at approximately \$36 million. Management believes a significant amount of the work incurred in connection with the year 2000 issue will have ongoing utility by way of improved software coding and systems documentation.

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In response to this Item, the information set forth on page 36 and Note A of the Annual Report is incorporated herein by reference.

# Consolidated Balance Sheets

(Dollar amounts in thousands, except per share data)	February 29(28),	
	2000	1999
<b>ASSETS</b>		
Cash	\$ 59,890	\$ 58,748
Mortgage loans and mortgage-backed securities held for sale	2,653,183	6,231,220
Trading securities, at market value	1,984,031	1,460,446
Mortgage servicing rights, net	5,396,477	4,496,439
Investments in other financial instruments	3,562,458	1,628,153
Property, equipment and leasehold improvements, at cost — net of accumulated depreciation and amortization	410,899	311,741
Other assets	1,755,390	1,461,509
Total assets	<u>\$15,822,328</u>	<u>\$15,648,256</u>
Borrower and investor custodial accounts (segregated in special accounts — excluded from corporate assets)	<u>\$ 2,852,738</u>	<u>\$ 4,020,998</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Notes payable	\$ 9,782,625	\$ 9,935,759
Drafts payable issued in connection with mortgage loan closings	382,108	1,083,499
Accounts payable, accrued liabilities and other	997,405	517,937
Deferred income taxes	1,272,311	1,092,176
Total liabilities	<u>12,434,449</u>	<u>12,629,371</u>
Commitments and contingencies	—	—
Company-obligated mandatorily redeemable capital trust pass-through securities of subsidiary trusts holding solely Company guaranteed related subordinated debt	500,000	500,000
Shareholders' equity		
Preferred stock — authorized, 2,500,000 shares of \$0.05 par value; issued and outstanding, none	—	—
Common stock — authorized, 240,000,000 shares of \$0.05 par value; issued and outstanding, 113,463,424 shares in 2000 and 112,619,313 shares in 1999	5,673	5,631
Additional paid-in capital	1,171,238	1,153,673
Accumulated other comprehensive loss	(33,234)	(19,593)
Retained earnings	1,744,202	1,379,174
Total shareholders' equity	<u>2,887,879</u>	<u>2,518,885</u>
Total liabilities and shareholders' equity	<u>\$15,822,328</u>	<u>\$15,648,256</u>
Borrower and investor custodial accounts	<u>\$ 2,852,738</u>	<u>\$ 4,020,998</u>

The accompanying Notes are an integral part of these statements.

# Consolidated Statements of Earnings

(Dollar amounts in thousands, except per share data)	Year ended February 29(28),		
	2000	1999	1998
<b>Revenues</b>			
Loan origination fees	\$ 406,458	\$ 623,531	\$ 301,389
Gain on sale of loans, net of commitment fees	557,743	699,433	417,427
Loan production revenue	964,201	1,322,964	718,816
Interest earned	998,646	1,029,066	584,076
Interest charges	(930,294)	(983,829)	(568,359)
Net interest income	68,352	45,237	15,717
Loan servicing income	1,192,789	1,023,700	907,674
Amortization and impairment/recovery of mortgage servicing rights, net of servicing hedge	(445,138)	(600,766)	(328,845)
Net loan administration income	747,651	422,934	578,829
Commissions, fees and other income	234,047	187,867	138,217
Gain on sale of subsidiary	4,424	—	57,381
Total revenues	2,018,675	1,979,002	1,508,960
<b>Expenses</b>			
Salaries and related expenses	689,768	669,686	424,321
Occupancy and other office expenses	276,802	270,483	182,335
Guarantee fees	195,928	181,117	172,692
Marketing expenses	72,930	64,510	42,320
Other operating expenses	152,049	161,401	121,746
Total expenses	1,387,477	1,347,197	943,414
Earnings before income taxes	631,198	631,805	565,546
Provision for income taxes	220,955	246,404	220,563
<b>NET EARNINGS</b>	<b>\$ 410,243</b>	<b>\$ 385,401</b>	<b>\$ 344,983</b>
<b>Earnings per share</b>			
Basic	\$ 3.63	\$ 3.46	\$ 3.21
Diluted	\$ 3.52	\$ 3.29	\$ 3.09

The accompanying Notes are an integral part of these statements.

# Consolidated Statement of Common Shareholders' Equity

(Dollar amounts in thousands)	Three years ended February 29(28),					
	Number of Shares	Common Stock	Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
<b>Balance at February 28, 1997</b>	106,095,558	\$5,305	\$ 917,942	\$(30,545)	\$ 718,829	\$1,611,531
Cash dividends paid — common	—	—	—	—	(34,391)	(34,391)
Stock options exercised	839,479	42	14,645	—	—	14,687
Tax benefit of stock options exercised	—	—	5,378	—	—	5,378
Dividend reinvestment plan	2,179,939	109	108,511	—	—	108,620
401(k) Plan contribution	90,603	4	2,889	—	—	2,893
Other comprehensive income, net of tax	—	—	—	34,242	—	34,242
Net earnings for the year	—	—	—	—	344,983	344,983
<b>Balance at February 28, 1998</b>	109,205,579	5,460	1,049,365	3,697	1,029,421	2,087,943
Cash dividends paid — common	—	—	—	—	(35,648)	(35,648)
Stock options exercised	1,239,662	62	20,047	—	—	20,109
Tax benefit of stock options exercised	—	—	11,456	—	—	11,456
Dividend reinvestment plan	2,048,062	103	66,669	—	—	66,772
401(k) Plan contribution	126,010	6	6,136	—	—	6,142
Other comprehensive loss, net of tax	—	—	—	(23,290)	—	(23,290)
Net earnings for the year	—	—	—	—	385,401	385,401
<b>Balance at February 28, 1999</b>	112,619,313	5,631	1,153,673	(19,593)	1,379,174	2,518,885
Cash dividends paid — common	—	—	—	—	(45,215)	(45,215)
Stock options exercised	602,021	31	6,709	—	—	6,740
Tax benefit of stock options exercised	—	—	1,883	—	—	1,883
Dividend reinvestment plan	61,869	2	1,986	—	—	1,988
401(k) Plan contribution	180,221	9	6,987	—	—	6,996
Other comprehensive loss, net of tax	—	—	—	(13,641)	—	(13,641)
Net earnings for the year	—	—	—	—	410,243	410,243
<b>Balance at February 29, 2000</b>	113,463,424	\$5,673	\$1,171,238	\$(33,234)	\$1,744,202	\$2,887,879

The accompanying Notes are an integral part of this statement.

# Consolidated Statements of Cash Flows

Increase (Decrease) in Cash

(Dollar amounts in thousands)	Year ended February 29(28),		
	2000	1999	1998
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 410,243	\$ 385,401	\$ 344,983
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:			
Gain on sale of available-for-sale securities	(12,332)	(56,801)	(16,749)
Gain on sale of subsidiary	(4,424)	—	(57,381)
Gain on sale of securitized service fees	(2,650)	—	—
Amortization and impairment/recovery of mortgage servicing rights	181,101	1,013,578	561,804
Depreciation and other amortization	65,947	49,210	44,930
Deferred income taxes	220,955	246,404	220,563
Origination and purchase of loans held for sale	(66,739,744)	(92,880,538)	(48,771,673)
Principal repayments and sale of loans	70,317,781	91,941,509	46,059,454
Decrease (increase) in mortgage loans and mortgage-backed securities held for sale	3,578,037	(939,029)	(2,712,219)
Increase in other financial instruments	(1,393,493)	(423,807)	(685,119)
Increase in trading securities	(523,585)	(1,216,499)	(113,032)
Increase in other assets	(81,052)	(97,181)	(345,952)
Increase in accounts payable and accrued liabilities	6,263	35,259	302,404
Net cash provided (used) by operating activities	2,445,010	(1,003,465)	(2,455,768)
<b>Cash flows from investing activities:</b>			
Additions to mortgage servicing rights, net	(1,299,909)	(1,898,007)	(1,149,988)
Proceeds from sale of securitized service fees	197,616	—	—
Acquisition of insurance company	(425,000)	—	—
Purchase of property, equipment and leasehold improvements, net	(150,537)	(119,507)	(70,896)
Proceeds from sale of available-for-sale securities	96,200	231,555	72,747
Proceeds from sale of subsidiary	21,053	—	—
Net cash used by investing activities	(1,560,577)	(1,785,959)	(1,148,137)
<b>Cash flows from financing activities:</b>			
Net (decrease) increase in warehouse debt and other short-term borrowings	(790,117)	(1,122,273)	1,513,974
Issuance of long-term debt	2,224,354	4,044,121	1,973,198
Repayment of long-term debt	(2,288,762)	(142,096)	(182,747)
Issuance of Company — obligated mandatorily redeemable capital trust pass-through securities of subsidiary trust holding solely a Company guaranteed related subordinated debt	—	—	200,000
Issuance of common stock	16,449	93,361	126,309
Cash dividends paid	(45,215)	(35,648)	(34,391)
Net cash (used) provided by financing activities	(883,291)	2,837,465	3,596,343
Net increase (decrease) in cash	1,142	48,041	(7,562)
Cash at beginning of period	58,748	10,707	18,269
Cash at end of period	\$ 59,890	\$ 58,748	\$ 10,707
<b>Supplemental cash flow information:</b>			
Cash used to pay interest	\$ 902,491	\$ 876,236	\$ 422,969
Cash used to pay (refund from) income taxes	\$ 7,084	\$ 1,407	\$ (1,645)
<b>Noncash financing activities:</b>			
Unrealized gain (loss) on available-for-sale securities, net of tax	\$ (13,641)	\$ (23,290)	\$ 34,242

The accompanying Notes are an integral part of these statements.

# Consolidated Statements of Comprehensive Income

(Dollar amounts in thousands)	Year Ended February 29(28),		
	2000	1999	1998
<b>Net Earnings</b>	\$410,243	\$385,401	\$344,983
Other comprehensive income, net of tax:			
Unrealized gains (losses) on available for sale securities:			
Unrealized holding gains (losses) arising during the period, before tax	(9,356)	18,556	72,883
Income tax benefit (expense)	3,331	(7,237)	(28,424)
Unrealized holding gains (losses) arising during the period, net of tax	(6,025)	11,319	44,459
Less: reclassification adjustment for gains included in net earnings, before tax	(12,332)	(56,801)	(16,749)
Income tax expense	4,716	22,192	6,532
Reclassification adjustment for gains included in net earnings, net of tax	(7,616)	(34,609)	(10,217)
Other comprehensive (loss) income	(13,641)	(23,290)	34,242
<b>Comprehensive Income</b>	<b>\$396,602</b>	<b>\$362,111</b>	<b>\$379,225</b>

The accompanying Notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Countrywide Credit Industries, Inc. (the "Company") is a holding company, which through its principal subsidiary, Countrywide Home Loans, Inc. ("CHL"), is engaged primarily in the mortgage banking business and as such originates, purchases, sells and services mortgage loans throughout the United States. In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

### Principles of Consolidation

The consolidated financial statements include the accounts of the parent and all wholly-owned subsidiaries that are required to be consolidated under generally accepted accounting principles. All material intercompany accounts and transactions have been eliminated.

### Mortgage Loans and Mortgage-Backed Securities Held for Sale

Mortgage loans held for sale are carried at the lower of cost or market, which is computed by the aggregate method (unrealized losses are offset by unrealized gains). The cost of mortgage loans and the carrying value of mortgage-backed securities ("MBS") held for sale in the near term are adjusted by gains and losses generated from corresponding hedging transactions entered into to protect the value of the mortgage loans and MBS held for sale from increases in interest rates. Hedging transactions also are entered into to protect the value of the Company's short-term rate and point commitments to fund mortgage loan applications in process (the "Committed Pipeline") from increases in interest rates. Gains and losses generated from such hedging transactions are deferred. Hedging losses are recognized currently if deferring such losses would result in mortgage loans and MBS held for sale and the Committed Pipeline being effectively valued in excess of their estimated net realizable value.

The Company's MBS held for sale in the near term are classified as trading. Trading securities are recorded at fair value, with the change in fair value during the period included in earnings. The fair value of MBS held for sale in the near term is based on quoted market prices.

### 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.

### Mortgage Servicing Rights, Amortization and Impairment

The Company recognizes as separate assets the rights to service mortgage loans for others, whether the servicing rights are acquired through a separate purchase or through loan origination by allocating total costs incurred between the loan, the servicing rights retained and other assets retained based on their relative fair values. Amortization of mortgage servicing rights ("MSRs") is based on the ratio of net servicing income received in the current period to total net servicing income projected to be realized from the MSRs. Projected net servicing income is in turn determined by the estimated future balance of the underlying mortgage loan portfolio, which declines over time from prepayments and scheduled loan amortization. The Company estimates future prepayment rates based on current interest rate levels, other economic conditions and market forecasts, as well as relevant characteristics of the servicing portfolio, such as loan types, note rate stratification and recent prepayment experience.

MSRs are periodically evaluated for impairment, which is recognized in the statement of earnings during the applicable period through additions to an impairment reserve. For purposes of performing its impairment evaluation, the Company stratifies its servicing portfolio on the basis of certain risk characteristics including loan type (fixed or adjustable) and note rate.

### Servicing Hedge

To mitigate the effect on earnings of MSR impairment that may result from increased current and projected prepayment activity that generally occurs when interest rates decline, the Company acquires financial instruments, including derivatives, that increase in aggregate value when interest rates decline (the "Servicing Hedge"). These financial instruments include interest rate floors, principle-only securities ("P/O Securities"), options on interest rate Swaps ("Swaptions"), options on MBS, options on interest rate futures, interest rate futures, interest rate swaps with the Company's maximum payment capped ("Capped Swaps"), interest rate swaps and interest rate caps. The value of the interest rate floors, options on interest rate futures and MBS, Capped Swaps, interest rate caps and Swaptions, is derived from an underlying instrument or index; however, the notional or contractual amount is not recognized on the balance sheet. The cost of these instruments is charged to expense (and deducted from net loan administration income) over the life of the contract. Unamortized costs are included in Investments in Other Financial Instruments on the balance sheet. The basis of the MSRs is adjusted for realized and unrealized gains and losses in the derivative financial instruments that qualify for hedge accounting.

# Notes to Consolidated Financial Statements

(continued)

## Qualitative Disclosures About Market Risk

The primary market risk facing the Company is interest rate risk. From an enterprise perspective, the Company manages this risk by striving to balance its loan origination and loan servicing business segments, which are counter-cyclical in nature. In addition, the Company utilizes various financial instruments, including derivatives contracts, to manage the interest rate risk related specifically to its Committed Pipeline, mortgage loan inventory and MBS held for sale, MSRs, mortgage-backed securities retained in securitizations, trading securities and debt securities. The overall objective of the Company's interest rate risk management policies is to offset changes in the values of these items resulting from changes in interest rates. The Company does not speculate on the direction of interest rates in its management of interest rate risk.

To qualify for hedge accounting, the derivative contract positions must be designated as a hedge and be effective in reducing the market risk of an existing asset, liability or the Committed Pipeline. The effectiveness of the derivative contracts is evaluated on an initial and ongoing basis using quantitative measures of correlation. If a derivative contract no longer qualifies as a hedge, any subsequent changes in fair value are recognized currently in earnings.

If a derivative contract that qualifies as a hedge is sold, matures or is terminated, any resulting intrinsic gain or loss adjusts the basis of the underlying item. Unamortized premiums associated with the time value of such contracts are recognized in income. If a designated underlying item is no longer held, any previously unrecognized gain or loss on the related derivative is recognized in earnings and the derivative contract is subsequently accounted for at fair value.

## Trading Securities

Trading securities consists of financial instruments held by the Company's broker-dealer subsidiary. These financial instruments, including derivative contracts, 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.

## Available-for-Sale Securities

The Company has designated its investments in P/O Securities, certain other equity securities, mortgage-backed securities retained in the Company's securitizations and insurance company investment portfolio as available for sale securities, which are included in Investments in Other Financial Instruments. Mortgage-backed securities retained in the Company's securitizations consist of sub-prime and home equity residual interests ("Residuals") and interest-only and principal-only certificates related to the Company's non-conforming private label mortgage-backed securities. The timing and amount of cash flows on these securities are significantly influenced by prepayments on the underlying loans and estimated foreclosure losses to the extent the Company has retained the risk of such losses. The fair value of these securities is determined by discounting future cash flows using discount rates that approximate current market rates.

As of February 29, 2000, the Company used discount rates for sub-prime and home equity mortgage-backed residuals of 20% and 15%, respectively; annual prepayment estimates of 19% to 37% and 25%, respectively; and lifetime credit loss estimates of 1.0% to 9.0% and 2.3% of the original principal balances of the underlying loans, respectively.

The insurance company investment portfolio, includes primarily fixed income securities, as well as stocks and other short-term securities.

The available for sale securities are measured at fair value. Unrealized gains or losses, net of deferred income taxes, are excluded from earnings and reported as a separate component of shareholders' equity until realized. Realized gains and losses on sales of securities 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.

## Loan Origination Fees

Loan fees, discount points and certain direct origination costs are recorded as an adjustment of the cost of the loan and are recorded in earnings when the loan is sold.

## Option Fees

Option fees, included in Other Assets, primarily consist of unamortized put and call option fees on MBS. Option fees are amortized over the life of the option to reflect the decline in its time value. Any unamortized option fees are charged to income when the related option is exercised.

## Investment in Non-Consolidated Subsidiaries

The Company has an investment in CWHL Funding, Inc., a bankruptcy remote, wholly-owned subsidiary. This subsidiary was established to facilitate the sale of certain defaulted mortgage loans repurchased in the ordinary course of business from Ginnie Mae MBS serviced by the Company. The Company's investment in CWHL Funding, Inc. was \$63.0 million and \$73.7 million as of February 29, 2000 and February 28, 1999, respectively.

## Interest Income Recognition

Interest income is accrued as earned. Loans are placed on non-accrual 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. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

### Loan Servicing Income

Loan servicing income represents fees earned for servicing residential mortgage loans for investors and related ancillary income, including late charges. Servicing income is recognized as earned, unless collection is doubtful.

### Interest Rate Swap Agreements

The amount to be received or paid under the interest rate swap agreements associated with the Company's debt and custodial accounts is accrued and is recognized as an adjustment to net interest income. The related amount payable to or receivable from counterparties is included in accounts payable and accrued liabilities.

### Advertising Costs

The Company generally charges to expense the production costs of advertising the first time the advertising takes place, except for direct-response advertising, which is capitalized and amortized over the expected period of future benefits. Advertising expense was \$53.5 million, \$46.0 million and \$32.6 million for the years ended February 29(28), 2000, 1999 and 1998, respectively.

### Stock-Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company recognizes compensation cost 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.

### Income Taxes

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

### Earnings Per Share

Basic earnings per share ("EPS") is determined using net income divided by the weighted average shares outstanding during the period. Diluted EPS is computed by dividing net income by the weighted average shares outstanding, assuming all dilutive potential common shares were issued.

The following table presents basic and diluted EPS for the years ended February 29(28), 2000, 1999 and 1998.

(Amounts in thousands, except per share data)	Year ended February 29(28),								
	2000			1999			1998		
	Net Earnings	Shares	Per-Share Amount	Net Earnings	Shares	Per-Share Amount	Net Earnings	Shares	Per-Share Amount
Net earnings	<u>\$410,243</u>			<u>\$385,401</u>			<u>\$344,983</u>		
<b>Basic EPS</b>									
Net earnings available to common shareholders	\$410,243	113,083	\$3.63	\$385,401	111,414	\$3.46	\$344,983	107,491	\$3.21
Effect of Dilutive Stock Options	—	3,605		—	5,631		—	4,035	
<b>Diluted EPS</b>									
Net earnings available to common shareholders	<u>\$410,243</u>	<u>116,688</u>	<u>\$3.52</u>	<u>\$385,401</u>	<u>117,045</u>	<u>\$3.29</u>	<u>\$344,983</u>	<u>111,526</u>	<u>\$3.09</u>

During the years ended February 29(28), 2000 and 1999, options to purchase 3.2 million shares and 1.2 million shares, respectively, were outstanding but not included in the computation of EPS because they were antidilutive.

### Financial Statement Reclassifications and Restatement

Certain amounts reflected in the Consolidated Financial Statements for the years ended February 28, 1999 and 1998 have been reclassified to conform to the presentation for the year ended February 29, 2000.

# Notes to Consolidated Financial Statements

(continued)

## NOTE B – PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements consisted of the following.

(Dollar amounts in thousands)	February 29(28),	
	2000	1999
Buildings	\$ 183,134	\$ 97,339
Office equipment	362,346	305,092
Leasehold improvements	55,281	42,578
	600,761	445,009
Less: accumulated depreciation and amortization	(218,828)	(167,449)
	381,933	277,560
Land	28,966	34,181
	<u>\$ 410,899</u>	<u>\$ 311,741</u>

Depreciation and amortization expense amounted to \$48.8 million, \$40.3 million and \$31.8 million for the years ended February 29(28), 2000, 1999 and 1998, respectively.

## NOTE C – MORTGAGE SERVICING RIGHTS

Entries to mortgage servicing rights for the years ended February 29(28), 2000, 1999 and 1998 were as follows.

(Dollar amounts in thousands)	February 29(28),		
	2000	1999	1998
<b>Mortgage Servicing Rights</b>			
Balance at beginning of period	\$4,591,191	\$3,653,318	\$3,026,494
Additions, net	1,299,909	1,898,007	1,149,988
Securitization of service fees	(218,770)	—	—
Scheduled amortization	(459,308)	(556,373)	(300,312)
Hedge losses (gains) applied	207,217	(403,761)	(222,852)
Balance before valuation reserve at end of period	5,420,239	4,591,191	3,653,318
<b>Reserve for Impairment of Mortgage Servicing Rights</b>			
Balance at beginning of period	(94,752)	(41,308)	(2,668)
Reductions (additions)	70,990	(53,444)	(38,640)
Balance at end of period	(23,762)	(94,752)	(41,308)
<b>Mortgage Servicing Rights, net</b>	<u>\$5,396,477</u>	<u>\$4,496,439</u>	<u>\$3,612,010</u>

The estimated fair value of mortgage servicing rights was \$5.7 billion and \$4.7 billion as of February 29(28), 2000 and 1999, respectively. The fair value was determined by discounting estimated net future cash flows from mortgage servicing activities using discount and prepayment rates that approximate current market rates.

## NOTE D – INVESTMENTS IN OTHER FINANCIAL INSTRUMENTS

Investments in other financial instruments as of February 29(28), 2000 and 1999 included the following.

(Dollar amounts in thousands)	February 29(28),	
	2000	1999
Servicing hedge instruments	\$1,784,315	\$ 991,401
Mortgage-backed securities retained in securitization	775,867	500,631
Insurance company investment portfolio	520,490	—
Securities purchased under agreements to resell	435,593	76,246
Equity securities, restricted and unrestricted	46,193	59,875
	<u>\$3,562,458</u>	<u>\$1,628,153</u>

#### NOTE E — AVAILABLE FOR SALE SECURITIES

Amortized cost and fair value of available for sale securities as of February 29(28), 2000 and 1999 were as follows. (In October 1998, mortgage-backed securities retained in securitization were reclassified as available for sale securities; see Note S.)

(Dollar amounts in thousands)	February 29, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities retained in securitization	\$ 760,619	\$39,411	\$(24,163)	\$ 775,867
Principal only securities	1,002,496	2,372	(52,028)	952,840
Insurance company investment portfolio	523,012	483	(3,005)	520,490
Equity securities	63,136	3,193	(20,136)	46,193
	<u>\$2,349,263</u>	<u>\$45,459</u>	<u>\$(99,332)</u>	<u>\$2,295,390</u>

(Dollar amounts in thousands)	February 28, 1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities retained in securitization	\$519,321	\$ —	\$(18,690)	\$500,631
Principal only securities	32,514	312	—	32,826
Equity securities	42,498	3,098	(16,904)	28,692
	<u>\$594,333</u>	<u>\$3,410</u>	<u>\$(35,594)</u>	<u>\$562,149</u>

#### NOTE F — NOTES PAYABLE

Notes payable consisted of the following.

(Dollar amounts in thousands)	February 29(28),	
	2000	1999
Commercial paper	\$ 103,829	\$ 176,559
Medium-term notes, Series A, B, C, D, E, F, G, H and Euro Notes	7,975,324	8,039,824
Repurchase agreements	1,501,409	1,517,405
Subordinated notes	200,000	200,000
Other notes payable	2,063	1,971
	<u>\$9,782,625</u>	<u>\$9,935,759</u>

#### Commercial Paper and Backup Credit Facilities

As of February 29, 2000, CHL, the Company's mortgage banking subsidiary, had unsecured credit agreements (revolving credit facilities) with consortiums of commercial banks permitting CHL to borrow an aggregate maximum amount of \$5.0 billion. The facilities included a \$4.0 billion revolving credit facility with forty-four commercial banks consisting of: (i) a five-year facility of \$3.0 billion, which expires on September 24, 2002, and (ii) a one-year facility of \$1.0 billion which expires on September 20, 2000. As consideration for the facility, CHL pays annual commitment fees of \$3.8 million. There is an additional one-year facility, which expired April 12, 2000, with eleven of the forty-four banks referenced above for total commitments of \$1.0 billion. As consideration for the facility, CHL pays annual commitment fees of \$0.8 million. CHL renewed this facility. (See Note O — "Subsequent Events.") 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 February 29, 2000. The weighted average borrowing rate on commercial paper borrowings for the year ended February 29, 2000 was 5.31%. The weighted average borrowing rate on commercial paper outstanding as of February 29, 2000 was 5.92%. In addition, CHL has entered into a \$1.1 billion asset-backed commercial paper conduit facility with four commercial banks. This facility has a maturity date of November 21, 2000. As consideration for this facility, CHL pays annual commitment fees of \$1.4 million. Loans made under this facility are secured by conforming and non-conforming mortgage loans. All of the facilities contain various financial covenants and restrictions, certain of which limit the amount of dividends that can be paid by the Company or CHL.

# Notes to Consolidated Financial Statements

(continued)

## Medium-Term Notes

As of February 29, 2000, outstanding medium-term notes issued by CHL under various shelf registrations filed with the Securities and Exchange Commission or issued by CHL pursuant to its Euro medium-term note program were as follows.

(Dollar amounts in thousands)	Outstanding Balance			Interest Rate		Maturity Date	
	Floating-Rate	Fixed-Rate	Total	From	To	From	To
Series A	\$ —	\$ 143,500	\$ 143,500	7.29%	8.79%	Aug. 2000	Mar. 2002
Series B	—	301,000	301,000	6.53%	6.98%	Apr. 2000	Aug. 2005
Series C	130,000	127,000	257,000	5.74%	7.75%	Mar. 2000	Mar. 2004
Series D	75,000	385,000	460,000	6.05%	6.88%	Aug. 2000	Sep. 2005
Series E	210,000	690,000	900,000	6.31%	7.45%	Aug. 2000	Oct. 2008
Series F	311,000	1,344,000	1,655,000	6.13%	7.00%	Oct. 2000	May 2013
Series G	5,000	581,000	586,000	5.35%	7.00%	Oct. 2000	Nov. 2018
Series H	—	1,889,000	1,889,000	6.25%	8.25%	Jun. 2004	Oct. 2019
Euro Notes	659,600	1,124,224	1,783,824	6.10%	7.42%	Jul. 2000	Jan. 2009
<b>Total</b>	<b>\$1,390,600</b>	<b>\$6,584,724</b>	<b>\$7,975,324</b>				

As of February 29, 2000 substantially all of the outstanding fixed-rate notes had been effectively converted through interest rate swap agreements to floating-rate notes. The weighted average rate on medium-term notes for the year ended February 29, 2000, including the effect of the interest rate swap agreements, was 5.88%. As of February 29, 2000 \$1,074 million foreign currency-denominated medium-term notes were outstanding. Such notes are denominated in Deutsche Marks, French Francs, Portuguese Escudos and Euros. The Company manages the associated foreign currency risk by entering into currency swaps. The terms of the currency swaps effectively translate the foreign currency denominated medium-term notes into U.S. dollars.

## Repurchase Agreements

The Company routinely enters into short-term financing arrangements to sell MBS under agreements to repurchase. The weighted average borrowing rate for the year ended February 29, 2000 was 5.16%. The weighted average borrowing rate on repurchase agreements outstanding as of February 29, 2000 was 5.86%. The repurchase agreements were collateralized by MBS. All MBS underlying repurchase agreements are held in safekeeping by broker-dealers or banks. All agreements are to repurchase the same or substantially identical MBS.

## Pre-Sale Funding Facilities

As of February 29, 2000, CHL had uncommitted revolving credit facilities with the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The credit facilities are secured by conforming mortgage loans which are in the process of being pooled into MBS. As of February 29, 2000, the Company had no outstanding borrowings under any of these facilities.

Maturities of notes payable are as follows.

Year ending February 29(28),	(Dollar amounts in thousands)
2001	\$2,529,302
2002	727,000
2003	1,146,500
2004	863,000
2005	1,528,685
Thereafter	2,988,138
	<u>\$9,782,625</u>

## NOTE G — COMPANY-OBLIGATED CAPITAL SECURITIES OF SUBSIDIARY TRUSTS

In December 1996, Countrywide Capital I (the "Subsidiary Trust I"), a subsidiary of the Company, issued \$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 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.

In June 1997, Countrywide Capital III (the "Subsidiary Trust III"), a subsidiary of the Company, issued \$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 December 1997, Subsidiary Trust III completed an exchange offer pursuant to which newly issued capital securities (the "New 8.05% Capital Securities") were exchanged for all of the outstanding 8.05% Capital Securities. The New 8.05% Capital Securities are identical in all material respects to the 8.05% Capital Securities, except that the New 8.05% Capital Securities have been registered under the Securities Act of 1933, as amended.

In relation to Subsidiary Trusts I and III, CHL 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 and CHL 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.

#### NOTE H – INCOME TAXES

Components of the provision for income taxes were as follows.

(Dollar amounts in thousands)	Year ended February 29(28),		
	2000	1999	1998
Federal expense – deferred	\$220,955	\$204,186	\$181,228
State expense – deferred	–	42,218	39,335
	<u>\$220,955</u>	<u>\$246,404</u>	<u>\$220,563</u>

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 February 29(28),		
	2000	1999	1998
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income and franchise taxes, net of federal tax effect	4.0	4.0	4.0
Change in expected state tax rate	(4.0)	–	–
Effective income tax rate	<u>35.0%</u>	<u>39.0%</u>	<u>39.0%</u>

In Fiscal 2000, the Company initiated a corporate reorganization related to its servicing operations. As a result of the reorganization, future state income tax liabilities are expected to be less than the amounts that were previously recorded as deferred income tax expense and liability in the Company's financial statements. The expected reduction in tax liabilities was reflected as a reduction in deferred state income tax expense in Fiscal 2000.

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

(Dollar amounts in thousands)	February 29(28),	
	2000	1999
Deferred income tax assets:		
Net operating losses	\$ 157,606	\$ 198,204
State income and franchise taxes	53,625	59,752
Reserves, accrued expenses and other	38,366	41,898
Total deferred income tax assets	<u>249,597</u>	<u>299,854</u>
Deferred income tax liabilities:		
Mortgage servicing rights	1,500,495	1,368,349
Gain on sale of subsidiary	21,413	23,681
Total deferred income tax liabilities	<u>1,521,908</u>	<u>1,392,030</u>
Deferred income taxes	<u>\$1,272,311</u>	<u>\$1,092,176</u>

As of February 29, 2000, the Company had net operating loss carryforwards for federal income tax purposes totaling \$443.3 million that expire as follows: \$74.3 million in 2009, \$74.3 million in 2010, \$41.3 million in 2011, \$84.7 million in 2012, and \$72.8 million in 2013, and \$95.9 million in 2019.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 1 — FINANCIAL INSTRUMENTS

### Derivative Financial Instruments

The Company utilizes a variety of derivative financial instruments to manage interest-rate risk. These instruments include interest rate floors, MBS mandatory forward sale and purchase commitments, options to sell or buy MBS, treasury futures and interest rate futures, interest rate caps, Capped Swaps, Swaptions, interest rate futures and interest rate swaps. These instruments involve, to varying degrees, elements of interest-rate and credit risk. In addition, the Company manages foreign currency exchange rate risk with foreign currency swaps.

The Company has potential exposure to credit loss in the event of nonperformance by the counterparties to the various over-the-counter instruments. The Company manages this credit risk by selecting only well established, financially strong counterparties, spreading the credit risk amongst many such counterparties, and by placing contractual limits on the amount of unsecured credit risk from any one 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 margins retained by the Company, a custodian or the Mortgage-Backed Securities Clearing Corporation (the "MBSCC"), which is an independent clearing agent.

The total amount of counterparty credit exposure as of February 29, 2000, before and after applicable margin accounts held, was as follows:

(Dollar amounts in millions)	As of February 29, 2000
Total credit exposure before margin accounts held	\$218.7
Less: Margin accounts held	<u>(89.5)</u>
Net unsecured credit exposure	<u>\$129.2</u>

### Hedge of Committed Pipeline and Mortgage Loan Inventory

As of February 29, 2000, the Company had \$2.7 billion of closed mortgage loans and MBS held in inventory, including \$2.1 billion fixed-rate and \$0.6 billion adjustable-rate (the "Inventory"). In addition, as of February 29, 2000, the Company had short-term rate and point commitments amounting to approximately \$4.2 billion (including \$2.8 billion fixed-rate and \$1.4 billion adjustable-rate) to fund mortgage loan applications in process and an additional \$3.1 billion (including \$2.8 billion fixed-rate and \$0.3 billion adjustable-rate) like commitments subject to property identification and borrower qualification (together the "Committed Pipeline"). Substantially all of these commitments are for periods of 60 days or less. (After funding and sale of the mortgage loans, the Company's exposure to credit loss in the event of nonperformance by the mortgagor is limited as described in Note J).

In order to mitigate the risk that a change in interest rates will result in a decline in the value of the Company's Committed Pipeline or Inventory, the Company enters into hedging transactions. The Inventory is hedged with forward contracts for the sale of loans and net sales of MBS, including options to sell MBS where the Company can exercise the option on or prior to the anticipated settlement date of the MBS.

Due to the variability of closings in the Company's Committed Pipeline, which is driven primarily by interest rates, the Company's hedging policies require that substantially all of the Committed Pipeline be hedged with a combination of options for the purchase and sale of MBS and treasury futures in addition to forward contracts for the sale of MBS. As of February 29, 2000, the notional amount of options to purchase and sell MBS aggregated \$3.1 billion and \$1.3 billion, respectively. There were no treasury futures options in place at February 29, 2000. The Company had net forward contracts to sell MBS that amounted to \$4.8 billion (including forward contracts to sell MBS of \$9.1 billion and to purchase MBS of \$4.3 billion). The MBS that are to be delivered under these contracts and options are either fixed or adjustable-rate, and generally correspond with the composition of the Company's Inventory and Committed Pipeline.

The Company is generally not exposed to significant losses nor will it realize significant gains related to its Inventory or Committed Pipeline due to changes in interest rates, net of gains or losses on associated hedge positions. The correlation between the Inventory, the Committed Pipeline and the associated hedge instruments is very high due to their similarity. However, the Company is exposed to the risk that the actual closings in the Committed Pipeline may deviate from the estimated closings for a given change in interest rates. Although interest rates are the primary determinant, the actual loan closings from the Committed Pipeline are influenced by many factors, including the composition of the Committed Pipeline and remaining commitment periods. The Company's estimated closings are based on historical data of loan closings as influenced by recent developments.

### Servicing Hedge

The Company manages its exposure to interest rate risk primarily through balancing its loan production and loan servicing operations which are counter cyclical in nature. In order to further mitigate the effect on earnings of MSR impairment that may result from increased current and projected prepayment activity that generally occur when interest rates decline, the Company maintains a portfolio of financial instruments, including derivative contracts, that increase in aggregate value when interest rates decline (the "Servicing Hedge"). The financial instruments that form the Servicing Hedge include interest rate floors, options on interest rate futures, Capped Swaps, interest rate swaps, interest rate caps, Capped Swaps, Swaptions, options on MBS, interest rate futures and P/O securities.

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

(Dollar amounts in millions)	Balance, February 28, 1999	Additions	Dispositions/ Expirations	Balance, February 29, 2000
Interest Rate Floors	\$33,000	18,000	(500)	\$50,500
Long Call Options on Interest Rate Futures	\$32,000	18,750	(35,750)	\$15,000
Long Put Options on Interest Rate Futures	\$54,600	5,250	(58,100)	\$1,750
Short Call Options on Interest Rate Futures	\$22,000	2,000	(24,000)	—
Short Put Options on Interest Rate Futures	\$ 720	—	(720)	—
Long Call Options on MBS	\$ 4,561	4,000	—	\$ 8,561
Interest Rate Futures	\$22,500	—	(22,500)	—
Capped Swaps	\$ 1,000	—	—	\$ 1,000
Interest Rate Swaps	\$15,150	1,050	(14,700)	\$ 1,500
Interest Rate Cap	\$ 4,500	—	(2,000)	\$ 2,500
Swaptions	\$32,550	20,500	(16,800)	\$36,250

The Servicing Hedge is intended to protect the value of the investment in MSRs from the effects of increased prepayment activity that generally results from declining interest rates. Should interest rates increase, the value of the MSRs generally will increase while the value of the Servicing Hedge will decline. With respect to the options on interest rate futures and MBS, Swaptions, floors, caps and P/O Securities included in the Servicing Hedge, the Company is not exposed to loss beyond its initial outlay to acquire the instruments plus any unrealized gains recognized to date. With respect to the Capped Swaps contracts entered into by the Company as of February 29, 2000, the Company estimates that its maximum exposure to loss over the contractual term is \$4 million. With respect to the Swap contracts entered into by the Company as of February 29, 2000, the Company estimates that its maximum exposure to loss over the contractual term is \$1 million.

#### Interest Rate Swaps

As of February 29, 2000, CHL had interest rate swap contracts, in addition to those included in the Servicing Hedge, with certain financial institutions having notional principal amounts totaling \$6.8 billion. The effect of these contracts is to enable CHL to convert its fixed-rate long-term debt borrowings to LIBOR-based floating-rate cost borrowings (notional amount \$5.6 billion), to convert its foreign currency denominated fixed-rate medium-term notes to U.S. dollar LIBOR-based floating-rate cost borrowings (notional amount \$1.1 billion) and to convert a portion of its medium-term note borrowings from one floating-rate index to another (notional amount \$0.1 billion). Payments are due periodically through the termination date of each contract. The agreements expire between April 2000 and June 2027.

The interest rate swap agreements related to debt had an average fixed rate (receive rate) of 6.23% and an average floating rate indexed to 3-month LIBOR (pay rate) of 6.30% on February 29, 2000.

#### Broker-Dealer Financial Instruments

Countrywide Securities Corporation ("CSC") utilizes a variety of financial instruments for trading purposes and to manage interest-rate risk. These instruments include MBS mandatory forward sale and purchase commitments as well as short sales of cash market U.S. Treasury securities. At February 29, 2000, CSC had forward contracts to sell MBS that amounted to \$3.1 billion and forward contracts to purchase MBS that amounted to \$1.3 billion. During the year ended February 29, 2000, the average fair value of the forward contracts to sell MBS amounted to a loss on \$4.3 million and the average fair value of forward contracts to purchase MBS amounted to a loss of \$2.8 million.

# Notes to Consolidated Financial Statements

(continued)

## Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments as of February 29(28), 2000 and 1999 is made by the Company using available market information and appropriate valuation methodologies. However, 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 methodologies may have a material effect on the estimated fair value amounts.

(Dollar amounts in thousands)	February 29, 2000		February 28, 1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets:</b>				
Mortgage loans and mortgage-backed securities held for sale	\$2,653,183	\$2,653,183	\$6,231,220	\$6,231,220
Trading securities	1,984,031	1,984,031	1,460,446	1,460,446
Items included in investments in other financial instruments:				
Principal only securities purchased	952,840	952,840	32,826	32,826
Mortgage-backed securities retained in securitizations	775,867	775,867	500,631	500,631
Insurance Company investment portfolio	520,490	520,490	—	—
Securities purchased with agreements to resell	435,593	435,593	76,246	76,246
Equity Securities – restricted and unrestricted	46,193	46,193	59,875	46,971
Items included in other assets:				
Rewarehoused FHA and VA loans	336,273	336,273	216,598	216,598
Loans held for investment	177,330	177,330	125,236	125,236
Receivables related to broker-dealer activities	22,612	22,612	401,232	401,232
<b>Liabilities:</b>				
Notes payable	9,782,625	9,459,011	9,935,759	9,883,859
Securities sold not yet purchased	181,903	181,903	84,775	84,775
<b>Derivatives:</b>				
Interest rate floors	411,278	180,360	426,838	402,061
Forward contracts on MBS	(11,080)	(13,511)	12,775	120,709
Options on MBS	75,950	32,415	90,476	98,935
Options on interest rate futures	8,921	6,032	18,261	15,729
Interest rate caps	47,348	39,088	77,508	40,437
Capped Swaps	(5,619)	(8,040)	8,470	3,092
Swaptions	341,039	76,254	337,703	271,073
Interest rate futures	—	—	57,280	57,280
Interest rate swaps	(23,228)	(457,051)	43,570	93,205
Short-term commitments to extend credit	—	52,500	—	26,400

The fair value estimates as of February 29(28), 2000 and 1999 are 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 and assumptions 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.

**Principal Only Securities** Fair value is estimated using quoted market prices and by discounting future cash flows using discount rates that approximate current market rates and market consensus prepayment rates.

**Mortgage-Backed Securities Retained in Securitization** Fair value is estimated by discounting future cash flows using discount rates that approximate current market rates, market consensus and internally developed prepayment rates.

**Insurance Company Investment Portfolio** Fair value is estimated using quoted market prices.

**Derivatives** Fair value is defined as the amount that the Company would receive or pay to terminate the contracts at the report date. Market or dealer quotes are available for many derivatives; otherwise, pricing or valuation models are applied to utilizing current market information to estimate fair value.

**Notes Payable** Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

## NOTE J – 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.

**Lease Commitments** The Company leases office facilities under lease agreements extending through December 2011. Future minimum annual rental commitments under these non-cancelable operating leases with initial or remaining terms of one year or more are as follows.

Year ending February 29(28),	(Dollar amounts in thousands)
2001	\$ 38,355
2002	33,336
2003	27,747
2004	19,033
2005	9,347
Thereafter	42,045
	<u>\$169,863</u>

Rent expense was \$57.2 million, \$44.7 million and \$30.2 million for the years ended February 29(28), 2000, 1999 and 1998, respectively.

**Restrictions on Transfers of Funds** The Company and certain of its subsidiaries are subject to regulatory and/or credit agreement restrictions which limit their ability to transfer funds to the Company through intercompany loans, advances or dividends. Pursuant to the revolving credit facilities as of February 29, 2000, the Company is required to maintain \$1.3 billion in consolidated net worth and CHL is required to maintain \$1.2 billion of net worth, as defined in the credit agreement.

**Loan Servicing** As of February 29(28), 2000, 1999 and 1998, the Company serviced loans totaling approximately \$250.2 billion, \$215.5 billion and \$182.9 billion, respectively. Included in the loans serviced as of February 29(28), 2000, 1999 and 1998 were loans being serviced under subservicing agreements with total principal balances of \$2.9 billion, \$2.2 billion and \$6.7 billion, respectively. The loans are serviced under a variety of servicing contracts. In general, these contracts include guidelines and procedures for servicing the loans, remittance requirements and reporting requirements, among other provisions.

Conforming conventional loans serviced by the Company (56% of the servicing portfolio as of February 29, 2000) are primarily included in either Fannie Mae MBS or Freddie Mac participation certificates ("PCs"). Such servicing is done on a non-recourse basis, whereby credit losses are generally borne by Fannie Mae or Freddie Mac and not the Company. The government loans serviced by the Company are included in either Ginnie Mae MBS, Fannie Mae MBS, or Freddie Mac PCs. The government loans are either insured against loss by the Federal Housing Administration (17% of the servicing portfolio as of February 29, 2000) or partially guaranteed against loss by the Department of Veterans Affairs (7% of the servicing portfolio as of February 29, 2000). In addition, non-conforming mortgage loans (20% of the servicing portfolio as of February 29, 2000) are primarily included in "private label" MBS and serviced on a non-recourse basis.

Properties securing the mortgage loans in the Company's servicing portfolio are geographically dispersed throughout the United States. As of February 29, 2000, approximately 28% and 5% of the mortgage loans (measured by unpaid principal balance) in the Company's servicing portfolio are secured by properties located in California and Texas, respectively. No other state contains more than 5% of the properties securing mortgage loans.

Generally, the Company is not exposed to credit risk. Because the Company services substantially all conventional loans on a non-recourse basis, credit losses are normally borne by the investor or insurer and not the Company. The Company retains primary credit risk on the home equity and sub-prime loans it securitizes through retention of a subordinated interest. As of February 29, 2000, the Company had investments in such subordinated interests that amounted to \$570.4 million. While the Company generally does not retain credit risk with respect to the conventional prime credit quality first mortgage loans it sells, it does have potential liability under representations and warranties made to purchasers and insurers of the loans. In the event of

# Notes to Consolidated Financial Statements

(continued)

a breach of the representations and warranties, the Company may be required to repurchase a mortgage loan and any subsequent loss on the mortgage loan may be borne by the Company. Similarly, government loans serviced by the Company (24% of the Company's servicing portfolio as of February 29, 2000) are insured by the Federal Housing Administration or partially guaranteed against loss by the Department of Veterans Affairs. The Company is exposed to credit losses to the extent that the partial guarantee provided by the Department of Veterans Affairs is inadequate to cover the total credit losses incurred.

## NOTE K – 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 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.

Stock options transactions under the Plans were as follows.

	Year ended February 29(28),		
	2000	1999	1998
<b>Number of Shares:</b>			
Outstanding options at beginning of year	11,497,044	11,151,799	10,241,862
Options granted	3,643,111	1,648,647	1,836,169
Options exercised	(602,021)	(1,239,662)	(839,479)
Options expired or cancelled	(478,619)	(63,740)	(86,753)
Outstanding options at end of year	<u>14,059,515</u>	<u>11,497,044</u>	<u>11,151,799</u>
<b>Weighted Average Exercise Price:</b>			
Outstanding options at beginning of year	\$24.81	\$20.57	\$19.03
Options granted	35.27	46.71	27.09
Options exercised	13.45	15.90	16.07
Options expired or canceled	37.64	25.11	21.17
Outstanding options at end of year	<u>\$27.44</u>	<u>\$24.81</u>	<u>\$20.57</u>
Options exercisable at end of year	8,299,892	6,514,039	5,407,177
Options available for future grant	2,673,480	5,840,713	1,920,487

Status of the outstanding stock options under the Plans as of February 29, 2000 was as follows:

Exercise Price Range	Outstanding Options			Exercisable Options	
	Weighted Average Remaining Contractual Life	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$ 2.80 – \$15.90	2.8 years	878,123	\$14.29	878,123	\$14.29
\$15.91 – \$21.20	4.2	2,172,720	17.51	2,172,720	17.51
\$21.21 – \$26.50	5.7	5,889,217	23.43	4,056,366	22.94
\$26.51 – \$31.80	7.1	1,513,094	27.07	751,018	27.06
\$31.81 – \$42.40	4.5	2,126,681	40.98	8,751	39.46
\$42.41 – \$53.00	8.1	1,479,680	46.73	432,914	46.73
<u>\$ 2.80 – \$53.00</u>	<u>5.5 years</u>	<u>14,059,515</u>	<u>\$27.44</u>	<u>8,299,892</u>	<u>\$22.23</u>

Had the estimated fair value of the options granted during the period 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 February 29(28),		
	2000	1999	1998
<b>Net Earnings</b>			
As reported	\$410,243	\$385,401	\$344,983
Pro forma	\$379,632	\$366,118	\$335,043
<b>Basic Earnings Per Share</b>			
As reported	\$ 3.63	\$ 3.46	\$ 3.21
Pro forma	\$ 3.36	\$ 3.29	\$ 3.12
<b>Diluted Earnings Per Share</b>			
As reported	\$ 3.52	\$ 3.29	\$ 3.09
Pro forma	\$ 3.25	\$ 3.13	\$ 3.00

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model that has been modified to consider cash dividends to be paid. The following weighted-average assumptions were used for grants in Fiscal 2000, 1999 and 1998, respectively: dividend yield of 1.29%, 0.72% and 1.18%; expected volatility of 34%, 40% and 28%; risk-free interest rates of 6.0%, 5.5% and 6.5% and expected lives of five years for options granted in all three years. The average fair value of options granted during Fiscal 2000, 1999 and 1998 was \$13.66, \$19.20 and \$8.89, respectively.

**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.

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

(Dollar amounts in thousands)	Year ended February 29(28),	
	2000	1999
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$29,777	\$23,933
Service cost	5,535	4,715
Interest cost	2,204	1,772
Transfer of plan assets	(453)	—
Actuarial loss (gain)	(41)	549
Benefits paid	(401)	(364)
Change in discount rate	(4,028)	(828)
Benefit obligation at end of year	<u>\$32,593</u>	<u>\$29,777</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$22,775	\$18,152
Actual return on plan assets	3,110	1,948
Employer contribution	5,846	3,039
Transfer of plan assets	(453)	—
Benefits paid	(401)	(364)
Fair value of plan assets at end of year	<u>\$30,877</u>	<u>\$22,775</u>
<b>Funded status at end of year</b>	\$ (1,716)	\$(7,002)
Unrecognized net actuarial (gain) loss	(4,977)	151
Unrecognized prior service cost	924	1,024
Unrecognized transaction asset	(142)	(212)
<b>Net amount recognized</b>	<u>\$ (5,911)</u>	<u>\$(6,039)</u>

# Notes to Consolidated Financial Statements

(continued)

The following table sets forth the components of net periodic benefit cost for 2000 and 1999.

(Dollar amounts in thousands)	Year ended February 29(28),	
	2000	1999
Service cost	\$ 5,535	\$ 4,715
Interest cost	2,204	1,772
Expected return on plan assets	(2,051)	(1,569)
Amortization of prior service cost	99	99
Amortization of unrecognized transition asset	(70)	(70)
Net periodic benefit cost	<u>\$ 5,717</u>	<u>\$ 4,947</u>

The weighted-average assumptions used in calculating the amounts above were:

	Year ended February 29(28),	
	2000	1999
Discount rate	8.00%	7.40%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%

Pension expense for the years ended February 29(28), 2000, 1999 and 1998 was \$5.7 million, \$4.9 million and \$3.4 million, respectively. The Company makes contributions to the Plan in amounts that are deductible in accordance with federal income tax regulations.

**Defined Contribution Plan** The Company has a defined contribution 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% 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% of the participant contributions up to a maximum of 6% of the participants' base compensation, as defined in the plan agreement. The defined contribution plan is subject to the provisions of ERISA.

## NOTE L — SHAREHOLDERS' EQUITY

In January, 2000, the Company entered into a three year equity put option agreement with National Indemnity Company ("National Indemnity"), a property casualty insurance company which is a subsidiary of Berkshire Hathaway, Inc. The purpose of the agreement is to provide up to \$100 million of additional capital and surplus in the event that property and casualty insurance companies of Balboa Life and Casualty ("Balboa") incur a certain level of catastrophic property and casualty losses.

Upon the occurrence of one or more catastrophic events and two trigger events, the Company will have the option to require National Indemnity to purchase up to one million shares of non-voting Series B Cumulative Preferred Stock, par value \$0.05 per share, of the Company (the "Series B Preferred Stock"), at a price of \$100 per share, with a dividend rate to be determined in accordance with the agreement, resetting annually. The Series B Preferred Stock is convertible into shares of common stock of the Company at a price which is 20% above the average price of the common stock in the 30-day period prior to the issuance of the Series B Preferred Stock. Upon issuance of the Series B Preferred Stock and for so long as National Indemnity owns at least 50% of the outstanding Series B Preferred Stock, the Company will not be able to increase quarterly dividends on its common stock. If issued, the Series B Preferred Stock will pay an annual dividend rate determined at the time of issuance, and such rate would increase by 50 basis points each year if the Series B Preferred Stock remained outstanding for more than three years. The Series B Preferred Stock is redeemable by the Company at the purchase price plus any then unpaid dividend yield.

A catastrophic event that would trigger the option is one which results in Balboa sustaining losses in excess of \$97 million, net of reinsurance recoverable, or the occurrence in any calendar year of multiple catastrophic events which results Balboa sustaining losses in excess of \$194 million, net of reinsurance recoverable. In addition, for the option to be triggered the consolidated net loss ratio of the Balboa property and casualty operations must exceed 60% for the applicable calendar year and Balboa property and casualty operations must have a net loss for such year.

In the event of a default in the payment of dividends on Series B Preferred Stock, National Indemnity has the right to purchase shares of the Company's common stock having a market value of \$1 million at a price per share of 10% below the closing price of the Company's common stock on the business day prior to such purchase. This purchase option may be exercised quarterly until all unpaid dividends and interest are paid.

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 prior to 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 exercisability 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. The Rights expire on the earlier of February 28, 2002, consummation of certain merger transactions or optional redemption by the Company prior to any person becoming an Acquiring Person.

#### NOTE M — RELATED PARTY TRANSACTIONS

In July 1997, the Company sold the assets, operations and employees of Countrywide Asset Management Corporation ("CAMC"), a then wholly-owned subsidiary of the Company, to IndyMac Mortgage Holdings, Inc. (formerly INMC Mortgage Holdings, Inc.) ("INMC"). CAMC was formerly the manager of INMC. As consideration, the Company received 3,440,800 newly issued common shares of INMC. These shares are subject to resale restrictions which apply to the shares from the date of issuance through July 2000.

Prior to the sale, CAMC received certain management fees and incentive compensation. During the year ended February 28, 1998, CAMC earned \$0.6 million in base management fees from INMC and its subsidiaries. In addition, during the year ended February 28, 1998, CAMC received \$3.1 million in incentive compensation. In addition, CAMC incurred many of the expenses related to the operations of INMC and its subsidiaries, including personnel and related expenses, subject to reimbursement by INMC. During the year ended February 28, 1998, the amount of expenses incurred by CHL which were allocated to CAMC and reimbursed by INMC totaled \$16.0 million.

Subsequent to the sale, the Company entered into an agreement with INMC whereby the Company and certain affiliates agreed to provide certain services to INMC during a transition period. During the years ended February 29(28), 2000 and 1999, CHL received \$3.9 million and \$2.6 million, respectively, from INMC related to services provided in accordance with the agreement. Additionally, during the years ended February 29(28), 2000 and 1999 the Company received \$4.1 million and \$3.0 million, respectively, of net sublease income from INMC.

INMC held an option to purchase conventional loans from CHL at the prevailing market price. This option was not utilized in the year ended February 29, 2000. During the years ended February 28, 1999 and 1998, INMC purchased \$460.2 million and \$2.9 million, respectively, of conventional non-conforming mortgage loans from CHL pursuant to this option.

During the year ended February 28, 1999, CHL entered into an agreement pursuant to which CHL assumed certain INMC recourse obligations with respect to certain mortgage loans that INMC had previously sold to Freddie Mac. In consideration of CHL's assumption of these recourse obligations, CHL received \$6.0 million, which Management believes will exceed the actual loss experience. A portion of the \$6.0 million is subject to reimbursement to INMC based upon actual loss experience on the loans.

During the year ended February 28, 1999, CHL purchased servicing rights from INMC for \$35.5 million, related to a \$2.7 billion portfolio of loans.

During the year ended February 29, 2000, the Company sold 780,000 shares of INMC common stock, which resulted in a pre-tax gain of \$0.4 million.

Prior to August 1998, CHL sub-serviced mortgage loans issued by subsidiaries of INMC, for which CHL received \$1.7 million and \$1.9 million in subservicing fees for the years ended February 28, 1999 and 1998, respectively.

During the year ended February 29, 2000, the Company's broker-dealer subsidiary purchased \$872.6 million of MBS from INMC and sold \$100.0 million MBS to INMC.

In January 2000, CHL sold their entire investment in IndyMac, Inc., which consisted of all of the outstanding common stock and 1% of the economic interest in IndyMac, Inc., to INMC for \$1.8 million.

# Notes to Consolidated Financial Statements

(continued)

## NOTE N – SEGMENTS AND RELATED INFORMATION

The Company has four major segments: Loan Production, Loan Servicing, Capital Markets and Insurance. The Production segment is comprised of the Consumer Markets, Wholesale and Correspondent Divisions and Full Spectrum Lending, Inc. ("the Divisions"). The Loan Production segment originates and purchases conventional mortgage loans, mortgage loans insured by the FHA and VA, home equity and sub-prime loans and sells those loans to permanent investors. The Loan Servicing segment services on a primarily non-recourse basis substantially all of the mortgage loans originated and purchased by the Loan Production segment. In addition, the Loan Servicing segment purchases bulk servicing contracts, also on a non-recourse basis, to service single-family residential mortgage loans originated by other lenders. The Capital Markets segment trades securities, primarily mortgage-related securities, with broker-dealers and institutional investors and, as an agent, facilitates the purchase and sale of bulk servicing contracts. The Insurance segment is an agent and carrier that provides homeowners insurance, life insurance, disability insurance, automobile insurance, credit-related insurance and various other coverages. Included in the tables below labeled "Other" are the operating segments that provide other complimentary services and certain reclassifications to conform management reporting to the consolidated financial statements. In addition, for Fiscal Year 1998, "Other" includes a \$57.4 million pre-tax gain on the sale of a CAMC.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (See Note A).

(Dollars in thousands)	For the fiscal year ended February 29, 2000					
	Loan Production	Loan Servicing	Capital Markets	Insurance	Other	Consolidated Total
Non-interest revenues	\$ 904,634	\$ 847,934	\$ 64,090	\$ 45,249	\$ 88,416	\$ 1,950,323
Interest earned	667,933	234,482	106,898	10,800	(21,467)	998,646
Interest charges	(518,458)	(342,250)	(84,021)	(4,988)	19,423	(930,294)
Net interest income (expense)	149,475	(107,768)	22,877	5,812	(2,044)	68,352
Total revenue	\$1,054,109	\$ 740,166	\$ 86,967	\$ 51,061	\$ 86,372	\$ 2,018,675
Segment earnings (pre-tax)	\$ 259,869	\$ 312,182	\$ 32,124	\$ 13,485	\$ 13,538	\$ 631,198
Segment assets	\$3,795,339	\$8,963,785	\$2,409,714	\$568,314	\$ 85,176	\$15,822,328

(Dollars in thousands)	For the fiscal year ended February 28, 1999					
	Loan Production	Loan Servicing	Capital Markets	Insurance	Other	Consolidated Total
Non-interest revenues	\$1,271,934	\$ 483,933	\$ 54,594	\$22,711	\$100,593	\$1,933,765
Interest earned	721,289	270,355	40,051	492	(3,121)	1,029,066
Interest charges	(603,093)	(351,199)	(30,689)	(419)	1,571	(983,829)
Net interest income (expense)	118,196	(80,844)	9,362	73	(1,550)	45,237
Total revenue	\$1,390,130	\$ 403,089	\$ 63,956	\$22,784	\$ 99,043	\$ 1,979,002
Segment earnings (pre-tax)	\$ 556,213	\$ 20,130	\$ 26,529	\$ 3,325	\$ 25,608	\$ 631,805
Segment assets	\$7,093,817	\$6,626,097	\$1,858,357	\$ 6,503	\$ 63,482	\$15,648,256

(Dollars in thousands)	For the fiscal year ended February 28, 1998					
	Loan Production	Loan Servicing	Capital Markets	Insurance	Other	Consolidated Total
Non-interest revenues	\$ 685,160	\$ 620,964	\$ 39,581	\$20,752	\$126,786	\$ 1,493,243
Interest earned	421,714	150,997	3,909	344	7,112	584,076
Interest charges	(347,240)	(219,359)	(608)	(99)	(1,053)	(568,359)
Net interest income (expense)	74,474	(68,362)	3,301	245	6,059	15,717
Total revenue	\$ 759,634	\$ 552,602	\$ 42,882	\$20,997	\$132,845	\$ 1,508,960
Segment earnings (pre-tax)	\$ 245,121	\$ 207,487	\$ 19,287	\$ 7,522	\$ 86,129	\$ 565,546
Segment assets	\$5,969,661	\$5,588,454	\$532,927	\$ 5,718	\$ 86,451	\$12,183,211

### NOTE O – SUBSEQUENT EVENTS

On March 23, 2000, the Company declared a cash dividend of \$.10 per common share payable April 28, 2000 to shareholders of record on April 11, 2000.

On April 12, 2000, CHL renewed its one-year revolving credit facility with a revised limit of \$1.0 billion. The new facility expires on April 13, 2001.

### NOTE P – QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly data was as follows.

(Dollar amounts in thousands, except per share data)	Three months ended			
	May 31	August 31	November 30	February 29(28)
<b>Year ended February 29, 2000</b>				
Revenue	\$537,003	\$537,015	\$491,779	\$452,878
Expenses	367,529	362,420	327,039	330,489
Provision for income taxes	66,095	68,092	64,176	22,592
Net earnings	103,379	106,503	100,564	99,797
Earnings per share <sup>(1)</sup>				
Basic	\$ 0.92	\$ 0.94	\$ 0.89	\$ 0.88
Diluted	\$ 0.88	\$ 0.91	\$ 0.87	\$ 0.87
<b>Year ended February 28, 1999</b>				
Revenue	\$450,265	\$482,157	\$514,197	\$532,383
Expenses	301,488	326,293	353,589	365,827
Provision for income taxes	58,023	60,787	62,637	64,957
Net earnings	90,754	95,077	97,971	101,599
Earnings per share <sup>(1)</sup>				
Basic	\$ 0.82	\$ 0.86	\$ 0.88	\$ 0.90
Diluted	\$ 0.78	\$ 0.81	\$ 0.84	\$ 0.86

<sup>(1)</sup> 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 Q – SUMMARIZED FINANCIAL INFORMATION OF SUBSIDIARY

Summarized financial information for Countrywide Home Loans, Inc. was as follows.

(Dollar amounts in thousands)	February 29(28),	
	2000	1999
<b>Balance Sheets:</b>		
Mortgage loans and mortgage-backed securities held for sale	\$ 2,653,183	\$ 6,231,220
Mortgage servicing rights, net	5,396,477	4,496,439
Other assets	5,240,247	3,149,382
Total assets	<u>\$13,289,907</u>	<u>\$13,877,041</u>
Short- and long-term debt	\$ 9,224,956	\$ 9,910,966
Other liabilities	1,632,106	1,434,727
Equity	2,432,845	2,531,348
Total liabilities and equity	<u>\$13,289,907</u>	<u>\$13,877,041</u>

(Dollar amounts in thousands)	Year ended February 29(28),	
	2000	1999
<b>Statements of Earnings:</b>		
Revenues	\$1,597,691	\$1,668,627
Expenses	1,111,278	1,149,886
Provision for income taxes	168,729	202,308
Net earnings	<u>\$ 317,684</u>	<u>\$ 316,433</u>

# Notes to Consolidated Financial Statements

(continued)

## NOTE R – BUSINESS ACQUISITIONS

On November 30, 1999, the Company acquired all of the outstanding common stock of Balboa Life & Casualty, Inc. ("Balboa") for a cash price of \$435 million. The purchase price is subject to adjustment based upon completion of a post-closing audit.

Balboa is a leading writer of credit-related insurance, specializing in creditor-placed auto and homeowner insurance. Balboa is licensed to underwrite in all 50 states.

The acquisition of Balboa 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 \$898 million and \$473 million, respectively. Goodwill of \$10 million will be amortized over a period of 25 years.

The unaudited results of operations for Balboa are included in the Company's consolidated results of operations from December 1, 1999. The following table sets forth certain consolidated earnings data for the years ended February 29, 2000, and February 28, 1999, as if the acquisition of Balboa had been consummated March 1, 1998.

(Dollar amounts in thousands)	Year ended February 29(28),	
	2000	1999
Statements of Earnings:	(Unaudited)	
Revenues	\$2,193,550	\$2,245,253
Net Earnings	\$ 422,309	\$ 404,717
Per Share		
Basic	\$ 3.73	\$ 3.63
Diluted	\$ 3.62	\$ 3.46

In management's opinion, these unaudited pro forma amounts are not necessarily indicative of what the actual consolidated results of operations might have been if the acquisition had been effective at March 1, 1998.

## NOTE S – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"). It requires that an entity recognizes all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. This statement will be effective for the Company in fiscal year ending February 28, 2002. The Company has not yet determined the impact upon adoption of this standard on the Consolidated Financial Statements.

In October 1998, the Financial Accounting Standards Board issued SFAS No. 134, Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise ("SFAS No. 134"). SFAS No. 134 is an amendment of SFAS No. 65, Accounting for Certain Mortgage Banking Activities. It requires that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities and other retained interests based on its ability and intent to sell or hold those instruments. The Company adopted this statement in October 1998, accordingly, and reclassified mortgage-backed securities retained in securitization as available for sale securities.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders  
Countrywide Credit Industries, Inc.

We have audited the accompanying consolidated balance sheets of Countrywide Credit Industries, Inc. and Subsidiaries as of February 29, 2000 and February 28, 1999, and the related consolidated statements of earnings, common shareholders' equity, cash flows and comprehensive income for each of the three years in the period ended February 29, 2000. 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. 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 Credit Industries, Inc. and Subsidiaries as of February 29, 2000 and February 28, 1999, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended February 29, 2000, in conformity with accounting principles generally accepted in the United States.

In October 1998, the Company adopted Financial Accounting Standards Board Statement No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise." This change is discussed in Note 5 of the Notes to Consolidated Financial Statements.

*Grant Thornton LLP*

Los Angeles, California  
April 28, 2000

# Common Stock and Dividend Information

## MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock is listed on the New York Stock Exchange ("NYSE") and the Pacific Stock Exchange (Symbol: CCR). The following table sets forth the high and low sales prices (as reported by the NYSE) for the Company's common stock and the amount of cash dividends declared for the fiscal years ended February 29(28), 2000 and 1999.

Quarter	Fiscal 2000		Fiscal 1999		Fiscal 2000	Fiscal 1999
	High	Low	High	Low	Cash Dividends Declared	
First	\$48.00	\$36.56	\$54.50	\$44.25	\$0.10	\$0.08
Second	45.25	31.63	56.25	37.00	0.10	0.08
Third	35.25	27.75	50.75	28.63	0.10	0.08
Fourth	29.25	23.00	51.44	36.75	0.10	0.08

The Company has declared and paid cash dividends on its common stock quarterly since 1982. For the fiscal years ended February 29(28), 2000 and 1999, the Company declared quarterly cash dividends aggregating \$0.40 and \$0.32 per share, respectively. On March 23, 2000, the Company declared a quarterly cash dividend of \$0.10 per common share, which was paid on April 28, 2000.

The ability of the Company to pay dividends in the future is limited by various restrictive covenants in the debt agreements of the Company, 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 CHL's revolving credit facility, from paying dividends on any capital stock (other than dividends payable in capital stock or stock rights), except that so long as no event of default or potential event of default under the agreements exists at the time, 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 and (ii) the aggregate amount of dividends paid on common stock during the immediately preceding year. 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 CHL each maintain specified minimum levels of net worth and certain other financial ratios, dividends cannot be paid by the Company and CHL in compliance with certain of CHL's 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 May 17, 2000, there were 2,174 shareholders of record of the Company's common stock, with 114,090,819 common shares outstanding.

# Production Office Locations

## CONSUMER MARKETS DIVISION

### Western Division

<b>Region 5</b> <i>Regional Vice President</i> <i>Mark Huddleston</i>	<b>Region 6</b> <i>Regional Vice President</i> <i>Joe Riggio</i>	<b>Region 7</b> <i>Regional Vice President</i> <i>Lisa Harding</i>	<b>Region 8</b> <i>Regional Vice President</i> <i>Garry Rankin</i>	<b>Region 9</b> <i>Regional Vice President</i> <i>Marsha Tennesen</i>	<b>Region 29</b> <i>Regional Vice President</i> <i>Vanna Conrady</i>
Antioch, CA Chico, CA Concord, CA Fair Oaks, CA Fairfield, CA Folsom, CA Napa, CA Oakland, CA Redding, CA Roseville, CA Sacramento, CA Santa Rosa, CA Stockton, CA	Henderson, NV Lancaster, CA Las Vegas, NV (4) Northridge, CA San Luis Obispo, CA Santa Maria, CA Simi Valley, CA Thousand Oaks, CA Van Nuys, CA Ventura, CA Woodland Hills, CA	Carlsbad, CA Chula Vista, CA Corona, CA El Cajon, CA Escondido, CA Highland, CA Moreno Valley, CA Palm Desert, CA Riverside, CA San Diego, CA (2) Temecula, CA	Brea, CA Fountain Valley, CA Fullerton, CA Irvine, CA Laguna Niguel, CA Lakewood, CA Long Beach, CA Los Angeles, CA Mission Viejo, CA Santa Ana, CA South Gate, CA Torrance, CA Whittier, CA	Anchorage, AK Bellevue, WA Bellingham, WA Coeur d'Alene, ID Everett, WA Federal Way, WA Lakewood, WA Lynnwood, WA Olympia, WA Seattle, WA (2) Silverdale, WA Spokane, WA	Bakersfield, CA Castro Valley, CA Cupertino, CA Fremont, CA Fresno, CA Modesto, CA Pleasanton, CA Salinas, CA San Jose, CA So. San Francisco, CA Tracy, CA Visalia, CA

### Central Division

<b>Region 12</b> <i>Regional Vice President</i> <i>Sherrie Brozovich</i>	<b>Region 16</b> <i>Regional Vice President</i> <i>Tom O'Neill</i>	<b>Region 17</b> <i>Regional Vice President</i> <i>Linda O'Connor</i>	<b>Region 25</b> <i>Regional Vice President</i> <i>Edward Henson</i>	<b>Region 26</b> <i>Regional Vice President</i> <i>Cherry Scott-Trigalet</i>	<b>Region 30</b> <i>Regional Vice President</i> <i>Mark Kemp</i>
Aurora, CO Boulder, CO Castle Rock, CO Cheyenne, WY Colorado Springs, CO (2) Denver, CO Evergreen, CO Fort Collins, CO Grand Junction, CO Greeley, CO Lakewood, CO Littleton, CO Pueblo, CO Westminster, CO	Arlington Heights, IL Bloomington, IL Chicago, IL Crystal Lake, IL Elgin, IL Glenview, IL Joliet, IL Libertyville, IL Naperville, IL North Aurora, IL Oak Lawn, IL Orland Park, IL Peoria, IL Rockford, IL Springfield, IL Westmont, IL	Flagstaff, AZ Gilbert, AZ Glendale, AZ Goodyear, AZ Lake Havasu City, AZ Phoenix, AZ (2) Prescott, AZ Scottsdale, AZ Sierra Vista, AZ Tempe, AZ Tucson, AZ (2) Yuma, AZ	Arlington, TX Bedford, TX Dallas, TX (2) DeSoto, TX Fort Worth, TX Garland, TX Irving, TX Lewisville, TX Plano, TX Tyler, TX	Edmond, OK Fayetteville, AR Lavista, NE Lawrence, KS Lawton, OK Lincoln, NE Little Rock, AR Norman, OK North Little Rock, AR Oklahoma City, OK Omaha, NE Topeka, KS Tulsa, OK (2) Wichita, KS	Arcadia, CA Glendale, CA Honolulu, HI La Cañada, CA Los Angeles, CA Monterey Park, CA Pasadena, CA Rowland Heights, CA San Dimas, CA Santa Clarita, CA Upland, CA Victorville, CA
<b>Region 31</b> <i>Regional Vice President</i> <i>Mike LeGault</i>	<b>Region 34</b> <i>Regional Vice President</i> <i>Diane Bond</i>	<b>Region 35</b> <i>Regional Vice President</i> <i>Rick Monley</i>	<b>Region 41</b> <i>Regional Vice President</i> <i>David Cook</i>	<b>Region 42</b> <i>Regional Vice President</i> <i>Norma Edwards</i>	<b>Region 37</b> <i>Regional Vice President</i> <i>Mark Kemp</i>
Appleton, WI Brookfield, WI Cedar Rapids, IA Davenport, IA Des Moines, IA Eagan, MN Eden Prairie, MN Green Bay, WI Madison, WI Maple Grove, MN Racine, WI Rochester, MN Roseville, MN Woodbury, MN	Billings, MT Boise, ID Nampa, ID Ogden, UT Orem, UT Salt Lake City, UT (2) Sandy, UT West Jordan, UT	Columbia, MO Dellwood, MO Edwardsville, IL Kansas City, KS Kansas City, MO Lee's Summit, MO Lenexa, KS Mehlville, MO O'Fallon, MO Overland Park, KS Springfield, MO St. Louis, MO	Austin, TX (2) Corpus Christi, TX Killeen, TX New Braunfels, TX San Antonio, TX (2) Waco, TX	Abilene, TX Albuquerque, NM (2) Amarillo, TX El Paso, TX Las Cruces, NM Lubbock, TX Midland, TX Wichita Falls, TX	Beaverton, OR Eugene, OR Lake Oswego, OR Medford, OR Portland, OR Reno, NV Salem, OR Sparks, NV Vancouver, WA

# Production Office Locations

(continued)

## CONSUMER MARKETS DIVISION

### Midwest/Northeast Division

<b>Region 3</b> <i>Regional Vice President</i> <i>Wayne Rogers</i>	<b>Region 4</b> <i>Regional Vice President</i> <i>Carolyn Ingle</i>	<b>Region 11</b> <i>Regional Vice President</i> <i>Michael Garmone</i>	<b>Region 19</b> <i>Regional Vice President</i> <i>Mary Dumont</i>	<b>Region 20</b> <i>Regional Vice President</i> <i>Beth Grossman</i>	<b>Region 24</b> <i>Regional Vice President</i> <i>Sherri Young</i>
Bel Air, MD Cherry Hill, NJ Cockeysville, MD Dover, DE Ellicott City, MD Englishtown, NJ Ephrata, PA Hamilton, NJ Mays Landing, NJ Newark, DE Sewell, NJ Shrewsbury, NJ Tom's River, NJ York, PA	Centerville, OH Cincinnati, OH (3) Gahanna, OH Grove City, OH Hilliard, OH Scott Depot, WV Vandalia, OH West Worthington, OH	Canton, OH Cleveland, OH Cuyahoga Falls, OH Erie, PA Fairlawn, OH Mentor, OH Monroeville, PA Pittsburgh, PA (2) Strongsville, OH Warren, OH Westlake, OH Woodmere, OH	Burlington, MA Jamaica Plain, MA Merrimack, NH Milford, CT Natick, MA North Easton, MA Portland, ME Shrewsbury, MA Somersworth, NH Southington, CT Warwick, RI West Hartford, CT West Springfield, MA	Ann Arbor, MI Birmingham, MI Canton, MI Clarkston, MI Detroit, MI Grand Rapids, MI Kalamazoo, MI Novi, MI Okemos, MI Shelby Township, MI Toledo, OH Woodhaven, MI	Amherst, NY Clifton Park, NY Frazer, PA Huntingdon Valley, PA Lansdale, PA Latham, NY Mechanicsburg, PA North Syracuse, NY Philadelphia, PA Reading, PA Springfield, PA Trexlerstown, PA Webster, NY Winnewood, PA Wyoming, PA

### Southeast Division

<b>Region 1</b> <i>Regional Vice President</i> <i>Kathleen Mathosian</i>	<b>Region 10</b> <i>Regional Vice President</i> <i>Robert Bridges</i>	<b>Region 14</b> <i>Regional Vice President</i> <i>Larry Gunnin</i>	<b>Region 18</b> <i>Regional Vice President</i> <i>Kerry Rainey</i>	<b>Region 22</b> <i>Regional Vice President</i> <i>Diane Debus</i>	<b>Region 33</b> <i>Regional Vice President</i> <i>Eric Declercq</i>
Bradenton, FL Brandon, FL Clearwater, FL Fort Myers, FL Lakeland, FL Naples, FL New Port Richey, FL Port Charlotte, FL Sarasota, FL Tampa, FL Temple Terrace, FL Town & Country, FL	Baton Rouge, LA Beaumont, TX Central Houston, TX Covington, LA Houston, TX (4) Kingwood, TX Metairie, LA New Orleans, LA Shreveport, LA Sugar Land, TX The Woodlands, TX	Birmingham, AL Decatur, AL Hattiesburg, MS Huntsville, AL Jackson, MS Madison, TN Memphis, TN Mobile, AL Montgomery, AL Murfreesboro, TN Nashville, TN Prattville, AL Southaven, MS	Atlanta, GA (2) Chattanooga, TN Duluth, GA Johnson City, TN Knoxville, TN Marietta, GA Norcross, GA Peachtree City, GA Riverdale, GA Roswell, GA Savannah, GA Stone Mountain, GA Woodstock, GA	Baltimore, MD Charlottesville, VA Easton, MD Falls Church, VA Gaithersburg, MD Gambriils, MD Laurel, MD Manassas, VA Owings Mills, MD Severna Park, MD Springfield, VA Waldorf, MD Washington, D.C.	Brentwood, NY Brooklyn, NY East Brunswick, NJ Forest Hills, NY Huntington Station, NY Morristown, NJ Newark, NJ Newburgh, NY Raritan, NJ Staten Island, NY Wantagh, NY Wayne, NJ Westfield, NJ Yorktown Heights, NY
<b>Region 28</b> <i>Regional Vice President</i> <i>Frankie McGrew</i>	<b>Region 32</b> <i>Regional Vice President</i> <i>Gary Cooper</i>	<b>Region 36</b> <i>Regional Vice President</i> <i>Alina Garcia</i>	<b>Region 38</b> <i>Regional Vice President</i> <i>David King</i>	<b>Region 40</b> <i>Regional Vice President</i> <i>Jaime Austria</i>	<b>Region 39</b> <i>Regional Vice President</i> <i>Steve Boland</i>
Daytona Beach, FL Fort Walton Beach, FL Jacksonville, FL Jacksonville Beach, FL Kissimmee, FL Longwood, FL Merritt Island, FL Ocoee, FL Orange City, FL Orange Park, FL Orlando, FL Panama City, FL Pensacola, FL Satellite Beach, FL Tallahassee, FL Winter Park, FL Winter Springs, FL	Cary, NC Charleston, SC Durham, NC Fayetteville, NC Hilton Head, SC Jacksonville, NC Myrtle Beach, SC New Bern, NC Raleigh, NC Wilmington, NC	Boynton Beach, FL Coral Springs, FL Fort Lauderdale, FL Miami, FL Miami Lakes, FL North Miami Beach, FL North Palm Beach, FL Plantation, FL Port St. Lucie, FL West Palm Beach, FL	Ashville, NC Charlotte, NC (3) Columbia, SC Gastonia, NC Greensboro, SC Greenville, SC Matthews, NC Mooresville, NC Winston-Salem, NC	Chesapeake, VA Colonia Heights, VA Lynchburg, VA Portsmouth, VA Richmond, VA (2) Roanoke, VA Virginia Beach, VA (2) Yorktown, VA	Crescent Springs, KY Evansville, IN Greenwood, IN Indianapolis, IN Lexington, KY Louisville, KY Mishawaka, IN New Albany, IN Schererville, IN Speedway, IN

# Production Office Locations

(continued)

## FULL SPECTRUM LENDING, INC.

### Western Division

Senior Vice President, National Production  
Paul Pope

#### Region 490

Regional Vice President  
Yami Rico

Phoenix, AZ  
Salt Lake City, UT

#### Region 492

Regional Vice President  
Scott Bridges

Alta Loma, CA  
Brea, CA  
Burbank, CA  
Honolulu, HI  
Las Vegas, NV  
Long Beach, CA  
Northridge, CA  
San Diego, CA

#### Region 499

Regional Vice President  
Steven Hauser

Beaverton, OR  
Bothell, WA  
Federal Way, WA  
Milpitas, CA  
Sacramento, CA  
Vancouver, WA  
Walnut Creek, CA

### Eastern Division

Senior Vice President, National Production  
Carl D'Onofrio

#### Region 493

Regional Vice President  
Michael Kadair

Brookfield, WI  
Cincinnati, OH  
Copley, OH  
Dublin, OH  
Indianapolis, IN  
Troy, MI  
Westland, MI

#### Region 494

Regional Vice President  
Dan Eason

Dallas, TX  
Denver, CO  
Des Plaines, IL  
Houston, TX  
Oaklawn, IL  
Overland Park, KS  
St. Louis, MO

#### Region 495

Regional Vice President  
Alan Seldin

Altamonte Springs, FL  
Charlotte, NC  
Jacksonville, FL  
Madison, TN  
Marietta, GA  
Metairie, LA  
North Miami, FL  
Tampa, FL

#### Region 497

Regional Vice President  
John Mauk

Braintree, MA  
Ellicott City, MD  
Falls Church, VA  
Forest Hills, NY  
Norfolk, VA  
Philadelphia, PA  
Springfield, NJ

## WHOLESALE LENDING DIVISION

### Western Division

Senior Vice President, Production  
Brian Robinett

#### Region 81

Regional Vice President  
Tom Mozilo

Austin, TX  
Dallas, TX  
Houston, TX  
Kansas City, KS  
Overland Park, OK  
Tulsa, OK

#### Region 85

Regional Vice President  
Keith Ryan

Alamo, CA  
Fresno, CA  
Las Vegas, NV  
Marin County, CA  
Sacramento, CA  
San Jose, CA

#### Region 89

Regional Vice President  
Bradley Greene

Albuquerque, NM  
Colorado Springs, CO  
Denver, CO  
Phoenix, AZ  
Salt Lake City, UT

#### Region 91

Regional Vice President  
R.J. Arnett

El Segundo, CA  
Pasadena, CA  
Rancho Cucamonga, CA  
San Diego, CA  
Santa Ana, CA  
Woodland Hills, CA

#### Region 98

Regional Vice President  
Debbie Hood

Boise, ID  
Honolulu, HI  
Portland, OR  
Seattle, WA  
Spokane, WA

### Eastern Division

Senior Vice President, Production  
Joseph Harvey

#### Region 78

Regional Vice President  
Tim Koger

Indianapolis, IN  
Lisle, IL  
Louisville, KY  
Milwaukee, WI  
Minneapolis/St. Paul, MN  
Rolling Meadows, IL  
St. Louis, MO

#### Region 83

Regional Vice President  
Ira Goldberg

Boca Raton, FL  
Jacksonville, FL  
Miami, FL  
Orlando, FL  
Tampa, FL

#### Region 92

Regional Vice President  
Linda Klein

Danvers, MA  
East Hanover, NJ  
Fairfax, VA  
Farmington, CT  
Long Island, NY

#### Region 95

Regional Vice President  
Dennis Patchett

Cleveland, OH  
Detroit, MI  
Dublin, OH  
Grand Rapids, MI  
Philadelphia, PA  
Pittsburgh, PA  
Troy, MI

#### Region 96

Regional Vice President  
Jim Ford

Atlanta, GA  
Birmingham, AL  
Charlotte, NC  
Nashville, TN  
New Orleans, LA  
Raleigh, NC

## CORRESPONDENT LENDING DIVISIONS

### Offices

Regional Sales Manager  
Tom Williams

Simi Valley, CA

Regional Sales Manager  
Rex Adams

Plano, TX

Regional Sales Manager  
Joseph Kresser

Pittsburgh, PA

# Subsidiaries

## COUNTRYWIDE HOME LOANS, INC.

Angelo R. Mozilo  
*Chairman*

Stanford L. Kurland  
*President and Chief Executive Officer*

Carlos M. Garcia  
*Senior Managing Director and  
Chief Operating Officer*

### Administration/Operations

Sidney Lenz  
*Managing Director,  
Government Affairs*

Richard S. Lewis  
*Managing Director and  
Chief Executive Officer,  
Global Home Loans, Ltd.*

Anne D. McCallion  
*Managing Director,  
Chief Administrative Officer*

Sandor E. Samuels  
*Managing Director, Legal;  
General Counsel and Secretary*

Susan E. Bow  
*Executive Vice President and  
Deputy General Counsel*

Frederick J. Budig  
*Executive Vice President and  
Director of Internal Audit*

Paul Decoff  
*Executive Vice President,  
Corporate Operations*

Michael Keating  
*Executive Vice President,  
Global Markets*

Susan E. Kelsey  
*Executive Vice President and  
Deputy General Counsel*

Mark Upson  
*Executive Vice President,  
Administration*

Richard B. Wentz  
*Executive Vice President,  
Deputy General Counsel and  
Chief Compliance Officer*

### Finance

Thomas K. McLaughlin  
*Managing Director and  
Chief Financial Officer*

Eric P. Sieracki  
*Managing Director,  
Corporate Finance*

Jeffrey K. Speakes  
*Managing Director,  
Risk Management*

David J. Bigelow  
*Executive Vice President,  
Corporate Finance*

Mark E. Elbaum  
*Executive Vice President,  
Strategic Financial Planning*

Laura K. Milleman  
*Executive Vice President and  
Chief Accounting Officer*

Lisa Novacek  
*Executive Vice President,  
New Business Development*

Jennifer Shiley Sandefur  
*Executive Vice President and Treasurer*

Clarence Simmons, III  
*Executive Vice President*

Michael Smith  
*Executive Vice President,  
Portfolio Risk Management*

Scott Van Dellen  
*Executive Vice President,  
Strategic Planning*

### Loan Administration

Thomas H. Boone  
*Senior Managing Director,  
Global Processing*

Richard DeLeo  
*Managing Director, Loan Administration*

Steven D. Phillips  
*President, Retail Financial Services*

Steve R. Bailey  
*Executive Vice President,  
Customer Contact, Loss Mitigation*

Kevin Leon Meyers  
*Executive Vice President,  
Chief Financial Officer*

### Marketing

Andrew S. Bielanski  
*Managing Director, Marketing*

### Production and Information Technology

David Sambol  
*Senior Managing Director, Production*

Marshall M. Gates  
*Managing Director, Developing Markets*

Gregory A. Lumsden  
*Managing Director, Originations*

Farzad Abolfathi  
*Executive Vice President,  
Production Technologies*

Joe D. Anderson  
*Executive Vice President,  
Consumer Markets Division*

Scott D. Anderson  
*Division Executive Vice President,  
Wholesale Lending Division,  
National Production*

G. Richard Bright  
*Executive Vice President,  
Developing Markets*

Robert A. Brown  
*Executive Vice President,  
Consumer Markets Production*

Phyllis Bucklew  
*Executive Vice President,  
Consumer Markets Production,  
Southeast Division*

William S. Cobb, Jr.  
*Division Executive Vice President,  
Wholesale Lending Division,  
Technology and Finance*

James Cunningham  
*Executive Vice President,  
Infrastructure*

Todd A. Dal Porto  
*Executive Vice President,  
Wholesale Lending Division*

Philip Deol  
*Executive Vice President,  
National Builder Division*

Angel Garcia  
*Chief Financial Officer  
and Executive Vice President,  
Information Technology Finance*

Daniel Garcia, Sr.  
*Executive Vice President,  
Chief Operating Officer,  
Information Technology*

Tom Halley  
*Executive Vice President,  
Consumer Markets Production,  
Central Division*

Joanne B. Hannaman  
*Executive Vice President,  
Consumer Markets Division, Operations*

Greg Jacobson  
*Executive Vice President,  
Warehouse Lending*

Douglas E. Jones  
*Executive Vice President,  
Correspondent Lending Division,  
Countrywide Warehouse Lending, Inc.*

Richard Jones  
*Executive Vice President and  
Chief Technology Officer*

Mark Kemp  
*Executive Vice President,  
Consumer Markets Production,  
Western Division*

Michael M. Lamka  
*Division Executive Vice President,  
Wholesale Branch Support*

Sam Ourfalian  
*Executive Vice President,  
Information Technology*

Jack W. Schakett  
*Executive Vice President,  
Chief Operating Officer,  
Correspondent Lending Division*

Omer Simeon  
*Executive Vice President,  
Distributed Systems*

Mike Spalter  
*Executive Vice President,  
Network/Data Center*

Mike Taliaferro  
*Executive Vice President,  
Consumer Markets Division,  
Sales and Marketing*

Peter G. Wyman  
*Executive Vice President,  
Consumer Markets Division,  
Finance and Technology*

### Secondary Markets

Kevin W. Bartlett  
*Senior Managing Director,  
Secondary Markets*

David A. Spector  
*Executive Vice President and  
Chief Trading Officer*

David M. Walker  
*Executive Vice President*

**COUNTRYWIDE  
CAPITAL MARKETS, INC.**

Angelo R. Mozilo  
*Chairman*

Stanford L. Kurland  
*Vice Chairman*

David Sambol  
*Chief Executive Officer*

Ranjit Kripalani  
*President*

J. Grant Couch, Jr.  
*Chief Operating Officer*

Steven Hively  
*Executive Vice President and  
Chief Financial Officer*

**Countrywide  
Asset Management Corporation**

David Sambol  
*President*

Michael Schloessman  
*Executive Vice President,  
Chief Operating Officer*

**Countrywide  
Securities Corporation**

Stanford L. Kurland  
*Chairman*

David Sambol  
*President and Chief Executive Officer*

Anand Bhattacharya  
*Executive Vice President,  
Fixed Income Strategies*

Nancy DeLiban  
*Executive Vice President,  
Manager Structured Finance Department*

Michael Moore  
*Executive Vice President,  
Information Technology*

Michael Schloessmann  
*Executive Vice President,  
Director of Transaction Management*

Paul C. Wang  
*Executive Vice President*

**Countrywide Servicing Exchange**

Angelo R. Mozilo  
*Chairman*

Stanford L. Kurland  
*Vice Chairman and  
Chief Financial Officer*

David Sambol  
*President and Chief Executive Officer*

Steven Tannehill  
*Executive Vice President*

**COUNTRYWIDE  
FIELD SERVICES CORPORATION**

Thomas H. Boone  
*Chairman*

Richard DeLeo  
*President*

Thomas Dixon  
*Executive Vice President*

**COUNTRYWIDE  
INSURANCE GROUP, INC.**

Stanford L. Kurland  
*Chairman*

Carlos M. Garcia  
*President and Chief Executive Officer*

Nicholaus Lannutti  
*Chief Financial Officer*

Steven D. Phillips  
*Executive Vice President*

**Balboa Life and Casualty**

Carlos M. Garcia  
*Chairman*

Neal Aton  
*President and Chief Executive Officer*

D. David Cissel  
*Executive Vice President and  
Chief Operating Officer*

Kristine McKay  
*Chief Financial Officer*

**Countrywide Insurance Services, Inc.**

Steven D. Phillips  
*President and Chief Executive Officer*

**DirectNet Insurance Agency, Inc.**

Steven D. Phillips  
*President and Chief Executive Officer*

**COUNTRYWIDE  
INTERNATIONAL CONSULTING  
SERVICES, LLC**

Michael Lea  
*President*

**COUNTRYWIDE  
INTERNATIONAL TECHNOLOGY  
HOLDINGS, LIMITED**

Michael Keating  
*President and Chief Executive Officer*

**COUNTRYWIDE  
REALTY PARTNERS, INC.**

Richard DeLeo  
*Chief Executive Officer and President*

Craig Baingo  
*Chief Financial Officer*

**COUNTRYWIDE  
TAX SERVICES CORPORATION**

Richard DeLeo  
*President*

**COUNTRYWIDE  
WAREHOUSE LENDING**

Stanford L. Kurland  
*Chairman and President*

David Sambol  
*President and Chief Executive Officer*

Steven Hively  
*Chief Financial Officer*

J. Grant Couch, Jr.  
*Executive Vice President*

Greg Jacobson  
*Executive Vice President*

**CTC REAL ESTATE SERVICES**

Thomas H. Boone  
*Chairman and Chief Executive Officer*

Richard DeLeo  
*Vice Chairman*

Catherine Beaman  
*President*

**CW SECURITIES HOLDINGS, INC.**

Jeffrey K. Speakes  
*Executive Vice President*

**FULL SPECTRUM LENDING, INC.**

Gregory A. Lumsden  
*Chairman*

Paul Abbamonto  
*President*

Lloyd Sargeant  
*Executive Vice President*

**GLOBAL HOME LOANS, LIMITED**

Richard S. Lewis  
*Chief Executive Officer*

**LANDSAFE, INC.**

Marshall M. Gates  
*Chairman and Chief Executive Officer*

Michael Faine  
*President and Chief Operating Officer*

**LandSafe Appraisal Services, Inc.**

Greg Dennis  
*President and Chief Operating Officer*

**LandSafe Credit, Inc.**

Brian Hershkowitz  
*President*

**LandSafe Flood Determination, Inc.**

Michael Faine  
*Chief Operating Officer*

**LandSafe Home Inspection  
Services, Inc.**

Greg Dennis  
*President*

**LandSafe Title Companies**

Kevin Weaver  
*Executive Vice President*

**SECOND CHARTER  
REINSURANCE COMPANY**

Stanford L. Kurland  
*Chairman*

Marshall M. Gates  
*President*

# Corporate Information

## BOARD OF DIRECTORS

---

**Angelo R. Mozilo**  
*Chairman, Chief Executive Officer and President*

**Jeffrey M. Cunningham**  
*Chairman, ILIFE.com, Inc.  
Financial Research and Publications*

**Robert J. Donato**  
*Senior Vice President, Branch Manager  
Paine Webber, Incorporated  
Securities/Investment Advisory Services*

**Michael E. Dougherty**  
*Co-Founder and Chairman  
Dougherty Financial Group, LLC  
Financial Services*

**Ben M. Enis, Ph.D.**  
*Marketing Consultant and Mediator  
Professor Emeritus of Marketing  
University of Southern California*

**Edwin Heller**  
*Attorney, Of Counsel,  
Fried, Frank, Harris, Shriver and Jacobson, Law Firm*

**Stanford L. Kurland**  
*Senior Managing Director,  
Chief Operating Officer*

**Oscar P. Robertson**  
*President  
Orchem Corporation, Orflex, Ltd.  
and Orpack Stone Corp.*

**Harley W. Snyder**  
*Real Estate Consultant  
and Private Investor*

## CORPORATE OFFICERS

---

**Angelo R. Mozilo**  
*Chairman, Chief Executive Officer and President*

**Stanford L. Kurland**  
*Senior Managing Director,  
Chief Operating Officer*

**Kevin W. Bartlett**  
*Managing Director, Secondary Marketing*

**Andrew S. Bielanski**  
*Managing Director, Marketing*

**Thomas H. Boone**  
*Managing Director,  
Global Processing*

**Richard DeLeo**  
*Managing Director, Loan Administration*

**Carlos M. Garcia**  
*Managing Director, Finance;  
Chief Financial Officer and  
Chief Accounting Officer*

**Marshall M. Gates**  
*Managing Director, Developing Markets*

**Sidney Lenz**  
*Managing Director, Government Affairs*

**Richard S. Lewis**  
*Managing Director and Chief Executive Officer,  
Global Home Loans, Ltd.*

**Gregory A. Lumsden**  
*Managing Director, Originations*

**Anne D. McCallion**  
*Managing Director,  
Chief Administrative Officer*

**Thomas K. McLaughlin**  
*Managing Director, Treasurer*

**David Sambol**  
*Managing Director, Capital Markets*

**Sandor E. Samuels**  
*Managing Director,  
Legal General Counsel and Secretary*

**Eric P. Sieracki**  
*Managing Director,  
Corporate Finance*

**Jeffrey K. Speakes**  
*Managing Director,  
Risk Management*

## ACCOUNTANTS

---

Grant Thornton LLP  
1000 Wilshire Boulevard  
Los Angeles, CA 90017-2464

## 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

## COUNTRYWIDE REGIONAL CENTERS

---

5220 Las Virgenes Road Calabasas, CA 91302-1064 (818) 871-4000 (800) 669-6609	1515 Walnut Grove Rosemead, CA 91770-3710 (626) 927-3000 (800) 585-1502
--	--

18581 Teller Avenue Irvine, CA 92621-1627 (949) 553-0700 (800) 854-6115	450 American Street Simi Valley, CA 93065-6285 (805) 520-5100 (800) 758-5465
--	---

5898 Condor Drive Moorpark, CA 93021-2603 (805) 553-6000	400 Countrywide Way Simi Valley, CA 93065-6298 (805) 520-5100 (800) 758-5465
--	---

35 North Lake Avenue Pasadena, CA 91101-1892 (624) 304-8400 (800) 881-4968	994 Flower Glen Simi Valley, CA 93056-1900 (805) 955-3200 (800) 669-6607
---	---

7105 Corporate Drive Buildings A and B Plano, TX 75024-4100 (972) 608-6000 (800) 669-6688	1800 Tapo Canyon Road Simi Valley, CA 93063-6712 (805) 577-4200
---	---

6400 Legacy Drive  
Plano, TX 75024-3697  
(972) 608-6000  
(800) 669-6688

# Shareholder Information

## Inquiries Regarding Your Stock Holdings

In all correspondence or telephone inquiries, please mention Countrywide Credit Industries, your name as printed on your stock 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-11E  
P.O. Box 11258  
Church Street Station  
New York, NY 10286-1258  
(800) 524-4458

E-mail Address:  
Shareowner-svcs@Email.bony.com

Send certificates for transfer and address changes to:

The Bank of New York  
Receive and Deliver Department-11W  
P.O. Box 11002  
Church Street Station  
New York, NY 10286-1002  
(800) 524-4458

## 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 Credit Industries, Inc.  
Equity Benefit Plan Administration  
4500 Park Granada  
MSN CH-56  
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 matters should be addressed to:

Countrywide Credit Industries, Inc.  
Human Resources: Benefits Department  
35 North Lake Avenue  
MSN 35-56  
Pasadena, CA 91101-1892  
(800) 881-4968, Ext. 2201

## Dividend Reinvestment Plan

By enrolling in Countrywide Credit Industries, Inc.'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 Credit Industries, Inc., or interested in obtaining a copy of the Company's Form 10-K, without exhibits, for Fiscal 2000, or a copy of the corporate annual report of Balboa Life & Casualty may contact:

Countrywide Credit Industries, Inc.  
Investor Relations  
4500 Park Granada  
MSN CH-19  
Calabasas, CA 91302-1613  
(818) 225-3550

You may also reach us through the Internet at [www.countrywide.com](http://www.countrywide.com)

## Annual Shareholders' Meeting

The Annual Meeting of Shareholders will be held on Wednesday, July 12, 2000 at 10:00 a.m. (PDT) at Hyatt Westlake Plaza 880 South Westlake Boulevard Westlake Village, CA 91361

## Mortgage Financing and Insurance Products

If you are in the process of purchasing a new home, are interested in refinancing your current home 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.

Countrywide Insurance Services, Inc. is also pleased to offer you personally tailored and competitive insurance products and services. Please call (800) 669-6656, Ext. 3175, for a quote.

You may also reach us through the Internet at [www.countrywide.com](http://www.countrywide.com)



**Countrywide Credit Industries, Inc.**

4500 Park Granada  
Calabasas, California 91302-1613  
[www.countrywide.com](http://www.countrywide.com)