

Keys for Increasing Shareholder Value



Countrywide
Credit Industries, Inc.
1999 Annual Report

www.countrywide.com

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COMPANY PROFILE

Founded in 1969, Countrywide Credit Industries, Inc. is the nation's leading independent residential mortgage lender and servicer. Widely recognized as a skilled innovator of financial products and services, Countrywide offers mortgage products to homebuyers directly and through intermediaries. Countrywide originates conventional mortgages conforming to Fannie Mae and Freddie Mac guidelines, various types of nonconforming products and FHA and VA mortgages. The Company also offers home equity loans independently or in conjunction with newly produced first-lien mortgages, as well as sub-prime credit quality first-lien mortgages. Countrywide securitizes and sells its loan production to investors but retains the rights to service these loans. Countrywide has a loan servicing operation which serves approximately 2.1 million homeowners. A variety of complementary financial products and services augments the Company's mortgage lending and servicing operations. Subsidiary companies include a provider of loan closing services, a full-service insurance agency, a securities broker-dealer, a loan servicing brokerage firm and a mutual fund manager/service provider. Countrywide, a member of the S&P 500, is celebrating its 30th anniversary this year.

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 28,		
	1999	1998	1997
Servicing portfolio (at year-end) ⁽¹⁾	\$215,489	\$182,889	\$158,585
Loan production	92,881	48,772	37,811
Revenues	1,979	1,509	1,112
Net earnings	385	345	257
Total assets	15,648	12,183	7,689
Common shareholders' equity	2,519	2,088	1,612
Earnings per share — diluted ^{(2) (3)}	\$ 3.29	\$ 3.09	\$ 2.44
Common shareholders' equity per share (at year-end)	\$ 22.37	\$ 19.12	\$ 15.19

⁽¹⁾ Includes warehoused loans and loans under subservicing agreements.

⁽²⁾ Based on weighted average common shares outstanding.

⁽³⁾ 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.

DILUTED EARNINGS PER SHARE

(\$)



Fiscal Year ended February 28 (29)

COMMON SHAREHOLDERS' EQUITY

(\$ billions)



Fiscal Year ended February 28 (29)



Angelo R. Mozilo • David S. Loeb • Stanford L. Kurland

At Countrywide, our key success strategies are designed to create value for the Company's shareholders through our leadership position in our core business, mortgage banking. We have a singular focus on this vital and growing economic sector. This focus on our *core business* is an important strategy itself, and it also provides the platform for our other major strategies, which include creating and maintaining a competitive *technology edge* through the deployment of innovative solutions; *diversification* into related businesses; a national *branding* effort for our products and services; and *global expansion* of our business model.

CORE BUSINESS

Our core business is mortgage banking, and our continuing emphasis on this business sets us apart. At Countrywide, we believe that the home loan industry is a vibrant business opportunity which offers significant long-term growth potential. Homeownership and home finance are intrinsic elements of our culture and, in fact, represent a basic human need. In other words, our core product is not a passing fad.

Furthermore, the mortgage banking industry comprises a significant part of the U.S. economy, with \$4.5 trillion in total mortgage debt outstanding. This exceeds even the total amount of U.S. Treasury long-term debt outstanding. Growth

prospects for home mortgages are strong, with industry observers forecasting a 7 to 9 percent

annual increase in total mortgage debt and a continuing upward trend in homeownership rates.

TECHNOLOGY EDGE

While Countrywide remains focused on mortgage banking, we seek to create shareholder value in this industry through innovative approaches. Throughout its history, Countrywide has demonstrated the ability to create and sustain a competitive advantage through the development of leading-edge technology. Countrywide continues to be a technology leader and is one of the pioneers of home lending over the Internet. We have developed a business model which integrates our Internet operations into our production channels and other business units, thus creating synergies between our state-of-the-art website, our presence in local markets and our advanced loan processing and delivery systems. These synergies place us in a unique position to capture what the Internet offers in terms of superior market development, customer lead generation, and consumer awareness. Our goal is to continue to make technological strides, so that our customers and business partners will find it increasingly easy and efficient to do business with us.

SERVICING PORTFOLIO

(\$ billions)



DIVERSIFICATION

Another innovative strategy has been our diversification effort, which enables us to

leverage our core expertise and relationships by entering mortgage-related business lines, vertically integrating, and extending our business “reach.” Our diversification effort is still developing and is primarily *de novo*, yet it constitutes a rapidly growing earnings opportunity, which is highly complementary to our core business. Among our most notable successes is LandSafe, Inc., which offers a menu of loan closing services, including title, escrow, appraisal, credit reporting, home inspections and flood determination. Another is Countrywide Capital Markets Corporation, Inc. which, through its broker-dealer subsidiary, trades in mortgage-related products such as mortgage-backed securities and whole loan pools. Countrywide has also been highly successful in new loan product lines, including sub-prime and home equity loans.

BRANDING

Countrywide’s approach to marketing its products and services also creates value for our shareholders. Countrywide is one of the first major lenders to establish a national brand for mortgages and related products and services. This brand awareness will become increasingly valuable as the industry continues to consolidate. A recognizable brand name is also a major driver of success for the rapidly

growing Internet channel.

GLOBAL EXPANSION

Our fifth key strategy is global expansion. On May

12, 1999, Countrywide made history by announcing it had signed a definitive agreement to form a European mortgage banking joint venture with Woolwich, plc, one of the largest lenders in the United Kingdom (“U.K.”). This joint venture provides Countrywide with a reputable, experienced local partner and access to the European Union, which boasts a mortgage market roughly the size of the U.S. market. By entering into this arrangement, Countrywide has the opportunity to leverage existing intellectual assets, greatly expand its scope of operations and become a true international player.

FISCAL YEAR 1999 PERFORMANCE

Countrywide’s fiscal year ending February 28, 1999 (“FY 1999”) was highlighted by a refinance boom of unprecedented proportions. The total mortgage market for calendar year 1998 was \$1.5 trillion according to the Mortgage Bankers Association. Amidst this environment, Countrywide funded \$93 billion, easily shattering our previous Company record of \$52 billion set in FY 1994.

Countrywide also achieved dramatic growth in its servicing business. Our loan servicing portfolio broke through the \$200 billion mark and closed the fiscal year at \$215 billion, with nearly 2.1 million customers. This growth alleviated concerns raised by

LOAN PRODUCTION

(\$ billions)



Fiscal Year ended February 28 (29)

some industry observers early in the year that large lenders such as Countrywide would be unable to expand their portfolios during a major refinance boom.

For the fourth consecutive year, the Company achieved record earnings of \$3.29 per diluted share. This milestone is a testament to the macro-hedge strategy, as it was achieved despite high amortization expense, which suppressed servicing profitability. In the record-setting production environment, our loan origination sector produced 88 percent of our total net income.

Throughout FY 1999, Countrywide continued its branch expansion, adding 110 production locations, primarily in our retail and wholesale channels. The customer base in our loan servicing portfolio grew to nearly 2.1 million borrowers. Our diversification activities mentioned above also made a significant contribution to the bottom line. These non-core businesses accounted for 24 percent of pre-tax income in FY 1999.

As the current environment of heavy refinance activity subsides, Countrywide is well positioned to maintain its track record of earnings growth. As the fiscal year closed, Countrywide's flow of purchase applications was strong, which is significant because purchase loans are less sensitive than refinances to changes in interest rates. Moreover, if interest rates continue to rise, earnings prospects for servicing

will improve significantly. Falling prepayments result in lower amortization expense, which

translates into increasing earnings potential on a large and growing servicing asset.

INCREASING SHAREHOLDER VALUE

At Countrywide, we firmly believe that we are well positioned to continue to create value for our shareholders through our forward-looking key strategies. Countrywide's core business growth and macro-hedge strategy position the Company to thrive in the near-term as the refinance boom subsides. Our longer-term strategies provide investors with unique growth opportunities. Throughout the year, watch our website, *countrywide.com*, for announcements about new products and services, business opportunities and alliances, and our operational and financial achievements.

ANGELO R. MOZILO

Chairman & CEO

DAVID S. LOEB

President

STANFORD L. KURLAND

Senior Managing Director & COO

Countrywide at a Glance

LOAN PRODUCTION Through these three production channels, Countrywide Home Loans, Inc. produces mortgage loans, sells loans (generally on a non-recourse basis) and retains the servicing rights.

1.

Consumer Markets

Borrowers who are buying or refinancing a home contact division personnel directly in a branch office, over the telephone or through the Internet.

Infrastructure

- 415 branch offices in 48 states
- Three telemarketing centers that accept calls nationwide
- 3,342 employees

Key Measures

- \$29.2 billion funded in FY 1999

31.4%
of total production
in FY 1999



2.

Wholesale Lending

Mortgage brokers and other financial advisors deliver loans to Countrywide.

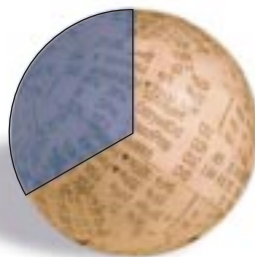
Infrastructure

- 84 branches serve 18,800 brokers and advisors in all 50 states
- 1,905 employees

Key Measures

- \$30.9 billion funded in FY 1999

33.3%
of total production
in FY 1999



3.

Correspondent Lending

Mortgage bankers, commercial banks and other financial institutions sell closed mortgage loans to the Company.

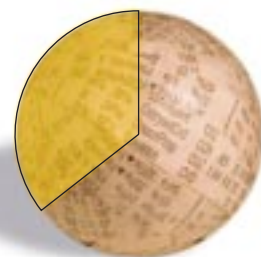
Infrastructure

- Three processing centers purchase loans from 1,300 correspondents in all 50 states and Guam
- 478 employees

Key Measures

- \$32.7 billion funded in FY 1999

35.3%
of total production
in FY 1999



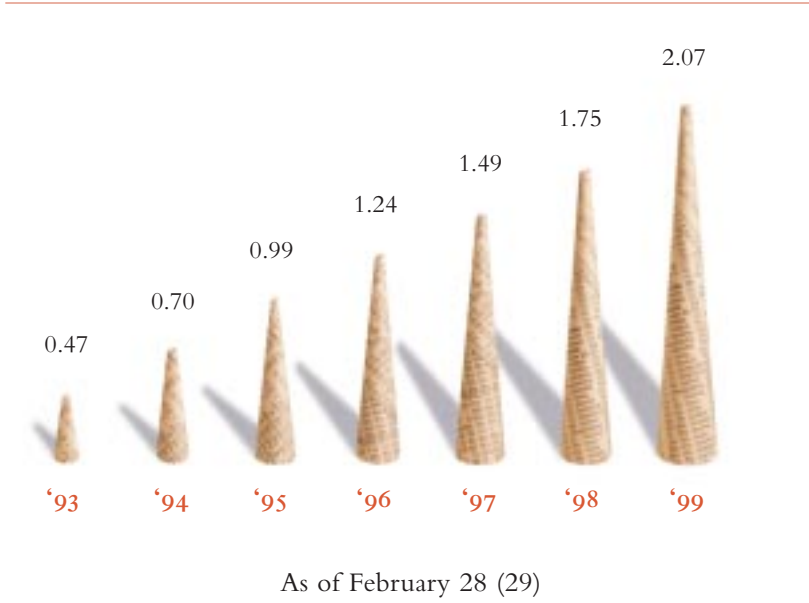
LOAN SERVICING The Company administers the loans in the servicing portfolio using highly automated systems and is compensated generally at the rate of 0.25% to 0.50% per year on the unpaid principal balance of each loan.

Infrastructure

- Two loan servicing centers — Simi Valley, CA and Plano, TX
- 1,830 employees
- Serviced nearly 2.1 million loans in FY 1999
- Received the highest rating in all 4 categories in a recent evaluation of residential servicing operations by Standard & Poors

PORTFOLIO GROWTH

(millions of loans)



DIVERSIFICATION ACTIVITIES Countrywide offers a broad range of financial products and services that augment Company profits, capitalize on core competencies and enhance customer retention.

New loan products

- Sub-prime and home equity loans

LandSafe, Inc.

- A provider of loan-closing services

Countrywide Capital Markets

- A broker-dealer specializing in mortgage-related securities

Countrywide Insurance Services, Inc.

- A full-service insurance agency

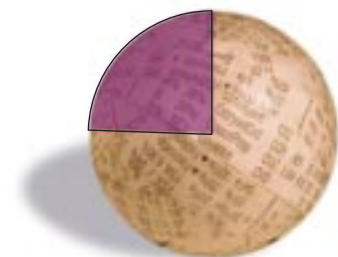
Countrywide Financial Services, Inc.

- A mutual fund manager and servicer

Countrywide Tax Services Corp.

- Provides tax services for Countrywide mortgagors

24.4%
of total pre-tax income
in FY 1999





Core Business

Countrywide's strategic focus is mortgage banking

OUR CORE BUSINESS HAS ALWAYS BEEN HOME LENDING AND LOAN SERVICING. OVER OUR 30-YEAR HISTORY, MANY COMPETITORS HAVE COME AND GONE, BUT COUNTRYWIDE HAS CONTINUED TO CREATE SHAREHOLDER VALUE THROUGH ITS FOCUS ON THE MORTGAGE BUSINESS.

Countrywide is firm in its belief that the mortgage banking industry provides outstanding opportunities. Underlying this belief is the fact that homeownership and home financing are fundamental to the fabric of American society. The U.S. residential mortgage market is very large, with a record \$1.5 trillion in loan fundings in the 1998 calendar year, and \$4.5 trillion in total mortgage debt outstanding. As the U.S. population continues to grow, and as new products and technology make home financing available to more Americans, total mortgage debt is expected to grow at a faster pace than the Gross Domestic Product. In short, the home lending industry is, and will remain, a vital part of the U.S. economy in terms of both size and social significance. Our core product is one which will always be in demand.

As a mortgage banker, we provide a critical link between homebuyers who need capital and investors who provide capital. This crucial link has two elements: loan origination and loan servicing. By originating a loan, we provide the distribution and processing channel, which gives the borrower a point of entry into the capital markets. By servicing

a loan, we act as the ongoing interface between the borrower and the investor over the life of the loan. These two elements of our core business respond counter-cyclically from an earnings perspective, naturally and mutually mitigating the impact of interest rate volatility on overall earnings.

The mortgage industry has experienced significant consolidation throughout the 1990s, yet remains fragmented. Over this decade, Countrywide has emerged as one of the largest residential lenders and loan servicers, yet its market share in these two facets of our core business is only about 6 percent and 5 percent, respectively, with significant room to grow. Our major competitors are divisions and subsidiaries of large commercial banks, which have attained their size through mergers and acquisitions in the banking industry, and which, for the most part, do not share our unique focus on the mortgage business.

Countrywide has increased its market share dramatically during the decade. We are well positioned to compete effectively, since we enjoy 30 years of mortgage banking experience, operational expertise and focus, and are not burdened with the distraction of post-merger integration. •

Technology Edge

Countrywide creates value through its development and use of leading-edge technology

IMPLEMENTATION OF ADVANCED TECHNOLOGICAL SOLUTIONS PROVIDES A COMPETITIVE ADVANTAGE FOR COUNTRYWIDE. THE COMPANY'S INTERNET STRATEGY INTEGRATES A STATE-OF-THE-ART WEBSITE INTO A HIGHLY SOPHISTICATED LOAN PROCESSING AND DELIVERY SYSTEM.

Countrywide is a dominant Internet retail home lender. The Company funded \$648 million through its retail Internet site in FY 1999. Many more customers used our website but applied for a loan by telephone or in person at one of our branches. Countrywide's consumer website generated over 29 million "hits" in FY 1999.

The numbers, however, are only part of the story. Countrywide is implementing an Internet strategy which has distinct advantages over competing business models. While pure Internet companies generate a great deal of hype, Countrywide is building the capability to capture the true value of Internet home lending: generation and efficient handling of customer leads, more convenient, accessible product and pricing information to the consumer, access to one-stop shopping and bundling of loan closing services and related products at a competitive price, all conveniently delivered through local branch offices.

Countrywide's strategy is to synergistically integrate the Internet into our existing operations, rather than running a website in competition with other production channels. In this strategy, our retail branches are an integral component of the Internet lending process, because the mortgage loan closing process requires considerable direct interaction with the

customer. Internet-originated loan applications are electronically transmitted to branches for processing and closing. For Countrywide, branch expansion does not compete with growth in the Internet channel; rather, it enables Internet growth. By the end of FY 2000, we plan to provide each retail branch with its own customized, interactive Internet page.

This strategy combines the advantages of high technology with local processing. An Internet lender with distributed, local loan closing capability has a competitive advantage, because the mortgage transaction is still "high-touch," requiring physical signatures and face-to-face contact between the borrower and the lender. Distributed loan closing capability requires a branch network, mortgage processing expertise and technology, and seamless operational integration. This strategy also leverages Countrywide's strong brand identity.

Countrywide's Internet success is not limited to retail loan originations. Our Wholesale Division's website, *cwbc.com*, provides advanced on-line tools and technology to empower our mortgage broker business partners. Our Correspondent Division funded \$1.1 billion in Internet loans in the fourth quarter of FY 1999 alone. The Internet has also become an important tool in our loan servicing and insurance operations. •

Countrywide
America's Leading Independent Home Lender

Get Home Loan!



Countrywide
Home Financing
Main
Pre-qualified





Diversification

Countrywide leverages its mortgage banking expertise by diversifying into strategically related businesses

ONE OF COUNTRYWIDE'S INNOVATIVE STRATEGIES IS ITS DIVERSIFICATION EFFORT. THE COMPANY PROVIDES A UNIQUE VALUE PROPOSITION TO ITS CUSTOMERS BY OFFERING A RANGE OF MORTGAGE-RELATED PRODUCTS AND SERVICES.

Countrywide leverages its core competencies and relationships by diversifying into related business lines, including new loan products (such as sub-prime and home equity loans), loan closing services (title, escrow, appraisal, credit reporting, flood determination, tax-advantaged mortgage insurance and mortgage reinsurance), portfolio cross-marketing (property, casualty and life insurance, and credit cards) and other businesses (most notably Countrywide Capital Markets, a niche investment banker focused on mortgage products).

Diversification provides several strategic benefits. First, it provides new earnings growth opportunities outside our core business of home lending and loan servicing. Second, it can provide increased stability of earnings. Third, it can provide improved customer retention since it enhances our relationships with existing customers.

FY 1999 results demonstrate the growth potential of these new businesses, as our non-core businesses accounted for 24 percent of pre-tax income. Countrywide's goal is to increase this number to 40 percent by FY 2004. Many of these businesses are still relatively new and have yet to reach their full earnings potential. Our subsidiary, LandSafe, Inc., for example, has several business lines

which are positioned for strong growth. LandSafe's title insurance agency is planning to expand nationwide. LandSafe's appraisal and credit reporting companies, which have previously focused on Countrywide's own flow of mortgage business, are gearing up to offer their services to other lenders.

New businesses can provide enhanced stability to the earnings stream because many of them follow different cycles than our core business. Home equity loans, for example, are somewhat counter-cyclical to refinance loans. When interest rates rise and refinance volume declines, demand for home equity loans generally increases.

New product offerings can also improve customer retention because these new products provide the opportunity to develop broader relationships with customers. A mortgage customer who purchases homeowner's insurance from Countrywide, for example, is more likely to closely identify with the Company and would have a greater propensity to keep the first mortgage with Countrywide.

Non-core business lines also offer the opportunity to provide added value to our customers through the bundling of products and services, and can provide the opportunity for greater operational integration. •

Branding

Countrywide's national advertising campaign creates a brand name that establishes us as a customer-driven company

BRAND EQUITY WILL BECOME INCREASINGLY VALUABLE AS TODAY'S CONSUMER IS FACED WITH MORE CHOICES. COUNTRYWIDE IS ONE OF THE FEW MORTGAGE BANKERS THAT PURSUES A STRATEGY OF ESTABLISHING A NATIONAL BRAND. A RECOGNIZABLE, TRUSTWORTHY BRAND NAME IS A KEY TO DIFFERENTIATING OUR PRODUCTS AND SERVICES.

A number of important trends are shaping the financial services industry. Advances in technology, most notably the emergence of the Internet into the mainstream of American business, have created a revolution in the accessibility of information for consumers. Financial engineering has made a vast array of new products and services available. Globalization, de-regulation and consolidation have created new business combinations that are altering entire industries.

For the most part, the financial services customer benefits from these trends. Nonetheless, the rapidly changing face of business can create a great deal of consumer confusion as to which companies truly provide value.

This is especially true in the case of the home loan. The mortgage customer faces a complex process, yet has relatively little experience with this process. Fragmentation and competition in the industry create additional complexity. In addition, for the typical customer, the purchase of a home is the single largest transaction he or

she will ever undertake, so the personal financial stakes are high.

Countrywide realizes that consumers will ultimately turn to brand names they associate with integrity and trust. Establishing a reputation for trustworthiness and high quality service can be a major competitive advantage in the home lending business.

Countrywide has utilized national advertising campaigns to build a brand name, which is deeply rooted in the concepts of trust, reliability, value, customer convenience and ease in doing business. We have seen significant gains over the past year in customer recognition and perception of Countrywide, as measured by consumer unaided awareness, brand preference, brand loyalty, overall satisfaction, and likelihood to recommend. We want our customers to understand that they will get high quality service throughout the loan process, and can count on Countrywide for additional services during the life of the loan. Our brand is an important asset, which positions the Company for future growth and success. •





VIA AIR MAIL PAR AVION

POSTAGE
£.60



AIR MAIL
PAR AVION

Portimer Rd.
London, W13
England

Global Expansion

Countrywide recently announced plans to form a mortgage banking joint venture in Europe

IN MAY 1999, COUNTRYWIDE SIGNED A DEFINITIVE AGREEMENT WITH WOOLWICH, PLC, ONE OF THE LARGEST HOME LENDERS AND SERVICERS IN THE UNITED KINGDOM, TO FORM A JOINT VENTURE PROVIDING MORTGAGE BANKING SERVICES IN THE UNITED KINGDOM AND THE BROADER EUROPEAN MARKET.

This alliance marks a new phase in Countrywide's evolution, and it will have an impact on both the U.S. and European home lending markets. Countrywide's Chairman Angelo Mozilo noted that "This historic event is a major step in the globalization of the mortgage industry."

Countrywide made this decisive move because Europe represents a new, untapped source of earnings potential where Countrywide's technology and mortgage expertise can provide a tremendous competitive advantage. Our goal is to leverage and apply our existing intellectual assets, technology, and mortgage expertise to markets around the world, while minimizing our personnel and financial capital investment.

The combined population of the 15 member countries of the European Union ("E.U.") is over 370 million, and the size of the mortgage market is comparable to that of the U.S. The E.U. business climate is also comparable to that of the U.S., with relatively stable governments, economies and legal systems.

Unlike the U.S., however, mortgage lending and servicing processes are relatively inefficient, and advanced processing technology has not yet reached this market.

Among E.U. countries, the United Kingdom ("U.K.") is most similar to the U.S., yet it still has entry barriers. By joining forces with a local partner, Countrywide gains access to existing market presence, a sizable book of business, and knowledge of local customs, practices and laws. With Woolwich as a partner, Countrywide has mitigated startup costs and significantly shortened the time required to create a major presence in Europe.

Woolwich is a well-suited partner for Countrywide with a 150-year history, an established brand name and a solid reputation. Woolwich also has existing operations in France and Italy, which can provide a springboard for further European expansion.

At the outset, the joint venture will provide mortgage banking services for Woolwich. Over time, the venture will seek new customers in the U.K. and broader European markets. •



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Selected Consolidated Financial Data

(Dollar amounts in thousands, except per share data)	Years ended February 28 (29),				
	1999	1998	1997	1996	1995
Selected Statement of Earnings Data ⁽¹⁾:					
Revenues:					
Loan origination fees	\$ 623,531	\$ 301,389	\$ 193,079	\$ 199,724	\$ 203,426
Gain (loss) on sale of loans	699,433	417,427	247,450	92,341	(41,342)
Loan production revenue	1,322,964	718,816	440,529	292,065	162,084
Interest earned	1,029,066	584,076	457,005	364,531	311,781
Interest charges	(983,829)	(568,359)	(423,447)	(337,655)	(267,685)
Net interest income	45,237	15,717	33,558	26,876	44,096
Loan servicing income	1,023,700	907,674	773,715	620,835	460,351
Amortization and impairment/recovery of mortgage servicing rights	(1,013,578)	(561,804)	(101,380)	(342,811)	(95,768)
Servicing hedge benefit (expense)	412,812	232,959	(125,306)	200,135	(40,030)
Less write-off of servicing hedge	—	—	—	—	(25,600)
Net loan administration income	422,934	578,829	547,029	478,159	298,953
Commissions, fees and other income	187,867	138,217	91,346	63,642	40,650
Gain on sale of subsidiary	—	57,381	—	—	—
Gain on sale of servicing	—	—	—	—	56,880
Total revenues	1,979,002	1,508,960	1,112,462	860,742	602,663
Expenses:					
Salaries and related expenses	669,686	424,321	286,884	229,668	199,061
Occupancy and other office expenses	277,921	184,338	129,877	106,298	102,193
Guarantee fees	181,117	172,692	159,360	121,197	85,831
Marketing expenses	64,510	42,320	34,255	27,115	23,217
Other operating expenses	153,963	119,743	80,188	50,264	37,016
Branch and administrative office consolidation costs	—	—	—	—	8,000
Total expenses	1,347,197	943,414	690,564	534,542	455,318
Earnings before income taxes	631,805	565,546	421,898	326,200	147,345
Provision for income taxes	246,404	220,563	164,540	130,480	58,938
Net earnings	\$ 385,401	\$ 344,983	\$ 257,358	\$ 195,720	\$ 88,407
Per Share Data ⁽²⁾:					
Basic ⁽³⁾	\$ 3.46	\$ 3.21	\$ 2.50	\$ 1.99	\$ 0.97
Diluted ⁽³⁾	\$ 3.29	\$ 3.09	\$ 2.44	\$ 1.95	\$ 0.96
Cash dividends per share	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32
Weighted average shares outstanding:					
Basic	111,414,000	107,491,000	103,112,000	98,352,000	91,240,000
Diluted	117,045,000	111,526,000	105,677,000	100,270,000	92,087,000
Selected Balance Sheet Data at End of Period ⁽¹⁾:					
Total assets	\$ 15,648,256	\$ 12,183,211	\$ 7,689,090	\$ 8,321,652	\$ 5,589,138
Short-term debt	\$ 5,065,934	\$ 4,043,774	\$ 2,567,420	\$ 4,423,738	\$ 2,664,006
Long-term debt	\$ 5,953,324	\$ 4,195,732	\$ 2,367,661	\$ 1,911,800	\$ 1,499,306
Common shareholders' equity	\$ 2,518,885	\$ 2,087,943	\$ 1,611,531	\$ 1,319,755	\$ 942,558
Operating Data (dollar amounts in millions):					
Loan servicing portfolio ⁽⁴⁾	\$ 215,489	\$ 182,889	\$ 158,585	\$ 136,835	\$ 113,111
Volume of loans originated	\$ 92,881	\$ 48,772	\$ 37,811	\$ 34,584	\$ 27,866

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

⁽²⁾ Adjusted to reflect subsequent stock dividends and splits.

⁽³⁾ 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.

⁽⁴⁾ 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 four areas: loan production, loan servicing, capital markets and businesses ancillary to mortgage lending. Loan production and loan servicing comprise the Company's mortgage banking business. The Company produces mortgage loans through three separate divisions of Countrywide Home Loans, Inc. and another subsidiary, Full Spectrum Lending, Inc. (the "Divisions"). The Company intends to continue its efforts to expand its operations in each segment focus area. 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. Finally, the Company is involved in business activities complementary to its mortgage banking business. These services include acting as agent in the sale of insurance, including homeowners, fire, flood, earthquake, life and disability, providing various title insurance agent and escrow services and offering 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, 1997 ("Fiscal 1997") was a period in which interest rates were somewhat volatile. The rates during Fiscal 1997 were generally higher than during the previous fiscal year; however, they remained at levels that were conducive to refinance and home purchase activity. The Company's earnings increased 31% from the fiscal year ended February 29, 1996 ("Fiscal 1996"). Loan production increased to \$37.8 billion, up from \$34.6 billion in the prior year. The Company attributed the increase in production to: (i) the generally strong economy and home purchase market; (ii) the continued implementation of a national advertising campaign, which was aimed at developing a brand identity for Countrywide and reaching the consumer directly; and (iii) the integration of home equity and sub-prime lending into the Company's product offerings and production capacity. For calendar 1996, the Company ranked second in the amount of single-family mortgage originations nationwide. The Company's market share for both calendar 1996 and 1995 was approximately 4.8% of the estimated \$800 billion and \$650 billion, respectively, single-family mortgage origination market. During Fiscal 1997, the Company's loan servicing portfolio grew to \$158.6 billion, up from \$136.8 billion at the end of Fiscal 1996. This growth resulted from the Company's loan production during the year and bulk servicing acquisitions that amounted to \$1.4 billion. The increase was partially offset by prepayments, partial prepayments and scheduled amortization of \$18.8 billion. The prepayment rate in the servicing portfolio was 11%, slightly down from the prior year due to the higher mortgage interest rate environment in Fiscal 1997.

The fiscal year ended February 28, 1998 ("Fiscal 1998") was a record year from ongoing operations in revenues and net earnings for the Company. 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 calendar 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 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.

On July 1, 1997, the Company and IndyMac Mortgage Holdings, Inc. (formerly INMC Mortgage Holdings, Inc.) ("INMC") concluded the restructuring of their business relationship. In substance, INMC acquired the assets, operations and employees of its former manager Countrywide Asset Management Corporation ("CAMC"), formerly a wholly-owned subsidiary of the Company. INMC no longer pays management fees to CAMC. In return, 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 up to three years. The transaction was structured as a merger of CAMC with and into INMC.

The fiscal year ended February 28, 1999 ("Fiscal 1999") was a record year from ongoing operations in revenues and net earnings for the Company. Loan production increased to \$92.9 billion, 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 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% of the estimated \$1.4 trillion single-family

mortgage origination market, up from approximately 5.1% of the estimated \$850 billion market 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 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 the lower mortgage interest rate environment in Fiscal 1999.

RESULTS OF OPERATIONS

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 and an increase in the income of the 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 increased 90% to \$92.9 billion for Fiscal 1999, 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 and Wholesale branch networks, including the retail sub-prime branches, combined with an increase in the overall mortgage market driven largely by refinances. Refinancings totaled \$53.2 billion, or 57% of total fundings, for Fiscal 1999 as compared to \$19.8 billion, or 41% of total fundings, for Fiscal 1998. Fixed-rate mortgage loan production totaled \$88.3 billion, or 95% of total fundings, for Fiscal 1999 as compared to \$37.5 billion, or 77% of total fundings, for Fiscal 1998.

Total loan volume in the Company's production Divisions 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 Loan Volume	<u>\$92,881</u>	<u>\$48,772</u>
Electronic Commerce ⁽¹⁾	\$ 2,201	\$ 87

⁽¹⁾ This category includes loans sourced through the Company's website of \$648 million and \$87 million for Fiscal 1999 and Fiscal 1998, respectively, as well as loans submitted to the Correspondent Lending Division via its correspondent website of \$1,553 million for Fiscal 1999.

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.

Included in the Company's total volume of loans produced are \$2.2 billion of home equity loans funded in Fiscal 1999 and \$1.5 billion funded in Fiscal 1998. Sub-prime loan production, which is also included in the Company's total production volume, was \$2.5 billion in Fiscal 1999 and \$1.6 billion in Fiscal 1998.

As of February 28, 1999 and 1998, the Company's pipeline of loans in process was \$14.6 billion and \$12.6 billion, respectively. Historically, approximately 43% to 77% of the pipeline of loans in process have funded. In addition, as of February 28, 1999, the Company had committed to make loans in the amount of \$2.1 billion, subject to property identification and approval of the loans (the "LOCK 'N SHOP® Pipeline"). As of February 28, 1998, the LOCK 'N SHOP® Pipeline was \$1.4 billion. 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

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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 (\$351.4 million and \$219.7 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 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"). 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.

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, which was 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. In general, the prepayment rate is affected by the level of refinance activity, which in turn is driven by the relative level of mortgage interest rates, and activity in the home purchase 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% at February 28, 1998.

The Company recorded amortization and net impairment of its mortgage servicing rights ("MSRs") 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. 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"). The factors affecting the amount of amortization and impairment of the MSRs 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 benefit of \$412.8 million from its Servicing Hedge. The net benefit 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 benefit of \$233.0 million from its Servicing Hedge. The net benefit 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. There can be no assurance that the Servicing Hedge will generate gains in the future, or if gains are generated that they will fully offset impairment of the MSRs.

The financial instruments that comprised the Servicing Hedge include options on interest rate futures and MBS, interest rate futures, interest rate floors, interest rate swaps, interest rate swaps with the Company's maximum payment capped ("Capped Swaps"), options on interest rate swaps ("Swaptions"), interest rate caps, certain tranches of collateralized mortgage obligations ("CMOs") and options on callable pass-through certificates ("options on CPC").

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 rate received is fixed. The rate paid is adjustable and is indexed to LIBOR.

With the Swaptions, the Company has the option to enter into a receive-fixed, pay-floating interest rate swap at a future date or to settle the transaction for cash.

The CMOs, which consists of principal-only (“P/O”) securities, have been purchased at deep discounts to their par values. As interest rates decrease, prepayments on the collateral underlying the CMOs 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 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 cash flows.

An option on CPC gives the holder the right to call a mortgage-backed security at par and receive the remaining cash flows from the particular pool. This option has a one year lockout, meaning it cannot be exercised until the end of the first year. After the lockout period, the option can be exercised at anytime.

The Servicing Hedge is designed to protect the value of the investment in 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, caps, Swaptions, options on CPC and CMOs, 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 London Interbank Offered Rate (“LIBOR”) over the life of the contract. The Company estimates that its maximum exposure to loss over the contractual terms is \$88.0 million. With respect to the Capped Swaps contracts entered into by the Company as of February 28, 1999, the Company estimates that its maximum exposure to loss over the contractual terms is \$19.5 million. With respect to the Swap contracts entered into by the Company as of February 28, 1999, the Company estimates that its maximum exposure to loss over the contractual terms is \$382.0 million.

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	\$ 52,577	\$ 90,953	\$ 38,218	\$394,339
Incentive Bonus	147,695	1,916	20,706	19,042	189,359
Payroll Taxes and Benefits	52,821	12,131	15,170	5,866	85,988
Total Salaries and Related Expenses	\$413,107	\$ 66,624	\$126,829	\$ 63,126	\$669,686
Average Number of Employees	5,512	1,966	1,823	646	9,947

(Dollar amounts in thousands)	Fiscal 1998				
	Production Activities	Loan Administration	Corporate Administration	Other Activities	Total
Base Salaries	\$134,776	\$44,911	\$70,305	\$24,512	\$274,504
Incentive Bonus	76,854	1,196	16,570	10,361	104,981
Payroll Taxes and Benefits	22,956	8,476	10,581	2,823	44,836
Total Salaries and Related Expenses	\$234,586	\$54,583	\$97,456	\$37,696	\$424,321
Average Number of Employees	3,132	1,630	1,370	434	6,566

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 production mix.

Occupancy and other office expenses for Fiscal 1999 increased to \$277.9 million from \$184.3 million for Fiscal 1998 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 the Federal National Mortgage Association (“Fannie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and the Government National Mortgage Association (“Ginnie Mae”) in order for these Government Sponsored Entities (“GSE”) 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

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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 GSE and terms negotiated at the time of loan sales.

Marketing expenses for Fiscal 1999 increased 52% to \$64.5 million which was 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 \$34.2 million, or 29%. 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 in Fiscal 1999 as compared to Fiscal 1998.

Profitability of Loan Production Segment

In Fiscal 1999, pre-tax earnings from loan production segment activities (which include loan origination and purchases, warehousing and sales) were \$556.2 million. In Fiscal 1998, comparable pre-tax earnings were \$245.1 million. The increase of \$311.1 million was primarily attributable to increased production 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

In Fiscal 1999, pre-tax income from loan servicing segment activities (which include administering the loans in the servicing portfolio, selling homeowners and other insurance, acting as tax payment agent, marketing foreclosed properties and acting as reinsurer) was \$24.3 million as compared to \$215.5 million in Fiscal 1998. The decrease of \$191.2 million was primarily attributed to increased amortization of the servicing asset, increased Interest Costs Incurred on Payoffs due to an increase in prepayments from Fiscal 1998 to Fiscal 1999 and a reduction in the performance of 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

In Fiscal 1999, pre-tax earnings from the capital markets segment were \$26.7 million. In Fiscal 1998, comparable pre-tax earnings were \$19.7 million. The increase of \$7.0 million was primarily due to increased trading volumes.

Profitability of Other Activities

In addition to loan production, loan servicing and capital markets, 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, 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 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 losses of \$0.6 million during Fiscal 1999 compared to pre-tax income of \$17.7 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 a subsidiary.

During Fiscal 1998, CAMC was sold to 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 up to three years. The sale resulted in a \$57.4 million pre-tax gain.

Fiscal 1998 Compared with Fiscal 1997

Revenues from ongoing operations for Fiscal 1998 increased 30% to \$1,451.6 million, up from \$1,112.5 million for Fiscal 1997. Net earnings from ongoing operations increased 20% to \$310.0 million for Fiscal 1998, up from \$257.4 million for Fiscal 1997. Both revenues and net earnings from ongoing operations for Fiscal 1998 exclude a nonrecurring pre-tax gain of \$57.4 million on the sale of a subsidiary. The increase in revenues and net earnings from ongoing operations for Fiscal 1998 compared to Fiscal 1997 was primarily due to higher loan production, including home equity and sub-prime loans, improved pricing margins on prime credit quality first mortgages, an increase in the size of the Company's servicing portfolio and an increase in the income of the non-mortgage banking subsidiaries. These positive factors were partially offset by an increase in amortization of MSR's and an increase in expenses in Fiscal 1998 over Fiscal 1997.

The total volume of loans produced increased 29% to \$48.8 billion for Fiscal 1998, up from \$37.8 billion for Fiscal 1997. The increase in loan production was primarily due to an increase in the overall mortgage market, driven primarily by refinances, as well as to the continuing expansion of the Company's Consumer Markets and Wholesale branch networks, including the new retail sub-prime branches. Refinancings totaled \$19.8 billion, or 41% of total fundings, for Fiscal 1998, as compared to \$12.3 billion, or 33% of total fundings, for Fiscal 1997. Fixed-rate mortgage loan production totaled \$37.5 billion, or 77% of total fundings, for Fiscal 1998, as compared to \$27.9 billion, or 74% of total fundings, for Fiscal 1997.

Total loan volume in the Company's production Divisions is summarized below.

(Dollar amounts in millions)	Loan Production	
	Fiscal 1998	Fiscal 1997
Consumer Markets Division	\$ 13,339	\$ 8,071
Wholesale Lending Division	15,731	8,430
Correspondent Lending Division	19,562	21,310
Full Spectrum Lending, Inc.	140	—
Total Loan Volume	<u>\$ 48,772</u>	<u>\$ 37,811</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.

Included in the Company's total volume of loans produced is \$1.5 billion of home equity loans funded in Fiscal 1998 and \$613 million funded in Fiscal 1997. Sub-prime loan production, which is also included in the Company's total production volume, was \$1.6 billion in Fiscal 1998 and \$864 million in Fiscal 1997.

As of February 28, 1998 and 1997, the Company's pipeline of loans in process was \$12.6 billion and \$4.7 billion, respectively. Historically, approximately 43% to 77% of the pipeline of loans in process have funded. In addition, as of February 28, 1998, the Company had committed to make loans in the amount of \$1.4 billion, subject to property identification and approval of the loans (the "LOCK 'N SHOP® Pipeline"). At February 28, 1997, the LOCK 'N SHOP® Pipeline was \$1.8 billion. In Fiscal 1998 and Fiscal 1997, the Company received 714,668 and 499,861 new loan applications, respectively, at an average daily rate of \$306 million and \$206 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 1998 as compared to Fiscal 1997 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 1998 than in Fiscal 1997. Gain on sale of loans improved in Fiscal 1998 as compared to Fiscal 1997 primarily due to increased production and improved margins. Home equity and sub-prime loans contributed \$132 million and \$92 million to gain on sale of loans in Fiscal 1998 and Fiscal 1997, respectively. 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) decreased to \$15.7 million for Fiscal 1998 from \$33.6 million for Fiscal 1997. Net interest income is principally a function of: (i) net interest income earned from the Company's mortgage loan warehouse (\$74.5 million and \$61.6 million for Fiscal 1998 and Fiscal 1997, respectively); (ii) interest expense related to the Company's investment in MSRs (\$219.7 million and \$148.3 million for Fiscal 1998 and Fiscal 1997, respectively) and (iii) interest income earned from the custodial balances associated with the Company's servicing portfolio (\$151.0 million and \$116.9 million for Fiscal 1998 and Fiscal 1997, 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 partially resulting from aggregating home equity and sub-prime loans (which generally bear interest at higher rates than prime credit quality first mortgages) prior to their sale or securitization. The increase in interest expense on the investment in MSRs 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), combined with an increase in the earnings rate from Fiscal 1997 to Fiscal 1998.

During Fiscal 1998, loan administration income before amortization increased due primarily to growth of the loan servicing portfolio. As of February 28, 1998, the Company serviced \$182.9 billion of loans (including \$6.7 billion of loans subserviced for others), compared to \$158.6 billion (including \$3.9 billion of loans subserviced for others) at February 28, 1997, a 15% increase. The growth in the Company's servicing portfolio during Fiscal 1998 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.

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During Fiscal 1998, the prepayment rate of the Company's servicing portfolio was 15%, compared to 11% for Fiscal 1997. In general, the prepayment rate is affected by the level of refinance activity, which in turn is driven by the relative level of mortgage interest rates, and activity in the home purchase market. The increase in the prepayment rate from Fiscal 1997 to Fiscal 1998 was primarily due to the increase in refinance activity caused by lower interest rates during Fiscal 1998 than during Fiscal 1997. The weighted average interest rate of the mortgage loans in the Company's servicing portfolio at both February 28, 1998 and 1997 was 7.8%.

The Company recorded amortization and net impairment of its MSR's for Fiscal 1998 totaling \$561.8 million (consisting of amortization amounting to \$300.3 million and impairment of \$261.5 million), compared to \$101.4 million of amortization and net impairment (consisting of amortization amounting to \$220.1 million and recovery of previous impairment of \$118.7 million) for Fiscal 1997. The factors affecting the amount of amortization and impairment or recovery 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 1998, the Company recognized a net benefit of \$233.0 million from its Servicing Hedge. The net benefit included unrealized net gains of \$182.2 million and realized gains of \$50.8 million from the sale of various financial instruments that comprise the Servicing Hedge and premium amortization. In Fiscal 1997, the Company recognized a net expense of \$125.3 million from its Servicing Hedge. The net expense included unrealized losses of \$56.9 million and net realized losses of \$68.4 million from the sale of various financial instruments that comprise the Servicing Hedge and premium amortization. There can be no assurance that the Servicing Hedge will generate gains in the future, or if gains are generated, that they will fully offset impairment of the MSR's.

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. During Fiscal 1997, the Company acquired bulk servicing rights for loans with principal balances aggregating \$1.4 billion at a price of 1.60% of the aggregate outstanding principal balances.

Salaries and related expenses are summarized below for Fiscal 1998 and Fiscal 1997.

(Dollar amounts in thousands)	Fiscal 1998				Total
	Production Activities	Loan Administration	Corporate Administration	Other Activities	
Base Salaries	\$134,776	\$44,911	\$70,305	\$24,512	\$274,504
Incentive Bonus	76,854	1,196	16,570	10,361	104,981
Payroll Taxes and Benefits	22,956	8,476	10,581	2,823	44,836
Total Salaries and Related Expenses	\$234,586	\$54,583	\$97,456	\$37,696	\$424,321
Average Number of Employees	3,132	1,630	1,370	434	6,566

(Dollar amounts in thousands)	Fiscal 1997				Total
	Production Activities	Loan Administration	Corporate Administration	Other Activities	
Base Salaries	\$ 91,054	\$41,806	\$54,244	\$12,852	\$199,956
Incentive Bonus	34,501	763	14,820	6,799	56,883
Payroll Taxes and Benefits	15,105	7,747	5,389	1,804	30,045
Total Salaries and Related Expenses	\$140,660	\$50,316	\$74,453	\$21,455	\$286,884
Average Number of Employees	2,303	1,555	1,107	251	5,216

The amount of salaries increased during Fiscal 1998 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 1998 increased primarily due to higher production and a change in divisional production mix.

Occupancy and other office expenses for Fiscal 1998 increased to \$184.3 million, up from \$129.9 million for Fiscal 1997 primarily due to: (i) the continued effort by the Company to expand its retail branch network, particularly outside of California; (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, Freddie Mac and Ginnie Mae in order for these GSE 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 1998, guarantee fees increased 8% to \$172.7 million, up from \$159.4 million for Fiscal 1997. The increase resulted from an increase in the servicing portfolio, changes in the mix of the portfolio sold to GSE and terms negotiated at the time of loan sales.

Marketing expenses for Fiscal 1998 increased 24% to \$42.3 million, which was up from \$34.3 million for Fiscal 1997, reflecting the increase in the mortgage market and the Company's continued implementation of a marketing plan to increase consumer brand awareness.

Other operating expenses for Fiscal 1998 increased from Fiscal 1997 by \$39.6 million, or 49%. This increase was due primarily to higher loan production, a larger servicing portfolio, increased reserves for bad debt, increased systems development and growth in the Company's non-mortgage banking subsidiaries in Fiscal 1998 as compared to Fiscal 1997.

Profitability of Loan Production Segment

In Fiscal 1998, pre-tax earnings from the loan production segment (which include loan origination and purchases, warehousing and sales) were \$245.1 million. In Fiscal 1997, comparable pre-tax earnings were \$141.9 million. The increase of \$103.2 million was primarily due to increased production, greater sales of higher-margin home equity and sub-prime loans at significantly higher margins than prime credit quality first mortgages and improved pricing margins on prime credit quality first mortgages. These positive results were partially offset by higher production costs.

Profitability of Servicing Segment

In Fiscal 1998, pre-tax earnings from the loan servicing segment (which include administering the loans in the servicing portfolio, selling homeowners and other insurance, acting as tax payment agent, marketing foreclosed properties and acting as reinsurer) were \$215.5 million as compared to \$254.2 million in Fiscal 1997. The decrease of \$38.7 million was primarily attributed to increased amortization of MSR's and Interest Costs Incurred on Payoffs due to increased prepayments from Fiscal 1997 to Fiscal 1998. 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

In Fiscal 1998, pre-tax earnings from the capital markets segment were \$19.7 million. In Fiscal 1997, comparable pre-tax earnings were \$12.9 million. The increase of \$6.8 million was primarily the result of increased trading volumes.

Profitability of Other Activities

In addition to loan production, loan servicing and capital markets, 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 services. During Fiscal 1998, LandSafe, Inc., through a subsidiary, began providing home inspection services. In addition, LandSafe, Inc. provides property profiles to realtors, builders, consumers, mortgage brokers and other financial institutions. For Fiscal 1998, LandSafe, Inc. contributed \$10.1 million to the Company's pre-tax income compared to \$1.2 million for Fiscal 1997. The increase in LandSafe, Inc. pre-tax income primarily resulted from expanded services and increased loan production.

Additionally, the Company's other activities include the operations of CCI and Countrywide Financial Services, Inc. The operations of other activities, excluding LandSafe, Inc., contributed \$17.7 million to the Company's pre-tax income for Fiscal 1998 compared to \$11.7 million for Fiscal 1997. The increase in pre-tax income primarily resulted from an increase in CCI dividend income.

During Fiscal 1998, CAMC, a subsidiary of the Company, was sold to 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 up to three years. The sale resulted in a \$57.4 million pre-tax gain.

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, MSR's, 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 CMO's, 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. MSR's 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.

Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

Utilizing the sensitivity analyses described above, as of February 28, 1999, the Company estimates that a permanent 0.50% reduction in interest rates, all else being constant, would result in a \$0.4 million after-tax gain related to its trading securities and a \$11.5 million after-tax loss related to its other financial instruments. As of February 28, 1999, the Company estimates that this combined after-tax loss of \$11.1 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 and do not incorporate other factors that would impact the Company's financial performance in such a scenario. Consequently, the preceding estimates should not be viewed as a forecast.

An additional market risk facing the Company is foreign currency risk. During Fiscal 1999, the Company 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 the Company's reporting currency (i.e., U.S. dollars) thereby eliminating the associated foreign currency risk. 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 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 MSR's, decreasing 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 MSR's, a decreased rate of interest earned from the custodial balances and increased Interest Costs Incurred on Payoffs. The impact of changing interest rates on servicing-related earnings are reduced by performance of the Servicing Hedge, which is designed to mitigate the impact on earnings of higher amortization and impairment that may result from declining interest rates.

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 and its investment in MSR's. To meet these needs, the Company currently utilizes commercial paper supported by the revolving credit facility, medium-term notes, MBS repurchase agreements, subordinated notes, pre-sale funding facilities, an optional cash purchase feature in the dividend reinvestment plan, redeemable capital trust pass-through securities 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.

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 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 MSR's. 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 1999, the Company's operating activities used cash of 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, operating activities used approximately \$2.5 billion on a short-term basis primarily to support the increase in its mortgage loans and MBS held for sale. In Fiscal 1997, the Company's operating activities provided cash of approximately \$2.0 billion.

Investing Activities

The primary investing activity for which cash was used by the Company was the investment in MSR's. Net cash used by investing activities was \$1.8 billion for Fiscal 1999, \$1.1 billion for Fiscal 1998 and \$0.9 billion for Fiscal 1997.

Financing Activities

Net cash provided by financing activities amounted to \$2.8 billion for Fiscal 1999. Net cash provided by financing activities amounted to \$3.6 billion for Fiscal 1998. Net cash used by financing activities amounted to \$1.0 billion for Fiscal 1997. 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 MSR's.

PROSPECTIVE TRENDS

Applications and Pipeline of Loans in Process

During Fiscal 1999, the Company received new loan applications at an average daily rate of \$540 million. As of February 28, 1999, the Company's pipeline of loans in process was \$14.6 billion. This compares to a daily application rate in Fiscal 1998 of \$306 million and a pipeline of loans in process as of February 28, 1998 of \$12.6 billion. The size of the pipeline is generally an indication of the level of future fundings, as historically 43% to 77% of the pipeline of loans in process has funded. In addition, the Company's LOCK 'N SHOP[®] Pipeline as of February 28, 1999 was \$2.1 billion and as of February 28, 1998 was \$1.4 billion. For the month ended March 31, 1999, the average daily rate of applications received was \$537 million, and as of March 31, 1999, the pipeline of loans in process was \$14.2 billion and the LOCK 'N SHOP[®] Pipeline 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 increased 90% from Fiscal 1998 to Fiscal 1999. This increase was primarily due to three factors. First, the Company's market share increased, driven largely by the expansion of the Company's Consumer Markets and Wholesale branch networks, including the new retail sub-prime branches. Second, mortgage interest rates generally decreased in Fiscal 1999, driving an increase in refinances. Third, new and existing home sales were stronger during Fiscal 1999 than in Fiscal 1998.

The prepayment rate in the servicing portfolio increased from Fiscal 1998 to Fiscal 1999. This was due primarily to increased refinances.

The Company's primary competitors are commercial banks, savings and loans, mortgage banking subsidiaries of diversified companies, as well as other mortgage bankers. Over the past several years, certain commercial banks have expanded their mortgage banking operations through acquisition of formerly independent mortgage banking companies or through consolidation. The Company believes that activities have not had a material impact on the overall level of competition in the market.

The Company's California mortgage loan production (measured by principal balance) constituted 25% of its total production during Fiscal 1999 and 26% during Fiscal 1998. 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, decreased to 3.55%, as of February 28, 1999 from 3.91%, as of February 28, 1998. The Company believes that this decrease was primarily the result of changes in portfolio mix and aging. The proportion of government loans and high loan-to-value conventional loans, which tend to experience higher delinquency rates than low loan-to-value conventional loans, was 44% and 48% of the portfolio as of February 28, 1999 and February 28, 1998, respectively. In addition, the weighted average age of the portfolio was 26 months as of February 28, 1999, down from 31 months as of February 28, 1998. Delinquency rates tend to

Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

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, the 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 decreased to 0.31% as of February 28, 1999 from 0.45% as of February 28, 1998. Generally, the Company is not exposed to credit risk. 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 does not retain credit risk with respect to the 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 (25% of the Company's servicing portfolio as of February 28, 1999) 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 28, 1999, the Company had investments in such subordinated interests amounting to \$273.9 million.

Servicing Hedge

As previously discussed, the Company's Servicing Hedge is designed to protect the value of its investment in MSR's 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 MSR's generally increases. There can be no assurance that, in periods of increasing interest rates, the increase in value of the MSR's will offset the decline in value of the Servicing Hedge. Likewise, there can be no assurance that, in periods of declining interest rates, that the Servicing Hedge will generate gains, or if gains are generated, that they will fully offset impairment of the MSR'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"). 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, 2001. 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 reclassified mortgage-backed securities retained in securitization as available-for-sale securities.

Year 2000 Update

The Company has four distinct Year 2000 Projects, each of which focuses on a particular critical area.

The Company's primary platform is the IBM AS/400 which contains all of the data relating to the origination and servicing of the home loans in the Company's portfolio. As of December 31, 1998, the Company has substantially reprogrammed and re-engineered the system to incorporate four-digit century date fields, by testing the function and accuracy of the reprogrammed fields, implementing the revised code and forward-date testing of the more than 17,000 production programs on the AS/400.

Many of the Company's Client Server applications have been developed in-house and in a Year 2000 compliant format. The majority of these applications interface with the AS/400. The Company has reviewed each of its mission critical Client Server applications to confirm their Year 2000 readiness. Additionally, as part of this project, the Company has tested the interfaces between the individual mission critical Client Server applications and the AS/400 to confirm that accurate data is exchanged with the revised AS/400 programs. All but one of the Company's mission critical Client Server applications have been forward-date tested. The Company estimates that forward-date testing of the one remaining mission critical Client Server applications and most of its less critical applications will be completed by June 30, 1999. Newly-developed Client Server applications are forward-date tested before they are implemented into production.

The Company's Infrastructure Project has inventoried the personal computers used by the Company's employees nationwide to determine the Year 2000 readiness of these computers. The Company has fewer than 125 computers and related hardware which are not Year 2000 compliant, and they will be upgraded or replaced before December 31, 1999. As part of the Infrastructure Project, the Company also identified "shrink-wrapped" and desktop software used company-wide, as well as desktop software supporting individuals and individual business units, in order to determine whether the vendor is bringing its products into compliance. This Project also monitors websites and other available information concerning software and hardware vendors and disseminates the latest available information to those business units relying on the product. In the event that the products are not or will not be compliant, the Company is assessing its needs for these applications. With respect to non-compliant software, the Company will either seek alternative sources of similar applications, develop its own applications or attempt to obtain the source code and the vendor's authorization to re-engineer it.

The Infrastructure Project has inventoried, assessed, corrected and forward-date tested the Company's mission critical wide area network components, telecommunications systems and unique business systems. Additionally, the Infrastructure Project personnel, along with personnel from the Company's Facilities and Property Management Departments, have evaluated building systems of the Company's corporate facilities to assess whether they will operate satisfactorily in the Year 2000 and beyond. These building systems include energy management, environmental, and safety and security systems. Where necessary, non-compliant systems or components will be upgraded or replaced before December 31, 1999.

The Communications Project personnel have developed a database for collecting information regarding the Year 2000 status of the Company's strategic business partners and other vendors and suppliers. Individual business units identify contact information in the database regarding their respective business partners, vendors and suppliers. The database tracks the inquiry made of each such entity, that entity's response to the Company's inquiry and the Company's response to each entity's inquiry. Analysis of the information contained in the database and development of additional features and functions of the database are ongoing. The goal is to achieve a reasonable understanding of the Year 2000 readiness and contingency plans of the Company's business partners, vendors and suppliers well in advance of the Year 2000. The Company has successfully completed company-wide testing of electronic interfaces with Freddie Mac, Fannie Mae and Ginnie Mae.

Additionally, the Communications Project personnel represent the Company in its participation as one of the leading mortgage banking companies involved in the Mortgage Bankers Association ("MBA") inter-industry testing project. Other participants include Freddie Mac, Fannie Mae and Ginnie Mae, as well as banks, insurance companies and credit bureaus. The MBA project involves inter-industry testing of transactions from loan origination, secondary marketing and loan servicing areas and its mission is to make sure the various interfaces work together across the entire industry.

Contingency Planning

The Company has retained a vendor specializing in business continuity planning to review its business continuity procedures on a company-wide basis and assist in its assessment of the contingency plans of each business unit, as well as those of mission critical business partners, vendors and suppliers. Documentation of the Year 2000 aspect of business recovery planning for the Company's mission critical business functions is complete. The business analysis aspect of the contingency planning process also serves as a means of verifying the Company's existing inventories of Client Server applications, Infrastructure hardware and software, vendors and suppliers, external and internal interfaces and business partners.

Costs

The total cost associated with the Company's Year 2000 efforts is not expected to be material to the Company's financial position. The Company is expensing these costs during the period in which they are incurred. The estimated total cost of the Year 2000 Project is approximately \$43.0 million, of which \$24.7 million had been incurred through February 28, 1999. However, the Company's expectations about future costs associated with the Year 2000 are subject to uncertainties that could cause the actual results to differ materially from the Company's expectations. Factors that could influence the amount and timing of future costs include the success of the Company in identifying systems and programs that are not Year 2000 compliant, the nature and amount of programming required to replace or upgrade each of the affected programs, the availability, rate and magnitude of related labor and consulting costs and the success of the Company's business partners, vendors and clients in addressing Year 2000 issues.

Risks

Due to the global nature of the Year 2000 issue, the Company cannot determine all of the consequences the Year 2000 may have on its business and operations. The Company believes that in light of the efforts of its Year 2000 Projects, including the Contingency Planning aspect, the possibility of material business interruptions is unlikely. However, there may be instances where the Company will rely on third party information which may be unreliable or unverifiable. The Company cannot be assured that third parties upon which it relies, including utilities and telecommunications service providers, will not have business interruptions which could have an adverse effect on the Company.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In response to this Item, the information set forth on page 29 and Note A of the Annual Report is incorporated herein by reference.

Consolidated Balance Sheets

(Dollar amounts in thousands, except per share data)	February 28,	
	1999	1998
ASSETS		
Cash	\$ 58,748	\$ 10,707
Mortgage loans and mortgage-backed securities held for sale	6,231,220	5,292,191
Property, equipment and leasehold improvements, at cost — net of accumulated depreciation and amortization	311,741	226,330
Mortgage servicing rights, net	4,496,439	3,612,010
Other assets	4,550,108	3,041,973
Total assets	<u>\$15,648,256</u>	<u>\$12,183,211</u>
Borrower and investor custodial accounts (segregated in special accounts — excluded from corporate assets)	<u>\$ 4,020,998</u>	<u>\$ 3,945,606</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable	\$ 9,935,759	\$ 7,475,221
Drafts payable issued in connection with mortgage loan closings	1,083,499	764,285
Accounts payable, accrued liabilities and other	517,937	482,678
Deferred income taxes	1,092,176	873,084
Total liabilities	<u>12,629,371</u>	<u>9,595,268</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, 1,500,000 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, 112,619,313 shares in 1999 and 109,205,579 shares in 1998	5,631	5,460
Additional paid-in capital	1,153,673	1,049,365
Accumulated other comprehensive (loss) income	(19,593)	3,697
Retained earnings	1,379,174	1,029,421
Total shareholders' equity	<u>2,518,885</u>	<u>2,087,943</u>
Total liabilities and shareholders' equity	<u>\$15,648,256</u>	<u>\$12,183,211</u>
Borrower and investor custodial accounts	<u>\$ 4,020,998</u>	<u>\$ 3,945,606</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 28,		
	1999	1998	1997
Revenues			
Loan origination fees	\$ 623,531	\$ 301,389	\$ 193,079
Gain on sale of loans, net of commitment fees	699,433	417,427	247,450
Loan production revenue	1,322,964	718,816	440,529
Interest earned	1,029,066	584,076	457,005
Interest charges	(983,829)	(568,359)	(423,447)
Net interest income	45,237	15,717	33,558
Loan servicing income	1,023,700	907,674	773,715
Amortization and impairment/recovery of mortgage servicing rights	(1,013,578)	(561,804)	(101,380)
Servicing hedge benefit (expense)	412,812	232,959	(125,306)
Net loan administration income	422,934	578,829	547,029
Commissions, fees and other income	187,867	138,217	91,346
Gain on sale of subsidiary	—	57,381	—
Total revenues	1,979,002	1,508,960	1,112,462
Expenses			
Salaries and related expenses	669,686	424,321	286,884
Occupancy and other office expenses	277,921	184,338	129,877
Guarantee fees	181,117	172,692	159,360
Marketing expenses	64,510	42,320	34,255
Other operating expenses	153,963	119,743	80,188
Total expenses	1,347,197	943,414	690,564
Earnings before income taxes	631,805	565,546	421,898
Provision for income taxes	246,404	220,563	164,540
NET EARNINGS	\$ 385,401	\$ 344,983	\$ 257,358
Earnings per share			
Basic	\$ 3.46	\$ 3.21	\$ 2.50
Diluted	\$ 3.29	\$ 3.09	\$ 2.44

The accompanying notes are an integral part of these statements.

Consolidated Statement of Common Shareholders' Equity

	Three years ended February 28, 1999					
	Number of Shares	Common Stock	Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at February 29, 1996	102,242,329	\$ 5,112	\$ 820,183	—	\$ 494,460	\$ 1,319,755
Cash dividends paid — common	—	—	—	—	(32,989)	(32,989)
Stock options exercised	1,000,798	50	15,337	—	—	15,387
Tax benefit of stock options exercised	—	—	3,656	—	—	3,656
Dividend reinvestment plan	2,198,563	110	60,040	—	—	60,150
401(k) Plan contribution	79,878	4	2,038	—	—	2,042
Issuance of common stock in business acquisition	573,990	29	16,688	—	—	16,717
Other comprehensive loss, net of tax	—	—	—	\$(30,545)	—	(30,545)
Net earnings for the year	—	—	—	—	257,358	257,358
Balance at February 28, 1997	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
Balance at February 28, 1998	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
Balance at February 28, 1999	112,619,313	\$ 5,631	\$ 1,153,673	\$(19,593)	\$ 1,379,174	\$ 2,518,885

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 28,		
	1999	1998	1997
Cash flows from operating activities:			
Net earnings	\$ 385,401	\$ 344,983	\$ 257,358
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:			
Gain on sale of subsidiary	—	(57,381)	—
Gain on sale of available-for-sale securities	(56,801)	(16,749)	(4,339)
Amortization and impairment/recovery of mortgage servicing rights	1,013,578	561,804	101,380
Depreciation and other amortization	49,210	44,930	40,378
Deferred income taxes	246,404	220,563	164,540
Origination and purchase of loans held for sale	(92,880,538)	(48,771,673)	(37,810,761)
Principal repayments and sale of loans	91,941,509	46,059,454	39,970,876
Decrease (increase) in mortgage loans and mortgage-backed securities held for sale	(939,029)	(2,712,219)	2,160,115
Increase in other assets	(1,737,487)	(1,144,103)	(856,499)
Increase in accounts payable and accrued liabilities	35,259	302,404	96,712
Net cash provided (used) by operating activities	(1,003,465)	(2,455,768)	1,959,645
Cash flows from investing activities:			
Additions to mortgage servicing rights, net	(1,898,007)	(1,149,988)	(858,912)
Purchase of property, equipment and leasehold improvements, net	(119,507)	(70,896)	(77,294)
Proceeds from sale of available-for-sale securities	231,555	72,747	27,001
Net cash used by investing activities	(1,785,959)	(1,148,137)	(909,205)
Cash flows from financing activities:			
Net (decrease) increase in warehouse debt and other short-term borrowings	(1,122,273)	1,513,974	(1,924,308)
Issuance of long-term debt	4,044,121	1,973,198	637,624
Repayment of long-term debt	(142,096)	(182,747)	(113,773)
Issuance of Company — obligated mandatorily redeemable capital trust pass-through securities of subsidiary trust holding solely a Company guaranteed related subordinated debt	—	200,000	300,000
Issuance of common stock	93,361	126,309	84,831
Cash dividends paid	(35,648)	(34,391)	(32,989)
Net cash (used) provided by financing activities	2,837,465	3,596,343	(1,048,615)
Net increase (decrease) in cash	48,041	(7,562)	1,825
Cash at beginning of period	10,707	18,269	16,444
Cash at end of period	\$ 58,748	\$ 10,707	\$ 18,269
Supplemental cash flow information:			
Cash used to pay interest	\$ 876,236	\$ 422,969	\$ 309,575
Cash used to pay (refund from) income taxes	\$ 1,407	\$ (1,645)	\$ 15
Noncash financing activities:			
Issuance of common stock in business acquisition	\$ —	\$ —	\$ 16,717
Unrealized gain (loss) on available-for-sale securities, net of tax	\$ (23,290)	\$ 34,242	\$ (30,545)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

(Dollar amounts in thousands)	Year Ended February 28,		
	1999	1998	1997
Net Earnings	\$385,401	\$344,983	\$257,358
Other comprehensive income, net of taxes:			
Unrealized gains (losses) on available for sale securities:			
Unrealized holding gains (losses) arising during the period	11,358	44,459	(27,899)
Less: reclassification adjustment for gains included in net earnings	(34,648)	(10,217)	(2,646)
Other comprehensive (loss) income	(23,290)	34,242	(30,545)
Comprehensive Income	\$362,111	\$379,225	\$226,813

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 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.

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 and the servicing rights 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.

To mitigate the effect on earnings of higher amortization and impairment of MSRs resulting from increased 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, options on interest rate futures and MBS, interest rate futures, interest rate swaps with the Company’s maximum payment capped (“Capped Swaps”), interest rate swaps, interest rate caps, options on interest rate swaps (“Swaptions”), and options on callable pass-through certificates (“options on CPCs”) and certain tranches of collateralized mortgage obligations (“CMOs”). The value of the interest rate floors, options on interest rate futures, Capped Swaps, interest rate caps, Swaptions, and options on CPC 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 Other Assets 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.

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

Notes to Consolidated Financial Statements

(continued)

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 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

The Company's MBS held for sale in the near term are classified as trading securities and included with mortgage loans on the consolidated balance sheet. 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.

Financial instruments held by the Company's broker-dealer subsidiary are included in Other Assets. 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 certain tranches of CMOs, certain other equity securities and mortgage-backed securities retained in the Company's securitizations as available for sale securities which are included in Other Assets. 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 on prime credit quality first mortgage loans. 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.

At February 28, 1999, the Company used discount rates for sub-prime and home equity mortgage-backed residuals of 25% and 18%, respectively; annual prepayment estimates of 22% to 49% and 30%, respectively; and lifetime credit loss estimates of 1.0% to 6.1% and 1.3% of the original principal balances of the underlying loans, respectively.

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.

Deferred Commitment Fees

Deferred commitment fees, included in Other Assets, primarily consist of 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. As of February 28, 1999, the Company's investment in CWHL Funding, Inc. was \$73.7 million. As of February 28, 1998, the Company's investment in CWHL Funding, Inc. was \$56.4 million.

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 \$46.0 million, \$32.6 million and \$26.6 million for the years ended February 28, 1999, 1998 and 1997, 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 28, 1999, 1998 and 1997.

	Years ended February 28,								
	1999			1998			1997		
(Amounts in thousands, except per share data)	Net Earnings	Shares	Per-Share Amount	Net Earnings	Shares	Per-Share Amount	Net Earnings	Shares	Per-Share Amount
Net earnings	<u>\$385,401</u>			<u>\$344,983</u>			<u>\$257,358</u>		
Basic EPS									
Net earnings available to common shareholders	\$385,401	111,414	\$3.46	\$344,983	107,491	\$3.21	\$257,358	103,112	\$2.50
Effect of Dilutive Stock Options	<u>—</u>	<u>5,631</u>		<u>—</u>	<u>4,035</u>		<u>—</u>	<u>2,565</u>	
Diluted EPS									
Net earnings available to common shareholders	<u>\$385,401</u>	<u>117,045</u>	\$3.29	<u>\$344,983</u>	<u>111,526</u>	\$3.09	<u>\$257,358</u>	<u>105,677</u>	\$2.44

Financial Statement Reclassifications and Restatement

Certain amounts reflected in the Consolidated Financial Statements for the years ended February 28, 1998 and 1997 have been reclassified to conform to the presentation for the year ended February 28, 1999.

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 28,	
	1999	1998
Buildings	\$ 97,339	\$ 84,526
Office equipment	305,092	223,792
Leasehold improvements	42,578	28,136
	445,009	336,454
Less: accumulated depreciation and amortization	(167,449)	(133,353)
	277,560	203,101
Land	34,181	23,229
	<u>\$ 311,741</u>	<u>\$ 226,330</u>

Depreciation and amortization expense amounted to \$40.3 million, \$31.8 million and \$29.0 million for the years ended February 28, 1999, 1998 and 1997, respectively.

NOTE C — MORTGAGE SERVICING RIGHTS

Entries to mortgage servicing rights for the years ended February 28, 1999, 1998 and 1997 were as follows.

(Dollar amounts in thousands)	February 28,		
	1999	1998	1997
Mortgage Servicing Rights			
Balance at beginning of period	\$3,653,318	\$3,026,494	\$2,385,299
Additions, net	1,898,007	1,149,988	858,912
Scheduled amortization	(556,373)	(300,312)	(220,099)
Hedge losses (gains) applied	(403,761)	(222,852)	59,753
Reclassification of rights in excess of minimum contractually specified servicing fees	—	—	(57,371)
Balance before valuation reserve at end of period	4,591,191	3,653,318	3,026,494
Reserve for Impairment of Mortgage Servicing Rights			
Balance at beginning of period	(41,308)	(2,668)	(61,634)
Reductions (additions)	(53,444)	(38,640)	58,966
Balance at end of period	(94,752)	(41,308)	(2,668)
Mortgage Servicing Rights, net	<u>\$4,496,439</u>	<u>\$3,612,010</u>	<u>\$3,023,826</u>

The estimated fair value of mortgage servicing rights was \$4.7 billion and \$3.7 billion as of February 28, 1999 and 1998, 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 — OTHER ASSETS

Other assets as of February 28, 1999 and 1998 included the following.

(Dollar amounts in thousands)	February 28,	
	1999	1998
Trading securities	\$1,460,446	\$ 243,947
Servicing hedge instruments	991,401	801,335
Mortgage-backed securities retained in securitization	500,631	466,259
Receivables related to broker-dealer activities	401,232	148,976
Rewarehoused FHA and VA loans	216,598	426,407
Servicing related advances	199,143	231,437
Loans held for investment	125,236	115,713
Accrued interest	102,093	84,601
Equity securities	59,875	96,152
Other	493,453	427,146
	<u>\$4,550,108</u>	<u>\$ 3,041,973</u>

NOTE E — AVAILABLE FOR SALE SECURITIES

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

(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
CMOs	32,514	\$ 312	—	32,826
Equity securities	42,498	3,098	(16,904)	28,692
	\$ 594,333	\$ 3,410	\$(35,594)	\$ 562,149

(Dollar amounts in thousands)	February 28, 1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
CMOs	\$ 204,234	—	\$(12,411)	\$ 191,823
Equity securities	7,315	18,471	—	25,786
	\$ 211,549	\$ 18,471	\$(12,411)	\$ 217,609

NOTE F — NOTES PAYABLE

Notes payable consisted of the following.

(Dollar amounts in thousands)	February 28,	
	1999	1998
Commercial paper	\$ 176,559	\$ 2,119,330
Medium-term notes, Series A, B, C, D, E, F, G, H and Euro Notes	8,039,824	4,137,185
Repurchase agreements	1,517,405	181,121
Subordinated notes	200,000	200,000
Unsecured notes payable	—	835,000
Other notes payable	1,971	2,585
	\$ 9,935,759	\$ 7,475,221

Commercial Paper and Backup Credit Facilities

As of February 28, 1999, 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 \$5.3 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 22, 1999. As consideration for the facility, CHL pays annual commitment fees of \$3.8 million. There is an additional one-year facility, which expired April 14, 1999, with sixteen of the forty-four banks referenced above for total commitments of \$1.3 billion. As consideration for the facility, CHL pays annual commitment fees of \$1.0 million. CHL renewed this facility. See Note O — "Subsequent Events." In addition, on November 25, 1998, CHL entered into a \$1.5 billion committed mortgage loan conduit facility, with four commercial banks. The facility has a maturity date of November 24, 1999. As a consideration for this facility, CHL pays annual commitment fees of \$1.9 million. Loans made under this facility are secured by conforming and non-conforming mortgage loans. These facilities contain various financial covenants and restrictions, certain of which limit the amount of dividends that can be paid by the Company or CHL. 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 as of February 28, 1999. The weighted average borrowing rate on commercial paper borrowings for the year ended February 28, 1999 was 5.47%. The weighted average borrowing rate on commercial paper outstanding as of February 28, 1999 was 5.24%.

Notes to Consolidated Financial Statements

(continued)

Medium-Term Notes

As of February 28, 1999, 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	\$ —	\$ 173,500	\$ 173,500	7.29%	8.79%	Mar. 1999	Mar. 2002
Series B	—	351,000	351,000	6.08%	6.98%	Jul. 1999	Aug. 2005
Series C	208,000	197,000	405,000	4.56%	8.43%	Apr. 1999	Mar. 2004
Series D	75,000	385,000	460,000	5.35%	6.88%	Aug. 2000	Sep. 2005
Series E	310,000	690,000	1,000,000	5.12%	7.45%	Feb. 2000	Oct. 2008
Series F	656,000	1,344,000	2,000,000	4.99%	7.00%	Oct. 1999	May 2013
Series G	919,000	581,000	1,500,000	4.94%	7.00%	Jul. 1999	Nov. 2018
Series H	114,500	300,000	414,500	4.99%	7.00%	Dec. 1999	Dec. 2018
Euro Notes	1,019,600	716,224	1,735,824	4.97%	6.00%	Jul. 1999	Jan. 2009
Total	\$ 3,302,100	\$ 4,737,724	\$ 8,039,824				

As of February 28, 1999, substantially all of the outstanding fixed-rate notes had been effectively converted through interest rate swap agreements to floating-rate notes. The weighted average borrowing rate on medium-term note borrowings for the year ended February 28, 1999, including the effect of the interest rate swap agreements, was 5.92%. During Fiscal 1999, CHL issued \$666.2 million foreign currency denominated fixed-rate notes pursuant to its Euro medium-term note program. Such notes are denominated in Deutsche marks, French Francs and Portuguese Escudos. 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 28, 1999 was 5.36%. The weighted average borrowing rate on repurchase agreements outstanding as of February 28, 1999 was 4.95%. The repurchase agreements were collateralized by MBS. All MBS underlying repurchase agreements are held in safekeeping by broker-dealers. All agreements are to repurchase the same or substantially identical MBS.

Subordinated Notes

The 8.25% subordinated notes are due July 15, 2002. Interest is payable semi-annually on each January 15 and July 15. The subordinated notes are not redeemable prior to maturity and are not subject to any sinking fund requirements.

Pre-Sale Funding Facilities

As of February 28, 1999, 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. The weighted average borrowing rate for all such facilities for the year ended February 28, 1999 was 5.68%. As of February 28, 1999, the Company had no outstanding borrowings under any of these facilities.

Maturities of notes payable are as follows.

Year ending February 28 (29),	(Dollar amounts in thousands)
2000	\$3,982,435
2001	922,000
2002	522,000
2003	938,500
2004	863,000
Thereafter	<u>2,707,824</u>
	<u>\$9,935,759</u>

NOTE G — COMPANY-OBLIGATED CAPITAL SECURITIES OF SUBSIDIARY TRUSTS

On December 11, 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.

On June 4, 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.

On December 24, 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 28,		
	1999	1998	1997
Federal expense — deferred	\$ 204,186	\$ 181,228	\$ 135,991
State expense — deferred	42,218	39,335	28,549
	\$ 246,404	\$ 220,563	\$ 164,540

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.

(Dollar amounts in thousands)	Year ended February 28,		
	1999	1998	1997
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
Effective income tax rate	39.0%	39.0%	39.0%

Notes to Consolidated Financial Statements

(continued)

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

(Dollar amounts in thousands)	February 28,	
	1999	1998
Deferred income tax assets:		
Net operating losses	\$ 198,204	\$ 152,279
State income and franchise taxes	59,752	49,649
Reserves, accrued expenses and other	41,898	28,033
Total deferred income tax assets	\$ 299,854	\$ 229,961
Deferred income tax liabilities:		
Mortgage servicing rights	1,368,349	1,079,364
Gain on sale of subsidiary	23,681	23,681
Total deferred income tax liabilities	1,392,030	1,103,045
Deferred income taxes	\$1,092,176	\$ 873,084

As of February 28, 1999, the Company had net operating loss carryforwards for federal income tax purposes totalling \$542.7 million that expire as follows: \$12.3 million in 2003, \$19.7 million in 2004, \$3.2 million in 2006, \$5.1 million in 2008, \$131.4 million in 2009, \$74.0 million in 2010, \$41.0 million in 2011, \$84.1 million in 2012, \$72.0 million in 2013 and \$99.9 million in 2019.

NOTE I — 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, options on CPC, 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 risk with foreign currency swaps. Substantially all of the Company's derivative financial instruments are held or issued for purposes other than trading.

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 28, 1999, before and after applicable margin accounts held, was as follows:

(Dollar amounts in millions)	As of February 28, 1999
Interest rate floors	\$ 402.1
Swaptions	271.1
MBS mandatory delivery and purchase commitments	199.8
Interest rate swaps	93.2
Interest rate caps	40.4
Capped Swaps	3.1
Total credit exposure before margin accounts held	1,009.7
Less: Margin accounts held	(542.6)
Net unsecured credit exposure	\$ 467.1

Hedge of Committed Pipeline and Mortgage Loan Inventory

As of February 28, 1999, the Company had \$6.2 billion of closed mortgage loan and MBS held in inventory, including \$5.9 billion fixed-rate and \$0.3 billion adjustable-rate (the "Inventory"). In addition, as of February 28, 1999, the Company had short-term rate and point commitments amounting to approximately \$7.5 billion (including \$7.0 billion fixed-rate and \$0.5 billion adjustable-rate) to fund mortgage loan applications in process and an additional \$2.1 billion of mortgage loan applications in process subject to property identification and borrower qualification

(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 28, 1999, the notional amount of options to purchase and sell MBS aggregated \$2.0 billion and \$6.8 billion, respectively. In addition, as of February 28, 1999, the notional amount of options to purchase and sell treasury futures aggregated \$0.2 billion and \$0.1 billion, respectively. The Company had net forward contracts to sell MBS that amounted to \$6.8 billion (including forward contracts to sell MBS of \$15.4 billion and to purchase MBS of \$8.6 billion). The MBS that are to be delivered under these contracts and options are either fixed or adjustable-rate, and are generally corresponding 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 higher amortization and impairment of MSR’s resulting from increased prepayment activity that generally occurs 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 options on interest rate futures and MBS, interest rate floors, interest rate swaps, interest rate caps, Capped Swaps, Swaptions, options on CPC, interest rate futures and certain tranches of CMOs.

The CMOs, which consist primarily of principal-only (“P/O”) securities, have been purchased at deep discounts to their par values. As interest rates decline, prepayments on the collateral underlying the CMOs should increase which should result in a decline in the average lives of the P/O securities and an increase in the present values of their cash flows. As of February 28, 1999, the carrying value of CMOs included in the Servicing Hedge was approximately \$32.8 million.

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

(Dollar amounts in millions)	Balance, February 28, 1998	Additions	Dispositions/ Expirations	Balance, February 28, 1999
Interest Rate Floors	\$33,000	19,000	(19,000)	\$ 33,000
Long Call Options on Interest Rate Futures	\$79,400	60,320	(107,720)	\$ 32,000
Long Put Options on Interest Rate Futures	\$ 9,800	65,880	(21,080)	\$ 54,600
Short Call Options on Interest Rate Futures	—	63,800	(41,800)	\$ 22,000
Short Put Options on Interest Rate Futures	—	6,750	(6,030)	\$ 720
Interest Rate Futures	\$ 5,000	36,425	(18,925)	\$ 22,500
Capped Swaps	\$ 1,000	—	—	\$ 1,000
Interest Rate Swaps	\$ 3,900	11,750	(500)	\$ 15,150
Interest Rate Caps	\$ 4,500	—	—	\$ 4,500
Swaptions	\$ 1,850	32,500	(1,800)	\$ 32,550
Options on Callable Pass-through Certificates	\$ 2,561	2,000	—	\$ 4,561

Notes to Consolidated Financial Statements

(continued)

The Servicing Hedge is intended to protect the value of the investment in MSR's from the effects of increased prepayment activity that generally results from declining interest rates. Should interest rates increase, the value of the MSR's generally will increase while the value of the Servicing Hedge will decline. With respect to the options, Swaptions, floors, caps, options on CPC and CMO's 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 28, 1999, the Company estimates that its maximum exposure to loss over the contractual term is \$19.5 million. With respect to the Swap contracts entered into by the Company as of February 28, 1999, the Company estimates that its maximum exposure to loss over the contractual term is \$382.0 million. The Company's exposure to loss on futures is related to changes in the London Interbank Offered Rate ("LIBOR") over the life of the contract. The Company estimates that its maximum exposure to loss over the contractual term is \$88.0 million.

There can be no assurance that the Servicing Hedge will generate gains in the future, or if gains are generated, that they will fully offset impairment of the MSR's.

Interest Rate Swaps

As of February 28, 1999, CHL had interest rate swap contracts, in addition to those included in the Servicing Hedge, with certain financial institutions having notional principal amounts totaling \$5.7 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 \$3.7 billion), to convert its foreign currency denominated fixed-rate medium-term notes to U.S. dollar LIBOR-based floating-rate cost borrowings (notional amount \$0.7 billion), to convert a portion of its commercial paper and medium-term note borrowings from one floating-rate index to another (notional amount \$0.4 billion) and to convert the earnings rate on the custodial accounts held by CHL from floating to fixed (notional amount \$0.9 billion). Payments are due periodically through the termination date of each contract. The agreements expire between March 1999 and June 2027.

The interest-rate swap agreements related to debt had an average fixed rate (receive rate) of 5.68% and an average floating rate indexed to 3-month LIBOR (pay rate) of 5.29% on February 28, 1999. The interest rate swap agreements related to custodial accounts had an average fixed rate (receive rate) of 7.11% and an average floating rate indexed to 1 to 3-month LIBOR (pay rate) of 5.03% on February 28, 1999.

Broker-Dealer Derivative Financial Instruments

Countrywide Securities Corporation utilizes a variety of derivative 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.

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments as of February 28, 1999 and 1998 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 28, 1999		February 28, 1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Mortgage loans and mortgage-backed securities held for sale	\$ 6,231,220	\$ 6,231,220	\$ 5,292,191	\$ 5,292,191
Items included in other assets:				
Trading securities	1,460,446	1,460,446	243,947	243,947
Loans held for investment	125,236	125,236	115,713	115,713
Receivables related to broker-dealer activities	401,232	401,232	148,976	148,976
Reverse repurchase agreements	76,246	76,246	53,560	53,560
CMOs purchased	32,826	32,826	191,823	191,823
Mortgage-backed securities retained in securitizations	500,631	500,631	466,259	466,259
Equity Securities — restricted and unrestricted	59,875	46,971	96,152	116,322
Rewarehoused FHA and VA loans	216,598	216,598	426,407	426,407
Liabilities:				
Notes payable	9,935,759	9,883,859	7,475,221	7,589,593
Securities sold not yet purchased	84,775	84,775	83,445	83,445
Derivatives:				
Interest rate floors	426,838	402,061	378,023	373,964
Forward contracts on MBS	12,775	120,709	—	(5,719)
Options on MBS	34,883	62,475	33,290	24,125
Options on interest rate futures	18,261	15,729	32,093	13,546
Options on callable pass-through certificates	55,593	36,460	34,451	44,278
Interest rate caps	77,508	40,437	83,512	41,319
Capped Swaps	8,470	3,092	5,405	(1,795)
Swaptions	337,703	271,073	27,213	27,213
Interest rate futures	57,280	57,280	(3,359)	(3,359)
Interest rate swaps	43,570	93,205	44,717	155,229
Short-term commitments to extend credit	—	26,400	—	38,525

The fair value estimates as of February 28, 1999 and 1998 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.

Collateralized Mortgage Obligations

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 and market consensus prepayment rates.

Derivatives

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

Notes to Consolidated Financial Statements

(continued)

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 28(29),	(Dollar amounts in thousands)
2000	\$ 31,200
2001	25,627
2002	21,483
2003	16,042
2004	9,351
Thereafter	44,743
	<u>\$148,446</u>

Rent expense was \$44.7 million, \$30.2 million and \$22.3 million for the years ended February 28, 1999, 1998 and 1997, 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 28, 1999, 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 28, 1999, 1998 and 1997, the Company serviced loans totaling approximately \$215.5 billion, \$182.9 billion and \$158.6 billion, respectively. Included in the loans serviced as of February 28, 1999, 1998 and 1997 were loans being serviced under subservicing agreements with total principal balances of \$2.2 billion, \$6.7 billion and \$3.9 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 and reporting requirements, among other provisions.

Conforming conventional loans serviced by the Company (60% of the servicing portfolio as of February 28, 1999) 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 (18% of the servicing portfolio as of February 28, 1999) or partially guaranteed against loss by the Department of Veterans Affairs (7% of the servicing portfolio as of February 28, 1999). In addition, jumbo mortgage loans (15% of the servicing portfolio as of February 28, 1999) 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 28, 1999, approximately 30% 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. At February 28, 1999, the Company had investments in such subordinated interests that amounted to \$274 million. While the Company generally does not retain credit risk with respect to the 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 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 (25% of the Company's servicing portfolio as of February 28, 1999) 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 eleven years from the date of grant.

Stock options transactions under the Plans were as follows.

	Year ended February 28,		
	1999	1998	1997
Number of Shares:			
Outstanding options at beginning of year	11,151,799	10,241,862	6,911,180
Options granted	1,648,647	1,836,169	4,516,237
Options exercised	(1,239,662)	(839,479)	(1,000,798)
Options expired or cancelled	(63,740)	(86,753)	(184,757)
Outstanding options at end of year	<u>11,497,044</u>	<u>11,151,799</u>	<u>10,241,862</u>
Weighted Average Exercise Price:			
Outstanding options at beginning of year	\$ 20.57	\$ 19.03	\$ 15.67
Options granted	46.71	27.09	23.14
Options exercised	15.90	16.07	14.26
Options expired or cancelled	25.11	21.17	19.38
Outstanding options at end of year	<u>\$ 24.81</u>	<u>\$ 20.57</u>	<u>\$ 19.03</u>
Options exercisable at end of year	6,514,039	5,407,177	3,862,565
Options available for future grant	5,840,713	1,920,487	3,078,591

Status of the outstanding stock options under the Plans at February 28, 1999 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 – \$ 16.19	3.4 years	1,537,774	\$13.33	1,537,774	\$13.33
\$16.81 – \$ 18.56	5.6	1,838,787	17.72	1,595,926	17.59
\$19.50 – \$ 23.06	5.8	1,392,921	22.19	1,028,329	21.96
\$23.19 – \$ 26.63	7.3	3,415,440	23.23	1,962,467	23.25
\$ 27.06 – \$ 45.98	8.3	1,687,304	27.22	388,793	27.13
\$46.72 – \$ 53.00	9.3	1,624,818	46.75	750	47.44
\$ 2.80 – \$ 53.00	6.8 years	<u>11,497,044</u>	<u>\$24.81</u>	<u>6,514,039</u>	<u>\$19.55</u>

Notes to Consolidated Financial Statements

(continued)

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 28,		
	1999	1998	1997
Net Earnings			
As reported	\$385,401	\$344,983	\$257,358
Pro forma	\$366,118	\$335,043	\$241,115
Basic Earnings Per Share			
As reported	\$ 3.46	\$ 3.21	\$ 2.50
Pro forma	\$ 3.29	\$ 3.12	\$ 2.34
Diluted Earnings Per Share			
As reported	\$ 3.29	\$ 3.09	\$ 2.44
Pro forma	\$ 3.13	\$ 3.00	\$ 2.28

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 1999, 1998 and 1997, respectively: dividend yield of 0.72%, 1.18% and 1.38%; expected volatility of 40%, 28% and 26%; risk-free interest rates of 5.5%, 6.5% and 6.6% and expected lives of five years for options granted in all three years. The average fair value of options granted during Fiscal 1999, 1998 and 1997 was \$19.20, \$8.89 and \$7.15, 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 28,	
	1999	1998
Change in benefit obligation		
Benefit obligation at beginning of year	\$23,933	\$18,504
Service cost	4,715	3,241
Interest cost	1,772	1,273
Actuarial loss or (gain)	549	(1,497)
Benefits paid	(364)	(334)
Change in discount rate	(828)	2,746
Benefit obligation at end of year	<u>\$29,777</u>	<u>\$23,933</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$18,152	\$13,677
Actual return on plan assets	1,948	2,525
Employer contribution	3,039	2,284
Benefits paid	(364)	(334)
Fair value of plan assets at end of year	<u>\$22,775</u>	<u>\$18,152</u>
Funded status at end of year	\$ (7,002)	\$ (5,781)
Unrecognized net actuarial loss	151	809
Unrecognized prior service cost	1,024	1,123
Unrecognized transaction asset	(212)	(283)
Net amount recognized	<u>\$ (6,039)</u>	<u>\$ (4,132)</u>

The following table sets forth the components of net periodic benefit cost for 1999 and 1998.

(Dollar amounts in thousands)	Year ended February 28,	
	1999	1998
Service cost	\$ 4,715	\$ 3,241
Interest cost	1,772	1,273
Expected return on plan assets	(1,569)	(1,182)
Amortization of prior service cost	99	99
Amortization of unrecognized transition asset	(70)	(70)
Net periodic benefit cost	<u>\$ 4,947</u>	<u>\$ 3,361</u>

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

	Year ended February 28,	
	1999	1998
Discount rate	7.40%	7.25%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%

Pension expense for the years ended February 28, 1999, 1998 and 1997 was \$4.9 million, \$3.4 million and \$2.5 million, respectively. The Company makes contributions to the Plan in amounts that are deductible in accordance with federal income tax regulations.

NOTE L — SHAREHOLDERS' EQUITY

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

On July 1, 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 formally 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 up to three years. The transaction was structured as a merger of CAMC with and into INMC.

Notes to Consolidated Financial Statements

(continued)

Prior to the sale, CAMC received certain management fees and incentive compensation. During the fiscal years ended February 28, 1998 and 1997, CAMC earned \$0.6 million and \$1.6 million, respectively, in base management fees from INMC and its subsidiaries. In addition, during the fiscal years ended 1998 and 1997, CAMC received \$3.1 million and \$8.6 million, respectively, in incentive compensation.

Prior to the sale, 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 fiscal years ended February 28, 1998 and 1997, the amount of expenses incurred by CHL which were allocated to CAMC and reimbursed by INMC totaled \$16.0 million and \$29.2 million, respectively.

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 Fiscal 1999, CHL received \$2.6 million from INMC related to services provided in accordance with the agreement. Additionally, during Fiscal 1999, the Company received \$3.0 million of net sublease income from INMC.

INMC held an option to purchase conventional loans from CHL at the prevailing market price. During the years ended February 28, 1999, 1998 and 1997, INMC purchased \$460.2 million, \$2.9 million and \$51.5 million, respectively, of conventional non-conforming mortgage loans from CHL pursuant to this option. Additionally, during Fiscal 1999, CHL purchased \$76.4 million of loans from INMC.

During Fiscal 1999, CHL entered into an agreement pursuant to which CHL assumed certain INMC recourse obligations with respect to the underlying 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 Fiscal 1999, CHL purchased servicing rights from INMC for \$35.5 million related to a \$2.7 billion portfolio of loans.

Prior to August 1998, CHL serviced mortgage loans issued by subsidiaries of INMC. CHL received \$1.7 million, \$1.9 million and \$0.6 million in subservicing fees for the years ended February 28, 1999, 1998 and 1997, respectively. As of February 28, 1999, CHL was no longer actively servicing mortgage loans issued by subsidiaries of INMC.

NOTE N — SEGMENTS AND RELATED INFORMATION

The Company has three major segments: Loan Production, Loan Servicing and Capital Markets. 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. Included in the tables below labeled "Other" are the operating segments that provide ancillary 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 subsidiary.

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 28, 1999				Consolidated Total
	Loan Production	Loan Servicing	Capital Markets	Other	
Non-interest revenues	\$ 1,271,934	\$ 506,258	\$ 54,537	\$ 101,036	\$ 1,933,765
Interest earned	721,289	270,355	39,835	(2,413)	1,029,066
Interest charges	(603,093)	(351,397)	(30,592)	1,253	(983,829)
Net interest income (expense)	118,196	(81,042)	9,243	(1,160)	45,237
Total revenue	\$ 1,390,130	\$ 425,216	\$ 63,780	\$ 99,876	\$ 1,979,002
Segment earnings (pre-tax)	\$ 556,213	\$ 24,340	\$ 26,692	\$ 24,560	\$ 631,805
Segment assets	\$ 7,093,817	\$ 6,589,224	\$ 1,858,692	\$ 106,523	\$ 15,648,256

(Dollars in thousands)	For the fiscal year ended February 28, 1998				Consolidated Total
	Loan Production	Loan Servicing	Capital Markets	Other	
Non-interest revenues	\$ 685,160	\$ 642,498	\$ 39,717	\$ 125,868	\$ 1,493,243
Interest earned	421,714	150,997	3,555	7,810	584,076
Interest charges	(347,240)	(219,684)	(608)	(827)	(568,359)
Net interest income (expense)	74,474	(68,687)	2,947	6,983	15,717
Total revenue	\$ 759,634	\$ 573,811	\$ 42,664	\$ 132,851	\$ 1,508,960
Segment earnings (pre-tax)	\$ 245,121	\$ 215,485	\$ 19,737	\$ 85,203	\$ 565,546
Segment assets	\$ 5,969,661	\$ 5,538,912	\$ 295,270	\$ 379,368	\$ 12,183,211

(Dollars in thousands)	For the fiscal year ended February 28, 1997				Consolidated Total
	Loan Production	Loan Servicing	Capital Markets	Other	
Non-interest revenues	\$ 420,944	\$ 599,799	\$ 28,236	\$ 29,925	\$ 1,078,904
Interest earned	336,771	116,937	1,603	1,694	457,005
Interest charges	(275,153)	(148,330)	(109)	145	(423,447)
Net interest income (expense)	61,618	(31,393)	1,494	1,839	33,558
Total revenue	\$ 482,562	\$ 568,406	\$ 29,730	\$ 31,764	\$ 1,112,462
Segment earnings (pre-tax)	\$ 141,912	\$ 254,227	\$ 12,866	\$ 12,893	\$ 421,898
Segment assets	\$ 2,898,920	\$ 4,516,131	\$ 104,640	\$ 169,400	\$ 7,689,091

NOTE O — SUBSEQUENT EVENTS

On March 24, 1999, the Company declared a cash dividend of \$.10 per common share payable April 30, 1999 to shareholders of record on April 14, 1999.

On April 14, 1999, CHL renewed its one-year revolving credit facility with a revised limit of \$1.0 billion. The new facility expires on April 12, 2000.

On May 12, 1999, the Company announced that it had entered into a definitive agreement (the "Agreement") with Woolwich, plc ("Woolwich"), to form a joint venture (the "Joint Venture") which will provide fee-based mortgage services in Europe. Under the terms of the Agreement, the Company and Woolwich will each own approximately 50% of the Joint Venture and will each provide up to approximately \$16.0 million to the initial capitalization of the Joint Venture. The Joint Venture is expected to begin operations in the second half of 1999. Woolwich will engage the Joint Venture to provide fee-based services to its loan portfolio, which is equivalent to \$40.0 billion, and to its mortgage origination business, which produced approximately \$10.0 billion in 1998.

Notes to Consolidated Financial Statements

(continued)

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 28
Year ended February 28, 1999				
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 ⁽¹⁾				
Basic	\$ 0.82	\$ 0.86	\$ 0.88	\$ 0.90
Diluted	\$ 0.78	\$ 0.81	\$ 0.84	\$ 0.86
Year ended February 28, 1998				
Revenue	\$ 318,645	\$ 405,156	\$ 375,141	\$ 410,018
Expenses	203,942	225,272	243,693	270,507
Provision for income taxes	44,734	70,155	51,265	54,409
Net earnings	\$ 69,969	\$ 109,729	\$ 80,183	\$ 85,102
Earnings per share ⁽¹⁾				
Basic	\$ 0.66	\$ 1.03	\$ 0.75	\$ 0.78
Diluted	\$ 0.64	\$ 0.98	\$ 0.71	\$ 0.74

⁽¹⁾ Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share amounts may not equal the annual amount. This is caused by rounding and the averaging effect of the number of share equivalents utilized throughout the year, which changes with the market price of the common stock.

NOTE Q — SUMMARIZED FINANCIAL INFORMATION OF SUBSIDIARY

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

(Dollar amounts in thousands)	February 28,	
	1999	1998
Balance Sheets:		
Mortgage loans and mortgage-backed securities held for sale	\$ 6,231,220	\$ 5,292,191
Mortgage servicing rights, net	4,496,439	3,612,010
Other assets	2,955,382	2,604,372
Total assets	<u>\$13,683,041</u>	<u>\$11,508,573</u>
Short- and long-term debt	\$ 9,910,966	\$ 8,747,794
Other liabilities	1,434,727	1,027,884
Equity	2,337,348	1,732,895
Total liabilities and equity	<u>\$13,683,041</u>	<u>\$11,508,573</u>
Year ended February 28,		
(Dollar amounts in thousands)	1999	1998
Statements of Earnings:		
Revenues	\$1,668,627	\$1,260,657
Expenses	1,149,886	838,909
Provision for income taxes	202,308	164,166
Net earnings	<u>\$ 316,433</u>	<u>\$ 257,582</u>

NOTE R — 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 becomes effective in the fiscal year ending February 28, 2001. 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 interest based on its ability and intent to sell or hold those instruments. The Company adopted this statement in October 1998 and, as a consequence, 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 28, 1999 and 1998, 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 28, 1999. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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 28, 1999 and 1998, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended February 28, 1999, in conformity with generally accepted accounting principles.

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 R of the Notes to Consolidated Financial Statements.

Grant Thornton LLP

Los Angeles, California
April 21, 1999

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 28, 1999 and 1998.

Quarter	Fiscal 1999		Fiscal 1998		Fiscal 1999	Fiscal 1998
	High	Low	High	Low	Cash Dividends Declared	Cash Dividends Declared
First	\$ 54.50	\$ 44.25	\$ 29.50	\$ 24.38	\$ 0.08	\$ 0.08
Second	56.25	37.00	35.25	26.75	0.08	0.08
Third	50.75	28.63	41.88	31.50	0.08	0.08
Fourth	51.44	36.75	48.50	39.25	0.08	0.08

The Company has declared and paid cash dividends on its common stock quarterly since 1982. For the fiscal years ended February 28, 1999 and 1998, the Company declared quarterly cash dividends aggregating \$0.32 per share. On March 24, 1999, the Company declared a quarterly cash dividend of \$0.10 per common share, which was paid April 30, 1999.

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 the revolving credit facility). See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

As of May 3, 1999, there were 2,382 shareholders of record of the Company's common stock, with 112,748,275 common shares outstanding.

Production Office Locations

CONSUMER MARKETS DIVISION

Western Division

Region 5

Regional Vice President
Mark Huddleston

Chico, CA
Concord, CA
Fair Oaks, CA
Fairfield, CA
Napa, CA
Oakland, CA
Redding, CA
Roseville, CA
Sacramento, CA
Santa Rosa, CA
Stockton, CA

Region 6

Regional Vice President
Joe Riggio

Henderson, NV
Lancaster, CA
Las Vegas, NV (3)
Northridge, CA
San Luis Obispo, CA
Santa Maria, CA
Simi Valley, CA
Van Nuys, CA
Ventura, CA
Woodland Hills, CA

Region 7

Regional Vice President
Lisa Harding

Carlsbad, CA
Chula Vista, CA
El Cajon, CA
Escondido, CA
Highland, CA
Moreno Valley, CA
Palm Desert, CA
Riverside, CA
San Diego, CA (2)
Temecula, CA

Region 8

Regional Vice President
Garry Rankin

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

Region 9

Regional Vice President
Marsha Tennessen

Anchorage, AK
Bellevue, WA
Bellingham, WA
Coeur d'Alene, ID
Everett, WA
Federal Way, WA
Lakewood, WA
Lynnwood, WA
Olympia, WA
Seattle, WA (2)
Spokane, WA

Region 29

Regional Vice President
Mark Kemp

Bakersfield, CA
Castro Valley, CA
Cupertino, CA
Fremont, CA
Fresno, CA
Modesto, CA
Pleasanton, CA
Salinas, CA
San Jose, CA
South San Francisco, CA
Tracy, CA
Visalia, CA

Central Division

Region 12

Regional Vice President
Sherrie Brozovich

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

Region 16

Regional Vice President
Tom O'Neill

Arlington Heights, IL
Aurora, IL
Crystal Lake, IL
Elgin, IL
Glenview, IL
Joliet, IL
Libertyville, IL
Naperville, IL
North Chicago, IL
Oak Lawn, IL
Orland Park, IL
Peoria, IL
Rockford, IL
Springfield, IL
Westmont, IL

Region 17

Regional Vice President
Linda O'Connor

Albuquerque, NM (2)
Biltmore, AZ
Flagstaff, AZ
Gilbert, AZ
Glendale, AZ
Goodyear, AZ
Lake Havasu, AZ
Las Cruces, NM
Phoenix, AZ
Prescott, AZ
Scottsdale, AZ
Sierra Vista, AZ
Tempe, AZ
Tucson, AZ (2)
Yuma, AZ

Region 25

Regional Vice President
Edward Henson

Abilene, TX
Amarillo, TX
Arlington, TX
Bedford, TX
Dallas, TX (2)
DeSoto, TX
El Paso, TX
Fort Worth, TX
Garland, TX
Irving, TX
Lewisville, TX
Lubbock, TX
Midland, TX
Plano, TX
Tyler, TX
Waco, TX
Wichita Falls, TX

Region 26

Regional Vice President
Cherry Scott-Trigalet

Edmond, OK
Jenks, OK
LaVista, NE
Lawrence, KS
Lawton, OK
Lincoln, NE
Norman, OK
Oklahoma City, OK
Omaha, NE
Springfield, MO
Topeka, KS
Tulsa, OK (2)
Wichita, KS

Region 31

Regional Vice President
Mike LeGault

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
Roseville, MN
Woodbury, MN

Region 34

Regional Vice President
Diane Bond

Billings, MT
Boise, ID
Brighton, UT
Nampa, ID
Ogden, UT
Orem, UT
Salt Lake City, UT
Sandy, UT
West Jordan, UT

Region 35

Regional Vice President
Rick Monley

Columbia, MO
Dellwood, MO
Edwardsville, IL
Kansas City, KS
Kansas City, MO
Lee's Summit, MO
Mehlville, MO
O'Fallon, MO
Overland Park, KS
Shawnee, KS
St. Louis, MO

Region 30

Regional Vice President
Vanna Conrady

Arcadia, CA
Glendale, CA
Honolulu, HI
La Canada, CA
Los Angeles, CA
Monterey Park, CA
Pasadena, CA
Rowland Heights, CA
San Dimas, CA
Santa Clarita, CA
Upland, CA
Victorville, CA

Region 37

Regional Vice President
Sally Krauser

Beaverton, 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

Region 3

Regional Vice President
Wayne Rogers

Cherry Hill, NJ
Cockeysville, MD
Dover, DE
Eatontown, NJ
Ellicott City, MD
Englishtown, NJ
Hamilton, NJ
Mays Landing, NJ
Sewell, NJ
Tom's River, NJ
Wilmington, DE

Region 4

Regional Vice President
Carolyn Ingle

Centerville, OH
Cincinnati, OH (3)
Gahanna, OH
Grove City, OH
Hilliard, OH
Scott Depot, WV
Vandalia, OH
West Worthington, OH

Region 11

Regional Vice President
Michael Garmone

Cuyahoga Falls, OH
Erie, PA
Fairlawn, OH
Mentor, OH
Monroeville, PA
Pittsburgh, PA (2)
Strongsville, OH
Warren, OH
Westlake, OH
Woodmere, OH

Region 19

Regional Vice President
Mary Dumont

Burlington, MA
Jamaica Plain, MA
Merrimack, NH
Milford, CT
Natick, MA
North Easton, MA
Portland, ME
Southington, CT
Warwick, RI
West Hartford, CT
West Springfield, MA
Westborough, MA

Region 20

Regional Vice President
Beth Grossman

Ann Arbor, MI
Birmingham, MI
Canton, MI
Clarkston, MI
Detroit, MI
Farmington Hills, MI
Grand Rapids, MI
Kalamazoo, MI
Okemos, MI
Shelby Township, MI
Toledo, OH
Woodhaven, MI

Region 24

Regional Vice President
Sherri Young

Amherst, NY
Clifton Park, NY
Ephrata, PA
Frazer, PA
Huntington Valley, PA
Lansdale, PA
Latham, NY
Mechanicsburg, PA
North Syracuse, NY
Philadelphia, PA
Springfield, PA
Trexlerstown, PA
Webster, NY
Wyoming, PA
York, PA

Southeast Division

Region 1

Regional Vice President
Kathleen Mathosian

Bradenton, FL
Brandon, FL
Clearwater, FL
Fort Meyers, FL
Naples, FL
New Port Richey, FL
Port Charlotte, FL
Sarasota, FL
Tampa, FL
Temple Terrace, FL

Region 10

Regional Vice President
Robert Bridges

Austin, TX (2)
Baton Rouge, LA
Beaumont, TX
Central Houston, TX
Corpus Christi, TX
Covington, LA
Houston, TX (3)
Killeen, TX
Metairie, LA
New Braunfels, TX
North Houston, TX
San Antonio, TX (2)
Shreveport, LA
Sugar Land, TX
The Woodlands, TX

Region 14

Regional Vice President
Larry Gunning

Birmingham, AL
Chattanooga, TN
Decatur, AL
Fayetteville, AR
Huntsville, AL
Jackson, MS
Johnson City, TN
Knoxville, TN
Little Rock, AR
Madison, TN
Memphis, TN
Mobile, AL
Montgomery, AL
Nashville, TN
North Little Rock, AR
Prattville, AL
Southaven, MS

Region 18

Regional Vice President
Kerry Rainey

Atlanta, GA (2)
Duluth, GA
Marietta, GA
Norcross, GA
Peachtree City, GA
Riverdale, GA
Roswell, GA
Savannah, GA
Stone Mountain, GA
Woodstock, GA

Region 22

Regional Vice President
Diane Debus

Baltimore, MD
Charlottesville, VA
Falls Church, VA
Gaithersburg, MD
Gambriels, MD
Laurel, MD
Manassas, VA
Owings Mills, MD
Richmond, VA (2)
Severna Park, MD
Springfield, VA
Waldorf, MD
Washington, DC

Region 33

Regional Vice President
Eric Declercq

Brentwood, NY
Brooklyn, NY
East Brunswick, NJ
Forest Hills, NY
Morristown, NJ
Newark, NJ
Newburgh, NY
Raritan, NJ
Wantagh, NY
Wayne, NJ
Westfield, NJ
Yorktown Heights, NY

Region 39

Regional Vice President
Steve Boland

Crescent Springs, KY
Greenwood, IN
Indianapolis, IN
Lexington, KY
Louisville, KY
Mishawaka, IN
New Albany, IN
Schererville, IN
Speedway, IN

Region 28

Regional Vice President
Frankie McGrew

Daytona Beach, FL
Ft. Walton Beach, FL
Jacksonville Beach, FL
Jacksonville, 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

Region 32

Regional Vice President
Gary Cooper

Cary, NC
Charleston, SC
Durham, NC
Fayetteville, NC
Hilton Head, SC
Jacksonville, NC
Myrtle Beach, SC
New Bern, NC
Raleigh, NC
Wilmington, NC

Region 36

Regional Vice President
Alina Garcia

Boynton Beach, FL
Coral Springs, FL
Ft. Lauderdale, FL
Miami Lakes, FL
Miami, FL
North Miami Beach, FL
North Palm Beach, FL
Plantation, FL
Port St. Lucie, FL
West Palm Beach, FL

Region 38

Regional Vice President
David King

Asheville, NC
Charlotte, NC (2)
Columbia, SC
Gastonia, NC
Greensboro, NC
Greenville, SC
Winston Salem, NC

Region 40

Regional Vice President
Jaime Austria

Chesapeake, VA
Colonial Heights, VA
Newport News, VA
Portsmouth, VA
Roanoke, VA
Virginia Beach, VA

Production Office Locations

(continued)

WHOLESALE LENDING DIVISION

Eastern Division

Region 78
*Regional Vice President
Tim Koger*

 Grand Rapids, MI
 Indianapolis, IN
 Louisville, KY
 Southfield, MI
 Troy, MI

Region 79
*Regional Vice President
Butch Jefferson*

 Charlotte, NC
 Columbia, MD
 Columbia, SC
 Raleigh, NC
 Richmond, VA
 Tysons Corner, VA

Region 83
*Regional Vice President
Brad Greene*

 Boca Raton, FL
 Fort Meyers, FL
 Jacksonville, FL
 Maitland, FL
 Miami, FL
 Tampa, FL

Region 86
*Regional Vice President
Robert Snow*

 Lansing, IL
 Lisle, IL
 Milwaukee, WI
 Plymouth, MN
 Rolling Meadows, IL
 St. Louis, MO

Region 92
*Regional Vice President
Linda Klein*

 Braintree, MA
 Danvers, MA
 Farmington, CT
 Livingston, NJ
 Long Island, NY
 Mount Laurel, NJ
 Tarrytown, NY

Region 95
*Regional Vice President
Dennis Patchett*

 Buffalo, NY
 Cincinnati, OH
 Dublin, OH
 Independence, OH
 Pittsburgh, PA
 Trevoise, PA

Western Division

Region 80
*Regional Vice President
Susan Berg*

 Albuquerque, NM
 Mesa, AZ
 Phoenix, AZ
 Salt Lake City, UT
 Tucson, AZ

Region 81
*Regional Vice President
Tom Mozilo*

 Austin, TX
 Dallas, TX
 Houston, TX
 Hurst, TX
 North Houston, TX
 San Antonio, TX

Region 82
*Regional Vice President
R. J. Arnett*

 Del Mar, CA
 Laguna Hills, CA
 Rancho Cucamonga, CA
 Riverside, CA
 San Diego, CA
 Santa Ana, CA

Region 85
*Regional Vice President
Keith Ryan*

 Alamo, CA
 Fresno, CA
 Greenbrae, CA
 Milpitas, CA
 Sacramento, CA
 San Mateo, CA

Region 96
*Regional Vice President
Jim Ford*

 Atlanta, GA
 Birmingham, AL
 Knoxville, TN
 Memphis, TN
 Nashville, TN
 New Orleans, LA
 Smyrna, GA

Region 89
*Regional Vice President
Lisa Kittredge*

 Boulder, CO
 Colorado Springs, CO
 Denver, CO
 Oklahoma City, OK
 Overland Park, KS
 Tulsa, OK

Region 91
*Regional Vice President
Christy Mozilo*

 El Segundo, CA
 Las Vegas, NV
 Pasadena, CA (2)
 Santa Barbara, CA
 Woodland Hills, CA

Region 98
*Regional Vice President
Nellie Bozick*

 Bellevue, WA
 Boise, ID
 Honolulu, HI
 Portland, OR
 Spokane, WA
 Tacoma, WA

FULL SPECTRUM LENDING, INC.

Region 492
*Regional Vice President
Scott Bridges*

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

Region 493
*Regional Vice President
Carl D'Onofrio*

 Brookfield, WI
 Cincinnati, OH
 Copley, OH
 Dearborn, MI
 Des Plaines, IL
 Dublin, OH
 Oaklawn, IL
 Troy, MI

Region 494
*Regional Vice President
Dan Eason*

 Arvada, CO
 Dallas, TX
 Denver, CO
 Houston, TX
 Las Vegas, NV
 Phoenix, AZ
 Salt Lake City, UT

Region 495
*Regional Vice President
Alan Seldin*

 Altamonte Springs, FL
 Indianapolis, IN
 Jacksonville, FL
 Marietta, GA
 North Miami, FL
 Tampa, FL

Region 496
*Regional Vice President
Noah Gale*

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

Region 497
*Regional Vice President
Anthony Bombaci*

 Ellicott City, MD
 Falls Church, VA
 Springfield, NJ

CORRESPONDENT LENDING DIVISION

Offices

 Dallas, TX
 Pasadena, CA
 Pittsburgh, PA

Subsidiaries

Countrywide Home Loans, Inc.

Angelo R. Mozilo
Chairman

Stanford L. Kurland
President & Chief Executive Officer

Carlos M. Garcia
Chief Operating Officer

ADMINISTRATION/ OPERATIONS

Sidney Lenz
Managing Director

Richard S. Lewis
Managing Director, Global Administration

Anne D. McCallion
Managing Director, Human Resources

David Sambol
Managing Director, Capital Markets

Sandor E. Samuels
Managing Director, Legal
General Counsel & Secretary

Susan E. Bow
Executive Vice President &
Deputy General Counsel

Frederick J. Budig
Executive Vice President &
Director of Internal Audit

Paul Decoff
Executive Vice President,
Corporate Operations Officer

Michael Keating
Executive Vice President,
Global Markets

Susan E. Kelsey
Executive Vice President &
Deputy General Counsel

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

FINANCE

Thomas K. McLaughlin
Managing Director
& Chief Financial Officer

Eric P. Sieracki
Managing Director,
Corporate Finance & Communications

Jeffrey K. Speakes
Managing Director,
Risk Management & Strategic Planning

David J. Bigelow
Executive Vice President,
Corporate Finance

Mark E. Elbaum
Executive Vice President,
Strategic Financial Planning

Laura K. Milleman
Executive Vice President
& Chief Accounting Officer

Lisa Novacek
Executive Vice President,
Strategic Planning

Jennifer Shiley Sandefur
Executive Vice President & Treasurer

Michael Smith
Executive Vice President,
Portfolio Risk Management

LOAN ADMINISTRATION

Thomas H. Boone
Managing Director,
Global Mortgage Services

Richard DeLeo
Managing Director, Loan Administration

Steve 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
Marshall M. Gates
Managing Director, Developing Markets

Gregory A. Lumsden
Managing Director, Originations

Joe D. Anderson
Executive Vice President,
Consumer Markets Division

Paul Abbamonto
Executive Vice President,
B/C Lending & HELOC Division

Scott Anderson
Division Executive Vice President,
Wholesale Lending Division,
Sales & Marketing

Robert A. Brown
Executive Vice President,
Consumer Markets Production,
Midwest/Northeast Division

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

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

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

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

Douglas E. Jones
Executive Vice President,
Correspondent Lending Division

E. Cameron King
Executive Vice President,
Electronic Commerce Division

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

Mike Taliaferro
Executive Vice President,
Consumer Markets Division,
Sales & Marketing

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

Randy Willox
Executive Vice President,
Consumer Markets Production,
Western Division

Philip Deol
Senior Vice President,
National Builder Division

INFORMATION TECHNOLOGY

Jeremy V. Gross
Managing Director,
Chief Technology Officer

Daniel Garcia, Sr.
Executive Vice President

Mary Ann Maxwell
Executive Vice President

SECONDARY MARKETING

Kevin W. Bartlett
Managing Director, Secondary Marketing

Nicholas Krsnich
Executive Vice President

David A. Spector
Executive Vice President

David Walker
Executive Vice President

Countrywide Insurance Group, Inc.

Thomas H. Boone
Chairman

Steven D. Phillips
*Vice Chairman, President
& Chief Executive Officer*

Countrywide Insurance Services, Inc.

Steven D. Phillips
President & Chief Executive Officer

Directnet Insurance Agency, Inc.

Steven D. Phillips
President & Chief Executive Officer

Countrywide Capital Markets, Inc.

Angelo R. Mozilo
Chairman

Stanford L. Kurland
Vice Chairman

David Sambol
President & Chief Executive Officer

Dale Ledbetter
Executive Vice President

Steven Tannehill
Executive Vice President

**COUNTRYWIDE SECURITIES
CORPORATION**

Stanford L. Kurland
Chairman

David Sambol
President & Chief Executive Officer

Anand Bhattacharya
Executive Vice President

J. Grant Couch, Jr.
Executive Vice President

Ranjit Kripalani
Executive Vice President

Jonas Roth
Executive Vice President

Michael Schloessmann
Executive Vice President

Paul C. Wang
Executive Vice President

**COUNTRYWIDE SERVICING
EXCHANGE**

Angelo R. Mozilo
Chairman

Stanford L. Kurland
Vice Chairman

David Sambol
President & Chief Executive Officer

Steven Tannehill
*Executive Vice President &
Chief Operating Officer*

CTC Real Estate Services

Thomas H. Boone
Chairman & Chief Executive Officer

Richard DeLeo
Vice Chairman

Catherine Beaman
President

Countrywide Field Services, Inc.

Thomas H. Boone
Chairman

Richard DeLeo
President

Thomas Dixon
Executive Vice President

LandSafe, Inc.

Stanford L. Kurland
Chairman

Marshall M. Gates
*Executive Vice Chairman
& Chief Executive Officer*

Michael Faine
President & Chief Operating Officer

LANDSAFE TITLE COMPANIES

Rick Cossano
President

Kevin Weaver
Executive Vice President

Lisa Ringel
Executive Vice President

LANDSAFE APPRAISAL SERVICES

Greg Dennis
President & Chief Operating Officer

LANDSAFE CREDIT, INC.

Brian Hershkowitz
President

LANDSAFE FLOOD DETERMINATION

Michael Faine
Chief Operating Officer

**LANDSAFE HOME INSPECTION
SERVICES, INC.**

John Cahill
President

Full Spectrum Lending, Inc.

Gregory A. Lumsden
Chairman

Joe P. Harvey
President

Countrywide Financial Services, Inc.

Angelo R. Mozilo
Chairman

Robert H. Leshner
President & Chief Executive Officer

William Hertz
Executive Vice President

COUNTRYWIDE INVESTMENTS, INC.

Angelo R. Mozilo
Chairman

Robert H. Leshner
President & Chief Executive Officer

**COUNTRYWIDE FUND
SERVICES, INC.**

Angelo R. Mozilo
Chairman

Robert H. Leshner
Vice Chairman & Chief Executive Officer

Countrywide Tax Services Corporation

Richard DeLeo
President

Corporate Information

Board of Directors

Angelo R. Mozilo

Chairman & Chief Executive Officer

David S. Loeb

President

Jeffrey M. Cunningham

President & Chief Executive Officer,

Planet Direct

Internet Service Provider

Robert J. Donato

Senior Vice President, Branch Manager

Paine Webber, Incorporated

Securities/Investment Advisory Services

Michael E. Dougherty

Chairman

Dougherty Financial Group, LLC

Financial Services

Ben M. Enis, Ph.D.

Professor of Marketing (Retired),

University of Southern California

Private University

Edwin Heller

Of Counsel,

Fried, Frank, Harris, Shriver & Jacobson

Law Firm

Harley W. Snyder

Senior Vice President, Real Estate

Whiteco Industries, Inc.

Advertising/Entertainment/Real Estate

Development

Corporate Officers

Angelo R. Mozilo

Chairman & Chief Executive Officer

David S. Loeb

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 Mortgage Services

Richard DeLeo

Managing Director, Loan Administration

Carlos M. Garcia

Managing Director, Finance;

Chief Financial Officer

& Chief Accounting Officer

Marshall M. Gates

Managing Director, Developing Markets

Jeremy V. Gross

Managing Director,

Chief Technology Officer

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Managing Director

Robert H. Leshner

Managing Director

Richard S. Lewis

Managing Director, Global Administration

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Managing Director, Originations

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Managing Director, Treasurer

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Managing Director, Legal

General Counsel & Secretary

Eric P. Sieracki

Managing Director,

Corporate Finance & Communications

Jeffrey K. Speakes

Managing Director,

Risk Management & Strategic Planning

Special Counsel

Fried, Frank, Harris, Shriver & Jacobson

One New York Plaza

New York, NY 10004-1980

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

Offices

Corporate Headquarters

4500 Park Granada

Calabasas, CA 91302-1613

(818) 225-3000

Countrywide Regional Centers

155 N. Lake Avenue

P.O. Box 7137

Pasadena, CA 91109-7137

(626) 304-8400

6400 Legacy Drive

Plano, TX 75024-3697

(972) 608-6000

400 Countrywide Way

Simi Valley, CA 93065-6298

(805) 520-5100

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 and your address and 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, California 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
4500 Park Granada
MSN CH-56
Calabasas, California 91302-1613
(800) 881-4968, Ext. 2201

Dividend Reinvestment Plan

By enrolling in Countrywide Credit Industries, Inc.'s Dividend Reinvestment and 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 1999 are invited to contact:

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

You may also reach us through the Internet at www.countrywide.com

Annual Shareholders' Meeting

The Annual Meeting of Shareholders will be held on Friday, July 9, 1999 at 10:00 a.m. (PDT) at Hyatt Westlake Plaza
880 South Westlake Boulevard
Westlake Village, California 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 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.

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Shareholder Information

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(Shares held in your name)

Address shareholder inquiries to:

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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

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Securities Transfer Division
Dividend Reinvestment
P.O. Box 1958
Newark, NJ 07101-9774
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