

Evolving. **Under One Roof.**



COUNTRYWIDE FINANCIAL CORPORATION  
2002 ANNUAL REPORT

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## Financial Highlights

(Dollar amounts in millions, except per share data)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
Revenues	\$ 4,519	\$ 2,636	\$ 2,074
Net earnings	\$ 842	\$ 486	\$ 374
Earnings per share – diluted <sup>(1)</sup>	\$ 6.49	\$ 3.89	\$ 3.14
Total assets	\$58,031	\$37,217	\$22,956
Common shareholders' equity	\$ 5,161	\$ 4,088	\$ 3,559
Common shareholders' equity per share	\$ 40.78	\$ 33.31	\$ 30.23

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

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

In November, 2002, we introduced our new corporate name, Countrywide Financial Corporation (NYSE: CFC). This change symbolizes the Company's evolution into a well-rounded financial services provider with mortgage banking at its core. With mortgage banking, capital markets, banking, insurance and global operations, we offer a wide array of synergistic financial services *UNDER ONE ROOF* and we do it with *ONE MISSION* in mind: to facilitate the American dream of homeownership.

Countrywide At A Glance

	OVERVIEW	CUSTOMERS	HOW WE REACH OUR CUSTOMERS	COMPETITORS	2002 HIGHLIGHTS*	EMPLOYEES**
MORTGAGE BANKING						
PRODUCTION						15,507
Countrywide Home Loans (CHL)						
Consumer Markets Division (CMD)	Originates loans directly to consumers financing a home	Consumers with prime-quality credit, realtors and builders	424 branch offices, telephone, Internet	Washington Mutual, Wells Fargo, Chase, Bank of America	Funded \$62 billion, up 63%	
Wholesale Lending Division (WLD)	Originates loans via mortgage broker network to consumers financing a home	Mortgage brokers	52 branch offices 4 regional processing centers	Washington Mutual, Wells Fargo, Chase, ABN Amro	Funded \$67 billion, up 63%	
Correspondent Lending Division (CLD)	Purchases closed loans from other lenders	Mortgage bankers, commercial banks, thrifts, savings & loans, and credit unions	3 regional offices, national sales presence, B2B	Washington Mutual, Wells Fargo, Chase, GMAC-RFC, Wall Street firms, regional mortgage bankers	Funded \$118 billion, up 157%	
Full Spectrum Lending (FSL)	Originates loans directly to consumers financing a home	Consumers with less than prime-quality credit	54 field offices, 3 national sales centers	Citi Financial, Household, Washington Mutual	Funded \$3.6 billion, up 80%	
SERVICING						5,154
Countrywide Home Loans (CHL)/ Countrywide Servicing LP	Collects and processes loan payments of Countrywide and other lenders' customers	4.0 million consumers; other mortgage lenders	Servicing facilities located in Simi Valley, CA; Plano, TX; Lancaster, CA	Washington Mutual, Wells Fargo, Chase, Bank of America	\$452 billion CHL portfolio, up 37% (includes \$11 billion sub-servicing portfolio)	
CLOSING SERVICES						1,042
LandSafe	Provides appraisal services, credit reports, flood determinations, inspection services, title insurance and escrow services	72% CHL; 28% external third parties (based on revenues)	LandSafe's national sales force, in coordination with other CHL sales teams; the Internet	First American, Fidelity National, LandAmerica Lender Services, Stewart Title, Old Republic	Completed 9.4 million appraisals, credit reports, flood determinations, inspections, title insurance policies and escrow services, up 56%	
DIVERSIFIED BUSINESSES						
INSURANCE						1,625
Balboa Reinsurance	Provides mezzanine layer of reinsurance on primary mortgage insurance (PMI)	All 7 major mortgage insurance companies	Corporate relationships	N/A	Net premiums earned of \$83 million, up 48%	
Balboa Life & Casualty	Underwrites lender-placed property and auto insurance; and voluntary life, disability, homeowners, and mortgage catastrophe insurance	Banks, mortgage lenders, finance companies and insurance agencies	Internal sales force; insurance agents, DirectNet and Countrywide Insurance Services	AIG, Aon, Assurant and other direct writers of insurance	Net premiums earned of \$479 million, up 59%	
Countrywide Insurance Services (CIS)/ DirectNet	Insurance agencies providing consumers with property, casualty and life insurance policies	Retail consumers / Banks, mortgage lenders and other financial institutions desiring to offer insurance products to their customers	3 call centers and the Internet	Allstate, State Farm and other direct writers of insurance	661,000 policies-in-force, up 18% (CIS)	
CAPITAL MARKETS						369
Countrywide Securities Corporation (CSC)	Underwrites, buys and sells debt securities (MBS, ABS, Government/Corporate debt)	1,300 institutional customers (broker-dealers, money managers, pension funds, insurance companies, banks, thrifts, and other financial institutions)	CSC sales force	Wall Street firms and regional broker-dealers	\$2.0 trillion in trading volume, up 54%; ranked 5th in non-agency MBS underwritings for 2002	
Countrywide Asset Management (CAM)	Specializes in the management and disposition of credit-sensitive residential mortgage loan assets	Mortgage loan servicers/investors and CHL correspondent customers	Various sales forces of the CFC family	C-BASS, Bayview Capital, CSFB, Bear Stearns, Lehman, GMAC-RFC/Homcomings	Completed 5 securitizations of credit-sensitive assets; purchased \$5.5 billion (principal balance) in total assets for CHL	
Countrywide Servicing Exchange (CSE)	Brokers bulk mortgage servicing rights	Large financial institutions that buy and sell bulk mortgage loan servicing rights	CSC sales force	Specialized servicing brokers; Bayview Capital	Brokered \$45 billion in servicing	
BANKING						554
Countrywide Bank, a division of Treasury Bank, N.A.	Provides residential lending products (HELOCs, ARMs), deposit products (CDs, money market, checking and savings), and document custody services	Retail consumers, CHL and other third-party lenders	Internet, telephone, ATMs and financial centers (located in main office in VA, a branch in TX, and in selected CMD branch offices for retail customers)	Internet and traditional banks	Total assets reached \$5.1 billion, up 467%	
Countrywide Warehouse Lending (CWL)	A non-depository institution that provides short-term secured (mortgage warehouse) financing to mortgage lenders	Mortgage bankers	4 regional sales offices; national sales presence	GMAC-RFC, Washington Mutual, Wall Street firms, regional mortgage bankers	\$1.8 billion in average mortgage warehouse advances outstanding, up 200%	
GLOBAL						2,171
Global Home Loans (GHL)	A majority-owned subsidiary, forming largest third-party, end-to-end mortgage administrator in the UK	Major UK lenders	Branding, referrals and relationships	EDS, Home Loan Management, UNISYS	Servicing portfolio exceeds \$90 billion; over 1 million loans	
UKValuation	A majority-owned subsidiary providing automated property valuations	UK lenders and surveyors	Branding, referrals and relationships	N/A	Average daily valuations rose to 264 by end of year	
Countrywide International Technology Holdings Ltd.	Develops and licenses technology	GHL and UKValuations	Corporate relationships	N/A	Fully deployed origination and servicing systems in the UK	
CENTRAL OFFICE	Supports operations company wide					2,850
						29,272 TOTAL

\*Comparable prior year period is the twelve months ended 11/30/01

\*\*Includes temporary and contract employees



(From Left) *Angelo R. Mozilo*, Chairman of the Board, Chief Executive Officer and President; *Stanford L. Kurland*, Executive Managing Director and Chief Operating Officer

## LETTER TO SHAREHOLDERS

### 2002 OVERVIEW

By every measure, 2002 was a year of record achievements. During each consecutive month, new operational milestones were established and surpassed. Each quarter yielded stellar earnings performance, culminating in a record high of \$6.49 per diluted share for the year.

The exceptional performance of 2002 validates our business model and our ability to execute and evolve this model to meet a changing environment. Key to this success has been our ability to leverage the intellectual and technological assets within our core mortgage banking business into synergistic diversified businesses.

To emphasize our evolutionary progress, we changed our name to Countrywide Financial Corporation. This new name more appropriately reflects the broad array of financial services we offer today *under one roof*. In 2002, diversified businesses represented nearly 30% of total pre-tax earnings, evidence of the growing contributions from these alternative sources. The ongoing strategic evolution of our business model is designed to provide the Company with a solid foundation for future performance and earnings growth.

This year's achievements are a testament to the steadfast dedication of the 30,000 Countrywide employees whose exceptional efforts enabled us to originate 1.8 million loans and make the dream of homeownership possible for so many Americans. These talented individuals capitalized on the opportunities presented by the favorable market environment and catapulted the Company to record accomplishments.

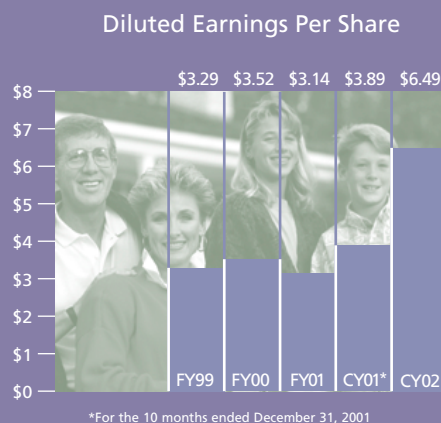
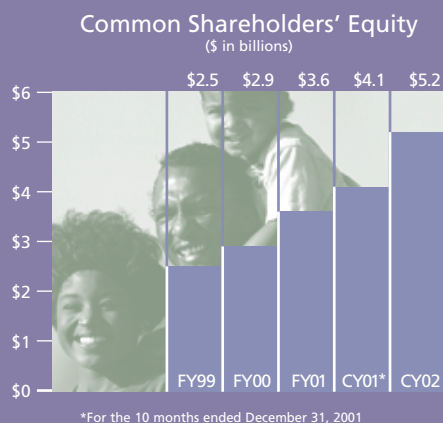
### 2002 BUSINESS LINE REVIEW

Within our core mortgage business, total fundings reached a record \$252 billion, 83% higher than fundings for the 2001 calendar year. In a year when historically low mortgage rates fueled record refinance activity, they also exposed our servicing portfolio to significant

prepayments; however, during this challenging environment, we achieved extraordinary servicing portfolio growth. Loan fundings exceeded prepayments by a record \$123 billion, propelling Countrywide's servicing portfolio to a new high of \$452 billion. Our ability to organically grow the portfolio in this environment clearly demonstrates our agility in expanding production capacity in lock step with the opportunities presented. Due to the remarkable accomplishments achieved within our production division, we drove our loan origination market share from 6.6% to 10%, and our servicing market share from 5.9% to 7% during the year (according to *Inside Mortgage Finance*). Our vision for the mortgage banking segment doesn't end here; our goal is to dominate this business.

In 2002, diversification efforts also thrived. Countrywide Securities Corporation (CSC), our broker-dealer, traded almost \$2 trillion in mortgage-related securities. According to Thomson Financial, CSC made the largest upward move in rank among ABS underwriters, moving from 13th in 2001 to 8th place in 2002. Assets at Countrywide Bank, a division of Treasury Bank, N.A., increased to \$5.1 billion in 2002, ranking our bank among the top 2% of banks nationwide, according to SNL Securities Datasource. Of note, in just 18 months, this bank has emerged from a small, \$100 million Washington, D.C., area bank into a significant national institution well positioned for future growth. Policies-in-force within our Insurance business increased from 3.3 million at December 2001 to 4.2 million in 2002. While operational growth was strong, we refined the Insurance business infrastructure this year to improve future profitability. We also took significant strides within our Global operations, as we assumed the balance of all mortgage processing and servicing for our UK joint venture partner, Barclays/The Woolwich. The integration of Barclay's mortgage operation activities with Global Home Loans (GHL) now makes us the largest third-party, end-to-end mortgage administrator in the UK.





#### COUNTRYWIDE'S SOLID FOUNDATION FOR FUTURE GROWTH

This year's exceptional accomplishments demonstrate our solid business foundation and the effectiveness of strategic enhancements undertaken to optimize future performance. Countrywide operates in one of the most fertile and stable markets in the world with a time-tested business model and proven management team. We believe that the Company is better positioned today than at any other time in its history to perform in a variety of mortgage rate environments.

The U.S. mortgage market is one of the pillars of U.S. economic growth. For the past 30 years, mortgage debt outstanding has grown 10% on a compound annual basis. Mortgage debt outstanding amounted to \$6.1 trillion in 2002, more than two and a half times larger than the \$2.3 trillion of marketable, public long-term U.S. Treasury debt outstanding. Homeownership is a vital component of our social fabric. It ties our families, neighborhoods and communities together. As the American dream of homeownership remains paramount to new families and immigrants, this market will continue to grow.

In concert with the expected growth in mortgage debt outstanding, demand for mortgage-backed securities will continue to flourish. Mortgage debt sits at the top of the consumer credit hierarchy in terms of borrower payment priorities as Americans will do everything in their power to make their mortgage payments. Virtually all of the loans created by Countrywide are sold to investors through the securitization process, providing a superior credit risk transfer mechanism for Countrywide. The securities created by pooling our loans together are very desirable to public investors given their relatively conservative risk profile and, in certain cases, backing by the agencies: Fannie Mae, Freddie Mac and Ginnie Mae.

#### FUTURE OUTLOOK

Against the backdrop of this solid market, industry experts are forecasting over \$2 trillion in mortgage originations for 2003. Given Countrywide's leading position within this market and the strategic enhancements made to our business model, 2003 is expected to be another strong year. In addition, as rates rise, we expect favorable market pricing to continue due to industry consolidation trends. Today, the market is dominated by large companies who are focused on long-term profitability and are expected to price accordingly.

At Countrywide, it is a point of great pride that each day we collectively strive to facilitate the American dream of homeownership. It is this passion to make a difference in people's lives that has forged this Company, and while bottom line results remain the top priority, it is this enduring passion that provides the catalyst for our growth and innovation.

We extend our sincere appreciation to the employees of Countrywide for their dedication, principles and relentless quest to turn the dreams of our customers into reality. We applaud our management team for keeping our efforts contemporary. We remain guided by a singular commitment to integrity as we strive to deliver value for our employees, customers, business partners and shareholders *under one roof*.

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

**Stanford L. Kurland**  
Executive Managing Director and  
Chief Operating Officer

## COMPANY MILESTONES

1969	>>	March 14, 1969, Angelo Mozilo and David Loeb form Countrywide.
	>>	Countrywide Insurance Services begins operations offering casualty, life and disability insurance.
1970	>>	Countrywide acquires United Institutional Servicing Corporation's right to service loans for the Federal National Mortgage Association (Fannie Mae) and the Government National Mortgage Association (Ginnie Mae) and commences servicing operations. The Countrywide servicing portfolio reaches \$15 million by the end of its fiscal year (2/28/71).
	>>	Countrywide relocates its operation to Los Angeles, California and opens its first branch.
1973	>>	The Company enters the conventional loan market to augment its traditional FHA/VA loan product offerings.
1974	>>	The Company embarks on a revolutionary strategy, reorganizing the loan branch system to include on-site loan processing. Branch managers are empowered to underwrite and sell, greatly reducing processing time and costs, and enhancing efficiency and customer service.
1981	>>	Countrywide Securities Corporation (CSC) is formed to facilitate the sale of mortgage products. CSC enabled the Company to tap into the retail market for Ginnie Mae securities and provide broker-dealer services for buyers of smaller sized mortgage-backed securities.
1984	>>	The loan servicing portfolio reaches \$1 billion, reflecting the early stage of the macro-hedge strategy to grow the servicing business and enhance Company performance as mortgage rates rise.
	>>	Wholesale Lending division is formed, providing the Company an additional channel for loan fundings through independent mortgage brokers.
	>>	Countrywide launches the Correspondent (Registry) division to purchase closed loans from savings & loans and banks across the nation, further expanding our reach to borrowers.
1985	>>	October 7, 1985, Countrywide listed on the NYSE under the ticker symbol CCR.
1987	>>	The adjustable-rate mortgage product is added to Countrywide's expanding list of home mortgage products.
1988	>>	The Company receives investment grade ratings and initiates a \$500 million commercial paper program, replacing other more expensive financing programs and significantly increasing the Company's ability to compete with other lenders.
1989	>>	Consumer Markets division formed to house all direct-to-consumer lending activities.
1990	>>	Countrywide launches its state-of-the-art front-end loan origination technology (EDGE), significantly increasing accuracy and efficiency.
1992	>>	House America launched to provide home financing alternatives to minorities and low- to moderate-income families with an initial commitment to fund \$1.25 billion. Commitments increased to \$5 billion in 1993; \$50 billion in 1998; \$80 billion in 1999; \$100 billion in 2001; and in 2003, a goal was set to fund \$600 billion by the end of the decade.
1993	>>	The Company launches innovative automated loan underwriting system — CLUES (Countrywide Loan Underwriting Expert System) — significantly improving accuracy, analytics, and the quality of loans originated/funded. Branch managers are now able to spend more time with customers.
1994	>>	LandSafe is formed to provide loan closing services to control the loan experience for customers and in-source these services.
	>>	Countrywide becomes the first mortgage lender in the nation to sign the <i>Declaration of Fair Lending Principles and Practices</i> with the U.S. Department of Housing and Urban Development (HUD). The accord is designed to enhance lending opportunities for minority and low-income borrowers, and illustrates Countrywide's commitment to increase the number of loans made to this under-served segment.
	>>	Home equity lines of credit are added to the Company's product offerings.
1995	>>	Countrywide becomes the largest national mortgage lender to offer sub-prime loans.
	>>	Countrywide launches <a href="http://www.countrywide.com">www.countrywide.com</a> , enabling customers to shop for loans and initiate the loan application process "on-line".
1996	>>	Full Spectrum Lending division is formed to provide a full menu of loan products to the sub-prime mortgage market.

<b>1997</b>	>>	Countrywide is named to the Standard and Poor's 500 Index, affirming the Company's significance in the mortgage industry as well as corporate America.
<b>1999</b>	>>	Global Home Loans is formed in a joint venture with The Woolwich to export loan origination and servicing expertise and technology by providing loan processing and origination/underwriting services on behalf of lenders in the UK.
	>>	Balboa Life & Casualty is acquired to leverage loan servicing insurance needs and expand customer offerings.
<b>2000</b>	>>	Utilizing technology created for our U.S. operation, UKValuation Ltd. is formed to provide automated property valuation appraisal services to lenders in the UK.
<b>2001</b>	>>	Countrywide acquires Treasury Bank, N.A., and becomes a financial holding company. The bank leverages Countrywide's tremendous mortgage asset generating capabilities to expand its product offerings and deposit gathering capabilities.
<b>2002</b>	>>	Countrywide Credit Industries changes its name to Countrywide Financial Corporation and changes its ticker symbol from CCR to CFC. The new name more accurately reflects the breadth of the 34-year-old firm's family of companies, which have expanded to include capital markets, banking, insurance and global operations, leveraging the Company's core competencies as a leader in residential mortgage banking.

## CULTURAL MILESTONES

	Fiscal Year Ended				
	1998	February 28 (29) 1999	2000	December 31 <sup>(1)</sup> 2001	2002
Employees <sup>(2)</sup>	7,983	11,378	10,572	17,921	25,355
Total number of loans originated	455,367	811,039	628,243	969,164	1,813,944

<sup>(1)</sup> Represents the ten months ended December 31, 2001 and twelve months ended December 31, 2002

<sup>(2)</sup> Full-time only

	Calendar Year Ended				
	1998	1999	2000	2001	2002
Loans to minorities <sup>(3)</sup>	91,174	85,323	86,609	164,628	260,144
Loans to low- to moderate-income borrowers <sup>(3)</sup>	166,188	153,613	125,154	200,568	347,767
Loans to low- to moderate-income tracts <sup>(3)</sup>	76,462	71,425	67,442	107,173	163,570

<sup>(3)</sup> Based on Home Mortgage Disclosure Act (HMDA) data

## PERFORMANCE MILESTONES

(Dollar amounts in thousands, except per share data)	Fiscal Year Ended			
	1972	February 28 (29) 1982	1992	December 31 2002
Production	\$32,000	\$ 252,000	\$12,156,000	\$251,901,000
Servicing portfolio	\$26,100	\$ 649,000	\$27,546,000	\$452,405,000
Net income	\$ 146	\$ 922	\$ 60,196	\$ 841,779
Diversification earnings	\$ –	\$ –	\$ 5,000	\$ 375,353
EPS (diluted) <sup>(4)</sup>	\$ 0.01	\$ 0.05	\$ 0.81	\$ 6.49

<sup>(4)</sup> Prior year figures have been restated to reflect subsequent stock dividends and splits.



In 1969, Countrywide began with a vision of helping families realize the American dream of homeownership. Over the years, just as families have evolved, our Company has evolved to meet a dynamic world. This evolution has been strategically designed to leverage our core competencies in mortgage banking into synergistic diversified businesses that provide a complete range of financial services *under one roof*.

On the following pages, we will present our goals and accomplishments within our core mortgage banking business and in our diversified businesses. We will illustrate how we are positioning our corporate governance activities and culture to achieve our business objectives. All of these efforts are designed to facilitate continuous evolution and to prudently manage our growth. As long as there are families, there will be a demand for homeownership and Countrywide will be prepared to provide superior and comprehensive mortgage and financial services into the future.



Expanding our vision to meet our customers' evolving needs.



From the Company's infancy, we have maintained our strategic focus on mortgage banking.



## MORTGAGE BANKING

The business of mortgage banking is conducted in one of the most vibrant and growing markets in our country. Throughout the industry's evolution, one fact has remained constant: Countrywide's commitment to be a mortgage-centric financial services company. We believe that *our strategic focus on mortgage banking* and our controlled approach to organic growth provide us with a competitive advantage. Infrastructure and cultural integration issues have not distracted us from our *one priority*: to facilitate the American dream of homeownership.

Countrywide's mortgage banking segment comprises the counter-cyclical business lines of production and servicing. The strategic balancing of these two businesses is the cornerstone of our business model. The effectiveness of the strategy has been aggressively tested over the years in a wide array of mortgage rate environments. During times of low rates, when the threat of prepayments to servicing portfolios is at its greatest, we have consistently demonstrated our ability to grow our servicing portfolio by recapturing loans and attracting new customers. And during high rate environments when production volumes recede, servicing profitability increases as mortgage loan prepayments decline significantly. As the servicing portfolio increases in size, the earnings potential of this sector increases commensurately.

The success of counter-balancing these businesses was evident in 2002 as our mortgage banking segment earnings soared to \$968 million, up from \$667 million in the comparable prior year. In 2002, the production sector earned \$2.5 billion pre-tax, fueled by

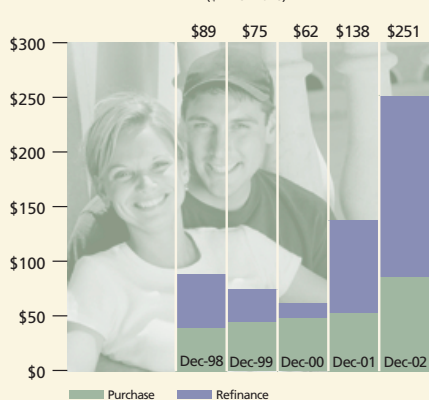
record fundings of \$251 billion, including record purchase fundings of \$86 billion, and record annual margins of 100 basis points. Countrywide utilizes every production distribution channel available to reach our customers:

- Retail — direct to the consumer;
- Wholesale — utilizing relationships with brokers;
- Correspondent — acquiring closed loans from financial intermediaries;
- Full Spectrum Lending — focused on sub-prime lending activities direct to the consumer; and,
- The Internet.

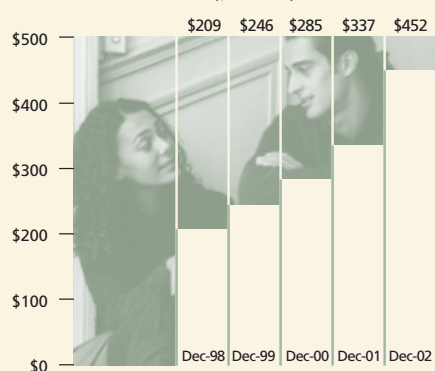
The low mortgage rate environment which drove record production performance had an expected converse impact on the servicing business, resulting in a loss in this sector for the year. An additional \$70 million in pre-tax earnings was contributed to the mortgage banking segment by LandSafe, which provides loan closing services to our customers. LandSafe has enabled us to control the quality of the mortgage experience for our customers and to in-source these services.

The continuous application of state-of-the-art technology to lower costs and improve productivity has been the hallmark of our success within the mortgage banking business. In 2002, we launched new and enhanced websites to expand our e-commerce and customer service initiatives. This emphasis on innovation is driven by our desire to improve customer satisfaction which in turn paves the way for cross-selling opportunities with our other business lines.

**Loan Production**  
(\$ in billions)



**Servicing Portfolio**  
(\$ in billions)





## DIVERSIFICATION

The *common thread* running through Countrywide's diversification initiatives is the interrelationship among the various businesses. Each business within the Countrywide family is strategically linked to capitalize on the intellectual, technological and relationship assets within the core mortgage banking business.

Our diversification efforts began as a means to in-source services that were provided by third parties. These strategies were rooted in our desire to expand the earnings power of the Company and to control the quality of service to our customers. Subsequent strategies conservatively expanded product offerings that were less sensitive to mortgage rates, such as home equity lines of credit and sub-prime loans. We have evolved considerably since embarking on these initial diversification efforts, building formidable businesses under one roof that have *balanced our business model* to achieve greater earnings potential.

In 2002, pre-tax earnings from our diversification businesses — capital markets, banking, insurance, and global — reached \$375 million, nearly doubling prior year performance. The long-term earnings power of each business is fueled by a unique "manufacturer-distributor" relationship with Countrywide Home Loans (CHL), our core mortgage banking business.

As a leader in mortgage originations, CHL is one of the largest manufacturers of the raw materials used by Countrywide Securities Corporation (CSC) — our securities broker-dealer and the largest component of the Capital Markets group — in creating and distributing mortgage-backed and asset-backed securities. The product and research expertise gained through the synergistic relationship between the broker-dealer and CHL optimally positions CSC in its market and enhances the expansion of third-party trading activity. Conversely, CSC supports CHL with the ability to in-source securitization and debt

issuance to minimize costs and maximize execution.

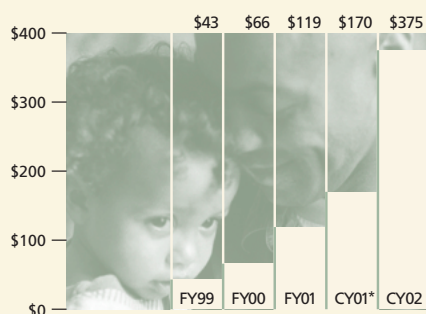
Banking is our newest diversification initiative. The bank optimizes the benefits of over \$6 billion in servicing-related escrow balance trust accounts that have been historically held in third-party bank accounts. The bank provides CHL with the opportunity to in-source custodial services, reduce costs and improve service quality. The bank also enjoys enhanced financial flexibility through its access to Federal Home Loan Bank advances and portfolio lending capabilities. Leveraging over four million CHL customer relationships and 400+ CHL retail branches provides valuable channels for deposit-generation. With over \$250 billion in loans produced for 2002, CHL also serves as a natural partner to facilitate asset growth at the bank.

During the loan origination process, our insurance agency, Countrywide Insurance Services, cross-sells homeowners insurance and other insurance products to CHL customers. The insurance products are underwritten by a number of insurance carriers including our wholly-owned subsidiary, Balboa Life & Casualty. Our carrier is also involved in the distribution of insurance products to other large institutions. Balboa Reinsurance provides the Company with the ability to participate in mortgage re-insurance of Countrywide originated loans.

Our Global operations have exported our state-of-the-art loan origination processing technology and servicing platform abroad, forming a joint venture with The Woolwich. This joint venture, in which Countrywide owns a 70% interest, has expanded to include all mortgage processing and servicing for Barclays, which acquired The Woolwich.

As we look ahead, we are committed to weaving this *one common thread* throughout all our diversification endeavors: leveraging the synergies within our family of companies.

Diversification Earnings  
(\$ in millions)

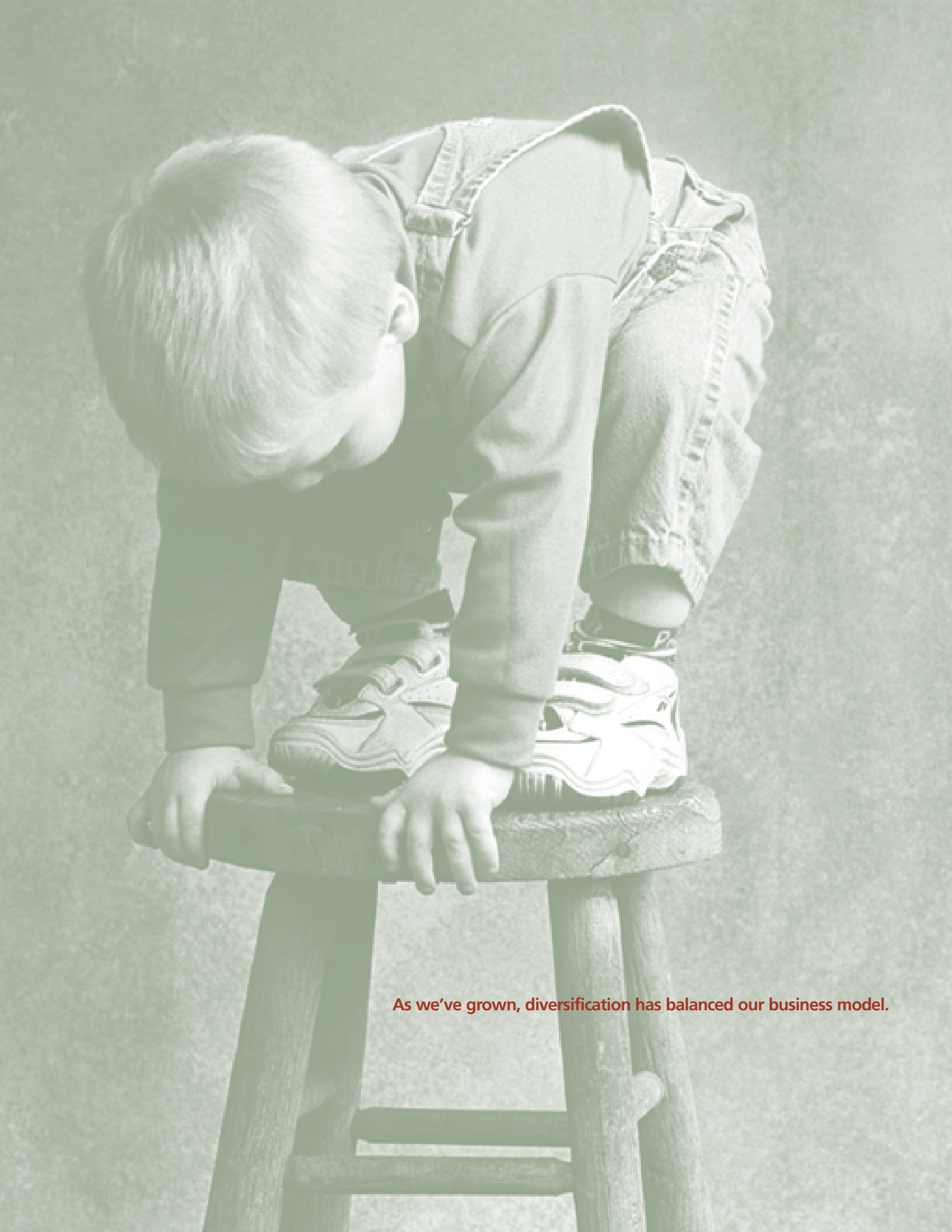


\*For the 10 months ended December 31, 2001

2002 Pre-tax Earnings Mix

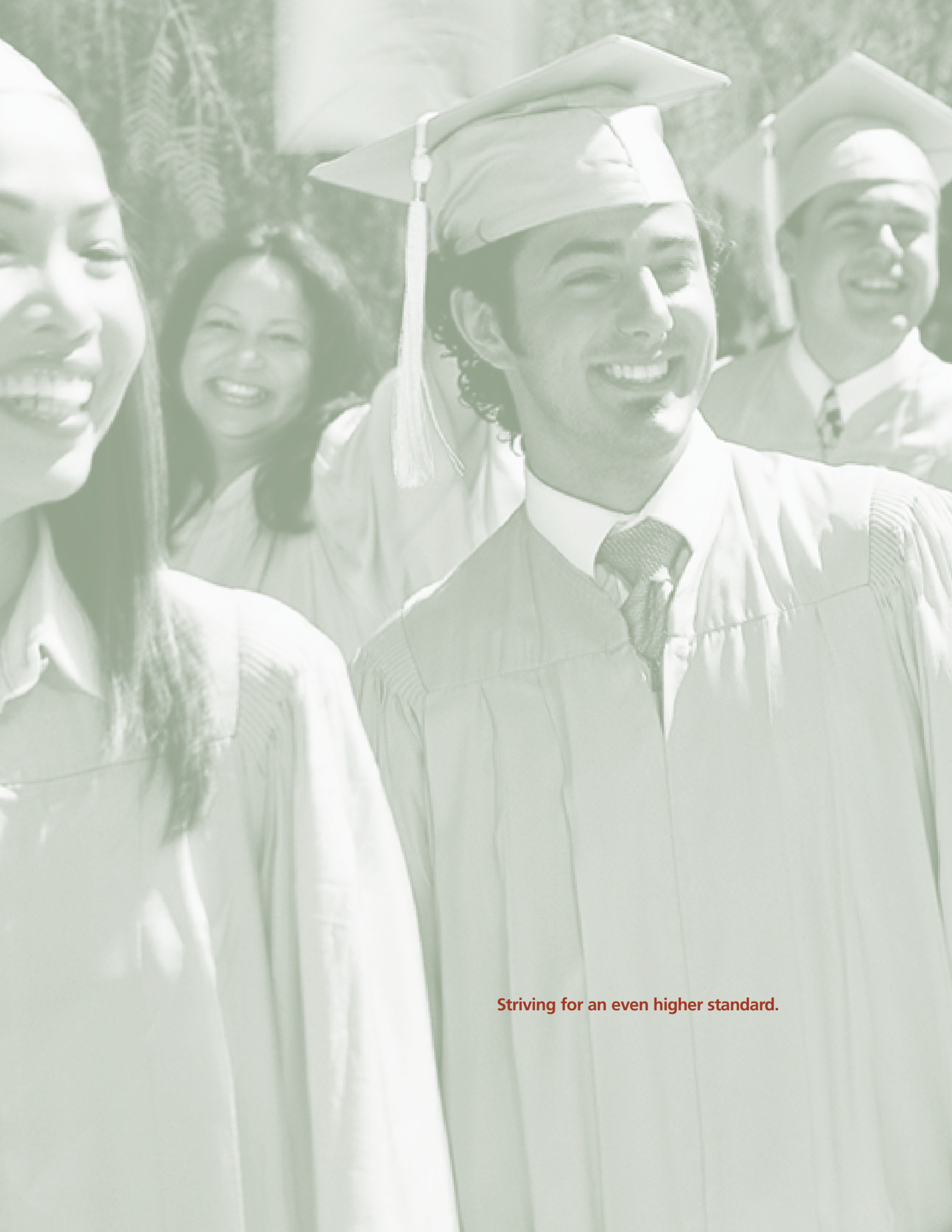






As we've grown, diversification has balanced our business model.





Striving for an even higher standard.



## CORPORATE GOVERNANCE

An unwavering focus on ethics and compliance is present in all business activities at Countrywide, providing a solid foundation for our corporate governance structure. This focus has been longstanding and enabled us to respond quickly and efficiently to recent regulatory changes affecting corporate governance and public company disclosure requirements. This structure is anchored by the oversight of our Board of Directors, and our experienced management team. The Board is diverse and independent, with nine of 11 directors from outside the Company. Independent directors chair and comprise all Board committees, including: Audit & Ethics, Community Affairs & Fair Lending, Compensation, Finance & Credit, Nominating & Governance, Strategic Planning, and Technology. Our management team oversees an integrated governance process encompassing the Strategic Planning, Risk Assessment, Internal Audit, Compliance and Accounting functions. We have enhanced these oversight functions as Countrywide has evolved and brought diversified new businesses together under one roof, necessitating a more extensive, broad-based governance structure.

Countrywide's governance activities are conservative, with numerous checks and balances in place. During 2002, we took steps to enhance this already well-established structure: we analyzed and improved our Board Committee Charters to clarify and strengthen the Board's oversight responsibilities; we enhanced the management structure by increasing the oversight responsibilities of our Asset/Liability Management Committee and 16-member Executive Committee; we established a new Enterprise Risk Assessment function at the corporate level to provide independent internal measurement and oversight of all risk management activities; and, we strengthened our audit procedures, adding nearly 20,000 hours of assistance to our Internal Audit teams through a new relationship with KPMG LLP.

The emphasis on governance is embedded in our culture, as reflected by our Corporate Ethics Statement: "At Countrywide, ethical standards guide our business conduct." The improvements of the past year arose from our longstanding commitment to apply the highest

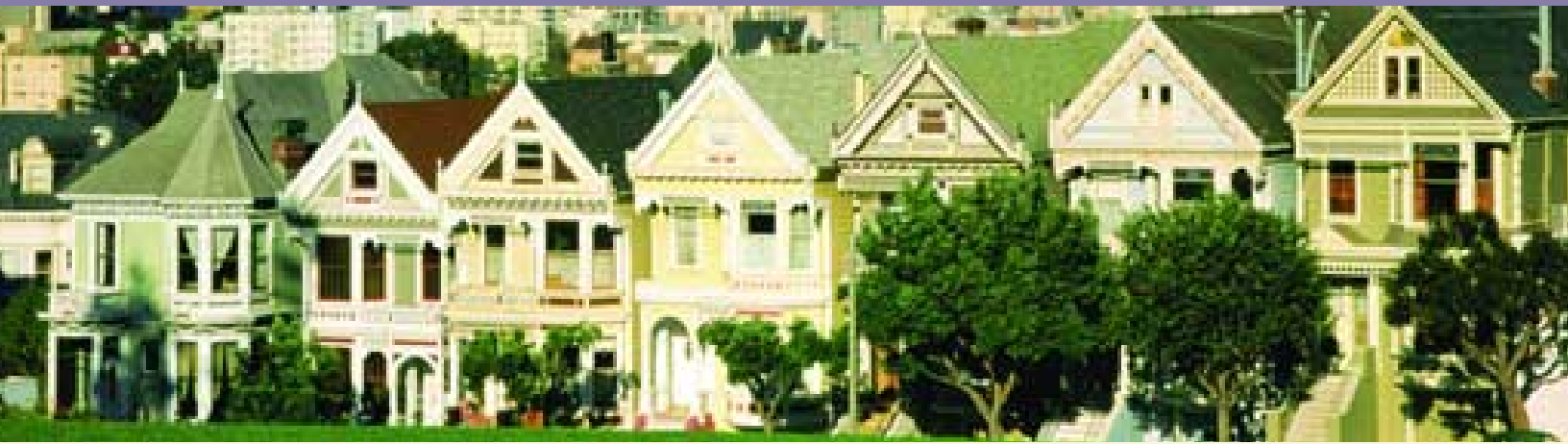
business standards in the best interests of our customers, business partners and investors. We take pride in our *reputation*. We will continue to *strive for even higher standards* throughout Countrywide, to protect our reputation and ensure that we always serve our constituents with the utmost integrity and play a leading role in restoring public faith in corporate America.

## CORPORATE OVERSIGHT

<b>Board of Directors</b>	>>	9 of 11 Board members are from outside the Company
<b>Senior Management Team</b>	>>	Top 8 executives possess an average of 19 years experience with Countrywide
	>>	31 Managing Directors represent all areas of the Company

## ADVANCED ORGANIZATIONAL STRUCTURE

<b>Executive Committee</b>	>>	16 senior executives provide cross-functional oversight
<b>Strategic Planning</b>	>>	Aligns efforts to ensure achievement of corporate strategic objectives
<b>Risk Management</b>	>>	Operational risks managed by Asset-Liability Committee; Chief Investment Officer
<b>Enterprise Risk Assessment</b>	>>	Independent oversight of risk management functions
<b>Internal Audit</b>	>>	Measures and evaluates effectiveness of controls
<b>Compliance</b>	>>	Provides tools and resources to ensure compliance with all laws and regulations



## CULTURE

The phrase “People, Passion, Principles” describes Countrywide’s cultural foundation. Responsible corporate behavior is essential for long-term success and profitability. At Countrywide, we are dedicated to maintaining a culture of accountability and responsibility, infused with the fierce *entrepreneurial spirit* and pride that define our past. Our **People**, our **Passion** for our work and our guiding **Principles** of quality, integrity and excellence provide the foundation for our culture and shape our reputation.

The hallmarks of Countrywide culture are reflected in formal Priority Objectives which are developed in collaboration with senior management and implemented by all employees. These objectives continuously evolve, to unite all Countrywide employees under one roof in the pursuit of common business goals. In 2002, our core values — **People**, **Passion** and **Principles** — served as key drivers in the successful pursuit of our Priority Objectives.

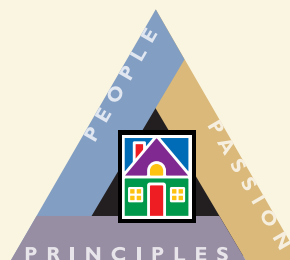
Countrywide **People** enthusiastically embraced our Emerging Markets objective to establish Countrywide as “the dominant mortgage originator, financial services provider and employer of choice within the Hispanic, African-American and Asian markets” in the United States. In a recent Company-wide survey of employees, our people ranked Countrywide’s performance as “highly favorable” in four key areas: customer focus; commitment to high ethical standards; respect for cultural diversity; and the pride we take in our work. To bolster professional development, we created a Career Development Center to ensure that the people of Countrywide build their skills to meet the growing expectations of our customers.

Our **Passion** for excellence was epitomized by the increasing employee utilization of FASTER, a productivity program customized

for Countrywide. Similar to Six Sigma used in other industries, FASTER is aimed at making every aspect of our operation better. To date, nearly 5,000 employees have been trained in this discipline. We have over 800 users of FASTER software, and approximately 350 registered FASTER projects under way. The cultural impact has been significant: FASTER has been made accessible to all employees, encouraging a continuous improvement mindset at every level of the Company. In 2002, the first full year of the program, FASTER delivered nearly \$11 million in operating profit and identified potential future savings of close to \$84 million. Given the high degree of employee buy-in, we expect to see substantially increased results for 2003 — including a strong return on investment and thousands more training certifications among our 30,000-person workforce.

Our dedication to **Principles** continued to be underscored by measures taken to reinforce our high standards of honesty and integrity. Our Corporate Compliance Center, mindful of the heightened attention paid to corporate governance, oversees an internal website that includes monthly “self-test” scenarios for employees to gauge their ability to make ethical business decisions. It also administers a “hotline” for employees to report suspected unethical business activity. A culture of corporate ethics is only as sound as the foundation of personal ethics that exists within the Company, and our Corporate Compliance Center is at the center of Countrywide’s collective moral conscience.

Overall, **People**, **Passion** and **Principles** form the core of Countrywide’s cultural foundation and *ensure that our partnerships endure* with employees, customers, business partners and investors.





Ensuring that our partnerships endure.





**As long as there are families, our Company will continue to evolve.**



## OUTLOOK FOR THE FUTURE

As we look ahead, Countrywide is well positioned to build upon the remarkable achievements of this past year to reach new heights in 2003 and beyond. We will accomplish this *under one roof* by increasing market share; by emphasizing continuous process improvements to achieve greater operational and cost efficiencies; by diligently maintaining strong corporate governance; by profitably managing our risk; and by evolving and enhancing our core and diversified businesses.

An innovator in mortgage banking for more than three decades, Countrywide's best-in-class technology and flexible operating infrastructure will be a strong enabler of future growth. Much of the mortgage banking success this past year was buoyed by the implementation of innovative production strategies to foster growth in both purchase and refinance markets within our distribution channels. The most compelling enhancements to our production business center on the implementation of a scalable infrastructure that has been strategically designed to accommodate changing demands for home loans. Some of our recent enhancements to the mortgage banking segment include:

- The expansion of our commissioned sales force, which is expected to reach 3,500 by the end of 2003, to focus on further penetration of the purchase market — a more stable component of our business which is expected to fuel market share growth regardless of mortgage rates;
- The increase in purchase market share in 2002 to 8.4% from 6% in 2001 positions us for strong mortgage production as mortgage rates rise;
- The centralization of strategic production processing operations and the utilization of temporary employees which will enable us to quickly and cost-effectively downsize the production infrastructure;
- The growth of the servicing portfolio will generate greater earnings. As mortgage rates rise, production earnings will decline; however, servicing earnings are expected to improve significantly, as amortization and impairment expenses diminish and prepayments wane; and,
- The Company has fixed the rates on \$13 billion of debt. As interest rates rise, this cost component will remain constant.

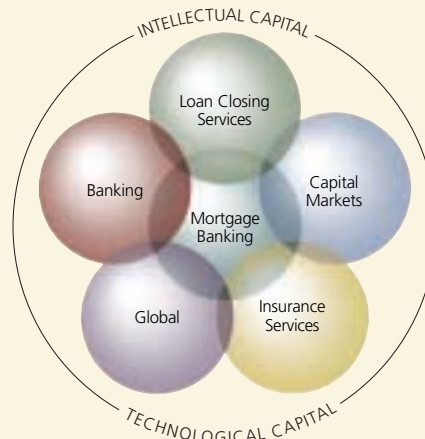
Our diversification efforts into capital markets, banking, insurance and global further expand earnings growth potential. Our capital markets group, already an industry leader in MBS research and trading,

is focused on growing third-party underwriting and expanding into non-mortgage-related securities to further enhance earnings potential when mortgage rates rise. Countrywide Bank is strategically positioned to leverage the synergies within the organization to build its asset base, attract new deposits, and expand its infrastructure. Insurance initiatives have been restructured and streamlined to improve future profitability. Recent investments in infrastructure and technology have established Global Home Loans as the largest third-party, end-to-end mortgage administrator in the UK — with an origination processing and servicing platform that is well positioned to attract new business from other nations desiring to optimize their own mortgage markets.

Countrywide's strategic model is designed to capture the synergies across all business lines while leveraging relationships and core competencies within each company. The nucleus of this model is our core mortgage banking business with intellectual and technological capital providing the catalyst for growth.

We are increasingly bullish about our future outlook. *Under one roof* at Countrywide, our commitment is unwavering to our *one strategic goal*: facilitating the American dream of homeownership while creating value for our constituents.

### Countrywide's Strategic Model







**Angelo R. Mozilo**

Chairman of the Board since March 1999. Chief Executive Officer since February 1998 and President since March 2000. Co-founded Countrywide Home Loans, Inc. Served on the Board since 1969.



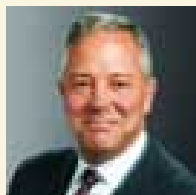
**Stanford L. Kurland**

Executive Managing Director since July 2000 and Chief Operating Officer since July 1988. Chief Executive Officer of Countrywide Home Loans, Inc., since March 1999, and President since 1995. Served on the Board since 1999.



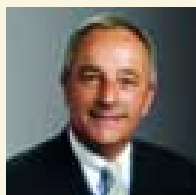
**Henry G. Cisneros**

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



**Jeffrey M. Cunningham**

Chairman, Cunningham Partners, Inc., a media and technology advisor and provider of venture capital services since April 2001. Previously served as Group Publisher of Forbes, Inc. for 18 years. Served on the Board since 1998.



**Robert J. Donato**

Executive Vice President, Los Angeles Branch of UBS PaineWebber, Inc. since 1997. Previously served as Director of Institutional Sales for PaineWebber, Inc. Served on the Board since 1993.



**Michael E. Dougherty**

Co-Founder and Chairman, Dougherty Financial Group, LLC since 1977. Member of the Board of Directors of the University of Minnesota Physicians Group, Definity Health Corporation, and Allina Hospitals and Clinics. Served on the Board since 1998.



**Ben M. Enis, Ph.D.**

Professor Emeritus of Marketing of the University of Southern California and serves as a marketing consultant. Retired from USC in 1998. Also serves as Chairman of Enis Renewable Energy Systems, LLC and as a Director of Protection One Alarm Monitoring, Inc., a security alarm monitoring company. Served on the Board since 1984.



**Edwin Heller**

Attorney, Of Counsel to the law firm of Fried, Frank, Harris, Shriver & Jacobson since 1996. Previously, partner in firm for 39 years. Served on the Board since 1993.



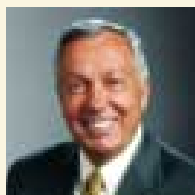
**Gwendolyn S. King**

President of Podium Prose, a corporate speakers bureau and speechwriting service. Previously served as Commissioner of the Social Security Administration and Deputy Assistant to the President, Director of Intergovernmental Affairs for the White House. Served on the Board since 2001.



**Oscar P. Robertson**

President, Orchem Corporation, a specialty chemical manufacturer, which he founded in 1981. Serves on National Advisory Council for the Salvation Army. Member of the National Basketball Association Hall of Fame. Served on the Board since 2000.



**Harley W. Snyder**

President, HSC, Inc. Consultant and Private Real Estate Investor. Previously, owned major regional real estate, insurance, management, construction and development firms for 40 years. Director of the National Association of Realtors since 1972. Served on the Board since 1991.

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## Selected Consolidated Financial Data

	Year Ended December 31,	(Unaudited) Year Ended November 30,	Ten Months Ended December 31,	(Unaudited) Ten Months Ended December 31,	Year Ended February 28 (29),		
(Dollar amounts in thousands, except per share data)	2002	2001	2001	2000	2001	2000	1999

### STATEMENT OF EARNINGS DATA<sup>(1)</sup>:

#### Revenues:

Gain on sale of loans and securities	\$ 3,672,447	\$ 1,849,131	\$ 1,741,599	\$ 769,618	\$ 1,048,238	\$ 1,004,808	\$ 1,370,856
Interest income	2,253,296	1,989,102	1,806,596	1,064,384	1,324,066	978,656	1,016,110
Interest expenses	(1,461,066)	(1,710,328)	(1,474,719)	(1,076,432)	(1,330,724)	(904,713)	(962,302)
Net interest income (expense)	792,230	278,774	331,877	(12,048)	(6,658)	73,943	53,808
Loan servicing fees and other income from retained interests	2,028,922	1,551,527	1,367,381	1,000,562	1,227,474	1,043,838	894,570
Amortization of MSRs	(1,267,249)	(891,179)	(805,533)	(412,541)	(518,199)	(459,308)	(556,373)
Impairment/recovery of retained interests	(3,415,311)	(2,349,408)	(1,472,987)	(529,431)	(915,589)	262,939	(518,930)
Servicing hedge gains (losses)	1,787,886	1,793,635	908,993	469,062	797,148	(264,094)	412,812
Net loan servicing fees and other income from retained interests	(865,752)	104,575	(2,146)	527,652	590,834	583,375	232,079
Net insurance premiums earned	561,681	358,398	316,432	223,272	274,039	75,786	12,504
Commissions and other revenue	358,860	269,481	247,919	134,814	167,386	146,049	150,165
Gain on sale of subsidiary	—	—	—	—	—	4,424	—
Total revenues	4,519,466	2,860,359	2,635,681	1,643,308	2,073,839	1,888,385	1,819,412
Expenses:							
Compensation expenses	1,931,076	1,163,590	1,075,227	663,267	818,959	739,501	726,651
Occupancy and other office expenses	447,723	326,238	291,571	216,328	262,370	261,303	240,413
Marketing expenses	86,278	62,411	54,068	61,976	71,557	72,930	64,510
Insurance claims expenses	277,614	148,568	134,819	88,113	106,827	23,420	—
Other operating expenses	433,752	303,925	291,377	188,739	228,091	160,033	156,033
Total expenses	3,176,443	2,004,732	1,847,062	1,218,423	1,487,804	1,257,187	1,187,607
Earnings before income taxes	1,343,023	855,627	788,619	424,885	586,035	631,198	631,805
Provision for income taxes	501,244	318,086	302,613	153,200	211,882	220,955	246,404
Net earnings	\$ 841,779	\$ 537,541	\$ 486,006	\$ 271,685	\$ 374,153	\$ 410,243	\$ 385,401

### PER SHARE DATA<sup>(2)</sup>:

Basic	\$ 6.75	\$ 4.51	\$ 4.04	\$ 2.37	\$ 3.26	\$ 3.63	\$ 3.46
Diluted	\$ 6.49	\$ 4.34	\$ 3.89	\$ 2.30	\$ 3.14	\$ 3.52	\$ 3.29
Cash dividends declared per share	\$ 0.45	\$ 0.40	\$ 0.33	\$ 0.30	\$ 0.40	\$ 0.40	\$ 0.32
Weighted average shares outstanding:							
Basic	124,740,000	119,249,000	120,339,000	114,495,000	114,932,000	113,083,000	111,414,000
Diluted	129,724,000	123,882,000	124,793,000	118,317,000	119,035,000	116,688,000	117,045,000

### SELECTED BALANCE SHEET DATA AT END OF PERIOD<sup>(1)</sup>:

Total assets	\$58,030,783	\$35,418,166	\$37,216,804	\$26,132,132	\$22,955,507	\$15,822,328	\$15,648,256
Short-term debt	\$28,311,361	\$12,637,596	\$15,210,374	\$12,157,436	\$ 7,300,030	\$ 2,529,302	\$ 3,982,435
Long-term debt	\$13,617,266	\$11,012,058	\$10,897,481	\$ 7,149,323	\$ 7,643,991	\$ 7,253,323	\$ 5,953,324
Common shareholders' equity	\$ 5,161,133	\$ 4,058,824	\$ 4,087,642	\$ 3,313,789	\$ 3,559,264	\$ 2,887,879	\$ 2,518,885

### OPERATING DATA (DOLLAR AMOUNTS IN MILLIONS):

Loan servicing portfolio <sup>(3)</sup>	\$ 452,405	\$ 331,032	\$ 336,627	\$ 284,894	\$ 293,600	\$ 250,192	\$ 215,489
Volume of loans originated	\$ 251,901	\$ 126,980	\$ 123,969	\$ 54,698	\$ 68,923	\$ 66,740	\$ 92,881

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

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

<sup>(3)</sup> Includes warehoused loans and loans under subservicing agreements.

## Management's Discussion and Analysis

of Financial Condition and Results of Operations

### GENERAL

The Company's core business is residential Mortgage Banking. Historically, the Mortgage Banking business was the primary source of the Company's earnings and the focus of its capital investment. The Company's results of operations historically have been influenced primarily by the level of demand for mortgage loans, which is affected by external factors such as prevailing mortgage rates and the strength of the U.S. housing market.

In recent years, the Company has expanded its operations beyond Mortgage Banking. The Company now has five business segments: Mortgage Banking, Insurance, Capital Markets, Global and Banking. This diversification has been pursued to capitalize on meaningful synergies with the Company's core Mortgage Banking business and to provide sources of earnings that are not as cyclical as the mortgage banking business.

### CRITICAL ACCOUNTING POLICIES

The accounting policies that have the greatest impact on the Company's financial condition and results of operations and that require the most judgment are those relating to its mortgage securitization activities and the ongoing valuation of retained interests, particularly Mortgage Servicing Rights ("MSRs"), that arise from those activities, as well as the Company's interest rate risk management activities. The Company's critical accounting policies involve accounting for gains on sales of loans and securities, valuation of MSRs and other retained interests, amortization of MSRs and accounting for derivatives and interest rate risk management activities.

#### Gain on Sale of Loans and Securities

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

In effect, the Company determines the gain on sale of a security by allocating the acquisition cost of the underlying mortgage loans between the securities sold and the retained interests, based on their relative estimated fair values. The reported gain on sale is the difference between the cash proceeds from the sale and the cost allocated to the securities sold.

Following is an example of the application of this accounting concept:

Acquisition cost of mortgage loans underlying a security	<u>\$ 1,000,000</u>
Fair values:	
Security	\$ 990,000
Retained interests	<u>20,000</u>
Total fair value	<u>\$ 1,010,000</u>
Computation of gain on sale of security:	
Sales proceeds	\$ 990,000
Less: allocated cost (\$1,000,000 x \$990,000/\$1,010,000)	<u>980,198</u>
Gain on sale	<u>\$ 9,802</u>
Initial recorded value of retained interests	
(\$1,000,000 – \$980,198)	<u>\$ 19,802</u>

### Valuation of Retained Interests

The determination of fair values of retained interests at the initial recording and on an ongoing basis requires considerable judgment. Unlike government securities and other highly liquid investments, the precise market value of retained interests is not readily ascertainable because these assets are not actively traded in stand-alone markets. As discussed in the following paragraphs, the Company uses available market data, along with its own empirical data and discounted cash flow models, to arrive at the estimated fair values of its retained interests.

Once recorded, retained interests are periodically evaluated for impairment, which is defined generally as a reduction in current fair value below carrying value.

- If MSRs are impaired, the impairment is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a valuation allowance. If the value of the MSRs subsequently increases, the recovery in value is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a reduction in the valuation allowance. (As of December 31, 2002, the MSR impairment valuation allowance was \$2.0 billion.) If impairment is deemed to be other than temporary, the valuation allowance is applied to reduce the cost-basis of the MSRs. A MSR cannot be carried above its amortized cost-basis.
- For other retained interests, which are held as available-for-sale securities, impairment is recognized as a reduction to shareholders' equity (net of tax). If the impairment is deemed to be other than temporary, it is recognized in current-period earnings. Once permanently impaired, subsequent increases in the value of other retained interests are recognized in earnings over the remaining life of the investment through a higher effective yield.

The Company estimates the fair value of its MSRs through the use of a proprietary option-adjusted spread ("OAS") cash flow model. The model utilizes a stochastic interest rate model in conjunction with proprietary mortgage prepayment models to simulate MSR cash flows over multiple interest rate paths and derive an expected present, or estimated, fair value. Cash flows associated with MSRs and incorporated in the model consist of net service fees, float earnings on escrow balances, late charges, prepayment penalties, ancillary fees, servicing operating costs, costs related to advancing delinquent mortgage payments, and foreclosure-related costs. The cash flow assumptions are derived from the Company's own empirical data drawn from the recent historical experience of its MSRs.

For the other retained interests, the Company estimates fair value through the use of proprietary, "static" (single rate path) discounted cash flow models. The Company has evolved its methodologies for valuing MSRs and other retained interests in concert with the industry and with the objective of providing improved estimates of fair value. The Company has incorporated assumptions in its valuation models it believes other major market participants would presently consider in deriving the fair value of MSRs and other retained interests.

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

At December 31, 2002, the Company's investment in MSRs was stratified as follows:

(Dollar amounts in millions)				
Total Portfolio				
Mortgage Rate	Principal Balance <sup>(1)</sup>	Percent of Total	Weighted Average Maturity (Years)	MSR Balance
6% and under	\$ 62,416	14%	23.2	\$ 983
6.01–7%	234,194	53%	26.1	2,916
7.01–8%	106,571	24%	26.0	1,039
8.01–9%	24,958	6%	25.6	265
9.01–10%	6,587	2%	24.5	86
over 10%	6,541	1%	21.8	96
	<u>\$ 441,267</u>	<u>100%</u>	<u>25.5</u>	<u>\$ 5,385</u>

<sup>(1)</sup>Excludes subservicing.

The key assumptions used in the valuation of MSRs and other retained interests include mortgage prepayment speeds, the OAS or discount rate, as appropriate, and for residual interests that contain credit risk, the lifetime credit losses. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Risk" section of this document for further discussion of credit risk.)

The Company estimates mortgage prepayment speeds using proprietary, statistical, multi-factor, pool-level models that have been developed for each major loan type using historical, loan-level data from the Company's mortgage servicing portfolio. The primary factors driving prepayment speeds in the models are housing turnover, refinance incentive, forecasted housing price appreciation, loan age and burnout. The models derive single-month-mortality ("smm") rates based on the modeled mortgage rate. The modeled mortgage rate is a function of the simulated short-term and long-term rates derived from the Company's interest rate model. The Company's stochastic interest rate model utilizes the swap curve and option prices to develop the simulated interest rates. The Company has benchmarked its mortgage prepayment models against other commercially-available models, as well as, on an ongoing basis, to its actual portfolio prepayment experience. The Company periodically refits its prepayment models using its most recent portfolio data.

The Company determines OAS and discount rates by reference to available market data. For MSRs, the Company applies a different OAS depending on the servicing type. As of December 31, 2002, the OAS ranged from 2.9% for conventional, conforming MSRs to 6.9% for subprime MSRs. The OAS is added to the simulated forward LIBOR rate to arrive at the discreet discount rate used in each period within the cash flow model. The OAS is evaluated periodically based upon analysis of the following market data (as available): MSR "bulk" and "flow" transactions; sales of new mortgage loans on a servicing-released basis; MSR broker valuations; Trust I/O and Company I/O prices; and peer group surveys.

The Company estimates lifetime mortgage credit losses using proprietary, statistical, multi-factor pool-level models that have been developed for Prime Home Equity and Subprime loans using historical, loan-level data

from the Company's mortgage servicing portfolio as well as available loan-level data from third parties. The primary factors driving lifetime credit losses in the models are FICO credit scores, loan-to-value ratio, loan balance, documentation type and forecasted housing price appreciation. The Company compares the credit loss estimates derived from its models on new mortgage pools to those loss estimates developed by the rating agencies and mortgage insurance companies. The Company periodically refits its credit loss models using the most recent portfolio data.

The following table shows the value sensitivity of the MSRs and other retained interests to the key assumptions used by the Company to determine their fair values at December 31, 2002:

(Dollar amounts in thousands)	MSRs	Other Retained Interests
Fair value of retained interests	\$5,384,933	\$1,291,701
Weighted-average life (in years)	5.6	2.1
WEIGHTED-AVERAGE ANNUAL PREPAYMENT SPEED	21.7%	34.3%
Impact of 10% adverse change	\$ 350,673	\$ 119,073
Impact of 20% adverse change	\$ 660,276	\$ 220,544
WEIGHTED-AVERAGE OAS OVER LIBOR CURVE	3.6%	N/A
WEIGHTED-AVERAGE ANNUAL DISCOUNT RATE	N/A	15.0%
Impact of 10% adverse change	\$ 67,729	\$ 25,017
Impact of 20% adverse change	\$ 133,801	\$ 44,520
WEIGHTED-AVERAGE LIFETIME CREDIT LOSSES	0.02%	3.44%
Impact of 10% adverse change	\$ 16,808	\$ 28,777
Impact of 20% adverse change	\$ 35,218	\$ 57,205

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

### MSR Amortization

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

### Derivatives and Interest Rate Risk Management Activities

The Company utilizes derivatives extensively in connection with its interest rate risk management activities. In accordance with SFAS 133, all derivative instruments are recorded at fair value.

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

The Company may qualify some of its interest rate risk management activities for hedge accounting under SFAS 133. To qualify for hedge accounting under SFAS 133, the Company must demonstrate, on an ongoing basis, that its interest rate risk management activity is highly effective. The Company determines the effectiveness of its interest rate risk management activities using standard statistical measures. If the Company is unable to qualify certain of its interest rate risk management activities for hedge accounting, then the change in fair value of the associated derivative financial instruments would be reflected in current period earnings, but the change in fair value of the related asset or liability may not, thus creating a possible earnings mismatch. This issue is potentially most significant regarding MSRs, which absent the application of hedge accounting, are required to be carried at the lower of amortized cost or market. The Company has qualified a significant portion of its Servicing Hedge for hedge accounting under SFAS 133 at times in the past, and Management believes it can do so in the future.

In connection with its mortgage loan origination activities, the Company issues interest rate lock commitments ("IRLCs") to loan applicants and financial intermediaries. The IRLCs guarantee the loan terms, subject to credit approval, for a period of time while the application is in process, primarily between 7 and 60 days. IRLCs are derivative instruments as defined by SFAS 133 and, therefore, are required to be recorded at fair value with changes in fair value reflected in current period earnings. However, unlike most other derivative instruments, there is no active market for IRLCs that can be used to determine an IRLC's fair value. Consequently, the Company has developed a methodology for estimating the fair value of its IRLCs.

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

### CHANGE IN FISCAL YEAR

Effective December 31, 2001, the Company changed its year end from February 28 to December 31. For purposes of this Annual Report on Form 10-K, the Company's consolidated statements of earnings, consolidated statement of common shareholders' equity, consolidated statements of cash flows and consolidated statements of comprehensive income consist of the year ended December 31, 2002 ("2002"), the ten months ended December 31, 2001 and the year ended February 28, 2001. Management changed the Company's year end to conform its reporting periods with those required by the Board of Governors of the Federal Reserve for regulatory reporting purposes. The "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Form 10-K compares financial information for the twelve months ended December 31, 2002 and the twelve months ended November 30, 2001.

### CHANGE OF CORPORATE NAME

On November 7, 2002, the name of the corporation was changed from Countrywide Credit Industries, Inc. to Countrywide Financial Corporation.

Management believes that the Company's new name more accurately reflects the full array of products and services offered to consumers and institutional customers through the Countrywide family of companies.

### COMPARISON OF RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2002 (AUDITED) ("2002") TO THE TWELVE MONTHS ENDED NOVEMBER 30, 2001 (UNAUDITED) ("2001")

#### Consolidated Earnings Performance

The Company's diluted earnings per share for 2002 was \$6.49, a 50% increase over diluted earnings per share for 2001. Net earnings increased 57% from 2001. This earnings performance was driven principally by the record level of residential mortgage loans produced by the Company—\$251.9 billion during 2002 in comparison to \$126.9 billion for 2001.

Industry-wide, residential mortgage originations were approximately \$2.5 trillion during 2002, up from approximately \$2 trillion in calendar 2001 (*Source: Fannie Mae*). Approximately 60% of the residential mortgages produced in 2002 were refinances triggered by historically low mortgage rates. The balance of mortgages produced related to home purchases. Partially fueled by the level of mortgage rates, activity in the U.S. housing market also reached record levels in 2002.

The record demand for residential mortgages not only drove record loan production volumes but also high loan production margins for the Company. The combination of record volumes and high margins increased Loan Production Sector pre-tax earnings to \$2.5 billion for 2002, an increase of 162%, or \$1.5 billion from 2001.

The high levels of mortgage refinances and home purchases in 2002 resulted in significant prepayments within the Company's mortgage loan servicing portfolio during the year. This, along with the expectation of continued higher-than-normal prepayments in the future due to historically low mortgage rates, resulted in significant amortization and impairment of the Company's MSRs and other retained interests in 2002. The combined



## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

amount of amortization and impairment of MSRs and other retained interests, net of Servicing Hedge gains, was \$2.9 billion, resulting in a pre-tax loss of \$1.6 billion in the Loan Servicing Sector in 2002, \$1.3 billion more than the pre-tax loss in 2001.

Overall, the Mortgage Banking Segment generated pre-tax earnings of \$967.7 million for 2002, an increase of 45% over 2001.

The Company's non-mortgage banking businesses also were significant contributors to the overall record earnings performance in 2002. In particular, the Capital Markets Segment had pre-tax earnings of \$199.9 million, as compared to \$84.8 million for 2001. Capital Markets has grown its core franchise significantly over the last five years and is now among the leading investment banking firms in its niche, the mortgage-backed securities market. This segment continued to benefit from robust activity in the mortgage-backed securities market, as well as from a highly-favorable interest rate environment. In total, non-mortgage banking businesses contributed \$375.4 million in pre-tax earnings for 2002 (28% of consolidated pre-tax earnings), an increase of 99% from \$188.3 million (22% of consolidated pre-tax earnings) for 2001.

### Operating Segment Results

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

(Dollar amounts in thousands)	Year Ended December 31, 2002	Year Ended November 30, 2001
<b>Mortgage Banking:</b>		
Production	\$2,499,516	\$ 953,887
Servicing	(1,601,799)	(347,381)
Closing Services	69,953	60,864
Total Mortgage Banking	967,670	667,370
<b>Other Businesses:</b>		
Insurance	82,432	89,551
Capital Markets	199,925	84,839
Global Operations	5,233	2,532
Banking	83,971	10,316
Other	3,792	1,019
Total Other Businesses	375,353	188,257
Pre-tax earnings	\$1,343,023	\$855,627

### Mortgage Banking Segment

The Mortgage Banking Segment includes Loan Production, Loan Servicing and Loan Closing Services. The Loan Production and Loan Closing Services Sectors generally perform at their best when mortgage rates are relatively low and loan origination volume is high. Conversely, the Loan Servicing Sector generally performs well when mortgage rates are relatively high and loan prepayments are low. The natural counterbalance of these sectors reduces the impact of changes in mortgage rates on the Company's earnings. During 2002, historically-low mortgage rates drove record levels of mortgage originations and prepayments industry-wide, resulting in record profits in the Loan Production and Loan Closing Services Sectors and record losses in the Loan Servicing Sector.

### Loan Production Sector

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

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

	Year Ended December 31, 2002		Year Ended November 30, 2001	
(Dollar amounts in thousands)	Dollars	Percent of Loan Volume	Dollars	Percent of Loan Volume
Revenues	\$ 4,228,303	1.69%	\$ 2,021,470	1.59%
Expenses	1,728,787	0.69%	1,067,583	0.84%
Pre-tax earnings	\$ 2,499,516	1.00%	\$ 953,887	0.75%

The record demand for mortgages enabled the Loan Production Sector to achieve significant growth in revenues and earnings in 2002. This performance was enhanced by a significant increase in market share during the year. The Company's mortgage origination market share was 10.0% in 2002, up from 6.6% in calendar 2001 (Source: *Inside Mortgage Finance*). Favorable market conditions enabled the Company to increase revenues earned on Prime First Mortgage Loans, while high levels of productivity during 2002 helped keep unit costs low. These factors combined to produce record profit margins (pre-tax earnings as a percentage of loan volume) for the Loan Production Sector.

The following table shows total loan volume by division:

	Mortgage Banking Loan Production*	
(Dollar amounts in millions)	Year Ended December 31, 2002	Year Ended November 30, 2001
Correspondent Lending Division	\$ 118,133	\$ 46,311
Wholesale Lending Division	67,188	40,817
Consumer Markets Division	62,189	37,728
Full Spectrum Lending, Inc.	3,586	2,034
	<b>\$ 251,096</b>	<b>\$ 126,890</b>

\*Does not include Treasury Bank originations totaling \$805 million in 2002.

Overall loan production for 2002 increased 98% in comparison to 2001. The increase was due to a rise in both purchase and non-purchase loan production of 69% and 118%, respectively. The increase in purchase-money loans is significant as this is the relatively stable growth component of the mortgage market, with average annual growth of 8% over the last 10 years. (The non-purchase, or refinance, component of the mortgage market is highly volatile as it is driven almost exclusively by prevailing mortgage rates.) All divisions, in particular Correspondent Lending, contributed to the increase in origination volume. The Correspondent Lending Division has benefited most from the consolidation trend in the industry. In 2002, the top five correspondent lenders combined had a 58% share of the correspondent origination market, up from 37% in 1998.

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

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

	<b>Mortgage Banking Loan Production*</b>	
	<b>Year Ended December 31, 2002</b>	<b>Year Ended November 30, 2001</b>
(Dollar amounts in millions)		
<b>Purpose:</b>		
Purchase	\$ 86,439	\$ 51,288
Non-purchase	164,657	75,602
	<u>\$ 251,096</u>	<u>\$ 126,890</u>
<b>Interest Rate Type:</b>		
Fixed-Rate	\$ 215,903	\$ 112,054
Adjustable-Rate	35,193	14,836
	<u>\$ 251,096</u>	<u>\$ 126,890</u>

\*Does not include Treasury Bank originations totaling \$805 million in 2002.

As shown in the following table, the volume of Prime Home Equity and Subprime mortgages produced (which is included in the Company's total volume of loans produced) increased 72% during the current period from the prior year:

	<b>Mortgage Banking Prime Home Equity and Subprime Mortgage Production*</b>	
	<b>Year Ended December 31, 2002</b>	<b>Year Ended November 30, 2001</b>
(Dollar amounts in millions)		
Prime Home Equity	\$ 10,845	\$ 6,091
Subprime	9,421	6,184
	<u>\$ 20,266</u>	<u>\$ 12,275</u>
Percent of total loan production	<u>8.1%</u>	<u>9.7%</u>

\*Does not include Treasury Bank Prime Home Equity originations totaling \$805 million in 2002.

Prime Home Equity and Subprime loans carry higher profit margins historically and the demand for such loans is believed to be less rate sensitive than the demand for Prime First Mortgage Loans.

The Company successfully retained a significant percentage of the customers who prepaid their mortgages during the period. The overall retention rate for the year was 36% and for retail customers the rate was 46%. Notably, 60% of the Consumer Market Division's total loan production during the period was sourced from the Company's servicing portfolio. The high retention rates during the period were due, in part, to the high level of refinancing transactions. The Company has been most successful retaining customers who refinance their existing mortgages in such an environment. During the year ended December 31, 2002, 80% of the Consumer Markets Division's refinance loan volume was from existing mortgage customers. This synergy is a major source of intrinsic value derived from the Company's MSR investment.

During 2002, the Loan Production Sector operated at approximately 114% of planned operational capacity. (The primary capacity constraint in the Company's loan origination activities is the number of loan operations personnel it has on staff. Therefore, the Company measures planned capacity with reference to the number of loan operations personnel it has on staff multiplied by the number of loans it expects each available loan operations staff person to process under normal conditions.) The Company continued to increase the number of sales and operations staff in its loan production divisions in 2002 to capitalize upon the current market environment. When loan volumes moderate, the operations staff (including a significant number of temporary employees) will be reduced. However, the Company plans to continue building its sales staff despite any potential drop in loan origination volume as a primary means to increase the Company's market share.

The following table summarizes the Loan Production Sector workforce:

	<b>Workforce At</b>	
	<b>December 31, 2002</b>	<b>November 30, 2001</b>
Sales	6,090	3,801
Operations:		
Regular employees	5,621	3,400
Temporary staff	2,090	1,291
	<u>7,711</u>	<u>4,691</u>
Production technology	554	317
Administration and support	1,152	766
	<u>15,507</u>	<u>9,575</u>

In recent years, the Consumer Markets Division has commenced a fundamental restructuring of its business model primarily by building a "best-in-class" sales organization, consisting of a dedicated commissioned sales force and the attendant management, systems and operations support. In addition, to create more flexible processing capacity to support the expanded sales organization, as well as the division's growing portfolio retention effort, the Consumer Markets Division has begun to centralize some of its processing operations. At December 31, 2002 the commissioned sales force (external home loan consultants) numbered 2,484, an increase of 1,090 during the year. The primary focus of the external home loan consultants is to increase overall purchase market share. External home loan consultants contributed \$13.5 billion in purchase originations in 2002, a 97% increase over the prior year. The purchase production generated by the external home loan consultants represented 63% of the Consumer Market Division's purchase production for 2002. At December 31, 2002, the Consumer Markets Division had 424 branches and 19 regional processing centers nationwide. During 2002, the regional processing centers handled 9.3% of the division's total loan volume.

Like the Consumer Markets Division, the Wholesale Lending Division has focused on improving its sales efforts. The division has created specialized sales units that cater to the individual segments of the wholesale market (e.g., large regional and national brokers). In addition, the Wholesale Lending Division continued to make improvements in its

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

business partner website ("CWBC"), which was utilized by its business partners in 93% of the loans produced by the division in 2002. To improve efficiency and quality control, the division centralized processing of its subprime loans in 2002.

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

### Loan Servicing Sector

The Loan Servicing Sector reflects the performance of the Company's investments in MSRs and other retained interests and associated risk management activities, as well as profits from subservicing activities in the United States. The Loan Servicing Sector incorporates a significant processing operation, consisting of approximately 5,200 employees that service the Company's 4.0 million mortgage customers. How effectively this servicing operation manages costs and generates ancillary income from the portfolio has a significant impact on the long-term performance of this sector.

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

(Dollar amounts in thousands)	Year Ended December 31, 2002		Year Ended November 30, 2001	
	Amount	Percentage of Average Servicing Portfolio	Amount	Percentage of Average Servicing Portfolio
Revenues	\$ 1,994,362	0.528%	\$ 1,749,766	0.584%
Servicing Hedge gains	1,787,886	0.473%	1,793,635	0.599%
Amortization	(1,267,249)	(0.335)%	(891,179)	(0.299)%
Impairment	(3,415,311)	(0.904)%	(2,349,408)	(0.784)%
Operating expense	(489,335)	(0.129)%	(349,349)	(0.116)%
Interest expense, net	(212,152)	(0.056)%	(300,846)	(0.100)%
Pre-tax loss	\$ (1,601,799)	(0.423)%	\$ (347,381)	(0.116)%
Average Servicing Portfolio	\$ 377,999,000		\$ 299,470,000	

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

The Servicing Hedge generated a gain of \$1.8 billion during the period, which partially offset the combined impairment and amortization charge. Amortization and impairment, net of the Servicing Hedge, was \$2.9 billion for 2002, an increase of \$1.4 billion over 2001. In a stable interest rate environment, management would expect no significant impairment and

would expect to incur expenses related to the Servicing Hedge driven primarily by the composition of the hedge, the shape of the yield curve and the level of interest rate volatility.

During 2002, the Company securitized a portion of its net servicing fees ("excess servicing"). Proceeds from the sale of these securities amounted to \$566.6 million. Management believes such securitizations enable the Company to improve the overall returns on its MSR investment and more efficiently manage its capital.

Despite the level of prepayments, the Company increased its servicing portfolio to \$452.4 billion at December 31, 2002, representing a 37% increase compared to November 30, 2001.

### Loan Closing Services Sector

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

The LandSafe companies produced \$70.0 million in pre-tax earnings in 2002, representing a 15% increase over 2001. The increase in LandSafe's contribution to pre-tax earnings was primarily due to a 56% increase in the volume of closing services provided, which resulted from the increase in loan origination activity in the Loan Production Sector. Growth in revenues resulting from this increase in activity was partially offset by price reductions and by the discontinuation of LandSafe's Northern California title operations. During 2002, 28% of LandSafe's revenues were from third parties, as compared to 20% during 2001. Management believes that this percentage should continue to rise in the future.

The following table shows the number of units processed during the respective periods:

(In units)	Year Ended December 31, 2002	Year Ended November 30, 2001
Credit reports	4,618,599	2,858,802
Automated property valuation services	2,342,232	1,664,065
Flood determinations	1,845,828	1,060,939
Appraisals	484,162	358,396
Other	121,160	110,136
Total	9,411,981	6,052,338

### Non-Mortgage Banking Businesses

To leverage the Company's mortgage banking platform, as well as to reduce the variability of earnings caused by changes in mortgage interest rates, the Company has expanded into non-mortgage banking businesses. The Company's other business segments include Insurance, Capital Markets, Global Operations and Banking. Pre-tax earnings from these other businesses increased \$187.1 million, or 99%, to \$375.4 million in 2002 compared to 2001.

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

### Insurance Segment

Segment pre-tax earnings decreased 8% from the year-ago period, to \$82.4 million, primarily due to a significant reduction in Balboa Life and Casualty's pre-tax earnings that was largely offset by growth in Balboa Reinsurance's pre-tax earnings. Following are the pre-tax earnings by business line:

	Year Ended December 31, 2002	Year Ended November 30, 2001
(Dollar amounts in thousands)		
Carrier Operations		
Balboa Life and Casualty	\$ 2,614	\$ 30,098
Balboa Reinsurance Company	84,514	57,926
	87,128	88,024
Agency operations	(506)	2,853
Parent expenses	(4,190)	(1,326)
	<u>\$ 82,432</u>	<u>\$ 89,551</u>

The Company's mortgage reinsurance business produced \$84.5 million in pre-tax earnings, a 46% increase in comparison to 2001, driven by a 48% increase in net earned premiums. The increase in net earned premiums resulted from a 27% increase in the number of policies-in-force that was driven by growth in the Company's loan servicing portfolio, coupled with an overall increase in the ceded premium percentage.

The Company's Life and Casualty insurance business produced pre-tax earnings of \$2.6 million, a decrease of \$27.5 million, or 91% compared to 2001. The decline in earnings in 2002 was due to lower investment portfolio income and higher than expected claims costs related to certain homeowners' reinsurance contracts that were subsequently terminated. Additional reserves also were booked related to certain other lender-placed insurance contracts due to observed losses higher than expectations. These lender-placed insurance contracts were subsequently favorably renegotiated. These amounts were partially offset by a \$176.8 million, or 59%, increase in premiums earned during 2002 compared to 2001. Balboa Life and Casualty's overall loss ratio was 58% and 50% in 2002 and 2001, respectively.

The agency was restructured in the fourth quarter to streamline its operations and focus on profitable activities.

Management believes that the actions taken properly position the carrier and the agency to resume their growth in profitability.

Both the carrier and agency operations showed significant growth in total policies-in-force in comparison to the comparable period a year ago. Following are the policies-in-force for each business line as of the respective dates listed in the table below:

	December 31, 2002	November 30, 2001
(Amounts in units)		
Carrier Operations		
Balboa Life and Casualty	3,106,917	2,385,298
Balboa Reinsurance Company	414,832	327,111
	<u>3,521,749</u>	<u>2,712,409</u>
Agency operations	<u>660,577</u>	<u>561,868</u>

The increase in life and casualty policies is attributable to lender-placed property hazard and voluntary homeowners' product lines. The growth in voluntary insurance was achieved through sales to the Company's mortgage customer base through CIS as well as through increased third-party business. In terms of premiums, approximately 14% of Balboa Life and Casualty's net earned premiums in 2002 were from voluntary homeowners' policies; the balance of the net earned premiums was attributable to lender-placed insurance.

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

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

### Capital Markets Segment

The Capital Markets Segment achieved pre-tax earnings of \$199.9 million for 2002, an increase of \$115.1 million, or 136% compared to 2001. Total revenues were \$374.9 million, an increase of \$172.4 million, or 85% compared to 2001. Total securities trading volume increased 54% to \$2.0 trillion. This performance was largely driven by a highly favorable operating environment consisting of a robust mortgage-backed securities market, high mortgage securities price volatility and low short-term financing costs.

The following table shows pre-tax earnings by company:

	Year Ended December 31, 2002	Year Ended November 30, 2001
(Dollar amounts in thousands)		
Countrywide Securities Corporation <sup>(1)</sup>	\$ 178,887	\$ 74,597
Countrywide Asset Management Corporation	21,038	10,242
	<u>\$ 199,925</u>	<u>\$ 84,839</u>

<sup>(1)</sup> Includes CSE, CCMI and CCM, Inc.

The following table shows the composition of CSC's trading volume, which includes trades with the Mortgage Banking Segment, by instrument:

	Year Ended December 31, 2002	Year Ended November 30, 2001
(Dollar amounts in millions)		
Mortgage-backed securities	\$ 1,854,767	\$ 1,207,562
Government agency debt	77,117	49,987
Asset-backed securities	52,536	25,523
Other	8,426	7,868
	<u>\$ 1,992,846</u>	<u>\$ 1,290,940</u>

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

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

Approximately \$82 million, or 22%, of the Segment's revenues during 2002 resulted from its mortgage conduit activities. These activities generally involve brokering and securitizing prime, subprime and re-performing mortgage loans.

Management anticipates that the Capital Market Segment's revenues and earnings likely will fall from the record levels achieved in 2002 as the highly favorable market conditions that existed in 2002 abate.

### Global Operations Segment

For 2002, the Global Operations Segment's pre-tax earnings totaled \$5.2 million, representing an increase of \$2.7 million in comparison to 2001. Results in the current period were positively impacted by the recognition of higher technology licensing fees related to GHLS increased processing volumes for both originations and servicing.

In the fourth quarter of 2002, Global Home Loans Limited ("GHL") finalized an agreement with the Barclays, plc, its joint venture partner, to provide origination processing, subservicing and delinquent servicing. GHL expanded its total volume of loans subserviced in the UK to over \$90.1 billion, or over 1 million mortgage loans. In the future, GHL plans to provide its services to other financial institutions in the UK.

### Banking Segment

The Banking Segment commenced operations in calendar 2001. The segment achieved pre-tax earnings of \$84.0 million for 2002. The following is the composition of pre-tax earnings by company:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Year Ended November 30, 2001
Treasury Bank ("Bank") <sup>(1)</sup>	\$ 51,721	\$ (767)
Countrywide Warehouse Lending ("CWL")	32,250	11,083
	<b>\$ 83,971</b>	<b>\$ 10,316</b>

<sup>(1)</sup> Treasury Bank was acquired in May 2001.

The Bank produced pre-tax earnings of \$51.7 million for 2002. The overall increase was primarily due to an increase in net interest income arising from growth in average earning assets and approximately \$18 million in profits resulting from document custodian services provided to the Company's Mortgage Banking operation. Average earning assets increased to \$3.4 billion for 2002, an increase of \$3.2 billion in comparison to 2001. Asset growth was funded primarily by the transfer of mortgagor and investor impound accounts controlled by CHL from third party banks to the Bank, a capital contribution from Countrywide Financial Corporation, Federal Home

Loan Bank advances and growth in the Bank's retail deposit base. The Bank's pre-tax return on assets for 2002 was 1.5%. The composition of the Bank's assets was as follows:

(Dollar amounts in thousands)	December 31, 2002	November 30, 2001
Cash	\$ 163,547	\$ –
Short-term investments	300,000	264,374
Loans receivable, net	1,902,793	35,772
Investment securities classified as available-for-sale	2,590,789	566,187
Other assets	153,690	10,342
Total	<b>\$ 5,110,819</b>	<b>\$ 876,675</b>

The Bank plans to increase assets to \$22 billion by the end of 2004. The assets will be primarily mortgage loans sourced through the Company's mortgage banking operation. Likewise, a significant portion of the Bank's liabilities will come from the mortgage banking operation in the form of impound accounts. As a result of these synergies, Management is confident about achieving the Bank's growth targets.

The Bank's strategy entails holding loans in portfolio that historically would have been immediately securitized and sold in the secondary mortgage market. Management believes this strategy will increase earnings, as well as provide more stable earnings, over the long term; although in the short term, reported profits will be impacted by the reduction in gains otherwise recognizable at time of sale. The extent to which the Bank generates long-term incremental profits on a consolidated basis will depend largely on how the Bank's overall cost of funds compare to the funding costs implicit in securitization.

CWL's pre-tax earnings increased by \$21.2 million during 2002 in comparison to 2001 primarily due to the growth in average outstanding mortgage warehouse advances partially offset by a decline in the average net spread from 2.29% during 2001 to 2.09% during 2002. For 2002, average mortgage warehouse advances outstanding were \$1.8 billion, an increase of \$1.2 billion in comparison to 2001.

### Detailed Discussion of Consolidated Statement of Earnings

Gain on sale of loans and securities is summarized below for 2002 and 2001:

	Year Ended December 31, 2002	Year Ended November 30, 2001
(Dollar amounts in thousands)	Dollars	Dollars
Mortgage Banking:		
Prime First Mortgages	\$3,048,487	\$1,366,216
Subprime Mortgages	402,011	310,001
Prime Home Equity Mortgages	240,648	98,551
	<b>3,691,146</b>	<b>1,774,768</b>
Capital Markets	(19,647)	72,856
Other	948	1,507
	<b>\$3,672,447</b>	<b>\$1,849,131</b>



## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

Gain on sale of loans and securities increased in 2002 primarily due to higher production and sales volume and higher margins on Prime First Mortgages. Margins on Subprime and Prime Home Equity mortgages declined primarily due to a change in origination channel mix. A larger percentage of these mortgages were produced by WLD and CLD; these divisions traditionally have lower margins than the Company's retail channels. Margins on Prime First Mortgages were high in both 2002 and 2001 on a relative historical basis, due largely to the very favorable mortgage market environment that prevailed during those years. That market was characterized by record consumer demand for mortgages and modest price competition by historical industry standards. Management expects margins, particularly on Prime First Mortgages, to decline in the future as the level of mortgage originations subsides.

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

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

Net interest income is summarized below for the periods ended 2002 and 2001.

	Year Ended December 31, 2002	Year Ended November 30, 2001
(Dollar amounts in thousands)		
Net interest income:		
Mortgage loans and securities held for sale	\$ 525,434	\$ 241,257
Capital Markets securities trading portfolio	350,398	113,011
Servicing Sector interest expense	(316,053)	(331,541)
Re-performing FHA and VA loans	134,191	43,503
Banking Segment loans and securities	99,897	17,909
Custodial balances	(34,193)	165,150
Insurance Segment investments	27,773	26,242
Other	4,783	3,243
Net interest income	<u>\$ 792,230</u>	<u>\$ 278,774</u>

The increase in net interest income from mortgage loans and securities held for sale reflects the growth in mortgage production combined with a higher overall net earnings rate (due to a steeper yield curve) during 2002. The Company finances the major portion of its mortgage loans and securities held for sale at prevailing short-term borrowing rates, which declined relative to the rate earned on the loans and securities when compared to the year-ago period.

The increase in net interest income from the Capital Markets securities trading portfolio is attributable to a 6% increase in the average inventory of securities held coupled with an increase in the average net spread earned from 0.65% in 2001 to 1.91% in 2002. The increase in the average net spread is the result of a steeper yield curve (as discussed above).

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

Interest expense in the Loan Servicing Sector decreased due to a decline in short-term rates (a portion of the Company's long-term debt is variable rate), partially offset by an increase in the assets financed.

The increase in net interest income from the Banking Segment was largely attributable to year-over-year asset growth both in Treasury Bank and in the Company's warehouse lending activities. Average assets in the Banking Segment increased to \$5.2 billion in 2002, an increase of \$4.4 billion. The increase in assets was partially offset by a decline in the average net spread from 2.26% in the twelve months ended November 30, 2001 to 1.94% in 2002.

Net interest income from custodial balances decreased due to a decline in the earnings rate, which is tied to short-term rates, from 3.90% in 2001 to 1.64% in 2002. The decrease in the earnings rate was partially offset by a \$3.7 billion, or 50%, increase in the average custodial balances resulting from a larger portfolio and higher loan payoffs. (Custodial balances rise as loan payoffs increase because the Company holds the payoff funds for periods ranging from two to 45 calendar days, depending upon the payoff date and the investor servicing agreement.) Net interest income from custodial balances decreased also as a result of the general requirement of loan servicers to pass through interest on paid-off loans at the underlying security rates, which were significantly higher than the short-term rates earned by the Company. This reduced net interest income from custodial balances by \$218.8 million and \$128.5 million in 2002 and 2001, respectively.

Loan servicing fees and other income from retained interests are summarized below for 2002 and 2001:

	Year Ended December 31, 2002	Year Ended November 30, 2001
(Dollar amounts in thousands)		
Service fees, net of guarantee fees	\$ 1,439,001	\$ 1,163,424
Income from other retained interests	238,108	155,319
Late charges	129,675	115,229
Prepayment penalties	118,215	68,345
Ancillary fees	54,181	35,060
Global Segment subservicing fees	49,742	14,150
	<u>\$ 2,028,922</u>	<u>\$ 1,551,527</u>

The increase in servicing fees, net of guarantee fees, was principally due to a 26% increase in the average servicing portfolio, partially offset by a small reduction in the overall net service fee earned from 0.388% of the average



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portfolio balance during 2001 to 0.381% during 2002. The reduction in the overall net service fee was largely due to the securitization of excess service fees during 2002.

The increase in income from other retained interests was due primarily to an 18% increase in investment balances during 2002 combined with an increase in the yield of these investments from 16.8% in 2001 to 21.8% in 2002. These investments include interest-only and principal-only securities as well as residual interests that arise from the securitization of nonconforming mortgage loans, particularly Subprime and Prime Home Equity loans.

Higher prepayment penalties in 2002 correspond to the increase in Subprime loan payoffs during 2002.

The increase in subservicing fees earned in the Global Segment was primarily due to the growth in 2002 combined with a change in accounting for GHL from the equity method to consolidation with CFC, resulting from an increase in the Company's ownership interest in GHL in July 2001.

Impairment/recovery of retained interests and Servicing Hedge gains are detailed below for 2002 and 2001:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Year Ended November 30, 2001
Impairment of retained interests:		
MSRs:		
Temporary (credited to impairment reserve)	\$1,126,343	\$1,061,176
Permanent (credited to cost basis of MSRs)	2,178,648	—
Reduction of MSR cost basis through application of hedge accounting:		
Servicing Hedge gains applied	—	665,441
Change in fair value attributable to hedged risk	—	466,397
	—	1,131,838
Total impairment of MSRs	3,304,991	2,193,014
Other retained interests (permanent)	110,320	156,394
	<u>\$ 3,415,311</u>	<u>\$ 2,349,408</u>
Servicing Hedge gains:		
Hedge gains recorded through earnings	\$ 1,787,886	\$ 1,128,195
Hedge gains applied to MSR basis	—	665,440
	<u>\$ 1,787,886</u>	<u>\$ 1,793,635</u>

Impairment of MSRs and other retained interests resulted from a reduction in the estimated fair value of those investments driven primarily by declining mortgage rates during 2002 and 2001. In addition to the impairment charges, the Company recorded MSR amortization of \$1,267 million and \$891 million in 2002 and 2001, respectively. Rising mortgage rates in the future should result in an increase in the estimated fair value of the MSRs and recovery of all or a portion of the temporary impairment. The MSR amortization rate, which is tied to the expected net cash flows from the MSRs, likewise should reduce as mortgage rates rise.

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

Net insurance premiums earned are summarized below for 2002 and 2001:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Year Ended November 30, 2001
Balboa Life and Casualty	\$ 478,864	\$ 302,087
Balboa Reinsurance	82,817	56,311
	<u>\$ 561,681</u>	<u>\$ 358,398</u>

The increase in net insurance premiums earned is primarily due to an increase in policies-in-force in addition to an overall rise in reinsurance premium rates.

Commissions and other revenue consisted of the following in 2002 and 2001:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Year Ended November 30, 2001
Credit report fees, net	\$ 57,142	\$ 39,287
Insurance agency commissions	56,348	44,153
Global processing fees	48,404	16,407
Appraisal fees, net	46,265	39,000
Title services	35,554	36,702
Other	115,147	93,932
	<u>\$ 358,860</u>	<u>\$ 269,481</u>

The increase in credit report, appraisal and title services fees is primarily due to an increase in the volume of closing services provided resulting from the increase in loan origination activity in the Loan Production Sector.

The increase in insurance agency commission was primarily due to the increase in the policies-in-force.

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

Compensation expenses are summarized below for the periods ended December 31, 2002 and November 30, 2001:

	Year Ended December 31, 2002			
(Dollar amounts in thousands)	Mortgage Banking	Other Businesses	Corporate Administration	Total
Base salaries	\$ 592,531	\$ 180,030	\$ 166,123	\$ 938,684
Incentive bonuses	595,272	114,324	60,745	770,341
Payroll taxes and benefits	139,298	33,415	49,338	222,051
Total compensation expenses	<u>\$ 1,327,101</u>	<u>\$ 327,769</u>	<u>\$ 276,206</u>	<u>\$ 1,931,076</u>
Average workforce, including temporary staff	16,483	3,617	2,534	22,634

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	Year Ended November 30, 2001			
(Dollar amounts in thousands)	Mortgage Banking	Other Businesses	Corporate Administration	Total
Base salaries	\$ 417,108	\$ 98,912	\$ 124,770	\$ 640,790
Incentive bonus	297,472	69,032	26,962	393,466
Payroll taxes and benefits	84,315	14,376	30,643	129,334
Total compensation expenses	<u>\$ 798,895</u>	<u>\$ 182,320</u>	<u>\$ 182,375</u>	<u>\$ 1,163,590</u>
Average workforce, including temporary staff	<u>11,743</u>	<u>1,966</u>	<u>1,942</u>	<u>15,652</u>

Compensation expense increased \$767.5 million, or 66%, during 2002 in comparison to 2001.

Compensation expense in the Mortgage Banking Segment increased due to growth both in the level of loan production activity and in the size of the loan servicing portfolio. In the Production Sector, compensation expense increased 76% (salaries rose by 47% and incentive bonuses rose by 102%) as a result of a 50% increase in average staff to support 98% higher loan production. The relative increase in incentive bonuses reflects a shift toward a more incentive-based compensation structure within the Production Sector. In the Loan Servicing Sector, compensation expense rose 33% as a result of an increase in average staff of 26% to support a 37% increase in the loan servicing portfolio and a 70% increase in loan payoff activity.

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

In the Insurance Segment, compensation expense increased by a combined \$35.4 million, or 59%, as a result of a 45% increase in average staff to support 71% growth in written premiums and growth in the Insurance Segment's third-party insurance tracking operation.

Banking Segment compensation expense increased by \$24.3 million from the prior period's start-up level of operations to accommodate the growth of the Bank's operations, primarily in its labor-intensive mortgage document custodian business.

In the Capital Markets Segment, incentive bonuses increased \$40.3 million, or 64%, reflecting growth in revenues of 85%.

The increase in compensation expense in the Global Segment of \$34.7 million reflects a change in accounting for GHL from the equity method to consolidation with CFC, resulting from an increase in the Company's ownership interest in GHL in July 2001.

Compensation expense for Corporate Administration increased \$93.8 million, or 51%, due to an increase in average staff of 30% (of which approximately one-third were related to corporate technology) to support the overall growth in the Company and higher incentive bonuses earned based upon the Company's increased profitability.

Occupancy and other office expenses for 2002 increased primarily to accommodate personnel growth in the Loan Production Sector, which accounted for 59% of the increase, as well as in the non-mortgage banking businesses, which accounted for 36% of the increase in this expense.

Marketing expenses increased \$23.8 million in 2002 primarily to support growth in the non-mortgage banking operations and additional retail production initiatives such as growth in the sales force and business-to-business initiatives.

Insurance claims expenses were \$277.6 million, or 49% of net insurance premiums earned for 2002, as compared to \$148.6 million, or 41% of net insurance premiums earned for 2001. The increased loss ratio was attributable to Balboa Life and Casualty, whose loss ratio (including allocated loss adjustment expenses) increased from 50% for 2001 to 58% for 2002, due to higher claims experience in both voluntary homeowners' and lender-placed insurance lines. The level of losses recognized in a period depends on many factors, one being the occurrence of natural disasters.

Other operating expenses for 2002 and 2001 are summarized below:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Year Ended November 30, 2001
Insurance commission expense	\$ 117,030	\$ 89,909
Bad debt expense	73,457	45,049
Professional fees	57,748	46,416
Travel and entertainment	45,071	25,786
Software amortization	26,479	20,055
Insurance	19,779	12,146
Taxes and licenses	24,577	16,889
Other	69,611	47,675
	<u>\$ 433,752</u>	<u>\$ 303,925</u>

Insurance commission expense as a percentage of insurance premiums earned declined from 25% to 21% between the two periods due to reduced contingent commissions accruing to insurance brokers as a result of higher-than anticipated insured losses from policies subject to the contingent commission arrangements.

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

### COMPARISON OF RESULTS OF OPERATIONS FOR TEN MONTHS ENDED DECEMBER 31, 2001 (AUDITED) TO THE TEN MONTHS ENDED DECEMBER 31, 2000 (UNAUDITED)

#### Consolidated Earnings Performance

The Company's diluted earnings per share for the ten months ended December 31, 2001 was \$3.89. Net earnings increased 79% from the ten-month period ended December 31, 2000. This record earnings performance was driven principally by the record level of mortgage loans produced by the Company—\$124.0 billion—as compared to \$54.7 billion for the ten months ended December 31, 2000.

Industry-wide, mortgage originations exceeded \$2 trillion in calendar 2001 driven by record levels of refinance and housing activity in the United States. This historic level of activity was stimulated by mortgage rates that reached forty-year lows. The level of housing activity that resulted in almost \$1 trillion in purchase mortgages is particularly noteworthy given the relative weakness in the overall national economy in 2001. The demand for

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mortgages produced both record volumes and production margins. The combination of record volumes and record margins increased loan production pre-tax earnings to \$975.4 million for the ten-month period, an increase of \$869.1 million from the ten months ended December 31, 2000.

The Company significantly increased the number of sales and processing staff in its loan production divisions to cope with the increased demand. As volumes moderate, the incremental processing staff (which includes a substantial number of temporary employees) will be reduced. However, the Company plans to continue building its sales staff despite any potential drop in loan origination volume as a key component of its purchase market share growth initiative.

The Company experienced substantial repayments from its servicing portfolio during 2001. This, coupled with the expectation of continued higher-than-normal runoff as of year-end, resulted in significant amortization and impairment of the Company's MSRs and other retained interests, net of hedge gains, for the ten months ended December 31, 2001. The combined amortization and impairment of MSRs and other retained interests, net of hedge gains, increased \$896.6 million over the amount recorded for the ten months ended December 31, 2000.

On a combined basis, the Mortgage Banking Segment generated pre-tax earnings of \$619.0 million, an increase of 85% in comparison to the ten months ended December 31, 2000.

The Company's non-mortgage banking businesses were also significant contributors to the period's earnings performance. In particular, the Capital Markets Segment had pre-tax earnings of \$81.2 million, in comparison to \$29.3 million for the period ended December 31, 2000. This segment was also a beneficiary of the robust activity in the mortgage-backed securities market, as well as the favorable yield curve. In total, non-mortgage banking businesses contributed \$169.6 million in pre-tax earnings for the ten months ended December 31, 2001, in comparison to \$89.7 million for the period ended December 31, 2000.

### Operating Segment Results

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

	Ten Months Ended December 31,	
(Dollar amounts in thousands)	2001	2000
<b>Mortgage Banking:</b>		
Production	\$ 975,363	\$ 106,240
Servicing	(411,043)	203,598
Closing Services	54,653	25,363
Total Mortgage Banking	618,973	335,201
<b>Other Businesses:</b>		
Insurance	76,342	59,604
Capital Markets	81,160	29,337
Global Operations	1,942	1,309
Banking	12,431	(207)
Other	(2,229)	(359)
Total Other Businesses	169,646	89,684
Pre-Tax Earnings	\$ 788,619	\$ 424,885

### Mortgage Banking Segment

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

#### Loan Production Sector

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

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

Ten Months Ended December 31,				
	2001		2000	
		Percent of Loan Volume		Percent of Loan Volume
(Dollar amounts in thousands)	Dollars		Dollars	
Revenues	\$1,959,863	1.58%	\$ 767,825	1.40%
Expenses	984,500	0.79%	661,585	1.21%
Pre-Tax Earnings	\$ 975,363	0.79%	\$ 106,240	0.19%

Record demand for mortgages enabled the Loan Production Sector to achieve record profit margins (pre-tax earnings as a percentage of loan volume). The Loan Production Sector was capacity-constrained and price (i.e., points and fees charged) were used to regulate the volume. The sector operated on average at 95% of planned operation capacity for the period, which reduced per-unit costs. Because of the level of demand, the Loan Production Sector scaled back its marketing expenses.

The following table shows total loan volume by division:

	Mortgage Banking Loan Production	
	Ten Months Ended December 31,	
(Dollar amounts in millions)	2001	2000
Correspondent Lending Division	\$ 45,469	\$ 23,043
Wholesale Lending Division	39,312	15,604
Consumer Markets Division	37,357	14,684
Full Spectrum Lending, Inc.	1,831	1,367
	\$ 123,969	\$ 54,698

The 127% overall increase in loan production volume was driven largely by refinances, although notably purchase-money loans increased 15%. The increase in purchase-money loans is significant as this is the stable growth component of the mortgage market (refinances are driven largely by prevailing mortgage rates). All divisions contributed to the increase in purchase-money loans. The following table summarizes loan production by purpose and by interest rate type:

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(Dollar amounts in millions)	Mortgage Banking Loan Production	
	Ten Months Ended December 31, 2001	2000
<b>Purpose:</b>		
Purchase	\$ 46,276	\$ 40,040
Non-purchase	77,693	14,658
	<u>\$ 123,969</u>	<u>\$ 54,698</u>
<b>Interest Rate Type:</b>		
Fixed-Rate	\$ 108,596	\$ 42,163
Adjustable-Rate	15,373	12,535
	<u>\$ 123,969</u>	<u>\$ 54,698</u>

Also noteworthy was the volume of Prime Home Equity and Subprime mortgages produced during the current period which increased 33% in comparison to the ten months ended December 31, 2000. The following table summarizes this production:

(Dollar amounts in millions)	Mortgage Banking Prime Home Equity and Subprime Mortgage	
	Ten Months Ended December 31, 2001	2000
Subprime	\$ 5,579	\$ 3,905
Prime Home Equity	5,657	4,500
	<u>\$ 11,236</u>	<u>\$ 8,405</u>

Prime Home Equity and Subprime mortgages carry higher profit margins historically and the demand for such mortgages is believed to be less rate sensitive than the demand for Prime First Mortgage loans.

The Company successfully retained a significant percentage of the customers who prepaid their mortgage during the period. The overall retention rate was 35%; for retail customers the rate was 41%. Notably, 63% of the Consumer Market Division's total loan production during the period was sourced from the Company's servicing portfolio. The high retention rates during the most recent period were due, in part, to the high level of refinances. The Company has been most successful in retaining customers who refinance their existing mortgage in such an environment. During the ten months ended December 31, 2001, 86% of the Consumer Markets Division's refinance loan volume was from existing mortgage customers. This synergy is a major source of intrinsic value derived from the Company's MSR investment.

The Consumer Markets Division also successfully grew its commissioned sales force during the period, ending the year with 1,393 salespeople on staff. The increased sales capacity was a major reason for the growth in purchase-money loans.

At December 31, 2001, the Company held \$3.3 billion of recently produced Prime Home Equity mortgage loans in inventory. Had the Company securitized and sold these loans on that date, the Production Sector would have recognized an additional gain on sale of approximately \$100 million. The Company elected to defer the sale of these loans because of its available financing capacity, improved overall economics and the planned transfer of a portion of the loans to Treasury Bank as a portfolio investment.

During the ten months ended December 31, 2001, the Loan Production Sector operated at approximately 95% of planned operational capacity. (The primary capacity constraint in the Company's loan origination activities is the number of loan operations personnel it has on staff. Therefore, the Company measures planned capacity with reference to the number of loan operations personnel it has on staff multiplied by the number of loans it expects each available loan operations staff person to process under normal conditions.) The Company continued to increase the number of sales and operations staff in its loan production divisions to cope with the ongoing demand. When volumes moderate, the operations staff (including a significant number of temporary employees) will be reduced. However, the Company plans to continue building its sales staff despite any potential drop in loan origination volume as a primary means to grow market share.

The following table summarizes the Loan Production Sector workforce:

	Workforce at December 31,	
	2001	2000
Sales	3,952	2,624
Operations:		
Regular employees	3,495	2,079
Temporary staff	1,151	214
	<u>4,646</u>	<u>2,293</u>
Production technology	322	118
Administrative and support	744	922
	<u>9,664</u>	<u>5,957</u>

### Loan Servicing Sector

The Loan Servicing Sector reflects the performance of the Company's investments in MSRs and other retained interests, as well as profits from sub-servicing activities in the United States. At December 31, 2001, the Loan Servicing Sector employed approximately 4,000 employees that service the Company's 3.2 million mortgage customers. How effectively this servicing operation manages costs and generates ancillary income from the loan servicing portfolio has a significant impact on the long-term performance of this sector.

The following table summarizes Loan Servicing Sector pre-tax earnings:

(Dollar amounts in thousands)	Ten Months Ended December 31, 2001		2000	
	Dollars	Percentage of Average Servicing Portfolio <sup>(1)</sup>	Dollars	Percentage of Average Servicing Portfolio <sup>(1)</sup>
Revenues	\$ 1,496,816	0.584%	\$ 1,225,368	0.555%
Servicing Hedge gains	908,993	0.355%	469,062	0.212%
Amortization	(805,533)	(0.314)%	(412,541)	(0.187)%
Impairment	(1,472,987)	(0.575)%	(529,431)	(0.240)%
Operating expense	(324,114)	(0.126)%	(227,496)	(0.103)%
Interest expense, net	(214,218)	(0.084)%	(321,364)	(0.145)%
Pre-tax expense	<u>\$ (411,043)</u>	<u>(0.160)%</u>	<u>\$ 203,598</u>	<u>0.092%</u>
Average Servicing				
Portfolio	\$307,386,000		\$265,024,000	

<sup>(1)</sup> Annualized

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The Loan Servicing Sector experienced losses during the period ended December 31, 2001. This was not unexpected given the level of refinancing activity that prevailed during the period. The Company's MSRs and other retained interests represent the present value of cash flow streams that are closely linked to the life of the underlying servicing portfolio. The substantial increase in actual and forecasted prepayment activity reduced the life of the servicing portfolio and thus the value of the Company's related investments, as reflected by the combined impairment and amortization charge of \$2.3 billion incurred in the period.

The MSR impairment charge was partially offset by a Servicing Hedge gain of \$0.9 billion. The amortization and impairment, net of the Servicing Hedge, of \$1.4 billion for the period is in tandem with the high level of profits generated by the Loan Production Sector.

Despite the level of prepayments, the Company was able to increase its servicing portfolio to \$336.6 billion at December 31, 2001, an 18% increase from the prior year. At the same time, the overall weighted-average note rate was reduced from 7.8% to 7.5%.

### Loan Closing Services Sector

The LandSafe companies produced \$54.7 million in pre-tax earnings, a 115% increase over the year-ago period. This increase was in line with the Company's growth in loan production. During the period, approximately 22% of LandSafe's revenues were from third parties. Management believes that percentage will rise in the future.

The following table shows the units processed during the respective periods:

(Amounts in units)	Ten Months Ended December 31,	
	2001	2000
Credit reports	2,580,917	1,355,873
Flood determinations	1,019,850	477,168
Appraisals	328,461	195,981
Automated property valuation services	1,574,874	507,727
Title reports	37,314	18,412
Default title orders	23,898	24,152
Other title and escrow services	35,593	19,186
	<u>5,600,907</u>	<u>2,598,499</u>

### Non-Mortgage Banking Businesses

The Company's other business segments include Insurance, Capital Markets, Global Operations and Banking. Pre-tax earnings from these other businesses increased \$80.0 million in the ten months ended December 31, 2001 over the ten months ended December 31, 2000.

### Insurance Segment

Insurance Segment pre-tax earnings increased 28% over the prior year, to \$76.3 million. Following is the pre-tax earnings by business line:

(Dollar amounts in thousands)	Ten Months Ended December 31,	
	2001	2000
Carrier Operations		
Balboa Life and Casualty	\$ 22,862	\$ 17,377
Balboa Reinsurance Company	<u>49,366</u>	<u>38,695</u>
	72,228	56,072
Agency operations	5,708	3,593
Parent expenses	<u>(1,594)</u>	<u>(61)</u>
	<u>\$ 76,342</u>	<u>\$ 59,604</u>

Balboa Life and Casualty's increase was attributable to growth both in its forced-order and voluntary lines. The growth in voluntary insurance was achieved through penetration of the Company's mortgage customer base through Countrywide Insurance Services, Inc. During the period ended December 31, 2001, Balboa underwrote approximately 37% of the policies placed by Countrywide Insurance Services, Inc. Balboa Reinsurance's increase in premiums was due to growth in the Company's servicing portfolio, as well as to increased reinsurance coverage provided to various mortgage insurance companies on existing policies.

Both the carrier and agency operations showed significant growth in total policies-in-force in comparison to the prior period. Following are the policies-in-force for each business line as of the respective dates:

(Amounts in units)	December 31,	
	2001	2000
Carrier Operations		
Balboa Life and Casualty	2,434,100	1,963,767
Balboa Reinsurance Company	<u>332,017</u>	<u>270,002</u>
	2,766,117	2,233,769
Agency operations	<u>565,571</u>	<u>498,021</u>

The increase in life and casualty policies is attributable to lender-placed property hazard and voluntary homeowners' product lines. The growth in voluntary insurance was achieved through sales to the Company's mortgage customer base through Countrywide Insurance Services, Inc., as well as through increased third-party business.

Insurance claims expenses incurred by Balboa Life and Casualty grew in line with the increase in net earned premiums. Balboa manages its insurance risk through the purchase of reinsurance. Balboa seeks to earn profits by capitalizing on the Company's customer base and its institutional relationships, as well as through operating efficiencies and sound underwriting.

Balboa Reinsurance historically has not experienced insurance losses, owing to a strong economy and to an even stronger housing market. During the year the Company revised its reinsurance contracts, in essence providing additional coverage in exchange for additional ceded premiums. Consequently, management expects Balboa Reinsurance to incur insurance losses in the future, although absent a significant housing recession management believes Balboa Reinsurance's profits will continue to rise in tandem with the servicing portfolio.



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### Capital Markets Segment

The Capital Markets Segment ("CCM") achieved record earnings of \$81.2 million for the ten month period, a 177% increase from the ten month period ended December 31, 2000. CCM capitalized on the robust mortgage-backed securities market, price volatility and low short-term interest rates that prevailed during the period. Countrywide Securities Corporation, the Company's broker-dealer, saw its total trading volume increase 112% to \$1.2 trillion. Countrywide Asset Management Corporation also benefited from the low interest rate environment.

The following table shows pre-tax earnings by company:

(Dollar amounts in thousands)	Ten Months Ended December 31,	
	2001	2000
Countrywide Securities Corporation <sup>(1)</sup>	\$ 66,270	\$ 27,514
Countrywide Asset Management Corporation	14,890	1,823
	<u>\$ 81,160</u>	<u>\$ 29,337</u>

<sup>(1)</sup>Includes CSE, CCMI and CCM, Inc.

The following table shows the composition of CSC's trading volume, which includes trades with the Mortgage Banking Segment, by instrument:

(Dollar amounts in thousands)	Ten Months Ended December 31,	
	2001	2000
Mortgage-backed securities	\$ 1,089,406	\$ 530,951
Government agency debt	48,346	12,423
Asset-backed securities	20,460	10,727
Other	11,142	2,190
	<u>\$ 1,169,354</u>	<u>\$ 556,291</u>

Approximately \$40.4 million of CSC's pre-tax earnings during the period resulted from its mortgage conduit activities. These activities generally involve brokering and securitizing prime, subprime and re-performing mortgage loans. Countrywide Asset Management Corporation's earnings stemmed primarily from the securitization of re-performing FHA and VA loans.

### Global Operations Segment

The Global Operations Segment pre-tax earnings totaled \$1.9 million for the ten months ended December 31, 2001, representing a 48% increase over the comparable period in the prior year. The increase was primarily attributable to higher negotiated fees and to greater processing volume and improved productivity.

### Banking Segment

The Banking Segment, which commenced operations in calendar 2001, recorded pre-tax earnings of \$12.4 million for the ten months ended December 31, 2001. The following table presents pre-tax earnings by company:

(Dollar amounts in thousands)	Ten Months Ended December 31,	
	2001	2000
Countrywide Warehouse Lending ("CWL")	\$ 12,311	\$ 506
Treasury Bank ("Bank")	120	(713)
	<u>\$ 12,431</u>	<u>\$ (207)</u>

The record level of activity in the mortgage originations market enhanced earnings for CWL during the period, as CWL's secured loans outstanding reached a peak of \$1.4 billion.

### Detailed Discussion of Consolidated Statement of Earnings

Gain on sale of loans and securities is summarized below for the ten months ended December 31, 2001 and 2000.

(Dollar amounts in thousands)	Ten Months Ended December 31, 2001		2000	
	Dollars	Percentage of Loans Sold	Dollars	Percentage of Loans Sold
Mortgage Banking:				
Prime First Mortgages	\$1,405,032	1.22%	\$ 385,989	0.84%
Subprime Mortgages	233,354	5.38%	216,801	5.34%
Prime Home Equity Mortgages	59,681	4.09%	101,868	3.52%
	<u>1,698,067</u>	<u>1.40%</u>	<u>704,658</u>	<u>1.33%</u>
Capital Markets	41,917		64,960	
Other	1,615		—	
	<u>\$1,741,599</u>		<u>\$ 769,618</u>	

Gains on the sale of loans and securities increased during the ten months ended December 31, 2001 as compared to the ten months ended December 31, 2000 due to increased loan production and improved loan sale margins on Prime First Mortgages, partially offset by reduced sales of high-margin Prime Home Equity mortgage.

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

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

Net interest income is summarized below for the ten months ended December 31, 2001 and 2000.

(Dollar amounts in thousands)	Ten Months Ended December 31,	
	2001	2000
Net interest income:		
Mortgage loan and securities held for sale	\$ 257,468	\$ 68,354
Capital Markets securities trading portfolio	123,623	18,881
Servicing Sector interest expense	(254,213)	(327,346)
Re-performing FHA and VA loans	55,161	4,761
Banking Segment loans and securities	20,508	1,452
Insurance Segment investments	21,921	20,036
Custodial balance benefit	104,484	199,647
Other	2,925	2,167
Net interest income (expense)	<u>\$ 331,877</u>	<u>\$ (12,048)</u>



## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

The increase in net interest income from mortgage loans and securities held for sale reflects the growth in mortgage production combined with a higher overall net earnings rate (due to a steeper yield curve), during the ten months ended December 31, 2001 in comparison to the ten months ended December 31, 2000. The Company finances the major portion of its mortgage loans and securities held for sale at prevailing short-term borrowing rates, which declined relative to the rate earned on the loans and securities when compared to the year-ago period.

Net interest income earned in the Capital Markets Segment is primarily related to its trading portfolio. The increase is attributable to an increase in the volume of securities traded coupled with the affect of a steeper yield curve (as discussed above).

Interest expense in the Loan Servicing Sector decreased due to a decline in short-term rates (a portion of the Company's long-term debt is variable rate), partially offset by an increase in the assets financed.

Re-performing FHA and VA loans are reinstated loans that had previously defaulted and were consequently re-purchased from mortgage securities issued by the Company or others. Such loans are subsequently securitized and re-sold. The increase in interest income related to this activity is a result of an increase in the volume of such loans purchased.

The increase in net interest income from the Banking Segment was largely attributable to year-over-year asset growth both, in Treasury Bank and in the Company's warehouse lending activities.

Net interest income from custodial balances decreased due to a decline in the earnings rate, which is tied to short-term rates, partially offset by higher average custodial balances resulting from a larger portfolio and higher loan payoffs. Net interest income from custodial balances decreased also as a result of the general requirement of loan servicers to pass through interest on paid-off loans at the underlying security rates, which were significantly higher than the short-term rates earned by the Company. This reduced net interest income from custodial balances by \$133.5 million and \$36.2 million in the ten months ended December 31, 2001 and 2000, respectively.

Loan servicing fees and income from other retained interests is summarized below for the ten months ended December 31, 2001 and December 31, 2000:

	Ten Months Ended December 31,	
(Dollar amounts in thousands)	2001	2000
Service fees, net of guarantee fees	\$ 1,005,797	\$ 805,418
Income from other retained interests	135,918	94,100
Late charges	97,767	72,281
Prepayment penalties	74,814	16,514
Ancillary fees	35,943	12,249
Global Sector subservicing fees	17,142	—
	<u>\$ 1,367,381</u>	<u>\$ 1,000,562</u>

The increase in servicing fees, net of guarantee fees, was principally due to a 16% increase in the average servicing portfolio, combined with an increase in the overall net service fee earned from 0.365% of the average outstanding portfolio during the ten months ended December 31, 2000 to 0.393% during the ten months ended December 31, 2001.

The increase in income from other retained interests was due primarily to an increase in investment balances during the ten months ended December 31, 2001. These investments include interest-only and principal-only securities as well as residual interests that arise from the securitization of nonconforming mortgage loans, particularly subprime and home equity loans.

Higher prepayment penalties in the ten months ended December 31, 2001 correspond to the increase in loan payoffs during that period.

The increase in the subservicing fees in the Global Sector reflects a change in accounting for GHL from the equity method to consolidation with CFC, resulting from an increase in the Company's ownership interest in GHL in July 2001.

Impairment of retained interests and Servicing Hedge gains are summarized below for the ten months ended December 31, 2001 and December 31, 2000.

	Ten Months Ended December 31,	
(Dollar amounts in thousands)	2001	2000
Impairment of retained interests:		
MSRs:		
Temporary (credited to impairment reserves)	\$ 857,380	\$ 60,867
Reduction of MSR cost basis through application of hedge accounting:		
Servicing Hedge gains applied	—	459,875
Change in fair value attributable to hedged risk	466,397	—
	<u>466,397</u>	<u>459,875</u>
Total impairment of MSRs	1,323,777	520,742
Other retained interests (permanent)	149,210	8,689
	<u>\$ 1,472,987</u>	<u>\$ 529,431</u>
Servicing Hedge gains:		
Hedge gains recorded through earnings	\$ 908,993	\$ 9,187
Hedge gains applied to MSR basis	—	459,875
	<u>\$ 908,993</u>	<u>\$ 469,062</u>

Impairment of MSRs and other retained interests resulted from a reduction in the estimated fair value of those investments driven primarily by declining mortgage rates during the ten months ended December 31, 2001 and 2000. In addition to the impairment charges, the Company recorded MSR amortization of \$805.5 million and \$412.5 million in the ten months ended December 31, 2001 and 2000, respectively.

Servicing Hedge gains were driven by declining interest rates during the ten months ended December 31, 2001 and 2000.

Net insurance premiums earned are summarized below for the ten months ended December 31, 2001 and 2000:

	Ten Months Ended December 31,	
(Dollar amounts in thousands)	2001	2000
Balboa Life and Casualty	\$ 267,572	\$ 186,715
Balboa Reinsurance	48,860	36,557
	<u>\$ 316,432</u>	<u>\$ 223,272</u>

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

The increase in net insurance premiums earned is primarily due to an increase in policies-in-force.

Commissions and other revenue consisted of the following for the ten months ended December 31, 2001 and 2000:

(Dollar amounts in thousands)	Ten Months Ended December 31,	
	2001	2000
Credit report fees, net	\$ 35,179	\$ 20,615
Insurance agency commissions	39,222	32,464
Appraisal fees, net	35,771	19,010
Title services	32,960	19,203
Global processing fees	18,387	2,758
Other	86,400	40,764
	<u>\$ 247,919</u>	<u>\$ 134,814</u>

The increase in credit report, appraisal and title services fees is primarily due to an increase in the volume of closing services provided resulting from the increase in loan origination activity in the Loan Production Sector.

The increase in insurance agency commission was primarily due to the increase in the policies-in-force.

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

Compensation expenses are summarized below for the ten months ended December 31, 2001 and 2000.

Ten Months Ended December 31, 2001				
(Dollar amounts in thousands)	Mortgage Banking	Other Businesses	Corporate Administration	Total
Base salaries	\$ 368,568	\$ 93,397	\$ 109,475	\$ 571,440
Incentive bonus	299,107	64,375	25,201	388,683
Payroll taxes and benefits	74,748	9,378	30,978	115,104
Compensation expenses	<u>\$ 742,423</u>	<u>\$ 167,150</u>	<u>\$ 165,654</u>	<u>\$ 1,075,227</u>
Average workforce, including temporary staff	<u>12,661</u>	<u>2,268</u>	<u>2,031</u>	<u>16,960</u>

Ten Months Ended December 31, 2000				
(Dollar amounts in thousands)	Mortgage Banking	Other Businesses	Corporate Administration	Total
Base salaries	\$ 302,581	\$ 55,410	\$ 90,653	\$ 448,644
Incentive bonus	93,369	29,141	14,833	137,343
Payroll taxes and benefits	53,939	7,470	15,871	77,280
Compensation expenses	<u>\$ 449,889</u>	<u>\$ 92,021</u>	<u>\$ 121,357</u>	<u>\$ 663,267</u>
Average workforce, including temporary staff	<u>9,313</u>	<u>1,383</u>	<u>1,859</u>	<u>12,555</u>

The amount of salaries increased during the ten months ended December 31, 2001 as compared to the ten months ended December 31, 2000 primarily due to an increase within the Mortgage Banking Segment. This increase was due to a significant increase in production volume and to growth in the loan servicing portfolio. To a lesser extent, increased activity in the Other Businesses, including consolidation of a previously non-consolidated European mortgage banking joint venture, also contributed to the increase in salaries. Incentive bonuses earned during the ten months ended December 31, 2001 increased primarily due to an increase in production volume, additional commissioned sales personnel in the Loan Production Sector of the Mortgage Banking Segment and increased trading activity in the Capital Markets Segment.

Occupancy and other office expenses for the ten months ended December 31, 2001 increased primarily due to growth in the Loan Production Sector of the Mortgage Banking Segment and, to a lesser extent, to growth in the Diversified Businesses segment.

Marketing expenses for the ten months ended December 31, 2001 decreased 13% to \$54.1 million as compared to \$62.0 million for the ten months ended December 31, 2000. The decline reflects the customer demand for mortgage loans during the period.

Insurance claims expenses are attributable to insurance claims in the Insurance Segment. Insurance losses were \$134.8 million or 34% of Insurance Segment revenues, for the ten months ended December 31, 2001 as compared to \$88.1 million or 32% of Insurance Segment revenues, for the ten months ended December 31, 2000. The level of losses recognized in a period is dependent on many factors, one being the occurrence of natural disasters.

Other operating expenses for the ten months ended December 31, 2001 and December 31, 2000 are summarized below.

Ten Months Ended December 31,		
(Dollar amounts in thousands)	2001	2000
Insurance commission expense	\$ 84,158	\$ 49,478
Professional fees	43,877	17,485
Bad debt expense	54,442	21,842
Software amortization	14,842	20,807
Travel and entertainment	23,874	20,907
Taxes and licenses	14,943	12,156
Insurance	10,166	8,153
Other	45,075	37,911
	<u>\$ 291,377</u>	<u>\$ 188,739</u>

During the ten months ended December 31, 2001, insurance commission expense increased due to increases in the amount of insurance business underwritten.

Professional fees increased primarily due to increased costs arising from the Company's growth and diversification efforts.

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

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

### QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The primary market risk facing the Company is interest rate risk. From an enterprise perspective, the Company manages this risk through the natural counterbalance of its loan production and servicing businesses. The Company also uses various financial instruments, including derivatives, to manage the interest rate risk related specifically to its Committed Pipeline, Mortgage Loan Inventory and MBS held for sale, MSRs, trading securities and other retained interests as well as a portion of its debt. The overall objective of the Company's interest rate risk management activities is to reduce the variability of reported earnings caused by changes in interest rates.

#### Committed Pipeline and Mortgage Inventory

The Company's loan production consists primarily of fixed-rate mortgages. Fixed-rate mortgages, like other fixed-rate debt instruments, are subject to a loss in value when market interest rates rise. The Company is exposed to such losses from the time an interest rate lock commitment ("IRLC") is made to an applicant (or financial intermediary) to the time the related mortgage loan is sold. To manage this risk of loss, the Company utilizes derivatives; primarily forward sales of MBS and options to buy and sell MBS, as well as options on Treasury futures contracts.

The Company ensures that substantially all fixed-rate Mortgage Loan Inventory is covered at all times by net forward sales of MBS. (The net forward sales may be comprised of forward sales of MBS partially offset by forward purchases of MBS.)

The Committed Pipeline consists of loan applications in process where the Company has issued IRLCs to the applicants (or financial intermediaries). The interest rate risk management of the Committed Pipeline is complicated by the fact that the ultimate percentage of applications that close within the terms of the IRLC is variable. The primary factor that drives the variability of the closing percentage is changes in mortgage rates. In general, the percentage of applications in the Committed Pipeline that ultimately close within the terms of the IRLC increases if mortgage rates rise and decreases if mortgage rates fall. This is due primarily to the relative attractiveness of current mortgage rates compared to the applicants' committed rates. The closing percentage is also influenced by the source of the applications, age of the applications, purpose for the loans (purchase or refinance) and the application approval rate. The Company has developed closing ratio estimates ("Fallout Curves") for the Committed Pipeline using its empirical data taking into account all of these variables. The Fallout Curves also take into account renegotiations of rate and point commitments that tend to occur when mortgage rates fall. The Fallout Curves are revised periodically using the most current empirical data.

To manage the interest rate risk associated with the Committed Pipeline, the Company uses a combination of net forward sales of MBS and "put" and "call" options on MBS or Treasury Futures. As a general rule, the Company enters into forward sales of MBS in an amount equal to the portion of the Committed Pipeline expected to close, assuming no change in mortgage rates. The Company acquires put and call options to protect against the variability of loan closings caused by changes in mortgage rates, utilizing the current Fallout Curves to determine the amount of optional coverage required. The Company reviews its Committed Pipeline and Mortgage Inventory risk profiles on a daily basis.

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

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

#### Mortgage Servicing Rights (MSRs) and Other Retained Interests

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

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

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

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

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

### Trading Activities

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

- **Forward Sales of To-Be Announced ("TBA") MBS:** represents an obligation to sell agency pass-through MBS that has not yet been issued at a specific price and at a specific date in the future; therefore, its value increases as mortgage rates rise.
- **Forward Purchases of TBA MBS:** represents an obligation to purchase agency pass-through MBS that have not yet been issued at a specific price at a specific date in the future; therefore, its value increases as mortgage rates fall.
- **Forward Sale of U.S. Treasury Securities:** represents a standardized exchange-traded agreement to sell a specific quantity of U.S. Treasury securities for a specific price at a specific date in the future; therefore, its value increases when interest rates rise.
- **Short Fed Funds and Eurodollar Futures Contracts:** represents a standardized exchange-traded contract, the value of which is tied to spot Fed Funds or Eurodollar rates at specified future dates. The value of these contracts increases when Fed Funds or Eurodollar rates rise.
- **Interest Rate Swaps:** represents a mutual agreement to exchange interest rate payments; one party paying a fixed-rate and another paying a floating rate tied to a reference interest rate (e.g. USD LIBOR). For use in its trading portfolio risk management activities, the Company generally receives the floating rate and pays the fixed rate; therefore, its value generally increases in value as rates rise.
- **Total Return Swaps:** represents a contract between counterparties to receive or pay the change in value of a specified index over a specified period of time. The indices referenced in Total Return Swaps used by the Company in its hedging of trading securities generally encompass price changes, coupon interest payments and principal pay-downs of a specified group of securities. In its trading portfolio risk management activities, the Company generally pays the change in the referenced indices if the indices rise and receives the change in the referenced indices if the indices decline; therefore, the value of these contracts generally increases as rates rise.

### Debt Securities

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

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

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

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 assumed changes in the interest rate environment including selected hypothetical (instantaneous) parallel shifts in the yield curve.

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

As of December 31, 2002, the Company estimated that an immediate decline of 0.75% and 0.50% in mortgage rates and long-term swap rates, respectively, coupled with a 0.50% increase in short-term interest rates would result in a \$538 million net decline in the fair value of its MSRs and other financial instruments and a \$10.3 million net decline in the fair value of its trading securities. The components of the estimated net decline in fair value of the Company's MSRs and other financial instruments are as follows:

(Dollar amounts in millions)	Change in Value
Retained interests	\$ (1,272)
Impact of Servicing Hedge:	
Mortgage-based	65
Swap-based	411
Treasury-based	376
Retained interests, net	(420)
Committed Pipeline	256
Mortgage Loan Inventory	281
Impact of associated derivative instruments:	
Mortgage-based	(519)
Treasury-based	(2)
Committed Pipeline and Mortgage Loan Inventory, net	16
Notes payable and capital securities	(253)
Impact of associated derivative instruments:	
Swap-based	95
Notes payable and capital securities, net	(158)
Mortgage loans held for investment	12
Insurance and banking investment portfolios	21
Deposit liabilities	(9)
Net loss in fair value related to MSRs and other financial instruments	\$ (538)

Management estimated that an immediate decline of 0.75% and 0.50% in mortgage rates and long-term swap rates, respectively, coupled with a 0.50% increase in short-term interest rates is the largest such change in interest rates that could reasonably occur and results in the largest such loss as of December 31, 2002. As of December 31, 2001, the same change in rates would result in an \$813 million net decline in fair value of its MSRs and other financial instruments and a \$4.2 million net decline in fair value related to its trading securities.

These sensitivity analyses are limited by the fact that they were performed at a particular point in time, are subject to the accuracy of various assumptions used, including prepayment forecasts and discount rates and do not incorporate other factors that would impact the Company's overall financial performance in such scenarios. In addition, not all of the changes in fair value would impact current period earnings. Consequently, the preceding estimates should not be viewed as an earnings forecast.

### Foreign Currency Risk

An additional, albeit less significant, market risk facing the Company is foreign currency risk. The Company has issued foreign currency-denominated medium-term notes. The Company manages the foreign currency risk associated with such medium-term notes through currency swap transactions. The terms of the currency swaps effectively translate the foreign currency denominated medium-term notes into United States dollars, thereby eliminating the associated foreign currency risk (subject to the performance of the various counterparties to the currency swaps). As a result, potential changes in the exchange rates of foreign currencies denominating such medium-term notes would not have a net financial impact on future earnings, fair values or cash flows.

### CREDIT RISK Securitization

Substantially all mortgage loans originated by the Company are securitized and sold into the secondary mortgage market. As described below, the degree to which credit risk on the underlying loans is transferred through the securitization process depends on the structure of the securitization. The Company's prime, first mortgage loans generally are securitized on a non-recourse basis, while its Prime Home Equity and Subprime Mortgage Loans generally are securitized with limited recourse for credit losses.

### Conforming Conventional Prime Loans

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



## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

### FHA-Insured and VA-Guaranteed Loans

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

### Non-conforming Conventional Prime Loans

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

### Prime Home Equity Loans

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

### Subprime Loans

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

While the Company generally securitizes its prime, first mortgage loans on a non-recourse basis, it does have potential liability under the representations and warranties it makes to purchasers and insurers of the loans. In the event of a breach of such representations and warranties, the Company may be required to either repurchase the subject mortgage loans or indemnify the investor or insurer. In such cases, any subsequent credit loss on the mortgage loans is borne by the Company.

The Company's exposure to credit losses related to its limited recourse securitization activities is limited to the carrying value of its subordinated interests and to the contractual limit of reimbursable losses under its corporate guarantees less the recorded liability for such guarantees. These amounts at December 31, 2002 are as follows:

	December 31, 2002
(Dollar amounts in thousands)	
Subordinated Interests:	
Prime Home Equity residual securities	\$ 437,060
Prime Home Equity transferors' interests	233,658
Subprime residual securities	71,251
	<u>\$ 741,969</u>
Corporate guarantees in excess of recorded reserves	<u>\$ 114,882</u>

The carrying value of the residual securities is net of expected future credit losses. Related to the Company's non-recourse and limited recourse securitization activities, the total credit losses incurred for 2002 and 2001 are summarized as follows:

	Year Ended December 31, 2002	Twelve Months Ended November 30, 2001
(Dollar amounts in thousands)		
Subprime securitizations with retained residual interest	\$ 71,165	\$ 38,676
Subprime securitizations with corporate guarantee	10,524	—
Repurchased or indemnified loans	15,274	11,277
Prime Home Equity securitizations with retained residual interest	7,964	5,871
Prime Home Equity securitizations with corporate guarantee	436	—
VA losses in excess of VA guarantee	3,213	3,604
	<u>\$ 108,576</u>	<u>\$ 59,428</u>

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

### Mortgage Reinsurance

The Company provides mortgage reinsurance through contracts with several primary mortgage insurance companies on mortgage loans included in the Company's servicing portfolio. Under these contracts, the Company absorbs mortgage insurance losses in excess of a specified percentage of the principal balance of a given pool of loans, subject to a cap, in exchange for a portion of the pools' mortgage insurance premium. Approximately \$53.3 billion of mortgage loans in the Company's servicing portfolio are covered by such mortgage reinsurance contracts. The reinsurance contracts place limits on the Company's maximum exposure to losses. At December 31, 2002, the maximum aggregate losses under the reinsurance contracts was \$246.2 million. The Company is required to pledge securities to cover this potential liability. The Company recognized losses related to this activity of \$7.1 million in 2002.

### Mortgage Loans Held for Sale

At December 31, 2002, mortgage loans held for sale amounted to \$15.0 billion. While the loans are in inventory, the Company bears credit risk after taking into consideration primary mortgage insurance (which is generally required for conventional loans with a loan-to-value ratio greater than 80%), FHA insurance or VA guarantees. Historically, credit losses related to loans held for sale have not been significant.

### Portfolio Lending Activities

The Company also holds a portfolio of mortgage warehouse advances and mortgage loans held for investment, primarily in its Banking Segment, which amounted to \$4.4 billion at December 31, 2002. The Company incurred no credit losses from these activities in 2002.

### Counterparty Risk

The Company has exposure to credit loss in the event of non-performance by its trading counterparties and counterparties to its various over-the-counter derivative financial instruments. The Company manages this credit risk by selecting only well-established, financially strong counterparties, spreading the credit risk among many such counterparties and by placing contractual limits on the amount of unsecured credit risk from any single counterparty. The aggregate amount of counterparty credit exposure at December 31, 2002, before and after collateral held by the Company, was as follows:

(Dollar amounts in millions)

Aggregate credit exposure before collateral held	<b>\$ 1,947</b>
Less: collateral held	<b>(1,495)</b>
Net aggregate unsecured credit exposure	<b>\$ 452</b>

### LOAN SERVICING

The following table sets forth certain information regarding the Company's servicing portfolio of single-family mortgage loans, including loans and securities held for sale and loans subserviced for others, for the periods indicated:

	Year Ended December 31, 2002	Twelve Months Ended November 30, 2001
(Dollar amounts in millions)		
Summary of changes in the servicing portfolio:		
Beginning owned servicing portfolio	<b>\$ 327,541</b>	\$ 274,974
Add: Loan production	<b>251,901</b>	126,890
Purchased MSR's	<b>4,228</b>	4,873
Less: Servicing Transferred	<b>—</b>	(34)
Servicing Sold	<b>(1,958)</b>	—
Runoff <sup>(1)</sup>	<b>(140,445)</b>	(84,758)
Ending owned servicing portfolio	<b>441,267</b>	321,945
Subservicing portfolio	<b>11,138</b>	9,087
Total servicing portfolio	<b>\$ 452,405</b>	\$ 331,032
(Dollar amounts in millions)		
	December 31, 2002	November 30, 2001

Composition of owned servicing portfolio at period end:

Conventional mortgage loans	<b>\$ 343,420</b>	\$ 230,265
FHA-insured mortgage loans	<b>45,252</b>	46,593
VA-guaranteed mortgage loans	<b>14,952</b>	16,019
Subprime loans	<b>21,976</b>	17,960
Prime Home Equity loans	<b>15,667</b>	11,108
Total owned servicing portfolio	<b>\$ 441,267</b>	\$ 321,945
Delinquent mortgage loans <sup>(2)</sup> :		
30 days	<b>2.73%</b>	2.91%
60 days	<b>0.87%</b>	0.98%
90 days or more	<b>1.02%</b>	1.35%
Total delinquent mortgage loans	<b>4.62%</b>	5.24%
Loans pending foreclosure <sup>(2)</sup>	<b>0.55%</b>	0.72%
Delinquent mortgage loans <sup>(2)</sup> :		
Conventional	<b>2.43%</b>	2.23%
Government	<b>12.61%</b>	10.70%
Subprime	<b>14.41%</b>	12.70%
Prime Home Equity	<b>0.80%</b>	0.92%
Total delinquent mortgage loans	<b>4.62%</b>	5.24%
Loans pending foreclosure <sup>(2)</sup> :		
Conventional	<b>0.23%</b>	0.27%
Government	<b>1.32%</b>	1.21%
Subprime	<b>2.93%</b>	2.97%
Prime Home Equity	<b>0.05%</b>	0.02%
Total loans pending foreclosure	<b>0.55%</b>	0.72%

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

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

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

Management attributes the increases in delinquency in the Company's subprime and government servicing portfolios primarily to the overall seasoning (aging) of the loans. Management believes the delinquency rates in the Company's servicing portfolio are consistent with industry experience for similar mortgage loan portfolios.

### INFLATION

An increase in inflation would have the most significant impact on the Company's Mortgage Banking and Capital Markets Segments. Interest rates normally increase during periods of rising inflation. Historically, as interest rates increase, mortgage loan production decreases, particularly from loan refinancings. (Although an environment of gradual interest rate increases may signify an improving economy or increasing real estate values, which in turn may stimulate increased home buying activity.) Generally in such periods of reduced mortgage loan production, the associated profit margins also decline due to increased competition amongst mortgage loan originators and to higher unit costs, thus further reducing earnings from the Loan Production Sector. Conversely, in a rising interest rate environment, Loan Servicing Sector earnings generally increase because mortgage prepayment rates tend to slow down, thereby extending the average life of the Company's servicing portfolio and thus reducing the amortization and impairment of MSRs. Within the Capital Markets Segment, rising interest rates generally lead to a reduction in activity and associated earnings in the Segment's primary market, the mortgage market.

### SEASONALITY

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

### LIQUIDITY AND CAPITAL RESOURCES

The Company has significant short-term and long-term financing needs. Principal short-term financing needs arise from the warehousing of mortgage loans pending sale and the trading activities of the broker-dealer. The Company's investments in MSRs and other retained interests, the financial instruments acquired to manage the interest rate risk associated with those investments and continued growth in the Company's portfolio lending activities create the primary need for long-term financing. As discussed in the following paragraphs, the Company meets its financing needs in a variety of ways, tapping the corporate debt and equity markets, as well as the mortgage and asset-backed securities markets, and increasingly in the future through the deposit-gathering and other financing activities of the Bank.

### Public Corporate Debt Markets

A key source of financing for the Company is the unsecured public corporate debt market. Typically, the Company accesses this market by issuing commercial paper and medium-term notes. In the past, the Company also has issued subordinated debt, convertible debt and trust-preferred securities.

The Company uses the public corporate debt markets because it is the most efficient and cost effective means of raising capital, owing to its depth and breadth. The Company's ongoing access to the public corporate debt markets depends upon maintaining the Company's high credit standing, as primarily evidenced by its credit ratings. The Company has consistently maintained solid investment-grade ratings over the last eleven years. (CHL, the Company's primary issuer of public corporate debt, presently has long-term ratings of A/A3/A as rated by Standard & Poor's, Moody's Investors Service and Fitch, Inc., respectively.) Over that period, there has been no significant disruption in the Company's access to the public corporate debt markets. Among other things, maintenance of investment-grade ratings requires high levels of liquidity, including access to alternative sources of funding such as committed bank stand-by lines of credit, as well as a capital structure that makes conservative use of financial leverage.

The Company currently has secured and unsecured committed bank lines of credit and reusable mortgage purchase commitments totaling \$15.0 billion. The Company ensures that its outstanding commercial paper does not exceed the unused portion of these facilities. To further manage its liquidity, the Company strives to maintain additional unused amounts within its lines to meet its expected operational cash requirements, including debt maturities, for the succeeding six months with a cushion for unanticipated cash needs. A substantial portion of the Company's assets are highly liquid in nature (for example, mortgage loans and MBS held for sale and trading securities). The Company's policy is to finance 100% of its non-liquid assets (such as MSRs and other retained interests) with "long-term capital" (equity and debt with maturities greater than six months).

The Company has established internal guidelines for financial leverage by business segment. These guidelines primarily take into account the nature of each segment's major assets. For example, the Loan Production Sector and Capital Markets Segment have assets that are highly liquid and short-term in nature, which is reflected in the Company's current financial leverage ratio (debt : equity) targets of 15:1 and 40:1, respectively. On the other hand, the Loan Servicing Sector contains MSRs and other retained interests that are generally perceived by the rating agencies and others to have significant inherent risks, despite the Company's successful and ongoing risk management practices. This results in the need to maintain a high percentage of equity capital to finance these investments in order to maintain the Company's high credit standing. (The Company's current financial leverage ratio target for the Loan Servicing Sector is 3:1.) Management believes the amount of equity capital required to finance its MSRs and other retained interests is high relative to its major competitors and such requirement increases the overall cost of capital for the Company.

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

In addition to internal leverage guidelines, the Company periodically performs various internal analyses designed to assess the sensitivity of the Company's net worth to changes in interest rates. The Company's capital adequacy also is measured and evaluated by the Federal Reserve through its defined capital ratio tests. The Company's policy is to maintain its capital ratios at or above the "well capitalized" standards defined by the Federal Reserve.

The Company's primary source of equity capital is retained earnings. The Company also has outstanding \$500 million in trust-preferred securities that receive varying degrees of "equity treatment" from rating agencies, bank lenders and regulators. In addition, the Company currently has a \$2.0 billion deferred tax liability that would offset a portion of any potential loss in value of the Company's MSRs and which, to that extent, can be viewed as equity capital. From time-to-time, the Company does engage in stock offerings as a means of supplementing its capital base and to support its growth.

The Company maintains an open dialogue and meets at least annually with each credit rating agency to review the Company's performance and outlook. Issues of concern to one or more credit rating agency in the past have included the Company's significant investment in MSRs and other retained interests, its involvement in subprime lending, as well as its liquidity and capital structure. On February 20, 2003, Fitch placed the Company on "Rating Watch Negative." This action indicates a potential downgrade by Fitch in the near future of CHL's short-term and long-term ratings, which currently stand at "F1" and "A", respectively. Fitch has cited concerns over the Company's MSRs as the primary reason for this action. In response, Management has scheduled a meeting with Fitch and is preparing additional analysis to assist Fitch in conducting its ratings process. In addition, Management is evaluating other ways to address Fitch's concerns, including raising additional capital. Management believes the Company's current credit ratings from both Moody's and Standard and Poor's are stable. Nonetheless, the credit rating agencies could lower the Company's credit ratings in the future.

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

### Secondary Mortgage Market

The Company also places great reliance on the secondary mortgage market. Substantially all mortgage loans produced by the Company are sold in the secondary mortgage market, primarily in the form of Mortgage-Backed Securities ("MBS") and asset-backed securities. The majority of the MBS sold by the Company are guaranteed by either Fannie Mae, Freddie Mac, or Ginnie Mae (collectively, "Agency MBS"). Non-Agency or "private-label" MBS and asset-backed securities are also issued by the Company. Private-label MBS and asset-backed securities are registered with the SEC and have separate credit ratings. Generally private-label MBS and asset-backed securities require some form of credit enhancement, such as over-collateralization, senior-sub structures, primary mortgage insurance, Company guarantees and /or private surety guarantees.

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

The Company ensures its ongoing access to the secondary mortgage market by consistently producing quality mortgages and servicing those mortgages at levels that meet or exceed secondary mortgage market standards. As described elsewhere in this document, quality assurance is a major focus of Management and the Company makes significant investments in personnel and technology in this regard.

As part of its overall liquidity management, the Company acquired a reusable \$5.7 billion commitment from a multi-seller asset-backed commercial paper conduit to purchase loans from the Company that are in process of being pooled into Agency MBS. The Company has another such \$1.7 billion commitment in place to sell delinquent FHA and VA loans that have been removed from Agency MBS pending foreclosure and liquidation.

The private-label securitizations and committed purchase facilities discussed above are conducted through wholly-owned special purpose entities ("SPEs") that facilitate the securitization of mortgage loans. In connection with these securitization transactions, the loans are either sold directly to the SPE or to a trust through an SPE. The trust issues beneficial interests in the form of securities that are sold to investors. The Company does not carry contractual obligations related to these SPEs or the loans sold to them, except for the standard representations and warranties made in connection with private-label securitizations. The Company retains servicing on the loans sold to these trusts and periodically retains an interest in the form of interest-only securities, principal-only securities and residuals, which the Company generally holds as long-term investments. In addition, the Company may issue a corporate guarantee for losses up to a contractually specified amount. The SPEs, while owned by the Company, are generally controlled by third party trustees for the benefit of unaffiliated beneficial interest holders. In addition, the activities of the SPEs are limited. For these reasons, among others, the accounting literature requires the exclusion of these SPEs from the Company's consolidated financial statements.

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

The Company also utilizes short-term repurchase agreements as a means of financing securities and loans pending sale, as well as CSC's securities trading portfolio. Although this method of financing is uncommitted and short term in nature, it has proven to be very reliable and cost effective.

### Bank Activities

Management intends to significantly increase the size of Treasury Bank over the next three years to a targeted total asset size of \$22 billion. Management intends to realize this goal by utilizing Countrywide's loan origination platform so that the Bank can originate loans for the Bank's investment portfolio. Funding for this growth will come from a variety of sources, including transfers of impound accounts controlled by CHL, secured advances from the Federal Home Loan Bank and from retail deposits generated from the Company's customer base and elsewhere.

### Cash Flow

Cash flow from operating activities was negative \$3.7 billion for 2002, compared to negative \$6.6 billion for the ten months ended December 31, 2001. The reduction in negative cash flow from operations for the year ended December 31, 2002 was due primarily to a \$4.2 billion net reduction in mortgage loans held for sale.

Net cash used in investing activities was \$14.4 billion for 2002, compared to \$5.0 billion for the ten months ended December 31, 2001. The increase in net cash used in investing activities was primarily attributable to a \$7.3 billion net increase in available-for-sale securities and a \$2.0 billion net increase in additions to MSRs.

Net cash provided by financing activities during 2002 totaled \$18.3 billion, compared to \$12.0 billion during the ten months ended December 31, 2001. The increase in cash provided by financing activities during 2002 was comprised of a \$1.8 billion net increase in growth in bank deposit liabilities and a \$4.8 billion net increase in the growth of short-term (primarily secured) borrowings.

## PROSPECTIVE TRENDS

### United States Mortgage Market

Over the last decade, total mortgage indebtedness in the United States has grown at an average annual rate of 8%. Management believes that continued population growth, ongoing developments in the mortgage market and the prospect of relatively low interest rates support similar growth in the market for the foreseeable future. Some of the on going developments in the mortgage market include government-sponsored programs targeted to increase homeownership in low-income and minority communities, the growth of Prime Home Equity lending as a major form of consumer finance and the increasing efficiency of the secondary mortgage market that lowers the overall cost of homeownership.

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

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

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

Today, large, sophisticated financial institutions currently dominate the residential mortgage industry. These industry leaders are primarily commercial banks operating through their mortgage banking subsidiaries. Today, the top twenty-five mortgage lenders combined have a 79% share of the mortgage origination market, up from 45% five years ago.

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

Institution	Year Ended December 31, 2002	Year Ended December 31, 2001
1. Wells Fargo Home Mortgage	13.3%	9.3%
2. Washington Mutual	12.4%	8.4%
3. Countrywide	10.0%	6.6%
4. Chase Home Finance	6.2%	8.8%
5. ABN Amro Mortgage Group	4.8%	3.9%
Total for Top 5	46.7%	37.0%

This consolidation trend has carried over to the loan servicing side of the mortgage business. Today, the top twenty-five mortgage servicers combined have a 62% share of the total mortgages outstanding, up from 40% five years ago. Following is a year-over-year comparison of market share for the top five servicers, according to *Inside Mortgage Finance*:



## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

Institution	Year Ended December 31, 2002	Year Ended December 31, 2001
1. Washington Mutual	11.2%	8.7%
2. Wells Fargo Home Mortgage	8.8%	8.5%
3. Countrywide	7.0%	5.9%
4. Chase Home Finance	6.6%	7.5%
5. Bank of America Mortgage	4.1%	5.6%
Total for Top 5	37.7%	36.2%

Management believes the consolidation trend in the mortgage market will continue, as the aforementioned market forces will continue to drive out weak competitors. The Company believes it will benefit from this trend through increased market share. In addition, management believes that irrational price competition—which from time-to-time has plagued the industry in the past—should lessen in the future.

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

### Housing Appreciation

Housing values affect the Company in several ways: increasing housing values point to healthy demand for purchase-money mortgage financing; increased average loan balances; and a reduction in the risk of loss on sale of foreclosed real estate in the event a loan defaults and the Company is required to absorb all or a portion of the resulting loss. Over the last several years, the housing price index has significantly outpaced the consumer price index. Furthermore, the Housing Affordability Index is at near-historic highs. Consequently, Management expects housing values to increase at a slower rate in the coming year than in the past several years. Over the long term, Management expects housing price index and consumer price index to be closely correlated.

### Regulatory Trends

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

### Mortgage Originations

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

Calendar Year	United States Mortgage Originations
2002	\$ 2,458
2001	\$ 2,030
2000	\$ 1,024
1999	\$ 1,285
1998	\$ 1,507

(Dollar amounts in billions)

Source: Mortgage Bankers Association

Forecasters put the market for 2003 at between \$1.8 trillion and \$2.1 trillion. Although such a market would represent a significant decline from 2002's historic level, it would still be a highly favorable market for the Company's loan production business and would place continuing, although lessening, pressure on its loan servicing business due to continuing higher than normal mortgage loan prepayment activity. The refinance activity is expected to slow in 2003 which is the cause of decline in the estimated market in 2003. Accordingly, competitive pressures are expected to increase in the loan production business as a greater emphasis is placed on purchase money mortgages.

### IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

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

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

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

## Management's Discussion and Analysis

of Financial Condition and Results of Operations (continued)

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

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

During June of 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142").

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

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

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

## Consolidated Balance Sheets

	December 31,	
(Dollar amounts in thousands, except share data)	2002	2001
<b>ASSETS</b>		
Cash	\$ 697,457	\$ 495,414
Mortgage loans and mortgage-backed securities held for sale	15,025,617	10,604,709
Trading securities owned, at market value (\$2,708,879 and \$2,225,454 pledged as collateral at December 31, 2002 and 2001, respectively)	8,692,720	5,941,992
Securities purchased under agreements to resell	5,997,368	4,319,120
Mortgage servicing rights, net	5,384,933	6,116,082
Investments in other financial instruments	10,901,915	3,527,832
Loans held for investment, net	6,070,426	3,450,812
Property, equipment and leasehold improvements, net	576,688	447,022
Other assets	4,683,659	2,313,821
Total assets	<u>\$58,030,783</u>	<u>\$37,216,804</u>
Borrower and investor custodial accounts	<u>\$16,859,667</u>	<u>\$10,955,289</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Notes payable	\$19,293,788	\$16,655,003
Securities sold under agreements to repurchase	22,634,839	9,452,852
Bank deposit liabilities	3,114,271	675,480
Accounts payable and accrued liabilities	5,342,442	4,030,573
Income taxes payable	1,984,310	1,815,254
Total liabilities	<u>52,369,650</u>	<u>32,629,162</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; none issued and outstanding	—	—
Common stock — authorized, 240,000,000 shares of \$0.05 par value; issued and outstanding, 126,563,333 and 122,705,532 shares at December 31, 2002 and 2001, respectively	6,330	6,135
Additional paid-in capital	1,657,144	1,506,853
Accumulated other comprehensive income	186,799	49,467
Retained earnings	3,310,860	2,525,187
Total shareholders' equity	<u>5,161,133</u>	<u>4,087,642</u>
Total liabilities and shareholders' equity	<u>\$58,030,783</u>	<u>\$37,216,804</u>
Borrower and investor custodial accounts	<u>\$16,859,667</u>	<u>\$10,955,289</u>

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Earnings

For the year ended December 31, 2002, the ten months ended December 31, 2001 and the year ended February 28, 2001

	Year Ended December 31,	Ten Months Ended December 31,	Year Ended February 28,
(Dollar amounts in thousands, except per share data)	2002	2001	2001
<b>REVENUES</b>			
Gain on sale of loans and securities	\$ 3,672,447	\$ 1,741,599	\$ 1,048,238
Interest income	2,253,296	1,806,596	1,324,066
Interest expense	(1,461,066)	(1,474,719)	(1,330,724)
Net interest income (expense)	792,230	331,877	(6,658)
Loan servicing fees and other income from retained interests	2,028,922	1,367,381	1,227,474
Amortization of mortgage servicing rights	(1,267,249)	(805,533)	(518,199)
Impairment/recovery of retained interests	(3,415,311)	(1,472,987)	(915,589)
Servicing hedge gains	1,787,886	908,993	797,148
Net loan servicing fees and other income from retained interests	(865,752)	(2,146)	590,834
Net insurance premiums earned	561,681	316,432	274,039
Commissions and other revenue	358,860	247,919	167,386
Total revenues	4,519,466	2,635,681	2,073,839
<b>EXPENSES</b>			
Compensation expenses	1,931,076	1,075,227	818,959
Occupancy and other office expenses	447,723	291,571	262,370
Marketing expenses	86,278	54,068	71,557
Insurance claims expenses	277,614	134,819	106,827
Other operating expenses	433,752	291,377	228,091
Total expenses	3,176,443	1,847,062	1,487,804
Earnings before income taxes	1,343,023	788,619	586,035
Provision for income taxes	501,244	302,613	211,882
<b>NET EARNINGS</b>	<b>\$ 841,779</b>	<b>\$ 486,006</b>	<b>\$ 374,153</b>
Earnings per share			
Basic	\$ 6.75	\$ 4.04	\$ 3.26
Diluted	\$ 6.49	\$ 3.89	\$ 3.14

The accompanying notes are an integral part of these statements.

## Consolidated Statement of Common Shareholders' Equity

For the year ended December 31, 2002, the ten months ended December 31, 2001 and the year ended February 28, 2001

	Number of Shares	Common Stock	Additional Paid-in- Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
(Dollar amounts in thousands)						
<b>BALANCE AT FEBRUARY 29, 2000</b>	113,463,424	\$5,673	\$1,171,238	\$ (33,234)	\$1,744,202	\$2,887,879
Cash dividends paid—\$0.40 per common share	—	—	—	—	(45,906)	(45,906)
Stock options exercised	2,797,939	140	57,468	—	—	57,608
Tax benefit of stock options exercised	—	—	17,375	—	—	17,375
Issuance of common stock	1,133,101	57	51,720	—	—	51,777
401(k) Plan contribution	264,018	13	7,865	—	—	7,878
Issued to employee stock purchase plan	73,767	4	2,013	—	—	2,017
Other comprehensive income, net of tax	—	—	—	206,483	—	206,483
Net earnings for the year	—	—	—	—	374,153	374,153
<b>BALANCE AT FEBRUARY 28, 2001</b>	117,732,249	5,887	1,307,679	173,249	2,072,449	3,559,264
Cash dividends paid—\$0.30 per common share	—	—	—	—	(33,268)	(33,268)
Stock options exercised	1,336,336	66	30,079	—	—	30,145
Tax benefit of stock options exercised	—	—	8,769	—	—	8,769
401(k) Plan contribution	191,007	10	8,675	—	—	8,685
Issuance of common stock	3,445,940	172	151,651	—	—	151,823
Other comprehensive loss, net of tax	—	—	—	(123,782)	—	(123,782)
Net earnings for the ten-month period	—	—	—	—	486,006	486,006
<b>BALANCE AT DECEMBER 31, 2001</b>	122,705,532	6,135	1,506,853	49,467	2,525,187	4,087,642
Cash dividends paid – \$0.46 per common share	—	—	—	—	(56,106)	(56,106)
Stock options exercised	2,893,492	147	80,231	—	—	80,378
Tax benefit of stock options exercised	—	—	21,999	—	—	21,999
401(k) Plan contribution	324,837	16	14,612	—	—	14,628
Issuance of common stock	639,472	32	33,449	—	—	33,481
Other comprehensive income, net of tax	—	—	—	137,332	—	137,332
Net earnings for the year	—	—	—	—	841,779	841,779
<b>BALANCE AT DECEMBER 31, 2002</b>	<b>126,563,333</b>	<b>\$6,330</b>	<b>\$1,657,144</b>	<b>\$ 186,799</b>	<b>\$3,310,860</b>	<b>\$5,161,133</b>

The accompanying notes are an integral part of these statements.



## Consolidated Statements of Cash Flows

For the year ended December 31, 2002, the ten months ended December 31, 2001 and the year ended February 28, 2001

	Year Ended December 31,	Ten Months Ended December 31,	Year Ended February 28,
(Dollar amounts in thousands)	2002	2001	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net earnings	\$ 841,779	\$ 486,006	\$ 374,153
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:			
Gain on sale of available-for-sale securities	(464,669)	(266,246)	(56,965)
401(k) Plan contribution	14,628	8,685	7,878
Amortization and impairment/recovery of mortgage servicing rights	4,572,240	2,129,310	1,414,388
Impairment of other retained interests	110,320	149,210	19,812
Depreciation and other amortization	56,114	44,378	70,736
Income taxes payable	109,064	302,305	211,882
Origination and purchase of loans held for sale	(251,900,626)	(123,968,784)	(68,923,245)
Principal repayments and sale of loans and securities	247,479,718	115,328,093	69,612,410
Decrease (increase) in mortgage loans and mortgage-backed securities held for sale	(4,420,908)	(8,640,691)	689,165
(Increase) decrease in other financial instruments	1,011,222	1,187,083	(40,157)
Increase in trading securities	(2,750,728)	(1,891,910)	(2,066,051)
Increase in securities purchased under agreements to resell	(1,678,248)	(1,209,564)	(2,673,963)
Increase in other assets	(2,384,783)	(548,197)	(726,073)
Increase in accounts payable and accrued liabilities	1,311,869	1,665,330	1,002,706
Net cash used by operating activities	(3,672,100)	(6,584,301)	(1,772,489)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Additions to mortgage servicing rights, net	(4,436,328)	(2,395,939)	(1,785,659)
Additions to available-for-sale securities	(18,555,706)	(3,044,425)	(1,480,079)
Proceeds from sale of available-for-sale securities	10,772,705	2,514,241	895,736
Proceeds from sale of securitized mortgage servicing rights	566,603	—	—
Additions in loans held for investment	(2,619,614)	(2,014,225)	(980,333)
Purchase of property, equipment and leasehold improvements, net	(170,833)	(95,806)	(38,721)
Net cash used by investing activities	(14,443,173)	(5,036,154)	(3,389,056)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase in short-term borrowings	12,445,610	7,108,609	2,701,209
Issuance of long-term debt	7,272,099	7,075,800	3,417,237
Repayment of long-term debt	(3,896,937)	(3,037,551)	(957,050)
Net increase in deposit liabilities	2,438,791	675,480	—
Issuance of common stock	113,859	190,653	119,266
Cash dividends paid	(56,106)	(33,268)	(45,906)
Net cash provided by financing activities	18,317,316	11,979,723	5,234,756
Net increase in cash	202,043	359,268	73,211
Cash at beginning of period	495,414	136,146	62,935
Cash at end of period	\$ 697,457	\$ 495,414	\$ 136,146
Supplemental cash flow information:			
Cash used to pay interest	\$ 1,359,582	\$ 1,469,819	\$ 1,336,506
Cash used to pay income taxes	\$ 391,963	\$ 5,215	\$ 14,799
Non-cash investing and financing activities:			
Unrealized gain (loss) on available-for-sale securities, net of tax	\$ 137,332	\$ (123,782)	\$ 206,483
Common stock contributed to 401(k) Plan	\$ 14,628	\$ 8,685	\$ 7,878

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Comprehensive Income

For the year ended December 31, 2002, the ten months ended December 31, 2001 and the year ended February 28, 2001

	Year Ended December 31,	Ten Months Ended December 31,	Year Ended February 28,
(Dollar amounts in thousands)	2002	2001	2001
<b>NET EARNINGS</b>	<b>\$ 841,779</b>	<b>\$ 486,006</b>	<b>\$ 374,153</b>
Other comprehensive income, net of tax:			
Unrealized gains (losses) on available for sale securities:			
Unrealized holding gains (losses) arising during the period, before tax	<b>588,543</b>	(81,066)	361,811
Income tax (expense) benefit	<b>(220,900)</b>	30,464	(131,699)
Unrealized holding gains (losses) arising during the period, net of tax	<b>367,643</b>	(50,602)	230,112
Less: reclassification adjustment for (gains) losses included in net earnings, before tax	<b>(368,694)</b>	(117,238)	(37,153)
Income tax expense (benefit)	<b>138,383</b>	44,058	13,524
Reclassification adjustment for (gains) losses included in net earnings, net of tax	<b>(230,311)</b>	(73,180)	(23,629)
Other comprehensive income (loss)	<b>137,332</b>	(123,782)	206,483
<b>COMPREHENSIVE INCOME</b>	<b>\$ 979,111</b>	<b>\$ 362,224</b>	<b>\$ 580,636</b>

The accompanying notes are an integral part of these statements.

## NOTE 1 – ORGANIZATION

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

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Change in Fiscal Year

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

### Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that materially affect the reported amounts of assets and liabilities and the disclosure of contingent 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.

### Principles of Consolidation

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

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

Countrywide has formed special purpose entities for the purpose of facilitating the sale of its loans. The beneficial interests in these entities are held by third-party financial institutions. The structure of these entities limits their activities to holding the transferred assets and transferring cash collected to the entities' beneficial interest holders. These special purpose entities meet the definition of QSPes as detailed in SFAS 140 and the accounts of these QSPes are not included in the consolidated financial statements. See Note 15 for further discussion.

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

### Financial Statement Reclassifications

Certain amounts reflected in the Consolidated Financial Statements for the ten-month period ended December 31, 2001 and for the year ended February 28, 2001 have been reclassified to conform to the presentation for the year ended December 31, 2002.

### Derivative Financial Instruments

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

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

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

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

The Company designates every derivative instrument as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), a hedge of a forecasted transaction or

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

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

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

The Company occasionally purchases or originates financial instruments that contain an embedded derivative instrument. At inception, the Company assesses whether the economic characteristics of the embedded derivative instrument are clearly and closely related to the economic characteristics of the financial instrument (host contract), whether the financial instrument that embodies both the embedded derivative

instrument and the host contract is currently measured at fair value with changes in fair value reported in earnings, and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument.

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

## Sales, Securitizations and Servicing of Financial Instruments

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

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

The Company uses available market data, along with its own empirical data and discounted cash flow models, to arrive at the initial estimated fair values of its retained interests. Once recorded, retained interests are periodically evaluated for impairment, which is defined generally as a reduction in current fair value below carrying value.

If MSRs are impaired, the impairment is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a valuation allowance. If the value of the MSRs subsequently increases, the recovery in value is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a reduction in the valuation allowance. For purposes of performing its MSR impairment evaluation, the Company stratifies its servicing portfolio on the basis of certain risk characteristics including loan type (fixed or adjustable) and note rate. Fixed-rate loans are stratified into note rate pools of fifty basis points for note rates between 6% and 10% and single pools for note rates above 10% and below 6%. Management periodically reviews the various impairment strata to determine whether the value of the impaired MSRs in a given stratum is likely to recover. When management deems recovery of the value to be unlikely in the foreseeable future, a permanent impairment write-down of the underlying MSRs to its estimated recoverable value is charged to the valuation allowance.

Impairment of other retained interests is recognized as a reduction to shareholders' equity (net of tax). If the impairment is deemed to be other than temporary, it is recognized in current-period earnings. Once

## Notes to Consolidated Financial Statements

(continued)

permanently impaired, subsequent increases in the value of other retained interests are recognized in earnings over the remaining life of the investment through a higher effective yield.

Other retained interests are classified as available-for-sale securities and are carried at estimated fair value in the statement of financial condition.

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

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

Mortgage Loans Held for Sale are recorded at the principal amount outstanding net of deferred origination costs and fees and any premiums or discounts. The cost-basis of Mortgage Loans Held for Sale is adjusted to reflect changes in the loans' fair value as applicable through fair value hedge accounting. Mortgage Loans Held for Sale are carried at the lower of adjusted cost or market, which is computed by the aggregate method (unrealized losses are offset by unrealized gains). The Market value of Mortgage Loans Held for Sale is generally based on quoted market prices for MBS.

The Company's MBS held for sale 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 is based on quoted market prices.

### **Trading Securities**

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

### **Available-for-Sale Securities**

The Company has designated certain of its investments in interest-only and principal-only securities, residuals, mortgage-backed securities, collateralized mortgage obligations, corporate bonds and government securities as available-for-sale securities, which are included in Investments in Other Financial Instruments.

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 accumulated other comprehensive income, which is a separate component of shareholders' equity. 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.

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

Transactions involving purchases of securities under agreements to resell or sales of securities under agreements to repurchase are recorded at their contractual amounts plus accrued interest and accounted for as collateralized financings, except where the Company does not have an

agreement to sell (or purchase) the same or substantially the same securities before maturity at a fixed or determinable price.

Certain of the Company's securities lending arrangements include master netting agreements whereby the counterparties are entitled and intend to settle their positions "net." Where such arrangements are in place, the Company includes the net asset or liability in its balance sheet. At December 31, 2002, \$213.8 million of borrowings were offset against securities purchased under agreements to resell under master netting arrangements.

### **Deferred Acquisition Costs**

The Company's insurance carrier subsidiary, Balboa Life and Casualty ("Balboa"), incurs acquisition costs which vary with and are directly related to acquisition of new insurance policies, consisting primarily of commissions, premium taxes, and certain other underwriting costs. These costs are deferred and amortized as the related premiums are earned. Deferred acquisition costs are limited to amounts estimated to be recoverable from the related premiums and anticipated investment income less anticipated losses, loss adjustment expenses, and policy maintenance expenses. Deferred acquisition costs totaling \$100.2 million and \$83.3 million were included in other assets at December 31, 2002 and 2001, respectively. Amortization of policy acquisition costs totaling \$98.8 million, \$42.0 million, and \$29.3 million were included in other operating expenses for the year ended December 31, 2002, the ten months ended December 31, 2001 and the year ended February 28, 2001, respectively.

### **Liability for Insurance Losses**

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

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

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

### **Collateral**

The Company continues to report assets it has pledged as collateral in secured borrowing and other arrangements when the secured party cannot sell or repledge the assets.



## Notes to Consolidated Financial Statements

(continued)

### Property, Equipment and Leasehold Improvements

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

### Capitalized Software Costs

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

### Loan Origination Fees

Loan origination fees, as well as discount points and certain direct origination costs, are initially recorded as an adjustment of the cost of the loan and, with respect to mortgage loans and mortgage-backed securities held for sale, are reflected in earnings when the loan is sold. With respect to loans held for investment, such fees and costs are amortized to interest income using the interest method.

### 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 Fees

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

### Income from Other Retained Interests

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

### Insurance Premiums

Property and casualty and credit life and disability premiums are earned over the term of the policies on a pro-rata basis for all policies except for Guaranteed Auto Protection ("GAP"), which provides coverage for leased automobiles' residual value, and lender-placed insurance. For GAP insurance, revenue recognition is correlated to the exposure and accelerated over the life of the contract. For lender-placed insurance,

earnings are "slowed," or earned later in the life of the policy, due to high cancellation rates experienced early in the life of the policy. Premiums applicable to the unexpired term of policies-in-force are recorded as unearned premiums. Mortgage reinsurance premiums are recognized as earned over the life of the policy.

### Advertising Costs

The Company charges to expense the production costs of advertising the first time the advertising takes place, except for direct-response advertising, which is capitalized and amortized over the expected period of future benefits. Advertising expense was \$53.1 million, \$37.9 million and \$55.5 million for the year ended December 31, 2002, the ten months ended December 31, 2001 and year ended February 28, 2001, respectively.

### Stock-Based Compensation

The Company generally 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 expenses related to its stock option plans only to the extent that the fair value of the shares at the grant date exceeds the exercise price.

Had the estimated fair value of the options granted 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 December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
Net Earnings			
As reported	\$ 841,779	\$ 486,006	\$ 374,153
Pro forma	\$ 826,938	\$ 462,701	\$ 357,811
Basic Earnings Per Share			
As reported	\$ 6.75	\$ 4.04	\$ 3.26
Pro forma	\$ 6.63	\$ 3.84	\$ 3.11
Diluted Earnings Per Share			
As reported	\$ 6.49	\$ 3.89	\$ 3.14
Pro forma	\$ 6.37	\$ 3.71	\$ 3.01

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 weighted-average assumptions used to value the option grants and the resulting average estimated values were as follows:

	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
Weighted Average Assumptions:			
Dividend yield	0.99%	0.70%	1.57%
Expected volatility	33%	29%	38%
Risk-free interest rate	3.8%	4.9%	6.4%
Annual expected life (in years)	4.16	5	5
Fair value of options	\$ 12.30	\$ 13.01	\$ 10.69

## Notes to Consolidated Financial Statements

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### Income Taxes

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

### Borrower and Investor Custodial Accounts

The Company holds, as custodian, funds collected from borrowers whose loans it services. These funds include loan payments pending remittance to investors and funds collected from borrowers to ensure timely payment of hazard and primary mortgage insurance and property taxes related to the properties securing the loans. These funds are not owned by the Company. These funds are held in trust and are shown on the Statement of Financial Condition for disclosure purposes only. As of December 31, 2002, \$2.3 billion of the borrower and investor custodial accounts were placed as deposits in Treasury Bank and are included in bank deposit liabilities.

### Implementation of New Accounting Standards

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

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

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

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

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

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

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

### Recently Issued Accounting Standards

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

## Notes to Consolidated Financial Statements

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FIN 45 is effective for new guarantees issued or modification of guarantees made after December 31, 2002. FIN 45's disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45's measurement requirements is not expected to have a significant impact on Countrywide's financial position or results of operations. Management has included the disclosures required by FIN 45 in these financial statements.

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

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

FIN 46 excludes qualifying special purpose entities subject to the reporting requirements of SFAS 140. FIN 46 applies upon formation to variable interest entities created after January 31, 2003, and to all variable interest entities in the first fiscal year or interim period beginning after June 15, 2003. At December 31, 2002, Countrywide's corporate structure included either companies whose accounts were consolidated into the Company's financial statements or which were classified as qualifying special purpose entities under SFAS 140. Therefore, the adoption of FIN 46 is not expected to have an impact on the Company's financial statements.

### NOTE 3 - EARNINGS PER SHARE

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

The following table presents basic and diluted EPS for the year ended December 31, 2002, the ten months ended December 31, 2001 and for the year ended February 28, 2001:

(Amounts in thousands, except per share data)	Year Ended December 31, 2002		
	Net Earnings	Shares	Per-Share Amount
Net earnings	<u>\$ 841,799</u>		
<b>Basic EPS</b>			
Net earnings available to common shareholders	\$ 841,799	124,740	\$ 6.75
Effect of dilutive stock options	<u>—</u>	<u>4,984</u>	
<b>Diluted EPS</b>			
Net earnings available to common shareholders	<u>\$ 841,779</u>	<u>129,724</u>	<u>\$ 6.49</u>
Ten Months Ended December 31, 2001			
(Amounts in thousands, except per share data)	Net Earnings	Shares	Per-Share Amount
Net earnings	<u>\$ 486,006</u>		
<b>Basic EPS</b>			
Net earnings available to common shareholders	\$ 486,006	120,339	\$ 4.04
Effect of dilutive stock options	<u>—</u>	<u>4,454</u>	
<b>Diluted EPS</b>			
Net earnings available to common shareholders	<u>\$ 486,006</u>	<u>124,793</u>	<u>\$ 3.89</u>
Year Ended February 28, 2001			
(Amounts in thousands, except per share data)	Net Earnings	Shares	Per-Share Amount
Net earnings	<u>\$ 374,153</u>		
<b>Basic EPS</b>			
Net earnings available to common shareholders	\$ 374,153	114,932	\$ 3.26
Effect of dilutive stock options	<u>—</u>	<u>4,103</u>	
<b>Diluted EPS</b>			
Net earnings available to common shareholders	<u>\$ 374,153</u>	<u>119,035</u>	<u>\$ 3.14</u>

During the year ended December 31, 2002, the ten months ended December 31, 2001 and the year ended February 28, 2001, options to purchase 0.9 million shares, 1.3 million shares and 3.3 million shares, respectively, were outstanding but not included in the computation of EPS because they were anti-dilutive. As more fully discussed in Note 14, the Company has outstanding debentures convertible into common stock of the Company upon the stock reaching certain specified levels, or if the

## Notes to Consolidated Financial Statements

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credit ratings of the debentures drops below investment grade. At December 31, 2002, none of the conditions providing for conversion of the debentures had been met; therefore, no related adjustment was made to diluted EPS.

### NOTE 4 – TRANSITION PERIOD COMPARATIVE DATA

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

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

(Amounts in thousands, except per share data)	Ten Months Ended December 31, 2001	(Unaudited) Ten Months Ended December 31, 2000
Revenues	\$ 2,635,681	\$ 1,643,308
Expenses	1,847,062	1,218,423
Earnings before income taxes	788,619	424,885
Provision for income taxes	302,613	153,200
Net earnings	<u>\$ 486,006</u>	<u>\$ 271,685</u>
Earnings per share:		
Basic	\$ 4.04	\$ 2.37
Diluted	\$ 3.89	\$ 2.30
Weighted average common shares outstanding:		
Basic	120,339	114,495
Diluted	124,793	118,317

### NOTE 5 – TRADING SECURITIES

Trading securities as of December 31, 2002 and 2001 includes the following:

	December 31,	
(Dollar amounts in thousands)	2002	2001
Mortgage-backed securities:		
Fixed-rate	<b>\$ 6,948,203</b>	\$ 4,785,644
Adjustable-rate	<b>446,770</b>	333,913
	<b>7,394,973</b>	5,119,557
Collateralized mortgage obligations	<b>959,881</b>	472,847
Agency debentures	<b>266,699</b>	283,170
Other	<b>71,167</b>	66,418
	<b><u>\$ 8,692,720</u></b>	<u>\$ 5,941,992</u>

As of December 31, 2002, \$8.4 billion of the Company's trading securities had been pledged as collateral for securities sold under agreement to repurchase, of which the counterparty had the contractual right to sell or re-pledge \$2.7 billion.

### NOTE 6 – SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

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

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

As of December 31, 2001, the Company had accepted collateral with a fair value of \$4.4 billion for which it had the contractual ability to sell or re-pledge. As of December 31, 2001, the Company had re-pledged \$4.3 billion of such collateral for financing purposes.

### NOTE 7 – MORTGAGE SERVICING RIGHTS

The activity in mortgage servicing rights for the year ended December 31, 2002, the ten months ended December 31, 2001 and for the year ended February 28, 2001 is as follows:

	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
(Dollar amounts in thousands)			
<b>Mortgage Servicing Rights</b>			
Balance at beginning of period	<b>\$ 7,051,562</b>	\$ 5,876,121	\$ 5,420,239
Additions	<b>4,436,328</b>	2,395,939	1,785,659
Securitization of MSRs	<b>(621,047)</b>	–	–
Amortization	<b>(1,267,249)</b>	(805,533)	(518,199)
Change in fair value attributable to hedged risk	–	(466,397)	–
SFAS 133 transition adjustment	–	81,705	–
Hedge gains applied	–	–	(811,578)
Application of valuation allowance to permanently impaired MSRs	<b>(2,178,648)</b>	(30,273)	–
Balance before valuation allowance at end of period	<b>7,420,946</b>	7,051,562	5,876,121
<b>Valuation Allowance for Impairment of Mortgage Servicing Rights</b>			
Balance at beginning of period	<b>(935,480)</b>	(108,373)	(23,762)
Additions	<b>(3,304,991)</b>	(857,380)	(84,611)
Application of valuation allowance to securitization of MSRs	<b>25,810</b>	–	–
Application of valuation allowance to write down permanently impaired MSRs	<b>2,178,648</b>	30,273	–
Balance at end of period	<b><u>(2,036,013)</u></b>	<u>(935,480)</u>	<u>(108,373)</u>
<b>Mortgage Servicing Rights, net</b>	<b><u>\$ 5,384,933</u></b>	<u>\$ 6,116,082</u>	<u>\$ 5,767,748</u>

The estimated fair value of mortgage servicing rights was \$5.4 billion, \$6.1 billion and \$5.8 billion as of December 31, 2002 and 2001, and

## Notes to Consolidated Financial Statements

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February 28, 2001, respectively. (See Note 9 – “Securizations” for discussion of the valuation of MSRs.)

The following table summarizes the Company's estimate of amortization of the existing MSR asset for the five-year period ending December 31, 2007. This projection was developed using the assumptions made by management in its valuation of MSRs. The assumptions underlying the following estimate will change as market conditions and portfolio behavior changes, causing both actual and projected amortization levels to change over time. Therefore, the following estimates will change in a manner and amount not presently determinable by management.

(Dollar amounts in thousands)

Year Ended December 31,	Estimated MSR Amortization
2003	\$ 1,271,560
2004	984,776
2005	807,840
2006	675,057
2007	569,806
Five year total	<u>\$ 4,309,039</u>

### NOTE 8 – INVESTMENTS IN OTHER FINANCIAL INSTRUMENTS

Investments in other financial instruments as of December 31, 2002 and 2001 include the following:

	December 31,	
	2002	2001
Prime home equity line of credit senior securities	\$ 3,470,858	\$ –
Servicing hedge instruments:		
Derivative instruments	1,592,550	256,129
Principal-only securities	779,125	840,062
Total servicing hedge instruments	2,371,675	1,096,191
Other interests retained in securitization:		
Subprime AAA interest-only securities	607,526	493,009
Prime home equity line of credit residuals	437,060	150,802
Prime home equity line of credit transferor's interest	233,658	139,468
Interest-only and principal-only securities	150,967	220,852
Subprime residual securities	71,251	122,000
Prime home equity line of credit AAA interest-only security	24,897	–
Other	78,241	58,461
Total other interests retained in securitizations	1,603,600	1,184,592
Insurance and banking investment portfolios:		
Collateralized mortgage obligations	3,127,165	300,219
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	247,470	251,804
Mortgage-backed securities	77,572	581,092
Corporate securities	3,171	99,595
Other	404	14,339
Investment in other financial instruments	<u>\$10,901,915</u>	<u>\$ 3,527,832</u>

All of the securities listed above are classified as available-for-sale, with the exception of the derivative instruments.

At December 31, 2002, the Company had pledged \$3.5 billion of prime home equity line of credit senior securities to secure securities sold under agreements to repurchase, and \$1.5 billion of collateralized mortgage obligations were pledged to secure Federal Home Loan Bank advances.

Amortized cost and fair value of available-for-sale securities as of December 31, 2002 and December 31, 2001 are as follows:

	December 31, 2002			
(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Prime home equity line of credit senior securities	\$ 3,366,477	\$ 104,381	\$ –	\$ 3,470,858
Other interests retained in securitization	1,452,467	151,133	–	1,603,600
Principal-only securities	746,479	34,212	(1,566)	779,125
Mortgage-backed securities	74,532	3,040	–	77,572
Collateralized mortgage obligations	3,104,800	22,374	(9)	3,127,165
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	237,076	10,394	–	247,470
Corporate securities	1,873	1,439	(141)	3,171
Other	394	10	–	404
	<u>\$ 8,984,098</u>	<u>\$ 326,983</u>	<u>\$ (1,716)</u>	<u>\$ 9,309,365</u>
	December 31, 2001			
(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Other interests retained in securitization	\$ 1,078,745	\$ 105,902	\$ (55)	\$ 1,184,592
Principal-only securities	852,174	6,767	(18,879)	840,062
Mortgage-backed securities	580,696	4,409	(4,013)	581,092
Collateralized mortgage obligations	300,828	301	(910)	300,219
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	253,652	2,140	(3,988)	251,804
Corporate securities	94,131	6,936	(1,472)	99,595
Other	13,726	613	–	14,339
	<u>\$ 3,173,952</u>	<u>\$ 127,068</u>	<u>\$ (29,317)</u>	<u>\$ 3,271,703</u>



## Notes to Consolidated Financial Statements

(continued)

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

	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
(Dollar amounts in thousands)			
Prime home equity line of credit senior security:			
Gross realized gains	\$ 155,554	\$ -	\$ -
Gross realized losses	-	-	-
Net	155,554	-	-
Collateralized mortgage obligations:			
Gross realized gains	1,095	1,663	-
Gross realized losses	(244)	(113)	-
Net	851	1,550	-
Other interests retained in securitization:			
Gross realized gains	21,556	141	-
Gross realized losses	(2,244)	(248)	(789)
Net	19,312	(107)	(789)
Principal-only securities:			
Gross realized gains	311,324	250,322	51,788
Gross realized losses	(35,369)	-	-
Net	275,955	250,322	51,788
Mortgage-backed securities:			
Gross realized gains	3,873	1,702	-
Gross realized losses	(25)	(4)	-
Net	3,848	1,698	-
Corporate securities:			
Gross realized gains	12,941	5,453	1,145
Gross realized losses	(11,888)	(797)	(128)
Net	1,053	4,656	1,017
U.S. Treasury securities and obligations of U.S. Government corporations and agencies:			
Gross realized gains	9,705	5,428	-
Gross realized losses	(1,499)	-	-
Net	8,206	5,428	-
Other:			
Gross realized gains	1	2,701	4,949
Gross realized losses	(111)	(2)	-
Net	(110)	2,699	4,949
Total gains and losses on available-for-sale securities:			
Gross realized gains	516,049	267,410	57,882
Gross realized losses	(51,380)	(1,164)	(917)
Net	\$ 464,669	\$ 266,246	\$ 56,965

### NOTE 9 - SECURITIZATIONS

The Company routinely originates, securitizes and sells mortgage loans into the secondary mortgage market. In general, prime first mortgage loan securitizations are structured without recourse to the Company. The Company generally does have limited recourse on the prime home equity

and subprime mortgage loans it securitizes through retention of a subordinated interest or through a corporate guarantee of losses up to a negotiated maximum amount. While the Company generally does not retain credit risk on the prime, first-lien mortgage loans it securitizes, it does have potential liability under representations and warranties it makes to purchasers and insurers of the loans. The Company recognized gains of \$2.1 billion from sales of mortgage loans in securitizations in the year ended December 31, 2002.

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

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

The Company estimates the fair value of its MSRs through use of a proprietary option-adjusted spread ("OAS") cash flow model. The model utilizes a stochastic interest rate model in conjunction with proprietary mortgage prepayment models to simulate MSR cash flows over multiple interest rate paths and derive an expected present, or estimated fair, value. Cash flows incorporated in the model consist of net service fees, float earnings on escrow balances, late charges, prepayment penalties, ancillary fees, servicing operating costs, cost related to advancing delinquent mortgage payments, and foreclosure-related costs. The cash flow assumptions are derived from the Company's own empirical data drawn from the recent historical experience of its MSRs. Prior to adopting its present methodology, the Company estimated the fair value of its MSRs through use of a proprietary, "zero-volatility" (single rate path) discounted cash flow model. That model incorporated cash flows not present in the Company's current MSR valuation model. Those cash flows consisted of cross-sell activities, namely insurance and home equity loans, loan retention benefits, net captive reinsurance premiums, and government loan remarketing gains. For the other retained interests, the Company estimates

## Notes to Consolidated Financial Statements

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fair value through the use of proprietary, "static" (single rate path) discounted cash flow models. The Company has evolved its methodologies for valuing MSRs and other retained interests in concert with the industry and with the objective of providing improved estimates of fair value. The Company has incorporated assumptions in its valuation models it believes other major market participants would presently consider in deriving the fair value of MSRs and other retained interests.

The key assumptions used in the valuation of MSRs and other retained interests include mortgage prepayment speeds, the OAS or discount rate, as appropriate, and for residual interests that contain credit risk, the lifetime credit losses. (See Note 27—"Loan Servicing" for further discussion of credit risk.)

The Company estimates mortgage prepayment speeds using proprietary, statistical, multi-factor, pool-level models that have been developed for each major loan type using historical, loan-level data from the Company's mortgage servicing portfolio. The primary factors driving prepayment speeds in the models are housing turnover, refinance incentive, forecasted housing price appreciation, loan age, and burnout. The models derive single-month-mortality ("smm") rates based on the modeled mortgage rate. The modeled mortgage rate is a function of the simulated short-term and long-term rates derived from the Company's interest rate model. The Company's stochastic interest rate model utilizes the swap curve and option prices to develop the simulated interest rates. The Company has benchmarked its mortgage prepayment models against other commercially-available models, as well as, on an ongoing basis, to its actual portfolio prepayment experience. The Company periodically refits its prepayment models using its most recent portfolio data.

The Company determines OAS and discount rates by reference to available market data. For MSRs, the Company applies a different OAS depending on the servicing type. As of December 31, 2002, the OAS ranged from 2.9% for conventional, conforming MSRs to 6.9% for subprime MSRs. The OAS is added to the simulated forward LIBOR rate to arrive at the discreet discount rate used in each period within the cash flow model. The OAS is evaluated periodically based upon analysis of the following market data (as available): MSR "bulk" and "flow" transactions; sales of new mortgage loans on a servicing-released basis; MSR broker valuations; Trust I/O and Company I/O prices; and peer group surveys.

The Company estimates lifetime mortgage credit losses using proprietary, statistical, multi-factor pool-level models that have been developed for prime home equity and subprime loans using historical, loan-level data from the Company's mortgage servicing portfolio as well as available loan-level data from third parties. The primary factors driving lifetime credit losses in the models are FICO credit scores, loan-to-value ratio, loan balance, documentation type, and forecasted housing price appreciation. The Company compares the credit loss estimates derived from its models on new mortgage pools to those loss estimates developed by the rating agencies and mortgage insurance companies. The Company periodically refits its credit loss models using its most recent portfolio data.

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

	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
Weighted-average life (in years)	5.8	7.6	8.2
Weighted-average annual prepayment speed	15.8%	11.8%	11.0%
Weighted-average OAS over LIBOR curve	3.74%	n/a	n/a
Weighted-average annual discount rate	n/a	10.9%	10.3%

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

	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
Weighted-average life (in years)	2.7	3.9	4.1
Weighted-average annual prepayment speed	30.4%	26.1%	24.3%
Weighted-average annual discount rate	14.9%	14.6%	15.4%
Weighted-average lifetime credit losses	0.8%	0.5%	2.5%

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

	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
(Dollar amounts in thousands)			
Proceeds from new securitizations	\$ 222,405,901	\$ 103,829,423	\$ 60,494,596
Proceeds from collections reinvested in securitizations	\$ 1,431,896	\$ 606,017	\$ 707,460
Service fees received	\$ 1,179,137	\$ 811,488	\$ 821,836
Purchases of delinquent loans	\$ (3,712,399)	\$ (4,303,894)	\$ (2,610,563)
Servicing advances	\$ (1,520,422)	\$ (880,301)	\$ (468,602)
Repayment of servicing advances	\$ 1,376,068	\$ 755,175	\$ 405,097
Other cash flows received on retained interests <sup>(a)</sup>	\$ 974,892	\$ 617,205	\$ 295,698

<sup>(a)</sup>Represents cash flows received on retained interests other than servicing fees.

Key economic assumptions used in subsequently measuring the fair value of the Company's MSRs at December 31, 2002 and 2001 and February 28, 2001, and the effect on the fair value of those MSRs from adverse changes in those assumptions, are as follows:

## Notes to Consolidated Financial Statements

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		December 31,	February 28,
(Dollar amounts in thousands)	2002	2001	2001
Fair value of mortgage servicing rights	\$ 5,384,933	\$ 6,116,082	\$ 5,834,058
Weighted-average remaining life (in years)	5.6	5.9	6.1
WEIGHTED-AVERAGE ANNUAL PREPAYMENT SPEED	21.7%	17.2%	16.1%
Impact of 10% adverse change	\$ 350,673	\$ 230,304	\$ 263,080
Impact of 20% adverse change	\$ 660,276	\$ 441,858	\$ 500,464
WEIGHTED-AVERAGE OAS OVER LIBOR CURVE	3.6%	n/a	n/a
WEIGHTED-AVERAGE ANNUAL DISCOUNT RATE	n/a	11.1%	9.8%
Impact of 10% adverse change	\$ 67,729	\$ 245,260	\$ 209,159
Impact of 20% adverse change	\$ 133,801	\$ 472,130	\$ 404,732

Key economic assumptions used in subsequently measuring the fair value of the Company's other interests retained in securitization at December 31, 2002 and 2001, and February 28, 2001, and the effect on the fair value of those other retained interests from adverse changes in those assumptions are as follows:

		December 31,	February 28,
(Dollar amounts in thousands)	2002	2001	2001
Fair value of other retained interests	\$ 1,291,701	\$ 986,663	\$ 1,026,493
Weighted-average life (in years)	2.1	3.3	4.4
WEIGHTED-AVERAGE ANNUAL PREPAYMENT SPEED	34.3%	28.2%	23.3%
Impact of 10% adverse change	\$ 119,073	\$ 69,513	\$ 62,058
Impact of 20% adverse change	\$ 220,544	\$ 130,807	\$ 113,446
WEIGHTED-AVERAGE ANNUAL DISCOUNT RATE	15.0%	15.2%	16.6%
Impact of 10% adverse change	\$ 25,017	\$ 20,139	\$ 30,728
Impact of 20% adverse change	\$ 44,520	\$ 39,105	\$ 59,179
WEIGHTED-AVERAGE LIFETIME CREDIT LOSSES	3.4%	3.0%	3.3%
Impact of 10% adverse change	\$ 28,777	\$ 25,280	\$ 18,223
Impact of 20% adverse change	\$ 57,205	\$ 50,560	\$ 35,423

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

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

	December 31,	2001
(Dollar amounts in thousands)	2002	2001
Prime home equity and subprime loans:		
Total principal amount	\$17,228,847	\$13,951,181
Principal amount 60 days or more past due	\$ 709,587	\$ 668,479
Comprised of:		
Loans and securities sold	\$12,218,607	\$10,259,509
Loans and securities held for sale or available	5,010,240	3,691,672
	\$17,228,847	\$13,951,181

The Company incurred credit losses of \$90.1 million and \$30.2 million related to the mortgage loans above during the year ended December 31, 2002 and the ten-month period ended December 31, 2001, respectively.

## NOTE 10 – FINANCIAL INSTRUMENTS

### Derivative Financial Instruments

The primary market risk facing the Company is interest rate risk. From an enterprise perspective, the Company manages this risk through the natural counterbalance of its loan production and servicing businesses. In addition, the Company utilizes various financial instruments, including derivatives, to manage the interest rate risk related specifically to its committed pipeline, mortgage loan inventory and MBS held for sale, MSRs, trading securities and other retained interests, as well as a portion of its debt. The overall objective of the Company's interest rate risk management activities is to reduce the variability of reported earnings caused by changes in interest rates.

The Company uses a variety of derivative financial instruments to manage interest rate risk. These instruments include MBS mandatory forward sale and purchase commitments, options to sell or buy MBS, Treasury and Eurodollar rate futures and options thereon, interest rate floors, interest rate caps, capped swaps, swaptions, and interest rate swaps. These instruments involve, to varying degrees, elements of interest rate and credit risk. The Company manages foreign currency exchange rate risk, which arises from the issuance of foreign currency-denominated debt, with foreign currency swaps.

### Risk Management Activities Related to Mortgage Loan Inventory and Committed Pipeline

#### Description of Risk Management Activities

The Company has interest rate exposure relative to its Mortgage Loan Inventory and its Committed Pipeline. The Mortgage Loan Inventory is comprised of mortgage loans and MBS held by the Company pending sale. The Mortgage Loan Inventory is generally held on average 30 days. The Committed Pipeline is comprised of loan applications in process where the Company has provided an interest rate lock commitment ("IRLC") for a specified period, generally from 7 to 60 days.

The Company's loan production consists primarily of fixed rate mortgages. Fixed rate mortgages, like other fixed rate debt instruments, are subject to a loss in value when market interest rates rise. The Company is exposed to such losses from the time IRLC is made to an applicant (or financial intermediary) to the time the related mortgage loan is sold. To manage this

## Notes to Consolidated Financial Statements

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risk of loss, the Company utilizes derivatives, primarily forward sales of MBS and options to buy and sell MBS, as well as options on Treasury futures contracts. Certain of these transactions qualify as "fair value" hedges under SFAS 133. (See the following section titled "Accounting for Risk Management Activities" for further discussion.)

The Company ensures that substantially all fixed rate Mortgage Loan Inventory is covered at all times through corresponding net forward sales of MBS. (The net forward sales may be comprised of forward sales of MBS partially offset by forward purchases of MBS.)

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

To manage the interest rate risk associated with the Committed Pipeline, the Company uses a combination of net forward sales of MBS and put and call options on MBS or Treasury futures. As a general rule, the Company enters into forward sales of MBS in an amount equal to the portion of the Committed Pipeline expected to close, assuming no change in mortgage rates. The Company acquires put and call options to protect against the variability of loan closings caused by changes in mortgage rates, utilizing the current Fallout Curves to determine the amount of optional coverage required. The Company reviews its Committed Pipeline and Mortgage Inventory risk profiles on a daily basis.

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

- Forward Sales of MBS: represents an obligation to sell a MBS at a specific price in the future; therefore, its value increases as mortgage rates rise.
- Forward Purchases of MBS: represents an obligation to buy a MBS at a specific price in the future; therefore, its value increases as mortgage rates fall.
- Long Call Options on MBS: represents a right to buy a MBS at a specific price in the future; therefore, its value increases as mortgage rates fall.
- Long Put Options on MBS: represents a right to sell a MBS at a specific price in the future; therefore, its value increases as mortgage rates rise.

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

The following table summarizes the balance or notional amounts, as applicable, of Mortgage Loan Inventory, Committed Pipeline and the related derivatives instruments at December 31, 2002:

	December 31, 2002
(Dollar amounts in billions)	
Mortgage Loan Inventory:	
Fixed-rate	\$ 11.3
Adjustable-rate	3.7
Total	<u>\$ 15.0</u>
Committed Pipeline	
Fixed-rate	\$ 30.8
Adjustable-rate	4.8
Total	<u>\$ 35.6</u>
Mandatory Forward Trades	
Sales	\$ (68.1)
Buy	39.0
Net mandatory positions	<u>\$ (29.1)</u>
Long MBS Options	
Calls	\$ 0.0
Puts	(9.4)
Net long MBS Options	<u>\$ (9.4)</u>
Long Treasury Options	
Calls	\$ 0.6
Puts	—
Net long Treasury Options	<u>\$ 0.6</u>
Interest Rate Futures	<u>\$ 12.7</u>

### Accounting for Risk Management Activities

In general, the risk management activities connected with 95% or more of the fixed-rate Mortgage Inventory has qualified as a "fair value" hedge under SFAS 133. The Company recognized pre-tax losses of \$2.4 million and pre-tax gains of \$8.5 million, representing the ineffective portion of such fair value hedges of Mortgage Inventory, for the year ended December 31, 2002 and the ten months ended December 31, 2001, respectively. This amount along with the change in the fair value of the derivative instruments that were not designated as hedge instruments under SFAS 133 are included in gain on sale of loans in the statement of earnings. The derivative instruments that did not qualify as a hedge under SFAS 133 were primarily those used to manage the interest rate risk related to a portion of the Company's adjustable-rate and non-conforming mortgage inventory.

## Notes to Consolidated Financial Statements

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

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

#### Description of Risk Management Activities

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

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

- Interest Rate Floors: represents a right to receive cash if a reference interest rate falls below a contractual strike rate; therefore, its value increases as the reference interest rate falls. The reference interest rates used in the Company's interest rate floors include mortgage rates, Treasury rates, and U.S. dollar ("USD") LIBOR.
- Long Call Options on Treasury Futures: represents a right to acquire a Treasury futures contract at a specific price in the future; therefore, its value increases as the benchmark Treasury rate declines.
- Long Put Options on Treasury Futures: represents a right to sell a Treasury futures contract at a specific price in the future; therefore, its value increases as the benchmark Treasury rate increases.

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

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

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

(Dollar amounts in millions)	Balance December 31, 2001	Additions	Dispositions/ Expirations	Balance December 31, 2002
Interest Rate Floors	\$ 13,500	\$ 7,500	\$ (13,500)	\$ 7,500
Long Call Options on Interest Rate Futures	\$ 61,910	\$ 130,000	\$ (167,910)	\$ 24,000
Long Put Options on Interest Rate Futures	\$ 100,000	\$ 145,000	\$ (206,000)	\$ 39,000
Interest Rate Swaps	\$ 1,500	\$ 12,750	\$ (2,400)	\$ 11,850
Interest Rate Caps	\$ 2,300	–	\$ (1,500)	\$ 800
Interest Rate Swaptions	\$ 9,000	\$ 18,250	\$ (16,500)	\$ 10,750

The Servicing Hedge is intended to reduce the impact on reported earnings of MSRs and other retained interest impairment that generally results from a decline in mortgage rates. Should mortgage rates increase, the value of the MSRs and other retained interests are expected to increase while the value of the Servicing Hedge is expected to decline. With respect



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to the various options, caps and floors included in the Servicing Hedge, the Company is not exposed to loss beyond its initial outlay to acquire these derivative instruments, plus any unrealized gains recognized to date. With respect to the interest rate swap contracts included in the Servicing Hedge as of December 31, 2002, the Company estimates that its maximum exposure to loss over the contractual terms is \$1.2 billion.

### Accounting for Risk Management Activities

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

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

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

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

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

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

### Risk Management Activities Related to Issuance of Long-Term Debt

The Company enters into interest rate swap contracts which enable it to convert a portion of its fixed-rate, long-term debt to U.S. dollar LIBOR-based floating-rate debt (notional amount of \$3.7 billion) and to enable the Company to convert a portion of its foreign currency-denominated fixed-rate, long-term debt to U.S. dollar LIBOR-based floating-rate debt (notional amount of \$0.1 billion). These transactions are designed as fair value hedges under SFAS 133. For the year ended December 31, 2002 and the ten months ended December 31, 2001, the Company recognized a pre-tax gain of \$3.1 million and \$2.4 million, representing the ineffective portion of such fair value hedges of debt. This amount is included in interest charges in the statement of earnings.

In addition, the Company enters into interest rate swap contracts which enable it to convert a portion of its floating-rate, long-term debt to fixed-rate, long-term debt (notional amount of \$1.5 billion) and to convert a portion of its foreign currency-denominated, fixed-rate, long-term debt to U.S. dollar fixed-rate debt (notional amount of \$0.6 billion). These transactions are designed as cash flow hedges under SFAS 133. For the year ended December 31, 2002 and for the ten months ended December 31, 2001, the Company recognized a pre-tax loss of \$0.5 million and \$0.4 million, representing the ineffective portion of such cash flow hedges. As of December 31, 2002, deferred net gains or losses on derivative instruments included in other comprehensive income that are expected to be reclassified as earnings during the next 12 months are not material.

The Company also enters into interest rate swap contracts that enable it to convert a portion of its long-term debt from one floating-rate index to another, all of which debt matured in the current year.

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

The following summarizes the average interest rates on the swaps as of December 31, 2002:

	Fixed-Rate	Floating-Rate
Receiver swaps	5.12%	2.10%
Payer swaps	4.68%	2.80%

Payments are due periodically through the termination date of each contract. The contracts expire between January 2003 and June 2027.

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

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

- Forward Sales of To-Be Announced ("TBA") MBS: represents an obligation to sell agency pass-through MBS that has not yet been issued at a specific price and at a specific date in the future; therefore, its value increases as mortgage rates rise.
- Forward Purchases of TBA MBS: represents an obligation to purchase agency pass-through MBS that have not yet been issued at a specific price at a specific date in the future; therefore, its value increases as mortgage rates fall.
- Forward Sale of U.S. Treasury Securities: represents a standardized exchange-traded agreement to sell a specific quantity of U.S. Treasury securities for a specific price at a specific date in the future; therefore, its value increases when interest rates rise.

## Notes to Consolidated Financial Statements

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- **Fed Funds and Eurodollar Futures Contracts:** represents a standardized exchange-traded contract, the value of which is tied to spot Fed Funds or Eurodollar rates at specified future dates. The value of these contracts increases when Fed Funds or Eurodollar rates rise.
- **Interest Rate Swaps:** represents a mutual agreement to exchange interest rate payments; one party paying a fixed rate and another paying a floating rate tied to a reference interest rate (e.g., USD LIBOR). For use in its trading portfolio risk management activities, the Company receives the floating rate and pays the fixed rate; therefore, its value increases as rates rise.
- **Total Return Swaps:** represents a mutual agreement between counterparties to receive or pay the change in value of a specified index over a specified period of time. The indices referenced in Total Return Swaps used by the Company in its hedging of trading securities

generally encompass price changes, coupon interest payments and principal pay-downs of a specified group of securities. In its trading portfolio risk management activities, the Company generally pays the change in the referenced indices if the indices rise and receives the change in the referenced indices if the indices decline; therefore, the value of these contracts generally increases as rates rise.

The following summarizes the notional amounts of the derivative contracts included in broker-dealer's trading portfolio, at December 31, 2002:

	Notional Amount
(Dollar amounts in millions)	
Forward contracts to sell MBS	\$ 13,247
Forward contracts to purchase MBS	\$ 6,427
Short futures contracts	\$ 3,559
Interest rate swap contracts	\$ 257

### Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments as of December 31, 2002 and December 31, 2001 is made by the Company using available market information and appropriate valuation methods. However, in some cases considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

	December 31,			
	2002		2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollar amounts in thousands)				
<b>Assets:</b>				
Mortgage loans and mortgage-backed securities held for sale	\$ 15,025,617	\$ 15,025,617	\$ 10,604,709	\$ 10,604,709
Trading securities	8,692,720	8,692,720	5,941,992	5,941,992
Securities purchased under agreements to resell	5,997,368	5,997,368	4,319,120	4,319,120
Loans held for investment	6,070,426	6,098,312	3,450,812	3,450,812
Investments in other financial instruments	10,901,915	10,901,915	3,527,832	3,527,832
<b>Liabilities:</b>				
Notes payable	19,293,788	20,278,428	16,655,003	17,353,748
Securities sold under agreements to repurchase	22,634,839	22,634,839	9,452,852	9,452,852
Securities sold not yet purchased	446,230	446,230	280,506	280,506
Corporate guarantees	116,665	116,665	101,838	101,838
Company-obligated mandatorily redeemable capital trust pass-through securities of subsidiary trusts holding solely Company guaranteed related subordinated debt	500,000	581,881	500,000	543,066
<b>Derivatives:</b>				
Interest rate floors	95,517	95,517	83,568	83,568
Forward contracts on MBS	(515,887)	(515,887)	180,750	180,750
Options on MBS	11,205	11,205	18,062	18,062
Options on interest rate futures	126,339	126,339	66,076	66,076
Interest rate caps	338	338	2,818	2,818
Swaptions	292,513	292,513	119,801	119,801
Interest rate swaps	1,157,046	1,157,046	(240,785)	(240,785)
Futures	(20,912)	(20,912)	(494)	(494)
Interest rate lock commitments	226,038	226,038	(89,400)	(89,400)

The fair value estimates as of December 31, 2002 and 2001 were based on pertinent information that was available to management as of the respective dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

## Notes to Consolidated Financial Statements

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

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

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

### **Trading Securities**

Fair value is estimated using quoted market prices.

### **Securities Purchased Under Agreements to Resell**

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

### **Loans Held for Investment**

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

### **Investments in Other Financial Instruments:**

#### ***Principal-only securities***

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

#### ***Mortgage-backed securities retained in securitization***

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

#### ***Mortgage-backed securities***

Fair value is estimated using quoted market prices.

#### ***Collateralized mortgage obligations***

Fair value is estimated using quoted market prices.

#### ***U.S. Treasury securities and obligations of U.S. government corporations and agencies***

Fair value is estimated using quoted market prices.

#### ***Corporate securities***

Fair value is estimated using quoted market prices.

#### ***Other financial instruments***

Other financial instruments are primarily composed of tax-exempt municipal bonds, asset-backed securities, and foreign government bonds. These securities are recorded at fair value using quoted market prices.

### **Notes Payable**

Fair value is determined by discounting remaining payments using applicable current market rates.

### **Securities Sold Under Agreements to Repurchase**

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

### **Derivatives**

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

### **Counterparty Credit Risk**

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

The total amount of counterparty credit exposure as of December 31, 2002, before and after applicable collateral held, is as follows:

(Dollar amounts in millions)

Total credit exposure before collateral held	\$ 1,947
Less: collateral held	(1,495)
Net unsecured credit exposure	<u>\$ 452</u>

## Notes to Consolidated Financial Statements

(continued)

### NOTE 11 – PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements consist of the following:

(Dollar amounts in thousands)	Useful Lives (Years)	December 31,	
		2002	2001
Buildings	24–40	\$ 252,689	\$ 204,530
Office equipment	5–7	556,135	458,278
Leasehold improvements	2–10	72,268	59,769
		<b>881,092</b>	<b>722,577</b>
Less: accumulated depreciation and amortization		<b>(349,834)</b>	<b>(308,667)</b>
		<b>531,258</b>	<b>413,910</b>
Land		<b>45,430</b>	<b>33,112</b>
		<b>\$ 576,688</b>	<b>\$ 447,022</b>

Depreciation and amortization expense amounted to \$41.2 million, \$45.7 million and \$54.6 million for the year ended December 31, 2002, the ten months ended December 31, 2001 and the year ended February 28, 2001, respectively.

### NOTE 12 – LOANS HELD FOR INVESTMENT

Loans held for investment as of December 31, 2002 and 2001 include the following:

(Dollar amounts in thousands)	December 31,	
	2002	2001
Mortgage loans	\$ 2,245,419	\$ 257,836
Warehouse lending advances secured by mortgage loans	2,159,289	1,410,845
Defaulted FHA-insured and VA-guaranteed loans repurchased from securities	1,707,767	1,813,997
	<b>6,112,475</b>	<b>3,482,678</b>
Allowance for loan losses	<b>(42,049)</b>	<b>(31,866)</b>
	<b>\$ 6,070,426</b>	<b>\$ 3,450,812</b>

At December 31, 2002, mortgage loans held for investment totaling \$1.2 billion were pledged to secure securities sold under agreements to repurchase.

At December 31, 2002, the Company had accepted collateral with a fair value of \$2.2 billion securing warehouse lending advances for which it had the contractual ability to sell or re-pledge. As of December 31, 2002, no collateral had been re-pledged.

### NOTE 13 – OTHER ASSETS

Other assets as of December 31, 2002 and 2001 include the following:

(Dollar amounts in thousands)	December 31,	
	2002	2001
Receivables from sale of securities	\$ 1,452,513	\$ –
Derivative margin accounts	919,749	83,660
Reimbursable servicing advances	647,284	423,599
Securities broker-dealer receivables	261,034	590,813
Interest receivable	218,992	115,501
Capitalized software, net	188,435	162,370
Prepaid expenses	168,678	171,878
Other assets	826,974	766,000
	<b>\$ 4,683,659</b>	<b>\$ 2,313,821</b>

### NOTE 14 – NOTES PAYABLE

Notes payable consists of the following:

(Dollar amounts in thousands)	December 31,	
	2002	2001
Medium-term notes, various series:		
Fixed-rate	\$13,065,268	\$ 9,410,450
Floating-rate	3,695,624	4,900,280
	<b>16,760,892</b>	<b>14,310,730</b>
Federal Home Loan Bank advances	1,000,000	75,000
Secured revolving credit facility	878,052	–
Convertible debentures	510,084	505,022
Commercial paper	123,207	1,388,538
Secured notes payable	21,553	70,709
Subordinated notes	–	200,000
Secured overnight borrowings	–	105,004
	<b>\$19,293,788</b>	<b>\$16,655,003</b>

### Commercial Paper and Backup Credit Facilities

As of December 31, 2002, CHL had unsecured credit agreements (revolving credit facilities) with a group of commercial banks permitting CHL to borrow an aggregate maximum amount of \$5.4 billion. The composition of the facilities was as follows:

	December 31, 2002	
	Number of Bank Participants	Expiration Date
	22	\$ 1.5
	22	2.3
		3.8
	14	1.6
		<b>\$ 5.4</b>

## Notes to Consolidated Financial Statements

(continued)

As consideration for these facilities, CHL pays annual commitment fees of \$4.8 million. The purpose of these credit facilities is to provide liquidity backup for CHL's commercial paper program. No amount was outstanding under these revolving credit facilities at December 31, 2002. All of the facilities contain various financial covenants and restrictions, certain of which require the Company and CHL to maintain specified net worth

amounts and that limit the amount of dividends that can be paid by the Company or CHL. Management believes the Company is in compliance with those covenants and restrictions. For the year ended December 31, 2002, the average commercial paper outstanding was \$4.5 billion and the weighted average borrowing rate was 1.84%.

### Medium-Term Notes

As of December 31, 2002, outstanding medium-term notes issued by CHL under various shelf registrations filed with the Securities and Exchange Commission or issued by CHL under its Euro medium-term note program were as follows:

(Dollar amounts in thousands)	Outstanding Balance			Interest Rate		Maturity Date	
	Floating-Rate	Fixed-Rate	Total	From	To	From	To
Series B	\$ –	\$ 251,000	\$ 251,000	6.65%	6.98%	March 2003	August 2005
Series C	50,000	26,000	76,000	6.48%	7.04%	December 2003	March 2004
Series D	–	300,000	300,000	6.28%	6.88%	January 2003	September 2005
Series E	–	655,000	655,000	6.94%	7.45%	September 2003	October 2008
Series F	280,000	752,685	1,032,685	1.85%	6.84%	January 2003	April 2013
Series G	–	220,900	220,900	7.00%	7.00%	August 2018	November 2018
Series H	–	1,923,990	1,923,990	6.25%	8.25%	June 2004	October 2019
Series I	–	61,950	61,950	8.00%	8.00%	July 2015	August 2015
Series J	1,000,000	3,619,568	4,619,568	1.66%	7.05%	May 2003	August 2016
Series K	948,000	5,025,925	5,973,925	1.67%	7.05%	January 2003	June 2022
Euro Notes	1,442,926	–	1,442,926	1.68%	6.57%	June 2003	January 2009
Sub-total	3,720,926	12,837,018	16,557,944				
Basis adjustment through application of hedge accounting	(25,302)	228,250	202,948				
Total	\$ 3,695,624	\$13,065,268	\$16,760,892				

As of December 31, 2002, \$0.7 billion foreign currency-denominated medium-term notes were outstanding. Such notes are denominated in Yen, Deutsche Marks, French Francs, Portuguese Escudos and Euros. These notes have been effectively converted to U.S. dollars through currency swaps.

### Secured Revolving Credit Facility

As of December 31, 2002, CHL had in place a \$2.4 billion committed secured revolving credit facility with a consortium of seven commercial banks. As of December 31, 2002, the Company had \$878.1 million outstanding under this facility, secured by mortgage loans held for sale. For the year ended December 31, 2002, the average amount outstanding under this facility was \$138.3 million and the weighted average interest rate was 1.36%. This commitment expires on October 20, 2003. As consideration for the facility, CHL pays annual commitment fees of \$3.5 million. (Effective January 7, 2003, the facility limit was reduced to \$0.8 billion. See Note 30, "Subsequent Events.")

### Convertible Debentures

The Company has issued zero-coupon Liquid Yield Option Notes ("LYONs"), with an aggregate face value of \$675 million upon maturity on

February 8, 2031. The LYONs were issued at \$741.37 per note. At maturity, a holder will receive \$1,000 per LYON. The issue price of each LYON represents a yield to maturity of 1.0%. The LYONs are senior indebtedness of the Company.

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

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

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



## Notes to Consolidated Financial Statements

(continued)

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

Holders of LYONs may surrender LYONs for conversion into 11.57 shares of the Company's common stock per LYON in any calendar quarter, if, as of the last day of the preceding calendar quarter, the closing sale price of the Company's common stock, for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding calendar quarter, is more than a specified percentage, beginning at 135% and declining 0.21% per quarter thereafter, of the accreted conversion price per share of common stock on the last day of trading of such preceding calendar quarter (the "Contingent Conversion Stock Price"). The accreted conversion price per share is equal to the original issue price of a LYON plus the accrued original issue discount, with that sum divided by the number of shares to be issued upon a conversion of a LYON. The Contingent Conversion Stock Price at December 31, 2002 was \$87 per share.

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

### Pre-Sale Funding Facilities

As of December 31, 2002, CHL had uncommitted revolving credit facilities that are secured by conforming mortgage loans held-for-sale. As of December 31, 2002, the Company had no outstanding borrowings under any of these facilities.

### Federal Home Loan Bank Advances

As of December 31, 2002, outstanding advances from the Federal Home Loan Bank were as follows:

(Dollar amounts in thousands)

Maturity	Fixed-Rate		Adjustable-Rate	
	Amount	Rate	Amount	Rate
2003	\$ 25,000	3.18%	\$ —	—
2004	25,000	3.80%	75,000	3.14%
2005	75,000	4.34%	300,000	3.47%
2006	50,000	3.16%	175,000	3.75%
2007	—	—	100,000	4.15%
2008	—	—	50,000	3.97%
2009	75,000	4.30%	50,000	4.39%
	<u>\$ 250,000</u>		<u>\$ 750,000</u>	

The advances are secured by \$1.2 billion of collateralized mortgage obligations.

### Maturities of Notes Payable

Maturities of notes payable are as follows:

(Dollar amounts in thousands)

Year Ended December 31,	
2003	\$ 5,676,522
2004	2,366,000
2005	2,758,629
2006	1,995,880
2007	3,000,000
Thereafter	<u>3,293,809</u>
Total principal	19,090,840
Basis adjustment through the application of hedge accounting	<u>202,948</u>
Total	<u>\$19,293,788</u>

### NOTE 15 – COMMITTED REUSABLE PURCHASE FACILITIES

As of December 31, 2002, the Company had in place a reusable \$5.7 billion commitment from a multi-seller asset-backed commercial paper conduit to purchase conventional, conforming loans held-for-sale from the Company. As consideration for the facility, CHL pays annual commitment fees of \$7.1 million. (This facility was renegotiated subsequent to December 31, 2002, see Note 30—"Subsequent Events".)

As of December 31, 2002, the Company had in place a reusable \$1.7 billion commitment from a multi-seller asset-backed commercial paper conduit to purchase from the Company delinquent FHA and VA loans that have been removed from securities, pending foreclosure and liquidation. As consideration for the facility, CHL pays annual commitment fees of \$1.2 million. Effective February 5, 2003, the Company extended the maturity of the conduit to February 4, 2004.

The multi-seller commercial paper conduits described above were established and are owned by several major, third-party financial institutions. Utilizing funds raised through the issuance of commercial paper, these conduits purchase residential mortgage loans from the Company, either directly or through a trust or other vehicle. The Company has no obligation to repurchase loans from these conduits other than for breach of representations and warranties made by the Company in connection with the sale of the loans. The Company has no direct or indirect financial ownership or other interest in the conduits. The Company owns a small residual interest (approximately 5%) in the loans sold to the conduit that purchases delinquent FHA and VA loans. Accordingly, transfers of loans to these facilities are accounted for as sales. The Company classifies its residual interest as an "available-for-sale security" in the "Investments in Other Financial Instruments" line on its balance sheet.

### NOTE 16 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company routinely enters short-term financing arrangements to sell securities under agreements to repurchase. The related weighted-average borrowing rate for the year ended December 31, 2002 was 1.73%. The weighted average borrowing rate on repurchase agreements outstanding as of December 31, 2002 was 1.33%. The repurchase agreements were collateralized by securities. All securities underlying repurchase agreements are held in safekeeping by broker-dealers or banks. All agreements are to repurchase the same, or substantially identical, securities. The repurchase agreements had a weighted-average maturity of two days at December 31, 2002. At December 31, 2002, repurchase agreements were secured by \$5.0 billion of loans and MBS held for sale, \$8.4 billion of trading securities, \$3.8 billion of available-for-sale securities, \$4.3 billion of securities purchased under agreements to resell, and \$1.2 billion of loans held for investment.

### NOTE 17 – COMPANY-OBLIGATED CAPITAL SECURITIES OF SUBSIDIARY TRUSTS

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

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

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

### NOTE 18 – SHAREHOLDERS' EQUITY

In January 2000, the Company entered a three-year equity put option agreement with National Indemnity Company ("National Indemnity"), a

property and casualty insurance company, which is a subsidiary of Berkshire Hathaway, Inc. The Company terminated the put option agreement on January 2, 2002, and paid a termination fee of \$0.2 million.

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

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

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

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

### NOTE 19 – EMPLOYEE BENEFITS

#### Stock Option Plans

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

## Notes to Consolidated Financial Statements

(continued)

Stock option transactions under the Plans were as follows:

	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
Number of Shares:			
Outstanding options at beginning of year	16,161,210	13,432,647	14,059,515
Options granted	3,601,006	4,813,623	2,631,140
Options exercised	(2,893,492)	(1,336,336)	(2,797,939)
Options expired or canceled	(356,504)	(748,724)	(460,069)
Outstanding options at end of year	16,512,220	16,161,210	13,432,647
Weighted Average Exercise Price:			
Outstanding options at beginning of year	\$ 31.74	\$ 28.24	\$ 27.44
Options granted	42.07	39.72	26.60
Options exercised	28.33	24.35	22.06
Options expired or canceled	37.70	35.82	33.05
Outstanding options at end of year	\$ 34.50	\$ 31.74	\$ 28.24
Options exercisable at end of year	8,689,410	8,277,839	7,457,090
Options available for future grant	3,615,850	6,949,884	5,919,027

Status of the outstanding stock options under the Plans as of December 31, 2002 was as follows:

	Outstanding Options			Exercisable Options	
	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$ 2.80–\$15.90	1.3	237,226	\$ 15.58	237,226	\$ 15.58
\$15.91–\$21.20	1.7	817,515	17.79	817,515	17.79
\$21.21–\$26.50	2.8	3,719,073	23.47	3,036,596	23.29
\$26.51–\$31.80	3.6	1,476,501	27.53	1,131,205	27.41
\$31.81–\$42.40	7.3	7,332,572	39.29	2,355,395	39.81
\$42.41–\$53.17	7.8	2,929,333	46.21	1,111,473	46.57
\$ 2.80–\$53.17	5.7	16,512,220	\$ 34.50	8,689,410	\$ 30.56

### Pension Plan

The Company has a defined benefit pension plan (the "Plan") covering substantially all of its employees. The Company's policy is to contribute the amount actuarially determined to be necessary to pay the benefits under the Plan, and in no event to pay less than the amount necessary to meet the minimum funding standards of ERISA. In the year ended December 31, 2002, the Company made the maximum tax-deductible contribution to the Plan.

In the year ended December 31, 2002, the Company changed certain of its actuarial assumptions. Specifically, the discount rate was lowered from 7.25% to 6.5% and the rate of compensation increase was changed from 4% to 5%. These changes resulted in an increase of \$20.4 million and \$20.5 million, respectively, to the accumulated benefit obligation at December 31, 2002. In the ten-month period ended December 31, 2001, the Company amended the Plan to include employee sales commissions in the calculation of benefit obligations, resulting in an additional plan obligation of \$4.2 million at December 31, 2001.

## Notes to Consolidated Financial Statements

(continued)

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

(Dollar amounts in thousands)	December 31,	
	2002	2001
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 73,622	\$ 46,201
Service cost	16,296	9,166
Interest cost	5,688	3,566
Plan amendment	—	4,222
Actuarial loss	26,889	6,775
Benefits paid	(927)	(528)
Change in discount rate	20,500	4,220
Benefit obligation at end of year	\$ 142,068	\$ 73,622
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 35,733	\$ 34,638
Actual return on plan assets	(3,939)	(813)
Employer contribution	25,730	2,436
Benefits paid	(927)	(528)
Fair value of plan assets at end of year	\$ 56,597	\$ 35,733
Funded status at end of year	\$ (85,471)	\$ (37,889)
Unrecognized net actuarial loss	74,606	20,913
Unrecognized prior service cost	4,406	4,756
Unrecognized transition asset	—	(12)
Net amount recognized	\$ (6,459)	\$ (12,232)

The following table sets forth the components of net periodic benefit cost for the year ended December 31, 2002, the ten-month period ended December 31, 2001 and the fiscal year ended February 28, 2001:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
Service cost	\$ 16,296	\$ 9,166	\$ 6,284
Interest cost	5,688	3,566	2,615
Expected return on plan assets	(3,447)	(2,364)	(2,768)
Amortization of prior service cost	350	291	99
Amortization of unrecognized transition asset	(12)	(59)	(71)
Recognized net actuarial (gain) loss	1,081	406	(89)
Net periodic benefit cost	\$ 19,956	\$ 11,006	\$ 6,070

The weighted-average assumptions used in calculating the amounts above for the year ended December 31, 2002 and the ten-month period ended December 31, 2001 were as follows:

	December 31,	
	2002	2001
Discount rate	6.50%	7.25%
Expected return on plan assets	7.50%	8.00%
Rate of compensation increase	5.00%	4.00%

Pension expense for the year ended December 31, 2002, the ten-month period ended December 31, 2001 and the year ended February 28, 2001 was \$20.0 million, \$11.0 million and \$6.1 million, respectively. The Company makes contributions to the Plan in amounts that are deductible in accordance with federal income tax regulations.

### Defined Contribution Plan

The Company has a defined contribution plan ("401(k) Plan") covering all full-time employees of the Company who have at least one year of service and are age 21 or older. Participants may contribute up to 16 percent of pre-tax annual compensation, as defined in the plan agreement. Participants may also contribute, at the discretion of the plan administrator, amounts representing distributions from other qualified defined benefit or contribution plans. The Company makes a discretionary matching contribution equal to 50% of the participant contributions up to a maximum contribution of 6% of the participants' base compensation, as defined in the plan agreement. The 401(k) Plan is subject to the provisions of ERISA. The Company recorded \$14.6 million, \$8.7 million, and \$7.9 million in expense for matching contributions for the year ended December 31, 2002, the ten months ended December 31, 2001, and the fiscal year ended February 28, 2001, respectively.

### NOTE 20 – INCOME TAXES

Components of the provision for income taxes are as follows:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
Current taxes:			
Federal	\$ 307,216	\$ 164,989	\$ 11,791
State	41,825	24,705	879
Foreign	1,626	214	60
	350,667	189,908	12,730
Deferred taxes:			
Federal	129,918	95,936	188,308
State	20,659	16,769	10,844
	150,577	112,705	199,152
Provision for income taxes	\$ 501,244	\$ 302,613	\$ 211,882

## Notes to Consolidated Financial Statements

(continued)

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

	Year Ended December 31, 2002	Ten Months Ended December 31, 2001	Year Ended February 28, 2001
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income and franchise taxes, net of federal tax effect	3.7 %	3.5 %	3.2 %
Other	(1.4)%	(0.1)%	(2.0)%
Effective income tax rate	37.3 %	38.4 %	36.2 %

In the year ended February 29, 2000 ("Fiscal 2000"), the Company initiated a corporate reorganization related to its servicing operations. Further refinements to the reorganization plan were made in the year ended February 28, 2001 ("Fiscal 2001"). As a result of the reorganization, future state income tax liabilities are expected to be less than the amounts that were previously recorded as deferred income tax expense and liability in the Company's financial statements. The expected reduction in tax liabilities was reflected as a reduction in deferred state income tax expense in Fiscal 2000 and Fiscal 2001.

The components of income taxes payable are as follows:

(Dollar amounts in thousands)	December 31, 2002	December 31, 2001
Taxes currently payable	\$ 127,617	\$ 191,984
Deferred income taxes payable	1,856,693	1,623,270
	<u>\$ 1,984,310</u>	<u>\$ 1,815,254</u>

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

(Dollar amounts in thousands)	December 31, 2002	December 31, 2001
Deferred income tax assets:		
State income and franchise taxes	\$ 79,354	\$ 79,740
Valuation allowances, accrued expenses and other	72,949	66,038
	<u>152,303</u>	<u>145,778</u>
Deferred income tax liabilities:		
Mortgage servicing rights	1,884,752	1,733,182
Gain on available-for-sale securities	124,244	35,866
	<u>2,008,996</u>	<u>1,769,048</u>
Deferred income taxes payable	<u>\$ 1,856,693</u>	<u>\$ 1,623,270</u>

## NOTE 21 - REGULATORY AND AGENCY CAPITAL REQUIREMENTS

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

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

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

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

The following table presents the actual capital ratios and amounts, and minimum required capital ratios for the Company to maintain a "well-capitalized" status by the Board of Governors of the Federal Reserve at December 31, 2002 and at December 31, 2001:

(Dollar amounts in thousands)	December 31, 2002		
	Minimum Required <sup>(1)</sup>	Ratio	Amount
Tier 1 Leverage Capital	5.0%	7.6%	\$ 4,732,594
Risk-Based Capital			
Tier 1	6.0%	12.2%	\$ 4,732,594
Total	10.0%	13.6%	\$ 5,259,596
(Dollar amounts in thousands)	December 31, 2001		
	Minimum Required <sup>(1)</sup>	Ratio	Amount
Tier 1 Leverage Capital	5.0%	6.9%	\$ 2,696,423
Risk-Based Capital			
Tier 1	6.0%	11.2%	\$ 2,696,423
Total	10.0%	12.8%	\$ 3,083,706

<sup>(1)</sup>Minimum required to qualify as "well-capitalized."



## Notes to Consolidated Financial Statements

(continued)

The Company and CHL are required to maintain specified levels of shareholders' equity to remain a seller/servicer in good standing by Fannie Mae, Freddie Mac, the U.S. Department of Housing and Urban Development, and Ginnie Mae. Such equity requirements generally are tied to the size of CHL's servicing portfolio. At December 31, 2002, the Company and CHL's equity requirements for these agencies ranged up to \$511 million. The Company had agency capital of \$5.0 billion and CHL had agency capital ranging from \$1.5 billion to \$2.2 billion at December 31, 2002.

### NOTE 22 – SEGMENTS AND RELATED INFORMATION

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

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

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

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

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

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

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

## Notes to Consolidated Financial Statements

(continued)

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

(Dollar amounts in thousands)

For the Year Ended December 31, 2002

	Mortgage Banking				Other Businesses						Grand Total
	Production	Servicing	Closing Services	Total	Insurance	Capital Markets	Global	Banking	Other	Total	
Revenues											
External	\$ 4,225,719	\$(1,143,354)	\$ 159,149	\$ 3,241,514	\$ 650,424	\$ 371,653	\$ 114,363	\$ 104,959	\$ 36,553	\$ 1,277,952	\$ 4,519,466
Inter-segment	2,584	30,890	—	33,474	—	3,255	—	27,889	(64,618)	(33,474)	—
Total Revenues	\$ 4,228,303	\$(1,112,464)	\$ 159,149	\$ 3,274,988	\$ 650,424	\$ 374,908	\$ 114,363	\$ 132,848	\$ (28,065)	\$ 1,244,478	\$ 4,519,466
Segment Earnings (pre-tax)	\$ 2,499,516	\$(1,601,799)	\$ 69,953	\$ 967,670	\$ 82,432	\$ 199,925	\$ 5,233	\$ 83,971	\$ 3,792	\$ 375,353	\$ 1,343,023
Segment Assets	\$16,540,563	\$12,360,466	\$ 62,426	\$28,963,455	\$ 1,405,118	\$20,328,804	\$ 134,949	\$ 7,190,504	\$ 7,953	\$29,067,328	\$58,030,783

(Dollars amounts in thousands)

For the Ten Months Ended December 31, 2001

	Mortgage Banking				Other Businesses						Grand Total
	Production	Servicing	Closing Services	Total	Insurance	Capital Markets	Global	Banking	Other	Total	
Revenues											
External	\$ 2,037,974	\$(86,929)	\$ 116,354	\$ 2,067,399	\$ 393,067	\$ 108,107	\$ 42,638	\$ 23,428	\$ 1,042	\$ 568,282	\$ 2,635,681
Inter-segment	(1,475)	—	—	(1,475)	—	1,475	—	—	—	1,475	—
Total Revenues	\$ 2,036,499	\$(86,929)	\$ 116,354	\$ 2,065,924	\$ 393,067	\$ 109,582	\$ 42,638	\$ 23,428	\$ 1,042	\$ 569,757	\$ 2,635,681
Segment Earnings (pre-tax)	\$ 975,363	\$(411,043)	\$ 54,653	\$ 618,973	\$ 76,342	\$ 81,160	\$ 1,942	\$ 12,431	\$(2,229)	\$ 169,646	\$ 788,619
Segment Assets	\$11,183,000	\$10,713,000	\$ 51,733	\$21,947,733	\$ 1,178,000	\$11,587,000	\$ 83,080	\$ 2,235,579	\$ 185,412	\$15,269,071	\$37,216,804

(Dollar amounts in thousands)

For the Fiscal Year Ended February 28, 2001

	Mortgage Banking				Other Businesses						Grand Total
	Production	Servicing	Closing Services	Total	Insurance	Capital Markets	Global	Banking	Other	Total	
Revenues											
External	\$ 1,101,101	\$ 465,952	\$ 83,741	\$ 1,650,794	\$ 342,255	\$ 68,650	\$ 6,082	\$ 2,575	\$ 3,483	\$ 423,045	\$ 2,073,839
Inter-segment	(826)	—	—	(826)	—	826	—	—	—	826	—
Total Revenues	\$ 1,100,275	\$ 465,952	\$ 83,741	\$ 1,649,968	\$ 342,255	\$ 69,476	\$ 6,082	\$ 2,575	\$ 3,483	\$ 423,871	\$ 2,073,839
Segment Earnings (pre-tax)	\$ 244,837	\$ 187,878	\$ 34,121	\$ 466,836	\$ 74,029	\$ 43,411	\$ 1,485	\$(46)	\$ 320	\$ 119,199	\$ 586,035
Segment Assets	\$ 4,064,049	\$10,536,240	\$ 32,554	\$14,632,843	\$ 1,011,437	\$ 6,760,627	\$ 46,467	\$ 381,010	\$ 123,123	\$ 8,322,664	\$22,955,507

## Notes to Consolidated Financial Statements

(continued)

### NOTE 23 – QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables reflect summarized, unaudited quarterly data for each quarter in the year ended December 31, 2002 and the ten-month period ended December 31, 2001, of which quarterly periods commenced March 1, 2001 and ended November 30, 2001. Quarterly data was not prepared for the quarter ended December 31, 2001.

	Three Months Ended			
	March 31	June 30	September 30	December 31
(Dollar amounts in thousands, except per share data)				
<b>Year Ended December 31, 2002</b>				
Revenue	\$ 913,752	\$ 998,322	\$ 1,210,709	\$ 1,396,683
Expenses	\$ 647,658	\$ 693,048	\$ 846,501	\$ 989,236
Provision for income taxes	\$ 98,535	\$ 114,418	\$ 135,721	\$ 152,570
Net earnings	\$ 167,559	\$ 190,856	\$ 228,487	\$ 254,877
Earnings per share <sup>(1)</sup>				
Basic	\$ 1.36	\$ 1.54	\$ 1.82	\$ 2.02
Diluted	\$ 1.32	\$ 1.48	\$ 1.74	\$ 1.94

	Three Months Ended		
	May 31	August 31	November 30
(Dollar amounts in thousands, except per share data)			
<b>Ten Months Ended December 31, 2001</b>			
Revenue	\$ 689,707	\$ 754,948	\$ 862,607
Expenses	\$ 493,300	\$ 516,039	\$ 605,564
Provision for income taxes	\$ 73,357	\$ 89,675	\$ 96,032
Net earnings	\$ 123,050	\$ 149,234	\$ 161,011
Earnings per share <sup>(1)</sup>			
Basic	\$ 1.04	\$ 1.25	\$ 1.32
Diluted	\$ 1.00	\$ 1.20	\$ 1.27

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

### NOTE 24 – SUMMARIZED FINANCIAL INFORMATION

Summarized financial information for Countrywide Financial Corporation and subsidiaries is as follows:

	December 31, 2002				
	Countrywide Financial Corporation	Countrywide Home Loans, Inc.	Other Subsidiaries	Eliminations	Consolidated
(Dollar amounts in thousands)					
<b>Balance Sheets:</b>					
Mortgage loans and mortgage-backed securities held for sale	\$ –	\$14,055,045	\$ 970,572	\$ –	\$ 15,025,617
Mortgage servicing rights, net	–	5,384,933	–	–	5,384,933
Other assets	5,985,027	12,011,287	38,946,813	(19,322,894)	37,620,233
Total assets	\$ 5,985,027	\$31,451,265	\$39,917,385	\$ (19,322,894)	\$ 58,030,783
Company-obligated mandatorily redeemable capital trust pass-through securities	\$ –	\$ –	\$ 500,000	\$ –	\$ 500,000
Deposit liabilities	–	–	3,114,271	–	3,114,271
Short- and long-term debt	745,997	23,522,271	32,273,803	(14,613,444)	41,928,627
Other liabilities	77,897	5,699,928	1,607,056	(58,129)	7,326,752
Equity	5,161,133	2,229,066	2,422,255	(4,651,321)	5,161,133
Total liabilities and equity	\$ 5,985,027	\$31,451,265	\$39,917,385	\$ (19,322,894)	\$ 58,030,783

# Notes to Consolidated Financial Statements

(continued)

	Year Ended December 31, 2002				
	Countrywide Financial Corporation	Countrywide Home Loans, Inc.	Other Subsidiaries	Eliminations	Consolidated
(Dollar amounts in thousands)					
<b>Statement of Earnings:</b>					
Revenues	\$ 10,650	\$ 2,464,311	\$ 2,117,884	\$ (73,379)	\$ 4,519,466
Expenses	12,117	1,989,141	1,247,944	(72,759)	3,176,443
Provision for income taxes	(550)	178,140	324,000	(346)	501,244
Equity in net earnings of subsidiaries	842,696	—	—	(842,696)	—
Net earnings	<u>\$ 841,779</u>	<u>\$ 297,030</u>	<u>\$ 545,940</u>	<u>\$ (842,970)</u>	<u>\$ 841,779</u>

	December 31, 2001				
	Countrywide Financial Corporation	Countrywide Home Loans, Inc.	Other Subsidiaries	Eliminations	Consolidated
(Dollar amounts in thousands)					
<b>Balance Sheets:</b>					
Mortgage loans and mortgage-backed securities held for sale	\$ —	\$10,604,709	\$ —	\$ —	\$ 10,604,709
Mortgage servicing rights, net	—	6,116,082	—	—	6,116,082
Other assets	4,886,425	7,031,644	13,861,281	(5,283,337)	20,496,013
Total assets	<u>\$ 4,886,425</u>	<u>\$23,752,435</u>	<u>\$13,861,281</u>	<u>\$ (5,283,337)</u>	<u>\$ 37,216,804</u>
Company-obligated mandatorily redeemable capital trust pass-through securities	\$ —	\$ —	\$ 500,000	\$ —	\$ 500,000
Deposit liabilities	—	—	675,480	—	675,480
Short- and long-term debt	740,935	16,990,263	9,909,388	(1,532,731)	26,107,855
Other liabilities	57,848	4,341,398	1,452,081	(5,500)	5,845,827
Equity	4,087,642	2,420,774	1,324,332	(3,745,106)	4,087,642
Total liabilities and equity	<u>\$ 4,886,425</u>	<u>\$23,752,435</u>	<u>\$13,861,281</u>	<u>\$ (5,283,337)</u>	<u>\$ 37,216,804</u>

	Ten Months Ended December 31, 2001				
	Countrywide Financial Corporation	Countrywide Home Loans, Inc.	Other Subsidiaries	Eliminations	Consolidated
(Dollar amounts in thousands)					
<b>Statements of Earnings:</b>					
Revenues	\$ 9,859	\$ 1,639,328	\$ 1,015,955	\$ (29,461)	\$ 2,635,681
Expenses	6,804	1,178,191	691,528	(29,461)	1,847,062
Provision for income taxes	1,180	178,217	123,216	—	302,613
Equity in net earnings of subsidiaries	484,131	—	—	(484,131)	—
Net earnings	<u>\$ 486,006</u>	<u>\$ 282,920</u>	<u>\$ 201,211</u>	<u>\$ (484,131)</u>	<u>\$ 486,006</u>

## Notes to Consolidated Financial Statements

(continued)

### NOTE 25 – BUSINESS ACQUISITIONS

In May 2001, the Company acquired all of the outstanding common stock of Treasury Bank for a cash price of \$3.2 million. The acquisition of Treasury Bank was accounted for using the purchase method of accounting. Accordingly, a portion of the purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair market value at the date of acquisition. The fair value of identifiable assets acquired and liabilities assumed was \$75.3 million and \$72.6 million, respectively. The acquisition did not have a material impact on the Company's earnings per share.

### NOTE 26 – RELATED PARTY TRANSACTIONS

In July 1997, the Company sold the assets, operations and employees of Countrywide Asset Management Corporation, a then wholly-owned subsidiary of the Company, to IndyMac Mortgage Holdings, Inc. (formerly INMC Mortgage Holdings, Inc.) ("INMC"). Countrywide Asset Management Corporation was formerly the manager of INMC. As consideration, the Company received 3,440,800 newly issued common shares of INMC.

After the sale, the Company entered an agreement with INMC whereby the Company and certain affiliates agreed to provide certain services to INMC during a transition period that ended in 2000. During the ten-month period ended December 31, 2001 and the year ended February 28, 2001, no such services were provided. During the fiscal year ended February 28, 2001, the Company received \$2.1 million of net sublease income from INMC.

In August 2000, the Company sold its remaining 3.6 million shares of INMC stock back to INMC at a price of \$18.70 per share, which resulted in a \$4.9 million pre-tax gain.

During the fiscal year ended February 28, 2001, CHL sub-serviced mortgage loans originated by INMC, for which CHL received \$2.0 million in sub-servicing fees. No such services were provided subsequent to that date.

During the fiscal year ended February 28, 2001, the Company's broker-dealer subsidiary purchased \$3,275.4 million of MBS from INMC, and sold \$1,504.6 million of MBS to INMC. All of these transactions were done based on fair market value.

### NOTE 27 – LOAN SERVICING

The following table sets forth certain information regarding the Company's servicing portfolio of single-family mortgage loans, including loans and securities held-for-sale and loans subserviced for others, for the periods indicated:

	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
(Dollar amounts in millions)		
<b>Summary of changes in the servicing portfolio:</b>		
Beginning owned servicing portfolio	\$ 327,541	\$ 284,961
Add: Loan production	251,901	123,968
Bulk servicing acquired	4,228	3,771
Less: Servicing sold	(1,958)	–
Runoff <sup>(1)</sup>	(140,445)	(85,159)
Ending owned servicing portfolio	441,267	327,541
Subservicing portfolio	11,138	9,086
Total servicing portfolio	<u>\$ 452,405</u>	<u>\$ 336,627</u>
	December 31,	
	2002	2001

<b>Composition of owned servicing portfolio at period end:</b>		
Conventional mortgage loans	\$ 343,420	\$ 235,804
FHA-insured mortgage loans	45,252	46,190
VA-guaranteed mortgage loans	14,952	15,854
Subprime loans	21,976	18,495
Prime home equity loans	15,667	11,198
Total owned servicing portfolio	<u>\$ 441,267</u>	<u>\$ 327,541</u>

<b>Delinquent mortgage loans <sup>(2)</sup>:</b>		
30 days	2.73%	3.11%
60 days	0.87%	0.98%
90 days or more	1.02%	1.17%
Total delinquent mortgage loans	<u>4.62%</u>	<u>5.26%</u>
Loans pending foreclosure <sup>(2)</sup>	<u>0.55%</u>	<u>0.69%</u>

<b>Delinquent mortgage loans <sup>(2)</sup>:</b>		
Conventional	2.43%	2.45%
Government	12.61%	12.14%
Subprime	14.41%	14.42%
Prime home equity	0.80%	1.48%
Total delinquent mortgage loans	<u>4.62%</u>	<u>5.26%</u>

<b>Loans pending foreclosure <sup>(2)</sup>:</b>		
Conventional	0.23%	0.30%
Government	1.32%	1.23%
Subprime	2.93%	3.39%
Prime home equity	0.05%	0.02%
Total loans pending foreclosure	<u>0.55%</u>	<u>0.69%</u>

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

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



## Notes to Consolidated Financial Statements

(continued)

Properties securing the mortgage loans in the Company's servicing portfolio are geographically disbursed. The following is a summary of the geographical distribution of loans included in the Company's servicing portfolio for states with more than five percent of the servicing portfolio (as measured by unpaid principal balance) at December 31, 2002:

(Dollars in millions)

State	Unpaid Principal Balance	% Total Balance
California	\$ 117,470	26%
Texas	24,502	5%
Florida	23,943	5%
All other states	286,490	64%
Total	<u>\$ 452,405</u>	<u>100%</u>

### Servicing Compensation

As compensation for performance under its various loan servicing contracts, the Company is paid a monthly service fee that is generally expressed as a percentage of the current unpaid principal balance of the underlying loans. The loan servicing contracts generally specify a base service fee of between 0.25% and 0.50% per annum. With regard to its servicing contracts with Fannie Mae, Freddie Mac and Ginnie Mae, the Company can effectively retain a larger net service fee principally through its methods of securitization. In general, the larger the net servicing fee retained, the smaller the net cash proceeds received upon securitization. Therefore, the decision to retain net service fees above the contractual minimum amounts is based on the Company's assessment of the underlying economics. As of December 31, 2002, the weighted average service fee, net of applicable guarantee fees, of the Company's entire servicing portfolio (exclusive of sub-servicing) was 0.381% per annum.

The Company is generally entitled to float benefits related to its collection of mortgagor principal, interest, tax and insurance payments. The amount of float varies depending on the terms of the servicing contract and timing of receipt of payments from the mortgagors. The Company also is generally entitled to various fees that it collects associated with the mortgages such as late charges, prepayment penalties and re-conveyance fees, among others. The Company also generally has the right to solicit the mortgagors for other products and services that it offers, such as insurance and second mortgage loans. The value of the net service fees and other related income in excess of the cost to service the loans, including the costs of advances on behalf of delinquent mortgagors, underlies the Company's investment in MSRs.

As part of its loan servicing responsibilities, the Company is required to advance funds to cover delinquent scheduled principal and interest payments to security holders, as well as to cover delinquent tax and insurance payments to maintain the status of the loans. The Company had \$647.3 million of such advances outstanding at December 31, 2002 included in other assets. Generally, servicing advances are recoverable from either the mortgagor, the insurer of the loan, or the investor through the non-recourse provision of the loan servicing contract. These advances are recorded on the balance sheet at realizable value.

## NOTE 28 – CREDIT LOSSES RELATED TO SECURITIZED LOANS

Substantially all mortgage loans originated by the Company are securitized and sold into the secondary mortgage market. As described below, the degree to which credit risk on the underlying loans is transferred through the securitization process depends on the structure of the securitization. The Company's prime, first mortgage loans generally are securitized on a non-recourse basis, while its prime home equity and subprime mortgage loans generally are securitized with limited recourse for credit losses.

### Conforming Conventional Loans

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

### FHA-Insured and VA-Guaranteed Loans

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

### Non-conforming Conventional Prime Loans

Non-conforming conventional prime mortgage loans are generally pooled into "private-label" (non-agency) mortgage-backed securities. Such securitizations involve some form of credit enhancement, such as senior/subordinated structures or mortgage pool insurance. Securitizations that involve senior/subordinated structures contain securities that assume varying levels of credit risk ("subordinated securities"). Holders of subordinated securities are compensated for the credit risk assumed through a higher yield.

### Prime Home Equity Loans

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

## Notes to Consolidated Financial Statements

(continued)

### Subprime Loans

Subprime loans generally are pooled into private-label mortgage-backed securities. Such limited recourse securitizations generally have contained mortgage pool insurance as the primary form of credit enhancement, coupled with a limited corporate guarantee provided by the Company and/or a retained residual interest. When mortgage pool insurance is used, the associated premiums are paid directly by the Company. The Company also has pooled a portion of its subprime loans into securities guaranteed by Fannie Mae. In such cases, the Company has paid Fannie Mae a guarantee fee in exchange for Fannie Mae assuming the credit risk of the underlying loans.

While the Company generally securitizes its prime, first mortgage loans on a non-recourse basis, it does have potential liability under the representations and warranties it makes to purchasers and insurers of the loans. In the event of a breach of such representations and warranties, the Company may be required to either repurchase the subject mortgage loans or indemnify the investor or insurer. In such cases, any subsequent credit loss on the mortgage loans is borne by the Company.

The Company's exposure to credit losses related to its limited recourse securitization activities is limited to the carrying value of its subordinated interests and to the contractual limit of reimbursable losses under its corporate guarantees less the recorded liability for such guarantees. These amounts at December 31, 2002 are as follows:

(Dollar amounts in thousands)	December 31, 2002
Subordinated Interests:	
Prime home equity residual securities	\$ 437,060
Prime home equity transferors' interests	233,658
Subprime residual securities	71,251
	<u>\$ 741,969</u>
Corporate guarantees in excess of recorded reserves	<u>\$ 114,882</u>

The carrying value of the residual securities is net of expected future credit losses. Related to the Company's non-recourse and limited recourse securitization activities, the total credit losses incurred for the year ended December 31, 2002 and the ten months ended December 31, 2001 are summarized as follows:

(Dollar amounts in thousands)	Year Ended December 31, 2002	Ten Months Ended December 31, 2001
Subprime securitizations with retained residual interest	\$ 71,165	\$ 22,340
Subprime securitizations with corporate guarantee	10,524	2,514
Repurchased or indemnified loans	15,274	10,700
Prime home equity securitizations with retained residual interest	7,964	5,381
Prime home equity securitizations with corporate guarantee	436	—
VA losses in excess of VA guarantee	3,213	2,691
	<u>\$ 108,576</u>	<u>\$ 43,626</u>

### NOTE 29 – COMMITMENTS AND CONTINGENCIES Legal Proceedings

The Company and certain subsidiaries are defendants in various legal proceedings involving matters generally incidental to their business. Although it is difficult to predict the ultimate outcome of these proceedings, management believes, based on discussions with counsel, that any ultimate liability will not materially affect the consolidated financial position or results of operations of the Company and its subsidiaries.

### Commitments to Buy or Sell Mortgage-Backed Securities and Other Derivatives Contracts

In connection with its open commitments to buy or sell MBS and other derivative contracts, the Company may be required to maintain margin deposits. With respect to the MBS commitments, these requirements are generally greatest during periods of rapidly declining interest rates. With respect to other derivative contracts, margin requirements are generally greatest during periods of increasing interest rates.

### Lease Commitments

The Company leases office facilities under lease agreements extending through December 2012. 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 December 31,	(Dollar amounts in thousands)
2003	\$ 64,120
2004	53,941
2005	46,799
2006	40,586
2007	29,617
Thereafter	69,790
	<u>\$ 304,853</u>

Rent expense was \$80.0 million, \$48.6 million and \$53.2 million for the year ended December 31, 2002, the ten-month period ended December 31, 2001, and the year ended February 28, 2001, respectively.

### Restrictions on Transfers of Funds

The Company and certain of its subsidiaries are subject to regulatory and credit agreement restrictions which limit their ability to transfer funds to the Company through intercompany loans, advances or dividends. Pursuant to revolving credit facilities existing at December 31, 2002, the Company and CHL are required to maintain minimum consolidated net worth of \$2.5 billion and \$1.5 billion, respectively.

### Mortgage Reinsurance

Countrywide has entered into mortgage reinsurance agreements with several primary mortgage insurance companies. Under these agreements, the Company is obligated to absorb mortgage insurance losses in excess of a specified percentage of the principal balance of a given pool of loans, subject to a cap, in exchange for a portion of the pools' mortgage insurance premiums. Approximately \$53.5 billion of the servicing portfolio is covered by such mortgage reinsurance agreements. Management believes it has adequate valuation allowances in place to cover anticipated losses.

### NOTE 30 – SUBSEQUENT EVENTS

On January 23, 2003, the Company's Board of Directors declared a dividend of \$0.12 per share payable February 28, 2003 to shareholders of record on February 11, 2003.

Effective January 7, 2003, the Company reduced the borrowing limit under its committed secured revolving credit facility, described in Note 14, from \$2.4 billion to \$0.8 billion.

Effective January 7, 2003, the Company modified the agreement relating to the reusable \$5.7 billion commitment from a multi-seller asset-backed commercial paper conduit to purchase mortgage loans held-for-sale from the Company, described in Note 15, increasing the commitment to \$7 billion through January 31, 2003, \$6.5 billion during the period from January 31, 2003 through March 31, 2003, \$6 billion during the period from March 31, 2003 through May 12, 2003 and \$5.8 billion thereafter.

Effective February 5, 2003, the Company extended the commitment of the \$1.7 billion multi-seller asset-backed commercial paper conduit that purchases delinquent FHA and VA loans from the Company, described in Note 15, from June 13, 2003 to February 4, 2004.

On March 6, 2003, the Company and CHL filed a registration statement, which was amended on March 18, 2003 and declared effective by the SEC on March 20, 2003, pursuant to which the Company is authorized to issue its equity and debt securities and CHL is authorized to issue its debt securities in an aggregate amount of up to \$10 billion, some or all of which may include medium-term notes issued under Series L of CHL's medium-term note program, described in Note 14.

## Report of Independent Certified Public Accountants

Board of Directors and Shareholders  
Countrywide Financial Corporation

We have audited the accompanying consolidated balance sheets of Countrywide Financial Corporation, (formerly Countrywide Credit Industries, Inc.) and Subsidiaries as of December 31, 2002 and December 31, 2001 and the related consolidated statements of earnings, common shareholders' equity, cash flows and comprehensive income for the year ended December 31, 2002, the ten month period ended December 31, 2001 and the year ended February 28, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Countrywide Financial Corporation and Subsidiaries as of December 31, 2002 and December 31, 2001 and the consolidated results of their operations and their consolidated cash flows for the year ended December 31, 2002, the ten month period ended December 31, 2001 and the year ended February 28, 2001, in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Los Angeles, California  
February 28, 2003

## Common Stock and Dividend Information

The Company's common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange (Symbol: CFC). The following table sets forth the high and low sales prices (as reported by the New York Stock Exchange) for the Company's common stock and the amount of cash dividends declared during the last two periods:

Period Ended	For the Ten Months Ended December 31, 2001			
	Stock Price		Cash Dividends Declared	
	High	Low		
May 31, 2001	\$ 49.35	\$ 38.05	\$	0.10
August 31, 2001	46.90	38.55		0.10
November 30, 2001	48.73	37.40		0.10
Month ended December 31, 2001	43.23	38.30		0.03

Period Ended	For the Year Ended December 31, 2002			
	Stock Price		Cash Dividends Declared	
	High	Low		
March 31, 2002	\$ 45.45	\$ 37.61	\$	0.10
June 30, 2002	50.32	44.10		0.11
September 30, 2002	55.00	39.50		0.12
December 31, 2002	53.00	42.34		0.12

The Company has declared and paid cash dividends on its common stock quarterly since 1982. For the year ended December 31, 2002 and the ten months ended December 31, 2001, the Company declared quarterly cash dividends totaling \$0.45 and \$0.33 per share, respectively.

The ability of the Company to pay dividends in the future is limited by the earnings, cash position and capital needs of the Company, general business conditions and other factors deemed relevant by the Company's Board of Directors. The Company is prohibited under certain of its debt agreements, including its guarantee of CHL's revolving credit facility, from paying dividends on any capital stock (other than dividends payable in capital stock or stock rights), if in default, otherwise the Company may pay dividends in an aggregate amount not to exceed the greater of: (i) the after-tax net income of the Company, determined in accordance with generally accepted accounting principles, for the fiscal year to the end of the quarter to which the dividends relate, and (ii) the aggregate amount of dividends paid on common stock during the immediately preceding year. The ability of the Company to pay dividends may also be limited by the Federal Reserve if it determines that the payment of dividends by the Company would hinder its ability to serve as a source of strength for Treasury Bank or would otherwise be detrimental to the continued viability of Treasury Bank or the Company.

The primary source of funds for payments to stockholders by the Company is dividends received from its subsidiaries. Accordingly, such payments by the Company in the future also depend on various restrictive covenants in the debt obligations of its subsidiaries, the earnings, the cash position and the capital needs of its subsidiaries, as well as laws and regulations applicable to its subsidiaries. Unless the Company and CHL each maintains specified minimum levels of net worth and certain other financial ratios, dividends cannot be paid by the Company and CHL to remain in compliance with certain of CHL's debt obligations (including its revolving credit facility). See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

As of December 31, 2002 there were 2,040 shareholders of record of the Company's common stock, with 126,563,333 common shares outstanding.



## Production Office Locations

### CONSUMER MARKETS DIVISION

#### Western Division

Region 5 <i>Regional Vice President</i> Mark R. Huddleston	Region 7 <i>Regional Vice President</i> Lisa Bennett Harding	Region 9 <i>Acting Regional Vice President</i> Dan Alec Hanson	Region 29 <i>Regional Vice President</i> Vanna I. Conrady	Region 44 <i>Regional Vice President</i> Michael Querrey	Region 45 <i>Regional Vice President</i> Thomas Hunt	Region 46 <i>Regional Vice President</i> Mark E. Kemp
Benicia, CA Chico, CA Fair Oaks, CA Fairfield, CA Folsom, CA Medford, OR Modesto, CA Roseville, CA Sacramento, CA Salem, OR Santa Rosa, CA Stockton, CA	Carlsbad, CA <sup>(2)</sup> Carmel Valley, CA Chula Vista, CA Corona, CA El Cajon, CA Escondido, CA <sup>(2)</sup> Moreno Valley, CA Palm Desert, CA Riverside, CA <sup>(2)</sup> San Diego, CA <sup>(3)</sup> Temecula, CA	Anchorage, AK Beaverton, OR Bellevue, WA Everett, WA Federal Way, WA Lakewood, WA <sup>(2)</sup> Portland, OR Seattle, WA <sup>(2)</sup> Spokane, WA	Antioch, CA Castro Valley, CA Concord, CA Cupertino, CA Fremont, CA Honolulu, HI Oakland, CA Pleasanton, CA Reno, NV San Jose, CA So. San Francisco, CA	Arcadia, CA Glendale, CA Henderson, NV La Canada, CA Las Vegas, NV <sup>(4)</sup> Northridge, CA Pasadena, CA Santa Clarita, CA Simi Valley, CA Thousand Oaks, CA Woodland Hills, CA	Brea, CA Fountain Valley, CA Fullerton, CA Irvine, CA Laguna Niguel, CA <sup>(2)</sup> Lakewood, CA Long Beach, CA Los Angeles, CA Mission Viejo, CA Monterey Park, CA Rowland Heights, CA San Dimas, CA Santa Ana, CA <sup>(2)</sup> South Gate, CA Torrance, CA Whittier, CA	Bakersfield, CA <sup>(2)</sup> Fresno, CA Lancaster, CA Redlands, CA <sup>(2)</sup> Salinas, CA Santa Maria, CA Upland, CA Ventura, CA Visalia, CA

#### Central Division

Region 12 <i>Regional Vice President</i> Sherrie A. Brozovich	Region 17 <i>Regional Vice President</i> Linda L. O'Connor	Region 25 <i>Regional Vice President</i> Edward Henson	Region 26 <i>Regional Vice President</i> Cherry J. Scott-Trigalet	Region 34 <i>Acting Regional Vice President</i> Tom Halley	Region 35 <i>Regional Vice President</i> Richard M. Monley	Region 41 <i>Acting Regional Vice President</i> Tom Halley
Aurora, CO Boulder, CO Castle Rock, CO Cheyenne, WY Colorado Springs, CO <sup>(2)</sup> Denver, CO <sup>(2)</sup> Evergreen, CO Fort Collins, CO Grand Junction, CO Greeley, CO Lakewood, CO Littleton, CO Pueblo, CO Westminster, CO	Albuquerque, NM <sup>(3)</sup> Flagstaff, AZ Gilbert, AZ Glendale, AZ Goodyear, AZ Lake Havasu, AZ Phoenix, AZ Prescott, AZ Scottsdale, AZ Sierra Vista, AZ Tempe, AZ Tucson, AZ <sup>(2)</sup>	Arlington, TX Dallas, TX <sup>(2)</sup> De Soto, TX Flower Mound, TX Fort Worth, TX Garland, TX Lewisville, TX Little Rock, AR Plano, TX Southlake, TX Tyler, TX	Apple Valley, MN Eden Prairie, MN Edmond, OK Lawrence, KS Lawton, OK Lincoln, NE Norman, OK Oklahoma City, OK Omaha, NE Rochester, MN Topeka, KS Tulsa, OK Wichita, KS Woodbury, MN	Billings, MT Boise, ID Eagle, ID Midvale, UT Nampa, ID Ogden, UT Orem, UT Salt Lake City, UT <sup>(2)</sup> West Jordan, UT	Cedar Rapids, IA <sup>(2)</sup> Columbia, MO Davenport/Bettendorf, IA Dellwood, MO Des Moines, IA Kansas City, KS Kansas City, MO Lees Summit, MO Marshalltown, IA Mehlville/Oakville, MO O'Fallon, MO Overland Park, KS <sup>(2)</sup> Shawnee, KS Springfield, MO	Abilene, TX Amarillo, TX Austin, TX <sup>(2)</sup> Corpus Christi, TX El Paso, TX Killeen, TX Lubbock, TX Midland, TX San Antonio, TX <sup>(2)</sup>

#### Southeast Division

Region 18 <i>Regional Vice President</i> Kerry E. Rainey	Region 22 <i>Regional Vice President</i> Karyn T. Wilson	Region 28 <i>Regional Vice President</i> Frankie S. McGrew	Region 36 <i>Regional Vice President</i> Alina Robau Garcia	Region 40 <i>Regional Vice President</i> David L. Jones
Atlanta, GA <sup>(2)</sup> Charleston, SC Chattanooga, TN Columbia, SC Duluth, GA Greenville, SC Hilton Head, SC Marietta, GA Myrtle Beach, SC Peachtree City, GA Riverdale, GA Roswell, GA Stone Mountain, GA Woodstock, GA	Bel Air, MD Charlottesville, VA Cockeysville, MD Easton, MD Fairfax, VA Falls Church, VA Frederick, MD Gaithersburg, MD Gambills, MD Laurel, MD Manassas, VA Owing Mills, MD Richmond, VA <sup>(2)</sup> Roanoke, VA Severna Park, MD Springfield, VA Virginia Beach, VA Waldorf, MD <sup>(2)</sup> Washington, DC Yorktown, VA	Brandon, FL Clearwater, FL Daytona Beach, FL Gainesville, FL Indian Shores, FL Jacksonville Beach, FL Jacksonville, FL Longwood, FL Merritt Island, FL New Port Richey, FL Ocoee, FL Orlando, FL Palm Harbor, FL Satellite Beach, FL Tampa, FL Winter Park, FL Winter Springs, FL	Boynton Beach, FL Bradenton, FL Fort Lauderdale, FL Fort Myers, FL Lakeland, FL Miami Lakes, FL Miami, FL Naples, FL Plantation, FL Port Charlotte, FL Port St. Lucie, FL West Palm Beach, FL	Asheville, NC Cary, NC Charlotte, NC <sup>(3)</sup> Gastonia, NC Greensboro, NC Jacksonville, NC New Bern, NC Raleigh, NC Wilmington, NC Winston Salem, NC

## Production Office Locations

(continued)

Midwest Division					
<b>Region 10</b> <i>Regional Vice President</i> Cathy Ann Gibb  Baton Rouge, LA Beaumont/Pt. Arthur/Orange, TX <sup>(2)</sup> Central Houston, TX Covington, LA Hattiesburg, MS Houston, TX <sup>(2)</sup> Jackson, MS Kingwood/Humble, TX Metairie, LA New Orleans, LA Pearland, TX Shreveport, LA Sugar Land, TX The Woodlands, TX	<b>Region 11</b> <i>Regional Vice President</i> Michael W. Garmone  Cleveland, OH Cuyahoga Falls, OH Erie, PA Grove City, OH Hilliard, OH Massillon/Canton, OH Mentor, OH Monroeville, PA Pittsburgh, PA <sup>(2)</sup> Scott Depot, WV Strongsville, OH Warren, OH West Worthington, OH Westlake, OH Woodmere, OH	<b>Region 14</b> <i>Regional Vice President</i> Larry Wade Gunnin  Birmingham, AL Ft. Walton Beach, FL Huntsville, AL Johnson City, TN Knoxville, TN Madison, TN Memphis, TN Mobile, AL Montgomery, AL Murfreesboro, TN Nashville, TN Panama City/Lynn Haven, FL Pensacola, FL Prattville, AL	<b>Region 16</b> <i>Regional Vice President</i> Timothy James Cranston  Appleton/Oshkosh, WI Arlington Heights, IL Bloomington, IL Brookfield, WI Chicago, IL <sup>(2)</sup> Crystal Lake/McHenry, IL Elgin, IL Glenview, IL Green Bay, WI Hinsdale, IL Janesville, WI Joliet, IL Libertyville, IL Lombard, IL Madison, WI Naperville, IL Oak Lawn, IL Orland Park, IL <sup>(2)</sup> Peoria, IL Racine, WI Rockford, IL Schaumburg, IL Sheboygan, WI <sup>(2)</sup> Shorewood, IL Springfield, IL Wasau, WI West Allis, WI	<b>Region 20</b> <i>Regional Vice President</i> Beth Terry Grossman  Ann Arbor, MI Clarkston, MI Detroit, MI Grand Rapids, MI Kalamazoo, MI Novi, MI Okemos, MI Shelby Township, MI Toledo, OH Woodhaven, MI	<b>Region 39</b> <i>Regional Vice President</i> Richard A. Phillips  Centerville, OH Cincinnati, OH <sup>(2)</sup> Elizabethtown, KY Englewood, OH Evansville, IN Ft. Mitchell, KY Indianapolis, IN Lexington, KY Louisville, KY Mishawaka, IN New Albany, IN Schererville, IN Shelbyville, IN Speedway, IN Springfield, OH Vandalia, OH
Northeast Division					
<b>Region 3</b> <i>Regional Vice President</i> Wayne Rogers  Broomall, PA Cherry Hill, NJ Englishtown, NJ Frazer, PA Hamilton, NJ Huntingdon Valley, PA Lancaster, PA Lansdale, PA Mays Landing, NJ Mechanicsburg, PA Media, PA Newark, DE Philadelphia, PA Plymouth Meeting, PA Reading, PA Sewell, NJ Shrewsbury, NJ Tom's River, NJ Trexlerstown, PA Wyoming, PA York, PA	<b>Region 33</b> <i>Regional Vice President</i> Eric P. Declercq  Bloomfield, NJ Brooklyn, NY East Brunswick, NJ Forest Hills, NY Huntington/Long Island, NY Milford, CT Morristown, NJ Newark, NJ Newburgh, NY Raritan, NJ Staten Island, NY Wantagh, NY Wayne, NJ Westfield, NJ Yorktown Heights, NY	<b>Region 47</b> <i>Regional Vice President</i> Lawrence Brian Koss  Amherst, NY Boston, MA Burlington, MA Clifton Park, NY Jamaica Plain, MA Latham, NY Merrimack, NH North Easton, MA North Syracuse, NY Peabody, MA Somersworth, NH Somerville, MA South Portland, ME Southington, CT Waltham, MA <sup>(2)</sup> Warwick, RI Webster, NY West Springfield, MA Westborough, MA			

## Countrywide Regional Centers

### WHOLESALE LENDING DIVISION

#### Eastern Division

##### Region 78

*Regional Vice President*  
Tim Koger

Detroit, MI  
Grand Rapids, MI  
Indianapolis, IN  
Lisle, IL  
Milwaukee, WI  
Minn/St. Paul, MN  
St. Louis, MO

##### Region 83

*Regional Vice President*  
Gail Watters-Doyle

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

##### Region 92

*Regional Vice President*  
Jay Talbert

Danvers, MA  
East Hanover, NJ  
Hartford, CT  
Long Island, NY

##### Region 95

*Regional Vice President*  
Dennis Patchett

Cleveland, OH  
Columbus, OH  
DC/Metro, VA  
Louisville, KY  
Philadelphia, PA  
Pittsburgh, PA

##### Region 96

*Regional Vice President*  
Jim Ford

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

#### Western Division

##### Region 81

*Regional Vice President*  
Belinda Everett

Austin, TX  
Dallas, TX  
Houston, TX  
Oklahoma City, OK

##### Region 85

*Regional Vice President*  
Keith Ryan

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

##### Region 89

*Regional Vice President*  
Tom Mozilo

Colorado Springs, CO  
Denver, CO  
Kansas City, KS  
Phoenix, AZ

##### Region 91

*Regional Vice President*  
Jeff Garrison

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

##### Region 98

*Regional Vice President*  
Debbie Hood

Boise, ID  
Honolulu, HI  
Portland, OR  
Salt Lake City, UT  
Seattle, WA

### Subprime Regional Sales Offices

#### Eastern Division

##### Region 1

*Subprime Regional Sales Manager*  
Trent Williams

Northeast

##### Region 2

*Acting Subprime Regional Sales Manager*  
Tom Wagner

Great Lakes

##### Region 3

*Subprime Regional Sales Manager*  
Carl D'Onofrio

Ohio Valley/Mid-Atlantic

##### Region 4

*Subprime Regional Sales Manager*  
Jarret Kilpatrick

Southeast

#### Western Division

##### Region 5

*Subprime Regional Sales Manager*  
Ed Sumner

Midwest/Southwest

##### Region 6

*Subprime Regional Sales Manager*  
Chris Berty

Southern California

##### Region 7

*Subprime Regional Sales Manager*  
Steven Curry

Northern California

##### Region 8

*Subprime Regional Sales Manager*  
Jeffery Keeland

Northwest

### Fullfillment Centers

#### Prime

Anaheim, CA  
*1st Vice President*  
Dennis Kuncas

Jacksonville, FL  
*1st Vice President*  
Patricia Reilly

#### Subprime

Anaheim, CA  
*1st Vice President*  
Dan Payne

Plano, TX  
*1st Vice President*  
Elaine Allred

## Countrywide Regional Centers

(continued)

### CORRESPONDENT LENDING DIVISION

Offices			
<i>SVP Regional Sales/Marketing</i> Russell Anderson  West Hills, CA	<i>SVP Regional Sales/Marketing</i> Joseph Kresser  Pittsburgh, PA	<i>SVP Regional Sales/Marketing</i> Rex Adams  Plano, TX	<i>SVP Non Prime Sales</i> Karen Bausman  Lansdale, PA

### FULL SPECTRUM LENDING, INC.

<b>Region 488</b> <i>Regional Vice President</i> Archie Green  Rosemead, CA Simi Valley, CA	<b>Region 490</b> <i>Regional Vice President</i> Michael Munshi  Rosemead, CA	<b>Region 492</b> <i>Regional Vice President</i> Lewis Wehner  Alta Loma, CA Brea, CA Burbank, CA Chula Vista, CA Honolulu, HI Las Vegas, NV Long Beach, CA Northridge, CA San Diego, CA	<b>Region 493</b> <i>Regional Vice President</i> Crystal Joseph  Cincinnati, OH Dublin, OH Indianapolis, IN Strongsville, OH Troy, MI Westland, MI
<b>Region 494</b> <i>Regional Vice President</i> Paul Pope  Brookfield, WI Colorado Springs, CO Denver, CO Eden Prairie, MN Oaklawn, IL Rolling Meadows, IL St. Louis, MO Taylorsville, UT Tempe, AZ	<b>Region 495</b> <i>Regional Vice President</i> Timothy Caryl  Altamonte Springs, FL Birmingham, AL Charlotte, NC Jacksonville, FL Marietta, GA Miami, FL Norfolk, VA Tampa, FL West Palm Beach, FL	<b>Region 497</b> <i>Regional Vice President</i> John Mauk  Braintree, MA Edison, NJ Ellicott City, MD Forest Hills, NY Philadelphia, PA Springfield, NJ Tarrytown, NY Vienna, VA	<b>Region 498</b> <i>Regional Vice President</i> Regan Wooten  Bellaire, TX Dallas, TX Metairie, LA Nashville, TN Overland Park, KS
<b>Region 499</b> <i>Regional Vice President</i> Steven Hauser  Bothell, WA Federal Way, WA Fresno, CA San Jose, CA San Mateo, CA Sacramento, CA Vancouver, WA Walnut Creek, CA	<b>Region 692</b> <i>Regional Vice President</i> Patrick Davis  Rosemead, CA	<b>Region 698</b> <i>Regional Vice President</i> Patrick Dasher  Plano, TX	<b>Region 699</b> <i>Regional Vice President</i> James Hart  Rosemead, CA
<b>Region 834</b> <i>Regional Vice President</i> Louis De Vita  Bothell, WA Colorado Springs, CO Denver, CO Federal Way, WA Sacramento, CA Vancouver, WA	<b>Region 890</b> <i>Regional Vice President</i> Steve Brent  Van Nuys, CA	<b>Region 891</b> <i>Regional Vice President</i> Mark Duza  Plano, TX	

### COUNTRYWIDE HOME LOANS

**Angelo R. Mozilo**  
Chairman of the Board

**Stanford L. Kurland**  
President and Chief Executive Officer

#### Administration/Operations

**Thomas H. Boone**  
Senior Managing Director,  
Chief Operations Officer

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

**Leora I. Goren**  
Managing Director, Human Resources

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

**John Ardy**  
Executive Vice President,  
Performance Management

**Patrick M. Benton**  
Executive Vice President, Administration

**Stephen M. Douglass**  
Executive Vice President, Marketing

**Daniel W. Garcia, Sr.**  
Executive Vice President, Chief Operations  
Officer Information Technology,  
Banking and Insurance

**Susan Martin**  
Executive Vice President,  
Public Relations

**Charles K. Quon Jr.**  
Executive Vice President, Compensation

**Mark S. Upson**  
Executive Vice President, Administration

**Patrick Zorsch**  
Executive Vice President,  
Performance Management Group, Finance

#### Finance

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

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

**David J. Bigelow**  
Managing Director,  
Strategic Planning

**Frederick J. Budig**  
Managing Director, Internal Audit

**Laura K. Milleman**  
Managing Director and  
Chief Accounting Officer

**Jennifer Shiley Sandefur**  
Managing Director,  
Investor Relations and Treasurer

**Walter Smiechewicz**  
Managing Director,  
Enterprise Risk Assessment

**Jeffrey K. Speakes**  
Managing Director, Chief Economist

**Rodolfo Nonato**  
Executive Vice President,  
Enterprise Financial Systems Solutions

**Lisa M. Novacek**  
Executive Vice President,  
New Business Development

**Richard Pohl**  
Executive Vice President,  
Corporate Accounting

**Barry Lee Pyle**  
Executive Vice President,  
Corporate Development

**Michael Smith**  
Executive Vice President,  
Portfolio Risk Management

**Steven E. Sylvers**  
Executive Vice President, Taxation

#### Global

**Michael Keating**  
Managing Director, Global Operations

**Walter Glenn Boyd**  
Executive Vice President,  
Chief Financial Officer, Global Markets

**Michael Lea**  
Executive Vice President, Global Markets  
and President of Countrywide International  
Consulting Services, LLC

**Randy A. Willox**  
Executive Vice President,  
Global Business Development

#### Information Technology

**Richard K. Jones**  
Managing Director and  
Chief Technology Officer

**James Michael Cunningham**  
Executive Vice President, Infrastructure

**Angel A. Garcia**  
Executive Vice President,  
Chief Financial Officer,  
Information Technology

**Ed Godycki**  
Executive Vice President,  
CRM and eBusiness Technology

**Janet S. Parr**  
Executive Vice President,  
Information Technology Services

**James Pierce**  
Executive Vice President,  
Global Technology

**Omer Simeon**  
Executive Vice President,  
IT Consulting Services

**Phil Usher**  
Executive Vice President,  
Technology Research

#### Legal/Compliance

**Sandor E. Samuels**  
Senior Managing Director,  
Chief Legal Officer and Secretary

**Richard B. Wentz**  
Managing Director and  
Chief Compliance Officer

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

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

**Jordan D. Dorchuck**  
Executive Vice President and  
Deputy General Counsel

**Mary Jane Miller Seebach**  
Executive Vice President and  
Deputy General Counsel

**Douglas A. Thompson**  
Executive Vice President and  
Deputy General Counsel

**Sidney Lenz**  
Executive Vice President and  
Director, Government and  
Industry Affairs

#### Loan Administration

**Richard DeLeo**  
Managing Director  
Domestic Loan Administration

**Steve R. Bailey**  
Executive Vice President,  
Chief Operations Officer  
of Loan Administration

**Craig Baingo**  
Executive Vice President,  
Chief Financial Officer,  
Loan Administration

**Dorianne Cotter**  
Executive Vice President,  
Loan Administration  
Systems Development

**Richard A. Hildebrand**  
Executive Vice President,  
Bankruptcy, Foreclosure and  
Real Estate Marketing

**Richard Wilson**  
Executive Vice President,  
Document Management Services  
and Acquisitions

#### Loan Production

**David Sambol**  
Senior Managing Director and  
Chief of Production

**Joe D. Anderson**  
Managing Director,  
Consumer Markets Division

**Todd A. Dal Porto**  
Managing Director,  
Wholesale Lending Division

**Douglas E. Jones**  
Managing Director and President of  
Institutional Mortgage Services Group

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

**Jack W. Schakett**  
Managing Director,  
Chief Operating Officer, IMSG

**Mark E. Elbaum**  
Executive Vice President,  
Chief Financial Officer,  
Mortgage Loan Production

**Farzad Abolfathi**  
Executive Vice President,  
Application Development

**James Thomas Brankin**  
Executive Vice President,  
Document Systems and Compliance

**G. Richard Bright**  
Executive Vice President,  
Production Support

**William S. Cobb, Jr.**  
Executive Vice President,  
Production Operations

**James C. Comosa**  
Divisional Executive Vice President,  
Consumer Production

**John Dixon**  
Executive Vice President,  
Non-Conforming Products

**David Doyle**  
Executive Vice President,  
Consumer Direct Production

**Brian S. Hale**  
Executive Vice President,  
National Production

**Joanne B. Hannaman**  
Executive Vice President,  
Operations and Production Support

**Kenneth Earl Harthausen**  
Executive Vice President,  
Business to Business

**Jack L. Haynes**  
Executive Vice President,  
National Builder Division

**Chuck Hoffmans**  
Executive Vice President,  
Chief Financial Officer,  
Wholesale Lending Division

**Preston R. James, Jr.**  
Executive Vice President,  
Chief Operating Officer,  
Wholesale Lending Division

**Kathleen Riordan-Milner**  
Executive Vice President,  
Organizational Effectiveness,  
Wholesale Lending Division

**Carla Navas**  
Executive Vice President,  
Chief Operations Officer,  
Correspondent Lending Division



## Subsidiary Officers

(continued)

<p><b>Sam Ourfalian</b> Executive Vice President, Information Technology, Correspondent Lending Division</p> <p><b>Brian A. Robinett</b> Executive Vice President, Prime Lending, Wholesale Lending Division</p> <p><b>Deborah L. Rosen</b> Executive Vice President, Subprime Lending, Wholesale Lending Division</p> <p><b>Stephen W. G. Smith</b> Executive Vice President and Chief Financial Officer, Consumer Markets Division</p> <p><b>Gene Soda</b> Executive Vice President, Operations and Production Support, Consumer Markets Division</p> <p><b>Steve Solove</b> Executive Vice President, Strategic Implementation, Consumer Markets Division</p> <p><b>John Stewart</b> Executive Vice President, Strategic Business Development, Consumer Markets Division</p> <p><b>Paul Szymanski</b> Executive Vice President, Chief Financial Officer, IMSG</p> <p><b>Kamyar Nassir Tafreshi</b> Executive Vice President, Application Development</p> <p><b>Mike Taliaferro</b> Executive Vice President, Head of Production, Technology, Consumer Markets Division</p> <p><b>Allan C. Tappe</b> Executive Vice President, Chief Operating Officer, Consumer Markets Division</p> <p><b>Peter G. Wyman</b> Executive Vice President, Consumer Markets Division Technology</p> <p><b>R. J. Arnett</b> Division Executive Vice President, Western Division, Wholesale Lending Division</p> <p><b>Robert A. Brown</b> Division Executive Vice President, Consumer Production, Midwest/Northeast Retail Division, Consumer Markets Division</p> <p><b>Phyllis S. Bucklew</b> Division Executive Vice President, Consumer Production, Southeast Retail Division, Consumer Markets Division</p> <p><b>Tom Halley</b> Division Executive Vice President, Consumer Production, Central Retail Division, Consumer Markets Division</p>	<p><b>Dan Alec Hanson</b> Division Executive Vice President, Consumer Production</p> <p><b>Joseph Harvey</b> Division Executive Vice President, Eastern Division, Wholesale Lending Division</p> <p><b>Joseph A. Miller</b> Division Executive Vice President, Subprime Operations, Wholesale Lending Division</p> <p><b>Secondary Marketing</b></p> <p><b>Nicholas Krsnich</b> Managing Director and Chief Investment Officer</p> <p><b>David A. Spector</b> Managing Director, Secondary Marketing</p> <p><b>Celia Coulter</b> Executive Vice President, Mortgage Finance</p> <p><b>Mark DeJesse</b> Executive Vice President, Chief Trading Officer</p> <p><b>Michael Hogan</b> Executive Vice President, Secondary Marketing</p> <p><b>Iain Stobie</b> Executive Vice President, Artificial Intelligence Development</p> <p><b>Maurice D. Watkins</b> Executive Vice President, Secondary Marketing</p> <p><b>FULL SPECTRUM LENDING, INC.</b></p> <p><b>Gregory A. Lumsden</b> President and Chief Executive Officer</p> <p><b>Cliff Kitashima</b> Executive Vice President, Chief Credit/Compliance Officer</p> <p><b>Peter Kucma</b> Executive Vice President, Chief Operating Officer</p> <p><b>Lloyd Sargeant</b> Executive Vice President, National Loan Production</p> <p><b>LANDSAFE, INC.</b></p> <p><b>Doug Jones</b> Executive Vice Chairman and Chief Executive Officer</p> <p><b>Michael Faine</b> Managing Director and President</p>	<p><b>LandSafe Title Companies</b></p> <p><b>Michael Faine</b> Chairman of the Board and Chief Executive Officer</p> <p><b>Randall Cox</b> President</p> <p><b>LandSafe Appraisal Services</b></p> <p><b>Greg Dennis</b> President and Chief Operating Officer</p> <p><b>LandSafe Credit, Inc.</b></p> <p><b>D. Steve Boland</b> President</p> <p><b>Susie Ma</b> Executive Vice President, Operations</p> <p><b>LandSafe Flood Determination, Inc.</b></p> <p><b>Brad Meyer</b> President</p> <p><b>LandSafe Inspection Services, Inc.</b></p> <p><b>Brad Meyer</b> President</p> <p><b>BALBOA INSURANCE GROUP, INC.</b></p> <p><b>Carlos M. Garcia</b> Chairman</p> <p><b>Marshall M. Gates</b> Vice Chairman and Chief Executive Officer</p> <p><b>Andrew Gissinger, III</b> President and Chief Operating Officer</p> <p><b>Kristine McKay</b> Executive Vice President, Chief Administrative Officer</p> <p><b>Steven D. Phillips</b> Executive Vice President</p> <p><b>Tom Scrivener</b> Executive Vice President and Chief Financial Officer</p> <p><b>Balboa Life &amp; Casualty Group</b></p> <p><b>Carlos M. Garcia</b> Chairman</p> <p><b>Andrew Gissinger, III</b> Chief Executive Officer, President and Vice Chairman</p> <p><b>D. David Cissell</b> Vice Chairman</p> <p><b>Howard B. Wexler</b> Executive Vice President, Secretary and General Counsel</p> <p><b>Craig L. Carson</b> Executive Vice President, Sales and Marketing</p>	<p><b>Patrick T. Driscoll</b> Executive Vice President, Financial Services Market</p> <p><b>Vincent R. Gangi</b> Executive Vice President, Operations</p> <p><b>Nicholas J. Lannutti</b> Executive Vice President, Homeowners</p> <p><b>Richard Lewis</b> Executive Vice President, Risk</p> <p><b>Mark A. McElroy</b> Executive Vice President, Information Technology and Claims</p> <p><b>Thomas M. Scrivener</b> Executive Vice President and Chief Financial Officer</p> <p><b>James R. Sigafos</b> Executive Vice President, Product Development and Sales Support</p> <p><b>Balboa Reinsurance Company</b></p> <p><b>Stanford L. Kurland</b> Chairman</p> <p><b>Marshall M. Gates</b> President</p> <p><b>COUNTRYWIDE INSURANCE SERVICES, INC.</b></p> <p><b>Kenneth Mertz</b> President</p> <p><b>Greg R. McElroy</b> Executive Vice President, Chief Operating Officer</p> <p><b>Steven D. Phillips</b> Executive Vice President, Third Party Marketing</p> <p><b>DirectNet Insurance Agency, Inc.</b></p> <p><b>Kenneth Mertz</b> President</p> <p><b>Nicholas J. Lannutti</b> Executive Vice President</p> <p><b>Greg R. McElroy</b> Executive Vice President</p> <p><b>COUNTRYWIDE CAPITAL MARKETS, INC.</b></p> <p><b>Angelo R. Mozilo</b> Chairman</p> <p><b>Stanford L. Kurland</b> Vice Chairman</p> <p><b>David Sambol</b> Chief Executive Officer</p> <p><b>Ranjit Kripalani</b> President and Chief Operating Officer</p> <p><b>Steven Hively</b> Executive Vice President and Chief Financial Officer and Treasurer</p>
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## Subsidiary Officers

(continued)

### Countrywide Securities Corporation

**Stanford L. Kurland**  
Chairman

**David Sambol**  
Chief Executive Officer

**Ranjit Kripalani**  
Managing Director and President

**Anand Bhattacharya**  
Managing Director,  
Fixed Income Strategy and Research

**J. Grant Couch, Jr.**  
Managing Director and  
Chief Operating Officer

**Nancy De Liban**  
Managing Director,  
Structured Finance and Banking

**Kim Campbell**  
Executive Vice President

**Robert Frank**  
Executive Vice President,  
Trading Systems

**Steven Hively**  
Executive Vice President,  
Chief Financial Officer and Treasurer

**Alfred MacArthur Humphries**  
Executive Vice President

**Michael Moore**  
Executive Vice President,  
Information Technology

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

**Steve Tannehill**  
Executive Vice President

### Countrywide Servicing Exchange

**Angelo R. Mozilo**  
Chairman of the Board

**Stanford L. Kurland**  
Vice Chairman

**David Sambol**  
Chief Executive Officer

**Ranjit Kripalani**  
President and Chief Operating Officer

**Steven Tannehill**  
Executive Vice President

**J. Grant Couch, Jr.**  
Executive Vice President and  
Chief Operations Officer

**Steven Hively**  
Executive Vice President,  
Chief Financial Officer and Treasurer

### Countrywide Asset Management Corporation

**David Sambol**  
President

**Michael Schloessmann**  
Chief Operations Officer

### CCM INTERNATIONAL LIMITED

**David Sambol**  
Chairman and Chief Executive Officer

**Ranjit Kripalani**  
Managing Director and  
Chief Operations Officer

### COUNTRYWIDE BANK, A DIVISION OF TREASURY BANK, N.A.

**Edward E. Furash**  
Chairman

**Carlos M. Garcia**  
Vice Chairman

**James S. Furash**  
President and Chief Executive Officer

**Paul S. Decoff**  
Executive Vice President,  
Chief Operations Officer

**Jill Eppard**  
Executive Vice President,  
Chief Lending Officer

**Dean Lesiak**  
Executive Vice President,  
Chief Risk Officer

**Barry Levenson**  
Executive Vice President,  
Chief Marketing Officer

**Michael Muir**  
Executive Vice President,  
Chief Investment Officer and Treasurer

**Kathleen Ross**  
Executive Vice President,  
Chief Retail Banking Officer

**Clarence G. Simmons, III**  
Executive Vice President,  
Chief Operating Officer

**Greg Snelson**  
Executive Vice President,  
Chief Financial Officer

**Mark Suter**  
Executive Vice President,  
Chief Strategy Officer

**Trude A. Tsujimoto**  
Executive Vice President,  
General Counsel and Secretary

**David M. Walker**  
Executive Vice President,  
Lending and Credit

### COUNTRYWIDE WAREHOUSE LENDING

**David Sambol**  
Chairman

**Douglas E. Jones**  
Vice Chairman

**Jack Schakett**  
Chief Executive Officer

**Thomas Clay Williams**  
President

### GLOBAL HOME LOANS, LIMITED

**Stanford L. Kurland**  
Chairman

**Thomas H. Boone**  
Director

**Richard DeLeo**  
Director

**Michael Keating**  
Director

**Kevin Meyers**  
Chief Executive Officer

### COUNTRYWIDE INTERNATIONAL CONSULTING SERVICES, LLC

**Stanford L. Kurland**  
Chairman

**Thomas H. Boone**  
Director

**Michael Lea**  
President and Chief Executive Officer

### COUNTRYWIDE INTERNATIONAL TECHNOLOGY HOLDINGS, LIMITED

**Stanford L. Kurland**  
Chairman

**Thomas H. Boone**  
Director

**Michael Keating**  
President and Chief Executive Officer

### CW TECHSOLUTIONS LIMITED

**Stanford L. Kurland**  
Chairman

**Thomas H. Boone**  
Director

**Michael Keating**  
Director

**Thomas J. Jones**  
President

### UKVALUATION LIMITED

**Thomas H. Boone**  
Chairman

**Michael Keating**  
Director

**Mark S. Witherspoon**  
Managing Director

### COUNTRYWIDE FIELD SERVICES, INC.

**Thomas H. Boone**  
Chairman and Chief Executive Officer

**Richard DeLeo**  
Vice Chairman and Chief Operating Officer

**Catherine Beaman**  
President

### COUNTRYWIDE REALTY PARTNERS, INC.

**Richard DeLeo**  
Chief Executive Officer and President

**Angela Hess**  
Chief Financial Officer

### COUNTRYWIDE TAX SERVICES CORPORATION

**Thomas H. Boone**  
Chairman and Chief Executive Officer

**Richard DeLeo**  
Vice Chairman

**Paul Keith**  
President

### CTC REAL ESTATE SERVICES

**Thomas H. Boone**  
Chairman and Chief Executive Officer

**Richard DeLeo**  
Vice Chairman

**Catherine Beaman**  
President

**Sandor E. Samuels**  
Secretary

### CW SECURITIES HOLDINGS, INC.

**David Spector**  
Chairman

**Thomas Keith McLaughlin**  
Chief Financial Officer

**ADJUSTABLE RATE MORTGAGE (ARM)**—A mortgage loan that allows the lender to adjust the interest rate in accordance with a specified index periodically and as agreed to at the beginning of the loan.

**ASSET-BACKED SECURITY (ABS)**—A debt security that is backed by an underlying asset such as mortgages, auto loans, student loans, or credit card debt.

**BROKER-DEALER**—A firm that buys and sells securities for itself and other parties.

**COMMERCIAL PAPER (CP)**—Short-term obligations issued by a corporation or bank to finance items such as mortgage fundings, inventory, and accounts receivable. Typical maturities range from overnight to 270 days.

**DELINQUENCY**—The instance where a borrower fails to make their payment by the due date specified in the mortgage agreement.

**DERIVATIVE**—A financial security whose value is derived from an underlying security or interest rate.

**DISTRESSED ASSET (LOAN)**—A loan that has a delinquent pay history or other defect that impairs the value of the loan.

**EARNED PREMIUM**—The portion of a premium paid by an insured that has been allocated to the insurance company's loss experience, expenses, and profit year-to-date.

**ESCROW BALANCES**—Funds held by a mortgage servicer that derive from payments made by borrowers for principal/interest (PI) and taxes/insurance (TI). The PI funds are ultimately remitted by the servicer to the MBS investors and the TI funds are remitted to tax authorities and insurance providers.

**FEDERAL RESERVE**—As a financial holding company, Countrywide is regulated by the Federal Reserve. The Federal Reserve also serves as the country's central bank, conducts the nation's monetary policy, and maintains the stability of the financial system.

**FDIC INSURANCE**—Insurance provided by the Federal Deposit Insurance Corporation, a government entity, on bank deposits to maintain the stability of and public confidence in the nation's financial system. Accounts with Countrywide Bank, a division of Treasury Bank, N.A., are FDIC insured up to an aggregate of \$100,000 per depositor.

**FHLB ADVANCES**—Funding provided by Federal Home Loan Banks, a group of 12 banks that were created in 1932 to improve the supply of funds to local lenders. Countrywide's Treasury Bank, N.A. is a member of the Federal Home Loan Bank of Atlanta. All FHLBs are regulated by the Federal Housing Finance Board, an independent regulatory agency of the executive branch of the U.S. Government.

**FORECLOSURE**—The judicial process where a property owner's right to a property is terminated due to default on their mortgage payments.

**GOVERNMENT SPONSORED ENTITY (GSE)**—Private organizations with government charters whose function is to provide liquidity for the residential loan market. GSEs purchase loans from lenders and assume risk for the asset, thereby protecting the investors in the MBS.

**GUARANTY FEE**—A fee charged by GSEs to lenders to guarantee timely payment of principal and interest from the mortgages underlying an MBS.

**HELOC (HOME EQUITY LINE OF CREDIT)**—A type of second mortgage where the borrower is approved for a certain credit limit (based upon the equity in the home). The borrower may draw on that credit line until the limit is reached and is initially required to only pay interest on the amount drawn.

**HOMEOWNERS INSURANCE**—Package policy that combines (1) coverage against the insured's property being destroyed or damaged and (2) coverage for liability exposure of the insured. Homeowners policies cover both individuals, as well as property. In addition to the insured, those covered include his/her spouse, their relatives, and any others under 21 who are residents of the insured's household.

**HOME WARRANTY INSURANCE**—Covers a wide array of home appliance mechanical breakdowns.

**INTEREST ONLY (I/O) STRIP**—A security whose cash flows are based entirely on the interest payments of a specific pool or tranche within a mortgage-backed security.

**INTEREST RATE SWAP**—An agreement by which two parties agree to "swap" interest payment streams. Commonly, parties will swap fixed for floating interest rates.

**INSURANCE AGENCY**—A company that sells insurance to consumers but does not assume the insurance risk.

**INSURANCE CARRIER**—A company that underwrites and assumes the insurance risk.

**INSURANCE LOSS RATIO**—The relationship of incurred losses plus loss adjustment expense to earned premiums, expressed as a percentage.

**JUMBO LOAN**—A mortgage loan where the amount borrowed is greater than \$322,700.

**LENDER-PLACED INSURANCE**—Also referred to as creditor-placed insurance. An insurance policy placed by the lender to protect the asset (auto/property) when the borrower has failed to maintain adequate coverage.

**LOAN SERVICING**—The function of collecting the mortgage payments from the borrower and also providing the relevant customer service. Duties also include investor accounting, escrow administration, foreclosure services and loss mitigation.

**MACRO-HEDGE STRATEGY**—CFC's strategy to appropriately balance its production and mortgage servicing businesses.

**MEDIUM-TERM NOTES (MTN)**—Corporate debt obligations usually between 1–10 years with scheduled principal and interest payment dates.

**MORTGAGE-BACKED SECURITY (MBS)**—A security backed by pools of mortgages. Payments made by borrowers on the underlying mortgages are passed on to investors.

**MORTGAGE CATASTROPHE INSURANCE**—Provides coverage above that of a traditional homeowner insurance policy. Typical coverage includes paying the mortgage for up to 24 months, paying a portion of the deductible on the primary homeowners insurance policy in addition to other benefits.

**MORTGAGE SERVICING RIGHTS (MSR)**—The capitalized asset that represents the value of the servicing fees to be realized over the life of the loan.

**OFFICE OF THE COMPTROLLER OF THE CURRENCY (OCC)**—The administrator of national banks and the primary regulator of Treasury Bank, N.A. The OCC is a bureau of the U.S. Department of the Treasury.

**PIPELINE**—Loans at various stages of the origination process that have not yet funded.

**POOLING**—The process of grouping together mortgage loans with similar characteristics.

**PREPAYMENT SPEEDS**—The rate at which a mortgage debt is paid off prior to its due date. Prepayment speed is expressed as a percentage and calculated as follows: Annualized Total Prepayments/Servicing Volume.

**PRIMARY MORTGAGE INSURANCE (PMI)**—Insurance written by a private mortgage insurance company to protect the lender from payment default by the borrower. Usually required if the loan-to-value ratio exceeds 80%.

**REINSURANCE**—A form of insurance that insurance companies buy for their own protection. Assumed reinsurance: To accept part or all of the risk of a primary insurer or other reinsurer. Ceded reinsurance: To transfer risk from an insurance company to a reinsurance company.

**REPLACEMENT COST**—The cost to replace an insured's damaged or destroyed property with like kind and quality. Equivalent to the actual cash value, minus wear and tear (physical depreciation) and obsolescence.

**RESIDUAL VALUE**—The present value of cash flows to be received by the residual holder after senior investor debt service and credit enhancement.

**SECONDARY MORTGAGE MARKET**—The markets where lenders and investors buy and sell existing mortgages and MBS securities.

**SECURITIZATION**—The process of pooling loans into mortgage-backed securities for sale into the secondary mortgage market.

**SERVICE FEE**—A fee paid to a servicer for administering mortgages on behalf of investors that represents a percentage of the outstanding balance of the loan.

**SERVICING HEDGE**—CFC's strategy to protect the value of its investment in MSRs from the effects of increased prepayment activity that generally occurs in declining interest rate environments.

**SERVICING PORTFOLIO**—The total dollar value of all outstanding loan balances administered by the servicer.

**SUBPRIME (OR BC LENDING)**—A mortgage loan for borrowers with less than perfect credit.

**SUBSERVICING**—An arrangement where the owner of servicing rights contracts out the loan administration duties to another party.

**UNPAID PRINCIPAL BALANCE (UPB)**—The outstanding principal balance on a mortgage loan.

**WEIGHTED AVERAGE COUPON (WAC)**—The weighted average of the interest rates of loans within a pool or portfolio. The weighting factor is the UPB of the loan.

## BOARD OF DIRECTORS

### Angelo R. Mozilo

Chairman of the Board,  
Chief Executive Officer and President

### Stanford L. Kurland

Executive Managing Director and Chief Operating Officer

### Henry G. Cisneros

Founder, Chairman and Chief Executive Officer  
American CityVista  
Residential Housing Developer

### Jeffrey M. Cunningham

Chairman, Cunningham Partners, Inc.  
Strategic Advisors/Investors in Media and Technology  
Venture Capital Services

### Robert J. Donato

Executive Vice President, Los Angeles Branch  
UBS PaineWebber, Inc.  
Securities/Investment Advisory Services

### Michael E. Dougherty

Co-Founder and Chairman  
Dougherty Financial Group, LLC  
Financial Services Firm

### Ben M. Enis, Ph.D.

Marketing Consultant,  
Professor Emeritus of Marketing  
University of Southern California

### Edwin Heller

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

### Gwendolyn S. King

President  
Podium Prose  
Corporate Speakers Bureau and  
Speechwriting Service

### Oscar P. Robertson

President  
Orchem Corporation, Orpack-Stone Corporation, Orpack  
Corporation and OR Document Management Services, LLC  
Specialty Chemical and Packaging Manufacturer and  
Document Management Services

### Harley W. Snyder

President, HSC, Inc.  
Real Estate Consulting and Investment

## CORPORATE OFFICERS

### Angelo R. Mozilo

Chairman of the Board,  
Chief Executive Officer and President

### Stanford L. Kurland

Executive Managing Director and  
Chief Operating Officer

### Thomas H. Boone

Senior Managing Director and Chief of Global Processing

### Carlos M. Garcia

Senior Managing Director,  
Chief of Banking and Insurance Operations

### Thomas K. McLaughlin

Senior Managing Director and Chief Financial Officer

### David Sambol

Senior Managing Director and Chief of Production

### Sandor E. Samuels

Senior Managing Director, Chief Legal Officer and Secretary

### Eric P. Sieracki

Senior Managing Director, Corporate Finance and Treasurer

## CORPORATE OFFICERS (CONTINUED)

### Joe D. Anderson

Managing Director, Consumer Markets Division

### Andrew S. Bielanski

Managing Director, Marketing

### David Bigelow

Managing Director, Strategic Planning

### Frederick J. Budig

Managing Director, Internal Audit

### Todd A. Dal Porto

Managing Director, Wholesale Lending Division

### Richard DeLeo

Managing Director, Domestic Loan Administration

### Michael Faine

Managing Director and President, LandSafe, Inc.

### James S. Furash

Managing Director and President,  
Effinity Financial Corporation and Treasury Bank, N.A.

### Marshall M. Gates

Managing Director, Banking and Insurance Operations

### Andrew Gissinger, III

Managing Director and President, Balboa Insurance Group

### Leora I. Goren

Managing Director, Human Resources

### Douglas E. Jones

Managing Director, Correspondent Lending Division

### Richard K. Jones

Managing Director and Chief Technology Officer

### Michael Keating

Managing Director, Global Operations

### Ranjit Kripalani

Managing Director and President,  
Countrywide Capital Markets, Inc.

### Nicholas Krsnich

Managing Director and Chief Investment Officer

### Gregory A. Lumsden

Managing Director and President,  
Full Spectrum Lending, Inc.

### Anne D. McCallion

Managing Director and Chief Administrative Officer

### Laura K. Milleman

Managing Director and Chief Accounting Officer

### Jennifer Shiley Sandefur

Managing Director, Investor Relations and Assistant Treasurer

### Jack Schakett

Managing Director and Chief Operating Officer,  
Institutional Mortgage Services Group

### Walter Smiechewicz

Managing Director, Enterprise Risk Management

### Jeffrey K. Speakes

Managing Director, Chief Economist

### David Spector

Managing Director, Secondary Marketing

### Richard B. Wentz

Managing Director, Chief Compliance Officer  
and Assistant Secretary

## ACCOUNTANTS

### Grant Thornton LLP

1000 Wilshire Boulevard  
Suite 300  
Los Angeles, CA 90017-2464

## REGISTRAR AND TRANSFER AGENT

### The Bank of New York

P.O. Box 11258  
Church Street Station  
New York, NY 10286-1258  
(800) 524-4458

## CORPORATE HEADQUARTERS

4500 Park Granada  
Calabasas, CA 91302-1613  
(818) 225-3000

## COUNTRYWIDE REGIONAL CENTERS

5220 Las Virgenes Road  
Calabasas, CA 91302-1064  
(818) 871-4000

8501, 8511 & 8521 Fallbrook Avenue  
West Hills, CA 91304  
(818) 316-8000

26745 Malibu Hills Road  
Calabasas Hills, CA 91301  
(818) 871-2300

400 Countrywide Way  
Simi Valley, CA 93065  
(805) 520-5100

450 American Street  
Simi Valley, CA 93065  
(805) 520-5100

1757, 1800 Tapo Canyon Road  
Simi Valley, CA 93063  
(805) 577-4200

5898 Condor Drive  
Moorpark, CA 93021  
(805) 553-6000

994 Flower Glen Road  
Simi Valley, CA 93065  
(805) 955-3200

35 North Lake Avenue  
Pasadena, CA 91101  
(626) 304-8400

1515 Walnut Grove Avenue  
Rosemead, CA 91770  
(626) 927-3000

7105 Corporate Drive, Bldg. A & B  
Plano, TX 75024  
(972) 608-6000

225 W. Hillcrest Drive  
Thousand Oaks, CA 91360  
(805) 496-4042

29851 Agoura Road  
Agoura Hills, CA 91301  
(818) 575-1500

3349 Michelson Drive, Suite 200  
Irvine, CA 92612  
(949) 222- 8000

## Shareholder Information

### INQUIRIES REGARDING YOUR SHARE HOLDINGS

In all correspondence or telephone inquiries, please mention Countrywide Financial Corporation, your name as printed on your share certificate, your social security number, your address and your telephone number.

### REGISTERED SHAREHOLDERS

(Shares held in your name)  
Address shareholder inquiries to:

**The Bank of New York**  
Shareholder Relations Department  
P.O. Box 11258  
Church Street Station  
New York, NY 10286-1258  
(800) 524-4458  
<http://stock.bankofny.com>  
[Shareowner-svcs@bankofny.com](mailto:Shareowner-svcs@bankofny.com)

Send certificates for transfer and address changes to:

**The Bank of New York**  
Receive and Deliver Department  
P.O. Box 11002  
Church Street Station  
New York, NY 10286-1002  
(800) 524-4458  
<http://stock.bankofny.com>

### BENEFICIAL SHAREHOLDERS

(Shares held by your broker in the name of the brokerage house)

Questions should be directed to your broker.

### EMPLOYEE STOCK OPTION PARTICIPANTS

Questions regarding your account, outstanding options or shares received through option exercises should be addressed to:

**Countrywide Financial Corporation**  
Equity Benefit Plan Administration  
4500 Park Granada  
MSN CH-11  
Calabasas, CA 91302-1613  
(818) 225-3456

### EMPLOYEE 401(K) BENEFIT PLAN PARTICIPANTS

Questions regarding your 401(k) statements, loan provisions, fund transfers or other matters should be addressed to:

**Countrywide Financial Corporation**  
Human Resources: Benefits Department  
35 North Lake Ave.  
MSN 55-56  
Pasadena, CA 91101  
(800) 881-4968, Ext. 4718

### DIVIDEND REINVESTMENT PLAN

By enrolling in Countrywide Financial Corporation's Dividend Reinvestment and Optional Cash Stock Purchase Plan, shareholders may reinvest cash dividends on all, or some portion, of their common stock and may purchase the Company's common stock on a monthly basis with optional cash payments. Information on this Plan is available from:

**The Bank of New York**  
Securities Transfer Division  
Dividend Reinvestment  
P.O. Box 1958  
Newark, NJ 07101-9774  
(800) 524-4458

### COMPANY INFORMATION

Shareholders with questions regarding Countrywide Financial Corporation or who are interested in obtaining a copy of the Company's Annual Report on Form 10-K without exhibits, as filed with the Securities and Exchange Commission, for the year ended December 31, 2002, should contact:

**Countrywide Financial Corporation**  
Investor Relations  
4500 Park Granada  
MSN CH-19  
Calabasas, CA 91302-1613  
(818) 225-3550

### INVESTOR RELATIONS CONTACTS

**Jennifer Sandefur**  
Managing Director of Investor Relations for Countrywide Financial Corporation and Treasurer of Countrywide Home Loans, Inc.  
[Jennifer\\_Sandefur@countrywide.com](mailto:Jennifer_Sandefur@countrywide.com)

or

**Lisa Riordan**  
Senior Vice President, Investor Relations  
[Lisa\\_Riordan@countrywide.com](mailto:Lisa_Riordan@countrywide.com)

The Company has a website located at [www.countrywide.com](http://www.countrywide.com) and makes its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports available, free of charge on the website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. You may also receive Email Alerts when press releases, presentations, annual reports and SEC filings are added to our website. Simply click on "Shareholder Services" when you enter the Investor Relations Home Page and choose the "Email Alerts" option.

### ANNUAL SHAREHOLDERS' MEETING

The Annual Meeting of Shareholders will be held on Wednesday, June 11, 2003, at 10:00 a.m. (PDT):

**Countrywide's Corporate Headquarters**  
Learning Center Auditorium  
4500 Park Granada  
Calabasas, CA 91302

### MORTGAGE AND INSURANCE PRODUCTS

If you are in the process of purchasing a new home, are interested in refinancing or obtaining a home equity loan or would like to know about our diversified financial products and services, we are ready to serve you. A special unit of our Company is dedicated to responding to your inquiries and ensuring that you are satisfied.

Please call the Shareholder Hotline at (800) 544-8191.

Countrywide Insurance Services, Inc. is also pleased to offer you personally tailored and competitive insurance products and services.

Please call (888) 237-4953, Ext. 3214, for a quote.

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

### BANKING PRODUCTS

Countrywide Bank, a division of Treasury Bank, N.A., is pleased to offer great rates on deposit products, including certificates of deposit, money market deposit accounts, savings accounts, and interest-bearing checking accounts. For our current rates or to apply, please call our customer care center at 877-CWBANK-5 (877-292-2655) or visit us through the Internet at [www.countrywidebank.com](http://www.countrywidebank.com).







**Countrywide Financial Corporation**

4500 Park Granada

Calabasas, CA 91302-1613

[www.countrywide.com](http://www.countrywide.com)