

FREDDIE MAC
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2007	Adjusted	
		2006	2005
	(dollars in millions, except share-related amounts)		
<i>Interest income</i>			
Mortgage loans	\$ 4,449	\$ 4,152	\$ 4,010
Mortgage-related securities	34,893	33,850	28,968
Cash and investments	3,568	4,262	2,606
Total interest income	<u>42,910</u>	<u>42,264</u>	<u>35,584</u>
<i>Interest expense</i>			
Short-term debt	(8,916)	(8,665)	(6,102)
Long-term debt	(29,148)	(28,218)	(23,246)
Total interest expense on debt securities	<u>(38,064)</u>	<u>(36,883)</u>	<u>(29,348)</u>
Due to Participation Certificate investors	(418)	(387)	(551)
Total interest expense	<u>(38,482)</u>	<u>(37,270)</u>	<u>(29,899)</u>
Expense related to derivatives	(1,329)	(1,582)	(1,058)
<i>Net interest income</i>	<u>3,099</u>	<u>3,412</u>	<u>4,627</u>
<i>Non-interest income</i>			
Management and guarantee income (includes interest on guarantee asset of \$549, \$580 and \$450, respectively)	2,635	2,393	2,076
Gains (losses) on guarantee asset	(1,484)	(978)	(1,409)
Income on guarantee obligation	1,905	1,519	1,428
Derivative gains (losses)	(1,904)	(1,173)	(1,321)
Gains (losses) on investment activity	294	(473)	(97)
Gains on debt retirement	345	466	206
Recoveries on loans impaired upon purchase	505	-	-
Foreign-currency gains (losses), net	(2,348)	96	(6)
Other income	246	236	126
<i>Non-interest income</i>	<u>194</u>	<u>2,086</u>	<u>1,003</u>
<i>Non-interest expense</i>			
Salaries and employee benefits	(896)	(830)	(805)
Professional services	(443)	(460)	(386)
Occupancy expense	(64)	(61)	(58)
Other administrative expenses	(271)	(290)	(286)
Total administrative expenses	<u>(1,674)</u>	<u>(1,641)</u>	<u>(1,535)</u>
Provision for credit losses	(2,854)	(296)	(307)
Real estate owned operations expense	(206)	(60)	(40)
Losses on certain credit guarantees	(1,988)	(406)	(272)
Losses on loans purchased	(1,865)	(148)	-
Low-income housing tax credit partnerships	(469)	(407)	(320)
Minority interests in earnings of consolidated subsidiaries	8	(58)	(96)
Other expenses	(222)	(200)	(530)
<i>Non-interest expense</i>	<u>(9,270)</u>	<u>(3,216)</u>	<u>(3,100)</u>
Income (loss) before income tax (expense) benefit and cumulative effective of change in accounting principle	(5,977)	2,282	2,530
Income tax (expense) benefit	2,883	45	(358)
Net income (loss) before cumulative effect of change in accounting principle	<u>(3,094)</u>	<u>2,327</u>	<u>2,172</u>
Cumulative effect of change in accounting principle, net of tax benefit of \$-, \$- and \$32, respectively	-	-	(59)
<i>Net income (loss)</i>	<u>\$ (3,094)</u>	<u>\$ 2,327</u>	<u>\$ 2,113</u>
Preferred stock dividends and issuance costs on redeemed preferred stock (including \$6, \$- and \$- of issuance costs on redeemed preferred stock, respectively)	(404)	(270)	(223)
Amount allocated to participating security option holders	(5)	(6)	-
<i>Net income (loss) available to common stockholders</i>	<u>\$ (3,503)</u>	<u>\$ 2,051</u>	<u>\$ 1,890</u>
Basic earnings (loss) per common share:			
Earnings (loss) before cumulative effect of change in accounting principle	\$ (5.37)	\$ 3.01	\$ 2.82
Cumulative effect of change in accounting principle, net of taxes	-	-	(0.09)
<i>Basic earnings (loss) per common share</i>	<u>\$ (5.37)</u>	<u>\$ 3.01</u>	<u>\$ 2.73</u>
Diluted earnings (loss) per common share:			
Earnings (loss) before cumulative effect of change in accounting principle	\$ (5.37)	\$ 3.00	\$ 2.81
Cumulative effect of change in accounting principle, net of taxes	-	-	(0.08)
<i>Diluted earnings (loss) per common share</i>	<u>\$ (5.37)</u>	<u>\$ 3.00</u>	<u>\$ 2.73</u>
Weighted average common shares outstanding (in thousands)			
Basic	651,881	680,856	691,582
Diluted	651,881	682,664	693,511
Dividends per common share	\$ 1.75	\$ 1.91	\$ 1.52

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FREDDIE MAC
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2007	Adjusted 2006
	(in millions, except share-related amounts)	
Assets		
<i>Retained portfolio</i>		
Mortgage loans:		
Held-for-investment, at amortized cost (net of allowance for loan losses of \$256 and \$69, respectively)	\$ 76,347	\$ 63,697
Held-for-sale, at lower-of-cost-or-market	3,685	1,908
Mortgage loans, net	<u>80,032</u>	<u>65,605</u>
Mortgage-related securities:		
Available-for-sale, at fair value (includes \$17,010 and \$20,463, respectively, pledged as collateral that may be repledged)	615,665	626,731
Trading, at fair value	14,089	7,597
Total mortgage-related securities	<u>629,754</u>	<u>634,328</u>
<i>Retained portfolio</i>	<u>709,786</u>	<u>699,933</u>
<i>Cash and investments</i>		
Cash and cash equivalents	8,574	11,359
Investments:		
Non-mortgage-related securities:		
Available-for-sale, at fair value	35,101	45,586
Securities purchased under agreements to resell and federal funds sold	6,562	23,028
<i>Cash and investments</i>	<u>50,237</u>	<u>79,973</u>
Accounts and other receivables, net	5,003	5,073
Derivative assets, net	827	665
Guarantee asset, at fair value	9,591	7,389
Real estate owned, net	1,736	743
Deferred tax asset	10,304	4,346
Other assets	6,884	6,788
<i>Total assets</i>	<u>\$ 794,368</u>	<u>\$ 804,910</u>
Liabilities and stockholders' equity		
<i>Debt securities, net</i>		
Senior debt:		
Due within one year	\$ 295,921	\$ 285,264
Due after one year	438,147	452,677
Subordinated debt, due after one year	4,489	6,400
<i>Total debt securities, net</i>	<u>738,557</u>	<u>744,341</u>
Due to Participation Certificate investors	-	11,123
Accrued interest payable	7,864	8,307
Guarantee obligation	13,712	9,482
Derivative liabilities, net	582	165
Reserve for guarantee losses on Participation Certificates	2,566	550
Other liabilities	4,187	3,512
<i>Total liabilities</i>	<u>767,468</u>	<u>777,480</u>
Commitments and contingencies		
Minority interests in consolidated subsidiaries	176	516
<i>Stockholders' equity</i>		
Preferred stock, at redemption value	14,109	6,109
Common stock, \$0.21 par value, 806,000,000 and 726,000,000 shares authorized, respectively, 725,863,886 shares issued and 646,266,701 and 661,254,178 shares outstanding, respectively	152	152
Additional paid-in capital	871	962
Retained earnings	26,909	31,372
Accumulated other comprehensive income (loss), or AOCI, net of taxes, related to:		
Available-for-sale securities	(7,040)	(3,332)
Cash flow hedge relationships	(4,059)	(5,032)
Defined benefit plans	(44)	(87)
Total AOCI, net of taxes	<u>(11,143)</u>	<u>(8,451)</u>
Treasury stock, at cost, 79,597,185 shares and 64,609,708 shares, respectively	<u>(4,174)</u>	<u>(3,230)</u>
<i>Total stockholders' equity</i>	<u>26,724</u>	<u>26,914</u>
<i>Total liabilities and stockholders' equity</i>	<u>\$ 794,368</u>	<u>\$ 804,910</u>

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Year Ended December 31,					
	2007		Adjusted			
	Shares	Amount	Shares	Amount	Shares	Amount
			(in millions)			
<i>Preferred stock, at redemption value</i>						
Balance, beginning of year	132	\$ 6,109	92	\$ 4,609	92	\$ 4,609
Preferred stock issuances	344	8,600	40	1,500	-	-
Preferred stock redemptions	(12)	(600)	-	-	-	-
<i>Preferred stock, end of year</i>	<u>464</u>	<u>14,109</u>	<u>132</u>	<u>6,109</u>	<u>92</u>	<u>4,609</u>
<i>Common stock, par value</i>						
Balance, beginning of year	726	152	726	152	726	152
<i>Common stock, end of year</i>	<u>726</u>	<u>152</u>	<u>726</u>	<u>152</u>	<u>726</u>	<u>152</u>
<i>Additional paid-in capital</i>						
Balance, beginning of year		962		924		873
Stock-based compensation		81		60		67
Income tax benefit from stock-based compensation		-		9		6
Preferred stock issuance costs		(116)		(15)		-
Common stock issuances		(42)		(15)		(13)
Real Estate Investment Trust preferred stock repurchase		(14)		(1)		(9)
<i>Additional paid-in capital, end of year</i>		<u>871</u>		<u>962</u>		<u>924</u>
<i>Retained earnings</i>						
Balance, beginning of year, as previously reported						30,728
Beginning balance adjustments, net of taxes						(904)
Balance, beginning of year, as adjusted before cumulative effect of change in accounting principle						<u>29,824</u>
Cumulative effect of change in accounting principle, net of taxes		181		(13)		-
Balance, beginning of year, as adjusted		<u>31,553</u>		<u>30,625</u>		<u>29,824</u>
Net income (loss)		(3,094)		2,327		2,113
Preferred stock dividends declared		(398)		(270)		(223)
Common stock dividends declared		(1,152)		(1,317)		(1,076)
<i>Retained earnings, end of year</i>		<u>26,909</u>		<u>31,372</u>		<u>30,638</u>
<i>AOCI, net of taxes</i>						
Balance, beginning of year, as previously reported						(3,593)
Beginning balance adjustments, net of taxes						(587)
Balance, beginning of year, as adjusted before cumulative effect of change in accounting principle						<u>(4,180)</u>
Changes in unrealized gains (losses) related to available-for-sale securities, net of reclassification adjustments		(3,708)		(267)		(6,816)
Changes in unrealized gains (losses) related to cash flow hedge relationships, net of reclassification adjustments		973		1,254		1,637
Changes in defined benefit plans		43		(2)		7
Change in other comprehensive income, net of taxes, net of reclassification adjustments		(2,692)		985		(5,172)
Adjustment to initially apply Statement of Financial Accounting Standard, or SFAS, No.158, net of tax		-		(84)		-
<i>AOCI, net of taxes, end of year</i>		<u>(11,143)</u>		<u>(8,451)</u>		<u>(9,352)</u>
<i>Treasury stock, at cost</i>						
Balance, beginning of year	65	(3,230)	33	(1,280)	35	(1,353)
Common stock issuances	(1)	56	(1)	50	(2)	73
Common stock repurchases	16	(1,000)	33	(2,000)	-	-
<i>Treasury stock, end of year</i>	<u>80</u>	<u>(4,174)</u>	<u>65</u>	<u>(3,230)</u>	<u>33</u>	<u>(1,280)</u>
<i>Total stockholders' equity</i>		<u>\$ 26,724</u>		<u>\$ 26,914</u>		<u>\$ 25,691</u>
<i>Comprehensive income (loss)</i>						
Net income (loss)		\$ (3,094)		\$ 2,327		\$ 2,113
Changes in other comprehensive income, net of taxes, net of reclassification adjustments		(2,692)		985		(5,172)
<i>Total comprehensive income (loss)</i>		<u>\$ (5,786)</u>		<u>\$ 3,312</u>		<u>\$ (3,059)</u>

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2007	Adjusted	
		2006	2005
	(in millions)		
Cash flows from operating activities			
Net income (loss)	\$ (3,094)	\$ 2,327	\$ 2,113
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net	-	-	59
Hedge accounting gains	-	(2)	(22)
Derivative losses	2,231	1,262	977
Asset related amortization -- premiums, discounts and basis adjustments	(91)	128	871
Debt related amortization -- premiums and discounts on certain debt securities and basis adjustments	10,894	11,176	9,149
Net discounts paid on retirements of debt	(8,405)	(7,429)	(5,206)
Gains on debt retirement	(345)	(466)	(206)
Provision for credit losses	2,854	296	311
Low-income housing tax credit partnerships	469	407	320
Losses on loans purchased	1,865	148	-
(Gains) losses on investment activity	(305)	538	267
Foreign-currency (gains) losses, net	2,348	(96)	6
Deferred income taxes	(3,943)	(1,012)	(1,462)
Purchases of held-for-sale mortgages	(21,678)	(18,352)	(26,763)
Sales of held-for-sale mortgages	19,545	18,710	23,669
Repayments of held-for-sale mortgages	138	104	118
Due to PCs and Structured Securities Trust	946	-	-
Change in trading securities	(1,922)	1,085	2,594
Change in accounts and other receivables, net	(711)	(763)	28
Change in amounts due to Participation Certificate investors, net	(10,624)	302	(3,121)
Change in accrued interest payable	(263)	718	331
Change in income taxes payable	134	(282)	607
Change in Guarantee asset, at fair value	(2,203)	(1,125)	(726)
Change in Guarantee obligation	4,245	1,536	1,779
Other, net	565	(473)	449
<i>Net cash provided by (used for) operating activities</i>	<u>(7,350)</u>	<u>8,737</u>	<u>6,142</u>
Cash flows from investing activities			
Purchases of available-for-sale securities	(319,213)	(386,407)	(414,062)
Proceeds from sales of available-for-sale securities	109,973	86,737	95,029
Proceeds from maturities of available-for-sale securities	219,047	305,329	249,875
Purchases of held-for-investment mortgages	(25,059)	(15,382)	(12,826)
Repayments of held-for-investment mortgages	9,177	10,466	11,893
Proceeds from mortgage insurance and sales of real estate owned	1,798	1,486	1,679
Net (increase) decrease in securities purchased under agreements to resell and Federal funds sold	16,466	(7,869)	17,038
Derivative premiums and terminations and swap collateral, net	(2,484)	910	(6,859)
Investments in low-income housing tax credit partnerships	(158)	(161)	(127)
<i>Net cash provided by (used for) investing activities</i>	<u>9,547</u>	<u>(4,891)</u>	<u>(58,360)</u>
Cash flows from financing activities			
Proceeds from issuance of short-term debt	1,016,933	750,201	857,364
Repayments of short-term debt	(986,489)	(767,427)	(854,665)
Proceeds from issuance of long-term debt	183,161	177,361	153,504
Repayments of long-term debt	(222,541)	(159,204)	(125,959)
Repayments of minority interest in consolidated subsidiaries	-	(468)	(435)
Repurchase of Real Estate Investment Trust preferred stock	(320)	(27)	(142)
Proceeds from the issuance of preferred stock	8,484	1,485	-
Redemption of preferred stock	(600)	-	-
Proceeds from issuance of common stock	14	36	59
Repurchases of common stock	(1,000)	(2,000)	-
Payment of cash dividends on preferred stock and common stock	(1,553)	(1,579)	(1,299)
Excess tax benefits associated with stock-based awards	5	14	-
Payments of low-income housing tax credit partnerships notes payable	(1,068)	(1,382)	(940)
Increase (decrease) in cash overdraft	(8)	35	(54)
<i>Net cash provided by (used for) financing activities</i>	<u>(4,982)</u>	<u>(2,955)</u>	<u>27,433</u>
Net increase (decrease) in cash and cash equivalents	(2,785)	891	(24,785)
Cash and cash equivalents at beginning of year	11,359	10,468	35,253
<i>Cash and cash equivalents at end of year</i>	<u>\$ 8,574</u>	<u>\$ 11,359</u>	<u>\$ 10,468</u>
Supplemental cash flow information			
Cash paid (received) for:			
Debt Interest	\$ 37,473	\$ 33,973	\$ 27,186
Swap Collateral Interest	445	479	322
Derivative interest carry, net	(1,070)	325	(590)
Income taxes	927	1,250	1,212
Non-cash investing and financing activities:			
Held-for-sale mortgages securitized and retained as available-for-sale securities	169	13	175
Transfers from mortgage loans to real estate owned	3,130	1,603	1,517
Investments in low-income housing tax credit partnerships financed by notes payable	286	324	1,095
Transfers from held-for-sale mortgages to held-for-investment mortgages	41	123	291
Transfers from held-for-investment mortgages to held-for-sale mortgages	-	950	-
Transfers from retained portfolio Participation Certificates to held-for-investment mortgages	2,229	1,304	1,354

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