

# Freddie Mac

## SELECTED FINANCIAL DATA

The selected financial data for Freddie Mac (or the “corporation”) included in this Supplement should be read in conjunction with the Consolidated Financial Statements and related notes appearing in the Information Statement. Freddie Mac is a federally chartered corporation and its securities are exempt from registration under federal securities laws.

### FIVE-YEAR SELECTED FINANCIAL DATA

	At or for the Year Ended December 31,				
	2001 <sup>(1)</sup>	2000	1999	1998	1997
	(dollars in millions, except per share amounts)				
<b>Operating Data<sup>(2)</sup></b>					
Operating earnings	\$ 3,154	\$ 2,547	\$ 2,223	\$ 1,700	\$ 1,395
Operating earnings per common share — diluted	\$ 4.21	\$ 3.40	\$ 2.96	\$ 2.31	\$ 1.88
Operating return on realized common equity <sup>(3)</sup>	23.1%	22.9%	23.8%	24.6%	23.4%
Operating revenues	\$ 5,844	\$ 4,457	\$ 4,055	\$ 3,337	\$ 3,029
<b>Reported Data<sup>(4)</sup></b>					
<b>Balance Sheet and Capital Measures</b>					
Total assets	\$ 617,340	\$ 459,297	\$ 386,684	\$ 321,421	\$ 194,597
Debt securities, net	\$ 561,946	\$ 426,754	\$ 360,581	\$ 287,234	\$ 172,321
Total liabilities <sup>(5)</sup>	\$ 598,367	\$ 443,865	\$ 374,602	\$ 309,978	\$ 186,154
Summary of Capital Measures:					
Core capital <sup>(6)</sup>	\$ 19,336	\$ 14,381	\$ 12,691	\$ 10,715	\$ 7,375
Reserve for mortgage losses <sup>(7)</sup>	801	784	772	768	694
Total capital	20,137	15,165	13,463	11,483	8,069
Subordinated borrowings	3,125	145	130	162	521
Adjusted total capital	\$ 23,262	\$ 15,310	\$ 13,593	\$ 11,645	\$ 8,590
<b>Portfolio Balances</b>					
Retained portfolio <sup>(8)</sup>	\$ 491,719	\$ 385,693	\$ 324,443	\$ 255,009	\$ 164,421
Total PCs	\$ 948,409	\$ 822,310	\$ 749,081	\$ 646,459	\$ 579,385
Freddie Mac PCs held in retained portfolio	\$ 301,961	\$ 246,209	\$ 211,198	\$ 168,108	\$ 103,400
Total mortgage portfolio	\$1,138,167	\$ 961,794	\$ 862,326	\$ 733,360	\$ 640,406
<b>New Business Purchase and Financing Activities</b>					
New business purchases	\$ 475,091	\$ 207,423	\$ 272,472	\$ 288,338	\$ 121,490
Number of new business purchases (# of loans)	2,892,508	1,465,280	2,058,330	2,396,651	1,085,046
PC issuances	\$ 389,611	\$ 166,901	\$ 233,031	\$ 250,564	\$ 114,258
Structured securitizations <sup>(9)</sup>	\$ 192,437	\$ 48,202	\$ 119,565	\$ 135,162	\$ 84,366
<b>Income Statement and Ratios</b>					
Net interest income on earning assets	\$ 5,480	\$ 2,838	\$ 2,540	\$ 1,927	\$ 1,631
Management and guarantee income	\$ 1,639	\$ 1,489	\$ 1,405	\$ 1,307	\$ 1,298
Total revenues	\$ 7,365	\$ 4,457	\$ 4,055	\$ 3,337	\$ 3,029
Income before income taxes, extraordinary items and cumulative effect of change in accounting principle	\$ 6,300	\$ 3,534	\$ 3,161	\$ 2,356	\$ 1,964
Net income	\$ 4,147	\$ 2,547	\$ 2,223	\$ 1,700	\$ 1,395
Earnings per common share: <sup>(10)</sup>					
Basic	\$ 5.66	\$ 3.41	\$ 2.97	\$ 2.32	\$ 1.90
Diluted	\$ 5.64	\$ 3.40	\$ 2.96	\$ 2.31	\$ 1.88
Dividends per common share	\$ 0.80	\$ 0.68	\$ 0.60	\$ 0.48	\$ 0.40
Dividend payout ratio on common stock <sup>(11)</sup>	14.6%	20.0%	20.1%	20.7%	21.1%
Return on total equity <sup>(12)</sup>	29.2%	20.2%	20.3%	19.4%	19.5%
Return on average assets <sup>(13)</sup>	0.8%	0.6%	0.6%	0.7%	0.8%
Equity to assets ratio <sup>(14)</sup>	2.6%	3.0%	3.2%	3.6%	3.9%
Ratio of earnings to fixed charges <sup>(15)</sup>	1.22:1	1.14:1	1.16:1	1.16:1	1.17:1
Ratio of earnings to combined fixed charges and preferred stock dividends <sup>(15)</sup>	1.20:1	1.13:1	1.14:1	1.15:1	1.16:1

(1) The financial statements for the year ended December 31, 2001 have not been audited.  
(2) Based on Freddie Mac's supplemental performance measure. See "OPERATING EARNINGS" for more information.  
(3) Annual computations reflect the simple average of quarterly returns. Quarterly returns are computed as annualized operating net income less preferred stock dividends divided by average realized common stockholders' equity (common stockholders' equity excluding "Accumulated Other Comprehensive Income, Net of Taxes" ("AOCI")). 1997 ratios are calculated on an annualized basis.  
(4) Based on accounting principles generally accepted in the U.S. ("GAAP").  
(5) Excludes "Reserve for Losses on Mortgage Participation Certificates" and "Subordinated borrowings."  
(6) "Stockholders' equity" excluding AOCI.  
(7) "Reserve for losses on retained mortgages" plus the "Reserve for losses on Mortgage Participation Certificates."  
(8) Excludes related premiums, discounts and deferred fees, reserve for losses on retained mortgages and net unrealized gain (loss) on available-for-sale guaranteed mortgage securities.  
(9) Includes issuances of mortgage-related securities in which the cash flows are structured into various classes having a variety of features, the majority of which qualify for treatment as Real Estate Mortgage Investment Conduits ("REMICs") under the Internal Revenue Code.  
(10) "Earnings per common share-basic" are computed based on weighted average common shares outstanding. "Earnings per common share-diluted" are computed based on the total of weighted average common shares outstanding and the effect of dilutive common equivalent shares outstanding.  
(11) Annual computations reflect the simple average of quarterly ratios. Quarterly ratios are computed as dividends paid divided by "Net income available to common stockholders."  
(12) Annual computations reflect the simple average of quarterly returns. Quarterly returns are computed as annualized "Net income" divided by the simple average of the beginning and ending balances of "Stockholders' equity."  
(13) Annual computations reflect the simple average of quarterly returns. Quarterly returns are computed as annualized "Net income" divided by the simple average of the beginning and ending balances of "Total assets."  
(14) Annual computations reflect the simple average of quarterly ratios. Quarterly ratios are computed as the simple average of the beginning and ending "Stockholders' equity" divided by the simple average of the beginning and ending "Total assets."  
(15) Earnings consist of "Income before taxes, extraordinary items and cumulative effect of change in accounting principle" plus fixed charges. Fixed charges include interest (including amounts capitalized) and the portion of net rental expense deemed representative of interest. The ratios of Freddie Mac's earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends were 1.31:1 and 1.29:1, respectively, for the quarter ended December 31, 2001.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

**OPERATING EARNINGS**

Operating earnings, along with corresponding ratios, reflect adjustments to reported results to exclude certain accounting effects associated with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133"). These adjustments include the elimination of "Cumulative change in accounting principle, net of taxes" and "Fair value gains (losses)," which are included in earnings prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), as well as the recognition of straight-line amortization expense on purchased option premiums, which differs from how these premiums are recognized for reported earnings. Management believes that results presented on an operating basis, while not a defined term within GAAP, are beneficial in understanding and analyzing Freddie Mac's financial performance because they better reflect the economic impact of the corporation's risk management activities. Results presented on an operating basis are also useful because they are comparable with reported results for periods prior to the adoption of SFAS 133. Freddie Mac's operating earnings may not be comparable to supplemental performance measures that are used by other companies and which may have similar titles.

**CAPITALIZATION**

The following table sets forth Freddie Mac's capitalization as of December 31, 2001.

**Total Capitalization**

	<u>December 31, 2001</u> (dollars in millions)
Debt securities:	
Due within one year:	
Discount notes, medium-term notes and securities sold under agreements to repurchase .....	\$229,255
Current portion of long-term debt .....	<u>21,083</u>
Total due within one year .....	250,338
Due after one year .....	<u>311,608</u>
Total debt securities, net .....	561,946
Subordinated borrowings .....	3,125
Stockholders' equity .....	<u>15,373</u>
Total capitalization .....	<u><u>\$580,444</u></u>

See Notes 7 and 8 to the Consolidated Financial Statements included in the Information Statement for further information about Freddie Mac's debt securities, subordinated borrowings and stockholders' equity.

Freddie Mac engages in transactions affecting stockholders' equity from time to time and issues or retires debentures, notes and other debt obligations on an ongoing basis. In addition, management's implementation of SFAS 133, on January 1, 2001 affects, perhaps substantially, the volatility of both "Net income" and "Total stockholders' equity" in subsequent periods. Accordingly, on any date after December 31, 2001, stockholders' equity may differ, and the amount of debt obligations outstanding will differ, and may differ substantially, from the figures contained in this capitalization table.

**RECENT EVENTS**

**Regulation and Governmental Relationships**

Office of Federal Housing Enterprise Oversight ("OFHEO") published the final risk-based capital rule in the Federal Register on September 13, 2001. That publication triggered a one-year period before the risk-based capital rule may be incorporated into OFHEO's classification of the capital adequacy of Freddie Mac

and the Federal National Mortgage Association (“Fannie Mae”). During the implementation period, Freddie Mac and Fannie Mae are to be classified as adequately capitalized, the highest capital classification, so long as they meet the minimum capital standard. Freddie Mac anticipates that when the risk-based capital rule becomes operative at the end of the one-year implementation period Freddie Mac will continue to be classified at the highest possible classification, as it has been since OFHEO began classifying the Corporation in 1993.

On December 11, 2001, OFHEO published a notice of proposed rulemaking that would amend certain aspects of its final risk-based capital rule, including capital charges for counterparty risk. In the notice, OFHEO stated its belief that the proposal would not generally increase or decrease the amount of required capital to any substantial degree compared with the application of the final risk-based capital rule issued in September 2001. Freddie Mac filed comments with OFHEO concerning these proposed amendments on January 17, 2002.

On September 12, 2001, OFHEO published proposed regulations that would govern the operations of the board of directors of Freddie Mac (and Fannie Mae) and the conduct and responsibilities of our directors. On December 13, 2001, Freddie Mac filed comments with OFHEO expressing our view, among other matters, that the proposed regulations, if enacted, could interfere with, rather than improve, board oversight of Freddie Mac’s operations.

On September 12, 2001, OFHEO also published its final regulations concerning executive compensation. These regulations are intended to codify procedures and clarify terms relating to OFHEO’s statutory oversight obligations with respect to the executive compensation and termination benefits provided by Freddie Mac (and Fannie Mae).

## **CUSTOMER AND MARKET SUPPORT ACTIVITIES**

### **Market Support for PCs**

Freddie Mac supports the market for its PCs through various activities, including the securities trading activities of its Securities Sales and Trading Group, participating with external money management firms to buy and sell PCs, marketing to dealers and investors the relative merits of trading and investing in PCs, participating in various financial markets, and introducing new mortgage-related securities products and related initiatives. Freddie Mac may increase, reduce or discontinue these or other related activities at any time.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Quarters Ended			Twelve Months Ended	
	December 31, 2001	September 30, 2001	December 31, 2000	December 31, 2001	December 31, 2000
	(dollars in millions, except per share amounts)				
Interest income <sup>(1)</sup> .....	\$ 9,031	\$ 8,709	\$ 7,643	\$34,288	\$28,350
Interest expense .....	(7,155)	(7,271)	(6,905)	(28,808)	(25,512)
Net interest income on earning assets .....	1,876	1,438	738	5,480	2,838
Management and guarantee income .....	433	416	383	1,639	1,489
Fair value gains (losses) <sup>(1)</sup> .....	105	(85)	—	(27)	—
Other income, net .....	92	68	38	273	130
Total revenues .....	2,506	1,837	1,159	7,365	4,457
Provision for mortgage losses .....	(15)	(10)	(10)	(45)	(40)
REO operations expense .....	(9)	(8)	(15)	(39)	(66)
Administrative expenses .....	(259)	(201)	(184)	(844)	(713)
Housing tax credit partnerships .....	(39)	(34)	(26)	(137)	(104)
Total non-interest expense .....	(322)	(253)	(235)	(1,065)	(923)
Income before income taxes, extraordinary items and cumulative effect of change in accounting principle .....	2,184	1,584	924	6,300	3,534
Income taxes .....	(689)	(487)	(261)	(1,927)	(995)
Income before extraordinary items and cumulative effect of change in accounting principle, net of taxes .....	1,495	1,097	663	4,373	2,539
Extraordinary (loss) gain on retirement of debt, net of taxes .....	(131)	(65)	—	(231)	8
Cumulative effect of change in accounting principle, net of taxes .....	—	—	—	5	—
Net income .....	<u>\$ 1,364</u>	<u>\$ 1,032</u>	<u>\$ 663</u>	<u>\$ 4,147</u>	<u>\$ 2,547</u>
Preferred stock dividends .....	(59)	(58)	(45)	(217)	(180)
Net income available to common stockholders .....	<u>\$ 1,305</u>	<u>\$ 974</u>	<u>\$ 618</u>	<u>\$ 3,930</u>	<u>\$ 2,367</u>
Basic earnings per common share before extraordinary items and cumulative effect of change in accounting principle .....	\$ 2.07	\$ 1.49	\$ 0.89	\$ 5.98	\$ 3.40
Extraordinary (loss) gain on retirement of debt, net of taxes .....	(0.19)	(0.09)	—	(0.33)	0.01
Cumulative effect of change in accounting principle, net of taxes .....	—	—	—	0.01	—
Basic earnings per common share after extraordinary items and cumulative effect of change in accounting principle .....	<u>\$ 1.88</u>	<u>\$ 1.40</u>	<u>\$ 0.89</u>	<u>\$ 5.66</u>	<u>\$ 3.41</u>
Diluted earnings per common share before extraordinary items and cumulative effect of change in accounting principle .....	\$ 2.06	\$ 1.49	\$ 0.89	\$ 5.96	\$ 3.39
Extraordinary (loss) gain on retirement of debt, net of taxes .....	(0.19)	(0.09)	—	(0.33)	0.01
Cumulative effect of change in accounting principle, net of taxes .....	—	—	—	0.01	—
Diluted earnings per common share after extraordinary items and cumulative effect of change in accounting principle .....	<u>\$ 1.87</u>	<u>\$ 1.40</u>	<u>\$ 0.89</u>	<u>\$ 5.64</u>	<u>\$ 3.40</u>
Weighted average common shares outstanding (thousands)					
Basic .....	695,139	694,661	692,278	694,096	693,555
Diluted .....	697,671	697,203	695,870	696,876	696,448
Dividends per common share .....	\$ 0.20	\$ 0.20	\$ 0.17	\$ 0.80	\$ 0.68

(1) In fourth quarter 2001, Freddie Mac revised its reporting for certain income and expense associated with Statement of Financial Accounting Standards No. 133, which the corporation adopted on January 1, 2001. This change represents a reclassification between "Fair value gains (losses)" and "Net interest income on earning assets." This reclassification has been retroactively applied to previous quarters in 2001 for comparability purposes.

**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(unaudited)

	December 31, 2001	September 30, 2001	December 31, 2000
	(dollars in millions)		
<b>Assets</b>			
Mortgages, net .....	\$ 62,466	\$ 59,311	\$ 58,906
Guaranteed mortgage securities (GMS) .....	431,849	419,309	327,054
Premiums, discounts and deferred fees .....	(56)	(3,734)	(843)
Retained portfolio, net .....	494,259	474,886	385,117
Cash and cash equivalents .....	1,508	583	366
Investments .....	81,425	65,964	48,206
Other assets .....	40,148	30,474	25,608
<b>Total assets</b> .....	<b>\$ 617,340</b>	<b>\$ 571,907</b>	<b>\$ 459,297</b>
<b>Liabilities and Stockholders' Equity</b>			
Debt securities, net			
Due within one year .....	\$ 250,338	\$ 244,639	\$ 183,576
Due after one year .....	311,608	286,673	243,178
Total debt securities, net .....	561,946	531,312	426,754
Other liabilities .....	36,896	22,967	17,561
Total Mortgage Participation Certificates (Total PCs) .....	948,409	927,490	822,310
Less—Underlying mortgages .....	(948,409)	(927,490)	(822,310)
Total guarantees, net .....	—	—	—
Subordinated borrowings .....	3,125	3,122	145
Stockholders' equity .....	15,373	14,506	14,837
<b>Total liabilities and stockholders' equity</b> .....	<b>\$ 617,340</b>	<b>\$ 571,907</b>	<b>\$ 459,297</b>

**NOTES TO INTERIM FINANCIAL STATEMENTS**

**Basis of Presentation**

In the opinion of Freddie Mac, the preceding unaudited Condensed Consolidated Financial Statements (excluding the full-year 2000 Condensed Consolidated Statements of Income and December 31, 2000 Condensed Consolidated Balance Sheets), prepared from the corporation's books and records, contain all adjustments necessary for a fair presentation of the corporation's financial condition as of December 31, 2001, September 30, 2001 and December 31, 2000, and the results of operations for each of the three-month periods ended December 31, 2001, September 30, 2001 and December 31, 2000 and for the years ended December 31, 2001 and December 31, 2000. Freddie Mac's financial reporting and accounting policies conform to accounting principles generally accepted in the U.S. ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Adjustments included herein are of a normal and recurring nature. Certain previously reported amounts have been reclassified to conform with the current period presentation. These unaudited financial statements should be read in conjunction with the audited financial statements included in the Information Statement dated March 26, 2001. These unaudited financial statements are stated on a basis substantially consistent with that of the December 31, 2000 audited financial statements, with the exception of the adoption and application of Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133") on January 1, 2001. See "ACCOUNTING CHANGE" in the corporation's Information Statement Supplement dated November 14, 2001.

## Earnings per Common Share

“Earnings per common share-basic” are computed as net income available to common stockholders divided by the weighted average common shares outstanding (“weighted average common shares outstanding — basic”) for the period. “Earnings per common share-diluted” are computed as net income available to common stockholders divided by the total of weighted average common shares outstanding and the effect of dilutive common equivalent shares outstanding for (“weighted average common shares outstanding — diluted”) the period.

The table below provides a reconciliation of “Weighted average common shares outstanding-basic” to “Weighted average common shares outstanding-diluted.”

	Quarters Ended			Twelve Months Ended	
	December 31, 2001	September 30, 2001	December 31, 2000	December 31, 2001	December 31, 2000
	(shares in thousands)				
Weighted average common shares outstanding — basic . . . . .	695,139	694,661	692,278	694,096	693,555
Effect of dilutive common equivalent shares . . . . .	<u>2,532</u>	<u>2,542</u>	<u>3,592</u>	<u>2,780</u>	<u>2,893</u>
Weighted average common shares outstanding — diluted . . . . .	<u>697,671</u>	<u>697,203</u>	<u>695,870</u>	<u>696,876</u>	<u>696,448</u>

