

FREDDIE MAC
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2008	2007	2006
	(dollars in millions, except share-related amounts)		
<i>Interest income</i>			
Investments in securities	\$ 35,067	\$ 36,587	\$ 36,021
Mortgage loans	5,369	4,449	4,152
Other:			
Cash and cash equivalents	618	594	622
Federal funds sold and securities purchased under agreements to resell	423	1,280	1,469
Total other	1,041	1,874	2,091
<i>Total interest income</i>	<u>41,477</u>	<u>42,910</u>	<u>42,264</u>
<i>Interest expense</i>			
Short-term debt	(6,800)	(8,916)	(8,665)
Long-term debt	(26,532)	(29,148)	(28,218)
Total interest expense on debt	(33,332)	(38,064)	(36,883)
Due to Participation Certificate investors	-	(418)	(387)
Total interest expense	(33,332)	(38,482)	(37,270)
Expense related to derivatives	(1,349)	(1,329)	(1,582)
<i>Net interest income</i>	<u>6,796</u>	<u>3,099</u>	<u>3,412</u>
<i>Non-interest income (loss)</i>			
Management and guarantee income (includes interest on guarantee asset of \$1,121, \$549 and \$580, respectively)	3,370	2,635	2,393
Gains (losses) on guarantee asset	(7,091)	(1,484)	(978)
Income on guarantee obligation	4,826	1,905	1,519
Derivative gains (losses)	(14,954)	(1,904)	(1,173)
Gains (losses) on investment activity	(16,108)	294	(473)
Gains (losses) on foreign-currency denominated debt recorded at fair value	406	-	-
Gains (losses) on debt retirement	209	345	466
Recoveries on loans impaired upon purchase	495	505	-
Foreign-currency gains (losses), net	-	(2,348)	96
Low-income housing tax credit partnerships	(453)	(469)	(407)
Other income	125	246	236
<i>Non-interest income (loss)</i>	<u>(29,175)</u>	<u>(275)</u>	<u>1,679</u>
<i>Non-interest expense</i>			
Salaries and employee benefits	(828)	(828)	(784)
Professional services	(262)	(392)	(399)
Occupancy expense	(67)	(64)	(61)
Other administrative expenses	(348)	(390)	(397)
Total administrative expenses	(1,505)	(1,674)	(1,641)
Provision for credit losses	(16,432)	(2,854)	(296)
Real estate owned operations expense	(1,097)	(206)	(60)
Losses on certain credit guarantees	(17)	(1,988)	(406)
Losses on loans purchased	(1,634)	(1,865)	(148)
Securities administrator loss on investment activity	(1,082)	-	-
Minority interests in earnings (loss) of consolidated subsidiaries	(8)	8	(58)
Other expenses	(415)	(222)	(200)
<i>Non-interest expense</i>	<u>(22,190)</u>	<u>(8,801)</u>	<u>(2,809)</u>
Income (loss) before income tax (expense) benefit	(44,569)	(5,977)	2,282
Income tax (expense) benefit	(5,550)	2,883	45
<i>Net income (loss)</i>	<u>\$ (50,119)</u>	<u>\$ (3,094)</u>	<u>\$ 2,327</u>
Preferred stock dividends and issuance costs on redeemed preferred stock (including \$-, \$6 and \$- of issuance costs on redeemed preferred stock, respectively)	(675)	(404)	(270)
Amount allocated to participating security option holders	(1)	(5)	(6)
<i>Net income (loss) available to common stockholders</i>	<u>\$ (50,795)</u>	<u>\$ (3,503)</u>	<u>\$ 2,051</u>
Earnings (loss) per common share:			
Basic	\$ (34.60)	\$ (5.37)	\$ 3.01
Diluted	\$ (34.60)	\$ (5.37)	\$ 3.00
Weighted average common shares outstanding (in thousands)			
Basic	1,468,062	651,881	680,856
Diluted	1,468,062	651,881	682,664
Dividends per common share	\$ 0.50	\$ 1.75	\$ 1.91

The Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K dated March 11, 2009 are an integral part of these consolidated financial statements.

FREDDIE MAC
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2008	2007
	(in millions, except share-related amounts)	
Assets		
Cash and cash equivalents	\$ 45,326	\$ 8,574
Restricted cash	953	96
Federal funds sold and securities purchased under agreements to resell	10,150	6,562
<i>Investments in securities:</i>		
Available-for-sale, at fair value (includes \$21,302 and \$17,010, respectively, pledged as collateral that may be repledged)	458,898	650,766
Trading, at fair value	190,361	14,089
<i>Total investments in securities</i>	649,259	664,855
<i>Mortgage loans:</i>		
Held-for-sale, at lower-of-cost-or-fair-value (except \$401 at fair value at December 31, 2008)	16,247	3,685
Held-for-investment, at amortized cost (net of allowances for loan losses of \$690 and \$256, respectively)	91,344	76,347
<i>Total mortgage loans, net</i>	107,591	80,032
Accounts and other receivables, net	6,337	4,927
Derivative assets, net	955	827
Guarantee asset, at fair value	4,847	9,591
Real estate owned, net	3,255	1,736
Deferred tax assets, net	15,351	10,304
Low-income housing tax credit partnerships equity investments	4,145	4,568
Other assets	2,794	2,296
<i>Total assets</i>	<u>\$ 850,963</u>	<u>\$ 794,368</u>
Liabilities and stockholders' equity (deficit)		
Accrued interest payable	\$ 6,504	\$ 7,864
<i>Debt, net:</i>		
Short-term debt (includes \$1,638 at fair value at December 31, 2008)	435,114	295,921
Long-term debt (includes \$11,740 at fair value at December 31, 2008)	407,907	442,636
<i>Total debt, net</i>	843,021	738,557
Guarantee obligation	12,098	13,712
Derivative liabilities, net	2,277	582
Reserve for guarantee losses on Participation Certificates	14,928	2,566
Other liabilities	2,772	4,187
<i>Total liabilities</i>	881,600	767,468
Commitments and contingencies		
Minority interests in consolidated subsidiaries	94	176
<i>Stockholders' equity (deficit)</i>		
Senior preferred stock, at redemption value	14,800	-
Preferred stock, at redemption value	14,109	14,109
Common stock, \$0.00 and \$0.21 par value, 4,000,000,000 and 806,000,000 shares authorized, 725,863,886 shares issued and 647,260,293 shares and 646,266,701 shares outstanding, respectively	-	152
Additional paid-in capital	19	871
Retained earnings (accumulated deficit)	(23,191)	26,909
<i>Accumulated other comprehensive income (loss), or AOCI, net of taxes, related to:</i>		
Available-for-sale securities	(28,510)	(7,040)
Cash flow hedge relationships	(3,678)	(4,059)
Defined benefit plans	(169)	(44)
<i>Total AOCI, net of taxes</i>	(32,357)	(11,143)
Treasury stock, at cost, 78,603,593 shares and 79,597,185 shares, respectively	(4,111)	(4,174)
<i>Total stockholders' equity (deficit)</i>	(30,731)	26,724
<i>Total liabilities and stockholders' equity (deficit)</i>	<u>\$ 850,963</u>	<u>\$ 794,368</u>

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Year Ended December 31,					
	2008		2007		2006	
	Shares	Amount	Shares	Amount	Shares	Amount
	(in millions)					
<i>Senior preferred stock, at redemption value</i>						
Balance, beginning of year	-	\$ -	-	\$ -	-	\$ -
Senior preferred stock issuance	1	1,000	-	-	-	-
Increase in liquidation preference	-	13,800	-	-	-	-
<i>Senior preferred stock, end of year</i>	<u>1</u>	<u>14,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Preferred stock, at redemption value</i>						
Balance, beginning of year	464	14,109	132	6,109	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>464</u>	<u>14,109</u>	<u>132</u>	<u>6,109</u>
<i>Common stock, par value</i>						
Balance, beginning of year	726	152	726	152	726	152
Adjustment to par value	-	(152)	-	-	-	-
<i>Common stock, end of year</i>	<u>726</u>	<u>-</u>	<u>726</u>	<u>152</u>	<u>726</u>	<u>152</u>
<i>Additional paid-in capital</i>						
Balance, beginning of year		871		962		924
Stock-based compensation		74		81		60
Income tax benefit from stock-based compensation		(16)		-		9
Preferred stock issuance costs		-		(116)		(15)
Common stock issuances		(66)		(42)		(15)
Real Estate Investment Trust preferred stock repurchase		4		(14)		(1)
Adjustment to common stock par value		152		-		-
Common stock warrant issuance		2,304		-		-
Commitment from U.S. Department of the Treasury		(3,304)		-		-
<i>Additional paid-in capital, end of year</i>		<u>19</u>		<u>871</u>		<u>962</u>
<i>Retained earnings (accumulated deficit)</i>						
Balance, beginning of year		26,909		31,372		30,638
Cumulative effect of change in accounting principle, net of taxes		1,023		181		(13)
Balance, beginning of year, as adjusted		27,932		31,553		30,625
Net income (loss)		(50,119)		(3,094)		2,327
Senior preferred stock dividends declared		(172)		-		-
Preferred stock dividends declared		(503)		(398)		(270)
Common stock dividends declared		(329)		(1,152)		(1,310)
<i>Retained earnings (accumulated deficit), end of year</i>		<u>(23,191)</u>		<u>26,909</u>		<u>31,372</u>
<i>AOI, net of taxes</i>						
Balance, beginning of year		(11,143)		(8,451)		(9,352)
Cumulative effect of change in accounting principle, net of taxes		(850)		-		-
Balance, beginning of year, as adjusted		(11,993)		(8,451)		(9,352)
Changes in unrealized gains (losses) related to available-for-sale securities, net of reclassification adjustments		(20,616)		(3,708)		(267)
Changes in unrealized gains (losses) related to cash flow hedge relationships, net of reclassification adjustments		377		973		1,254
Changes in defined benefit plans		(125)		43		(2)
Change in other comprehensive income (loss), net of taxes, net of reclassification adjustments		(20,364)		(2,692)		985
Adjustment to initially apply Statement of Financial Accounting Standard No.158, net of tax		-		-		(84)
<i>AOI, net of taxes, end of year</i>		<u>(32,357)</u>		<u>(11,143)</u>		<u>(8,451)</u>
<i>Treasury stock, at cost</i>						
Balance, beginning of year	80	(4,174)	65	(3,230)	33	(1,280)
Common stock issuances	(1)	63	(1)	56	(1)	50
Common stock repurchases	-	-	16	(1,000)	33	(2,000)
<i>Treasury stock, end of year</i>	<u>79</u>	<u>(4,111)</u>	<u>80</u>	<u>(4,174)</u>	<u>65</u>	<u>(3,230)</u>
<i>Total stockholders' equity (deficit)</i>		<u>\$ (30,731)</u>		<u>\$ 26,724</u>		<u>\$ 26,914</u>
<i>Comprehensive income (loss)</i>						
Net income (loss)		\$ (50,119)		\$ (3,094)		\$ 2,327
Changes in other comprehensive income (loss), net of taxes, net of reclassification adjustments		(20,364)		(2,692)		985
<i>Total comprehensive income (loss)</i>		<u>\$ (70,483)</u>		<u>\$ (5,786)</u>		<u>\$ 3,312</u>

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2008	2007	2006
	(in millions)		
Cash flows from operating activities			
Net income (loss)	\$ (50,119)	\$ (3,094)	\$ 2,327
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Hedge accounting (gains) losses	16	-	(2)
Derivative losses	13,650	2,231	1,262
Asset related amortization -- premiums, discounts and basis adjustments	(493)	(10)	212
Debt related amortization -- premiums and discounts on certain debt securities and basis adjustments	8,765	10,894	11,176
Net discounts paid on retirements of debt	(8,844)	(8,405)	(7,429)
Gains on debt retirement	(209)	(345)	(466)
Provision for credit losses	16,432	2,854	296
Low-income housing tax credit partnerships	453	469	407
Losses on loans purchased	1,634	1,865	148
(Gains) losses on investment activity	16,122	(305)	538
Foreign-currency (gains) losses, net	-	2,348	(96)
Gains on foreign-currency denominated debt recorded at fair value	(406)	-	-
Deferred income tax expense (benefit)	5,507	(3,943)	(1,012)
Purchases of held-for-sale mortgages	(38,070)	(21,678)	(18,352)
Sales of held-for-sale mortgages	24,711	19,545	18,710
Repayments of held-for-sale mortgages	896	138	104
Due to Participation Certificates and Structured Securities Trust	(104)	946	-
Change in trading securities	-	(1,922)	1,085
Change in accounts and other receivables, net	(2,535)	(909)	(504)
Change in amounts due to Participation Certificate investors, net	-	(10,624)	302
Change in accrued interest payable	(786)	(263)	718
Change in income taxes payable	(1,187)	134	(282)
Change in guarantee asset, at fair value	4,744	(2,203)	(1,125)
Change in guarantee obligation	(1,502)	4,245	1,536
Other, net	827	496	(522)
<i>Net cash (used for) provided by operating activities</i>	<u>(10,498)</u>	<u>(7,536)</u>	<u>9,031</u>
Cash flows from investing activities			
Purchases of trading securities	(200,613)	-	-
Proceeds from sales of trading securities	94,764	-	-
Proceeds from maturities of trading securities	18,786	-	-
Purchases of available-for-sale securities	(174,968)	(319,213)	(386,407)
Proceeds from sales of available-for-sale securities	35,872	109,973	86,737
Proceeds from maturities of available-for-sale securities	194,036	219,047	305,329
Purchases of held-for-investment mortgages	(24,684)	(25,059)	(15,382)
Repayments of held-for-investment mortgages	6,468	9,451	10,207
Increase in restricted cash	(857)	(96)	-
Net proceeds (payments) from mortgage insurance and acquisitions and dispositions of real estate owned	(3,458)	1,798	1,486
Net (increase) decrease in Federal funds sold and securities purchased under agreements to resell	(3,588)	16,466	(7,869)
Derivative premiums and terminations and swap collateral, net	(12,829)	(2,484)	910
Investments in low-income housing tax credit partnerships	-	(158)	(161)
<i>Net cash (used for) provided by investing activities</i>	<u>(71,071)</u>	<u>9,725</u>	<u>(5,150)</u>
Cash flows from financing activities			
Proceeds from issuance of short-term debt	1,194,456	1,016,933	750,201
Repayments of short-term debt	(1,061,595)	(986,489)	(767,427)
Proceeds from issuance of long-term debt	241,222	183,161	177,361
Repayments of long-term debt	(267,732)	(222,541)	(159,204)
Proceeds from increase in liquidation preference of senior preferred stock	13,800	-	-
Proceeds from issuance of preferred stock	-	8,484	1,485
Redemption of preferred stock	-	(600)	-
Repurchases of common stock	-	(1,000)	(2,000)
Payment of cash dividends on senior preferred stock, preferred stock and common stock	(1,008)	(1,553)	(1,579)
Excess tax benefits associated with stock-based awards	3	5	14
Payments of low-income housing tax credit partnerships notes payable	(742)	(1,068)	(1,382)
Other, net	(83)	(306)	(459)
<i>Net cash provided by (used for) financing activities</i>	<u>118,321</u>	<u>(4,974)</u>	<u>(2,990)</u>
Net increase (decrease) in cash and cash equivalents	36,752	(2,785)	891
Cash and cash equivalents at beginning of year	8,574	11,359	10,468
<i>Cash and cash equivalents at end of year</i>	<u>\$ 45,326</u>	<u>\$ 8,574</u>	<u>\$ 11,359</u>
Supplemental cash flow information			
Cash paid (received) for:			
Debt interest	\$ 35,664	\$ 37,473	\$ 33,973
Swap collateral interest	149	445	479
Derivative interest carry, net	804	(1,070)	325
Income taxes	1,230	927	1,250
Non-cash investing and financing activities:			
Held-for-sale mortgages securitized and retained as available-for-sale securities	-	169	13
Transfers from mortgage loans to real estate owned	1,449	3,130	1,603
Investments in low-income housing tax credit partnerships financed by notes payable	-	286	324
Transfers from held-for-sale mortgages to held-for-investment mortgages	-	41	123
Transfers from held-for-investment mortgages to held-for-sale mortgages	-	-	950
Transfers from mortgage-related investments portfolio Participation Certificates to held-for-investment mortgages	-	2,229	1,304
Transfers from available-for-sale securities to trading securities	87,281	-	-
Issuance of senior preferred stock and warrant to purchase common stock to U.S. Department of the Treasury	3,304	-	-

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