Consumer Lending Segment

The Consumer Lending segment consists primarily of domestic credit card and installment lending activities. Total Consumer Lending segment loans increased 27% to $47.3 billion at December 31, 2002, compared to $37.3 billion at December 31, 2001. The achieved loan growth in this segment reflects the Company's substantial opportunity to grow loans using IBS.

Net charge-offs of Consumer Lending segment loans increased $875.8 million, or 60%, while average Consumer Lending segment loans for the year ended December 31, 2002 grew 41% compared to the same period in the prior year. For the year ended December 31, 2002, the Consumer Lending segment's net charge-offs as a percentage of average Consumer Lending segment loans outstanding were 5.54%, compared to 4.87% for the prior year. This increase was consistent with management's expectations and was driven by the seasoning of loans in the portfolio and the relatively lower loan growth experienced in the second half of 2002.

The 30-plus day delinquency rate for the Consumer Lending segment was 5.54% as of December 31, 2002, up 54 basis points from 5.00% as of December 31, 2001. The increase in delinquencies is due to the seasoning of the portfolio in addition to the recent downturn in the U.S. economy and increased unemployment rates.

During the third quarter of 2002, the Company expensed $38.8 million related to the early termination of leases, unused facility capacity, and accelerated depreciation of related fixed assets. The Company allocated $35.5 million of these expenses to the Consumer Lending segment.

Auto Finance Segment

The Auto Finance segment consists of automobile lending activities. Total Auto Finance segment loans outstanding increased 77% to $7.0 billion at December 31, 2002, compared to $4.0 billion at December 31, 2001. The increase in auto loans outstanding was the result of expanded organizational capabilities and increased reliance on proven IBS concepts, which attracted new dealer-sourced and direct loan volume.

Net charge-offs of Auto Finance segment loans increased $132.9 million, or 154%, while average Auto Finance loans for the year ended December 31, 2002 grew 183%, compared to the same period in the prior year. For the year ended December 31, 2002, the Auto Finance segment's net charge-offs as a percentage of average Auto Finance segment loans outstanding were 3.82% compared to 4.25% for the prior year. The decrease is primarily the result of improved credit quality on the Company's average loan portfolio for 2003. The decrease occurred despite deterioration in used car values, which caused higher loss severity.

The 30-plus day delinquency rate for the Auto Finance segment was 7.15% as of December 31, 2002, up 156 basis points from 5.59% as of December 31, 2001. The increase in delinquencies was primarily the result of an increase in higher yielding, lower credit quality loans and higher unemployment.

During the year, the Company sold $1.5 billion of auto loans to multiple buyers. These transactions resulted in gains of $28.2 million for the Auto Finance segment. These gains were offset in part by compensation expense of $14.5 million ($9.0 million after taxes) that was recognized and allocated to the Auto Finance segment for the accelerated vesting provisions of certain restricted stock issued in connection with the acquisition of PeopleFirst.

International Segment

The International segment consists of all non-domestic consumer lending activities. Total International segment loans outstanding increased 34% to $5.3 billion at December 31, 2002, compared to $4.0 billion at December 31, 2001. The increase in total outstandings was principally the result of the successful application of its IBS to originate loans in the United Kingdom and Canada.

Net charge-offs of International segment loans increased $61.3 million, or 53% while average International segment loans for the year ended December 31, 2002 grew 46%, compared to the same period in the prior year. For the year ended December 31, 2002, the International segment's net charge-offs as a percentage of average International segment loans outstanding were 3.76% compared to 3.59% for the prior year. The increase was driven primarily by greater charge-offs compared to loan growth for the Canadian market.

The 30-plus day delinquency rate for the International segment was 4.18% as of December 31, 2002, up 34 basis points from 3.84% as of December 31, 2001. International delinquencies increased primarily as a result of the seasoning of the Canadian credit portfolio and slower Canadian loan growth.

During 2002, the Company realigned certain aspects of its European operations. Charges related to the realignment of $12.5 million were recognized and allocated to the International segment.