

**SLM CORPORATION**  
**SUPPLEMENTAL FINANCIAL INFORMATION**  
**FOURTH QUARTER 2002**  
(Dollars in millions, except per share amounts)

The following supplemental information should be read in conjunction with SLM Corporation's (the "Company") press release of fourth quarter 2002 earnings, dated January 16, 2003.

Statements in this Supplemental Financial Information release, which refer to expectations as to future developments, are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve risks, uncertainties and other factors that may cause the actual results to differ materially from such forward-looking statements. Such factors include, among others, changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in such laws and regulations; changes in the demand for educational financing or in financing preferences of educational institutions, students and their families; and changes in the general interest rate environment. For more information, see the Company's filings with the Securities and Exchange Commission.

**Fourth Quarter Highlights**

In addition to the financial statements presented in accordance with Generally Accepted Accounting Principles ("GAAP"), the Company has developed non-GAAP additional performance measures, which it refers to as "core cash" results of operations. A key component in the "core cash" results of operations is to measure the Company's performance on a managed basis, which assumes that both on-balance sheet and off-balance sheet student loans are considered one portfolio and the related on-balance sheet financings are combined with off-balance sheet debt. In addition to measuring the performance of the Company on a managed basis, all of the Company's risk management activities are performed on a managed basis, particularly the management of its interest rate exposure.

The Company's "core cash" results of operation also eliminate the benefit of floor income, recognize the economic effect of all of the Company's hedging transactions as effective hedges, exclude certain gains or losses on sales of securities and derivatives and exclude the amortization and changes in market value of goodwill and acquired intangible assets. A detailed presentation and discussion of "core cash" results of operations including a reconciliation of "core cash" results to results under GAAP is included herein under "**Core Cash**" Results of Operations. The following key measurements are presented on a "core cash" basis for the quarters ended December 31, 2002, September 30, 2002 and December 31, 2001 and for the years ended December 31, 2002 and 2001.

	Quarters ended			Years ended	
	December 31, 2002	September 30, 2002	December 31, 2001	December 31, 2002	December 31, 2001
GAAP diluted earnings (loss)					
per share .....	\$ 1.93	\$ (.42)	\$ 1.69	\$ 4.93	\$ 2.28
"Core cash" diluted earnings					
per share .....	\$ .92	\$ 1.21	\$ 1.03	\$ 4.29	\$ 3.75
Managed student loan spread ..	1.91%	1.88%	1.89%	1.88%	1.81%
Managed net interest margin ...	1.49%	1.77%	1.71%	1.68%	1.62%
Fee and other income.....	\$ 124	\$ 134	\$ 111	\$ 503	\$ 455
Operating expenses.....	\$ 171	\$ 169	\$ 170	\$ 663	\$ 660
Student loan acquisitions.....	\$ 3,511	\$ 4,033	\$ 3,034	\$ 16,525	\$ 14,426
Preferred channel originations.	\$ 2,604	\$ 3,920	\$ 2,450	\$ 11,870	\$ 10,093
Loans securitized.....	\$ 5,840	\$ 2,829	\$ 1,542	\$ 13,670	\$ 6,439
Managed student loans					
outstanding .....	\$ 78,124	\$ 77,114	\$ 71,726	\$ 78,124	\$ 71,726

The main drivers of the growth in the Company's "core cash" earnings include the growth in the managed student loan portfolio, higher student loan spreads, increasing fee and other income and expense control. Also, earnings per share ("EPS") growth was positively affected by the decrease in the number of shares outstanding as a result of the Company's active common stock buyback program. As detailed in the above table and described below, the

Company succeeded in each of these areas in the fourth quarter of 2002 as the Company reported “core cash” diluted earnings per share of \$.92, which includes an after-tax impairment charge of \$.32 per share for potential losses on certain of the Company’s investments in commercial airline leveraged leases. Exclusive of the impairment charge, the “core cash” EPS of \$1.24 per share represents a 20 percent increase over the fourth quarter of 2001.

The growth in the Company’s managed student loans outstanding is driven by the acquisition of student loans being greater than the runoff of loans due to repayments and defaults and the net runoff in consolidation loans, if any. For 2002, the Company’s managed student loan portfolio grew by \$6.4 billion from \$71.7 billion at December 31, 2001 to \$78.1 billion at December 31, 2002. This growth in the student loan portfolio was fueled by the \$16.5 billion in new student loans acquired in 2002, a 15 percent increase over the \$14.4 billion acquired in 2001. This trend continued in the fourth quarter as the Company acquired \$3.5 billion in student loans, an increase of 16 percent over the \$3.0 billion acquired in the fourth quarter of 2001.

Low interest rate environments make consolidation loans particularly attractive to borrowers and as a result, the Company has seen a significant increase in student loan consolidations. Over the past two years the Company has experienced a net runoff of student loans from consolidation loan activity as more of the Company’s student loans were consolidated with other lenders. During 2002, the Company increased its marketing focus on consolidation loans and as a result net runoff of student loans for the year 2002 was reduced to \$421 million from \$1.2 billion in 2001. The success of the Company’s consolidation marketing campaign reversed this trend in the fourth quarter as the Company had a net increase in student loans from consolidations of \$30 million.

During 2002, the Company’s “core cash” student loan spread, which measures the spread on the Company’s managed portfolio of student loans exclusive of floor income, has ranged from 1.88 percent to 1.91 percent. This consistent performance of the student loan spread is attributable to the Company’s financing activities that have locked in the spread between the federally guaranteed student loan interest rate and the student loan cost of funds on a significant portion of the Company’s student loan portfolio.

The Company continues to expand its fee and other income-based businesses primarily through providing guarantor servicing, default management and collection services, and loan servicing. In the fourth quarter, the guarantee servicing and collection businesses generated revenue of \$83 million, essentially flat versus the \$85 million in the third quarter of 2002, but up 26 percent from the year-ago quarter. The increase over 2001 was mainly due to the acquisition of two collection companies in the first quarter of 2002. A change in method of accounting for supplemental fees on private student loans reduced other income by \$8 million in the fourth quarter.

The Company actively manages its operating expenses, which have remained relatively consistent at approximately \$170 million per quarter during 2002 despite the acquisition of two collection companies and the continued growth of the business. The savings in operating expenses that are offsetting the increased costs from the new businesses and internal growth is mainly due to the realization of synergies from the USA Group acquisition and increased operating efficiencies.

The Company continues to repurchase common shares mainly through the settling of equity forward contracts. The Company repurchased 2.4 million shares in the fourth quarter of 2002, which when netted against common share issuances related to benefit plans reduced common stock outstanding by 1 million shares.

During the fourth quarter 2002, the Company completed a record four securitizations that both accelerated and more importantly, diversified the Company’s asset-backed securitization program. The Company completed its first private student loan securitization and also completed the first securitization consisting exclusively of consolidation loans. These two securitizations are extremely important to the financing plan in connection with the GSE winddown as the Company continues to establish additional financing sources to replace GSE funding.

## Results of Operations

The following table presents the GAAP statements of income for the quarters ended December 31, 2002, September 30, 2002 and December 31, 2001 and for the years ended December 31, 2002 and 2001.

### Statements of Income

	Quarters ended			Years ended	
	December 31, 2002	September 30, 2002	December 31, 2001	December 31, 2002	December 31, 2001
Student loans .....	\$ 455	\$ 505	\$ 549	\$ 2,028	\$ 2,528
Advances/Facilities .....	16	14	20	64	97
Investments .....	<u>(11)</u>	<u>36</u>	<u>60</u>	<u>120</u>	<u>372</u>
Total interest income.....	460	555	629	2,212	2,997
Interest expense.....	<u>274</u>	<u>301</u>	<u>360</u>	<u>1,203</u>	<u>2,124</u>
Net interest income .....	186	254	269	1,009	873
Less: provision for losses .....	<u>34</u>	<u>34</u>	<u>24</u>	<u>117</u>	<u>66</u>
Net interest income after provision for losses .....	<u>152</u>	<u>220</u>	<u>245</u>	<u>892</u>	<u>807</u>
Other income:					
Gains on student loan securitizations .....	262	18	20	338	75
Servicing and securitization revenue.....	133	121	201	629	634
(Losses) on sales of securities .....	(67)	(63)	(74)	(255)	(178)
Guarantor servicing and collection fees...	83	85	66	325	255
Derivative market value adjustment.....	51	(366)	152	(204)	(452)
Other .....	<u>46</u>	<u>54</u>	<u>(10)</u>	<u>188</u>	<u>184</u>
Total other income (loss) .....	508	(151)	355	1,021	518
Operating expenses .....	<u>181</u>	<u>174</u>	<u>186</u>	<u>690</u>	<u>708</u>
Income (loss) before income taxes and minority interest in net earnings of subsidiary	479	(105)	414	1,223	617
Income tax (benefit).....	173	(43)	146	431	223
Minority interest in net earnings of subsidiary .....	-	-	2	-	10
<b>Net income (loss) .....</b>	<u>306</u>	<u>(62)</u>	<u>266</u>	<u>792</u>	<u>384</u>
Preferred stock dividends.....	<u>3</u>	<u>3</u>	<u>3</u>	<u>12</u>	<u>12</u>
Net income (loss) attributable to common stock .....	<u>\$ 303</u>	<u>\$ (65)</u>	<u>\$ 263</u>	<u>\$ 780</u>	<u>\$ 372</u>
Diluted earnings (loss) per share .....	<u>\$ 1.93</u>	<u>\$ (.42)</u>	<u>\$ 1.69</u>	<u>\$ 4.93</u>	<u>\$ 2.28</u>

## On-Balance Sheet Student Loan Spread

The following table analyzes the reported earnings from student loans on-balance sheet.

	Quarters ended			Years ended	
	December 31, 2002	September 30, 2002	December 31, 2001	December 31, 2002	December 31, 2001
Student loan yields.....	4.85%	5.28%	6.00%	5.48%	7.05%
Consolidation loan rebate fees	(.46)	(.41)	(.32)	(.40)	(.30)
Offset fees.....	(.08)	(.09)	(.13)	(.10)	(.13)
Borrower benefits .....	(.09)	(.08)	(.07)	(.08)	(.07)
Premium amortization.....	(.10)	(.14)	(.24)	(.19)	(.23)
Student loan income .....	4.12	4.56	5.24	4.71	6.32
Student loan cost of funds.....	(1.96)	(2.25)	(2.74)	(2.31)	(4.31)
Student loan spread.....	<u>2.16%</u>	<u>2.31%</u>	<u>2.50%</u>	<u>2.40%</u>	<u>2.01%</u>
<b>Student loan average</b>					
<b>balance.....</b>	<u>\$ 43,816</u>	<u>\$ 43,862</u>	<u>\$ 41,504</u>	<u>\$ 43,082</u>	<u>\$ 40,025</u>

Treasury bill and commercial paper rates have decreased since the borrower rates were reset on July 1, and as a result, the Company realized \$22 million or 20 basis points in floor revenue on its on-balance sheet student loan portfolio in the fourth quarter of 2002 versus \$61 million or 58 basis points in the year-ago quarter and \$40 million or 37 basis points in the prior quarter. In addition, the Company earned \$21 million in floor revenue during the fourth quarter of 2002 from securitized loans, which is recognized in servicing and securitization revenue. Since the student loan interest rate reset on July 1, interest rates in the second half of 2002 did not decline as much over the same period in 2001, reducing the potential of floor revenue in the second half of 2002. Due to the relatively low interest rate environment, the Company has continued to experience historically high levels of consolidation loan activity, which increases the consolidation loan rebate fees.

## Net Interest Margin and Net Interest Income

The net interest margin for the fourth quarters of 2002 and 2001 and the third quarter of 2002 was 1.47 percent, 2.18 percent and 2.11 percent, respectively. The fourth quarter 2002 net interest margin was adversely affected by a \$63 million pre-tax impairment charge (recorded in investment income) to cover the Company's exposure for losses on certain investments in commercial airline leveraged leases. This impairment reduced the net interest margin by 50 basis points in the fourth quarter.

## Average Balance Sheets

The following tables reflect the rates earned on assets and paid on liabilities for the quarters ended December 31, 2002, September 30, 2002 and December 31, 2001, and for the years ended December 31, 2002 and 2001.

	Quarters ended					
	December 31, 2002		September 30, 2002		December 31, 2001	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
<b>Average Assets</b>						
Student loans .....	\$ 43,816	4.12%	\$ 43,862	4.56%	\$ 41,504	5.24%
Advances/Facilities .....	980	7.36	1,044	6.13	1,705	5.29
Investments .....	<u>5,358</u>	<u>(0.92)</u>	<u>4,458</u>	<u>3.73</u>	<u>6,775</u>	<u>3.70</u>
Total interest earning assets .....	50,154	<u>3.64%</u>	49,364	<u>4.52%</u>	49,984	<u>5.04%</u>
Non-interest earning assets .....	<u>5,058</u>		<u>4,385</u>		<u>5,009</u>	
Total assets .....	<u>\$ 55,212</u>		<u>\$ 53,749</u>		<u>\$ 54,993</u>	
<b>Average Liabilities and Stockholders' Equity</b>						
Six-month floating rate notes .....	\$ 3,043	1.49%	\$ 3,062	1.77%	\$ 3,293	2.30%
Other short-term borrowings .....	25,909	1.70	25,965	2.01	29,260	2.52
Long-term notes .....	<u>21,708</u>	<u>2.78</u>	<u>20,492</u>	<u>3.01</u>	<u>17,997</u>	<u>3.42</u>
Total interest bearing liabilities .....	50,660	<u>2.15%</u>	49,519	<u>2.41%</u>	50,550	<u>2.83%</u>
Non-interest bearing liabilities .....	2,579		2,450		2,929	
Stockholders' equity .....	<u>1,973</u>		<u>1,780</u>		<u>1,514</u>	
Total liabilities and stockholders' equity .....	<u>\$ 55,212</u>		<u>\$ 53,749</u>		<u>\$ 54,993</u>	
Net interest margin .....		<u>1.47%</u>		<u>2.11%</u>		<u>2.18%</u>

	Years ended			
	December 31, 2002		December 31, 2001	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
<b>Average Assets</b>				
Student loans .....	\$ 43,082	4.71%	\$ 40,025	6.32%
Advances/Facilities .....	1,215	6.01	1,755	6.20
Investments .....	<u>5,130</u>	<u>2.51</u>	<u>7,212</u>	<u>5.25</u>
Total interest earning assets .....	49,427	<u>4.51%</u>	48,992	<u>6.15%</u>
Non-interest earning assets .....	<u>4,758</u>		<u>4,495</u>	
Total assets .....	<u>\$ 54,185</u>		<u>\$ 53,487</u>	
<b>Average Liabilities and Stockholders' Equity</b>				
Six-month floating rate notes .....	\$ 3,006	1.76%	\$ 4,112	4.17%
Other short-term borrowings .....	27,159	2.02	31,540	4.18
Long-term notes .....	<u>19,757</u>	<u>3.04</u>	<u>14,047</u>	<u>4.51</u>
Total interest bearing liabilities .....	49,922	<u>2.41%</u>	49,699	<u>4.27%</u>
Non-interest bearing liabilities .....	2,397		2,366	
Stockholders' equity .....	<u>1,866</u>		<u>1,422</u>	
Total liabilities and stockholders' equity .....	<u>\$ 54,185</u>		<u>\$ 53,487</u>	
Net interest margin .....		<u>2.08%</u>		<u>1.82%</u>

## Allowance for Loan Losses

An analysis of the Company's GAAP allowance for loan losses for the quarters ended December 31, 2002, September 30, 2002 and December 31, 2001, and for the years ended December 31, 2002 and 2001 is presented in the following table.

	Quarters ended			Years ended	
	December 31, 2002	September 30, 2002	December 31, 2001	December 31, 2002	December 31, 2001
Balance at beginning of period .....	\$ 232	\$ 230	\$ 248	\$ 265	\$ 227
Provision for loan losses:					
Private credit loans.....	31	32	12	95	40
Federally insured loans .....	<u>1</u>	<u>1</u>	<u>12</u>	<u>16</u>	<u>35</u>
Total provision for loan losses .....	32	33	24	111	75
Other .....	5	-	7	(41)	23
Charge-offs:					
Private credit loans.....	(18)	(32)	(12)	(77)	(42)
Federally insured loans .....	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(9)</u>	<u>(14)</u>
Total charge-offs.....	(19)	(34)	(15)	(86)	(56)
Recoveries:					
Private credit loans.....	2	6	1	9	3
Federally insured loans .....	<u>-</u>	<u>-</u>	<u>2</u>	<u>2</u>	<u>7</u>
Total recoveries.....	2	6	3	11	10
Net charge-offs.....	(17)	(28)	(12)	(75)	(46)
Reduction for sale of student loans .....	<u>(19)</u>	<u>(3)</u>	<u>(2)</u>	<u>(27)</u>	<u>(14)</u>
Balance at end of period .....	<u>\$ 233</u>	<u>\$ 232</u>	<u>\$ 265</u>	<u>\$ 233</u>	<u>\$ 265</u>
Allocation of the allowance for loan losses:					
Private credit loans.....	\$ 183	\$ 173	\$ 202	\$ 183	\$ 202
Federally insured loans .....	<u>50</u>	<u>59</u>	<u>63</u>	<u>50</u>	<u>63</u>
Total allowance for loan losses .....	<u>\$ 233</u>	<u>\$ 232</u>	<u>\$ 265</u>	<u>\$ 233</u>	<u>\$ 265</u>
Net charge-offs as a percentage of average student loans .....	(.15)%	(.25)%	(.11)%	(.18)%	(.11)%
Total allowance as a percentage of average student loans.....	.53 %	.53 %	.64 %	.54 %	.66 %
Total allowance as a percentage of ending student loans.....	.55 %	.52 %	.64 %	.55 %	.64 %
Private credit allowance as a percentage of the ending balance of private credit loans.....	3.43 %	2.98 %	4.56 %	3.43 %	4.56 %
Average student loans .....	\$ 43,816	\$ 43,862	\$ 41,504	\$ 43,082	\$ 40,025
Ending student loans .....	\$ 42,339	\$ 44,466	\$ 41,001	\$ 42,339	\$ 41,001
Ending balance of private credit loans .....	\$ 5,159	\$ 5,632	\$ 4,224	\$ 5,159	\$ 4,224

## **Securitization Program**

During the fourth quarter of 2002, the Company securitized \$5.8 billion of student loans in four transactions and recorded pre-tax securitization gains of \$262 million, which were 4.49 percent of the portfolio securitized. In the third quarter of 2002, the Company securitized \$2.8 billion of student loans and recorded pre-tax securitization gains of \$18 million, which was 0.63 percent of the portfolio securitized. In the fourth quarter of 2001, the Company securitized \$1.5 billion of student loans and recorded pre-tax securitization gains of \$20 million or 1.32 percent of the portfolio securitized. Included in the fourth quarter transactions was the Company's first securitization of non-federally insured private credit student loans (\$690 million) and the first securitization consisting entirely of consolidation loans (\$2.0 billion). The increase in the fourth quarter 2002 gain as a percentage of the portfolios securitized versus the prior quarter and the year ago quarter was due to the higher gains on these two new transactions. The gain on the private loan securitization was 6.18 percent of the portfolio securitized as the private loans securitized have wider spreads, longer average lives and are less expensive to service than similar sized FFELP student loans, partially offset by higher projected default rates. The gain on the consolidation loans was 9.82 percent of the portfolio securitized and is mainly driven by the higher estimated floor revenue from these loans.

Servicing and securitization revenue, the ongoing revenue from securitized loan pools, includes the revenue the Company receives for servicing loans in the securitization trusts, floor revenue on securitized loans and the income earned on the residual interest asset. Servicing and securitization revenue totaled \$133 million or 1.57 percent of the average balance of securitized loans in the fourth quarter of 2002 versus \$121 million or 1.47 percent in the prior quarter and \$202 million or 2.62 percent in the corresponding year-ago quarter. Fluctuations in servicing and securitization revenue are generally driven by floor revenue earned on the off-balance sheet student loans in a given period and by the average balance and mix of the securitized loan portfolio.

## **Capital**

Total equity for the Company was \$2.0 billion at December 31, 2002, an increase of \$325 million from December 31, 2001. In addition, the Company's tangible capital increased to 1.59 percent of managed assets at December 31, 2002, as compared to 1.32 percent of managed assets at December 31, 2001. Total capital includes the cumulative effect of SFAS 133, which reduced capital on a timing basis by 13 percent at December 31, 2002.

The Company repurchased 2.4 million shares during the fourth quarter of 2002 through equity forward settlements and open market purchases and issued a net 1.4 million shares as a result of benefit plans. At December 31, 2002, the total common shares that could potentially be acquired over the next four years under outstanding equity forward contracts was 9.6 million shares at an average price of \$85.35 per share. The Company has remaining authority to enter into additional share repurchases and equity forward contracts for 6.7 million shares.

## **Leveraged Leases**

The Company has investments in leveraged leases, net of the impairment, totaling \$207 million, of which \$168 million represent general obligations of major U.S. commercial airlines. The airline industry has been in a state of uncertainty since the events of September 11, 2001. Based on an analysis of the expected loss on certain leverage leases plus the increase in incremental tax obligations related to forgiveness of debt obligations and/or the taxable gain on the sale of the aircraft, the Company recognized an additional after-tax impairment charge of \$51 million, or \$.32 per share.

## **“Core Cash” Results of Operations**

### ***Explanation of Adjustments to GAAP***

In accordance with the Rules and Regulations of the Securities and Exchange Commission the Company prepares financial statements in accordance with GAAP. In addition to evaluating the Company on GAAP-based data, management, credit rating agencies, lenders and analysts also evaluate the Company on certain non-GAAP performance measures. These non-GAAP performance measures treat securitization transactions as financings versus sales, eliminate the benefit of floor income, recognize the effect of all of the Company’s hedging transactions as effective hedges, exclude certain gains or losses on sales of securities and derivatives and exclude the amortization and changes in market value of goodwill and acquired intangible assets. Management refers to these measures as “core cash” results of operations. Management monitors the periodic “core cash” earnings of the Company’s managed student loan portfolio and believes that they provide vital information about the Company’s student loan business. A further discussion of each adjustment from GAAP earnings to non-GAAP measures follows.

### ***Securitizations***

Under GAAP, the Company’s securitizations are treated as sales. At the time of sale, the Company records a residual interest asset that equals the present value of the estimated future net cash flows from the portfolio of loans sold and, at the same time, records a gain on the sale calculated as the difference between the fair value and the carrying value of the assets sold. The gain on sale effectively accelerates income recognition of the pool of student loans securitized while the ultimate realization of such income remains dependent on their actual performance over time. Fees earned for servicing the loan portfolios and interest earned on the residual interest asset are recognized over the life of the securitization transaction as servicing and securitization revenue. For “core cash” results of operations, the Company treats securitization transactions as financings and eliminates the securitization gain on sale and subsequent servicing and securitization revenue from income, and recognizes the net interest income from securitized loans as if they remained on-balance sheet so that the performance of the portfolio of loans is measured on a managed basis.

### ***Floor Revenue***

The Company's portfolio of FFELP student loans generally earns interest at the higher of a floating rate based on a formula set by the Department of Education and the borrower rate, which is fixed over a period of time. The Company generally finances its student loan portfolio with floating rate debt over all interest rate levels. In low interest rate environments when the Company’s student loans are earning at the fixed borrower rate and the interest on the Company’s floating rate debt is continuing to decline, the Company earns additional spread income and refers to it as “Floor Revenue.” The timing and amount of floor revenue is uncertain and tied to interest rate fluctuations, so the Company excludes such income from its “core cash” results of operations.

In the fourth quarter 2002, Treasury bill and commercial paper rates decreased from the borrower rates reset on July 1, 2002 and as a result, the Company realized \$50 million of floor revenue in the fourth quarter of 2002, of which \$27 million relates to loans where the borrower rate resets on July 1 (“variable rate loans”) and \$23 million relates to loans where the borrower rate is fixed to term (“fixed loans”). In comparison, the Company realized \$154 million in floor revenue in the year-ago quarter (\$136 million from variable rate loans and \$18 million from fixed rate loans), and \$51 million of floor revenue in the prior quarter (\$5 million from variable rate loans and \$46 million from fixed rate loans).

### ***Derivative Accounting***

In order to manage the interest earned on the student loan assets with the interest paid on the Company’s debt, the Company primarily enters into two types of derivative transactions. First, for an upfront fee, the Company sells floor contracts that gives the counterparty the right to receive the floor revenue on the student loan, for all or a portion of the estimated student loan life. This contract effectively locks in the amount of floor revenue the Company will earn over the period of the contract, thus hedging the timing and uncertainty associated with floor revenue. The Statement of Financial Accounting Standards No. 133 (“SFAS 133”), “Accounting for Derivative Instruments and Hedging Activities,” does not recognize these floor contracts as effective hedges unless the terms of the sold floor contract match the terms of the embedded floor in the student loan asset. Since the Company sells a floor contract for a term

shorter than the average life of the student loan or sells a floor contract on a securitized student loan, the floor contract must be marked-to-market with any changes in value reflected in the income statement, while changes in the value of the potential embedded floor in the student loan assets are ignored on the income statement. The amortization of the upfront payment under the Floor Revenue contracts is included in “core cash” results.

Second, to the extent that the Company has variable LIBOR-based debt, the Company will enter into basis swaps to better match the cash flows of its managed assets and liabilities. In this situation, SFAS 133 requires that the change in the value of the hedge effectively offsets both the change in the value of the asset and the change in the value of the liability. Because student loans can earn at a variable or a fixed interest rate depending on market interest rates or that certain hedged liabilities are off-balance sheet, this effectiveness test cannot be met and as a result, these swaps are recorded at fair value with subsequent changes in value reflected in the income statement. The Company treats these transactions as effective hedges in its “core cash” results of operations and excludes the mark-to-market gains and losses from “core cash” results of operations.

The following tables present the “core cash” statements of income and the reconciliation of GAAP net income to “core cash” net income for the quarters ended December 31, 2002, September 30, 2002 and December 31, 2001, and the years ended December 31, 2002 and 2001.

## “Core Cash” Statements of Income

	Quarters ended			Years ended	
	December 31, 2002	September 30, 2002	December 31, 2001	December 31, 2002	December 31, 2001
Managed student loans.....	\$ 774	\$ 813	\$ 857	\$ 3,210	\$ 4,325
Advances/Facilities .....	16	14	20	64	97
Investments .....	(11)	36	60	120	371
Total managed interest income .....	779	863	937	3,394	4,793
Managed interest expense .....	463	504	596	2,035	3,522
Net managed interest income .....	316	359	341	1,359	1,271
Less: provision for losses.....	34	35	30	131	89
Net managed interest income after provision for losses .....	282	324	311	1,228	1,182
Other income:					
Guarantor servicing and collection fees ...	83	85	66	325	255
Other .....	41	49	45	177	200
Total other income .....	124	134	111	502	455
Operating expenses .....	171	169	170	663	660
Income before income taxes and minority interest in net earnings of subsidiary .....	235	289	252	1,067	977
Income taxes .....	88	95	87	377	343
Minority interest in net earnings of subsidiary .....	-	-	2	-	10
<b>“Core cash” net income</b> .....	147	194	163	690	624
Preferred stock dividends.....	3	3	3	11	11
“Core cash” net income attributable to common stock .....	\$ 144	\$ 191	\$ 160	\$ 679	\$ 613
“Core cash” diluted earnings per share .....	\$ .92	\$ 1.21	\$ 1.03	\$ 4.29	\$ 3.75

## Reconciliation of GAAP Net Income to “Core Cash” Net Income

	Quarters ended			Years ended	
	December 31, 2002	September 30, 2002	December 31, 2001	December 31, 2002	December 31, 2001
<b>GAAP net income (loss)</b> .....	\$ 306	\$ (62)	\$ 266	\$ 792	\$ 384
“Core cash” adjustments:					
Net interest income on securitized loans .....	140	130	196	699	652
Floor income on managed loans.....	(50)	(51)	(154)	(474)	(335)
Provision for losses on securitized loans.....	-	-	(6)	(14)	(23)
Gains on student loan securitizations .....	(262)	(18)	(20)	(338)	(75)
Servicing and securitization revenue.....	(133)	(121)	(202)	(629)	(634)
Losses on sales of securities.....	1	49	62	155	141
Goodwill change in market value.....	-	-	19	-	18
Goodwill and intangible amortization (A) ...	10	6	16	27	48
Net impact of derivative accounting .....	55	400	(70)	426	570
Other .....	(5)	(1)	(3)	(8)	(3)
Total “core cash” adjustments.....	(244)	394	(162)	(156)	359
Net tax effect (B) .....	85	(138)	59	54	(119)
<b>“Core cash” net income</b> .....	\$ 147	\$ 194	\$ 163	\$ 690	\$ 624

(A) Goodwill amortized only prior to 2002.

(B) Such tax effect is based upon the Company’s marginal tax rate for the respective period.

The "core cash" adjustment, "net impact of derivative accounting," represents the reversal of SFAS 133 income statement items and adjustments based upon accounting treatment for derivatives prior to SFAS 133. In the fourth quarter of 2002, the Company recognized \$55 million of net, pre-tax losses due to the net impact of derivative accounting under SFAS 133 versus \$400 million of net, pre-tax losses in the third quarter 2002 and \$70 million of net, pre-tax gains in the fourth quarter 2001. These adjustments are summarized as follows:

	<u>Quarters ended</u>			<u>Years ended</u>	
	<u>December 31,</u> <u>2002</u>	<u>September 30,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>	<u>December 31,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
<b>Reversal of SFAS 133 income statement items:</b>					
Derivative market value adjustment in other income.....	\$ (51)	\$ 366	\$ (152)	\$ 204	\$ 452
Amortization of derivative items included in other comprehensive income at transition ....	-	-	41	1	3
<b>"Core cash" derivative adjustments:</b>					
Amortization of premiums on floor and cap hedges in net interest income .....	42	24	34	131	89
Reversal of amortization of floor revenue contracts de-designated as effective hedges on December 31, 2000 in net interest income.....	1	2	3	9	13
Reversal of impact of Eurodollar futures contracts in net interest income .....	(3)	(2)	(7)	(16)	(22)
Reversal of impact of Eurodollar futures contracts in gain/loss on sales of securities ...	<u>66</u>	<u>10</u>	<u>11</u>	<u>97</u>	<u>35</u>
<b>Total net impact of derivative accounting .....</b>	<b><u>\$ 55</u></b>	<b><u>\$ 400</u></b>	<b><u>\$ (70)</u></b>	<b><u>\$ 426</u></b>	<b><u>\$ 570</u></b>

### “Core Cash” Student Loan Spread

The following table analyzes the reported earnings from the Company’s portfolio of managed student loans, which includes loans both on-balance sheet and off-balance sheet in securitization trusts.

	Quarters ended			Years ended	
	December 31, 2002	September 30, 2002	December 31, 2001	December 31, 2002	December 31, 2001
“Core cash” student loan yields.....	4.65%	4.87%	5.40%	4.94%	6.77%
Consolidation loan rebate fees.....	(.31)	(.27)	(.22)	(.26)	(.20)
Offset fees.....	(.05)	(.05)	(.07)	(.06)	(.07)
Borrower benefits.....	(.11)	(.11)	(.12)	(.11)	(.11)
Premium amortization .....	<u>(.22)</u>	<u>(.23)</u>	<u>(.27)</u>	<u>(.25)</u>	<u>(.26)</u>
Student loan income .....	3.96	4.21	4.72	4.26	6.13
Student loan cost of funds .....	<u>(2.05)</u>	<u>(2.33)</u>	<u>(2.83)</u>	<u>(2.38)</u>	<u>(4.32)</u>
“Core cash” student loan spread.....	<u>1.91%</u>	<u>1.88%</u>	<u>1.89%</u>	<u>1.88%</u>	<u>1.81%</u>
<b>Average Balances</b>					
On-balance sheet student loans.....	\$ 43,816	\$ 43,862	\$ 41,504	\$ 43,082	\$ 40,025
Securitized student loans .....	<u>33,733</u>	<u>32,705</u>	<u>30,484</u>	<u>32,280</u>	<u>30,594</u>
Managed student loans .....	<u>\$ 77,549</u>	<u>\$ 76,567</u>	<u>\$ 71,988</u>	<u>\$ 75,362</u>	<u>\$ 70,619</u>

As mentioned previously, the decline in interest rates has increased Floor Revenue and, in response, the Company has entered into several Floor Revenue contracts. The amortization of the upfront payments under these contracts increased the "core cash" student loan spread by 7 basis points in the fourth quarter 2002 when compared to the third quarter 2002. This increase in the “core cash” student loan spread was partially offset by higher consolidation loan rebate fees in the fourth quarter of 2002.

### Net Interest Margin and Net Interest Income

The net interest margin for the fourth quarters of 2002 and 2001 and the third quarter of 2002 was 1.49 percent, 1.71 percent and 1.77 percent, respectively. Included in the fourth quarter of 2002 was a \$63 million pre-tax impairment charge to cover the Company’s exposure for losses on certain investments in commercial airline leveraged leases. This impairment reduced the net interest margin by 30 basis points.

### “Core Cash” Allowance for Loan Losses

An analysis of the Company’s “core cash” allowance for loan losses for the quarters ended December 31, 2002, September 30, 2002 and December 31, 2001, and for the years ended December 31, 2002 and 2001 is presented in the following table.

	Quarters ended			Years ended	
	December 31, 2002	September 30, 2002	December 31, 2001	December 31, 2002	December 31, 2001
Balance at beginning of period .....	\$ 380	\$ 376	\$ 379	\$ 397	\$ 335
Provision for loan losses:					
Private credit loans.....	31	32	12	95	40
Federally insured loans .....	<u>1</u>	<u>1</u>	<u>18</u>	<u>31</u>	<u>58</u>
Total provision for loan losses .....	32	33	30	126	98
Other .....	(2)	1	4	(47)	22
Charge-offs:					
Private credit loans.....	(18)	(32)	(12)	(77)	(42)
Federally insured loans .....	<u>(4)</u>	<u>(4)</u>	<u>(7)</u>	<u>(20)</u>	<u>(26)</u>
Total charge-offs.....	(22)	(36)	(19)	(97)	(68)
Recoveries:					
Private credit loans.....	2	6	1	9	3
Federally insured loans .....	<u>-</u>	<u>-</u>	<u>2</u>	<u>2</u>	<u>7</u>
Total recoveries.....	2	6	3	11	10
Net charge-offs.....	<u>(20)</u>	<u>(30)</u>	<u>(16)</u>	<u>(86)</u>	<u>(58)</u>
Balance at end of period .....	<u>\$ 390</u>	<u>\$ 380</u>	<u>\$ 397</u>	<u>\$ 390</u>	<u>\$ 397</u>
Allocation of the allowance for loan losses:					
Private credit loans.....	\$ 196	\$ 173	\$ 202	\$ 196	\$ 202
Federally insured loans .....	<u>194</u>	<u>207</u>	<u>195</u>	<u>194</u>	<u>195</u>
Total allowance for loan losses .....	<u>\$ 390</u>	<u>\$ 380</u>	<u>\$ 397</u>	<u>\$ 390</u>	<u>\$ 397</u>
Net charge-offs as a percentage of average managed student loans .....	(.10)%	(.16)%	(.09)%	(.11)%	(.08)%
Total allowance as a percentage of average managed student loans .....	.50 %	.50 %	.55 %	.52 %	.56 %
Total allowance as a percentage of ending managed student loans .....	.50 %	.49 %	.55 %	.50 %	.55 %
Private credit allowance as a percentage of the ending balance of private credit loans.....	3.27 %	2.98 %	4.56 %	3.27 %	4.56 %
Average managed student loans .....	\$ 77,549	\$ 76,567	\$ 71,988	\$ 75,362	\$ 70,619
Ending managed student loans .....	\$ 78,124	\$ 77,114	\$ 71,726	\$ 78,124	\$ 71,726
Ending private credit student loans .....	\$ 5,805	\$ 5,632	\$ 4,224	\$ 5,805	\$ 4,224

The Company receives certain fees related to originated private loans at both origination and the commencement of repayment. These origination fees are charged to cover, in part, anticipated loan losses and are deferred and recognized into income as a component of interest over the life of the related loan. Prior to the second quarter of 2002, the Company reflected the unamortized balance as a component of the allowance for loan losses.

As of December 31, 2002, 93 percent of the Company's managed student loans were federally guaranteed, thereby generating minimal credit losses. Net charge-offs for the fourth quarter on the Company's federal loan portfolios were \$4 million, or 0.02 percent of the average managed federal student loan portfolio. Net charge-offs for the prior quarter were \$4 million.

As of December 31, 2002, the Company's private credit loan portfolio totaled \$5.8 billion. In the fourth quarter of 2002, Net charge-offs for the private loan portfolio equaled \$16 million or 0.52 percent of the private credit portfolio in repayment in the fourth quarter versus net charge-offs for the prior quarter of \$26 million or 0.8 percent. Included in the prior quarter's charge-offs was \$17 million for loans that primarily defaulted in prior quarters. These defaulted loans were previously reserved for and did not impact the Company's provision policies or reserve level targets.

### **Other Income**

"Core cash" other income mainly includes guarantor servicing and collection fees, late fees earned on student loans, fees received from servicing third party portfolios of student loans, and commitment fees for letters of credit. Gains on student loan securitizations, servicing and securitization revenue, and certain gains and losses on sales of securities and derivatives are excluded from "core cash" other income. In addition, the effects of SFAS 133 are excluded and the economic hedge effects of certain derivative instruments are recognized. "Core cash" other income was \$124 million for the fourth quarter 2002 versus \$111 million in the year-ago quarter and \$134 million for the third quarter 2002. The decrease in fourth quarter 2002 "core cash" other income over the prior quarter is due mainly to the seasonal nature of the guarantor services business and to a change in accounting for supplemental fees discussed above. The increase over the year-ago quarter is due to growth in the guarantor servicing and collections businesses of \$19 million, which was caused primarily by the acquisitions of two collection agencies in the first quarter.

### **Operating Expenses**

In the fourth quarter of 2002, "core cash" operating expenses were \$171 million versus \$170 million in the corresponding year-ago quarter and \$169 million in the third quarter of 2002. Operating expenses remained constant versus the prior and the year-ago quarter due to the realization of the synergies from the acquisition of the USA Group and continued productivity improvements offsetting additional operating expenses from the acquisition of two collection companies in the first quarter of 2002 and the growth in the business.

## Managed Student Loans Acquired

The following table summarizes the components of the Company's acquisition of student loans:

	Quarters ended			Years ended	
	December 31, 2002	September 30, 2002	December 31, 2001	December 31, 2002	December 31, 2001
Preferred channel.....	\$ 2,047	\$ 2,499	\$ 1,674	\$ 10,960	\$ 9,524
Other commitment clients....	135	297	173	894	949
Spot purchases.....	175	257	192	933	678
Consolidations.....	630	581	422	1,938	1,172
Other.....	524	399	573	1,800	2,103
Total .....	<u>\$ 3,511</u>	<u>\$ 4,033</u>	<u>\$ 3,034</u>	<u>\$ 16,525</u>	<u>\$ 14,426</u>

The Company acquired \$3.5 billion of student loans in the fourth quarter of 2002 compared with \$3.0 billion in the year-ago quarter and \$4.0 billion in the prior quarter.

In the fourth quarter of 2002, the Company's preferred channel originations totaled \$2.6 billion versus \$2.4 billion in the year-ago quarter and \$3.9 billion in the prior quarter. The pipeline of loans currently serviced and committed for purchase by the Company was \$5.6 billion at December 31, 2002 versus \$5.6 billion at December 31, 2001 and \$5.2 billion at September 30, 2002.