

SLM CORPORATION
Supplemental Earnings Disclosure

June 30, 2007

(Dollars in millions, except earnings per share)

	Quarters ended			Six months ended	
	June 30, 2007 (unaudited)	March 31, 2007 (unaudited)	June 30, 2006 (unaudited)	June 30, 2007 (unaudited)	June 30, 2006 (unaudited)
SELECTED FINANCIAL INFORMATION AND RATIOS					
GAAP Basis					
Net income	\$ 966	\$ 116	\$ 724	\$ 1,082	\$ 875
Diluted earnings per common share ⁽¹⁾	\$ 1.03	\$.26	\$ 1.52	\$ 1.82	\$ 1.96
Return on assets	3.23%	.43%	3.20%	1.89%	1.94%
“Core Earnings” Basis⁽²⁾					
“Core Earnings” net income	\$ 189	\$ 251	\$ 320	\$ 440	\$ 607
“Core Earnings” diluted earnings per common share ⁽¹⁾	\$.43	\$.57	\$.72	\$.99	\$ 1.37
“Core Earnings” return on assets45%	.64%	.90%	.54%	.88%
OTHER OPERATING STATISTICS					
Average on-balance sheet student loans	\$108,865	\$101,499	\$ 80,724	\$105,203	\$ 81,781
Average off-balance sheet student loans	43,432	44,663	47,716	44,044	44,909
Average Managed student loans.	<u>\$152,297</u>	<u>\$146,162</u>	<u>\$128,440</u>	<u>\$149,247</u>	<u>\$126,690</u>
Ending on-balance sheet student loans, net	\$110,626	\$104,581	\$ 82,279		
Ending off-balance sheet student loans, net.	42,577	45,380	47,865		
Ending Managed student loans, net	<u>\$153,203</u>	<u>\$149,961</u>	<u>\$130,144</u>		
Ending Managed FFELP Stafford and Other Student Loans, net	\$ 42,865	\$ 41,832	\$ 41,926		
Ending Managed FFELP Consolidation Loans, net	85,276	83,928	69,195		
Ending Managed Private Education Loans, net	25,062	24,201	19,023		
Ending Managed student loans, net	<u>\$153,203</u>	<u>\$149,961</u>	<u>\$130,144</u>		

⁽¹⁾ In December 2004, the Company adopted the Emerging Issues Task Force (“EITF”) Issue No. 04-8, “The Effect of Contingently Convertible Debt on Diluted Earnings per Share,” as it relates to the Company’s \$2 billion in contingently convertible debt instruments (“Co-Cos”) issued in May 2003. EITF No. 04-8 requires the shares underlying Co-Cos to be included in diluted earnings per common share computations regardless of whether the market price trigger or the conversion price has been met, using the “if-converted” method. The impact of Co-Cos to diluted earnings per common share is as follows:

	Quarters ended			Six months ended	
	June 30, 2007 (unaudited)	March 31, 2007 (unaudited)	June 30, 2006 (unaudited)	June 30, 2007 (unaudited)	June 30, 2006 (unaudited)
Impact of Co-Cos on GAAP diluted earnings per common share	\$(.03)	\$— ^(A)	\$(.08)	\$(.05)	\$(.07)
Impact of Co-Cos on “Core Earnings” diluted earnings per common share	\$ — ^(A)	\$—	\$(.01)	\$ — ^(A)	\$(.02)

^(A) There is no impact on diluted earnings per common share because the effect of the assumed conversion is antidilutive.

On June 25, 2007, holders of these securities were notified that the Co-Cos would be called at par on July 25, 2007, as allowed by the terms of the indenture governing the Co-Cos.

⁽²⁾ See explanation of “Core Earnings” performance measures under “Reconciliation of ‘Core Earnings’ Net Income to GAAP Net Income.”

SLM CORPORATION
Consolidated Balance Sheets
(In thousands, except per share amounts)

	<u>June 30, 2007</u>	<u>March 31, 2007</u>	<u>June 30, 2006</u>
	(unaudited)	(unaudited)	(unaudited)
Assets			
FFELP Stafford and Other Student Loans (net of allowance for losses of \$11,337; \$10,192; and \$6,890, respectively)	\$ 31,503,088	\$ 28,561,670	\$ 21,390,845
FFELP Consolidation Loans (net of allowance for losses of \$12,746; \$12,087; and \$10,090 respectively)	68,109,269	66,170,098	54,054,932
Private Education Loans (net of allowance for losses of \$427,904; \$369,072; and \$251,582, respectively)	11,013,668	9,849,481	6,832,843
Other loans (net of allowance for losses of \$19,989; \$19,803; and \$15,190, respectively)	1,178,052	1,350,416	1,050,632
Cash and investments	4,565,606	6,116,168	6,204,462
Restricted cash and investments	4,300,826	3,719,020	3,489,542
Retained Interest in off-balance sheet securitized loans	3,448,045	3,643,322	3,151,855
Goodwill and acquired intangible assets, net	1,356,620	1,364,016	1,080,703
Other assets	<u>7,327,108</u>	<u>6,102,275</u>	<u>4,650,851</u>
Total assets	<u>\$132,802,282</u>	<u>\$126,876,466</u>	<u>\$101,906,665</u>
Liabilities			
Short-term borrowings	\$ 9,758,465	\$ 4,428,980	\$ 3,801,266
Long-term borrowings	114,365,577	114,070,797	90,506,785
Other liabilities	<u>3,320,098</u>	<u>3,990,878</u>	<u>3,229,477</u>
Total liabilities	<u>127,444,140</u>	<u>122,490,655</u>	<u>97,537,528</u>
Commitments and contingencies			
Minority interest in subsidiaries	10,081	9,029	9,369
Stockholders' equity			
Preferred stock, par value \$.20 per share, 20,000 shares authorized; Series A: 3,300; 3,300; and 3,300 shares, respectively, issued at stated value of \$50 per share; Series B: 4,000; 4,000; and 4,000 shares, respectively, issued at stated value of \$100 per share	565,000	565,000	565,000
Common stock, par value \$.20 per share, 1,125,000 shares authorized: 436,095; 434,587; and 430,753 shares, respectively, issued	87,219	86,918	86,151
Additional paid-in capital	2,721,554	2,638,334	2,440,565
Accumulated other comprehensive income, net of tax	265,388	300,884	370,204
Retained earnings	<u>2,790,674</u>	<u>1,833,359</u>	<u>1,775,948</u>
Stockholders' equity before treasury stock	6,429,835	5,424,495	5,237,868
Common stock held in treasury: 23,477; 22,650; and 19,078 shares, respectively	<u>1,081,774</u>	<u>1,047,713</u>	<u>878,100</u>
Total stockholders' equity	<u>5,348,061</u>	<u>4,376,782</u>	<u>4,359,768</u>
Total liabilities and stockholders' equity	<u>\$132,802,282</u>	<u>\$126,876,466</u>	<u>\$101,906,665</u>

SLM CORPORATION
Consolidated Statements of Income
(In thousands, except per share amounts)

	Quarters ended			Six months ended	
	June 30, 2007	March 31, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income:					
FFELP Stafford and Other Student Loans	\$ 511,300	\$ 450,762	\$ 337,090	\$ 962,062	\$ 635,590
FFELP Consolidation Loans	1,087,254	1,014,846	841,591	2,102,100	1,662,926
Private Education Loans	329,351	338,421	233,696	667,772	475,049
Other loans	26,453	27,973	23,541	54,426	46,848
Cash and investments	141,524	113,904	124,954	255,428	220,764
Total interest income	2,095,882	1,945,906	1,560,872	4,041,788	3,041,177
Total interest expense	1,697,229	1,532,090	1,204,067	3,229,319	2,296,851
Net interest income	398,653	413,816	356,805	812,469	744,326
Less: provisions for losses	148,200	150,330	67,396	298,530	127,715
Net interest income after provisions for losses	250,453	263,486	289,409	513,939	616,611
Other income:					
Gains on student loan securitizations	—	367,300	671,262	367,300	701,285
Servicing and securitization revenue	132,987	251,938	82,842	384,925	181,773
Losses on securities, net	(10,921)	(30,967)	(8,524)	(41,888)	(11,472)
Gains (losses) on derivative and hedging activities, net	821,566	(356,969)	122,719	464,597	35,980
Guarantor servicing fees	30,273	39,241	33,256	69,514	60,163
Debt management fees	80,237	87,322	90,161	167,559	181,773
Collections revenue	77,092	65,562	67,357	142,654	124,038
Other	89,004	96,433	75,081	185,437	146,457
Total other income	1,220,238	519,860	1,134,154	1,740,098	1,419,997
Operating expenses	398,800	356,174	316,602	754,974	639,911
Income before income taxes and minority interest in net earnings of subsidiaries	1,071,891	427,172	1,106,961	1,499,063	1,396,697
Income taxes	104,724	310,014	381,828	414,738	518,873
Income before minority interest in net earnings of subsidiaries	967,167	117,158	725,133	1,084,325	877,824
Minority interest in net earnings of subsidiaries . . .	696	1,005	1,355	1,701	2,445
Net income	966,471	116,153	723,778	1,082,624	875,379
Preferred stock dividends	9,156	9,093	8,787	18,249	17,088
Net income attributable to common stock	\$ 957,315	\$ 107,060	\$ 714,991	\$1,064,375	\$ 858,291
Basic earnings per common share	\$ 2.32	\$.26	\$ 1.74	\$ 2.59	\$ 2.08
Average common shares outstanding	411,870	411,040	410,957	411,457	411,811
Diluted earnings per common share	\$ 1.03	\$.26	\$ 1.52	\$ 1.82	\$ 1.96
Average common and common equivalent shares outstanding	452,406	418,449	454,314	454,139	453,803
Dividends per common share	\$ —	\$.25	\$.25	\$.25	\$.47

SLM CORPORATION
Segment and “Core Earnings”
Consolidated Statements of Income
(In thousands)

	Quarter ended June 30, 2007					Total GAAP
	Lending	DMO	Corporate and Other	Total “Core Earnings”	Adjustments	
				(unaudited)		
Interest income:						
FFELP Stafford and Other Student						
Loans	\$ 718,624	\$ —	\$ —	\$ 718,624	\$(207,324)	\$ 511,300
FFELP Consolidation Loans	1,391,015	—	—	1,391,015	(303,761)	1,087,254
Private Education Loans	692,499	—	—	692,499	(363,148)	329,351
Other loans	26,453	—	—	26,453	—	26,453
Cash and investments	182,644	—	7,197	189,841	(48,317)	141,524
Total interest income	3,011,235	—	7,197	3,018,432	(922,550)	2,095,882
Total interest expense	2,371,441	6,612	5,425	2,383,478	(686,249)	1,697,229
Net interest income (loss)	639,794	(6,612)	1,772	634,954	(236,301)	398,653
Less: provisions for losses	246,981	—	—	246,981	(98,781)	148,200
Net interest income (loss) after						
provisions for losses	392,813	(6,612)	1,772	387,973	(137,520)	250,453
Fee income	—	80,233	30,273	110,506	4	110,510
Collections revenue	—	77,412	—	77,412	(320)	77,092
Other income	59,458	—	48,141	107,599	925,037	1,032,636
Total other income	59,458	157,645	78,414	295,517	924,721	1,220,238
Operating expenses ⁽¹⁾	181,650	96,307	104,432	382,389	16,411	398,800
Income (loss) before income taxes and						
minority interest in net earnings of						
subsidiaries	270,621	54,726	(24,246)	301,101	770,790	1,071,891
Income tax expense (benefit) ⁽²⁾	100,130	20,248	(8,971)	111,407	(6,683)	104,724
Minority interest in net earnings of						
subsidiaries	—	696	—	696	—	696
Net income (loss)	<u>\$ 170,491</u>	<u>\$ 33,782</u>	<u>\$ (15,275)</u>	<u>\$ 188,998</u>	<u>\$ 777,473</u>	<u>\$ 966,471</u>

⁽¹⁾ Operating expenses for the Lending, DMO, and Corporate and Other business segments include \$13 million, \$4 million, and \$6 million, respectively, of stock option compensation expense.

⁽²⁾ Income taxes are based on a percentage of net income before tax for the individual reportable segment.

Quarter ended March 31, 2007

	<u>Lending</u>	<u>DMO</u>	<u>Corporate and Other</u>	<u>Total "Core Earnings"</u>	<u>Adjustments</u>	<u>Total GAAP</u>
	(unaudited)					
Interest income:						
FFELP Stafford and Other Student						
Loans	\$ 695,353	\$ —	\$ —	\$ 695,353	\$(244,591)	\$ 450,762
FFELP Consolidation Loans	1,331,235	—	—	1,331,235	(316,389)	1,014,846
Private Education Loans	657,584	—	—	657,584	(319,163)	338,421
Other loans	27,973	—	—	27,973	—	27,973
Cash and investments	161,677	—	2,135	163,812	(49,908)	113,904
Total interest income	2,873,822	—	2,135	2,875,957	(930,051)	1,945,906
Total interest expense	2,220,136	6,687	5,568	2,232,391	(700,301)	1,532,090
Net interest income (loss)	653,686	(6,687)	(3,433)	643,566	(229,750)	413,816
Less: provisions for losses	197,930	—	606	198,536	(48,206)	150,330
Net interest income (loss) after provisions for losses	455,756	(6,687)	(4,039)	445,030	(181,544)	263,486
Fee income	—	87,326	39,241	126,567	(4)	126,563
Collections revenue	—	65,322	—	65,322	240	65,562
Other income	44,418	—	51,317	95,735	232,000	327,735
Total other income	44,418	152,648	90,558	287,624	232,236	519,860
Operating expenses ⁽¹⁾	171,563	93,248	67,505	332,316	23,858	356,174
Income before income taxes and minority interest in net earnings of subsidiaries . . .	328,611	52,713	19,014	400,338	26,834	427,172
Income tax expense ⁽²⁾	121,586	19,504	7,035	148,125	161,889	310,014
Minority interest in net earnings of subsidiaries	—	1,005	—	1,005	—	1,005
Net income	<u>\$ 207,025</u>	<u>\$ 32,204</u>	<u>\$11,979</u>	<u>\$ 251,208</u>	<u>\$(135,055)</u>	<u>\$ 116,153</u>

⁽¹⁾ Operating expenses for the Lending, DMO, and Corporate and Other business segments include \$9 million, \$3 million, and \$4 million, respectively, of stock option compensation expense.

⁽²⁾ Income taxes are based on a percentage of net income before tax for the individual reportable segment.

Quarter ended June 30, 2006

	<u>Lending</u>	<u>DMO</u>	<u>Corporate and Other</u>	<u>Total "Core Earnings"</u>	<u>Adjustments</u>	<u>Total GAAP</u>
	(unaudited)					
Interest income:						
FFELP Stafford and Other Student						
Loans	\$ 718,909	\$ —	\$ —	\$ 718,909	\$(381,819)	\$ 337,090
FFELP Consolidation Loans	1,114,355	—	—	1,114,355	(272,764)	841,591
Private Education Loans	485,429	—	—	485,429	(251,733)	233,696
Other loans	23,541	—	—	23,541	—	23,541
Cash and investments	169,877	—	659	170,536	(45,582)	124,954
Total interest income	2,512,111	—	659	2,512,770	(951,898)	1,560,872
Total interest expense	1,903,523	5,466	1,345	1,910,334	(706,267)	1,204,067
Net interest income (loss)	608,588	(5,466)	(686)	602,436	(245,631)	356,805
Less: provisions for losses	60,009	—	(32)	59,977	7,419	67,396
Net interest income (loss) after provisions for losses	548,579	(5,466)	(654)	542,459	(253,050)	289,409
Fee income	—	90,161	33,256	123,417	—	123,417
Collections revenue	—	67,213	—	67,213	144	67,357
Other income	50,771	—	24,338	75,109	868,271	943,380
Total other income	50,771	157,374	57,594	265,739	868,415	1,134,154
Operating expenses ⁽¹⁾	163,162	85,110	50,235	298,507	18,095	316,602
Income before income taxes and minority interest in net earnings of subsidiaries . . .	436,188	66,798	6,705	509,691	597,270	1,106,961
Income tax expense ⁽²⁾	161,391	24,715	2,480	188,586	193,242	381,828
Minority interest in net earnings of subsidiaries	—	1,355	—	1,355	—	1,355
Net income	<u>\$ 274,797</u>	<u>\$ 40,728</u>	<u>\$ 4,225</u>	<u>\$ 319,750</u>	<u>\$ 404,028</u>	<u>\$ 723,778</u>

⁽¹⁾ Operating expenses for the Lending, DMO, and Corporate and Other business segments include \$8 million, \$2 million, and \$4 million, respectively, of stock option compensation expense.

⁽²⁾ Income taxes are based on a percentage of net income before tax for the individual reportable segment.

Six months ended June 30, 2007

	<u>Lending</u>	<u>DMO</u>	<u>Corporate and Other</u>	<u>Total "Core Earnings"</u>	<u>Adjustments</u>	<u>Total GAAP</u>
	(unaudited)					
Interest income:						
FFELP Stafford and Other Student						
Loans	\$1,413,977	\$ —	\$ —	\$1,413,977	\$ (451,915)	\$ 962,062
FFELP Consolidation Loans	2,722,250	—	—	2,722,250	(620,150)	2,102,100
Private Education Loans	1,350,083	—	—	1,350,083	(682,311)	667,772
Other loans	54,426	—	—	54,426	—	54,426
Cash and investments	344,321	—	9,332	353,653	(98,225)	255,428
Total interest income	5,885,057	—	9,332	5,894,389	(1,852,601)	4,041,788
Total interest expense	4,591,577	13,299	10,993	4,615,869	(1,386,550)	3,229,319
Net interest income (loss)	1,293,480	(13,299)	(1,661)	1,278,520	(466,051)	812,469
Less: provisions for losses	444,911	—	606	445,517	(146,987)	298,530
Net interest income (loss) after						
provisions for losses	848,569	(13,299)	(2,267)	833,003	(319,064)	513,939
Fee income	—	167,559	69,514	237,073	—	237,073
Collections revenue	—	142,734	—	142,734	(80)	142,654
Other income	103,876	—	99,458	203,334	1,157,037	1,360,371
Total other income	103,876	310,293	168,972	583,141	1,156,957	1,740,098
Operating expenses ⁽¹⁾	353,213	189,555	171,937	714,705	40,269	754,974
Income (loss) before income taxes and						
minority interest in net earnings of						
subsidiaries	599,232	107,439	(5,232)	701,439	797,624	1,499,063
Income tax expense (benefit) ⁽²⁾	221,716	39,752	(1,936)	259,532	155,206	414,738
Minority interest in net earnings of						
subsidiaries	—	1,701	—	1,701	—	1,701
Net income (loss)	<u>\$ 377,516</u>	<u>\$ 65,986</u>	<u>\$ (3,296)</u>	<u>\$ 440,206</u>	<u>\$ 642,418</u>	<u>\$1,082,624</u>

⁽¹⁾ Operating expenses for the Lending, DMO, and Corporate and Other business segments include \$22 million, \$7 million, and \$10 million, respectively, of stock option compensation expense.

⁽²⁾ Income taxes are based on a percentage of net income before tax for the individual reportable segment.

Six months ended June 30, 2006

	<u>Lending</u>	<u>DMO</u>	<u>Corporate and Other</u>	<u>Total "Core Earnings"</u>	<u>Adjustments</u>	<u>Total GAAP</u>
	(unaudited)					
Interest income:						
FFELP Stafford and Other Student						
Loans	\$1,368,660	\$ —	\$ —	\$1,368,660	\$ (733,070)	\$ 635,590
FFELP Consolidation Loans	2,142,317	—	—	2,142,317	(479,391)	1,662,926
Private Education Loans	914,189	—	—	914,189	(439,140)	475,049
Other loans	46,848	—	—	46,848	—	46,848
Cash and investments	300,338	—	1,982	302,320	(81,556)	220,764
Total interest income	4,772,352	—	1,982	4,774,334	(1,733,157)	3,041,177
Total interest expense	3,562,895	10,622	2,623	3,576,140	(1,279,289)	2,296,851
Net interest income (loss)	1,209,457	(10,622)	(641)	1,198,194	(453,868)	744,326
Less: provisions for losses	134,829	—	(13)	134,816	(7,101)	127,715
Net interest income (loss) after provisions for losses	1,074,628	(10,622)	(628)	1,063,378	(446,767)	616,611
Fee income	—	181,773	60,163	241,936	—	241,936
Collections revenue	—	123,753	—	123,753	285	124,038
Other income	91,343	—	54,347	145,690	908,333	1,054,023
Total other income	91,343	305,526	114,510	511,379	908,618	1,419,997
Operating expenses ⁽¹⁾	324,600	174,623	108,747	607,970	31,941	639,911
Income before income taxes and minority interest in net earnings of subsidiaries	841,371	120,281	5,135	966,787	429,910	1,396,697
Income tax expense ⁽²⁾	311,308	44,504	1,899	357,711	161,162	518,873
Minority interest in net earnings of subsidiaries	—	2,445	—	2,445	—	2,445
Net income	<u>\$ 530,063</u>	<u>\$ 73,332</u>	<u>\$ 3,236</u>	<u>\$ 606,631</u>	<u>\$ 268,748</u>	<u>\$ 875,379</u>

⁽¹⁾ Operating expenses for the Lending, DMO, and Corporate and Other business segments include \$18 million, \$5 million, and \$9 million, respectively, of stock option compensation expense.

⁽²⁾ Income taxes are based on a percentage of net income before tax for the individual reportable segment.

SLM CORPORATION

Reconciliation of “Core Earnings” Net Income to GAAP Net Income

(In thousands, except per share amounts)

	Quarters ended			Six months ended	
	June 30, 2007	March 31, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
“Core Earnings” net income ^(A)	\$188,998	\$ 251,208	\$ 319,750	\$ 440,206	\$ 606,631
“Core Earnings” adjustments:					
Net impact of securitization accounting	(15,071)	421,485	503,083	406,414	441,022
Net impact of derivative accounting	841,564	(331,724)	164,678	509,840	125,861
Net impact of Floor Income	(39,246)	(39,021)	(52,333)	(78,267)	(104,902)
Net impact of acquired intangibles ^(B) . . .	(16,457)	(23,906)	(18,158)	(40,363)	(32,071)
Total “Core Earnings” adjustments before income taxes and minority interest in net earnings of subsidiaries	770,790	26,834	597,270	797,624	429,910
Net tax effect ^(C)	6,683	(161,889)	(193,242)	(155,206)	(161,162)
Total “Core Earnings” adjustments	<u>777,473</u>	<u>(135,055)</u>	<u>404,028</u>	<u>642,418</u>	<u>268,748</u>
GAAP net income	<u>\$966,471</u>	<u>\$ 116,153</u>	<u>\$ 723,778</u>	<u>\$1,082,624</u>	<u>\$ 875,379</u>
GAAP diluted earnings per common share	<u>\$ 1.03</u>	<u>\$.26</u>	<u>\$ 1.52</u>	<u>\$ 1.82</u>	<u>\$ 1.96</u>

^(A) “Core Earnings” diluted earnings per common share

	<u>\$.43</u>	<u>\$.57</u>	<u>\$.72</u>	<u>\$.99</u>	<u>\$ 1.37</u>
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^(B) Represents goodwill and intangible impairment and the amortization of acquired intangibles.

^(C) Such tax effect is based upon the Company’s “Core Earnings” effective tax rate for the year. The net tax effect results primarily from the exclusion of the permanent income tax impact of the equity forward contracts.

“Core Earnings”

In accordance with the Rules and Regulations of the Securities and Exchange Commission (“SEC”), we prepare financial statements in accordance with generally accepted accounting principles in the United States of America (“GAAP”). In addition to evaluating the Company’s GAAP-based financial information, management evaluates the Company’s business segments on a basis that, as allowed under SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” differs from GAAP. We refer to management’s basis of evaluating our segment results as “Core Earnings” presentations for each business segment and we refer to this information in our presentations with credit rating agencies and lenders. While “Core Earnings” are not a substitute for reported results under GAAP, we rely on “Core Earnings” to manage each operating segment because we believe these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

Our “Core Earnings” are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. “Core Earnings” net income reflects only current period adjustments to GAAP net income as described below. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting and as a result, our management reporting is not necessarily comparable with similar information for any other financial institution. Our operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. Intersegment revenues and expenses are netted within the appropriate financial statement line items consistent with the income statement presentation provided to

management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information. A more detailed discussion of the differences between GAAP and “Core Earnings” follows.

Limitations of “Core Earnings”

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, management believes that “Core Earnings” are an important additional tool for providing a more complete understanding of the Company’s results of operations. Nevertheless, “Core Earnings” are subject to certain general and specific limitations that investors should carefully consider. For example, as stated above, unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting. Our “Core Earnings” are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Unlike GAAP, “Core Earnings” reflect only current period adjustments to GAAP. Accordingly, the Company’s “Core Earnings” presentation does not represent a comprehensive basis of accounting. Investors, therefore, may not compare our Company’s performance with that of other financial services companies based upon “Core Earnings.” “Core Earnings” results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely used by management, the Company’s board of directors, rating agencies and lenders to assess performance.

Other limitations arise from the specific adjustments that management makes to GAAP results to derive “Core Earnings” results. For example, in reversing the unrealized gains and losses that result from SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” on derivatives that do not qualify for “hedge treatment,” as well as on derivatives that do qualify but are in part ineffective because they are not perfect hedges, we focus on the long-term economic effectiveness of those instruments relative to the underlying hedged item and isolate the effects of interest rate volatility, changing credit spreads and changes in our stock price on the fair value of such instruments during the period. Under GAAP, the effects of these factors on the fair value of the derivative instruments (but not on the underlying hedged item) tend to show more volatility in the short term. While our presentation of our results on a “Core Earnings” basis provides important information regarding the performance of our Managed portfolio, a limitation of this presentation is that we are presenting the ongoing spread income on loans that have been sold to a trust managed by us. While we believe that our “Core Earnings” presentation presents the economic substance of our Managed loan portfolio, it understates earnings volatility from securitization gains. Our “Core Earnings” results exclude certain Floor Income, which is real cash income, from our reported results and therefore may understate earnings in certain periods. Management’s financial planning and valuation of operating results, however, does not take into account Floor Income because of its inherent uncertainty, except when it is economically hedged through Floor Income Contracts.

Pre-Tax Differences between “Core Earnings” and GAAP

Our “Core Earnings” are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a “Core Earnings” basis by reportable segment, as these are the measures used regularly by our chief operating decision maker. Our “Core Earnings” are used in developing our financial plans and tracking results, and also in establishing corporate performance targets and determining incentive compensation. Management believes this information provides additional insight into the financial performance of the Company’s core business activities. “Core Earnings” net income reflects only current period adjustments to GAAP net income, as described in the more detailed discussion of the differences between “Core Earnings” and GAAP that follows, which includes further detail on each specific adjustment required to reconcile our “Core Earnings” segment presentation to our GAAP earnings.

- 1) **Securitization Accounting:** Under GAAP, certain securitization transactions in our Lending operating segment are accounted for as sales of assets. Under “Core Earnings” for the Lending operating segment, we present all securitization transactions on a “Core Earnings” basis as long-term non-recourse financings. The upfront “gains” on sale from securitization transactions as well as ongoing

“servicing and securitization revenue” presented in accordance with GAAP are excluded from “Core Earnings” and are replaced by the interest income, provisions for loan losses, and interest expense as they are earned or incurred on the securitization loans. We also exclude transactions with our off-balance sheet trusts from “Core Earnings” as they are considered intercompany transactions on a “Core Earnings” basis.

- 2) **Derivative Accounting:** “Core Earnings” exclude periodic unrealized gains and losses arising primarily in our Lending operating segment, and to a lesser degree in our Corporate and Other reportable segment, that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for “hedge treatment” under GAAP. In our “Core Earnings” presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item’s life. “Core Earnings” also exclude the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked-to-market through earnings.
- 3) **Floor Income:** The timing and amount (if any) of Floor Income earned in our Lending operating segment is uncertain and in excess of expected spreads. Therefore, we exclude such income from “Core Earnings” when it is not economically hedged. We employ derivatives, primarily Floor Income Contracts and futures, to economically hedge Floor Income. As discussed above in “Derivative Accounting,” these derivatives do not qualify as effective accounting hedges, and therefore, under GAAP, they are marked-to-market through the “gains (losses) on derivative and hedging activities, net” line on the income statement with no offsetting gain or loss recorded for the economically hedged items. For “Core Earnings,” we reverse the fair value adjustments on the Floor Income Contracts and futures economically hedging Floor Income and include the amortization of net premiums received in income.
- 4) **Acquired Intangibles:** Our “Core Earnings” exclude goodwill and intangible impairment and the amortization of acquired intangibles.