

**SLM CORPORATION**  
**Supplemental Earnings Disclosure**  
**September 30, 2005**

(Dollars in millions, except earnings per share)

	Quarters ended			Nine months ended	
	September 30, 2005	June 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>SELECTED FINANCIAL INFORMATION AND RATIOS—(GAAP Basis)</b>					
Net income . . . . .	\$ 431	\$ 297	\$ 357	\$ 951	\$ 1,263
Diluted earnings per common share <sup>(1)</sup> . . . . .	\$ .95	\$ .66	\$ .76	\$ 2.10	\$ 2.65
Return on assets . . . . .	2.01%	1.55%	2.10%	1.60%	2.54%
<b>NON-GAAP INFORMATION<sup>(2)</sup></b>					
“Core earnings” net income . . . . .	\$ 312	\$ 279	\$ 219	\$ 847	\$ 687
“Core earnings” diluted earnings per common share <sup>(1)</sup> . . . . .	\$ .69	\$ .62	\$ .47	\$ 1.87	\$ 1.45
“Core earnings” return on assets . . . . .	.94%	.90%	.77%	.90%	.85%
<b>OTHER OPERATING STATISTICS</b>					
Average on-balance sheet student loans . . . . .	\$ 77,541	\$ 70,580	\$ 54,522	\$ 71,964	\$54,073
Average off-balance sheet student loans . . . . .	40,742	43,791	42,230	42,137	39,787
Average Managed student loans . . . . .	<u>\$118,283</u>	<u>\$114,371</u>	<u>\$ 96,752</u>	<u>\$114,101</u>	<u>\$93,860</u>
Ending on-balance sheet student loans, net . . .	\$ 81,626	\$ 72,831	\$ 54,269		
Ending off-balance sheet student loans, net . . .	39,008	43,669	44,070		
Ending Managed student loans, net . . . . .	<u>\$120,634</u>	<u>\$116,500</u>	<u>\$ 98,339</u>		
Ending Managed FFELP Stafford and Other Student Loans, net . . . . .	\$ 43,082	\$ 47,126	\$ 46,613		
Ending Managed Consolidation Loans, net . . .	62,161	55,875	40,878		
Ending Managed Private Education Loans, net	15,391	13,499	10,848		
Ending Managed student loans, net . . . . .	<u>\$120,634</u>	<u>\$116,500</u>	<u>\$ 98,339</u>		

<sup>(1)</sup> 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,” which requires the shares underlying contingently convertible debt instruments (“Co-Cos”) to be included in diluted earnings per share computations regardless of whether the market price trigger or the conversion price has been met, using the “if-converted” accounting method. Diluted earnings per common share amounts disclosed prior to December 2004 have been retroactively restated to give effect to the application of EITF No. 04-8 as it relates to the Company’s \$2 billion in Co-Cos issued in May 2003. The effect of the adoption of EITF No. 04-8 was to decrease diluted earnings per common share by the following amounts:

	Quarters ended			Nine months ended	
	September 30, 2005	June 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Impact on GAAP diluted earnings per common share due to the implementation of EITF No. 04-8 . . . . .	\$(.04)	\$(.02)	\$(.04)	\$(.08)	\$(.15)
Impact on “core earnings” diluted earnings per common share due to the implementation of EITF No. 04-8 . . . . .	\$(.02)	\$(.02)	\$(.02)	\$(.06)	\$(.06)

<sup>(2)</sup> See explanation of non-GAAP performance measures under “Reconciliation of ‘Core Earnings’ Net Income to GAAP Net Income.”

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

	September 30, 2005	June 30, 2005	September 30, 2004
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
<b>Assets</b>			
FFELP Stafford and Other Student Loans . . . . .	\$22,353,605	\$22,092,672	\$16,325,850
Consolidation Loans (net of allowance for losses of \$5,627; \$5,313; and \$5,222, respectively) . . . . .	51,193,725	44,640,737	33,170,602
Private Education Loans (net of allowance for losses of \$193,332; \$228,205; and \$166,816, respectively) . . . . .	8,078,650	6,097,102	4,772,372
Other loans (net of allowance for losses of \$13,563; \$12,764; and \$10,786, respectively) . . . . .	1,094,464	962,017	994,754
Cash and investments . . . . .	3,773,014	3,637,936	7,522,134
Restricted cash and investments . . . . .	2,706,925	2,422,714	1,831,116
Retained Interest in off-balance sheet securitized loans . . . . .	2,330,390	2,631,308	2,510,100
Goodwill and acquired intangible assets, net . . . . .	1,063,916	1,003,427	753,266
Other assets . . . . .	3,725,670	3,270,831	3,079,109
Total assets . . . . .	<u>\$96,320,359</u>	<u>\$86,758,744</u>	<u>\$70,959,303</u>
<b>Liabilities</b>			
Short-term borrowings . . . . .	\$ 4,652,334	\$ 4,679,612	\$ 4,399,495
Long-term borrowings . . . . .	84,499,739	75,017,121	61,040,160
Other liabilities . . . . .	3,330,763	3,336,943	2,604,904
Total liabilities . . . . .	<u>92,482,836</u>	<u>83,033,676</u>	<u>68,044,559</u>
<b>Commitments and contingencies</b>			
Minority interest in subsidiaries . . . . .	13,725	73,330	14,767
<b>Stockholders' equity</b>			
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 0 shares, respectively, issued at stated value of \$100 per share . . . . .	565,000	565,000	165,000
Common stock, par value \$.20 per share, 1,125,000 shares authorized: 488,525; 486,706; and 480,469 shares, respectively, issued . . . . .	97,705	97,341	96,094
Additional paid-in capital . . . . .	2,107,961	2,035,676	1,805,129
Accumulated other comprehensive income, net of tax . . . . .	407,768	473,121	486,944
Retained earnings . . . . .	3,195,034	2,862,730	1,953,719
Stockholders' equity before treasury stock . . . . .	6,373,468	6,033,868	4,506,886
Common stock held in treasury at cost: 69,927; 66,532; and 51,255 shares, respectively . . . . .	2,549,670	2,382,130	1,606,909
Total stockholders' equity . . . . .	<u>3,823,798</u>	<u>3,651,738</u>	<u>2,899,977</u>
Total liabilities and stockholders' equity . . . . .	<u>\$96,320,359</u>	<u>\$86,758,744</u>	<u>\$70,959,303</u>

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

	Quarters ended			Nine months ended	
	September 30, 2005	June 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income:					
FFELP Stafford and Other Student Loans . . . . .	\$ 270,444	\$238,510	\$188,624	\$ 699,687	\$ 550,122
Consolidation Loans . . . . .	676,820	554,429	332,982	1,739,670	932,617
Private Education Loans . . . . .	173,467	126,809	83,303	429,892	236,505
Other loans . . . . .	21,614	20,046	18,212	61,813	54,714
Cash and investments . . . . .	70,541	54,245	61,774	186,835	157,765
Total interest income . . . . .	1,212,886	994,039	684,895	3,117,897	1,931,723
Interest expense . . . . .	828,122	664,251	371,952	2,056,585	964,458
Net interest income . . . . .	384,764	329,788	312,943	1,061,312	967,265
Less: provisions for losses . . . . .	12,217	78,948	10,930	137,688	79,092
Net interest income after provisions for losses . . . . .	372,547	250,840	302,013	923,624	888,173
Other income:					
Gains on student loan securitizations . . . . .	—	262,001	63,590	311,895	375,384
Servicing and securitization revenue . . . . .	(16,194)	149,931	158,639	276,698	419,334
Losses on investments, net . . . . .	(43,030)	(11,747)	(32,887)	(56,976)	(37,244)
Gains (losses) on derivative and hedging activities, net . . . . .	316,469	(105,940)	73,000	176,278	342,404
Guarantor servicing fees . . . . .	35,696	25,686	33,192	93,922	91,412
Debt management fees . . . . .	92,727	82,589	73,631	261,068	223,672
Collections revenue . . . . .	41,772	41,881	5,164	118,536	5,164
Other . . . . .	74,174	67,495	91,134	206,187	222,561
Total other income . . . . .	501,614	511,896	465,463	1,387,608	1,642,687
Operating expenses:					
Loss on GSE debt extinguishment and defeasance . . . . .	—	—	102,990	—	102,990
Other operating expenses . . . . .	291,961	287,413	210,772	841,665	625,700
Total operating expenses . . . . .	291,961	287,413	313,762	841,665	728,690
Income before income taxes and minority interest in net earnings of subsidiaries . . . . .	582,200	475,323	453,714	1,469,567	1,802,170
Income taxes . . . . .	149,821	176,573	97,136	512,860	539,201
Income before minority interest in net earnings of subsidiaries . . . . .	432,379	298,750	356,578	956,707	1,262,969
Minority interest in net earnings of subsidiaries . . . . .	1,029	2,235	—	5,458	—
<b>Net income</b> . . . . .	<b>431,350</b>	<b>296,515</b>	<b>356,578</b>	<b>951,249</b>	<b>1,262,969</b>
Preferred stock dividends . . . . .	7,288	3,908	2,875	14,071	8,625
Net income attributable to common stock . . . . .	\$ 424,062	\$292,607	\$353,703	\$ 937,178	\$1,254,344
<b>Basic earnings per common share</b> . . . . .	<b>\$ 1.02</b>	<b>\$ .70</b>	<b>\$ .81</b>	<b>\$ 2.24</b>	<b>\$ 2.85</b>
Average common shares outstanding . . . . .	417,235	419,497	435,764	419,205	439,430
<b>Diluted earnings per common share</b> . . . . .	<b>\$ .95</b>	<b>\$ .66</b>	<b>\$ .76</b>	<b>\$ 2.10</b>	<b>\$ 2.65</b>
Average common and common equivalent shares outstanding . . . . .	458,798	461,900	474,455	461,222	478,323
Dividends per common share . . . . .	\$ .22	\$ .22	\$ .19	\$ .63	\$ .55

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

	Quarter ended September 30, 2005					
	(unaudited)					
	Lending	DMO	Corporate and Other	Total “Core Earnings”	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans . . . . .	\$ 585,984	\$ —	\$ —	\$ 585,984	\$(315,540)	\$ 270,444
Consolidation Loans . . . . .	832,893	—	—	832,893	(156,073)	676,820
Private Education Loans . . . . .	312,184	—	—	312,184	(138,717)	173,467
Other loans . . . . .	21,614	—	—	21,614	—	21,614
Cash and investments . . . . .	113,713	—	—	113,713	(43,172)	70,541
Total interest income . . . . .	1,866,388	—	—	1,866,388	(653,502)	1,212,886
Total interest expense . . . . .	1,306,777	—	—	1,306,777	(478,655)	828,122
Net interest income . . . . .	559,611	—	—	559,611	(174,847)	384,764
Less: provisions for losses . . . . .	(180)	—	—	(180)	12,397	12,217
Net interest income after provisions for losses . . . . .	559,791	—	—	559,791	(187,244)	372,547
Fee income . . . . .	—	92,727	35,696	128,423	—	128,423
Collections revenue . . . . .	—	41,772	—	41,772	—	41,772
Other income . . . . .	106	(66)	36,859	36,899	294,520	331,419
Operating expenses . . . . .	117,186	71,086	82,321	270,593	21,368	291,961
Income tax expense (benefit) <sup>(1)</sup> . . . . .	163,803	23,439	(3,614)	183,628	(33,807)	149,821
Minority interest in net earnings of subsidiaries . . . . .	—	1,029	—	1,029	—	1,029
Net income (loss) . . . . .	<u>\$ 278,908</u>	<u>\$38,879</u>	<u>\$ (6,152)</u>	<u>\$ 311,635</u>	<u>\$ 119,715</u>	<u>\$ 431,350</u>

	Quarter ended June 30, 2005					
	(unaudited)					
	Lending	DMO	Corporate and Other	Total “Core Earnings”	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans . . . . .	\$ 582,344	\$ —	\$ —	\$ 582,344	\$(343,834)	\$ 238,510
Consolidation Loans . . . . .	666,417	—	—	666,417	(111,988)	554,429
Private Education Loans . . . . .	246,948	—	—	246,948	(120,139)	126,809
Other loans . . . . .	20,046	—	—	20,046	—	20,046
Cash and investments . . . . .	78,519	—	—	78,519	(24,274)	54,245
Total interest income . . . . .	1,594,274	—	—	1,594,274	(600,235)	994,039
Total interest expense . . . . .	1,078,259	—	—	1,078,259	(414,008)	664,251
Net interest income . . . . .	516,015	—	—	516,015	(186,227)	329,788
Less: provisions for losses . . . . .	14,225	—	—	14,225	64,723	78,948
Net interest income after provisions for losses . . . . .	501,790	—	—	501,790	(250,950)	250,840
Fee income . . . . .	—	82,589	25,686	108,275	—	108,275
Collections revenue . . . . .	—	41,881	—	41,881	—	41,881
Other income . . . . .	36,137	33	29,243	65,413	296,327	361,740
Operating expenses . . . . .	123,803	66,185	81,414	271,402	16,011	287,413
Income tax expense (benefit) <sup>(1)</sup> . . . . .	153,226	21,578	(9,800)	165,004	11,569	176,573
Minority interest in net earnings of subsidiaries . . . . .	928	1,199	—	2,127	108	2,235
Net income (loss) . . . . .	<u>\$ 259,970</u>	<u>\$35,541</u>	<u>\$(16,685)</u>	<u>\$ 278,826</u>	<u>\$ 17,689</u>	<u>\$ 296,515</u>

<sup>(1)</sup> Income taxes are based on a percentage of net income before tax for the individual reportable segment.

**SLM CORPORATION**  
**Segment and Non-GAAP “Core Earnings”**  
**Consolidated Statements of Income (Continued)**  
**(In thousands)**

	Quarter ended September 30, 2004					
	(unaudited)					
	Lending	DMO	Corporate and Other	Total “Core Earnings”	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans . . . . .	\$ 457,649	\$ —	\$ —	\$ 457,649	\$ (269,025)	\$ 188,624
Consolidation Loans . . . . .	368,270	—	—	368,270	(35,288)	332,982
Private Education Loans . . . . .	165,225	—	—	165,225	(81,922)	83,303
Other loans . . . . .	18,212	—	—	18,212	—	18,212
Cash and investments . . . . .	72,423	—	—	72,423	(10,649)	61,774
Total interest income . . . . .	1,081,779	—	—	1,081,779	(396,884)	684,895
Total interest expense . . . . .	616,290	—	—	616,290	(244,338)	371,952
Net interest income . . . . .	465,489	—	—	465,489	(152,546)	312,943
Less: provisions for losses . . . . .	(7,277)	—	—	(7,277)	18,207	10,930
Net interest income after provisions for losses . . . . .	472,766	—	—	472,766	(170,753)	302,013
Fee income . . . . .	—	73,631	33,192	106,823	—	106,823
Collections revenue . . . . .	—	5,164	—	5,164	—	5,164
Other income . . . . .	17,088	—	45,557	62,645	290,831	353,476
Loss on GSE debt extinguishment and defeasance . . . . .	102,990	—	—	102,990	—	102,990
Operating expenses . . . . .	98,229	35,270	69,462	202,961	7,811	210,772
Income tax expense (benefit) <sup>(1)</sup> . . . . .	103,910	15,667	3,344	122,921	(25,785)	97,136
Net income . . . . .	<u>\$ 184,725</u>	<u>\$ 27,858</u>	<u>\$ 5,943</u>	<u>\$ 218,526</u>	<u>\$ 138,052</u>	<u>\$ 356,578</u>

	Nine months ended September 30, 2005					
	(unaudited)					
	Lending	DMO	Corporate and Other	Total “Core Earnings”	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans . . . . .	\$1,678,268	\$ —	\$ —	\$1,678,268	\$ (978,581)	\$ 699,687
Consolidation Loans . . . . .	2,080,287	—	—	2,080,287	(340,617)	1,739,670
Private Education Loans . . . . .	786,439	—	—	786,439	(356,547)	429,892
Other loans . . . . .	61,813	—	—	61,813	—	61,813
Cash and investments . . . . .	271,365	—	—	271,365	(84,530)	186,835
Total interest income . . . . .	4,878,172	—	—	4,878,172	(1,760,275)	3,117,897
Total interest expense . . . . .	3,308,607	—	—	3,308,607	(1,252,022)	2,056,585
Net interest income . . . . .	1,569,565	—	—	1,569,565	(508,253)	1,061,312
Less: provisions for losses . . . . .	68,967	—	—	68,967	68,721	137,688
Net interest income after provisions for losses . . . . .	1,500,598	—	—	1,500,598	(576,974)	923,624
Fee income . . . . .	—	261,068	93,922	354,990	—	354,990
Collections revenue . . . . .	—	118,536	—	118,536	—	118,536
Other income . . . . .	72,003	—	97,733	169,736	744,346	914,082
Operating expenses . . . . .	357,466	200,600	233,226	791,292	50,373	841,665
Income tax expense (benefit) <sup>(1)</sup> . . . . .	449,599	66,232	(15,381)	500,450	12,410	512,860
Minority interest in net earnings of subsidiaries . . . . .	1,749	3,449	—	5,198	260	5,458
Net income (loss) . . . . .	<u>\$ 763,787</u>	<u>\$109,323</u>	<u>\$ (26,190)</u>	<u>\$ 846,920</u>	<u>\$ 104,329</u>	<u>\$ 951,249</u>

<sup>(1)</sup> Income taxes are based on a percentage of net income before tax for the individual reportable segment.

**SLM CORPORATION**  
**Segment and Non-GAAP “Core Earnings”**  
**Consolidated Statements of Income (Continued)**  
**(In thousands)**

	Nine months ended September 30, 2004					
	(unaudited)					
	Lending	DMO	Corporate and Other	Total “Core Earnings”	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans . . . . .	\$1,238,810	\$ —	\$ —	\$1,238,810	\$(688,688)	\$ 550,122
Consolidation Loans . . . . .	984,410	—	—	984,410	(51,793)	932,617
Private Education Loans . . . . .	425,718	—	—	425,718	(189,213)	236,505
Other loans . . . . .	54,714	—	—	54,714	—	54,714
Cash and investments . . . . .	176,385	—	—	176,385	(18,620)	157,765
Total interest income . . . . .	2,880,037	—	—	2,880,037	(948,314)	1,931,723
Total interest expense . . . . .	1,535,839	—	—	1,535,839	(571,381)	964,458
Net interest income . . . . .	1,344,198	—	—	1,344,198	(376,933)	967,265
Less: provisions for losses . . . . .	78,315	—	—	78,315	777	79,092
Net interest income after provisions for losses . . . . .	1,265,883	—	—	1,265,883	(377,710)	888,173
Fee income . . . . .	—	223,672	91,412	315,084	—	315,084
Collections revenue . . . . .	—	5,164	—	5,164	—	5,164
Other income . . . . .	94,344	—	99,889	194,233	1,128,206	1,322,439
Loss on GSE debt extinguishment and defeasance . .	102,990	—	—	102,990	—	102,990
Operating expenses . . . . .	298,719	99,535	206,170	604,424	21,276	625,700
Income tax expense (benefit) <sup>(1)</sup> . . . . .	345,094	46,539	(5,370)	386,263	152,938	539,201
Net income (loss) . . . . .	<u>\$ 613,424</u>	<u>\$ 82,762</u>	<u>\$ (9,499)</u>	<u>\$ 686,687</u>	<u>\$ 576,282</u>	<u>\$1,262,969</u>

<sup>(1)</sup> 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)

	Quarters ended			Nine months ended	
	September 30, 2005	June 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
“Core earnings” net income <sup>(A)</sup> . . . . .	\$311,635	\$278,826	\$218,526	\$846,920	\$ 686,687
“Core earnings” adjustments:					
Net impact of securitization accounting . . . . .	(252,748)	107,531	(73,801)	(177,589)	(19,084)
Net impact of derivative accounting . . . . .	409,082	(10,989)	230,401	487,705	891,425
Net impact of Floor Income . . . . .	(54,318)	(51,084)	(36,424)	(147,835)	(121,531)
Amortization of acquired intangibles . . . . .	(16,108)	(16,092)	(7,909)	(45,282)	(21,590)
Total “core earnings” adjustments before income taxes and minority interest in net earnings of subsidiaries . . . . .	85,908	29,366	112,267	116,999	729,220
Net tax effect <sup>(B)</sup> . . . . .	33,807	(11,569)	25,785	(12,410)	(152,938)
Total “core earnings” adjustments before minority interest in net earnings of subsidiaries . . . . .	119,715	17,797	138,052	104,589	576,282
Minority interest in net earnings of subsidiaries . . . . .	—	(108)	—	(260)	—
Total “core earnings” adjustments . . . . .	119,715	17,689	138,052	104,329	576,282
<b>GAAP net income</b> . . . . .	<u>\$431,350</u>	<u>\$296,515</u>	<u>\$356,578</u>	<u>\$951,249</u>	<u>\$1,262,969</u>
GAAP diluted earnings per common share . . . . .	<u>\$ .95</u>	<u>\$ .66</u>	<u>\$ .76</u>	<u>\$ 2.10</u>	<u>\$ 2.65</u>
(A) “Core earnings” diluted earnings per common share . . . . .	<u>\$ .69</u>	<u>\$ .62</u>	<u>\$ .47</u>	<u>\$ 1.87</u>	<u>\$ 1.45</u>

(B) 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.

**Non-GAAP “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 (“GAAP”). In addition to evaluating the Company’s GAAP-based financial information, management evaluates the Company’s business segments under certain non-GAAP performance measures that we refer to as “core earnings” 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” in operating each business 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 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. Our "core earnings" are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. "Core earnings" reflect only current period adjustments to GAAP as described below. Accordingly, the Company's "core earnings" presentation does not represent another comprehensive basis of accounting. A more detailed discussion of the differences between GAAP and "core earnings" follows.

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, 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 Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," on derivatives that do not qualify for hedge treatment accounting, 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 Managed Basis provides important information regarding the performance of our Managed portfolio, a limitation on 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 Managed Basis 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 in certain periods understate earnings. 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.

A more detailed discussion of the differences between GAAP and "core earnings" follows.

- 1) **Securitization:** Under GAAP, certain securitization transactions in our Lending segment are accounted for as sales of assets. Under "core earnings," we present all securitization transactions on a Managed 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 replaced by the interest income, provision 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 which would be considered intercompany on a Managed Basis.

- 2) **Derivative Accounting:** “Core earnings” exclude periodic unrealized gains and losses arising primarily in our Lending business segment, and to a lesser degree in our Corporate and Other business 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. Under “core earnings” 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. We also exclude the gain or loss on equity forward contracts that are required to be accounted for in accordance with SFAS No. 133 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 segment is uncertain and in excess of expected spreads and, 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 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 (net of Eurodollar futures contracts’ realized gains or losses) in income.
- 4) **Other items:** We exclude the amortization of acquired intangibles.