

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

SLM HOLDING CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

6199
(PRIMARY STANDARD INDUSTRIAL
CLASSIFICATION CODE NUMBER)

52-2013874
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

11600 SALLIE MAE DRIVE
RESTON, VA 20193
(703) 810-3000

(Address, including zip code, and telephone number, including area code,
of registrant's principal executive offices)

MARIANNE M. KELER
GENERAL COUNSEL
SLM HOLDING CORPORATION
11600 SALLIE MAE DRIVE
RESTON, VA 20193
(703) 810-5208

Copies to:
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1050 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20036

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO THE
PUBLIC: FROM TIME TO TIME AFTER THIS REGISTRATION
STATEMENT BECOMES EFFECTIVE AS DETERMINED BY MARKET CONDITIONS.

If the only securities being registered on this Form are being offered
pursuant to dividend or interest reinvestment plans, please check the following
box. []

If any of the securities being registered on this Form are to be
offered on a delayed or continuous basis pursuant to Rule 415 under the
Securities Act of 1933, other than securities offered only in connection with
dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an
offering pursuant to Rule 462(b) under the Securities Act, check the following
box and list the Securities Act registration statement number of the earlier
effective registration statement for the same offering: []

If this Form is a post-effective amendment filed pursuant to Rule
462(c) under the Securities Act, check the following box and list the
Securities Act registration statement number of the earlier effective
registration statement for the same offering: []

If delivery of the prospectus is expected to be made pursuant to Rule
434, check the following box: []

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered(1) | Proposed Maximum Per Unit Offering Price(1) | Proposed Maximum Aggregate Offering Price(1) | Amount of Registration Fee(3) |
|---|----------------------------|---|--|-------------------------------|
| Common Stock, par value \$0.20 per share, issuable upon exercise of Warrants(2) | 555,015 | \$160.875 | \$89,288,038 | \$27,056.98 |

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c).

(2) Pursuant to Rule 416, an indeterminate number of shares of the Registrant's common stock that may become issuable pursuant to the anti-dilution provisions of the Warrants is also being registered hereby.

(3) Pursuant to Rule 457(c), the price of the Common Stock is based on the average of the high and low prices for the Common Stock of \$160.875 as reported by the New York Stock Exchange on October 15, 1997.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME

EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a),
MAY DETERMINE.

SLM HOLDING CORPORATION

CROSS-REFERENCE SHEET PURSUANT TO ITEM 501(b) OF REGULATION S-K

| ITEM ----- NO. ----- | FORM S-1 CAPTION ----- | CAPTION OR LOCATION IN PROSPECTUS ----- |
|-------------------------------|---|--|
| 1. | Forepart of the Registration Statement and Outside Front Cover Page of Prospectus | Facing Page of the Registration Statement; Cross Reference Sheet; Outside Front Cover Page |
| 2. | Inside Front and Outside Back Cover Pages of Prospectus | Inside Front and Outside Back Cover Pages |
| 3. | Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges | Prospectus Summary; Risk Factors |
| 4. | Use of Proceeds | Use of Proceeds |
| 5. | Determination of Offering Price | Not Applicable |
| 6. | Dilution | Not Applicable |
| 7. | Selling Security Holders | Selling Stockholders |
| 8. | Plan of Distribution | Outside Front Cover Page; Plan of Distribution |
| 9. | Description of Securities to be Registered | Description of the Common Stock |
| 10. | Interests of Named Experts and Counsel | Legal Matters; Experts |
| 11. | Information with Respect to the Registrant | Prospectus Summary; Risk Factors; Business; Regulation; Capitalization; Selected Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; Description of the Common Stock; Management; Director Compensation; Executive Officers of the Company; Executive Compensation; Ownership of the Common Stock; Financial Statements |
| 12. | Disclosure of Commission Position on Indemnification for Securities Act Liabilities | Not Applicable |

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

PROSPECTUS

SUBJECT TO COMPLETION

October 21, 1997

SLM HOLDING CORPORATION

 555,015 SHARES OF COMMON STOCK
 (PAR VALUE \$.20 PER SHARE)

This Prospectus relates to the public offering by certain securityholders named herein (the "Selling Stockholders") of 555,015 shares (the "Shares") of common stock, par value \$.20 per share (the "Common Stock") of SLM Holding Corporation (the "Company" or "SLM Holding") issued or issuable upon the exercise of outstanding warrants (the "Warrants") to purchase from the Company shares of Common Stock at \$72.43 per share, on or before September 30, 2008. See "Selling Stockholders" and "Plan of Distribution."

The Warrants were originally issued to the District of Columbia Financial Responsibility and Management Assistance Authority (the "Control Board") pursuant to Section 602(a) of the Student Loan Marketing Association Reorganization Act of 1996, Public Law 104-208 (the "Privatization Act"). The Company is filing the Registration Statement of which this Prospectus is a part pursuant to Section 602(a) of the Privatization Act and its contractual obligations under the Warrant certificate. Except for the exercise price received by the Company upon exercise of any Warrants, the Company will not receive any proceeds from the sale of the Shares offered hereby. See "Use of Proceeds." Prior to this offering there has been no public market for the Warrants and the Company does not intend to register the Warrants or apply for listing or quotation of the Warrants on any securities exchange or stock market. The aggregate proceeds to the Selling Stockholders from the sale of the Shares registered hereby will be the selling price less the aggregate agent's commissions and underwriter's discounts, if any. The Company will pay substantially all of the expenses of filing and maintaining the effectiveness of the Registration Statement of which this Prospectus is a part.

The Selling Stockholders directly, through agents designated from time to time or through dealers or underwriters designated from time to time, may sell the Shares from time to time on terms to be determined at the time of such sales. The effectiveness of the Registration Statement of which this Prospectus is a part is expected to terminate on the date that is two years after the last outstanding Warrant has been exercised or the date the last outstanding Warrant has expired unexercised, or, if earlier, the date on which all of the Shares have been sold pursuant to the Registration Statement of which this Prospectus is a part or all of the Shares have been sold pursuant to Rule 144(b) under the Securities Act of 1933, as amended (the "Securities Act") or may be sold pursuant to Rule 144(k) under the Securities Act. To the extent required, the respective purchase prices and public offering prices, the names of any such agent, dealer or underwriter and any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying Prospectus Supplement or by filing a post-effective amendment to the Registration Statement of which this Prospectus is a part. See "Plan of Distribution."

The Selling Stockholders and any broker-dealers, agents or underwriters that participate with the Selling Stockholders in the distribution of the Shares offered hereby may be deemed to be "underwriters" under the Securities Act, and any commissions received by them and any profit on the resale of the Shares purchased by them may be deemed underwriting commissions or discounts under the Securities Act.

SEE "RISK FACTORS" COMMENCING ON PAGE 7 FOR A DESCRIPTION OF CERTAIN MATTERS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED HEREBY.

The following legend is required by the Privatization Act in connection with the offering of securities by the Company, including the Shares:

OBLIGATIONS OF SLM HOLDING AND ANY SUBSIDIARY OF SLM HOLDING ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES AND NEITHER SLM HOLDING NOR ANY SUBSIDIARY OF SLM HOLDING IS A GOVERNMENT-SPONSORED ENTERPRISE (OTHER THAN STUDENT LOAN MARKETING ASSOCIATION) OR AN INSTRUMENTALITY OF THE UNITED STATES.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

 THE DATE OF THIS PROSPECTUS IS OCTOBER 21, 1997.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "SEC"). Reports, proxy and information statements and other information filed by the Company may be inspected and copied at the public reference facilities maintained by the SEC in Washington, D.C. located at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional offices located at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and at Seven World Trade Center, 13th Floor, New York, New York 10048. Copies of these materials can be obtained from the Public Reference Section of the SEC, Washington, D.C. 20549, at prescribed rates. The SEC also maintains a site on the World Wide Web at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The Common Stock is presently listed on the New York Stock Exchange (the "NYSE") under the symbol "SLM." Exchange Act reports, proxy and information statements and other information concerning the Company can be inspected at the offices of the NYSE at 20 Broad Street, New York, New York 10005.

This Prospectus is part of a Registration Statement on Form S-1 (together with all amendments and exhibits thereto, the "Registration Statement") filed by the Company with the SEC under the Securities Act with respect to the securities offered hereby. As permitted by the rules and regulations of the SEC, this Prospectus omits certain information contained in the Registration Statement. Statements made in this Prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the SEC. Each such statement shall be deemed qualified in its entirety by such reference.

This Prospectus contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Company's management and assumptions made by and information available to the Company as of the date of this Prospectus. When used in this document, the words "anticipate," "believe," "estimate" and "expect" and similar expressions, as they relate to the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company's management with respect to future events and are subject to certain risks, uncertainties and assumptions, described in this Prospectus. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. The Company does not intend to update these forward-looking statements.

THE COMPANY

The Company provides a wide range of financial services, processing capabilities and loan origination and servicing systems to meet the needs of educational institutions, lenders and students. The Company was formed in 1997 in connection with the reorganization of Student Loan Marketing Association (the "GSE") pursuant to the Privatization Act. The Company's principal business is the financing and servicing of federally insured student loans, presently conducted through two wholly owned subsidiaries: the GSE, a government-sponsored enterprise chartered by an act of Congress, and Sallie Mae Servicing Corporation ("SMSC"), a Delaware corporation. The Company is the largest nongovernmental source of financing and servicing for education loans in the United States.

The GSE was established in 1972 as a for-profit, stockholder-owned, federally chartered corporation to support the education credit needs of students by, among other things, promoting liquidity in the student loan marketplace through secondary market purchases of loans originated under federally sponsored student loan programs. The GSE principally purchases loans originated under the Federal Family Education Loan Program (formerly the Guaranteed Student Loan Program) (the "FFELP"), which are insured by state-related or non-profit guarantee agencies and are reinsured by the U.S. Department of Education (the "DOE"). The GSE also purchases student loans originated under the Health Education Assistance Loan Program ("HEAL"), which are insured directly by the U.S. Department of Health and Human Services. HEAL loans are made to health professions graduate students under the Public Health Services Act. The GSE obtains funds for its operations, including its student loan purchases, primarily by selling debt securities in the domestic and overseas capital markets and, increasingly, by securitizing a portion of its student loan assets. As of June 30, 1997, the GSE's managed portfolio of student loans totaled \$41.5 billion, including \$37.6 billion of FFELP loans (including loans owned, loans securitized and loan participations) and \$2.7 billion of HEAL loans.

The Company, through SMSC, is the nation's largest FFELP loan servicer. As of June 30, 1997, the Company serviced approximately \$46.6 billion of loans, including approximately \$29.3 billion of loans owned by the GSE, \$10.0 billion owned by seven securitization trusts sponsored by the GSE, \$3.5 billion of loans currently owned by customers who use ExportSS(R), the Company's loan origination and interim loan servicing product, and \$3.8 billion owned by a joint venture between the GSE and the Chase Manhattan Bank. The Company currently has six loan servicing centers located in the states of Florida, Kansas, Massachusetts, Pennsylvania, Texas and Washington.

The DOE and the various guarantee agencies prescribe rules and regulations that govern the servicing of federally insured loans. The Company's origination and servicing systems, internal procedures and highly trained staff support compliance with these regulations, ensure asset integrity and provide superior service to borrowers. In addition, the Company recently introduced imaging technology to further increase servicing productivity and capacity.

To create customer preferences and compete more effectively in the student loan marketplace, the Company has developed a comprehensive set of loan programs and services for borrowers, including numerous loan restructuring and repayment options and programs that encourage and reward good repayment habits.

On August 7, 1997, a reorganization (the "Reorganization") authorized by the Privatization Act and approved by GSE shareholders was consummated. Pursuant to the Reorganization, among other things, the GSE became a wholly-owned subsidiary of the Company and will be liquidated and dissolved on or before September 30, 2008 (the period between the Reorganization and the liquidation or dissolution referred to herein as the "Wind-Down Period"). During the Wind-Down Period, all of the Company's business activities will be conducted through the GSE and the Company's other non-GSE subsidiaries. The GSE generally may continue to purchase student loans only through September 30, 2007. Neither the Company nor any of its non-GSE subsidiaries may purchase FFELP loans during the Wind-Down Period for so long as the GSE continues to do so. Subject to the foregoing, however, the Company may elect at any time to commence FFELP student loan purchases outside of the GSE.

The GSE has engaged in a number of specialty financial services related to higher education credit, including collateralized financing of FFELP and other education loan portfolios (warehousing advances), credit support for student loan revenue bonds, portfolio acquisitions of student loan revenue and facilities bonds, underwritings of academic facilities bonds and surety bond support for non-federally insured student loans. During the Wind-Down Period, the GSE may only extend warehousing advances and offer student loan revenue bond credit support pursuant to financing and guarantee commitments, respectively, in place as of August 7, 1997. As of June 30, 1997, the GSE held approximately \$3.4 billion and \$182 million of such warehousing and guarantee commitments, respectively. In addition, management expects that the Company will reduce its warehousing advances, investment activities in academic facilities financing and student loan revenue bonds during the Wind-Down Period. As of June 30, 1997, these assets totaled \$2.5 billion, \$1.4 billion and \$185 million, respectively.

During the Wind-Down Period, the GSE's debt obligations, including those that were outstanding at the time of the Reorganization, will continue to be outstanding obligations of the GSE and will not be transferred to any other entity, except in connection with the GSE's dissolution. Also during the Wind-Down Period, (i) the Secretary of the Treasury has extended oversight authority to monitor the GSE and, in certain cases, the Company and its non-GSE subsidiaries, (ii) the Company, the GSE and their affiliates are subject to certain restrictions on intercompany relations, and (iii) the GSE is subject to certain minimum capital requirements.

The Company's principal executive offices are located at 11600 Sallie Mae Drive, Reston, VA 20193, and its telephone number is (703) 810-3000.

THE WARRANTS

The Privatization Act requires the Company to issue the Warrants to the Control Board. The Company issued the Warrants to the Control Board on August 7, 1997.

Pursuant to the Privatization Act, the Control Board is authorized to sell or exercise the Warrants and must deposit any proceeds therefrom into an account established for the benefit at the District of Columbia public school system. On September 2, 1997, the Control Board sold the Warrants in a transaction for which it claimed an exemption from the registration requirements of the Securities Act.

MARKET DATA

Before August 7, 1997, the GSE's common stock traded on the New York Stock Exchange (the "NYSE") under the symbol "SLM." On August 7, 1997, pursuant to the Reorganization, each outstanding share of the GSE's common stock was converted into one share of the Company's common stock. Since August 8, 1997, the Company's common stock has traded on the NYSE under the symbol "SLM." The following table sets forth the high and low sales prices per share of the GSE's common stock (from the first quarter of 1995 through August 7, 1997) and the Company's common stock (from August 8, 1997 through October 15, 1997) as reported on the NYSE Composite Tape, and the quarterly cash dividends declared with respect thereto.

| | HIGH | LOW | DIVIDEND |
|---|---------|-----------|----------|
| | ----- | ----- | ----- |
| 1995 | | | |
| First Quarter | \$ 39 | \$ 32 7/8 | \$.37 |
| Second Quarter | 48 3/8 | 34 1/2 | .37 |
| Third Quarter | 55 3/4 | 47 | .37 |
| Fourth Quarter | 70 7/8 | 54 | .40 |
| 1996 | | | |
| First Quarter | 86 1/8 | 63 1/4 | .40 |
| Second Quarter | 83 1/2 | 66 | .40 |
| Third Quarter | 77 | 69 1/4 | .40 |
| Fourth Quarter | 98 1/4 | 77 1/4 | .44 |
| 1997 | | | |
| First Quarter | 114 1/4 | 89 | .44 |
| Second Quarter | 137 3/4 | 94 5/8 | .44 |
| Third Quarter | 160 1/2 | 127 | .44 |
| Fourth Quarter (through October 15, 1997). | 165 1/8 | 152 5/8 | -- |

As of September 30, 1997, there were 50,466,913 shares of Common Stock outstanding and eligible to be voted, held by approximately 20,000 shareholders. On October 15, 1997, the last sales price of the Common Stock was \$161 3/16 per share, as reported on the NYSE Composite Tape.

SUMMARY SELECTED FINANCIAL DATA

The following table sets forth selected financial and other operating information of SLM Holding. The selected financial data in the table is derived from the consolidated financial statements of SLM Holding. The data should be read in conjunction with the consolidated financial statements, related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

| | SIX MONTHS ENDED JUNE 30, | | YEARS ENDED DECEMBER 31, | | | | |
|--|------------------------------|-------------|--------------------------|------------|------------|------------|------------|
| | 1997(2) | 1996(2) | 1996(2) | 1995(1)(2) | 1994(1)(2) | 1993(1)(2) | 1992(1)(2) |
| | (Unaudited) | (Unaudited) | | | | | |
| OPERATING DATA: | | | | | | | |
| Net interest income..... | \$ 406 | \$ 452 | \$ 866 | \$ 901 | \$ 982 | \$ 1,169 | \$ 987 |
| Net income..... | 233 | 201 | 409 | 356 | 410 | 432 | 391 |
| Earnings per common share.... | 4.36 | 3.53 | 7.32 | 5.27 | 5.13 | 4.98 | 4.30 |
| Dividends per common share .. | .88 | .80 | 1.64 | 1.51 | 1.42 | 1.25 | 1.05 |
| Return on common stockholders' equity..... | 57.26%(3) | 49.29%(3) | 50.13%(3) | 29.17%(3) | 27.85%(3) | 37.68% | 37.26% |
| Net interest margin..... | 1.78 | 1.96 | 1.90 | 1.84 | 2.14 | 2.74 | 2.32 |
| Return on assets..... | .98 | .84 | .86 | .69 | .85 | .97 | .87 |
| Dividend payout ratio..... | 20.16 | 22.66 | 22.40 | 28.64 | 27.66 | 25.10 | 24.41 |
| Average equity/average assets | 1.64 | 1.64 | 1.65 | 2.28 | 2.96 | 2.50 | 2.27 |
| BALANCE SHEET DATA: | | | | | | | |
| Student loans purchased..... | \$29,569 | \$33,653 | \$32,308 | \$34,336 | \$30,571 | \$26,978 | \$24,326 |
| Student loan participations.. | 1,919 | -- | 1,446 | -- | -- | -- | -- |
| Warehousing advances..... | 2,495 | 2,972 | 2,789 | 3,865 | 7,032 | 7,034 | 8,085 |
| Academic facilities financings..... | 1,354 | 1,546 | 1,473 | 1,312 | 1,548 | 1,359 | 1,189 |
| Total assets..... | 47,899 | 47,363 | 47,630 | 50,002 | 53,161 | 46,682 | 46,775 |
| Long-term notes..... | 19,489 | 25,632 | 22,606 | 30,083 | 34,319 | 30,925 | 30,724 |
| Total borrowings..... | 45,339 | 44,905 | 45,124 | 47,530 | 50,335 | 44,544 | 44,440 |
| Stockholders' equity..... | 843(3) | 803(3) | 834(3) | 867(3) | 1,388(3) | 1,179 | 1,107 |
| Book value per common share.. | 16.10 | 14.47 | 15.53 | 15.03 | 18.87 | 14.03 | 12.39 |
| OTHER DATA: | | | | | | | |
| Securitized student loans outstanding | \$10,048 | \$ 3,735 | \$ 6,263 | \$ 954 | \$ -- | \$ -- | \$ -- |
| Core earnings(4)..... | 223 | 182 | 381 | 350 | 345 | 388 | 391 |
| Premiums on debt extinguished..... | -- | 7 | 7 | 8 | 14 | 211 | 141 |

(1) Previously reported results for the years ended December 31, 1995, 1994, 1993 and 1992 have been restated to retroactively reflect the recognition of student loan income as earned (see Note 2 to the Consolidated Financial Statements). This restatement resulted in the elimination of the previously reported 1995 cumulative effect of the change in accounting method of \$130 million (\$1.93 per common share) and an increase to previously reported net income of \$17 million (\$.22 per common share), \$13 million (\$.15 per common share), and \$8 million (\$.09 per common share) for the years ended December 31, 1994, 1993 and 1992, respectively.

(2) As part of the GSE's privatization, SLM Holding became the parent company of, and successor to, the GSE on August 7, 1997. As a result, the GSE's preferred stock (totaling \$214 million) is now reflected as a minority interest in the consolidated financial statements. The financial statements for prior periods have been restated to reflect this change.

(3) At June 30, 1997 and 1996 and at December 31, 1996, 1995 and 1994, stockholders' equity reflects the addition to stockholders' equity of \$345 million, \$336 million, \$349 million, \$371 million and \$300 million, respectively, net of tax, of unrealized gains on certain investments recognized pursuant to FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

(4) Core earnings is defined as the Company's net income less the after-tax effect of floor revenues and other one-time charges. Management believes that these measures, which are not measures under generally accepted accounting principles (GAAP), are important because they depict the Company's earnings before the effects of one time events such as floor revenues which are largely outside of the Company's control. Management believes that core earnings as defined, while not necessarily comparable to other companies' use of similar terminology, provide for meaningful period to period comparisons as a basis for analyzing trends in the Company's student loan operations.

RISK FACTORS

Prospective purchasers of the securities offered hereby should consider carefully the following factors, together with the other information contained in this Prospectus, before purchasing the securities offered hereby.

NO HISTORICAL OPERATIONS

The Company, which was created in accordance with the terms of the Privatization Act, does not have an operating history, although it owns the GSE and other subsidiaries of the GSE. The operations of the Company may not reflect the GSE's historical operations. In addition, as a general purpose corporation, the Company has authority to originate student loans and engage in other new lines of business (through non-GSE subsidiaries) that are not authorized under the GSE's charter. There can be no assurance that any new lines of business in which the Company may engage will be successful.

POLITICAL RISKS

Although the Company is a state-chartered corporation, the GSE continues to be subject to the political risks attendant to its status as a government-sponsored enterprise. In addition, the student loan business is dependent upon government programs and is highly regulated, and therefore remains subject to political risks.

INTEREST RATES FOR NEW STAFFORD LOANS BEGINNING JULY 1, 1998.

The Higher Education Act of 1965, as amended by the Omnibus Budget Reconciliation Act of 1993 ("OBRA"), provides for a change in the borrower interest rate and the interest rate subsidy paid to lenders (the "Special Allowance Payment") on certain FFELP loans made on or after July 1, 1998. The new rates are scheduled to be based on the interest rate on U.S. Treasury securities with a "comparable maturity" plus 1.0 percent. The Secretary of Education has not issued rules specifying the U.S. Treasury security on which the Special Allowance Payment rate will be based or details on setting the Special Allowance Payment rate. Management believes that if this provision of the law is retained, the "comparable maturity" security will be the 10-year Treasury Note. The new rate structure represents a significant change from the current weekly reset 91-day Treasury bill-based formula and could materially adversely impact the FFELP market and the Company's business. Given current market conditions, the yield on loans subject to the new rate is expected to be significantly less than the yield on loans made under the current formula and the availability and costs of funding to support this new type of instrument are uncertain. Representatives of the student loan industry are in discussions with members of Congress concerning possible legislative modification of this OBRA provision. There can be no assurance, however, that such discussions will result in any such legislative modifications.

FEDERAL DIRECT STUDENT LOAN PROGRAM ("FDSLPL")

OBRA also expanded a previously established pilot program into the FDSLPL, which is funded directly by the federal government and administered by the DOE. The FDSLPL failed to meet its legislated market share goal of 40% for academic year 1995-96 and, based upon DOE reports, management believes that it will not meet its OBRA target of 50% of new student loan volume for academic year 1996-97. However, the FDSLPL has captured a significant portion of the market for new student loan volume and the FDSLPL may increase its market share even if it fails to meet its legislated goal of 60%. In addition, OBRA provides that the U.S. Secretary of Education (the "Secretary") may exceed the legislated market share targets for academic years 1996-98 and 1998-99 if the Secretary determines that higher targets are warranted by the number of eligible institutions that desire to participate in the FDSLPL. Any such developments could have a materially adverse affect on the Company.

OBRA also authorized the DOE to offer existing FFELP borrowers the opportunity to consolidate FFELP loans with FDSLPL loans. There is currently no reciprocal provision permitting the consolidation of FDSLPL loans with FFELP loans. As of June 30, 1997, approximately \$592 million of FFELP loans owned by the Company have been

accepted for refinancing into FDSLPL loans. Approximately \$409 million have been refinanced into FDSLPL loans with the remainder awaiting disbursement by the federal government. Although the DOE has temporarily suspended such refinancings because of operational problems, there can be no assurance that a material portion of FFELP loans owned by the Company will not be refinanced into FDSLPL loans.

USE OF PROCEEDS

The Company will not receive any proceeds from the sale of the Shares by the Selling Stockholders. The Company will use the net proceeds from the exercise of the Warrants for general corporate purposes.

SELLING STOCKHOLDERS

The following table sets forth, as of October __, 1997, the number of shares of Common Stock beneficially owned by each Selling Stockholder. The percentage calculation for the total number of shares of Common Stock held by each Selling Stockholder gives effect to the purchase of Shares on the exercise of the respective Warrants held by such Selling Stockholder. The term "Selling Stockholders" includes the holders listed below and the beneficial owners of the Shares and their transferees, pledgees, donees or other successors. This table has been prepared based upon information furnished to the Company by or on behalf of the Selling Stockholders.

The Selling Stockholders named below who hold Warrants confirmed at the time they acquired the Warrants that the Warrants were acquired for investment purposes only and without a view toward their resale and acknowledged the existence of restrictions on resale applicable to the Warrants. This offering relates only to the sale of Shares held or to be held by the Selling Stockholders named in the following table upon the exercise of the Warrants.

| COMMON STOCK BENEFICIALLY OWNED | | | |
|---------------------------------|--------------|--------------------------|---------------|
| SELLING STOCKHOLDERS | COMMON STOCK | SHARES REGISTERED HEREBY | PERCENTAGE(1) |

(1) Based on 555,015 shares of Common Stock issuable upon exercise of the Warrants.

The Selling Stockholders identified above may sell, transfer or otherwise dispose of, in transactions exempt from the registration requirements of the Securities Act, all or a portion of their Warrants or Shares after the date as of which the information in the preceding table is presented. The information regarding the Selling Stockholders may change from time to time. If required, such changes will be set forth in one or more Prospectus Supplements. The per share exercise price and, therefore, the number of Shares issuable upon exercise of the Warrants, are subject to adjustment under certain circumstances. Accordingly, the number of Shares issuable upon exercise of the Warrants may increase or decrease. Because the Selling Stockholders may offer all or some portion of the Shares pursuant to this Prospectus, and because there are no agreements, arrangements or understandings with respect to the sale of the Warrants or the Shares, no estimate can be given as to the amount of Warrants and/or Shares that will be held by the Selling Stockholders upon termination of this offering.

PLAN OF DISTRIBUTION

The Shares offered hereby may be offered and sold from time to time by the Selling Stockholders, or by their pledgees, donees, transferees or other successors in interest. Such offers and sales may be made from time to time on one or more exchanges or in the over-the-counter market, or otherwise, at prices and on terms then prevailing or at prices related to the then-current market price, or in negotiated transactions. The methods by which the Shares may be sold may include, but are not limited to, the following: (a) a block trade in which the broker or dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as

principal to facilitate the transaction; (b) purchases by a broker or dealer as principal and resale by such broker or dealer for its account; (c) an exchange distribution in accordance with the rules of such exchange; (d) ordinary brokerage transactions and transactions in which the broker solicits purchasers; (e) privately negotiated transactions; (f) short sales; and (g) a combination of any such methods of sale. In effecting sales, brokers or dealers engaged by the Selling Stockholders may arrange for other brokers or dealers to participate. Brokers or dealers may receive commissions or discounts from the Selling Stockholders or from the purchasers in amounts to be negotiated immediately prior to the sale. The Selling Stockholders may also sell the Shares in accordance with Rule 144 under the Securities Act.

From time to time the Selling Stockholders may engage in short sales, short sales against the box, puts and calls and other transactions in securities of the Company or derivatives thereof, and may sell and deliver the Shares in connection therewith. From time to time Selling Stockholders may pledge their Shares pursuant to the margin provisions of their respective customer agreements with their respective brokers. Upon a default by a Selling Stockholder, the broker may offer and sell the pledged Shares from time to time.

The Company has agreed to use its best efforts to keep the Registration Statement of which this Prospectus is a part continuously effective under the Securities Act until the date that is two years after the last outstanding Warrant has been exercised or the date the last outstanding Warrant has expired unexercised or, if earlier, the date on which all of the Shares have been sold pursuant to the Registration Statement of which this Prospectus is a part or all of the Shares have been sold pursuant to Rule 144(b) under the Securities Act or may be sold pursuant to Rule 144(k) under the Securities Act.

The Selling Stockholders and any brokers participating in such sales may be deemed to be "underwriters" within the meaning of the Securities Act. There can be no assurance that the Selling Stockholders will sell any or all of the Shares offered hereby. The Company will not receive any proceeds from the sale by the Selling Stockholders of the Shares offered hereby, but it will receive proceeds from the exercise of the Warrants.

All proceeds from any such sales will be the property of the Selling Stockholders, who will bear the expense of underwriting discounts and selling commissions, if any, and their own legal fees.

Industry data on the FFELP and the FDSLSP contained in this Prospectus are based on sources that the Company believes to be reliable and to represent the best available information for these purposes, including published and unpublished DOE data and industry publications.

GENERAL

The Company provides a wide range of financial services, processing capabilities and information technology to meet the needs of educational institutions, lenders and students. Chartered by an act of Congress in 1972 as a government-sponsored enterprise, the GSE's stated mission was to enhance access to post-secondary education by providing a national secondary market and financing for guaranteed student loans. As of June 30, 1997, the Company's managed portfolio of student loans totaled approximately \$41.5 billion (including loans owned, loans securitized and loan participations). The Company also had commitments to purchase \$19.6 billion of additional student loans or participations therein. While the Company continues to be the leading purchaser of student loans, its business has expanded over its first quarter of a century, reflecting changes in both the education sector and the financial markets.

Primarily a wholesale provider of credit and a servicer of student loans, the Company's clients include over 900 financial and educational institutions and state agencies. Through its six regional loan servicing centers, the Company processes student loans for more than five million borrowers and is recognized as the nation's pre-eminent servicer of student loans. The Company is also a provider and arranger of infrastructure finance for colleges and universities. See "-- Specialized Financial Services -- Academic Facilities Financings and Student Loan Revenue Bonds."

The Company believes that it has successfully fulfilled its original government-sponsored enterprise mandate by fostering a thriving, competitive student loan market and has maintained its leadership position in the education finance industry due to its focus on customer relationships, value-added products and services, superior loan servicing capabilities and a sound financial management strategy. In recognition of the increasingly important role that college and university administrators play in the student loan process, the Company has adopted a school-based growth strategy. The Company's core marketing strategy is to provide schools and their students with simple, flexible and cost-effective products and services so that schools will choose to work with the Company. This strategy, combined with superior servicing and technology capabilities, has helped the Company to build valuable partnerships with lenders, guarantee agencies and others.

The Privatization Act was approved by Congress and signed by President Clinton in September 1996. The Reorganization was approved by the GSE's shareholders on July 31, 1997 and effected on August 7, 1997.

INDUSTRY OVERVIEW

The student loan industry provides affordable financing to students and their families to fund post-secondary education. Banks and other eligible lenders can make student loans at below-market rates due to subsidies and guarantees provided under programs sponsored principally by the federal government. The largest student loan program, formerly called the Guaranteed Student Loan Program and now known as the FFELP, was created in 1965 to ensure low-cost access by families to a full range of post-secondary educational institutions. In 1972, to encourage further bank participation in the Guaranteed Student Loan Program, Congress established the GSE as a for-profit, stockholder-owned national secondary market for student loans. The FFELP industry currently includes a network of approximately 5,300 originators and 6,300 educational institutions and is collectively guaranteed and administered by 39 state-sponsored or non-profit guarantee agencies under contract with the DOE. In addition to the Company, a number of non-profit entities, banks and other financial intermediaries operate as secondary markets for student loans. The Company believes that lender participation in the FFELP is relatively concentrated, with an estimated 90 percent of outstanding loans held by the top 100 participants, including approximately one-third owned by the Company as of September 30, 1994. The FFELP is reauthorized by Congress approximately

every six years. The next reauthorization is required in 1998. The provisions of the FFELP are also subject to revision from time to time by Congress.

Demand for student loans has risen substantially over the last several years. Higher education tuition cost and fee increases continue to exceed the inflation rate. Over half of all full-time college students today depend on some form of borrowing, compared to just over 35 percent in 1985. Federal legislation enacted in late 1992 expanded loan limits and borrower eligibility and, in part, resulted in an increase of over 50 percent in annual federally guaranteed student loan volume (\$21 billion in 1994 from \$13.3 billion in 1992). Estimated future increases in tuition costs and college enrollments are expected to prompt further growth in the student loan market.

In 1993, Congress expanded a previously established pilot program into the FDSLPL, which is administered by the DOE. Established as an alternative to the private sector-based FFELP, the FDSLPL accounted for approximately one-third of all new federally sponsored student loans issued in academic year 1996-97. Under the FDSLPL, the federal government contracts with third parties for loan administration and collections services while financing its lending activity through U.S. Treasury borrowing. See "Risk Factors -- FDSLPL."

PRODUCTS AND SERVICES

Loan Purchases. The Company's student loan purchases primarily involve two federally sponsored programs. The Company principally purchases Stafford loans, PLUS loans and SLS loans originated under the FFELP, all of which are insured by state-related or non-profit guarantee agencies and are reinsured by the DOE. The Company also purchases student loans originated under the HEAL program that are insured directly by the United States Department of Health and Human Services. As of June 30, 1997, the Company's managed portfolio of student loans totaled \$41.5 billion, including \$37.6 billion of FFELP loans (including loans owned, loans securitized and loan participations) and \$2.7 billion of HEAL loans.

In order to further meet the educational credit needs of students, the Company in 1996 sponsored the creation of the private Signature Education Loan(sm) program, with numerous lenders participating nationwide. Under this program, the Company performs certain origination services on behalf of the participating lenders. Upon sale of the loans to the Company, the Company intends to insure the loans through its HEMAR Insurance Corporation of America ("HICA") subsidiary (if such loans not already insured by HICA before sale). Most of the HICA-insured loans acquired by the Company are part of "bundled" loan programs that include FFELP loans. The Company also purchases loans originated under various other HICA-insured loan programs. As of June 30, 1997, the Company owned approximately \$1.2 billion of such private education loans, including HICA-insured Signature Education Loans(sm).

The Company purchases student loans primarily from commercial banks. The Company also purchases student loans from other eligible FFELP lenders, including savings and loan associations, mutual savings banks, credit unions, certain pension funds and insurance companies, educational institutions and state and private non-profit loan originating and secondary market agencies.

Most lenders using the secondary market hold loans while borrowers are in school and sell loans shortly before conversion to repayment status, when servicing costs increase significantly. Traditionally, the Company has purchased most of its loans just before their conversion to repayment status, although the Company also buys "in-school" loans and loans in repayment. The Company purchases loans primarily through commitment contracts, but also makes "spot" purchases. Approximately two-thirds of the Company's new loan purchases were made pursuant to purchase commitment contracts in 1995 and 1996. The Company enters into commitment contracts with lenders to purchase loans up to a specified aggregate principal amount over the term of the contract. Under the commitment contracts, lenders have the right, and in most cases the obligation, to sell to the Company the loans they own over a specified period of time, usually two to three years, at a purchase price that is based on certain loan characteristics.

In conjunction with commitment contracts, the Company frequently provides selling institutions with operational support in the form of PortSS(R), an automated loan administration system for the lender's use at its own offices before loan sale, or in the form of loan origination and interim servicing provided through one of the

Company's loan servicing centers (ExportSS(R)). In 1995 and 1996, more than 80 percent of the Company's purchase commitment volume came from users of PortSS(R) and ExportSS(R). The Company also offers commitment clients the ability to originate loans and then transfer them to the Company for servicing (TransportSS(sm)). PortSS(R), ExportSS(R) and TransportSS(sm) provide the Company and the lender assurance that loans will be efficiently administered by the Company and that borrowers will have access to the Company's repayment options and benefits.

In a spot purchase, the Company competes with other secondary market participants to purchase a portfolio of eligible loans from a selling holder when such holder decides to offer its loans for sale. The Company made approximately one-third of its purchases of educational loans through spot purchases in 1995 and 1996. In general, spot purchase volume is more competitively priced than volume purchased under commitment contracts. The growth in volume generated by PortSS(R), ExportSS(R) and TransportSS(sm) demonstrates the importance of the Company's investment in these systems in past years.

The Company also offers eligible borrowers a program for consolidation of eligible insured loans into a single new insured loan with a term of 10 to 30 years. The Higher Education Act of 1965, as amended, provides that borrowers may consolidate with one of their loan holders or may consolidate with a separate lender if they cannot obtain a consolidation loan with an income-sensitive repayment plan that they deem acceptable from their loan holders. As of June 30, 1997, the Company owned approximately \$8.4 billion of such consolidation loans, known as SMART(sm) Loan Accounts.

Borrower Benefits and Program Technology Support. To create customer preferences and compete more effectively in the student loan marketplace, the Company has developed a comprehensive set of loan programs and services for borrowers, including numerous loan restructuring and repayment options and programs that encourage and reward good repayment habits. The Company also provides counseling and information programs (including a world wide web site) that help borrowers and reinforce relationships with college and university customers and lender partners.

Under the Company's Great Rewards(R) program, certain FFELP borrowers who make their first 48 monthly payments on-time receive a two percentage-point interest rate reduction for the remaining term of the loan. Other programs pay students an amount equal to part of the loan origination fees and modestly reduce interest costs for use of automatic debit accounts. The Company also provides financial aid administrators at colleges and universities with innovative products and services that simplify the lending process, including electronic funds transfer services and loan information and management software that enables college application data to be transferred electronically between program participants.

Joint Venture with The Chase Manhattan Bank. In the third quarter of 1996, the Company restructured its business relationship with The Chase Manhattan Bank ("Chase"), which, with an estimated market share of 8.0 percent, is the largest originator of student loans under the FFELP. Historically, Chase has also been the Company's largest client, representing 11 percent of 1995 purchases. The Company and Chase Education Holdings, Inc., a wholly owned subsidiary of Chase, are equal owners of Education First Finance LLC and Education First Marketing LLC (collectively, the "Chase Joint Venture"). Education First Marketing LLC is responsible for marketing education loans to be made by Chase and its affiliates to schools and borrowers. Shortly after such loans are made by Chase and its affiliates, the loans are purchased on behalf of Education First Finance LLC by the Chase/Sallie Mae Education Loan Trust (the "Trust"), which presently finances these purchases through the sale of loan participations to the Company and Chase. As of June 30, 1997, the Trust owned approximately \$3.8 billion of federally insured education loans. Substantially all loans owned by the Trust are serviced on behalf of the Trust by SMSC on a fee-for-service basis.

SERVICING

In 1980, the Company began servicing its own portfolios in order to better control costs and manage risks. In late 1995, in connection with the commencement of its securitization program, the Company transferred its servicing operations to SMSC, a wholly owned subsidiary. The Company is now the nation's largest FFELP loan servicer, and management believes that the Company is recognized as the premier service quality and technology provider in its field. The Company believes that its processing capability and service excellence are integral to its school-based growth strategy. As of June 30, 1997, the Company serviced approximately \$46.6 billion of loans, including approximately \$29.3 billion of loans owned by the GSE and \$10.0 billion owned by seven securitization

trusts sponsored by the GSE, \$3.5 billion of loans currently owned by ExportSS(R) customers and \$3.8 billion owned by the Chase Joint Venture Trust.

The Company currently has six loan servicing centers, located in the states of Florida, Kansas, Massachusetts, Pennsylvania, Texas and Washington. This geographic coverage, together with total systems integration among centers, facilitates operations and customer service.

The DOE and the various guarantee agencies prescribe rules and regulations that govern the servicing of federally insured student loans. The Company's origination and servicing systems, internal procedures and highly trained staff support compliance with these regulations, ensure asset integrity and provide superior service to borrowers. The Company recently introduced imaging technology to further increase servicing productivity and capacity.

SPECIALIZED FINANCIAL SERVICES

The Company has engaged in a number of specialty financial services related to higher education credit, including collateralized financing of FFELP and other education loan portfolios (warehousing advances), credit support for student loan revenue bonds, portfolio investments in student loan revenue and facilities bonds, underwritings of academic facilities bonds and surety bond support for non-federally insured student loans.

Warehousing Advances. Warehousing advances are secured loans to financial and educational institutions to fund FFELP and HEAL loans and other forms of education-related credit. As of June 30, 1997, the Company held approximately \$2.5 billion of warehouse loans with an average term of 3.5 years. These loans remain assets of the GSE, but the GSE can extend new warehousing advances during the Wind-Down Period only pursuant to financing commitments in place as of August 7, 1997. As of June 30, 1997, the GSE held approximately \$3.4 billion of such commitments. The Company does not expect that its non-GSE affiliates will continue this line of business.

Academic Facilities Financings and Student Loan Revenue Bonds. Since 1987, the GSE has provided facilities financing and commitments for future facilities financing to approximately 250 educational institutions. Certain of these financings are secured either by a mortgage on the underlying facility or by other collateral. The GSE also invests in student loan revenue obligations. In late 1995, the GSE established a broker-dealer subsidiary, Education Securities, Inc. ("ESI"), which manages the GSE's municipal bond portfolio and is developing an array of specialized underwriting and financial advisory services for the education sector. The Company anticipates that it will reduce its investment activity in academic facilities and student loan revenue bond products during the Wind-Down Period. As of June 30, 1997, these portfolios totaled \$1.4 billion and \$185 million, respectively.

Letters of Credit. In the past, the GSE has offered letters of credit to guarantee issues of state and non-profit agency student loan revenue bonds. Currently outstanding letters of credit have original terms of up to 17 years. As of June 30, 1997, the GSE had approximately \$4.6 billion of such commitments outstanding. During the Wind-Down Period, letter of credit activity by the GSE will be limited to guarantee commitments in place as of August 7, 1997.

Private Student Loan Insurance. In 1995, the GSE acquired HICA, a South Dakota stock insurance company engaged exclusively in insuring lenders against credit loss on their education-related, non-federally insured loans to students attending post-secondary educational institutions. Loans owned by the GSE are a significant portion of HICA's insured loan portfolio. See "-- Products and Services -- Loan Purchases."

FINANCING/SECURITIZATION

The GSE obtains funds for its operations primarily from the sale of debt securities in the domestic and overseas capital markets, and through public offerings and private placements of U.S. dollar-denominated and foreign currency-denominated debt of varying maturities and interest rate characteristics. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources." GSE debt securities are currently rated at the highest credit rating level by Moody's Investors Service and Standard & Poor's. Although the Company has not begun specific discussions with the ratings agencies as of the date of this

Prospectus, the Company expects that the credit rating on any debt securities of the Company will be lower than that of the GSE's debt securities.

The GSE uses interest rate and currency exchange agreements (collateralized where appropriate), U.S. Treasury securities, interest rate futures contracts and other hedging techniques to reduce its exposure to interest rate and currency fluctuations arising out of its financing activities and to match the characteristics of its assets and liabilities. The GSE has also issued preferred stock to obtain funds, including preferred stock held by the Company. The GSE issue debt with maturity dates through September 30, 2008 to fund student loans and other permitted asset acquisitions. Upon the GSE's dissolution pursuant to the Privatization Act, the GSE must transfer any remaining GSE obligations into a defeasance trust for the benefit of the holders of such obligations with cash or full faith and credit obligations of the United States, or an agency thereof, in amounts sufficient, as determined by the Secretary of the Treasury, to pay the principal and interest on the deposited obligations. If the GSE has insufficient assets to fully fund such GSE debt, the Company must transfer sufficient assets to the trust to account for this shortfall. The Privatization Act requires that upon the dissolution of the GSE on or before September 30, 2008, the GSE shall repurchase or redeem or make proper provisions for repurchase or redemption of any outstanding preferred stock.

Since late 1995 the Company has further diversified its funding sources, independent of its GSE borrower status, by securitizing a portion of its student loan assets. Securitization is an off-balance sheet funding mechanism that the Company effects through the sale of portfolios of student loans by the GSE to SLM Funding Corporation, a bankruptcy-remote, special-purpose, wholly owned subsidiary of the GSE, which in turn sells the student loans to an independent owner trust that issues securities to fund the purchase of the student loans. The securitization trusts typically issue several classes of debt securities rated at the highest investment grade level. The GSE has not guaranteed such debt securities and has no obligation to ensure their repayment. Because the securities issued by the trusts through securitization are not GSE securities, the Company has been and in the future expects to be able to fund its student loans to term through securitization, even for those assets with final maturities that extend beyond September 30, 2008. The Company has taken the position that the 30 basis point per annum offset fee on loans held by the GSE does not apply to securitized loans. The DOE has concurred with the Company's position that the 30 basis point per annum offset fee on loans held by the GSE does not apply to securitized loans. See "--Legal Proceedings." The Company anticipates that securitization will remain a primary student loan funding mechanism for the Company when it begins to conduct student loan purchase activity through a non-GSE subsidiary. In addition to the foregoing, the Company obtains funding through a bank line of credit.

OPERATIONS DURING THE WIND-DOWN PERIOD

Privatization enables the Company to commence new business activities without regard to restrictions in the GSE's charter. The stock of certain GSE subsidiaries, including SSMC, HICA and ESI, will be transferred to the Company. Upon such transfer, the business activities of these subsidiaries will no longer be subject to restrictions contained in the GSE's charter. In addition, the GSE's employees have been transferred to the Sallie Mae, Inc. (the "Management Company").

During the Wind-Down Period, the GSE generally is prohibited from conducting new business except in connection with student loan purchases through September 30, 2007 or with other outstanding contractual commitments, and from issuing new debt obligations that mature beyond September 30, 2008. The GSE has transferred and will continue to transfer personnel and certain assets to the Company or other non-GSE affiliates. Student loans, warehousing advances and other program-related or financial assets (such as portfolio investments, letters of credit, swap agreements and forward purchase commitments) are generally not expected to be transferred. Neither the Company nor any of its non-GSE affiliates may purchase FFELP loans for so long as the GSE remains an active purchaser in this secondary market. See "The Privatization Act -- Limitations on Holding Company Activities." During the Wind-Down Period, GSE operations will be managed pursuant to arm's-length service agreements between the GSE and one or more of its non-GSE affiliates. The Privatization Act also provides certain restrictions on intercompany relations between the GSE and its affiliates during the Wind-Down Period. See "The Privatization Act -- Restrictions on Intercompany Relations."

A non-GSE subsidiary of the Company provides loan servicing support for the loans owned and securitized by the GSE.

Management intends these opportunities to complement the Company's underlying strategy of acquiring student loan assets and to help maintain its student loan servicing leadership role and assist its new product offerings.

COMPETITION

The Company is the major financial intermediary for higher education credit, but is subject to competition on a national basis from several large commercial banks and non-profit secondary market agencies and on a state or local basis from smaller banks and state-based secondary markets. Although Congress establishes loan limits and interest rates on student loans, management believes that market share in the FFELP industry is increasingly a function of school and student desire for borrower benefits and superior customer service. FFELP providers have been aggressively competing on the basis of enhanced products and services in recent years, particularly to offset legislated reductions in profitability and the impact of the FDSLSP.

Because the Company's historic statutory role is confined to secondary market activity, it has depended mainly on its network of lender partners and its school-based strategy for new loan volume. The Company plans to heighten its visibility with consumers to favorably position itself for future new product offerings. In addition, the availability of securitization for student loan assets has created new competitive pressures for traditional secondary market purchasers. Based on the most recent information from the DOE, at the end of fiscal year 1995, the GSE's share (in dollars) of outstanding FFELP loans was 33 percent, while banks and other financial institutions held 47 percent and state secondary market participants held 20 percent.

The Company also faces competition for new and existing loan volume from the FDSLSP. Based on current DOE projections, the Company estimates that total student loan origination for the academic years 1994-95, 1995-96 and 1996-97 were \$22.3 billion, \$24.3 billion and \$26.0 billion, respectively, of which FDSLSP originations represented approximately 7 percent, 31 percent and 33 percent, respectively. The DOE projects that FDSLSP originations will represent 35 percent of total student loan originations in the 1997-98 academic year. Loans made under the FDSLSP are not currently available for purchase by the Company. The DOE has also begun to offer FFELP borrowers the opportunity to refinance or consolidate FFELP loans into FDSLSP loans upon certification that the holder of their FFELP loans does not offer an income-sensitive payment plan acceptable to the borrower. As of June 30, 1997, approximately \$409 million of the GSE's FFELP loans have been consolidated into the FDSLSP. In early 1995, the Company began offering an income-sensitive payment plan. The FDSLSP, however, also provides an income-contingent option not available under the FFELP program that may be more attractive to certain borrowers, pursuant to which the government will ultimately forgive student loan debt after 25 years. It is not certain what action, if any, Congress will take with regard to the FDSLSP in connection with the anticipated reauthorization of the Higher Education Act. Based on public statements by members of Congress and the Administration, however, management believes that the FFELP and the FDSLSP will continue to coexist as competing programs for the foreseeable future.

COLLEGE CONSTRUCTION LOAN INSURANCE ASSOCIATION

In 1987, the Company helped create the College Construction Loan Insurance Association ("Connie Lee"), a for-profit, stockholder-owned corporation, authorized by Congress to insure and reinsure educational facilities obligations. The carrying value of the Company's investment in Connie Lee was approximately \$44 million and, as of June 30, 1997, the Company effectively controlled 42 percent of Connie Lee's outstanding voting stock through its ownership of preferred and common stock and through agreements with other shareholders. In February 1997, Connie Lee privatized pursuant to statutory provisions enacted at the same time as the Privatization Act, which required Connie Lee to repurchase shares of its stock owned by the U.S. government at a purchase price determined by an independent appraisal. On February 28, 1997, the Company loaned Connie Lee \$18 million to repurchase the shares. On May 27, 1997 the term of this loan was extended to June 29, 1997 and on June 26, 1997, the loan was further extended to December 29, 1997.

The following table lists the principal facilities owned by the Company:

| LOCATION ----- | FUNCTION ----- | APPROXIMATE SQUARE FEET ----- |
|-------------------|-------------------------|-------------------------------------|
| Reston, VA | Operations/Headquarters | 375,000 |
| Wilkes Barre, PA | Loan Servicing Center | 135,000 |
| Killeen, TX | Loan Servicing Center | 133,000 |
| Lynn Haven, FL | Loan Servicing Center | 133,000 |
| Lawrence, KS | Loan Servicing Center | 52,000 |

The Company leases approximately 35,000 square feet of office space for its loan servicing center in Waltham, Massachusetts, 37,800 square feet of office space for its loan servicing center in Spokane, Washington and 47,000 square feet and 33,000 square feet of additional space for its loan servicing centers in Lawrence, Kansas and Killeen, Texas, respectively. The GSE leases approximately 165,000 square feet of office space in Washington, D.C. for its headquarters. With the exception of the Pennsylvania loan servicing center, none of the Company's facilities is encumbered by a mortgage. The Company believes that its headquarters and loan servicing centers are generally adequate to meet its long-term student loan and new business goals. The GSE's headquarters' leases expire in 2001.

The Company's principal office is located in owned space at 11600 Sallie Mae Drive, Reston, Virginia, 20193.

EMPLOYEES

As of June 30, 1997, the Company employed 4,689 employees nationwide.

LEGAL PROCEEDINGS

OBRA applied a 30 basis point per annum "offset fee" to student loans held by the GSE. The Secretary of Education interpreted OBRA to apply that fee both to loans held directly by the GSE and to loans held indirectly by the GSE, including loans sold by the GSE to securitization trusts. In April 1995, the Company filed suit in the U.S. District Court for the District of Columbia to challenge the constitutionality of the 30 basis point fee and the application of the fee to loans securitized by the Company. On November 16, 1995, the District Court ruled that the fee is constitutional, but that, contrary to the Secretary of Education's interpretation, the fee does not apply to securitized loans. Both the Company and the United States appealed this ruling. On January 10, 1997, the U.S. Court of Appeals for the District of Columbia Circuit struck down the Secretary of Education's interpretation, ruling that the fee applies only to loans that the GSE owns and remanding the case to the District Court with instructions to remand the matter to the Secretary of Education. In addition, the Court of Appeals upheld the constitutionality of the offset fee for loans owned by the GSE. The offset fee applies annually to the principal amount of student loans that the GSE holds and that were acquired on or after August 10, 1993.

On April 29, 1997, U.S. District Court Judge Stanley Sporkin ordered the DOE to decide by July 31, 1997 its final position on the application of the offset fee to loans that the GSE has securitized. On July 23, 1997, the DOE decided that the 30 basis point annual offset fee that the GSE is required to pay on student loans that it owns does not apply to student loans that the GSE has securitized. Based upon this favorable determination in this matter, the contingent gain of approximately \$97 million pre-tax that had not been recognized in income through June 30, 1997 will be released and recognized in income in the third quarter. All future securitization gains will be calculated without consideration of the offset fee. In addition to the initial gain on sale, the GSE is entitled to the residual cash flows from the trust and servicing fees for continuing to service the loans after they are sold to the trusts. The residual amounts and the servicing fees are reflected as servicing and securitization revenues in the Consolidated Statements of Income. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Six Months ended June 30, 1997 and 1996 -- Liquidity and Capital Resources --"

Securitization."

On June 11, 1996, Orange County, California filed a complaint against the Company in the U.S. Bankruptcy Court for the Central District of California. The case is currently pending in the U.S. District Court for the Central District of California. The complaint alleges that the Company made fraudulent representations and omitted material facts in offering circulars on various bond offerings purchased by Orange County, which contributed to Orange County's market losses and subsequent bankruptcy. The complaint seeks to hold Sallie Mae responsible for losses resulting from Orange County's bankruptcy, but does not specify the amount of damages claimed. The complaint against the Company is one of numerous cases filed by Orange County that have been coordinated for discovery purposes. Other defendants include Merrill Lynch, Morgan Stanley, KPMG Peat Marwick, Standard & Poor's and Fannie Mae. The complaint includes a claim of fraud under Section 10(b) of the Securities Exchange Act and Rule 10b-5 promulgated thereunder. The complaint also includes counts under the California Corporations Code and a count of common law fraud. The Company believes that the complaint is without merit and intends to defend the case vigorously. At this time, management believes the impact of the lawsuit will not be material to the Company.

In September 1996, the Company obtained a declaratory judgment against the Secretary of Education in the U.S. District Court for the District of Columbia to the effect that the Secretary erred in refusing to allow the Company to claim adjustments to Special Allowance Payments on certain FFELP loans that were required to be converted retrospectively from a fixed rate to a variable rate. The U.S. Court of Appeals for the District of Columbia Circuit affirmed the District Court's opinion on September 30, 1997.

REGULATION

As a government-sponsored enterprise, the GSE is organized under federal law and its operations are restricted by its government charter. Although privatization permits the Company's private activities to expand through unregulated subsidiaries, such activities will be restricted in certain ways, and the GSE's operations continue to be subject to broad federal regulation, during the Wind-Down Period.

THE PRIVATIZATION ACT

The Privatization Act established the basic framework for the Reorganization and imposes certain restrictions on the operations of the Company and its subsidiaries during the Wind-Down Period. The Privatization Act amends the GSE's charter to require certain enhanced regulatory oversight of the GSE to ensure its financial safety and soundness. See "Regulation -- GSE Regulation."

Reorganization. The Privatization Act required the GSE Board to propose to shareholders a restructuring plan under which their share ownership in the GSE would be automatically converted to an equivalent share ownership in a state-chartered holding company that would own all of the common stock of the GSE. The Privatization Act requires that the GSE be liquidated on or before September 30, 2008, upon which its federal charter will be rescinded. During the Wind-Down Period, the Company will remain a passive entity that supports the operations of the GSE and its other non-GSE subsidiaries, and any new business activities will be conducted through such subsidiaries.

The Privatization Act requires all personnel and certain assets to be transferred in connection with the Reorganization, including the transfer of the GSE's interest in certain subsidiaries. The GSE's student loans and related contracts, warehousing advances and other program-related or financial assets (such as portfolio investments, letters of credit, swap agreements and forward purchase commitments) and any non-material assets that the GSE Board determines to be necessary for or appropriate to continued GSE operations, may be retained by the GSE. Management anticipates a total transfer in the aggregate of \$130 million of net assets during the first 12 months after the Reorganization. Management also anticipates that certain fixed assets will be transferred within approximately three years of the Reorganization. Employees of the GSE were transferred to the Management Company at the effective time of the Reorganization.

Employees who were employed by non-GSE subsidiaries of the GSE before the Reorganization continue to be employed by such subsidiaries.

During the Wind-Down Period, the GSE is restricted in the new business activities it may undertake. The GSE may continue to purchase student loans only through September 30, 2007, and warehousing advance, letter of credit and standby bond purchase activity by the GSE is limited to takedowns on contractual financing and guarantee commitments in place at the effective time of the Reorganization. In addition, the GSE must discontinue its FFELP loan purchase activity once the Company or its non-GSE subsidiaries commence such activity.

The GSE will continue to serve as a lender of last resort and will provide secondary market support for the FFELP upon the request of the Secretary of Education. If and to the extent that the GSE performs such functions, however, it will not be required to pay the 30 basis point offset fee on such loans. The GSE may transfer assets and declare dividends, from time to time, if it maintains a minimum capital ratio of at least 2 percent until the year 2000. After that time, charter amendments effected by the Privatization Act require that the GSE maintain a minimum capital ratio of at least 2.25 percent. In the event that the GSE does not maintain the required minimum capital ratio, the Company is required to supplement the GSE's capital to achieve such minimum capital ratio.

The GSE's debt obligations, including debt obligations that were outstanding at the time of Reorganization, continue to be outstanding obligations of the GSE and will not be transferred to any other entity (except in connection with the defeasance trust described below). See "-- GSE Dissolution After Reorganization." The Privatization Act provides that the Reorganization does not modify the attributes accorded to the debt obligations of the GSE by the GSE's charter. During the Wind-Down Period, the GSE can continue to issue debt in the government agency market to finance student loans and other permissible asset acquisitions. The maturity date of such issuances, however, may not extend beyond September 30, 2008, the GSE's final dissolution date. This restriction does not apply to debt issued to finance any lender of last resort or secondary market purchase activity requested by the Secretary of Education. The Privatization Act is clear that the Reorganization (and the subsequent transfer of any remaining GSE debt to the defeasance trust described below) will not modify the legal status of any GSE debt obligations, whether such obligations existed at the time of Reorganization or are subsequently issued.

Oversight Authority. During the Wind-Down Period, the Secretary of the Treasury has extended oversight authority to monitor the activities of the GSE and, in certain cases, the Company and its non-GSE subsidiaries to the extent that the activities of such entities are reasonably likely to have a material impact on the financial condition of the GSE. During this period, the Secretary of the Treasury may require that the GSE submit periodic reports regarding any potentially material financial risk of its associated persons and its procedures for monitoring and controlling such risk. The Company is expressly prohibited from transferring ownership of the GSE or causing the GSE to file bankruptcy without the approval of the Secretary of the Treasury and the Secretary of Education. Each of the Secretary of Education and the Secretary of the Treasury has express authority to request that the Attorney General bring an action, or may bring an action under the direction and control of the Attorney General, in the United States District Court for the District of Columbia, for the enforcement of any provision of the GSE's safety and soundness requirements or the requirements of the Privatization Act in general.

Restrictions on Intercompany Relations. During the Wind-Down Period, the GSE's operations will be managed by its affiliates or independent third parties. The Privatization Act also restricts intercompany relations between the GSE and its affiliates during the Wind-Down Period. Specified corporate formalities must be followed to ensure that the separate corporate identities of the GSE and its affiliates are maintained. Specifically, the Privatization Act provides that the GSE must not extend credit to, nor guarantee any debt obligations of, the Company or its subsidiaries. The Privatization Act also provides that (i) the funds and assets of the GSE must at all times be maintained separately from the funds and assets of the Company and its subsidiaries, (ii) the GSE must maintain books and records that clearly reflect the assets and liabilities of the GSE, separate from the assets and liabilities of the Company or its subsidiaries, (iii) the GSE must maintain a corporate office that is physically separate from any office of the Company and its subsidiaries, (iv) no director of the GSE who is appointed by the President may serve as a director of the Company and (v) at least one officer of the GSE must be an officer solely of the GSE.

Furthermore, the Privatization Act mandates that transactions between the GSE and the Company, including any loan servicing arrangements, shall be on terms no less favorable to the GSE than the GSE could

obtain from an unrelated third party, and any amounts collected on behalf of the GSE by the Company pursuant to a servicing contract or other arrangement between the GSE and the Company shall be immediately deposited by the Company to an account under the sole control of the GSE.

Limitations on Company Activities. During the Wind-Down Period, the Company must remain a passive entity that holds the stock of its subsidiaries and provides funding and management support to such subsidiaries. The Privatization Act contemplates that until the GSE is dissolved, the Company's business activities will be conducted through subsidiaries. The Privatization Act extends to the Company and its subsidiaries the GSE's "eligible lender" status for loan consolidation and secondary market purchases. See "Business."

The Company generally may begin to purchase FFELP student loans only after the GSE discontinues such activity. Subject to the foregoing, the Company may elect, at any time, to transfer new student loan purchase activity from the GSE to one of its non-GSE subsidiaries. Under OBRA, loans acquired after August 10, 1993 and held by the GSE are subject to a 30 basis point per annum "offset fee." The offset fee does not apply to loans held or securitized by the Company or its non-GSE subsidiaries.

Although the GSE may not finance the activities of the non-GSE subsidiaries, it may, subject to its minimum capital requirements, dividend retained earnings and surplus capital to the Company, which in turn may use such amounts to support its non-GSE subsidiaries. The GSE's charter requires that the GSE maintain a minimum capital ratio of at least 2 percent until the year 2000, and charter amendments effected by the Privatization Act require that the GSE maintain a minimum capital ratio of at least 2.25 percent thereafter. In the event that the GSE's capital falls below the applicable required level, the Company is required to supplement the GSE's capital to achieve such required level. The Privatization Act further directs that under no circumstances shall the assets of the GSE be available or used to pay claims or debts of or incurred by the Company.

In exchange for the payment of \$5 million to the Control Board, the Company and its other subsidiaries may continue to use the name "Sallie Mae," but not the name "Student Loan Marketing Association," as part of their legal names or as a trademark or service mark. Interim disclosure requirements in connection with securities offerings and promotional materials are required to avoid marketplace confusion regarding the separateness of the GSE and its affiliated entities. During the Wind-Down Period and until one year after repayment of all outstanding GSE debt, the "Sallie Mae" name may not be used by any Company unit that issues debt obligations or other securities to any person or entity other than the Company or its subsidiaries. In addition, the Privatization Act requires the Company to issue the Warrants to the Control Board. These provisions of the Privatization Act were part of the terms negotiated with the Administration and Congress in conjunction with the GSE's privatization. The Company issued the Warrants on August 7, 1997.

GSE Dissolution After Reorganization. The Privatization Act provides that the GSE will liquidate and dissolve on September 30, 2008, unless an earlier dissolution is requested by the GSE and the Secretary of Education makes no finding that the GSE continues to be needed as a lender of last resort under the GSE charter or to purchase loans under certain agreements with the Secretary of Education. In connection with such dissolution, the GSE must transfer any remaining GSE obligations into a defeasance trust for the benefit of the holders of such obligations, along with cash or full faith and credit obligations of the United States, or an agency thereof, in amounts sufficient, as determined by the Secretary of the Treasury, to pay the principal and interest on the deposited obligations. As of June 30, 1997, the GSE had \$379 million in current carrying value of debt obligations outstanding with maturities after September 30, 2008. If the GSE has insufficient assets to fully fund such GSE debt obligations outstanding at the time of dissolution, the Company must transfer sufficient assets to the trust to account for this shortfall. The Privatization Act also requires that on the dissolution date, the GSE shall repurchase or redeem, or make proper provisions for the repurchase or redemption of, any outstanding shares of preferred stock, of which the GSE has issued Series A and B Adjustable Rate Cumulative Preferred Stock. The Series A Preferred Stock is carried at its liquidation value of \$50.00 per share for a total of \$214 million and pays a variable dividend that has been at its minimum rate of 5 percent per annum for the last several years. The Series B Preferred Stock is carried at its liquidation value of \$500,000 per share for a total of \$100 million and pays a variable dividend that is equal to 3-month London Interbank Offered Rate ("LIBOR") plus 1.00% per annum divided by 1.377. Upon dissolution, the GSE charter will terminate, and any assets that the GSE continues to hold after establishment of the trust or that remain in the trust after full payment of the remaining obligations of the GSE assumed by the trust, will be transferred to the Company or its affiliates, as determined by the Company's Board of Directors.

GSE REGULATION

The GSE's structure and the scope of its business activities are set forth in its charter. The charter, which is subject to review and change by Congress, sets forth certain restrictions on the GSE's business and financing activities and charges the federal government with certain oversight responsibilities with respect to these activities. The GSE's charter grants the GSE certain exemptions from federal and state laws. The GSE charter's primary regulatory restrictions and exemptions, including certain provisions added by the Privatization Act, are summarized as follows:

1. Seven members of the GSE's 21-member Board of Directors are appointed by the President of the United States. The other 14 members are elected by the Company as the holder of the GSE's Common Stock. The Chairman of the Board is designated by the President of the United States from among the Board's 21 members.
2. Debt obligations issued by the GSE are exempt from state taxation to the same extent as United States government obligations. The GSE is exempt from all taxation by any state or by any county, municipality, or local taxing authority except with respect to real property taxes. The GSE is not exempt from federal corporate income taxes.
3. All stock and other securities of the GSE are deemed to be exempt securities under the laws administered by the SEC to the same extent as obligations of the United States.
4. The GSE may conduct its business without regard to any qualification or similar statute in any state of the United States, including the District of Columbia, the Commonwealth of Puerto Rico and the territories and possessions of the United States (although the scope of the GSE's business is generally limited by its federal charter).
5. The issuance of GSE debt obligations must be approved by the Secretary of the Treasury.
6. The GSE is required to have its financial statements examined annually by independent certified public accountants and to submit a report of the examination to the Secretary of the Treasury. The Department of the Treasury is also authorized to conduct audits of the GSE and to otherwise monitor the GSE's financial condition. The GSE is required to submit annual reports of its operations and activities to the President of the United States and Congress. The GSE must pay up to \$800,000 per year to the Department of the Treasury to cover the costs of its oversight.
7. The GSE is subject to certain "safety and soundness" regulations, including the requirement that the GSE maintain a 2.00 percent capital adequacy ratio (increasing to 2.25 percent after January 1, 2000). The GSE may pay dividends only upon certification that, at the time of a dividend declaration and after giving effect to the payment of such dividend, the capital adequacy ratio is satisfied.
8. The Secretary of Education and the Secretary of the Treasury have certain enforcement powers under the GSE's charter.
9. A 30 basis point annual offset fee, unique to the GSE, is payable to the Secretary of Education on student loans purchased and held by the GSE on or after August 10, 1993. See "Business -- Legal Proceedings."
10. At the request of the Secretary of Education, the GSE is required to act as a lender of last resort to make FFELP loans when other private lenders are not available. Such loans are not subject to the 30 basis point offset fee on loans held by the GSE.

OTHER REGULATION

Under the Higher Education Act of 1965, as amended, the Company is an "eligible lender" for purposes only of purchasing and holding loans made by other lenders and making consolidation and lender of last resort loans. Like other participants in insured student loan programs, the Company is subject, from time to time, to review of its student loan operations by the General Accounting Office, the DOE and certain guarantee agencies. The laws relating to insured student loan programs are subject to revision from time to time and changes to such laws are

beyond the Company's control. In addition, SMSC, as a servicer of student loans, is subject to certain DOE regulations regarding financial responsibility and administrative capability that govern all third party servicers of insured student loans. ESI is a broker-dealer registered with the SEC and the National Association of Securities Dealers (the "NASD") and is licensed to do business in 50 states. ESI is subject to regulation by the SEC and the NASD as a municipal security broker-dealer. HICA, a South Dakota stock insurance company, is subject to the ongoing regulatory authority of the South Dakota Division of Insurance and that of comparable governmental agencies in six other states.

NON-DISCRIMINATION AND LIMITATIONS ON AFFILIATION WITH DEPOSITORY INSTITUTIONS

The Privatization Act also amended the Higher Education Act to provide that the GSE and any successor entity (including the Company) functioning as a secondary market for federally insured student loans may not engage, directly or indirectly, in any pattern or practice that results in a denial of a borrower's access to insured loans because of the borrower's race, sex, color, religion, national origin, age, disability status, income, attendance at a particular institution, length of a borrower's educational program or the borrower's academic year at an eligible institution.

Pub. L. No. 104-208, the federal budget legislation of which the Privatization Act was a part, contains amendments to the Federal Deposit Insurance Act and the Federal Credit Union Act that prohibit all government-sponsored enterprises from directly or indirectly sponsoring or providing non-routine financial support to certain credit unions and depository institutions. Depository institutions are also prohibited from being affiliates of government-sponsored enterprises. Thus, neither the Company nor any of its subsidiaries may be affiliated with a depository institution until the GSE is dissolved. These restrictions effectively limit the ability of the Company and its affiliates to originate insured student loans through an affiliated depository institution as long as the GSE remains in existence. Most originators of insured student loans are depository institutions that qualify as "eligible lenders" under the Higher Education Act.

CAPITALIZATION

The following table sets forth the capitalization of SLM Holding at June 30, 1997.

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

| | |
|---|--------------|
| Borrowed funds: | |
| Short-term borrowings | \$25,850,071 |
| Long-term notes | 19,488,810 |
| | ----- |
| Total borrowed funds | 45,338,881 |
| | ----- |
| Minority Interest in Subsidiary | 213,883 |
| Stockholders' equity: | |
| Common stock, par value \$.20 per share, 250,000,000 shares authorized, 66,158,095 shares issued | 13,231 |
| Additional paid-in capital | 28,218 |
| Unrealized gains on investment, net of tax | 344,628 |
| Retained earnings | 1,194,769 |
| | ----- |
| Stockholders' equity before treasury stock | 1,580,846 |
| Common stock held in treasury at cost, 13,823,562 shares | 738,260 |
| | ----- |
| Total stockholders' equity | 842,586 |
| | ----- |
| Total capitalization | \$46,395,350 |
| | ===== |

SELECTED FINANCIAL DATA

The following table sets forth selected financial and other operating information of SLM Holding. The selected financial data in the table is derived from the consolidated financial statements of SLM Holding. The data should be read in conjunction with the consolidated financial statements, related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

| | SIX MONTHS ENDED | | YEARS ENDED DECEMBER 31, | | | | |
|---|------------------|-------------|--------------------------|------------|------------|------------|------------|
| | JUNE 30, | | 1996(2) | 1995(1)(2) | 1994(1)(2) | 1993(1)(2) | 1992(1)(2) |
| | 1997(2) | 1996(2) | | | | | |
| | (Unaudited) | (Unaudited) | | | | | |
| OPERATING DATA: | | | | | | | |
| Net interest income | \$ 406 | \$ 452 | \$ 866 | \$ 901 | \$ 982 | \$ 1,169 | \$ 987 |
| Net income | 233 | 201 | 409 | 356 | 410 | 432 | 391 |
| Earnings per common share | 4.36 | 3.53 | 7.32 | 5.27 | 5.13 | 4.98 | 4.30 |
| Dividends per common share | .88 | .80 | 1.64 | 1.51 | 1.42 | 1.25 | 1.05 |
| Return on common stockholders' equity | 57.26%(3) | 49.29%(3) | 50.13%(3) | 29.17%(3) | 27.85%(3) | 37.68% | 37.26% |
| Net interest margin | 1.78 | 1.96 | 1.90 | 1.84 | 2.14 | 2.74 | 2.32 |
| Return on assets | .98 | .84 | .86 | .69 | .85 | .97 | .87 |
| Dividend payout ratio | 20.16 | 22.66 | 22.40 | 28.64 | 27.66 | 25.10 | 24.41 |
| Average equity/average assets | 1.64 | 1.64 | 1.65 | 2.28 | 2.96 | 2.50 | 2.27 |
| BALANCE SHEET DATA: | | | | | | | |
| Student loans purchased | \$29,569 | \$33,653 | \$32,308 | \$34,336 | \$30,571 | \$26,978 | \$24,326 |
| Student loan participations | 1,919 | -- | 1,446 | -- | -- | -- | -- |
| Warehousing advances | 2,495 | 2,972 | 2,789 | 3,865 | 7,032 | 7,034 | 8,085 |
| Academic facilities financings | 1,354 | 1,546 | 1,473 | 1,312 | 1,548 | 1,359 | 1,189 |
| Total assets | 47,899 | 47,363 | 47,630 | 50,002 | 53,161 | 46,682 | 46,775 |
| Long-term notes | 19,489 | 25,632 | 22,606 | 30,083 | 34,319 | 30,925 | 30,724 |
| Total borrowings | 45,339 | 44,905 | 45,124 | 47,530 | 50,335 | 44,544 | 44,440 |
| Stockholders' equity | 843(3) | 803(3) | 834(3) | 867(3) | 1,388(3) | 1,179 | 1,107 |
| Book value per common share | 16.10 | 14.47 | 15.53 | 15.03 | 18.87 | 14.03 | 39 |
| OTHER DATA: | | | | | | | |
| Securitized student loans outstanding | \$10,048 | \$ 3,735 | \$ 6,263 | \$ 954 | \$ -- | \$ -- | \$ -- |
| Core earnings(4) | 223 | 182 | 381 | 350 | 345 | 388 | 391 |
| Premiums on debt extinguished | -- | 7 | 7 | 8 | 14 | 211 | 141 |

- (1) Previously reported results for the years ended December 31, 1995, 1994, 1993 and 1992 have been restated to retroactively reflect the recognition of student loan income as earned (see Note 2 to the Consolidated Financial Statements). This restatement resulted in the elimination of the previously reported 1995 cumulative effect of the change in accounting method of \$130 million (\$1.93 per common share) and an increase to previously reported net income of \$17 million (\$.22 per common share), \$13 million (\$.15 per common share), and \$8 million (\$.09 per common share) for the years ended December 31, 1994, 1993 and 1992, respectively.
- (2) As part of the GSE's privatization, SLM Holding became the parent company of, and successor to, the GSE on August 7, 1997. As a result, the GSE's preferred stock (totaling \$214 million) is now reflected as a minority interest in the consolidated financial statements. The financial statements for prior periods have been restated to reflect this change.
- (3) At June 30, 1997 and 1996 and at December 31, 1996, 1995 and 1994, stockholders' equity reflects the addition to stockholders' equity of \$345 million, \$336 million, \$349 million, \$371 million and \$300 million, respectively, net of tax, of unrealized gains on certain investments recognized pursuant to FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities."
- (4) Core earnings is defined as the Company's net income less the after-tax effect of floor revenues and other one-time charges. Management believes that these measures, which are not measures under generally accepted accounting principles (GAAP), are important because they depict the Company's earnings before the effects of one time events such as floor revenues which are largely outside of the Company's control. Management believes that core earnings as defined, while not necessarily comparable to other companies' use of similar terminology, provide for meaningful period to period comparisons as a basis for analyzing trends in the Company's student loan operations.

OVERVIEW

Set forth below is the Management's Discussion and Analysis of Financial Conditions and Results of Operations for the six months ended June 30, 1997 and 1996 and for the years ended December 31, 1994-1996. These discussions include complementary information and are intended to be read together.

ON AUGUST 7, 1997, PURSUANT TO AN AGREEMENT AND PLAN OF REORGANIZATION, DATED AS OF APRIL 7, 1997, THE STUDENT LOAN MARKETING ASSOCIATION (THE "GSE") WAS REORGANIZED INTO A WHOLLY OWNED SUBSIDIARY OF SLM HOLDING CORPORATION ("SLM HOLDING" OR THE "COMPANY"). THIS TRANSFER OF THE SUBSIDIARIES AND ASSETS AND THE RELATED EXCHANGE OF STOCK IS BEING ACCOUNTED FOR AT HISTORICAL COST SIMILAR TO A POOLING OF INTERESTS AND THEREFORE ALL PRIOR PERIOD FINANCIAL STATEMENTS AND RELATED DISCLOSURES PRESENTED HAVE BEEN RESTATED AS IF THE REORGANIZATION TOOK PLACE AT THE BEGINNING OF SUCH PERIODS.

THE CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994 AND FOR THE SIX MONTHS ENDED JUNE 30, 1996 ARE PRESENTED IN A NEW FORMAT FROM PRIOR PRESENTATIONS OF THE PUBLICLY AVAILABLE FINANCIAL STATEMENTS OF THE COMPANY TO BETTER PORTRAY THE CHANGING NATURE OF THE COMPANY'S REVENUE STREAMS. WHILE THE PRINCIPAL SOURCE OF EARNINGS CONTINUES TO BE FROM STUDENT LOANS, THE NATURE OF THOSE EARNINGS IS CHANGING AS A RESULT OF SECURITIZATION. THE MAJOR DIFFERENCES BETWEEN THE OLD AND NEW FORMATS ARE THAT THE SECURITIZATION-RELATED INCOME, FEE INCOME AND GAINS AND LOSSES ON SALES OF SECURITIES WERE RECLASSIFIED FROM THE INTEREST INCOME SECTION TO THE OTHER INCOME SECTION AND SERVICING AND ACQUISITION COSTS WERE COMBINED WITH GENERAL AND ADMINISTRATIVE EXPENSES AND PRESENTED AS OPERATING EXPENSES IN THE CONSOLIDATED STATEMENTS OF INCOME. ALL DOLLAR AMOUNTS ARE IN MILLIONS, EXCEPT PER SHARE AMOUNTS.

THE CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994 WERE RESTATED TO RETROACTIVELY REFLECT THE RECOGNITION OF STUDENT LOAN INCOME AS EARNED. SEE NOTE 2 TO THE CONSOLIDATED FINANCIAL STATEMENTS.

SIX MONTHS ENDED JUNE 30, 1997 AND 1996
 SELECTED FINANCIAL DATA
 CONDENSED STATEMENTS OF INCOME

| | SIX MONTHS ENDED JUNE 30, | | INCREASE (DECREASE) | |
|--|------------------------------|--------|------------------------|-------|
| | 1997 | 1996 | \$ | % |
| Net interest income | \$ 406 | \$ 452 | \$ (46) | (10)% |
| Other operating income | 154 | 50 | 104 | 210 |
| Operating expenses | 217 | 199 | 18 | 9 |
| Federal income taxes | 105 | 92 | 13 | 14 |
| Minority interest in net earnings of subsidiary .. | 5 | 5 | -- | -- |
| Income before premiums on debt extinguished | 233 | 206 | 27 | 13 |
| Premiums on debt extinguished, net of tax | -- | (5) | 5 | 100 |
| NET INCOME | \$ 233 | \$ 201 | \$ 32 | 16% |
| EARNINGS PER COMMON SHARE | \$4.36 | \$3.53 | \$.83 | 24% |
| Dividends per common share | \$.88 | \$.80 | \$.08 | 10% |
| CORE EARNINGS | \$ 224 | \$ 182 | \$ 42 | 23% |

CONDENSED BALANCE SHEETS

| | JUNE 30, 1997 | DECEMBER 31, 1996 | INCREASE (DECREASE) | |
|---|------------------|----------------------|---------------------|------|
| | | | \$ | % |
| ASSETS | | | | |
| Student loans | \$31,488 | \$33,754 | \$ (2,266) | (7)% |
| Warehousing advances | 2,495 | 2,790 | (295) | (11) |
| Academic facilities financings | 1,353 | 1,473 | (120) | (8) |
| Cash and investments | 10,593 | 7,706 | 2,887 | 37 |
| Other assets | 1,970 | 1,907 | 63 | 3 |
| Total assets | \$47,899 | \$47,630 | \$ 269 | 1% |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Short-term borrowings | \$25,850 | \$22,518 | \$ 3,332 | 15% |
| Long-term notes | 19,489 | 22,606 | (3,117) | (14) |
| Other liabilities | 1,503 | 1,458 | 45 | 3 |
| Total liabilities | 46,842 | 46,582 | 260 | 1 |
| Minority interest in subsidiary | 214 | 214 | -- | -- |
| Stockholders' equity before treasury stock | 1,581 | 1,371 | 210 | 15 |
| Common stock held in treasury at cost | 738 | 537 | 201 | 37 |
| Total stockholders' equity | 843 | 834 | 9 | 1 |
| Total liabilities and stockholders' equity .. | \$47,899 | \$47,630 | \$ 269 | 1% |

RESULTS OF OPERATIONS

SLM Holding's net income was \$233 million (\$4.36 per common share) for the first six months of 1997 compared to \$201 million (\$3.53 per common share) for the first six months of 1996.

The net income increase of \$32 million (16 percent) in the first six months of 1997 was primarily a result of, on an after-tax basis, an increase in student loan securitization gains of \$29 million, the growth in managed student loan assets resulting in increased revenue of \$22 million, and increased revenue from amortization of student loan floor contracts of \$6 million. These positive factors were somewhat offset by the increased interest on loans subject to OBRA fees of \$7 million as discussed below, a decrease in student loan floor revenues of \$10 million, increased operating expenses of \$12 million and a decrease in interest earned on student loans as loans were securitized. Earnings per common share were further enhanced by repurchases of 1.8 million shares (3 percent of shares outstanding) in the first six months of 1997.

OBRA imposed legislative fees and risk-sharing on the GSE and other participants in the FFELP including an offset fee applicable only to the GSE, consolidation loan rebate fees, and risk-sharing on defaulted loans applicable to all FFELP participants. The impact of these fees and reserves for risk-sharing on the Company's on-balance sheet portfolio of student loans reduced net income by \$37 million and \$30 million in the first six months of 1997 and 1996, respectively. In addition to these fees, OBRA also imposed other yield reductions on all FFELP participants, principally loan origination fees paid to the federal government and reduced Special Allowance Payment ("SAP," which is described below) during the period when a borrower is not in an active repayment status. The Company effectively shares the impact of these costs through the pricing of loan portfolios it purchases in the secondary market. Management believes the spreads earned on the Company's portfolio of student loans will continue to be adversely affected as a result of these changes to the FFELP program for the next several years as older loans in its portfolio, which were not affected by OBRA, amortize and are replaced by more recently originated loans which are affected by OBRA.

Core Earnings and Core Student Loan Spread

Important measures of the Company's operating performance are core earnings and the core student loan spread. Core earnings is defined as the Company's net income less the after-tax effect of floor revenues and other one-time charges. Management believes that these measures, which are not measures under generally accepted accounting principles ("GAAP"), are important because they depict the Company's earnings before the effects of one time events such as floor revenues which are largely outside of the Company's control. Management believes that core earnings as defined, while not necessarily comparable to other companies' use of similar terminology, provide for meaningful period to period comparisons as a basis for analyzing trends in the Company's core student loan operations.

The following table analyzes the earning spreads on student loans for the six months ended June 30, 1997 and 1996. The line captioned "Adjusted Student Loan Yields", reflects contractual yields adjusted for premiums paid to purchase loan portfolios and the estimated costs of borrower benefits. The Company, as the servicer of student loans that it securitizes, will continue to earn fee revenues over the life of the securitized student loan portfolios. The off-balance sheet information presented in the Student Loan Spread Analysis that follows analyzes the on-going fee revenues associated with the securitized portfolios of student loans.

STUDENT LOAN SPREAD ANALYSIS

| | SIX MONTHS ENDED JUNE 30, | |
|--|------------------------------|-----------|
| | 1997 | 1996 |
| ON-BALANCE SHEET | | |
| Adjusted student loan yields | 7.85% | 7.96% |
| Amortization of floor contracts | .11 | .05 |
| Floor income | .09 | .17 |
| Direct OBRA Costs | (.34) | (.28) |
| Student loan income | 7.71 | 7.90 |
| Cost of funds | (5.51) | (5.47) |
| Student loan spread | 2.20% | 2.43% |
| Core student loan spread | 2.11% | 2.26% |
| OFF-BALANCE SHEET | | |
| Servicing and securitization revenue | 1.59% | 1.33% |
| AVERAGE BALANCES (IN MILLIONS OF DOLLARS) | | |
| Student loans, including participations | \$ 33,298 | \$ 33,688 |
| Securitized loans | 7,259 | 2,374 |
| Managed student loans | \$ 40,557 | \$ 36,062 |

The decrease in the core student loan spread in the first six months of 1997 was due principally to higher OBRA fees and the effect of student loan participations which contractually yield a lower rate than the underlying student loans (discussed below), offset by the revenues from the amortization of upfront payments received from student loan floor contracts.

Student Loan Floor Revenues

The yield to holders of FFELP loans is subsidized on the borrower's behalf by the federal government to provide a market rate of return through the payment of the SAP. Depending on the loan's status and origination date, the SAP increases the yield on loans to a variable 91-day Treasury bill-based rate plus 2.50 percent, 3.10 percent, 3.25 percent or 3.50 percent, if that yield exceeds the borrower's interest rate. The interest rate paid by the borrower is either at a fixed rate or a rate that resets annually. Thus, the yield to holders of student loans varies with the 91-day Treasury bill rate. In low interest rate environments, when the interest rate that the borrower is obligated to pay exceeds the variable rate determined by the SAP formula, the borrower's interest rate that is the minimum interest rate earned on FFELP loans becomes, in effect, a floor rate. The floor enables the Company to earn wider spreads on these student loans because the Company's variable cost of funds, which is indexed to the Treasury bill rate, reflects lower market rates. The floor generally becomes a factor when the Treasury bill rate is less than 5.90 percent. For loans that have fixed borrower interest rates, the floor remains a factor until Treasury bill rates rise to a level at which the yield determined by the SAP formula exceeds the borrower's interest rate. For loans with annually reset borrower rates, the floor is a factor until either Treasury bill rates rise similarly or the borrower's interest rate is reset, which occurs on July 1 of each year. Under the FFELP program, the majority of loans disbursed after July 1992 have variable borrower interest rates that reset annually.

As of June 30, 1997, approximately \$32 billion of the Company's managed student loans were eligible to earn floors (\$15 billion with fixed borrower interest rates and \$17 billion with variable borrower interest rates that reset annually). During 1996, the Company "monetized" the value of the floors related to \$13 billion of such loans by entering into contracts with third parties under which it agreed to pay the future floor revenues received, in exchange for upfront payments. These upfront payments are being amortized over the life of these contracts, which is approximately 2 years. The amortization of these payments, which is not dependent on future interest rate levels, is included in core earnings. In the first six months of 1997 and 1996, the amortization contributed \$18 million and \$8 million, respectively, pre-tax to core earnings. Of the remaining \$19 billion of loans eligible to earn floors at June 30, 1997, \$4 billion were earning floor revenues based upon current interest rates. These loans earned floor revenues of \$14 million (net of \$10 million in payments under the floor revenue contracts) and \$29 million (net of \$4 million in payments under the floor revenue contracts) in the six months ended June 30, 1997 and 1996, respectively, as the average bond equivalent 91-day Treasury bill rate was 5.21 percent in the first six months of 1997 versus 5.13 percent in the first six months of 1996.

Securitization

In each of the first six months of 1997 and 1996, the GSE completed two securitization transactions in which a total of \$4.5 billion and \$3.0 billion, respectively, of student loans were sold by the GSE to a special purpose finance subsidiary and by that subsidiary to trusts that issued asset-backed securities to fund the student loans to term. When loans are securitized a gain on sale is recorded that is equal to the present value of the expected net cash flows from the trust, taking into account principal, interest and SAP on the student loans less principal and interest payments on the notes and certificates financing the student loans, the cost of servicing the student loans, the estimated cost of the Company's borrower benefit programs, losses from defaulted loans (which include risk-sharing, claim interest penalties and reject costs), transaction costs and the current carrying value of the loans including any premiums paid. Accordingly, such gain effectively accelerates recognition of earnings versus the earnings that would have been recorded had the loans remained on the balance sheet. The gains on sales through June 30, 1997 have been further reduced by the present value effect of the payment of future offset fees on loans securitized. (See below for discussion of the offset fee litigation.) The pre-tax securitization gains on the transactions recorded totaled \$65 million and \$19 million in the first six months of 1997 and 1996, respectively. The increase in the gain in the first six months of 1997 was mainly due to the increase in the size of the portfolios securitized, the higher average borrower indebtedness and the longer average life of the portfolio of loans securitized. Gains on future securitizations will continue to vary depending on the characteristics of the loan portfolios securitized.

On July 23, 1997, the DOE decided that the 30 basis point annual offset fee that the GSE is required to pay on student loans that it owns does not apply to student loans that the GSE has securitized. The U.S. Court of Appeals for the District of Columbia Circuit had struck down the Secretary of Education's previous interpretation, which applied the offset fee to loans securitized by the GSE, but upheld the constitutionality of the offset fee for loans owned by the GSE. Based upon the favorable final ruling in this matter, the contingent gain of approximately \$97 million pre-tax that had not been recognized in income through June 30, 1997 was released and recognized in income in the third quarter. All future securitization gains will be calculated without consideration of the offset fee. In addition to the initial gain on sale, the Company is entitled to the residual cash flows from the trust and servicing fees for continuing to service the loans after they are sold to the trusts. The residual amounts and the servicing fees are reflected as servicing and securitization revenues in the Consolidated Statements of Income.

NET INTEREST INCOME

To compare nontaxable asset yields to taxable yields on a similar basis, the amounts in the following table are adjusted for the impact of certain tax-exempt and tax-advantaged investments based on the marginal corporate tax rate of 35 percent.

| | SIX MONTHS ENDED JUNE 30, | | INCREASE (DECREASE) | |
|---|------------------------------|---------|------------------------|-------|
| | 1997 | 1996 | \$ | % |
| Interest income | | | | |
| Student loans | \$1,274 | \$1,323 | \$ (49) | (4)% |
| Warehousing advances | 78 | 107 | (29) | (27) |
| Academic facilities financings | 48 | 49 | (1) | (2) |
| Investments | 312 | 270 | 42 | 16 |
| Taxable equivalent adjustment | 18 | 16 | 2 | 9 |
| Total taxable equivalent interest income .. | 1,730 | 1,765 | (35) | (2) |
| Interest expense | 1,305 | 1,296 | 9 | 1 |
| Taxable equivalent net interest income | \$ 425 | \$ 469 | \$ (44) | (9)% |
| | ===== | ===== | ===== | ===== |

Taxable equivalent net interest income in the first six months of 1997 declined by \$44 million from the first six months of 1996. This decline was due to the increase in loans subject to OBRA fees, which reduced taxable equivalent net income and net interest margin by \$57 million and .24 percent, respectively, for the first six months of 1997 as compared to \$47 million and .20 percent, respectively, for the first six months of 1996. Other factors contributing to the decline were lower student loan floor revenues, decreased spreads on student loans and a decrease in average student loan assets as loans were securitized. The decreases were partially offset by increased revenue of \$10 million from the amortization of upfront payments received from student loan floor contracts and increased earnings from student loan participations. As discussed above under "Securitization," when loans are securitized a gain or loss is recorded, and such gain or loss, along with ongoing securitization and servicing revenues from the trusts, are reflected in "Other Income" on the Consolidated Statements of Income. The decrease in interest income from warehousing advances is due to the decrease in the average balance of those assets and the

increase in interest income from investments is due principally to the increase in the average balance of those assets. See "-- Rate/Volume Analysis."

Allowance for Student Loans

The provision for student loan losses is the periodic expense of maintaining an adequate allowance at the amount estimated to be sufficient to absorb possible future losses, net of recoveries inherent in the existing on-balance sheet loan portfolio. In evaluating the adequacy of the allowance for loan losses, the Company takes into consideration several factors including trends in claims rejected for payment by guarantors, default rate trends on privately-insured loans, and the amount of FFELP loans subject to 2 percent risk-sharing. To recognize these potential losses on student loans, the Company maintained a reserve of \$82 million and \$64 million at June 30, 1997 and 1996, respectively. In the first six months of 1997, the Company increased this reserve by \$6 million, due mainly to an \$8 million increase due to the increase in loans subject to risk-sharing offset partially by a \$4 million reduction for improved experience in recovering unpaid guarantees on defaulted student loans. In the first six months of 1996, the Company increased the reserve by \$9 million due mainly to increased loans subject to risk-sharing. Once a student loan is charged off as a result of an unpaid claim, it is the Company's policy to continue to pursue the recovery of principal and interest.

Management believes that the allowance for loan losses is adequate to cover anticipated losses in the on-balance sheet student loan portfolio. This evaluation is inherently subjective, however, as it requires material estimates that may be susceptible to significant changes.

AVERAGE BALANCE SHEETS

The following table reflects the rates earned on earning assets and paid on liabilities for the six months ended June 30, 1997 and 1996. Managed net interest margin includes net interest income plus gains on securitization sales and servicing and securitization income divided by average managed assets.

| | SIX MONTHS ENDED JUNE 30, | | | |
|---|---------------------------|-------|-----------|-------|
| | 1997 | | 1996 | |
| | BALANCE | RATE | BALANCE | RATE |
| AVERAGE ASSETS | | | | |
| Student loans | \$ 33,298 | 7.71% | \$ 33,688 | 7.90% |
| Warehousing advances | 2,639 | 5.98 | 3,523 | 6.11 |
| Academic facilities financings | 1,443 | 8.44 | 1,430 | 8.50 |
| Investments | 10,606 | 6.04 | 9,343 | 5.91 |
| Total interest earning assets | 47,986 | 7.27% | 47,984 | 7.40% |
| Non-interest earning assets | 1,930 | ===== | 1,808 | ===== |
| Total assets | \$ 49,916 | ===== | \$ 49,792 | ===== |
| AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Six month floating rate notes | \$ 2,952 | 5.46% | \$ 2,605 | 5.42% |
| Other short-term borrowings | 24,243 | 5.48 | 16,759 | 5.41 |
| Long-term notes | 20,444 | 5.59 | 28,136 | 5.55 |
| Total interest bearing liabilities | 47,639 | 5.53% | 47,500 | 5.49% |
| Non-interest bearing liabilities | 1,458 | ===== | 1,474 | ===== |
| Stockholders' equity | 819 | ===== | 818 | ===== |
| Total liabilities and stockholders' equity | \$ 49,916 | ===== | \$ 49,792 | ===== |
| Net interest margin | | 1.78% | | 1.96% |
| Managed net interest margin | | 1.99% | | 2.01% |

The decrease in net interest margin for the six months ended June 30, 1997 from the six months ended June 30, 1996 is mainly due to increased OBRA fees and lower floor revenues, offset by the increased revenues from the amortization of upfront payments received from student loan floor contracts. See "--Rate/Volume Analysis." The decrease in the managed net interest margin for the six months ended June 30, 1997 from the six months ended June 30, 1996 is due to the factors mentioned above for the net interest margin offset by an increase in the gain from securitization of \$45 million and the increase in servicing and securitization income of \$42 million.

FUNDING COSTS

The Company's borrowings are generally variable rate indexed principally to the 91-day Treasury bill rate. The following table summarizes the average balance of debt (by index after giving effect to the impact of interest rate swaps) for the six months ended June 30, 1997 and 1996 (dollars in millions).

| INDEX | SIX MONTHS ENDED JUNE 30, | | | |
|-------------------------------------|---------------------------|-----------------|--------------------|-----------------|
| | 1997 | | 1996 | |
| | AVERAGE BALANCE | AVERAGE RATE | AVERAGE BALANCE | AVERAGE RATE |
| Treasury bill, principally 91-day . | \$ 33,868 | 5.50% | \$ 35,878 | 5.46% |
| LIBOR | 6,363 | 5.42 | 8,412 | 5.38 |
| Discount notes | 6,006 | 5.43 | 2,075 | 5.32 |
| Fixed | 673 | 7.04 | 760 | 6.73 |
| Zero coupon | 132 | 11.12 | 122 | 11.12 |
| Other | 597 | 5.10 | 253 | 5.29 |
| Total | \$ 47,639 | 5.53% | \$ 47,500 | 5.49% |
| | ===== | ===== | ===== | ===== |

In the above table, for the six months ended June 30, 1997 and 1996, spreads for Treasury bill indexed borrowings averaged .23 percent and .25 percent, respectively, over the weighted average Treasury bill rates for those periods and spreads for London Interbank Offered Rate ("LIBOR") indexed borrowings averaged .26 percent and .28 percent, respectively, under the weighted average LIBOR rates.

RATE/VOLUME ANALYSIS

The Rate/Volume Analysis below shows the relative contribution of changes in interest rates and asset volumes.

| | TAXABLE EQUIVALENT INCREASE (DECREASE) | INCREASE (DECREASE) ATTRIBUTABLE TO CHANGE IN | |
|---|---|--|--------|
| | | RATE | VOLUME |
| FIRST SIX MONTHS OF 1997 VS. FIRST SIX MONTHS OF 1996 | | | |
| Taxable equivalent interest income | \$ (35) | \$ (28) | \$ (7) |
| Interest expense | 9 | 13 | (4) |
| Taxable equivalent net interest income | \$ (44) | \$ (41) | \$ (3) |
| | ===== | ===== | ===== |

The \$41 million decrease in taxable equivalent net interest income attributable to the change in rates in the first six months of 1997 was principally due to the decrease of \$15 million in floor revenues (net of payments under the floor contracts) in the first six months of 1997 versus 1996, the impact of student loan participations on the student loan spread and increased OBRA costs of \$10 million. Offsetting the decreases in taxable equivalent net interest income were \$10 million of increased revenues from the amortization of the upfront payments received from student loan floor contracts.

OPERATING EXPENSES

Operating expenses include general and administrative costs, costs incurred to service the Company's managed student loan portfolio and operational costs incurred in the process of acquiring student loan portfolios. Total operating expenses as a percentage of average managed student loans were 108 basis points and 111 basis points for the six months ended June 30, 1997 and 1996, respectively. Operating expenses are summarized in the following tables:

SIX MONTHS ENDED JUNE 30,

| | 1997 | | | 1996 | | |
|------------------------------------|---------------------------|-------------|--------|---------------------------|-------------|--------|
| | SERVICING AND ACQUISITION | | | SERVICING AND ACQUISITION | | |
| | CORPORATE | ACQUISITION | TOTAL | CORPORATE | ACQUISITION | TOTAL |
| Salaries and employee benefits.... | \$ 31 | \$ 72 | \$ 103 | \$ 34 | \$ 68 | \$ 102 |
| Occupancy and equipment | 9 | 30 | 39 | 13 | 30 | 43 |
| Professional fees | 12 | 8 | 20 | 6 | 4 | 10 |
| Advertising and promotion | 5 | -- | 5 | 3 | -- | 3 |
| Office operations | 4 | 13 | 17 | 4 | 15 | 19 |
| Other | 6 | 6 | 12 | 4 | -- | 4 |
| Total internal operating expenses. | 67 | 129 | 196 | 64 | 117 | 181 |
| Third party servicing costs | -- | 21 | 21 | -- | 18 | 18 |
| Total operating expenses | \$ 67 | \$ 150 | \$ 217 | \$ 64 | \$ 135 | \$ 199 |
| Employees at end of the period ... | 686 | 4,003 | 4,689 | 739 | 3,918 | 4,657 |

| | SIX MONTHS ENDED JUNE 30, | | INCREASE/(DECREASE) | |
|---|---------------------------|-------|---------------------|-------|
| | 1997 | 1996 | \$ | % |
| | Servicing costs | \$121 | \$102 | \$ 19 |
| Acquisition costs | 29 | 33 | (4) | (13) |
| Total servicing and acquisition costs . | \$150 | \$135 | \$ 15 | 11% |

The increase of \$3 million in corporate operating expenses in the first six months of 1997 versus the first six months of 1996 was mainly due to the increase in professional fees related to the privatization and proxy efforts and to SEC registration fees, offset in part by a decrease in occupancy costs and a decrease in salaries caused principally by the closing of the Company's subsidiary, Education Finance Center, Inc ("EFCI"), in the fourth quarter of 1996.

Servicing costs include all operations and systems costs incurred to service the Company's portfolio of managed student loans, including fees paid to third party servicers. The 1992 legislated expansion of student eligibility and increases in loan limits resulted in higher average student loan balances, which generally command a higher price in the secondary market and contribute to lower servicing costs as a percentage of the average balance of managed student loans. When expressed as a percentage of the managed student loan portfolio, servicing costs averaged 60 basis points and 57 basis points for the six months ended June 30, 1997 and 1996, respectively. This increase was due principally to a one-time cost in connection with the early transfer of GSE-owned student loans from a third party servicer to Sallie Mae Servicing Corporation ("SMSC").

Loan acquisition costs are principally costs incurred under the ExportSS(R) loan origination and administration service, the costs of converting newly acquired portfolios onto the Company's servicing platform or those of third party servicers and costs of loan consolidation activities. Student loans added to the ExportSS(R) pipeline, which represent loan volume serviced by and committed for sale to the Company, totaled \$1.7 billion during the first six months of 1997, down slightly from \$1.8 billion in the first six months of 1996. The outstanding portfolio of loans serviced for ExportSS(R) lenders totaled \$3.5 billion at June 30, 1997, down 4 percent from \$3.7 billion at June 30, 1996.

FEDERAL AND STATE TAXES

The Company maintains a portfolio of tax-advantaged assets principally to support education-related financing activities. That portfolio was primarily responsible for the decrease in the effective federal income tax rate from the statutory rate of 35 percent to 31 percent and 30 percent in the first six months of 1997 and 1996, respectively. The GSE is exempt from all state, local, and District of Columbia income, franchise, sales and use, personal property and other taxes, except for real property taxes. This tax exemption is effective only at the GSE level, however, and does not apply to its affiliates. As a result of the Reorganization, the Company's GSE and non-GSE activities are separated and non-GSE activities are subject to state and local taxation. State taxes are expected to be immaterial in 1997 as the majority of the Company's business activities will relate to the GSE. As increasing business activities occur outside of the GSE, the effects of state and local taxes are expected to increase accordingly. When fully phased in, management estimates that the Company's effective tax rate will be increased by approximately five percentage points. In addition, state and local sales and property taxes ultimately are

expected to increase operating expenses by approximately two to three percent.

LIQUIDITY AND CAPITAL RESOURCES

In the first six months of 1997, student loan purchases totaled \$4.1 billion, down 11 percent from \$4.6 billion in the first six months of 1996. Included in the \$4.1 billion of student loan purchases was approximately \$590 million of student loan participations from the Chase Joint Venture. Approximately two-thirds of non-joint venture purchase volume in the first six months of 1997 was derived from the Company's base of commitment clients, particularly those who used the ExportSS(R) loan origination service. The GSE secures financing to fund the purchase of insured student loans along with its other operations by issuing debt securities in the domestic and overseas capital markets, through public offerings and through private placements of U.S. dollar-denominated and foreign currency-denominated debt of varying maturities and interest rate characteristics and through securitizations of its student loan assets (see "-- Years ended December 31, 1994--1996 -- Liquidity and Capital Resources -- Securitization"). The GSE's debt securities are currently rated at the highest credit rating level by Moody's Investors Service and Standard & Poor's. Historically, the rating agencies' ratings of the GSE have been largely a factor of its status as a government-sponsored enterprise.

The Privatization Act effectively requires that the GSE maintain a minimum statutory capital adequacy ratio (the ratio of stockholders' equity to total assets plus 50 percent of the credit equivalent amount of certain off-balance sheet items) of at least 2 percent until January 1, 2000 and 2.25 percent thereafter or be subject to certain "safety and soundness" requirements designed to restore such statutory ratio. Management anticipates being able to fund the increase in required capital from the GSE's current and retained earnings. At June 30, 1997, the GSE's statutory capital adequacy ratio was 2.09 percent. In addition, the Privatization Act now requires management, before the payment of dividends by the GSE, to certify to the Secretary of the Treasury that, after giving effect to the payment of dividends, the statutory capital ratio test would have been met at the time the dividend was declared. See "-- Years ended December 31, 1994-1996 -- Liquidity and Capital Resources."

The Company uses interest rate and foreign currency swaps (collateralized where appropriate), purchases of U.S. Treasury securities and other hedging techniques to reduce the exposure to interest rate and currency fluctuations that arise from its financing activities and to match the characteristics of its variable interest rate-earning assets (See "Interest Rate Risk Management"). During the first six months of 1997, the Company issued \$2.3 billion of long-term notes to refund maturing and repurchased obligations. At June 30, 1997, the Company had \$19.5 billion of outstanding long-term debt issues of which \$13.8 billion had stated maturities that could be accelerated through call provisions. The GSE has, in the past, also issued adjustable rate cumulative preferred stock, common stock, common stock warrants and puts, and subordinated debentures convertible to common stock, to diversify its funding sources.

During the first six months of 1997, the Company repurchased 1.8 million shares of its common stock, leaving 52.3 million shares outstanding at June 30, 1997. For the past few years the GSE has operated near the statutory minimum capital ratio of 2.00 percent of risk-adjusted assets required under its charter. Capital in excess of such amounts has been used to repurchase common shares. During 1997, management anticipates using current earnings to repurchase 7 to 9 percent of the shares outstanding at the beginning of the year. See "-- Years ended December 31, 1994-1996 -- Liquidity and Capital Resources."

CASH FLOWS

In the first six months of 1997, operating activities provided net cash inflows of \$219 million, an increase of \$64 million from the first six months of 1996. This increase was due mainly to the increase in net income of \$32 million. Investing activities provided \$1.7 billion in cash in the first six months of 1997, a decrease of \$19 million from the cash provided in the first six months of 1996 as the Company increased investments by \$941 million offset by a decrease in advances of \$294 million in the six months ended June 30, 1997 versus a decrease of \$425 million in investments and a decrease of \$893 million in warehousing advances in the first six months of 1996. In addition, the Company had purchases, net of repayments, claims and resales of student loans and student loan participations of \$2.3 billion in the first six months of 1997 and 1996 and securitized \$4.5 billion and \$3.0 billion of student loans in the first six months of 1997 and 1996, respectively. Financing activities used \$4 million in cash in the first six months of 1997 as the Company repurchased 1.8 million shares for \$201 million. The Company also repaid a

net \$5.2 billion in long-term notes through the issuance of net short-term borrowings of \$5.5 billion. As student loans are securitized the need for long-term financing of these assets on balance sheet decreases.

Interest Rate Risk Management

The Company's principal objective in financing its loan assets is to minimize its sensitivity to changing interest rates by matching the interest rate characteristics of borrowings to specific assets in order to lock in spreads. The Company funds its floating rate loan assets (most of which have weekly rate resets) with variable rate debt and fixed rate debt converted to variable rates with interest rate swaps. To achieve a more precise match of interest rate characteristics between loan assets and their related liabilities, the Company has effectively converted some of its variable rate debt to a different variable rate index with interest rate swaps. At June 30, 1997, \$19.6 billion of fixed rate debt and \$2.9 billion of variable rate debt were matched with interest rate swaps and foreign currency agreements. Fixed rate debt at June 30, 1997 also funded fixed rate warehousing advances and academic facilities financings. Investments were funded on a "pooled" approach, i.e., the pool of liabilities that funds the investment portfolio has an average rate and maturity or reset date that corresponds to the average rate and maturity or reset date of the investments which they fund.

In both its match funding activities for its loan assets and its pool funding activities for its investments, the Company enters into various financial instrument contracts in the normal course of business to reduce interest rate risk and foreign currency exposure on certain of its borrowings. These financial instrument contracts include interest rate swaps, interest rate cap and collar agreements, foreign currency swaps, forward currency exchange agreements, options on currency exchange agreements, options on securities, and financial futures contracts.

In the table below the Company's variable rate assets and liabilities are categorized by reset date of the underlying index. Fixed rate assets and liabilities are categorized based on their maturity dates. An interest rate gap is the difference between volumes of assets and volumes of liabilities maturing or repricing during specific future time intervals. Nonperforming loans are included in the analysis based on their underlying interest rate characteristics. The following gap analysis reflects rate-sensitive positions at June 30, 1997 and is not necessarily reflective of positions that existed throughout the period.

INTEREST RATE SENSITIVITY PERIOD

| | 3 MONTHS OR LESS | 3 MONTHS TO 6 MONTHS | 6 MONTHS TO 1 YEAR | 1 TO 2 YEARS | 2 TO 5 YEARS | OVER 5 YEARS |
|--|---------------------|----------------------------|--------------------------|-----------------|-----------------|-----------------|
| ASSETS | | | | | | |
| Student loans | \$ 31,488 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Warehousing advances | 2,476 | -- | 2 | 1 | -- | 16 |
| Academic facilities financings . | 83 | 43 | 17 | 37 | 291 | 882 |
| Cash and investments | 8,040 | 459 | 16 | 103 | 184 | 1,791 |
| Other assets | -- | -- | -- | -- | -- | 1,970 |
| Total assets | 42,087 | 502 | 35 | 141 | 475 | 4,659 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Short-term borrowings | 18,274 | 2,617 | 4,958 | -- | -- | -- |
| Long-term notes | 6,919 | -- | -- | 3,108 | 8,830 | 632 |
| Other liabilities | -- | -- | -- | -- | -- | 1,504 |
| Minority interest in subsidiary | -- | -- | -- | -- | -- | 214 |
| Stockholders' equity | -- | -- | -- | -- | -- | 843 |
| Total liabilities and stockholders' equity | 25,193 | 2,617 | 4,958 | 3,108 | 8,830 | 3,193 |
| OFF-BALANCE SHEET FINANCIAL INSTRUMENTS | | | | | | |
| Interest rate swaps | 17,328 | (2,232) | (4,140) | (3,020) | (8,694) | 758 |
| Period gap | \$ (434) | \$ 117 | \$ (783) | \$ 53 | \$ 339 | \$ 708 |
| Cumulative gap | \$ (434) | \$ (317) | \$ (1,100) | \$ (1,047) | \$ (708) | \$ -- |
| Ratio of cumulative gap to total assets | .9% | .7% | 2.3% | 2.2% | 1.5% | --% |
| Ratio of interest-sensitive assets to interest-sensitive liabilities | 167.1% | 19.2% | .7% | 4.5% | 5.4% | 425.5% |

In low interest rate environments, floor revenues on student loans cause the margins on these loans to widen beyond the locked-in spreads. See "-- Results of Operations -- Student Loan Floor Revenues." Such loans continue to be classified in the three months or less category in the table above, reflecting the fact that as interest rates rise these assets will resume their weekly rate reset.

The weighted average remaining terms to maturity of the Company's earning assets and borrowings at June 30, 1997 were 5.5 years and 1.5 years, respectively. The following table reflects the average terms to maturity for the Company's earning assets and liabilities at June 30, 1997:

AVERAGE TERMS TO MATURITY
(IN YEARS)

| | |
|-------------------------------------|------------|
| EARNING ASSETS | |
| Student loans..... | 6.0 |
| Warehousing advances..... | 3.5 |
| Academic facilities financings..... | 8.0 |
| Cash and investments..... | 4.0 |
| Total earning assets..... | 5.5 |
| BORROWINGS | |
| Short-term borrowings..... | .5 |
| Long-term borrowings..... | 3.0 |
| Total borrowings..... | 1.5 |

In the above table, Treasury receipts and variable rate asset-backed securities, although generally liquid in nature, extend the weighted average remaining term to maturity of cash and investments to 4.0 years. As loans are securitized, the need for long-term on-balance sheet financing will decrease.

MINORITY INTEREST

As part of the GSE's privatization, SLM Holding became the parent company of, and successor to, the GSE on August 7, 1997. As a result, the GSE's preferred stock is now reflected as a minority interest in the consolidated financial statements. The financial statements for prior periods have been

restated to reflect this change.

Preferred stock dividends are cumulative and payable quarterly at 4.50 percentage points below the highest yield of certain long-term and short-term United States Treasury obligations. The dividend rate for any dividend period will not be less than 5 percent per annum nor greater than 14 percent per annum. For each of the six month periods ended June 30, 1997 and 1996, the preferred stock dividend rate was 5.00 percent and reduced net income by \$5.3 million. The Privatization Act requires that on the dissolution date of September 30, 2008, the GSE shall repurchase or redeem, or make proper provisions for repurchase or redemption

of any outstanding preferred stock. The Company has the option of effecting an earlier dissolution if certain conditions are met.

OTHER RELATED EVENTS AND INFORMATION

Status of Direct Lending

As of June 30, 1997, approximately 1,484 colleges and universities participated in the FDSLSP for the 1996-97 academic year. The FDSLSP had a legislated market share goal of 50 percent for the 1996-1997 academic year. Based on DOE reports, management estimates that the FDSLSP accounted for approximately 33 percent of total student loan originations for the 1996-97 academic year. The FDSLSP accounted for approximately 31 percent of total student loan volume in the 1995-96 academic year, up from approximately 7 percent in the 1994-95 academic year.

In recent years as the FDSLSP has grown, the volume of loans originated by banks and other participants under the FFELP has been adversely impacted. Historically, the GSE has purchased the majority of its student loans as they near the repayment phase which commences after a borrower leaves school. On average, there is a two to three year lag between the date a loan is originated and the date it enters repayment. This lag has delayed the adverse affect of FDSLSP originations on the GSE's purchases of student loans. As the volume of FDSLSP loans reaching the repayment phase increases, the GSE's percentage share of the overall student loan market will decline. In 1994, the DOE began to offer existing FFELP borrowers the opportunity to refinance FFELP loans into FDSLSP loans. As of June 30, 1997, approximately \$592 million of FFELP loans owned by the GSE have been accepted for refinancing into FDSLSP loans. Approximately \$409 million have been refinanced into FDSLSP loans with the remainder awaiting disbursement by the federal government.

OBRA provides for a change in the borrower interest rate and the Special Allowance Payment for certain FFELP loans made on or after July 1, 1998. The new rates are scheduled to be based on the U.S. Treasury security with a "comparable maturity" plus 1.0 percent. The Secretary of Education has not adopted regulations specifying the U.S. Treasury security on which the Special Allowance Payment rate will be based or details on setting the Special Allowance Payment rate. Management believes that the "comparable maturity" security will be the 10-year Treasury Note. Depending on the specifics of the regulations, these changes could adversely impact the FFELP market and the Company's business because the availability and costs of funding to support this new type of instrument are uncertain. Representatives of the student loan industry are in discussions with members of Congress concerning possible legislative modification of this OBRA provision.

OBRA also requires the GSE to act as a lender of last resort to make FFELP loans when other private lenders are not available. Such loans receive a 100 percent guarantee and are not subject to the 30 basis point offset fee on loans held by the GSE. If the Secretary of Education determines that the GSE is not adequately implementing this provision, the offset fee paid by the GSE could be increased from 30 basis points to 100 basis points.

Legislated expansion of student eligibility as well as increases in student and parent loan limits have increased the volume of national loan originations. FFELP originations rose nearly 30 percent year-to-year to about \$23 billion for the 1994 federal fiscal year ended September 30, 1994. During the 1995 federal fiscal year, FFELP originations declined to \$21 billion due to FDSLSP originations totaling \$5 billion. Although FFELP originations declined in the 1996 federal fiscal year to \$20 billion, management expects, based on DOE reports, FFELP originations to increase to \$21 billion in the 1997 federal fiscal year. In the meantime, however, the competition for FFELP loans has intensified at both the originating and secondary market levels due mainly to the reduced volume and securitization of student loans, which has developed into a significant funding alternative for FFELP lenders.

Recently Issued Accounting Pronouncements

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("FAS") No. 128, "Earnings Per Share", which is required to be adopted on December 15, 1997. At that time, the Company will be required to change the method used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock

options will be excluded. The adoption is expected to have no material impact on the Company's reported earnings per share.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("FAS") No. 130, "Reporting Comprehensive Income", which is effective for periods after December 15, 1997. FAS 130 establishes standards for reporting and display of comprehensive income in a full set of general purpose financial statements. The Company is currently evaluating the effect of this pronouncement on its financial statement presentation and disclosure.

RECENT DEVELOPMENTS

On October 9, 1997, SLM Holding announced that its third quarter 1997 net income was \$143 million, or \$2.74 per common share versus net income of \$99 million, or \$1.79 per share for the third quarter of 1996. The Company's earnings benefited from the reversal of the pre-tax \$97 million offset fee reserve on securitized student loans. During the quarter the Company also recognized charges of \$85 million in aggregate related to the write-off certain intangible assets and hedge losses, staff reductions and geographic consolidation of offices, proxy and privatization costs, additions to reserves and the write-down of various non-student loan assets. A condensed balance sheet as of September 30, 1997 and income statements for the three and nine month periods ended September 30, 1997 follow:

SLM HOLDING CORPORATION
CONSOLIDATED BALANCE SHEET

(In thousands, except per share amounts)

| | SEPTEMBER 30, 1997 |
|---|-----------------------|
| ASSETS | ----- (Unaudited) |
| Insured student loans purchased | \$28,461,948 |
| Student loan participations | 1,938,984 |
| | ----- |
| Insured student loans | 30,400,932 |
| Warehousing advances | 2,442,419 |
| Academic facilities financings | 1,416,109 |
| Cash and investments | 6,791,761 |
| Other assets, principally accrued interest receivable | 1,966,958 |
| | ----- |
| Total assets | \$43,018,179 |
| | ===== |
| LIABILITIES | |
| Short-term borrowings | \$23,989,205 |
| Long-term notes | 16,541,742 |
| Other liabilities | 1,585,563 |
| | ----- |
| Total liabilities | 42,116,510 |
| | ----- |
| COMMITMENTS* | |
| MINORITY INTEREST IN SUBSIDIARY | 213,883 |
| STOCKHOLDERS' EQUITY | |
| Common stock, par value \$.20 per share, 250,000 shares authorized: 52,378 shares issued | 10,476 |
| Additional paid-in capital | 18,361 |
| Unrealized gains on investments, net of tax | 361,540 |
| Retained earnings | 572,020 |
| | ----- |
| Stockholders' equity before treasury stock | 962,397 |
| Common stock held in treasury at cost: 1,911 shares | 274,611 |
| | ----- |
| Total stockholders' equity | 687,786 |
| | ----- |
| Total liabilities and stockholders' equity | \$43,018,179 |
| | ===== |

* Commitments to purchase loans, lines of credit, letters of credit, and academic facilities financing commitments and letters of credit were \$18.9 billion, \$3.4 billion, \$4.4 billion, and \$1 billion, respectively, at September 30, 1997.

(In thousands, except per share amounts)

| | THREE MONTHS ENDED SEPTEMBER 30, | NINE MONTHS ENDED SEPTEMBER 30, |
|--|-------------------------------------|------------------------------------|
| | 1997 | 1997 |
| | (Unaudited) | (Unaudited) |
| Interest Income: | | |
| Insured student loans purchased | \$574,543 | \$1,795,073 |
| Student loan participation | 32,586 | 85,630 |
| Insured student loans | 607,129 | 1,880,703 |
| Warehousing advances | 36,403 | 114,606 |
| Academic facilities financings | 23,596 | 71,414 |
| Investments | 144,674 | 457,140 |
| Total interest income | 811,802 | 2,523,863 |
| Interest expense | 641,460 | 1,947,034 |
| Net interest income | 170,342 | 576,829 |
| Other income: | | |
| Gain on sale of student loans | 159,959 | 224,589 |
| Servicing and securitization revenue | 44,449 | 101,640 |
| Gains on sales of securities | 6,373 | 13,755 |
| Other | 11,393 | 36,185 |
| Total other income | 222,174 | 376,169 |
| Operating expenses | 172,945 | 389,787 |
| Income before federal income taxes, minority interest in net earnings of subsidiary, and premiums on debt extinguished | 219,571 | 563,211 |
| Federal income taxes | 72,040 | 177,679 |
| Minority interest in net earnings of subsidiary | 2,674 | 8,021 |
| Income before premiums on debt extinguished | 144,857 | 377,511 |
| Premiums on debt extinguished, net of tax | (2,264) | (2,264) |
| NET INCOME | \$142,593 | \$375,247 |
| Earnings per common share | \$2.74 | \$7.09 |
| Average common and common equivalent shares outstanding | 52,112 | 52,911 |

YEARS ENDED DECEMBER 31, 1994-1996
SELECTED FINANCIAL DATA
CONDENSED STATEMENTS OF INCOME

| | YEARS ENDED DECEMBER | | | INCREASE (DECREASE) | | | |
|--|----------------------|--------|--------|---------------------|------|----------|-------|
| | 31, | | | 1996 VS. | | 1995 VS. | |
| | 1996 | 1995 | 1994 | \$ | % | \$ | % |
| Net interest income | \$ 866 | \$ 901 | \$ 981 | \$ (35) | (4)% | \$ (80) | (8)% |
| Other operating income | 147 | 50 | 14 | 97 | 191 | 36 | 265 |
| Operating expenses | 406 | 439 | 390 | (33) | (8) | 49 | 13 |
| Federal income taxes | 183 | 141 | 176 | 42 | 30 | (35) | (20) |
| Minority interest in earnings of subsidiary | 11 | 11 | 11 | - | - | - | - |
| Income before premiums on debt extinguished | 413 | 360 | 418 | 53 | 15 | (58) | (14) |
| Premiums on debt extinguished, net of tax | (5) | (5) | (9) | -- | 2 | 4 | 47 |
| NET INCOME | \$ 408 | \$ 355 | \$ 409 | \$ 53 | 15% | \$ (54) | (13)% |
| EARNINGS PER COMMON SHARE | \$7.32 | \$5.27 | \$5.13 | \$2.05 | 39% | \$.14 | 3% |
| Dividends per common share | \$1.64 | \$1.51 | \$1.42 | \$.13 | 9% | \$.09 | 6% |
| CORE EARNINGS | \$ 381 | \$ 350 | \$ 345 | \$ 31 | 9% | \$ 5 | 1% |

CONDENSED BALANCE SHEETS

| | DECEMBER 31, | | INCREASE (DECREASE) | | | |
|--|--------------|----------|---------------------|------|---------------|------|
| | | | 1996 VS. 1995 | | 1995 VS. 1994 | |
| | 1996 | 1995 | \$ | % | \$ | % |
| ASSETS | | | | | | |
| Student loans | \$33,754 | \$34,336 | \$ (582) | (2)% | \$ 3,965 | 13% |
| Warehousing advances | 2,790 | 3,865 | (1,075) | (28) | (3,167) | (45) |
| Academic facilities financings | 1,473 | 1,313 | 160 | 12 | (235) | (15) |
| Cash and investments | 7,706 | 8,867 | (1,161) | (13) | (3,830) | (30) |
| Other assets | 1,907 | 1,621 | 286 | 18 | 308 | 23 |
| Total assets | \$47,630 | \$50,002 | \$(2,372) | (5)% | \$(2,959) | (6)% |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Short-term borrowings | \$22,518 | \$17,447 | \$ 5,071 | 29% | \$ 1,431 | 9% |
| Long-term notes | 22,606 | 30,083 | (7,477) | (25) | (4,236) | (12) |
| Other liabilities | 1,458 | 1,391 | 67 | 5 | 236 | 20 |
| Total liabilities | 46,582 | 48,921 | (2,339) | (5) | (2,569) | (5) |
| Minority Interest in Earnings of Subsidiary | 214 | 214 | - | - | - | - |
| Stockholders' equity before treasury stock | 1,371 | 3,662 | (2,291) | (63) | 470 | 15 |
| Common stock held in treasury at cost | 537 | 2,795 | (2,258) | (81) | 860 | 44 |
| Total stockholders' equity | 834 | 867 | (33) | (4) | (390) | (31) |
| Total liabilities and stockholders' equity | \$47,630 | \$50,002 | \$(2,372) | (5)% | \$(2,959) | (6)% |

RESULTS OF OPERATIONS

SLM Holding's net income was \$408 million (\$7.32 per common share) in 1996 compared to \$355 million (\$5.27 per common share) in 1995.

The net income increase of \$53 million (15 percent) in 1996 was primarily a result of continued growth in managed student loan assets and, on an after-tax basis, the effect of accelerating income recognition associated with the securitization of student loans of \$14 million, lower short-term U.S. Treasury rates which resulted in an increase of \$19 million in floor revenues, lower operating expenses of \$21 million and \$6 million due to the reversal of a previously established loss reserve based on the successful outcome of a lawsuit against the federal government regarding SAP on certain student loans. These positive factors were somewhat offset by the increase in loans subject to OBRA fees, as discussed below, and \$9 million in additions to other student loan loss reserves unrelated to risk-sharing on FFELP loans. Earnings per common share were further enhanced by repurchases of 4.6 million shares (8 percent of shares outstanding) in 1996.

The 1995 net income of \$355 million decreased \$54 million (13 percent) from 1994 due principally to higher short-term U.S. Treasury rates which resulted in a decrease in after-tax floor revenues of \$73 million, somewhat offset by higher after-tax gains on sales of securities of \$16 million. The 1995 earnings per common share were \$5.27, an increase of \$.14 (3 percent) from 1994, largely a result of the Company's repurchase of 16.1 million common shares (22 percent of shares outstanding) during 1995.

OBRA imposed legislative fees and risk-sharing on the GSE and other participants in the FFELP, including an offset fee applicable only to the GSE, consolidation loan rebate fees, and risk-sharing on defaulted loans applicable to all FFELP participants. The impact of these fees and reserves for risk-sharing on the Company's on-balance sheet portfolio of student loans reduced net income by \$62 million, \$37 million and \$17 million in 1996, 1995 and 1994, respectively. In addition to these fees, OBRA also imposed other yield reductions on all FFELP participants, principally loan origination fees paid to the federal government and reduced SAP during the period when a borrower is not in an active repayment status. The Company effectively shares the impact of these costs through the pricing of loan portfolios it purchases in the secondary market.

Core Earnings and Core Student Loan Spread

The following table analyzes the earning spreads on student loans for 1996, 1995 and 1994. The line captioned "Adjusted Student Loan Yields" reflects contractual yields adjusted for premiums paid to purchase loan portfolios and the estimated costs of borrower benefits. The Company, as the servicer of student loans that it securitizes, will continue to earn fee revenues over the life of the securitized student loan portfolios. The off-balance sheet information presented in the Student Loan Spread Analysis that follows analyzes the on-going fee revenues associated with the securitized portfolios of student loans.

STUDENT LOAN SPREAD ANALYSIS

| | YEARS ENDED DECEMBER 31, | | |
|--|--------------------------|-----------|-----------|
| | 1996 | 1995 | 1994 |
| ON-BALANCE SHEET | | | |
| Adjusted student loan yields | 7.92% | 8.40% | 7.29% |
| Amortization of floor swap payments ... | .07 | -- | -- |
| Floor income | .13 | .04 | .44 |
| Direct OBRA costs | (.29) | (.17) | (.09) |
| Student loan income | 7.83 | 8.27 | 7.64 |
| Cost of funds | (5.49) | (5.95) | (4.69) |
| Student loan spread | 2.34% | 2.32% | 2.95% |
| Core student loan spread | 2.21% | 2.28% | 2.51% |
| OFF-BALANCE SHEET | | | |
| Servicing and securitization revenue .. | 1.43% | .80% | --% |
| AVERAGE BALANCES (IN MILLIONS OF DOLLARS) | | | |
| Student loans, including participations | \$ 33,273 | \$ 32,758 | \$ 28,642 |
| Securitized loans | 4,020 | 177 | -- |
| Managed student loans | \$ 37,293 | \$ 32,935 | \$ 28,642 |

The decrease in the core student loan spread in 1996 was due principally to higher OBRA fees, the effect of student loan participations which contractually yield a lower rate than the underlying student loans (discussed below), and increased student loan loss reserves, offset by the revenues from the amortization of upfront payments received from student loan floor contracts and a one-time gain from the reversal of a previously established loss reserve due to the successful outcome of litigation related to SAP payments on certain loans. The decrease in the core student loan spread in 1995 was due principally to higher OBRA fees and higher student loan premium amortization on student loans acquired in recent years due to increased competition.

Student Loan Floor Revenues

As of December 31, 1996, approximately \$30 billion of the Company's managed student loans were eligible to earn floors (\$16 billion with fixed borrower interest rates and \$14 billion with variable borrower interest rates that reset annually). During 1996, the Company "monetized" the value of the floors related to \$13 billion of such loans by entering into contracts with third parties under which it agreed to pay the future floor revenues received, in exchange for upfront payments. These upfront payments are being amortized over the life of these contracts, which is approximately 2 years. The amortization of these payments, which is not dependent on future interest rate levels, is included in core earnings. In 1996, the amortization contributed \$22 million pre-tax to core earnings. In addition, the Company earned \$43 million net of \$12 million in payments under the floor revenue contracts, \$14 million and \$126 million in floor revenues in 1996, 1995 and 1994, respectively, as the average bond equivalent 91-day Treasury bill rate was 5.16 percent in 1996 versus 5.68 percent in 1995 and 4.38 percent in 1994. Of the remaining \$17 billion of such loans at December 31, 1996, \$9 billion were earning floor revenues based upon current interest rates.

Securitization

During 1996 the GSE completed four securitization transactions in which a total of \$6.0 billion of student loans was sold by the GSE to a special purpose finance subsidiary and by the subsidiary to trusts that issued asset-backed securities to fund the student loans to term. The pre-tax securitization gains on the transactions recorded in 1996 totaled \$49 million and were immaterial for 1995. Gains on future securitizations will vary depending on the characteristics of the loan portfolios securitized.

NET INTEREST INCOME

To compare nontaxable asset yields to taxable yields on a similar basis, the amounts in the following table are adjusted for the impact of certain tax-exempt and tax-advantaged investments based on the marginal corporate tax rate of 35 percent.

| | INCREASE (DECREASE) | | | | | | |
|--------------------------------|--------------------------|---------|---------|------------------|------|------------------|------|
| | YEARS ENDED DECEMBER 31, | | | 1996 VS. 1995 | | 1995 VS. 1994 | |
| | 1996 | 1995 | 1994 | \$ | % | \$ | % |
| Interest income | | | | | | | |
| Student loans | \$2,607 | \$2,708 | \$2,189 | \$ (101) | (4)% | \$ 519 | 24% |
| Warehousing advances | 194 | 408 | 334 | (214) | (53) | 74 | 22 |
| Academic facilities financings | 100 | 108 | 102 | (8) | (7) | 6 | 6 |
| Investments | 548 | 697 | 499 | (149) | (21) | 198 | 40 |
| Taxable equivalent adjustment. | 36 | 52 | 54 | (16) | (30) | (2) | (5) |
| Total taxable equivalent | | | | | | | |
| interest income | 3,485 | 3,973 | 3,178 | (488) | (12) | 795 | 25 |
| Interest expense | 2,583 | 3,020 | 2,143 | (437) | (14) | 877 | 41 |
| Taxable equivalent net | | | | | | | |
| interest income | \$ 902 | \$ 953 | \$1,035 | \$ (51) | (5)% | \$ (82) | (8)% |

Taxable equivalent net interest income in 1996 declined by \$51 million from 1995. This decline was due to the increase in loans subject to OBRA fees such as the offset fee and risk-sharing on claim payments (applicable to loans originated on or after October 1, 1993) plus loan origination fees and rebates to the DOE on consolidation loans. Other factors contributing to the decline in taxable equivalent net interest income include an increase in the non-risk sharing loss reserves for student loans of \$14 million and lower average earning assets of \$4.4 billion. In total, the impact of OBRA on income from student loans, including the fees paid directly by the GSE and reserves for risk-sharing on claims payments, reduced taxable equivalent net interest income and net interest margin by \$96 million and .20 percent, respectively, in 1996 as compared to \$57 million and .11 percent, respectively, in 1995 and \$26 million and .05 percent, respectively, in 1994. These negative factors were somewhat offset by the continued growth in managed student loan assets, lower short-term Treasury rates which result in higher floor revenue of \$29 million and the reversal of a previously established reserve of \$9 million as a result of the successful outcome of litigation related to SAP payments on certain student loans. The decrease in interest income from warehousing advances and investments is due to a decline in the overall level of interest rates as well as to the decrease in the average balance of those assets as the Company reduced these assets and utilized the capital supporting them to purchase shares of its common stock. Because the Company's borrowings are largely variable rate in nature, the year over year decrease in interest expense is reflective of the level of interest rates in general. In addition, the absolute level of borrowings decreased as the balance sheet was reduced in size through the securitization of student loans as well as the aforementioned reductions in the investment and warehousing advance portfolios. See "-- Rate/ Volume Analysis."

Taxable equivalent net interest income in 1995 declined by \$82 million from 1994 due primarily to student loan floor revenues totaling \$14 million in 1995 compared to \$126 million in floor revenues in 1994 and the increased effects of OBRA on student loan spreads. Also contributing to the decline in student loan spreads were the relatively lower spreads earned on student loans acquired in recent years due to increased competition in the secondary market for student loan portfolios. These factors were somewhat offset by a higher percentage of student loans relative to average earning assets.

Allowance for Student Loans

The provision for student loan losses is the periodic expense of maintaining an adequate allowance at the amount estimated to be sufficient to absorb possible future losses, net of recoveries inherent in the existing on-balance sheet loan portfolio. To recognize these potential losses on student loans, the Company maintained a reserve of \$84 million, \$60 million and \$65 million at December 31, 1996, 1995, and 1994, respectively. In 1996, the Company increased this reserve by \$20 million due to increasing default rates on privately-insured loans. The provision for loan losses, net of recoveries, did not change materially in 1995 and 1994. Once a student loan is charged off as a result of an unpaid claim, it is the Company's policy to continue to pursue the recovery of principal and interest. Management believes that the allowance for loan losses is adequate to cover anticipated losses in the on-balance sheet student loan portfolio. This evaluation is inherently subjective, however, as it requires material estimates that may be susceptible to significant changes.

AVERAGE BALANCE SHEETS

The following table reflects the rates earned on earning assets and paid on liabilities for the years ended December 31, 1996, 1995 and 1994. Managed net interest margin includes net interest income plus gains on securitization sales and servicing and securitization income divided by average managed assets.

| | YEARS ENDED DECEMBER 31, | | | | | |
|---|--------------------------|-------|-----------|-------|-----------|-------|
| | 1996 | | 1995 | | 1994 | |
| | BALANCE | RATE | BALANCE | RATE | BALANCE | RATE |
| AVERAGE ASSETS | | | | | | |
| Student loans | \$ 33,273 | 7.83% | \$ 32,758 | 8.27% | \$ 28,642 | 7.64% |
| Warehousing advances | 3,206 | 6.04 | 6,342 | 6.43 | 6,981 | 4.82 |
| Academic facilities financings | 1,500 | 8.43 | 1,527 | 8.92 | 1,489 | 8.62 |
| Investments | 9,444 | 5.91 | 11,154 | 6.46 | 11,283 | 4.65 |
| Total interest earning assets | 47,423 | 7.35% | 51,781 | 7.67% | 48,395 | 6.57% |
| Non-interest earning assets | 1,858 | ===== | 1,673 | ===== | 1,240 | ===== |
| Total assets | \$ 49,281 | ===== | \$ 53,454 | ===== | \$ 49,635 | ===== |
| AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Six month floating rate notes | \$ 2,485 | 5.42% | \$ 3,609 | 5.86% | \$ 3,410 | 4.52% |
| Other short-term borrowings | 18,493 | 5.43 | 11,802 | 5.88 | 13,167 | 4.43 |
| Long-term notes | 26,024 | 5.55 | 35,373 | 5.98 | 30,397 | 4.62 |
| Total interest bearing liabilities | 47,002 | 5.50% | 50,784 | 5.95% | 46,974 | 4.56% |
| Non-interest bearing liabilities | 1,464 | ===== | 1,451 | ===== | 1,191 | ===== |
| Stockholders' equity | 815 | ----- | 1,219 | ----- | 1,470 | ----- |
| Total liabilities and stockholders' equity | \$ 49,281 | ===== | \$ 53,454 | ===== | \$ 49,635 | ===== |
| Net interest margin | | 1.90% | | 1.84% | | 2.14% |
| | | ===== | | ===== | | ===== |
| Managed net interest margin | | 1.96% | | 1.84% | | - -% |
| | | ===== | | ===== | | ===== |

The increase in net interest margin in 1996 from 1995 is due to the increase in higher-yielding student loans as a percentage of overall average assets which was offset by increased OBRA costs. The increase in managed net interest margin in 1996 is due to the increase in securitization gains of \$49 million and servicing and securitization income of \$56 million as the GSE securitized \$6 billion of student loans in 1996 versus \$1 billion in 1995. The decrease in net interest margin from 1994 to 1995 is mainly attributable to the decline in student loan floor revenues to \$14 million in 1995 from \$126 million in 1994 and the increase in OBRA costs.

FUNDING COSTS

The Company's borrowings are generally variable rate indexed principally to the 91-day Treasury bill rate. The following table summarizes the average balance of debt (by index after giving effect to the impact of interest rate swaps) for the years ended December 31, 1996, 1995 and 1994 (dollars in millions).

| INDEX | YEARS ENDED DECEMBER 31, | | | | | |
|---|--------------------------|--------------|-----------------|--------------|-----------------|--------------|
| | 1996 | | 1995 | | 1994 | |
| | AVERAGE BALANCE | AVERAGE RATE | AVERAGE BALANCE | AVERAGE RATE | AVERAGE BALANCE | AVERAGE RATE |
| Treasury bill, principally 91-day LIBOR | \$35,375 | 5.48% | \$34,039 | 5.93% | \$31,204 | 4.70% |
| Discount notes | 7,797 | 5.38 | 14,290 | 5.87 | 11,888 | 4.03 |
| Fixed | 2,694 | 5.35 | 1,209 | 5.85 | 2,718 | 4.48 |
| Zero coupon | 720 | 6.81 | 811 | 6.68 | 792 | 6.60 |
| Other | 123 | 11.12 | 123 | 11.06 | 111 | 11.06 |
| | 293 | 4.87 | 312 | 6.11 | 261 | 5.71 |
| Total | \$47,002 | 5.50% | \$50,784 | 5.95% | \$46,974 | 4.56% |
| | ===== | ===== | ===== | ===== | ===== | ===== |

In the above table, for the years ended December 31, 1996, 1995 and 1994, spreads for Treasury bill-indexed borrowings averaged .25 percent, .26 percent and .29 percent, respectively, over the weighted average Treasury bill rates for those years and spreads for LIBOR-indexed borrowings averaged .26 percent, .31 percent and .39 percent, respectively, under the weighted average LIBOR rates.

The Rate/Volume Analysis below shows the relative contribution of changes in interest rates and asset volumes.

RATE/VOLUME ANALYSIS

| | TAXABLE EQUIVALENT INCREASE (DECREASE) | INCREASE (DECREASE) ATTRIBUTABLE TO CHANGE IN | |
|--|---|--|---------|
| | | RATE | VOLUME |
| 1996 VS. 1995 | | | |
| Taxable equivalent interest income ... | \$(488) | \$(235) | \$(253) |
| Interest expense | (437) | (223) | (214) |
| Taxable equivalent net interest income | \$ (51) | \$ (12) | \$ (39) |
| 1995 VS. 1994 | | | |
| Taxable equivalent interest income ... | \$ 795 | \$ 540 | \$ 255 |
| Interest expense | 877 | 650 | 227 |
| Taxable equivalent net interest income | \$ (82) | \$(110) | \$ 28 |

The \$12 million decrease in taxable equivalent net interest income attributable to the change in rates in 1996 was principally due to increased OBRA costs of \$39 million, an increase in student loan loss reserves (exclusive of risk sharing) of \$14 million and to increased leverage of \$14 million, offset by the increase of \$29 million in floor revenues, net of payments under the floor contracts, in 1996 versus 1995. Other items offsetting the decreases in taxable equivalent net interest income discussed above include \$22 million of revenues from the amortization of the upfront payments received from student loan floor contracts, the \$9 million reversal of a previously established reserve due to the successful outcome of litigation related to SAP payments on certain student loans, and a higher percentage of student loans relative to average earning assets. The \$39 million decrease in volume is primarily due to the decrease in the balance of warehousing advances and investments.

The \$110 million decrease attributable to the change in rates in 1995 was due to \$14 million of pre-tax student loan floor revenue in 1995 versus \$126 million in 1994 and declining core spreads on student loans. Core student loan spreads declined due principally to the growth in the balance of federally insured student loans subject to the fees and default risk-sharing provisions of OBRA. Also contributing to the decline were the relatively lower spreads earned on student loans acquired in recent years due to increased competition in the secondary market for student loan portfolios. These factors were somewhat offset by a higher percentage of student loans relative to average earning assets.

OPERATING EXPENSES

Operating expenses include general and administrative costs, costs incurred to service the Company's managed student loan portfolio and operational costs incurred in the process of acquiring student loan portfolios. Total operating expenses as a percentage of average managed student loans were 109 basis points, 133 basis points and 136 basis points for the years ended December 31, 1996, 1995 and 1994, respectively. Operating expenses are summarized in the following tables:

| | YEARS ENDED DECEMBER 31, | | | | | | | | |
|---|--------------------------|---------------------------------|--------|-----------|---------------------------------|--------|-----------|---------------------------------|--------|
| | 1996 | | | 1995 | | | 1994 | | |
| | CORPORATE | SERVICING AND ACQUISITION | TOTAL | CORPORATE | SERVICING AND ACQUISITION | TOTAL | CORPORATE | SERVICING AND ACQUISITION | TOTAL |
| Salaries and employee benefits | \$ 68 | \$ 138 | \$ 206 | \$ 75 | \$ 137 | \$ 212 | \$ 68 | \$ 128 | \$ 196 |
| Occupancy and equipment | 24 | 60 | 84 | 25 | 49 | 74 | 21 | 37 | 58 |
| Professional fees | 15 | 8 | 23 | 34 | 11 | 45 | 18 | 9 | 27 |
| Advertising and printing | 7 | -- | 7 | 6 | -- | 6 | 4 | -- | 4 |
| Office operations | 8 | 32 | 40 | 9 | 35 | 44 | 9 | 34 | 43 |
| Other | 9 | 2 | 11 | 12 | 2 | 14 | 10 | 2 | 12 |
| Total internal operating expenses | 131 | 240 | 371 | 161 | 234 | 395 | 130 | 210 | 340 |
| Third party servicing costs | -- | 35 | 35 | -- | 44 | 44 | -- | 50 | 50 |
| Total operating expenses | \$ 131 | \$ 275 | \$ 406 | \$ 161 | \$ 278 | \$ 439 | \$ 130 | \$ 260 | \$ 390 |
| Employees at end of the year | 761 | 4,031 | 4,792 | 856 | 3,885 | 4,741 | 857 | 4,140 | 4,997 |

| | YEARS ENDED DECEMBER 31, | | | INCREASE/(DECREASE) | | | | |
|---------------------------------------|-----------------------------|-------|-------|---------------------|-------|------------------|-------|------|
| | 1996 | 1995 | 1994 | 1996 VS. 1995 | | 1995 VS. 1994 | | |
| | ---- | ---- | ---- | ----- | ----- | ----- | ----- | |
| | | | \$ | % | \$ | % | | |
| Servicing costs | \$211 | \$205 | \$190 | \$ 6 | 3% | \$ 15 | 8% | |
| Acquisition costs | 64 | 73 | 70 | (9) | (13) | 3 | 5 | |
| Total servicing and acquisition costs | ==== | ==== | ==== | ==== | ==== | ==== | ==== | ==== |
| | \$275 | \$278 | \$260 | \$ (3) | (1)% | \$ 18 | 7% | |

The decrease of \$30 million in corporate operating expenses in 1996 versus 1995 was due principally to the divestiture of a majority interest in CyberMark, a wholly owned subsidiary, completed during the second quarter of 1996 which reduced 1996 operating expenses by \$20 million. Reductions in corporate staffing and professional fees reduced operating expenses by an additional \$10 million.

Corporate operating expenses for the year ended December 31, 1995 increased \$31 million (23 percent) over 1994. The increase was related to the following: (i) CyberMark expenses in 1995, which totaled \$22 million versus \$6 million in 1994; (ii) increased costs associated with the student loan business of \$11 million, including advertising and promotion costs related to the corporate image campaign and subsidiary operating costs; (iii) \$4 million related to the 1995 Annual Meeting and a proxy contest concerning the election of directors; and (iv) severance costs of \$2 million associated with the reduction in corporate officers and staff.

Servicing costs include all operations and systems costs incurred to service the Company's portfolio of managed student loans, including fees paid to third party servicers. The 1992 legislated expansion of student eligibility and increases in loan limits resulted in higher average student loan balances, which generally command a higher price in the secondary market and contribute to lower servicing costs as a percentage of the average balance of managed student loans. When expressed as a percentage of the managed student loan portfolio, servicing costs averaged 57 basis points, 62 basis points and 66 basis points for the years ended December 31, 1996, 1995 and 1994, respectively. These decreases were due principally to increased average student loan balances and to servicing efficiencies realized through the consolidation of certain servicing operations and recent technology investments.

Loan acquisition costs are principally costs incurred under the ExportSS(R) loan origination and administration service, the costs of converting newly acquired portfolios onto the Company's servicing platform or those of third party servicers and costs of loan consolidation activities. Student loans added to the ExportSS(R) pipeline, which represents loan volume serviced by and committed for sale to the Company, totaled \$4.2 billion during 1996, compared to \$4.7 billion in the prior year. The decrease occurred as a result of the substantial growth in direct lending by the federal government. The outstanding portfolio of loans serviced for ExportSS(R) lenders totaled \$4.0 billion at December 31, 1996, down 11 percent from \$4.5 billion at December 31, 1995.

FEDERAL AND STATE TAXES

The Company maintains a portfolio of tax-advantaged assets principally to support education-related financing activities. That portfolio was primarily responsible for the decrease in the effective federal income tax rate from the statutory rate of 35 percent to 30 percent, 27 percent and 29 percent in 1996, 1995 and 1994, respectively. The GSE is exempt from all state, local, and District of Columbia income, franchise, sales and use, personal property and other taxes, except for real property taxes.

LIQUIDITY AND CAPITAL RESOURCES

In 1996, loan purchases totaled \$9.9 billion, up 5 percent over \$9.4 billion in 1995. The 1996 loan purchases include \$1.5 billion of student loan participation purchases from the Chase Joint Venture. Approximately two-thirds of the non-joint venture purchase volume in 1996 was derived from the Company's base of commitment clients, particularly those who used the ExportSS(R) loan origination service. The GSE secures financing to fund the purchase of insured student loans along with its other operations by issuing debt securities in the domestic and overseas capital markets, through public offerings, and through private placements of U.S. dollar-denominated and foreign currency-denominated debt of varying maturities and interest rate characteristics. The GSE's debt securities are currently rated at the highest credit rating level by Moody's Investor Services and Standard & Poor's.

At December 31, 1996, the GSE's statutory capital adequacy ratio was 2.11 percent. The Privatization Act requires management, before the payment of dividends by the GSE, to certify to the Secretary of the Treasury, that after giving effect to the payment of dividends, the statutory capital ratio test would have been met at the time the dividend was declared.

The Company uses interest rate and foreign currency swaps (collateralized where appropriate), purchases of U.S. Treasury securities and other hedging techniques to reduce the exposure to interest rate and currency fluctuations that arise from its financing activities and to match the characteristics of its variable interest rate earning assets. See "-- Interest Rate Risk Management." During 1996, the Company issued \$8.3 billion of long-term notes to refund maturing and repurchased obligations. At December 31, 1996, the Company had \$14.1 billion of outstanding long-term debt issues with stated maturities that could be accelerated through call provisions. The GSE also funds its student loan assets through securitizations. The GSE has, in the past, issued adjustable rate cumulative preferred stock, common stock, common stock warrants and puts, and subordinated debentures convertible to common stock, to diversify its funding sources.

During 1996, the Company repurchased 4.6 million shares of its common stock, leaving 53.7 million shares outstanding at December 31, 1996. For the past few years the GSE has operated near the statutory minimum capital ratio of 2.00% of risk-adjusted assets required under its charter. Capital in excess of such amounts has been used to repurchase common shares. As of December 31, 1996, the Company had repurchased nearly all of the 20 million shares which, in May 1995, it announced it would repurchase over a two year period. The funds necessary to complete the repurchases came from the combination of current earnings, increased leverage and reduced asset balances. As of December 31, 1996, the Company had authority to repurchase up to an additional 5 million shares, pursuant to a May 1996 resolution of the Board. Management anticipates using current earnings to repurchase 7 to 9 percent of the outstanding shares in 1997.

Cash Flows

In 1996, operating activities provided net cash inflows of \$202 million, an increase of \$27 million from 1995. This increase was due mainly to the increase in other liabilities of \$172 million and to the increase in net income of \$53 million. Investing activities provided \$1.6 billion in cash in 1996, a decrease of \$926 million from the cash provided in 1995. In 1996, the GSE purchased \$9.9 billion of student loans and student loan participations. The GSE also securitized \$6.0 billion of student loans and received \$5.6 billion in student loan and warehousing advance repayments. Financing activities used \$2.8 billion in cash in 1996 as the Company repaid a net \$7.4 billion in long-term notes and saw an increase in net short-term borrowings of \$5.0 billion. As student loans are securitized the need for long-term financing of these assets on-balance sheet will decrease.

Securitization

The Company's unsecured borrowings typically have terms to maturity that are of a shorter duration than the student loans. In addition, the GSE is assessed annually a 30 basis point offset fee on student loans that it holds, which effectively raises the cost of funding such assets on balance sheet. Since 1995, the GSE has diversified its funding sources independent of its GSE borrower status by securitizing a portion of its student loan assets. A securitization involves the sale of student loans by the GSE to a special purpose finance subsidiary and by the subsidiary to a trust. The trust funds the student loans to term through the public issuance of student loan asset-backed securities. As student loans are securitized, the GSE's on-balance sheet funding needs are reduced. During 1996, the GSE completed four transactions in which it sold a total of \$6.0 billion of student loans.

Although asset-backed securities generally have a higher cost of funds than the GSE's traditional on-balance sheet financing (due principally to term match-funding and the fact that asset-backed securities do not benefit from GSE's government-sponsored enterprise status), management believes that securitization represents an efficient use of capital. See "Results of Operations -- Securitizations" for discussion of the offset fee litigation. The GSE's securitizations have been structured to achieve a "AAA" credit rating on over 96 percent of its financing (with an "A" credit rating on the remaining subordinated securities). These ratings are independent of the GSE's current status as a government-sponsored enterprise. Securitized portfolios require less capital than would otherwise be required had the assets remained on balance sheet.

Interest Rate Risk Management

The Company's principal objective in financing its loan assets is to minimize its sensitivity to changing interest rates by matching the interest rate characteristics of borrowings to specific assets in order to lock in spreads. The Company funds its floating rate loan assets (most of which have weekly rate resets) with variable rate debt and fixed rate debt converted to variable rates with interest rate swaps. To achieve a more precise match of interest rate characteristics between loan assets and their related liabilities, the Company has effectively converted some of its variable rate debt to a different variable rate index with interest rate swaps. At December 31, 1996, \$18.3 billion of fixed rate debt and \$4.6 billion of variable rate debt were matched with interest rate swaps and foreign currency agreements. Fixed rate debt at December 31, 1996 also funded fixed rate warehousing advances and academic facilities financings. Investments were funded on a "pooled" approach, i.e., the pool of liabilities that funds the investment portfolio has an average rate and maturity or reset date that corresponds to the average rate and maturity or reset date of the investments which they fund.

In both its match funding activities for its loan assets and its pool funding activities for its investments, the Company enters into various financial instrument contracts in the normal course of business to reduce interest rate risk and foreign currency exposure on certain of its borrowings. These financial instrument contracts include interest rate swaps, interest rate cap and collar agreements, foreign currency swaps, forward currency exchange agreements, options on currency exchange agreements, options on securities, and financial futures contracts.

In the table below the Company's variable rate assets and liabilities are categorized by reset date of the underlying index. Fixed rate assets and liabilities are categorized based on their maturity dates. An interest rate gap is the difference between volumes of assets and volumes of liabilities maturing or repricing during specific future time intervals. Nonperforming loans are included in the analysis based on their underlying interest rate characteristics. The following gap analysis reflects rate-sensitive positions at December 31, 1996 and is not necessarily reflective of positions that existed throughout the period.

| | INTEREST RATE SENSITIVITY PERIOD | | | | | |
|--|----------------------------------|----------------------------|--------------------------|-----------------|-----------------|-----------------|
| | 3 MONTHS OR LESS | 3 MONTHS TO 6 MONTHS | 6 MONTHS TO 1 YEAR | 1 TO 2 YEARS | 2 TO 5 YEARS | OVER 5 YEARS |
| ASSETS | | | | | | |
| Student loans | \$ 30,270 | \$ 3,484 | \$ -- | \$ -- | \$ -- | \$ -- |
| Warehousing advances | 2,771 | -- | -- | 1 | 1 | 17 |
| Academic facilities financings .. | 157 | 43 | 20 | 39 | 221 | 993 |
| Cash and investments | 5,641 | 14 | 27 | 21 | 174 | 1,829 |
| Other assets | -- | -- | -- | -- | -- | 1,907 |
| Total assets | 38,839 | 3,541 | 47 | 61 | 396 | 4,746 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Short-term borrowings | 15,903 | 2,269 | 4,346 | -- | -- | -- |
| Long-term notes | 8,505 | -- | -- | 2,951 | 10,242 | 908 |
| Other liabilities | -- | -- | -- | -- | -- | 1,458 |
| Minority interest in subsidiary .. | -- | -- | -- | -- | -- | 214 |
| Stockholders' equity | -- | -- | -- | -- | -- | 834 |
| Total liabilities and stockholders' equity | 24,408 | 2,269 | 4,346 | 2,951 | 10,242 | 3,414 |
| OFF-BALANCE SHEET FINANCIAL INSTRUMENTS | | | | | | |
| Interest rate swaps | 14,522 | 2,410 | (4,271) | (2,966) | (10,153) | 458 |
| Period gap | \$ (91) | \$ (1,138) | \$ (28) | \$ 76 | \$ 307 | \$ 874 |
| Cumulative gap | \$ (91) | \$ (1,229) | \$ (1,257) | \$ (1,181) | \$ (874) | \$ -- |
| Ratio of interest-sensitive assets to interest-sensitive liabilities | 161.5% | 156.1% | 1.1% | 2.1% | 3.9% | 312.7% |
| Ratio of cumulative gap to total assets | .2% | 2.6% | 2.6% | 2.5% | 1.8% | --% |

In low interest rate environments, floor revenues on student loans cause the margins on these loans to widen beyond the locked-in spreads. See "-- Results of Operations -- Student Loan Floor Revenues." Such loans continue to be classified in the three months or less category in the table above, reflecting the fact that as interest rates rise these assets will resume their weekly rate reset.

The weighted average remaining terms to maturity of the Company's earning assets and borrowings at December 31, 1996 were 5.5 years and 2.0 years, respectively. The following table reflects the average terms to maturity for the Company's earning assets and liabilities at December 31, 1996:

**AVERAGE TERMS TO MATURITY
(IN YEARS)**

| | |
|-------------------------------------|------------|
| EARNING ASSETS | |
| Student loans..... | 6.0 |
| Warehousing advances..... | 1.0 |
| Academic facilities financings..... | 8.0 |
| Cash and investments..... | 5.5 |
| --- | --- |
| Total earning assets..... | 5.5 |
| === | === |
| BORROWINGS | |
| Short-term borrowings..... | .5 |
| Long-term borrowings..... | 3.5 |
| --- | --- |
| Total borrowings..... | 2.0 |
| === | === |

In the above table, Treasury receipts and variable rate asset-backed securities, although generally liquid in nature, extend the weighted average remaining term to maturity of cash and investments to 5.5 years. As loans are securitized, the need for long-term on-balance sheet financing will decrease.

MINORITY INTEREST

As part of the GSE's privatization, SLM Holding became the parent company of, and successor to, the GSE on August 7, 1997. As a result, the GSE's preferred stock is now reflected as a minority interest in the consolidated financial statements. The financial statements for prior periods have been restated to reflect this change.

Preferred stock dividends are cumulative and payable quarterly at 4.50 percentage points below the highest yield of certain long-term and short-term United States Treasury obligations. The dividend rate for any dividend period will not be less than 5 percent per annum nor greater than 14 percent per annum. For each of the years ended December 31, 1996, 1995 and 1994, the preferred stock dividend rate was 5.00 percent and reduced net income by \$10.7 million. The Privatization Act requires that on the dissolution date of September 30, 2008, the GSE shall repurchase or redeem, or make proper provisions for repurchase or

redemption of, any outstanding preferred stock. The Company has the option of effecting an earlier dissolution if certain conditions are met.

OTHER RELATED EVENTS AND INFORMATION

FDSLSP and 1993 FFELP Changes

The Company's student loan business continued to be impacted by legislative changes to the student loan program as well as increased competition. OBRA changed the FFELP in a number of ways that lower the profitability of FFELP loans for all participants and established the FDSLSP, under which the federal government can lend directly to students. FFELP changes include risk-sharing on defaulted loans and yield reductions, and a 30 basis point annual "offset fee" unique to the GSE on student loans purchased and held on or after August 10, 1993. See "-- Other Related Events."

Despite extensive consideration in 1995 and 1996, the 104th Congress did not enact any significant changes to the federal student loan programs. No changes have been made that would effect the yield on student loans. The Company cannot predict whether future budget proposals or other changes will be made to the direct student loan program.

The FDSLSP is funded directly by the federal government and administered by the DOE. OBRA establishes goals for the phase-in of direct lending expressed as a percentage of the combined dollar amount of loans originated under the direct loan program and the FFELP with the following targets:

| ACADEMIC YEARS | DIRECT LOANS AS A PERCENT OF TOTAL |
|-----------------|---------------------------------------|
| ----- | ----- |
| 1994-1995 | 5% |
| 1995-1996 | 40 |
| 1996-1998 | 50 |
| 1998-1999 | 60 |

As of December 31, 1996, approximately 1,600 colleges and universities participated in the FDSLSP for the 1996-97 academic year. Based on DOE reports, management estimates that direct loan volume did not achieve its target market share of 40 percent of total student loan originations. Management estimates that direct loans accounted for approximately 31 percent of total student loan volume in the 1995-96 academic year, up from approximately 7 percent in the 1994-95 academic year. The FDSLSP has a legislated market share goal of 50 percent for the 1996-1997 academic year.

In recent years as the FDSLSP has grown, the volume of loans originated by banks and other participants under the FFELP has been adversely impacted. Historically, the GSE has purchased the majority of its student loans as they near the repayment phase which commences after a borrower leaves school. On average there is a two to three year lag between the date a loan is originated and the date it enters repayment. This lag has delayed the adverse affect of FDSLSP originations on the GSE's purchases of student loans. As the volume of FDSLSP loans reaching the repayment phase increases, the GSE's percentage share of the overall student loan market will decline. In 1994, the DOE began to offer existing FFELP borrowers the opportunity to refinance FFELP loans into FDSLSP loans. As of December 31, 1996, approximately \$325 million of FFELP loans owned by the GSE have been accepted for refinancing into FDSLSP loans. Approximately \$320 million have been refinanced into FDSLSP loans with the remainder awaiting disbursement by the federal government.

OBRA provides for a change in the borrower interest rate and the Special Allowance Payment for certain FFELP loans made on or after July 1, 1998. The new rates are scheduled to be based on the U.S. Treasury security with a "comparable maturity" plus 1.0 percent. The Secretary of Education has not adopted regulations specifying the U.S. Treasury security on which the Special Allowance Payment rate will be based or details on setting the Special Allowance Payment rate. Management believes that the "comparable maturity" security will be the 10-year Treasury Note. Depending on the specifics of the regulations, these changes could adversely impact the FFELP market and the Company's business because the availability and costs of funding to support this new type of instrument are uncertain. Representatives of the student loan industry are in discussions with members of Congress concerning possible legislative modification of this OBRA provision.

OBRA also requires the GSE to act as a lender of last resort to make FFELP loans when other private lenders are not available. Such loans receive a 100 percent guarantee and are not subject to the 30 basis point offset fee on loans held by the GSE. If the Secretary of Education determines that the GSE is not adequately implementing this provision, the offset fee paid by the GSE could be increased from 30 basis points to 100 basis points.

Legislated expansion of student eligibility as well as increases in student and parent loan limits have increased the volume of national loan originations. FFELP originations rose nearly 30 percent year-to-year to about \$23 billion for the 1994 federal fiscal year ended September 30, 1994. During the 1995 federal fiscal year, FFELP originations declined to about \$21 billion due to FDSLSP originations totaling \$5 billion. Management expects FFELP originations to have declined a similar amount in the 1996 federal fiscal year and to be flat in 1997. In the meantime, however, the competition for FFELP loans has intensified at both the originating and secondary market levels due mainly to the reduced volume and to securitization of student loans, which has developed into a significant funding alternative for FFELP lenders.

Recently Issued Accounting Pronouncements

In June 1996, Statement of Financial Accounting Standards ("FAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" was issued. This statement will govern the accounting for securitization transactions entered into after December 31, 1996. Also, under this statement in-substance defeasance transactions entered into after December 31, 1996 no longer receive off-balance sheet treatment. The Company's management believes the application of this Statement will have no material impact on the Company's results of operations.

Other Related Events

In 1995, the Congress declined to provide funding for HEAL loans to new borrowers. Funds were provided in 1995 and 1996 for borrowers who have previously received HEAL loans. As of July 1, 1996, the DOE has exercised recently granted authority to raise the limits on Unsubsidized Stafford Loans to amounts equal to the maximum available under the HEAL program. Loans of this size are available only to borrowers attending programs that otherwise would have been eligible for HEAL funding and at schools that were active participants in the HEAL program in 1995.

On June 11, 1996, Orange County, California filed a complaint against the Company in the U.S. Bankruptcy Court for the Central District of California. The case is currently pending in the U.S. District Court for the Central District of California. The complaint alleges that the Company made fraudulent representations and omitted material facts in offering circulars on various offerings purchased by Orange County, which contributed to Orange County's market losses and subsequent bankruptcy. The complaint seeks to hold the Company responsible for losses resulting from Orange County's bankruptcy, but does not specify the amount of damages claimed. The complaint against the Company is one of numerous cases filed by Orange County that have been coordinated for discovery purposes. Other defendants include Merrill Lynch, Morgan Stanley, KPMG Peat Marwick, Standard & Poor's and Fannie Mae. The complaint includes a claim of fraud under Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. In addition, the complaint includes counts under the California Corporations Code, as well as a count for common law fraud. The Company believes that the complaint is without merit and intends to defend the case vigorously. At this time, Management believes the impact of the lawsuit will not be material to the Company.

In September 1996, the Company obtained a declaratory judgment against the Secretary of Education in the U.S. District Court for the District of Columbia. The Court found that the Secretary erred in refusing to allow the GSE to claim adjustments to the Special Allowance Payment on certain FFELP loans which were required to be converted from a fixed rate to a variable rate. The Secretary has filed a notice of appeal of the District Court's decision.

In August 1996, Huntington National Bank, Battelle Memorial Institute and the Company entered into an agreement to form a joint venture company, CyberMark LLC, to produce and market stored value cards and systems. Huntington and Battelle provided funding for the new company with the Company contributing the smart card

system it developed over the past three years through its CyberMark subsidiary. The Company also contributed the CyberMark name to the joint venture company.

In September 1996, the Company restructured its arrangement with The Chase Manhattan Bank, the Company's largest lending client, in light of Chase's merger with Chemical Banking Corporation. Chase and the Company established two joint venture companies in which they hold equal interests, Education First Finance LLC and Education First Marketing LLC. Education First Finance LLC acquired Chase's existing \$2.6 billion student loan portfolio on October 1, 1996 and will acquire all future loans originated by Chase. Education First Marketing LLC will provide marketing services for Chase student loan products. Chase, which is now the largest originator in the FFELP, will originate insured student loans under the new arrangement. The Company will provide all processing and servicing support. Although the parties intend that the new arrangement be a long-term relationship, they have allowed for mutual rights to acquire each other's interest in the joint venture after the first six years.

On February 6, 1997, President Clinton submitted his Fiscal Year 1998 budget proposal to Congress. In an effort to achieve a balanced federal budget by 2002, the President has proposed a number of budget savings affecting the FFELP. Included in these savings are proposals to reduce the yield on student loans during the in-school, grace and deferment periods, to decrease loan insurance from 98 percent of claim amount to 95 percent, to require lenders rather than the government to compensate guarantors for their assistance in default prevention, and to extend the GSE offset fee to loans sold by GSE as part of securitized transactions. In addition, the President has proposed a significant restructuring of guaranty agency finances and operations. None of the proposals affecting lenders and secondary markets was included in the agreement on the budget which the President subsequently reached with the Congressional leadership or in the budget resolution passed by the Congress based upon that agreement. The agreement does call for the return of \$1 billion in guaranty agency reserves in fiscal year 2002, although such provisions would not adversely affect the Company. Legislation implementing the budget resolution was enacted by Congress on August 5, 1997.

DESCRIPTION OF THE COMMON STOCK

The statements set forth under this heading with respect to certain provisions of the Delaware General Corporation Law (the "DGCL"), the Company's Certificate of Incorporation (the "Certificate of Incorporation") and the by-laws of the Company (the "By-Laws") are brief summaries thereof and do not purport to be complete, and are qualified in their entirety by reference to the relevant provisions of the DGCL, the Certificate of Incorporation and the By-Laws, as appropriate.

GENERAL

This Prospectus relates to the public offering by the Selling Stockholders of 555,015 shares of the Common Stock, par value \$.20 per share, issued or issuable upon the exercise of the Warrants. The Warrants, which are transferable, are exercisable at any time before September 30, 2008 at \$72.43 per share, subject to adjustment for certain dilutive issuances of Common Stock or convertible securities.

The Warrants were originally issued on August 7, 1997 to the Control Board pursuant to Section 602(a) of the Privatization Act. Pursuant to the Privatization Act, the Control Board is authorized to sell or exercise the Warrants and must deposit any proceeds therefrom into an account established for the benefit at the District of Columbia public school system. This provision of the Privatization Act was part of the terms negotiated with the Administration and Congress in conjunction with the GSE's privatization. On September 2, 1997, the Control Board sold the Warrants in a transaction for which it claimed an exemption from the registration requirements of the Securities Act.

COMMON STOCK

Holders of the Common Stock are entitled to one vote per share on all matters submitted to a vote of stockholders except the election of directors, on which they have cumulative voting rights.

Holders of the Common Stock: (i) have equal and ratable rights to dividends from funds legally available therefor when, as and if declared by the Company's Board, subject to any rights of the holders of Company's preferred stock; (ii) subject to any rights of the holders of Company's preferred stock, if any, are entitled to share ratably in any distribution to holders of the Common Stock upon liquidation, after payment in full of all creditors; and (iii) do not have preemptive rights. The Common Stock is not redeemable or convertible. The outstanding shares of Common Stock are fully paid and non-assessable. The registrar and transfer agent for the Common Stock is Chase Mellon Shareholder Services.

MANAGEMENT

The name, age and business experience and directorships during the past five years of each member of the Company's Board of Directors is as follows:

| NAME AND BUSINESS ADDRESS ----- | AGE --- | DESCRIPTION OF BUSINESS OR PRESENT PRINCIPAL OCCUPATION ----- |
|--------------------------------------|------------|---|
| James E. Brandon Amarillo, TX | 70 | Attorney and Certified Public Accountant. Mr. Brandon is President and director of the following private companies: National Cattle Co., Inc., Automated Electronics Corp., Kirby Royalties, Inc., and El Paso Venezuela Company, each an oil and gas company; Oldham Ranches, Inc., Grain Properties, Inc., and Park-Princess, Inc., each a real estate investment company. Mr. Brandon is a Trustee of Eureka College in Illinois, serving a six-year term that commenced in 1993. He also served as a Trustee of Eureka College from 1985 to 1991. Mr. Brandon served as director of the GSE, by appointment of the President of the United States, from 1982 through 1991, and was a shareholder-elected member of the GSE board from 1995 until August 1997. |
| Charles L. Daley Voorhees, NJ | 64 | Director, Executive Vice President and Secretary of TEB Associates, Inc., a real estate finance company, since 1992. Mr. Daley was Executive Vice President and Chief Operating Officer of First Peoples Financial Corporation, a bank holding company, from 1987 to 1992 and Executive Vice President and Chief Operating Officer of First Peoples Bank of New Jersey, a state-chartered commercial bank, from 1984 to 1992. Mr. Daley was a member of the GSE board from 1995 until August 1997. |
| Thomas J. Fitzpatrick Medford, NJ | 48 | Founder, President and Chief Executive Officer of Equity One, Inc., a one billion dollar consumer lending company. Mr. Fitzpatrick was Vice Chairman of Commercial Credit Co. from 1988 until 1989. From 1983 until 1988, he was President and Chief Operating Officer of Manufacturers Hanover Consumer Services, where he had been employed since 1979. Mr. Fitzpatrick currently serves on the board of directors of BanPonce Financial Corporation. |
| Edward A. Fox Harborside, ME | 60 | Mr. Fox retired from the GSE in 1990 after serving as its President and Chief Executive Officer since its inception in 1973. From 1990 until 1994, he was the Dean of the Amos Tuck School of Business Administration at Dartmouth College. Mr. Fox is a director of Delphi Financial Group, Construction Loan Insurance Corporation ("Connie Lee"), Greenwich Capital Management and New England Life Insurance Co., and is Chairman of the Board of Commerce Security Bancorp. In 1997, the Governor of Maine appointed Mr. Fox to a three-year term on the New England Board of Higher Education. |

| NAME AND BUSINESS ADDRESS | AGE | DESCRIPTION OF BUSINESS OR PRESENT PRINCIPAL OCCUPATION |
|--|-----|---|
| Diane S. Gilleland Washington, D.C. | 50 | Senior Fellow, American Council on Education, Washington, D.C. Previously, Dr. Gilleland was the Director, Arkansas Department of Higher Education (1990-1997). She currently serves on the boards of several organizations including the Boards of the Arkansas School of Mathematics and Science, the Southern Regional Education Board's Commission on Educational Quality and the National Advisory Group for the Ford Foundation-sponsored project on Higher Education Costs, Pricing and Productivity. Dr. Gilleland served as a member of the GSE board, by appointment of the President of the United States, from 1994 until August 1997, and has been a shareholder-elected member of the GSE board since August 1997. |
| Ann Torre Grant Vienna, VA | 39 | Executive Vice President, Chief Financial Officer and Treasurer of NHP Incorporated, a broad-based national real estate services firm that is the nation's second largest multi-family property manager and fourth largest commercial lender, since February 1995. Ms. Grant was Vice President and Treasurer of US Airways from 1991 until 1995, and held other finance positions at US Airways from 1988 until 1991. She is currently a director of the GSE and Independent Director of Franklin Mutual Series, a \$22 billion family of mutual funds. |
| Ronald F. Hunt New Bern, NC | 53 | Attorney in New Bern, North Carolina, where he has resided since 1990. Mr. Hunt retired from the GSE in 1990 after serving in a number of executive positions there, beginning in 1973. He was appointed General Counsel of the GSE in 1979 and Executive Vice President in 1983. Since 1987 he has served as Corporate Secretary of the Construction Loan Insurance Corporation ("Connie Lee") and as Director and Corporate Secretary of Connie Lee Insurance Company, a municipal bond insurer wholly owned by Connie Lee, and of Connie Lee Management Services Corporation. From 1993 until 1995, Mr. Hunt was Chairman of the Board of Directors of the National Student Loan Clearinghouse, a not-for-profit corporation that provides loan status verification for participants in the FFELP. Mr. Hunt is also a director of the GSE. |
| Benjamin J. Lambert, III Richmond, VA | 60 | Senator of the State of Virginia since 1987. As a Senator, Dr. Lambert has focused on education issues and is Chairman of the Senate's Higher Education Subcommittee. Dr. Lambert has also been self-employed as an optometrist since 1962. Dr. Lambert is a director of the GSE and the following companies: Consolidated Bank & Trust Company; Virginia Power; and Dominion Resources. Dr. Lambert is also Secretary of the Board of Trustees of Virginia Union University, where he has served as a Trustee for over 15 years. |

| NAME AND BUSINESS ADDRESS | AGE | DESCRIPTION OF BUSINESS OR PRESENT PRINCIPAL OCCUPATION |
|------------------------------------|-----|---|
| Albert L. Lord Washington, D.C. | 51 | Chief Executive Officer and Vice-Chairman of the Company, and President and principal shareholder of LCL Ltd., a Washington D.C. firm that provides consulting services in investment and financial services. Mr. Lord served in executive positions at the GSE from October 1981 until January 1994. Mr. Lord served as the Executive Vice President and Chief Operating Officer of the GSE from 1990 to 1994, and Executive Vice President and Chief Financial Officer of the GSE from 1986 to 1990. Mr. Lord also serves as a director of First Alliance Corporation, Irvine, CA, and Princeton Bank, Princeton, MN. Mr. Lord was a member of the GSE board from 1995 until August 1997. |
| Marie V. McDemmond Norfolk, VA | 51 | President of Norfolk State University since June 1997. From December 1988 to June 1997, Dr. McDemmond served Florida Atlantic University in various capacities, most recently as Vice President for Finance and Chief Fiscal Officer. Prior to 1988, Dr. McDemmond was an Assistant Professor of Education at the University of New Orleans, President of McDemmond and Associates, a education finance consulting firm, and held financial management positions at Emory University, Atlanta University and University of Massachusetts. She is also a frequent author and lecturer on women and minority issues and financial management of colleges and universities. Dr. McDemmond is also a director of the GSE. |
| Barry A. Munitz Long Beach, CA | 55 | President and Chief Executive Officer of the J. Paul Getty Trust. From 1991 until 1997, Dr. Munitz was Chancellor and Chief Executive Officer of The California State University System. He is immediate past chair of the American Council on Education, Chairman of the National Advisory Group for the Ford Foundation-supported Project on Higher Education Costs, Pricing and Productivity, Chair-Elect of the California Business -- Higher Education Forum and a member of the Executive Committee of Los Angeles' KCET Public Television Station. Dr. Munitz has also served as a director of SunAmerica Corp. since 1994. From 1982 until 1991, he was President and Chief Executive Officer of Federated Development Co., Vice-Chairman, MAXXAM Inc., Chairman and Chief Executive Officer, United Financial Group, and Director, Charter Bancshares, Kaiser Aluminum and Specialty Patterns. |

| NAME AND BUSINESS ADDRESS | AGE | DESCRIPTION OF BUSINESS OR PRESENT PRINCIPAL OCCUPATION |
|--|-----|--|
| A. Alexander Porter New York, NY | 58 | Lead independent director of the Company's board, co-Founder and President of Porter, Felleman Inc., an investment management company, since 1983, and General Partner of Amici Associates, L.P. since 1976 and of the Collectors' Fund since 1984. Amici and the Collectors' Fund are investment partnerships in which Mr. Porter has investment discretion to buy and sell securities. Mr. Porter has been a trustee of Davidson College in North Carolina since 1992. He is a governor of the New York Athletic Club, a Founder and Director of Distribution Technology, Inc., a privately held company, and a trustee of The John Simon Guggenheim Memorial Foundation, since 1997. Mr. Porter has been a director of the GSE since 1995. |
| Wolfgang Schoellkopf New York, NY | 64 | Vice President and Chief Financial Officer of First Financial Bancorporation from 1990 until 1996. After teaching economics at Cornell University and Princeton University, Mr. Schoellkopf held various positions at Chase Manhattan Bank from 1963 until 1988, most recently as Executive Vice President and Treasurer. From 1988 until 1990, he was Executive Vice President of Shearson Lehman Hutton. Mr. Schoellkopf currently serves on the boards of directors of Great Lakes Reinsurance Corporation and Inner-City Scholarship Fund. |
| Steven L. Shapiro Cherry Hill, NJ | 56 | Certified Public Accountant and Personal Financial Specialist. Mr. Shapiro is Chairman of Alloy, Silverstein, Shapiro, Adams, Mulford & Co., an accounting firm, where he has been employed since 1960, and has served on its board of directors since 1966. Mr. Shapiro has been a member of the executive advisory council of Rutgers University since 1992, and is a federal key person of the American Institute of Certified Public Accountants. Mr. Shapiro also serves on the boards of the following companies: Carnegie Bancorp, a Princeton, New Jersey bank (since 1992); the Casino Reinvestment Development Authority (since 1992); and the West Jersey Hospital Foundation (since 1993). He was director of First Peoples Financial Corp. from 1990 to 1992 and Vice Chairman of the Board of Jefferson Bank of New Jersey from 1988 to 1990. Mr. Shapiro was a member of the GSE board from 1995 until August 1997. |
| Randolph Hearst Waterfield Barnegat Light, NJ | 65 | Certified public accountant and self-employed accounting consultant since 1990. Prior to 1990, Mr. Waterfield was with Ernst & Young for 40 years, during which time he served as the audit partner with a number of major clients, including the Company, and was the East Region Director of Accounting and auditing and managing partner of Ernst & Young's Washington, D.C. office. Mr. Waterfield has been a Trustee of Drexel University since 1981. Mr. Waterfield has been a member of the GSE board since 1995. |

DIRECTOR COMPENSATION

During 1996, each GSE director, with the exception of the Chairman of the Board, received an annual retainer of \$20,000. Each standing committee Chairman, with the exception of the Chairman of the Board, received an additional annual retainer of \$2,000. In addition, a fee of \$1,500 accrued to each director for attending each regular bi-monthly or special meeting of the GSE Board and a fee of \$1,500 accrued to each director for attending each regularly scheduled committee meeting of the GSE Board (with only a single fee paid for multiple committee meetings on the same day). The Chairman of the Board, in recognition of the additional time that he was required to devote to the GSE's affairs, received an annual retainer of \$50,000 and a per diem of \$1,750 for each day spent on the GSE's affairs. The Chairman of the Board was able to authorize additional reimbursement for directors who performed additional services or devoted unusual amounts of time to the GSE's activities that were not covered under the normal compensation schedules. Directors were also provided with \$50,000 of group term life insurance and are covered by a travel insurance plan while traveling on GSE business.

Before the Reorganization, GSE directors could defer cash compensation under the Sallie Mae Board of Directors' Deferred Compensation Plan and invest such deferred compensation in a cash account on which interest accrued and/or in a Sallie Mae Common Stock account, on which dividends and other capital adjustments were made. At least 50% of each director's annual retainer was credited to the Board of Directors' Deferred Compensation Plan -- Stock Account. See "Ownership of the Common Stock".

Effective December 31, 1995, the Sallie Mae Board of Directors' Pension Plan, a "nonqualified" plan that provided a benefit computed on the highest consecutive three-year average of compensation, was eliminated. Benefits accrued to directors serving on the GSE Board at December 31, 1995 were frozen.

Before the Reorganization, directors could participate in the Sallie Mae Employees' Stock Purchase Plan on the same terms and conditions as GSE employees. Directors did not receive a salary from the GSE and did not participate in any of the other plans discussed under the heading "Executive Compensation."

Under the terms of the GSE shareholder-approved Sallie Mae Board of Directors' Restricted Stock Plan, each director could annually receive up to a maximum of 500 shares of restricted GSE common stock. Shares granted under the Directors' Restricted Stock Plan may not be transferred by a director until the later of six months from the date of grant or the date the director separates from service as a Board member. During 1996, each director was granted 100 shares of restricted GSE common stock. The aggregate number of shares issued to directors during 1996 was 2,100 shares.

Pursuant to the Board of Directors Stock Option Plan, approved at the 1996 annual meeting of the GSE's shareholders, each director was awarded options to acquire 3,000 shares of the GSE's common stock at \$73.00 per share. As of December 31, 1996, 63,000 options were outstanding and exercisable and had a value of \$1,267,875.

On September 18, 1997, the Company's Board of Directors authorized the Company to offer to purchase all outstanding stock options held by GSE directors who were appointed to the GSE board by the President of the United States. The Company offered to purchase each outstanding option from such directors at a price equal to the difference between the strike price of the option and \$158.8125 (the closing market price of the Company's stock on September 18, 1997), plus \$6.00. The Company's offer to purchase the options at this price will remain open until October 31, 1997. Options held by such directors will expire on January 31, 1998.

The total compensation accrued to directors in 1996 (including the value of restricted stock grants and compensation related to participation in the Sallie Mae Employees' Stock Purchase Plan) was \$1,215,767.

EXECUTIVE OFFICERS OF THE COMPANY

The name, age, title and business experience during the past five years of each member of the Company's executive officers is as follows:

| NAME AND TITLE ----- | AGE --- | PREVIOUS EXPERIENCE ----- |
|---|------------|--|
| Albert L. Lord Chief Executive Officer and Vice Chairman of the Board of Directors | 51 | From 1994 until 1997, Mr. Lord was President and principal shareholder of LCL, Ltd., a Washington, DC firm that provides consulting services in investment and financial services. From 1990-1994, Mr. Lord was Executive Vice President and Chief Operating Officer of the GSE. |
| J. Paul Carey Executive Vice President, Finance, Marketing and Administration | 38 | From 1994 until 1997, Mr. Carey was an officer and shareholder of LCL, Ltd., a Washington, DC firm that provides consulting services in investment and financial services. From 1990 to 1994, Mr. Carey was Vice President, Marketing of the GSE. Mr. Carey also serves as President of the GSE. |
| Mark G. Overend Vice President and Chief Financial Officer | 41 | From 1991 until 1997, Mr. Overend was Vice President and Controller of the GSE. Mr. Overend also serves as Chief Financial Officer of the GSE. |
| Robert R. Levine Vice President, Servicing | 41 | From 1990 until 1997, Mr. Levine was the Vice President and Treasurer of the GSE. |
| Marianne M. Keler Vice President and General Counsel | 42 | From 1990 until 1997, Ms. Keler was Vice President and Associate General Counsel of the GSE. Ms. Keler also serves as General Counsel of the GSE. |

EXECUTIVE COMPENSATION

This section includes: (1) a summary description in tabular form of executive compensation; (2) a summary of 1997 stock option grants; (3) a valuation of option exercises and remaining option holdings; (4) a summary of awards under the Student Loan Marketing Association Incentive Performance Plan (the "Incentive Performance Plan" or the "IPP"); and (5) a description of certain benefit plans. The Company and the GSE do not have any termination or change in control agreements with their executive officers.

COMPENSATION TABLES

Set forth below is historical information relating to the compensation of executive officers of the GSE.

SUMMARY COMPENSATION TABLE

| OFFICERS(1) | YEAR | ANNUAL COMPENSATION | | LONG-TERM COMPENSATION | | | | | |
|---|------|---------------------|-----------|------------------------|---------------------|----------------------------------|----------------|----------|---------------------------|
| | | SALARY(2) | BONUS(3) | OTHER | AWARDS | | PAYOUTS | | ALL OTHER COMPENSATION(7) |
| | | | | | RESTRICTED STOCK(4) | SECURITIES UNDERLYING OPTIONS(5) | LTIP PAYOUT(6) | | |
| Lawrence A. Hough . . . President and CEO | 1996 | \$540,000 | \$220,036 | -- | \$219,964 | 30,000 | \$329,656 | \$54,578 | |
| | 1995 | 525,000 | 210,052 | -- | 209,948 | 50,000 | 372,078 | 31,465 | |
| | 1994 | 510,000 | 145,025 | -- | 144,975 | 30,000 | 381,100 | 30,565 | |
| Timothy G. Greene . . . EVP and General Counsel | 1996 | 304,000 | 184,000 | -- | 46,000 | 14,000 | 186,029 | 40,392 | |
| | 1995 | 295,000 | 192,000 | -- | -- | 18,500 | 197,557 | 17,684 | |
| | 1994 | 288,000 | 155,000 | -- | -- | 12,000 | 133,237 | 17,280 | |
| Denise B. McGlone . . . EVP and CFO | 1996 | 295,000 | 0 | -- | 240,000 | 14,000 | -- | 17,677 | |
| | 1995 | 285,000 | 260,000 | -- | -- | 15,000 | -- | 17,077 | |
| | 1994 | 253,846 | 250,000 | -- | -- | 12,000 | -- | 15,231 | |
| Robert D. Friedhoff . . . EVP, Systems and Servicing | 1996 | 275,000 | 235,000 | -- | -- | 14,000 | 105,733 | 16,465 | |
| | 1995 | 260,000 | 210,000 | -- | -- | 18,500 | 96,236 | 15,565 | |
| | 1994 | 245,000 | 165,000 | -- | -- | 12,000 | 82,683 | 14,700 | |
| Lydia M. Marshall . . . EVP, Marketing | 1996 | 275,000 | 245,000 | -- | -- | 14,000 | 98,984 | 16,454 | |
| | 1995 | 255,000 | 220,000 | -- | -- | 18,500 | 86,457 | 15,254 | |
| | 1994 | 235,000 | 165,000 | -- | -- | 12,000 | 73,058 | 14,100 | |

(1) Mr. Friedhoff resigned from his positions with Sallie Mae, effective March 26, 1997 for personal reasons. Messrs. Hough and Greene and Mes. McGlone and Marshall ceased to be employed by the Company as of August 8, 1997.

(2) "Salary" is the base salary earned in the current year including all salary deferred to future years.

(3) "Bonus" is the amount earned for the year. The Bonus is determined and payable in the following year.

Of Mr. Hough's 1996 Bonus of \$440,000, 50% was paid in cash (\$220,036) and 50% was granted in the form of 2,263 restricted shares of Sallie Mae Common Stock (determined at 90% of value on date of grant) with a cash value of \$244,404 on the date of grant.

Pursuant to the Stock Compensation Plan, per his election, 80% of Mr. Greene's 1996 Bonus of \$230,000 was paid in cash (\$184,024) and 20% was granted in the form of 473 restricted shares of Sallie Mae Common Stock (determined at 90% of value on date of grant) with a cash value of \$51,084 on the date of grant.

Pursuant to the Stock Compensation Plan, per her election, 100% of Ms. McGlone's 1996 Bonus of \$240,000 was granted in the form of 2,469 restricted shares of Sallie Mae Common Stock (determined at 90% of value on date of grant) with a cash value of \$266,652 on the date of grant.

(4) Grantees of restricted shares of Sallie Mae Common Stock are eligible to receive dividends. Mr. Hough's 1994 and 1995 grants will both become unrestricted as of January 27 and 26, 1997, respectively. All other grants will become unrestricted on January 23, 1998. On the last day of the fiscal year, the aggregate number of restricted shares of Sallie Mae Common Stock granted equaled 6,742 shares with a value at December 31, 1996 of \$627,849.

(5) "Securities Underlying Options" includes stock options granted at market prices in January of each year. The exercise price of the options are as follows: January 1994: \$49.00; January 1995: \$37.00 and January 1996: \$73.00; except for Ms. McGlone's 1994 grant, the date of which grant was November 17, 1993 priced at \$44.50.

(6) Each year's Long-Term Incentive Plan ("LTIP") Payout is comprised of the following payments under the Incentive Performance Plan:

1996 -- 1/3 of the total award earned in each of the IPP years 1993, 1992, and 1991, paid in January 1996;

1995 -- 1/3 of the total award earned in each of the IPP years 1992, 1991, and 1990, paid in January 1995;

1994 -- 1/3 of the total award earned in each of the IPP years 1991, 1990, and 1989, paid in January 1994;

Ms. McGlone is not eligible to receive awards earned under IPP until the 1994 IPP payout which commences in 1997.

(7) "All Other Compensation" consists of the Employees' Thrift and Savings Plan's and the Supplemental Employees' Thrift and Savings Plan's employer matching contributions of up to 6% of base salary and for Messrs. Hough and Greene, \$22,213 and \$22,173 resulting from purchases of discounted stock under the Employees' Stock Purchase Plan.

1996 OPTION GRANTS TABLE

| NAME | NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED | PERCENT OF TOTAL GRANTS TO EMPLOYEES IN 1996(1) | EXERCISE PRICE | EXPIRATION DATE | VALUE AT GRANT DATE(2) |
|------------------------|---|---|-------------------|--------------------|------------------------------|
| Lawrence A. Hough..... | 30,000 | 9.3% | \$73.00 | 1/25/2006 | \$774,000 |
| Timothy G. Greene..... | 14,000 | 4.3 | 73.00 | 1/25/2006 | 361,200 |
| Denise B. McGlone..... | 14,000 | 4.3 | 73.00 | 1/25/2006 | 361,200 |
| Robert D. Friedhoff... | 14,000 | 4.3 | 73.00 | 1/25/2006 | 361,200 |
| Lydia M. Marshall..... | 14,000 | 4.3 | 73.00 | 1/25/2006 | 361,200 |

(1) The total number of stock options granted to employees in 1996 was 324,045.

(2) Value is determined on the basis of the Extended Binomial Options Pricing Model, a variation of the Black-Scholes pricing model. The following assumptions have been used in valuing the stock options as of the grant date -- January 25, 1996: volatility -- 29.42%; risk-free rate of return -- 5.93%; dividend growth rate -- 8.0%; vesting period -- one year from grant and time of exercise -- expiration date.

1996 OPTION EXERCISES AND YEAR-END VALUE TABLE

| NAME | SHARES ACQUIRED | VALUE REALIZED ON EXERCISE | NUMBER OF SECURITIES UNDERLYING OPTIONS AT YEAR END EXERCISABLE/ UNEXERCISABLE | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1996 EXERCISABLE/ UNEXERCISABLE |
|-----------------------|--------------------|----------------------------------|--|---|
| Lawrence A. Hough.... | 10,000 | \$604,500 | 148,250/30,000 | \$6,485,468/\$603,750 |
| Timothy G. Greene.... | 1,080 | 52,920 | 44,920/14,000 | 1,825,072/ 281,750 |
| Denise B. McGlone.... | 8,500 | 309,812 | 18,500/14,000 | 948,312/ 281,750 |
| Robert D. Friedhoff.. | 0 | 0 | 51,000/14,000 | 2,176,937/ 281,750 |
| Lydia M. Marshall.... | 18,500 | 832,500 | 24,800/14,000 | 927,650/ 281,750 |

LONG-TERM INCENTIVE PLAN TABLE
INCENTIVE PERFORMANCE PLAN (IPP)

| NAME | AWARDS FOR 1993 IPP(1) | PERFORMANCE OR OTHER PERIOD UNTIL MATURITY OR PAYOUT(2) |
|-------------------------|---------------------------------|--|
| Lawrence A. Hough..... | Three installments of \$89,250. | Payable beginning January 1996. |
| Timothy G. Greene..... | Three installments of \$50,150 | Payable beginning January 1996. |
| Denise B. McGlone(3)... | N/A | N/A |
| Robert D. Friedhoff.... | Three installments of \$38,061. | Payable beginning January 1996. |
| Lydia M. Marshall..... | Three installments of \$37,329. | Payable beginning January 1996. |

(1) The 1993 IPP commenced January 1, 1993 and ended December 31, 1995. Awards for that IPP were determined by the Board of Directors in January 1996.

(2) The January 1996 payment for the 1993 IPP is included in the Summary Compensation Table under "LTIP Payout".

(3) Denise McGlone rejoined the Corporation in February 1994. Ms. McGlone is not eligible to receive awards until the 1994 IPP payout which commences in 1997.

DESCRIPTION OF CERTAIN PENSION PLANS

Set forth below are current defined benefit pension plans of Sallie Mae.

PENSION PLAN TABLE
ANNUAL NORMAL RETIREMENT BENEFIT(1)

| FINAL AVERAGE COMPENSATION | YEARS OF SERVICE AT NORMAL RETIREMENT DATE | | | |
|----------------------------------|--|------------|------------|-----------|
| | 15 | 20 | 25 | 30 |
| \$400,000 | \$129,671 | \$ 172,895 | \$ 216,119 | \$259,343 |
| 450,000 | 146,171 | 194,895 | 243,619 | 292,343 |
| 500,000 | 162,671 | 216,895 | 271,119 | 325,343 |
| 550,000 | 179,171 | 238,895 | 298,619 | 358,343 |
| 600,000 | 195,671 | 260,895 | 326,119 | 391,343 |
| 650,000 | 212,171 | 282,895 | 353,619 | 424,343 |
| 700,000 | 228,671 | 304,895 | 381,119 | 457,343 |
| 750,000 | 245,171 | 326,895 | 408,619 | 490,343 |
| 800,000 | 261,671 | 348,895 | 436,119 | 523,343 |
| 850,000 | 278,171 | 370,895 | 463,619 | 556,343 |
| 900,000 | 294,671 | 392,895 | 491,119 | 589,343 |

(1) Payable for life to employees retiring in 1996 at age 62.

The credited years of service for the individuals named in the Summary Compensation Table are: Mr. Hough: 21 years, 10 months; Mr. Greene: 12 years, 5 months; Ms. McGlone: 9 years, 3 months; Mr. Friedhoff: 17 years, 11 months; and Ms. Marshall: 11 years, 6 months.

The Student Loan Marketing Association Employees' Pension Plan (the "Pension Plan") provides monthly benefits upon retirement to employees who complete five years of service. Benefits are calculated according to a formula which is based on an employee's highest consecutive five-year average base salary and length of credited service, and are integrated with social security benefits. The maximum number of years for which a participant receives credit for service under the Pension Plan is 30 years, and normal retirement age is 62. The Pension Plan also provides early retirement benefits at age 55, as well as joint and survivor benefits. The Pension Plan is funded solely by corporate contributions. Annual contributions to the Pension Plan trust are determined on an actuarial basis.

The Student Loan Marketing Association Supplemental Pension Plan (the "Supplemental Pension Plan") assures that designated participants receive the full amount of benefits to which they would have been entitled under the Pension Plan but for limits on compensation and benefit levels imposed by the Internal Revenue Code. The portions of compensation that are considered covered compensation for the Supplemental Pension Plan for each named executive officer are the salary and annual bonus amounts, up to 35% of the prior year's salary, disclosed in the Summary Compensation Table.

Benefit amounts under both the Pension Plan and the Supplemental Pension Plan are computed on an actuarial basis without individual allocation. The table above shows estimated annual benefits payable under the Pension Plan and the Supplemental Pension Plan to an employee for life upon retirement at age 62 in specified years-of-service and remuneration classes, using assumptions about compensation increases, under a straight life annuity option. The benefit amounts shown in the table are not subject to any deduction for social security or other offset amount.

OWNERSHIP OF THE COMMON STOCK

BOARD AND MANAGEMENT OWNERSHIP OF THE COMPANY

The following table provides information regarding shares of the Common Stock owned by the Company's management and Sallie Mae directors as of August 31, 1997, unless otherwise indicated. None of such persons nor such persons as a group were the beneficial owner of more than 1 percent of the outstanding shares of the Common Stock as of August 31, 1997.

| COMPANY DIRECTORS ----- | OWNED(1) ----- | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP ----- | |
|--|-------------------|--|--|
| | | CREDITED TO BENEFIT PLAN ACCOUNT(2) ----- | MAY BE ACQUIRED WITHIN 60 DAYS ----- |
| James E. Brandon..... | 1,852 | 902 | 4,000 |
| Charles L. Daley..... | 5,077 | 264 | 4,000 |
| Edward A. Fox..... | 54,000 | 0 | 0 |
| Thomas J. Fitzpatrick..... | 200 | 0 | 0 |
| Dianne Suitt Gilleland..... | 770 | 716 | 3,650 |
| Ann Torre Grant..... | 400 | 0 | 0 |
| Ronald F. Hunt..... | 6,108 | 1,080 | 1,000 |
| Benjamin J. Lambert, III.... | 577 | 474 | 1,000 |
| Albert L. Lord..... | 39,679 | 507 | 1,000 |
| Marie V. McDemmond..... | 0 | 0 | 0 |
| Barry A. Munitz..... | 4,000 | 0 | 0 |
| A. Alexander Porter..... | 21,532 | 264 | 4,000 |
| Wolfgang Schoellkopf..... | 1,000 | 0 | 0 |
| Steven L. Shapiro..... | 1,577 | 711 | 4,000 |
| Randolph Hearst Waterfield.. | 550 | 607 | 4,000 |
| | | | |
| COMPANY NAMED EXECUTIVE OFFICERS ----- | | | |
| Albert L. Lord..... | 39,679 | 507 | 1,000 |
| J. Paul Carey..... | 4,568 | 0 | 0 |
| Mark G. Overend..... | 4,882 | 1,356 | 0 |
| Robert R. Levine..... | 5,295 | 1,074 | 0 |
| Marianne M. Keler..... | 5,844 | 1,916 | 0 |
| | | | |
| COMPANY DIRECTORS AND NAMED EXECUTIVE OFFICERS AS A GROUP ----- | | | |
| | 157,911 | 9,871 | 26,650 |
| | ===== | ===== | ===== |

- (1) Consists of shares held, directly or indirectly, by the individual or a related party, including restricted shares.
- (2) Consists of shares credited under the Company's Directors' Deferred Compensation Plan, the Supplemental Employees' Thrift and Savings Plan, and the Deferred Compensation Plan for Key Employees.

PRINCIPAL HOLDERS

The Company believes that the following institutions were beneficial owners of five percent or more of the outstanding shares of the GSE's common stock at June 30, 1997 based upon information from such institutions and the Company's records.

| PRINCIPAL HOLDERS ----- | SHARES ----- | OWNERSHIP PERCENTAGE AT JUNE 30, 1997 ----- |
|---|-----------------|---|
| The Capital Group Companies, Inc.(1) | 5,832,100 | 10.11% |
| FMR Corporation | 5,228,900 | 9.06% |
| Chancellor Capital | 4,109,001 | 7.12% |
| Scudder Stevens & Clark | 3,225,989 | 5.59% |

(1) Certain operating subsidiaries of the Capital Group Companies, Inc. exercised investment discretion over various institutional accounts which held, as of June 30, 1997, 5,832,100 shares of the issue (10.11% of the outstanding shares of the class). Capital Guardian Trust Company, a bank, and one of such operating companies, exercised investment discretion over 2,000,100 of said shares. Capital Research and Management Company, a registered investment adviser had investment discretion with respect to 3,832,000 shares of the above shares.

LEGAL MATTERS

Certain legal matters relating to the Shares will be passed upon for the Company by Marianne M. Keler, Esq., General Counsel of the Company.

EXPERTS

The consolidated financial statements of SLM Holding Corporation as of December 31, 1996 and 1995, and for each of the three years in the period ending December 31, 1996 appearing in this Prospectus and Registration Statement, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority such firm as experts in accounting and auditing.

CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND STOCKHOLDERS
SLM HOLDING CORPORATION

We have audited the accompanying consolidated balance sheets of the SLM Holding Corporation at December 31, 1996 and 1995, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the SLM Holding Corporation at December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 2, the Company's financial statements for 1995 and 1994 have been restated to reflect a change in its method of accounting for student loan income. In addition, as discussed in Note 2, in 1994 the Company changed its method of accounting for certain investments in debt and equity securities.

Washington, D.C.
Ernst & Young LLP
January 13, 1997, except as to the
third and fourth paragraphs of Note 2,
which is as of April 7, 1997

SLM HOLDING CORPORATION

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | JUNE 30, 1997 ----- (UNAUDITED) | DECEMBER 31, ----- | |
|--|--|-----------------------|-----------------------|
| | | 1996 ----- | 1995 ----- |
| ASSETS | | | |
| Insured student loans purchased | \$29,568,713 | \$32,307,930 | \$34,336,211 |
| Student loan participations | 1,918,871 | 1,445,596 | -- |
| | ----- | ----- | ----- |
| Insured student loans | 31,487,584 | 33,753,526 | 34,336,211 |
| Warehousing advances | 2,495,178 | 2,789,485 | 3,865,093 |
| Academic facilities financings | | | |
| Bonds-- available-for-sale | 827,235 | 934,481 | 710,112 |
| Loans | 526,276 | 538,850 | 602,122 |
| | ----- | ----- | ----- |
| Total academic facilities financings | 1,353,511 | 1,473,331 | 1,312,234 |
| Investments | | | |
| Available-for-sale | 7,785,047 | 6,833,695 | 6,988,199 |
| Held-to-maturity | 584,576 | 601,887 | 625,856 |
| | ----- | ----- | ----- |
| Total investments | 8,369,623 | 7,435,582 | 7,614,055 |
| Cash and cash equivalents | 2,223,439 | 270,887 | 1,252,920 |
| Other assets, principally accrued interest receivable | 1,969,583 | 1,907,079 | 1,621,222 |
| | ----- | ----- | ----- |
| Total assets | \$47,898,918 ===== | \$47,629,890 ===== | \$50,001,735 ===== |
| LIABILITIES | | | |
| Short-term borrowings | \$25,850,071 | \$22,517,627 | \$17,447,000 |
| Long-term notes | 19,488,810 | 22,606,226 | 30,082,615 |
| Other liabilities | 1,503,568 | 1,458,207 | 1,390,915 |
| | ----- | ----- | ----- |
| Total liabilities | 46,842,449 | 46,582,060 | 48,920,530 |
| | ----- | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | | | |
| MINORITY INTEREST IN SUBSIDIARY | 213,883 | 213,883 | 213,883 |
| STOCKHOLDERS EQUITY | | | |
| Common stock, par value \$.20 per share, 250,000,000 shares authorized: 66,158,095; 65,695,571 and 124,121,770 shares issued, respectively | 13,231 | 13,139 | 24,824 |
| Additional paid-in capital | 28,218 | -- | 537,818 |
| Unrealized gains on investments (net of tax of \$185,569; \$188,050 and \$199,686, respectively) . | 344,628 | 349,235 | 370,846 |
| Retained earnings | 1,194,769 | 1,008,737 | 2,728,383 |
| | ----- | ----- | ----- |
| Stockholders' equity before treasury stock | 1,580,846 | 1,371,111 | 3,661,871 |
| Common stock held in treasury at cost: 13,823,562; 12,004,976 and 66,415,524 shares, respectively | 738,260 | 537,164 | 2,794,549 |
| | ----- | ----- | ----- |
| Total stockholders' equity | 842,586 | 833,947 | 867,322 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$47,898,918 ===== | \$47,629,890 ===== | \$50,001,735 ===== |

See accompanying notes to consolidated financial statements.

SLM HOLDING CORPORATION

 CONSOLIDATED STATEMENTS OF INCOME
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | SIX MONTHS ENDED JUNE 30, | | YEARS ENDED DECEMBER 31, | | |
|--|------------------------------|-------------|--------------------------|-------------|-------------|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| | (UNAUDITED) | (UNAUDITED) | | | |
| Interest income: | | | | | |
| Insured student loans purchased | \$1,220,530 | \$1,323,266 | \$2,586,035 | \$2,708,079 | \$2,188,971 |
| Student loan participations | 53,044 | -- | 20,625 | -- | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Insured student loans | 1,273,574 | 1,323,266 | 2,606,660 | 2,708,079 | 2,188,971 |
| Warehousing advances | 78,203 | 106,920 | 193,654 | 407,866 | 334,012 |
| Academic facilities financings: | | | | | |
| Taxable | 24,531 | 26,571 | 52,163 | 54,862 | 52,079 |
| Tax-exempt | 23,287 | 22,019 | 48,262 | 52,859 | 49,576 |
| | ----- | ----- | ----- | ----- | ----- |
| Total academic facilities financings | 47,818 | 48,590 | 100,425 | 107,721 | 101,655 |
| Investments | 312,466 | 270,008 | 548,582 | 697,724 | 499,443 |
| | ----- | ----- | ----- | ----- | ----- |
| Total interest income | 1,712,061 | 1,748,784 | 3,449,321 | 3,921,390 | 3,124,081 |
| Interest expense: | | | | | |
| Short-term debt | 738,764 | 520,676 | 1,138,272 | 905,933 | 737,798 |
| Long-term debt | 566,810 | 775,868 | 1,444,613 | 2,114,716 | 1,404,697 |
| | ----- | ----- | ----- | ----- | ----- |
| Total interest expense | 1,305,574 | 1,296,544 | 2,582,885 | 3,020,649 | 2,142,495 |
| | ----- | ----- | ----- | ----- | ----- |
| NET INTEREST INCOME | 406,487 | 452,240 | 866,436 | 900,741 | 981,586 |
| Other income: | | | | | |
| Gain on sale of student loans | 64,630 | 19,403 | 48,981 | -- | -- |
| Servicing and securitization revenue | 57,191 | 15,668 | 57,736 | 1,423 | -- |
| Gains/(losses) on sales of securities | 7,382 | 3,054 | 11,898 | 24,032 | (100) |
| Other | 24,792 | 11,528 | 28,301 | 24,958 | 13,903 |
| | ----- | ----- | ----- | ----- | ----- |
| Total other income | 153,995 | 49,653 | 146,916 | 50,413 | 13,803 |
| | ----- | ----- | ----- | ----- | ----- |
| Operating expenses: | | | | | |
| Salaries and benefits | 102,781 | 102,096 | 206,347 | 211,787 | 196,022 |
| Other | 114,061 | 96,822 | 199,305 | 226,914 | 193,920 |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating expenses | 216,842 | 198,918 | 405,652 | 438,701 | 389,942 |
| | ----- | ----- | ----- | ----- | ----- |
| Income before federal income taxes and premiums on debt extinguished and minority interest in net earnings of subsidiary | 343,640 | 302,975 | 607,700 | 512,453 | 605,447 |
| Federal income taxes: | | | | | |
| Current | 118,121 | 112,686 | 207,437 | 141,803 | 178,812 |
| Deferred | (12,482) | (20,378) | (23,939) | (540) | (2,897) |
| | ----- | ----- | ----- | ----- | ----- |
| Total federal income taxes | 105,639 | 92,308 | 183,498 | 141,263 | 175,915 |
| Minority interest in net earnings of subsidiary | 5,347 | 5,347 | 10,694 | 10,694 | 10,694 |
| | ----- | ----- | ----- | ----- | ----- |
| Income before premiums on debt extinguished | 232,654 | 205,320 | 413,508 | 360,496 | 418,838 |
| Premiums on debt extinguished, net of tax | -- | (4,792) | (4,792) | (4,911) | (9,329) |
| | ----- | ----- | ----- | ----- | ----- |
| NET INCOME | \$ 232,654 | \$ 200,528 | \$ 408,716 | \$ 355,585 | \$ 409,509 |
| | ===== | ===== | ===== | ===== | ===== |
| Earnings per common share before premiums on debt extinguished | \$ 4.36 | \$ 3.62 | \$ 7.41 | \$ 5.34 | \$ 5.25 |
| | ===== | ===== | ===== | ===== | ===== |
| EARNINGS PER COMMON SHARE | \$ 4.36 | \$ 3.53 | \$ 7.32 | \$ 5.27 | \$ 5.13 |
| | ===== | ===== | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

SLM HOLDING CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | SIX MONTHS ENDED JUNE 30, | | YEARS ENDED DECEMBER 31, | | |
|--|------------------------------|------------------|--------------------------|------------------|--------------------|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| | (UNAUDITED) | (UNAUDITED) | | | |
| COMMON STOCK: | | | | | |
| Balance, beginning of period | 13,139 | 24,824 | 24,824 | 24,769 | 24,766 |
| Issuance of common shares | 92 | 87 | 115 | 55 | 3 |
| Retirement of common shares | -- | -- | (11,800) | -- | -- |
| Balance, end of period | 13,231 | 24,911 | 13,139 | 24,824 | 24,769 |
| ADDITIONAL PAID-IN CAPITAL: | | | | | |
| Balance, beginning of period | -- | 537,818 | 537,818 | 524,511 | 523,935 |
| Proceeds in excess of par value from issuance of common stock | 28,218 | 17,751 | 22,920 | 11,673 | 514 |
| Tax benefit related to employee stock option and purchase plans | -- | -- | 7,393 | 1,634 | 62 |
| Retirement of common shares | -- | -- | (568,131) | -- | -- |
| Balance, end of period | 28,218 | 555,569 | -- | 537,818 | 524,511 |
| UNREALIZED GAINS ON INVESTMENTS, NET OF TAX: | | | | | |
| Balance, beginning of period | 349,235 | 370,846 | 370,846 | 299,558 | -- |
| Unrealized gains as of January 1, 1994 | -- | -- | -- | -- | 304,851 |
| Change in unrealized gains | (4,607) | (35,226) | (21,611) | 71,288 | (5,293) |
| Balance, end of period | 344,628 | 335,620 | 349,235 | 370,846 | 299,558 |
| RETAINED EARNINGS: | | | | | |
| Balance, beginning of period (as restated, see note 2) | 1,008,737 | 2,728,383 | 2,728,383 | 2,473,048 | 2,176,485 |
| Net income | 232,654 | 200,528 | 408,716 | 355,585 | 409,509 |
| Retirement of common shares | -- | -- | (2,037,368) | -- | -- |
| Cash dividends: | | | | | |
| Common stock (\$.88, \$.80, \$1.64, \$1.51 and \$1.42 per share, respectively) | (46,622) | (45,229) | (90,994) | (100,250) | (112,946) |
| Balance, end of period | 1,194,769 | 2,883,682 | 1,008,737 | 2,728,383 | 2,473,048 |
| COMMON STOCK HELD IN TREASURY AT COST: | | | | | |
| Balance, beginning of period | 537,164 | 2,794,549 | 2,794,549 | 1,934,377 | 1,546,272 |
| Repurchase of 1,818,586; 2,638,949; 4,589,452; 16,094,701 and 10,542,791 common shares, respectively | 201,096 | 201,942 | 359,914 | 860,172 | 388,105 |
| Retirement of 59,000,000 common shares | -- | -- | (2,617,299) | -- | -- |
| Balance, end of period | 738,260 | 2,996,491 | 537,164 | 2,794,549 | 1,934,377 |
| TOTAL STOCKHOLDERS' EQUITY | \$842,586 | \$803,291 | \$833,947 | \$867,322 | \$1,387,509 |

See accompanying notes to consolidated financial statements.

SLM HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

| | SIX MONTHS ENDED JUNE 30, | | YEARS ENDED DECEMBER 31, | | |
|---|------------------------------|-------------------|--------------------------|---------------------|---------------------|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| | (UNAUDITED) | (UNAUDITED) | | | |
| OPERATING ACTIVITIES | | | | | |
| Net income | \$ 232,654 | \$ 200,528 | \$ 408,716 | \$ 355,585 | \$ 409,509 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| (Increase) decrease in accrued interest receivable | (13,088) | 10,141 | (11,286) | (179,505) | (184,021) |
| Increase (decrease) in accrued interest payable | 28,526 | 6,560 | (109,214) | 112,133 | 114,310 |
| (Increase) in other assets | (48,179) | (124,146) | (274,572) | (128,799) | (86,959) |
| Increase in other liabilities | 19,316 | 62,235 | 188,142 | 15,804 | 203,630 |
| Total adjustments | (13,425) | (45,210) | (206,930) | (180,367) | 46,960 |
| Net cash provided by operating activities | 219,229 | 155,318 | 201,786 | 175,218 | 456,469 |
| INVESTING ACTIVITIES | | | | | |
| Insured student loans purchased | (3,553,247) | (4,639,956) | (8,370,836) | (9,379,663) | (7,955,655) |
| Reduction of insured student loans purchased: | | | | | |
| Installment payments | 1,131,175 | 1,667,232 | 3,094,937 | 3,452,985 | 3,220,233 |
| Claims and resales | 615,639 | 640,955 | 1,277,400 | 1,161,163 | 1,142,350 |
| Proceeds from securitization of student loans | 4,545,650 | 3,015,030 | 6,026,780 | 1,000,000 | -- |
| Participations purchased | (590,436) | -- | (1,498,868) | -- | -- |
| Participation repayments | 117,161 | -- | 53,272 | -- | -- |
| Warehousing advances made | (285,857) | (734,810) | (1,391,590) | (2,250,077) | (3,377,494) |
| Warehousing advance repayments | 580,164 | 1,628,086 | 2,467,198 | 5,416,890 | 3,379,484 |
| Academic facilities financings made | (53,720) | (301,569) | (465,596) | (122,813) | (292,966) |
| Academic facilities financings reductions | 172,570 | 57,366 | 302,557 | 379,283 | 103,314 |
| Investments purchased | (9,347,820) | (8,334,029) | (15,966,490) | (43,716,393) | (87,312,581) |
| Proceeds from sale or maturity of investments | 8,406,424 | 8,758,590 | 16,113,659 | 46,627,289 | 86,495,100 |
| Net cash provided by (used in) investing activities | 1,737,703 | 1,756,895 | 1,642,423 | 2,568,664 | (4,598,215) |
| FINANCING ACTIVITIES | | | | | |
| Short-term borrowings issued | 375,929,647 | 101,760,944 | 267,525,285 | 163,805,115 | 118,724,135 |
| Short-term borrowings repaid | (370,477,376) | (101,656,582) | (262,491,657) | (166,764,320) | (113,946,559) |
| Long-term notes issued | 2,260,125 | 3,670,249 | 8,304,988 | 12,350,217 | 16,317,375 |
| Long-term notes repaid | (7,497,368) | (6,398,878) | (15,744,378) | (12,196,436) | (15,303,842) |
| Common stock issued | 28,310 | 17,838 | 30,428 | 13,362 | 579 |
| Common stock repurchased | (201,096) | (201,942) | (359,914) | (860,172) | (388,105) |
| Dividends paid | (46,622) | (45,229) | (90,994) | (100,250) | (112,946) |
| Net cash provided by (used in) financing activities | (4,380) | (2,853,600) | (2,826,242) | (3,752,484) | 5,290,637 |
| Net increase (decrease) in cash and cash equivalents | 1,952,552 | (941,387) | (982,033) | (1,008,602) | 1,148,891 |
| Cash and cash equivalents at beginning of period | 270,887 | 1,252,920 | 1,252,920 | 2,261,522 | 1,112,631 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 2,223,439 | \$ 311,533 | \$ 270,887 | \$ 1,252,920 | \$ 2,261,522 |

See accompanying notes to consolidated financial statements.

SLM HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Information at June 30, 1997 and for the six months ended
 June 30, 1997 and 1996 is unaudited)
 (Dollars in thousands, except per share amounts)

1. ORGANIZATION AND PRIVATIZATION

On September 30, 1996, President Clinton signed into law the Student Loan Marketing Association Reorganization Act of 1996, Pub. L. 104-208 (the "Privatization Act"), authorizing the restructuring of the Student Loan Marketing Association, a government-sponsored enterprise (the "GSE"), as a fully private, state-chartered corporation. On July 31, 1997, at a Special Meeting of Shareholders convened pursuant to a combined Proxy Statement/Prospectus registered with the Securities and Exchange Commission, the GSE's shareholders voted to approve a reorganization (the "Reorganization") pursuant to which the GSE became a wholly-owned subsidiary of SLM Holding Corporation, a Delaware corporation ("SLM Holding" or the "Company"). The Reorganization was consummated on August 7, 1997 and each outstanding share of common stock, par value \$.20 per share, of the GSE was converted into one share of common stock, par value \$.20 per share of SLM Holding.

Under the terms of the Reorganization the GSE will transfer certain assets, including stock in certain subsidiaries, to SLM Holding or one of its non-GSE subsidiaries. This transfer of the subsidiaries and assets and the related exchange of stock is being accounted for at historical cost similar to a pooling of interests and therefore all prior period financial statements and related disclosures presented have been restated as if the Reorganization took place at the beginning of such periods.

The GSE is a stockholder-owned corporation chartered by Congress to provide liquidity for originators of student loans made under federally sponsored student loan programs and otherwise to support the credit needs of students and educational institutions. The GSE's charter is subject to legislative change from time to time. The GSE is predominantly engaged in the purchase of student loans insured under federally sponsored programs. The GSE also makes secured loans (warehousing advances) to providers of education credit, and provides financing to educational institutions for their physical plant and equipment (academic facilities financings).

Privatization

The Privatization Act provides that the GSE will wind down its operations and dissolve on or before September 30, 2008. During such time, the GSE may continue to issue new debt obligations with maturities on or before September 30, 2008. Any GSE debt obligations outstanding at the date of such dissolution will be defeased through creation of a fully collateralized trust, consisting of U.S. government or agency obligations with cash flows matching the interest and principal obligations of the defeased debt. The Privatization Act further provides that the legal status and attributes of the GSE's debt obligations, including Securities and Exchange Commission ("SEC") and state tax exemptions, are fully preserved until their respective maturities. Such debt obligations will remain GSE debt obligations, whether such obligations were outstanding at the time of, or issued subsequent to, the Reorganization. The obligations of SLM Holding will not have GSE status. The Privatization Act also requires that the GSE's outstanding adjustable rate cumulative preferred stock be redeemed on September 30, 2008 or at such earlier time as the GSE is dissolved.

The Privatization Act imposes certain restrictions on intercompany relations between the GSE and its affiliates during the wind-down period. In particular, the GSE must not extend credit to, nor guarantee any debt obligations, of SLM Holding or the SLM Holding's non-GSE subsidiaries. Furthermore, the Privatization Act mandates that transactions between the GSE and SLM Holding, including any loan servicing arrangements, shall be on terms no less favorable to the GSE than the GSE could obtain from an unrelated third party. While the GSE may not finance the activities of its non-GSE affiliates, it may, subject to its minimum capital requirements, dividend retained earnings and surplus capital to the SLM Holding, which in turn may use such amounts to support its non-GSE subsidiaries. The GSE's charter requires that the GSE maintain a minimum capital ratio of at least 2.0 percent until 2000 and 2.25 percent thereafter. The Privatization Act further directs that under no

circumstances shall the assets of the GSE be available or used to pay claims or debts of, or incurred by, SLM Holding.

Prior to the GSE's dissolution, the GSE will be restricted in the new business activities it may undertake and may continue to purchase student loans only through September 30, 2007. Warehousing advances, letters of credit and standby bond purchase activity by the GSE will be limited to takedowns on contractual financing and guarantee commitments in place as of the Reorganization's effective date, and to finance these activities the GSE will continue to issue debt in the government agency market. SLM Holding generally may begin to purchase student loans only after the GSE discontinues such activity. At June 30, 1997 and December 31, 1996, the GSE had \$379 million and \$372 million, respectively, in carrying value of outstanding debt with maturities after September 30, 2008. Such debt will be transferred into a defeasance trust on the dissolution date.

After the merger, SLM Holding paid \$5 million to the District of Columbia Financial Responsibility and Management Assistance Authority (the "Control Board") for use of the name "Sallie Mae." In addition, SLM Holding issued to the D.C. Financial Control Board warrants to purchase 555,015 shares of SLM Holding Common Stock at \$72.43 per share. The Control Board subsequently transferred the warrants on September 2, 1997 for \$37 million.

Beginning in fiscal 1997, and until the GSE is dissolved, the GSE also must reimburse the U.S. Treasury Department up to \$800,000 annually (subject to adjustment based on the Consumer Price Index) for its reasonable costs and expenses of carrying out its supervisory duties under the Privatization Act. Operations performed outside the GSE after the Reorganization will be subject to state and local taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

Loans

Loans, consisting of insured student loans purchased (student loans), student loan participations, warehousing advances, and academic facilities financings are carried at their unpaid principal balances which, for student loans, are adjusted for unamortized premiums and unearned purchase discounts.

Student Loan Income

The Company recognizes student loan income as earned, including adjustments for the amortization of premiums and accretion of discounts. Interest income earned on student loan participations is recognized in accordance with the terms of the joint venture agreement with The Chase Manhattan Bank which effectively reflects the underlying interest income earned on the student loans less servicing costs and the general and administrative expenses of the joint venture.

Restatement of Previously Issued Financial Statements

Student loan servicing costs are generally incurred in a fixed amount per borrower and thus increase in proportion to principal balances outstanding as loans are repaid. Prior to 1995, to achieve a level yield to maturity, interest income was deferred during the early years of the loans, then recognized during the later years to offset the aforementioned proportional servicing cost increases. Changes in the estimates of future loan servicing costs were

reflected in student loan income over the estimated remaining terms of the loans. In the fourth quarter of 1995, the Company discontinued its accounting method of deferring income on student loans which resulted in an increase in 1995 net income and income before premiums on debt extinguished of \$21 million (\$.30 per common share).

After discussions with the Securities and Exchange Commission, management determined that the Company's method for recognizing student loan income as discussed in the second preceding paragraph should be used for all periods presented. Accordingly, the previously reported financial statements for the years ended December 31, 1995 and 1994 have been restated. For 1995, the cumulative effect of the change in accounting method of \$130 million (\$1.93 per common share) has been eliminated, thereby, decreasing net income and increasing the beginning balance of retained earnings by \$130 million. For 1994, net income and income before premiums on debt extinguished increased by \$17 million (\$.22 per common share) and the beginning balance of retained earnings increased by \$113 million.

Securitizations

During 1997, the Company adopted the requirements of FAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which establishes the accounting for certain financial asset transfers including securitization transactions. The effect of implementing this standard was not material on the Company's financial statements. Management also believes that this standard will not have a material effect on the financial statements in the future.

The GSE securitizes student loans by selling selected portfolios of such loans to trusts. Upon the sale of the loans to the trusts, the GSE continues to carry the retained interests in those loans on its Balance Sheet. A gain is recorded on a present value basis which takes into account principal, interest and special allowance receipts on the student loans less principal and interest payments on the notes and certificates financing the student loans, a normal servicing fee, borrower benefit programs, losses from defaulted student loans (which includes risk-sharing, claim interest penalties and reject costs), transaction costs, offset fees and the current carrying value of the loans including any premiums paid.

In addition to the initial gain on sale, the GSE is entitled to the residual cash flows from the trusts. Also, the Company continues to service the loans sold for a fee. These amounts are reflected as servicing and securitization revenues in the Consolidated Statements of Income.

Student Loan Loss Reserves

The Company has established reserves for potential losses on its student loan portfolio that can result from defective servicing, risk-sharing on claim payments and on privately insured loans. The reserve is based on periodic evaluations of its loan portfolios considering past experience, changes to federally funded programs, current economic conditions and other relevant factors. The reserve is maintained at a level that management believes is adequate to absorb estimated potential credit losses. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant changes.

Cash and Cash Equivalents

Cash and cash equivalents excludes term federal funds and bank deposits with terms to maturity exceeding three months.

Investments

Investments are held to provide liquidity, to hedge certain financing activities and to serve as a source of short-term income. Investments are segregated into three categories as required under Statement of Financial Accounting Standards ("FAS") No. 115. Securities that are actively traded are accounted for at fair market value with unrealized gains and losses included in investment income. Securities that are intended to be held to maturity are accounted for at amortized cost. Securities that fall outside of the two previous categories are considered as

available-for-sale. Such securities are carried at market value, with the after-tax unrealized gain or loss, along with after-tax unrealized gain or loss on instruments which hedge such securities, carried as a separate component of equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts.

Interest Expense

Interest expense is based upon contractual interest rates adjusted for net payments under derivative financial instruments with off-balance sheet risks, which include interest rate swaps and foreign currency exchange agreements and the amortization of debt issuance costs and deferred gains and losses on hedge transactions entered into to reduce interest rate risk.

Interest Rate Swaps

The Company utilizes interest rate swap agreements ("swaps") principally for hedging purposes to alter the interest rate characteristics of its debt in order to manage interest rates. This enables the Company to match the interest rate characteristics of borrowings to specific assets in order to lock-in spreads. The Company generally does not hold or issue swaps for trading purposes.

Amounts paid or received under swaps that are used to alter the interest rate characteristics of its interest-sensitive liabilities are accrued and recognized as an adjustment of the interest expense on the related borrowing. The related net receivable or payable from counterparties is included in other assets or other liabilities. Gains and losses associated with the termination of swaps for designated positions are deferred and amortized over the remaining life of the designated instrument as an adjustment to interest expense.

The Company's credit exposure on swaps is limited to the value of the swaps that have become favorable to the Company in the event of nonperformance by the counterparties. The Company manages the credit risk associated with these instruments by performing credit reviews of counterparties and monitoring market conditions to establish counterparty, sovereign and instrument-type credit lines and, when appropriate, requiring collateral.

Foreign Currency Derivatives

The Company enters into various foreign currency swaps, forward currency exchange agreements and options on forward currency exchange agreements to hedge its foreign currency linked debt agreements. These contracts mature concurrently with the maturities of the debt and are subject to the same credit standards as interest rate swaps. Foreign currency derivatives and the related foreign currency borrowings are translated at the market rates of exchange as of the balance sheet date. Gains and losses on foreign currency transactions that are designated hedges are deferred and included in the basis of the designated instrument.

Federal Income Taxes

Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Earnings per Common Share

Earnings per common share are computed using the weighted average of common and common equivalent shares outstanding for the period. Common equivalent shares include shares issuable upon exercise of incentive stock options.

Consolidation

The consolidated financial statements include the accounts of SLM Holding and its subsidiaries, after eliminating significant intercompany accounts and transactions.

Reclassification

Certain prior year amounts in the Consolidated Statements of Income for the six months ended June 30, 1996 and for the years ended December 31, 1995 and 1994 have been reclassified to conform with the 1996 year-end presentation.

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the six months ended June 30, 1997 are not necessarily indicative of the results for the year ending December 31, 1997.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, reported amounts of revenues and expenses and other disclosures. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("FAS") No. 128, "Earnings Per Share," which is required to be adopted on December 15, 1997. At that time, the Company will be required to change the method used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The adoption is expected to have no material impact on SLM Holding's reported earnings per share.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("FAS") No. 130, "Reporting Comprehensive Income", which is effective for periods after December 15, 1997. FAS 130 establishes standards for reporting and display of comprehensive income in a full set of general purpose financial statements. The Company is currently evaluating the effect of this pronouncement on its financial statement presentation and disclosure.

3. STUDENT LOANS

The GSE purchases student loans from originating lenders, typically just before the student leaves school and is required to begin repayment of the loan. The GSE's portfolio consists principally of loans originated under two federally sponsored programs the Federal Family Education Loan Program ("FFELP") and the Health Education Assistance Loan Program ("HEAL"). The GSE also purchases privately insured loans from time to time, principally those insured by a wholly-owned subsidiary.

There are four principal categories of FFELP loans: Stafford loans, PLUS loans, SLS loans and consolidation loans. Generally, these loans have repayment periods of between five and ten years, with the exception of consolidation loans, and obligate the borrower to pay interest at a stated fixed rate or an annually reset variable rate that has a cap. However, the yield to holders is subsidized on the borrowers' behalf by the federal government to provide a market rate of return. The formula through which the subsidy is determined is referred to as the special allowance formula. Special allowance is paid whenever the average of all of the 91-day Treasury bill auctions in a

calendar quarter, plus a spread of between 2.50 and 3.50 percentage points depending on the loan status and when it was originated, exceeds the rate of interest which the borrower is obligated to pay.

In low interest rate environments the rate which the borrower is obligated to pay may exceed the rate determined by the special allowance formula. In those instances the rate paid by the borrower becomes a floor on an otherwise variable rate asset. In 1996, the Company entered into contracts with third parties under which it agreed to pay the future floor revenues received on student loans with a principal balance of \$13 billion in exchange for upfront payments of \$128 million. The upfront payments, which are recorded in other liabilities are being amortized over the average life of these contracts, which is approximately 2 years. For the six months ended June 30, 1997 and 1996 and for the year ended December 31, 1996, the amortization of the upfront payments increased student loan income by \$21 million, \$8 million, and \$23 million, respectively. For the six months ended June 30, 1997 and 1996 and for the year ended December 31, 1996, payments under the contracts totaled \$10 million, \$4 million, and \$12 million, respectively.

The Omnibus Budget Reconciliation Act of 1993 ("OBRA"), enacted on August 10, 1993, made significant changes to the student loan delivery system and created a program of direct lending to students by the federal government. Management estimates that the Federal Direct Student Loan Program ("FDSLPL") replaced approximately 7 percent of the FFELP originations in the 1994-1995 academic year and 31 percent in the 1995-1996 academic year. The FDSLPL has a legislated market share goal of 50 percent for the 1996-1997 academic year. Management believes these changes to the student loan delivery system along with the FDSLPL, which reduce the pool of loans originated by the bank-based FFELP, will have an increasing material adverse effect on the Company's long-term earning prospects as a higher percentage of loans subject to OBRA will be available to the Company and the full effects of direct lending originations are factored in. OBRA also required the GSE to pay an annual 30 basis point "offset fee" on FFELP student loans purchased and held on or after August 10, 1993.

The estimated average remaining term of student loans in the Company's portfolio, including student loan participations, was approximately 6.0 years at June 30, 1997, December 31, 1996 and 1995. The following table reflects the distribution of the Company's loan portfolio by program.

| | JUNE 30, 1997 | DECEMBER 31, | |
|---|------------------|--------------|--------------|
| | | 1996 | 1995 |
| FFELP-- Stafford..... | \$14,323,238 | \$17,292,273 | \$20,210,325 |
| FFELP-- PLUS/SLS..... | 2,940,619 | 3,580,803 | 4,514,976 |
| FFELP-- Consolidation loans... | 8,359,899 | 7,658,035 | 5,960,091 |
| HEAL..... | 2,708,339 | 2,758,860 | 2,764,244 |
| Privately insured..... | 1,236,618 | 1,017,959 | 886,575 |
| Insured student loans purchased..... | 29,568,713 | 32,307,930 | 34,336,211 |
| Student loan participations... | 1,918,871 | 1,445,596 | -- |
| Total student loans..... | \$31,487,584 | \$33,753,526 | \$34,336,211 |

As of June 30, 1997 and December 31, 1996 and 1995, 82 percent, 84 percent and 84 percent, respectively, of the Company's on-balance sheet student loan portfolio was in repayment.

Holdes of FFELP loans are insured against the borrower's default, death, disability, or bankruptcy. Insurance on FFELP loans is provided by certain state or non-profit guarantee agencies, which are reinsured by the federal government. FFELP loans originated after October 1, 1993, of which the Company owned \$14.3 billion at June 30, 1997, \$14.5 billion at December 31, 1996 and \$9.1 billion at December 31, 1995, are insured for 98 percent of their unpaid balance resulting in 2 percent risk-sharing for holders of these loans. HEAL loans are directly insured by the federal government. Both FFELP and HEAL loans are subject to regulatory requirements relating to servicing. In the event of default on a student loan or the borrower's death, disability, or bankruptcy, the Company files a claim with the insurer or guarantor of the loan, who, provided the loan has been properly originated and serviced, and in the case of HEAL, litigated, pays the Company the unpaid principal balance and accrued interest on the loan less risk-sharing, where applicable.

Claims not immediately honored by the guarantor because of servicing or origination defects are returned for remedial servicing, during which period income is not recognized. On certain paid claims, guarantors assess a penalty for minor servicing defects. Costs associated with claims on defaulted student loans, which include such penalties, reduced interest income on student loans by \$5.7 million, \$6.8 million, \$12.8 million, \$15.8 million, and \$16.8 million for the six months ended June 30, 1997 and 1996 and for the years ended December 31, 1996, 1995 and 1994, respectively.

The following table summarizes the reserves that the Company has recorded for estimated losses due to risk-sharing, unpaid guarantee claims and defaults on privately insured loans.

| | SIX MONTHS ENDED JUNE 30, | | YEARS ENDED DECEMBER 31, | | |
|--|------------------------------|----------|--------------------------|----------|----------|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| BALANCE AT BEGINNING OF PERIOD..... | \$84,063 | \$60,337 | \$60,337 | \$64,928 | \$66,814 |
| Additions | | | | | |
| Provisions for loan losses.... | 5,983 | 9,167 | 29,749 | 800 | 202 |
| Recoveries..... | 4,470 | 3,739 | 7,235 | 6,096 | 5,998 |
| Deductions | | | | | |
| Reductions for sales on student loans..... | (4,328) | (1,601) | (3,188) | -- | -- |
| Losses on loans..... | (7,725) | (7,377) | (10,070) | (11,487) | (8,086) |
| BALANCE AT END OF PERIOD..... | \$82,463 | \$64,265 | \$84,063 | \$60,337 | \$64,928 |

4. WAREHOUSING ADVANCES

Warehousing advances are secured loans made, generally, to finance student loans and other education-related loans at certain financial and educational institutions and public sector agencies. Such advances are collateralized by student loans, obligations of the United States government or instrumentalities thereof, or by other collateral, such as residential first mortgages and mortgage-backed securities. As of June 30, 1997, approximately 98 percent were collateralized by student loans, 1 percent by U.S. government securities and 1 percent by other collateral. As of December 31, 1996, approximately 97 percent were collateralized by student loans, 1 percent by U.S. government securities and 2 percent by other collateral. A summary of warehousing advances by industry concentration follows:

| | JUNE 30, 1997 | DECEMBER 31, | |
|-------------------------------|------------------|--------------|-------------|
| | | 1996 | 1995 |
| Commercial banks..... | \$1,284,049 | \$1,547,193 | \$2,612,125 |
| Public sector agencies..... | 1,150,800 | 1,126,095 | 985,182 |
| Educational institutions..... | 60,329 | 116,197 | 167,786 |
| Thrift institutions... | -- | -- | 100,000 |
| | ----- | ----- | ----- |
| | \$2,495,178 | \$2,789,485 | \$3,865,093 |
| | ===== | ===== | ===== |

Warehousing advances have specific maturities and generally bear rates of interest which vary with the 91-day Treasury bill rate, or the London Interbank Offered Rate ("LIBOR"), or which are fixed for the term of the advance. A summary of warehousing advance interest rate characteristics follows:

| | JUNE 30, 1997 | DECEMBER 31, | |
|------------------|------------------|--------------|-------------|
| | | 1996 | 1995 |
| Variable rate: | | | |
| Treasury bill... | \$1,798,656 | \$1,723,588 | \$2,138,929 |
| LIBOR..... | 677,496 | 1,046,086 | 1,623,028 |
| Fixed rate..... | 19,026 | 19,811 | 103,136 |
| | ----- | ----- | ----- |
| | \$2,495,178 | \$2,789,485 | \$3,865,093 |
| | ===== | ===== | ===== |

The average remaining term to maturity of warehousing advances was 3.5 years as of June 30, 1997 and 1.0 year as of December 31, 1996.

The following table summarizes the maturities of warehousing advances at June 30, 1997 and December 31, 1996.

| YEAR OF MATURITY | JUNE 30, 1997 | DECEMBER 31, 1996 |
|------------------|---------------|-------------------|
| 1997..... | \$ 119,628 | \$ 1,221,148 |
| 1998..... | 1,190,496 | 1,232,186 |
| 1999..... | 1,000 | 175,391 |
| 2000..... | 624,335 | 127,863 |
| 2001..... | -- | -- |
| After 2001..... | 559,719 | 32,897 |
| | ----- | ----- |
| | \$ 2,495,178 | \$ 2,789,485 |
| | ===== | ===== |

5. ACADEMIC FACILITIES FINANCINGS

Academic facilities financings are comprised of bonds issued by and loans to educational institutions to finance their physical plant and equipment.

At December 31, 1994, academic facilities bonds were classified as held-to-maturity securities and carried at amortized cost. In December 1995, as a result of the one-time reclassification permitted in connection with the issuance of a special report issued by the FASB staff, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities" ("FASB No. 115 Q&A"), academic facilities bonds were transferred from held-to-maturity to available-for-sale securities. The academic facilities bonds transferred had a fair market value of approximately \$710 million with an amortized cost of \$690 million.

The following tables summarize the academic facilities bonds at June 30, 1997 and December 31, 1996 and 1995.

| BONDS -- AVAILABLE-FOR-SALE | JUNE 30, 1997 | | | |
|--------------------------------------|----------------|------------------------|-------------------------|--------------|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | MARKET VALUE |
| Fixed..... | \$ 758,643 | \$ 18,053 | \$ (360) | \$ 776,336 |
| Variable..... | 51,193 | 6 | (300) | 50,899 |
| | ----- | ----- | ----- | ----- |
| Total academic facilities bonds..... | \$ 809,836 | \$ 18,059 | \$ (660) | \$ 827,235 |
| | ===== | ===== | ===== | ===== |

| DECEMBER 31, 1996 | | | | |
|--------------------------------------|----------------|------------------------|-------------------------|--------------|
| BONDS -- AVAILABLE-FOR-SALE | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | MARKET VALUE |
| Fixed..... | \$831,711 | \$19,794 | \$ (978) | \$850,527 |
| Variable..... | 84,401 | 10 | (457) | 83,954 |
| Total academic facilities bonds..... | \$916,112 | \$19,804 | \$(1,435) | \$934,481 |

| DECEMBER 31, 1995 | | | | |
|--------------------------------------|----------------|------------------------|-------------------------|--------------|
| BONDS -- AVAILABLE-FOR-SALE | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | MARKET VALUE |
| Fixed..... | \$591,407 | \$23,628 | \$(1,692) | \$613,343 |
| Variable..... | 98,394 | 48 | (1,673) | 96,769 |
| Total academic facilities bonds..... | \$689,801 | \$23,676 | \$(3,365) | \$710,112 |

The following table summarizes academic facilities loans at June 30, 1997 and at December 31, 1996 and 1995.

| LOANS | JUNE 30, 1997 | DECEMBER 31, | |
|--------------------------------------|---------------|--------------|------------|
| | | 1996 | 1995 |
| Fixed rate..... | \$ 465,657 | \$ 474,659 | \$ 489,913 |
| Variable rate..... | 60,619 | 64,191 | 112,209 |
| Total academic facilities loans..... | \$ 526,276 | \$ 538,850 | \$ 602,122 |

The average remaining term to maturity of academic facilities financings was 8.0 years at both June 30, 1997 and December 31, 1996. The stated maturities and maturities if accelerated to the put or call dates for academic facilities bonds and loans at June 30, 1997 and December 31, 1996 are shown in the following table:

| YEAR OF MATURITY | JUNE 30, 1997 | | | DECEMBER 31, 1996 | | |
|------------------|-----------------|------------------------------|-----------------|-------------------|------------------------------|-----------------|
| | BONDS | | LOANS | BONDS | | LOANS |
| | STATED MATURITY | MATURITY TO PUT OR CALL DATE | STATED MATURITY | STATED MATURITY | MATURITY TO PUT OR CALL DATE | STATED MATURITY |
| 1997..... | \$ 19,459 | \$ 48,447 | \$ 2,048 | \$ 44,078 | \$ 97,657 | \$ 8,325 |
| 1998..... | 46,218 | 104,666 | 8,917 | 77,409 | 127,774 | 14,065 |
| 1999..... | 42,663 | 58,312 | 47,776 | 43,638 | 57,366 | 45,115 |
| 2000..... | 73,936 | 101,145 | 16,270 | 78,588 | 98,515 | 17,368 |
| 2001..... | 108,676 | 127,130 | 23,070 | 87,197 | 107,464 | 22,673 |
| 2002-2006..... | 422,708 | 350,194 | 102,530 | 486,168 | 410,945 | 104,872 |
| after 2006..... | 113,575 | 37,341 | 325,665 | 117,403 | 34,760 | 326,432 |
| | \$ 827,235 | \$ 827,235 | \$ 526,276 | \$ 934,481 | \$ 934,481 | \$ 538,850 |

6. INVESTMENTS

At June 30, 1997 and December 31, 1996 and 1995, all investments with the exception of other investments are classified as available-for-sale securities under FAS No. 115 and carried at fair market values. The fair market value for all available-for-sale securities, except for U.S. Treasury securities, approximates amortized cost. The fair market value of U.S. Treasury securities is adjusted for unrealized gains and losses on interest rate swaps, which are held to reduce interest rate risk related to these securities (\$29.2 million and \$19.5 million of unrealized gains at June 30, 1997 and December 31, 1996, respectively, and \$56.6 million of unrealized losses at December 31, 1995). During 1995, as a result of the one-time reclassification permitted in

connection with the issuance of the FASB No. 115 Q&A, asset-backed securities, variable corporate bonds, federal funds and bank deposits, student loan revenue bonds and commercial paper were transferred from held-to-maturity securities to available-for-sale securities at fair market values which approximated amortized cost. A summary of investments at June 30, 1997 and at December 31, 1996 and 1995 follows:

| JUNE 30, 1997 | | | | |
|--|---------------------|------------------------------|-------------------------------|---------------------|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | MARKET VALUE |
| AVAILABLE-FOR-SALE | | | | |
| U.S. Treasury and other U.S. government agencies obligations | | | | |
| U.S. Treasury securities..... | \$ 955,529 | \$ 499,840 | \$ (141) | \$ 1,455,228 |
| State and political subdivisions of the United States | | | | |
| Student loan revenue bonds..... | 184,614 | 5,455 | (299) | 189,770 |
| Asset-backed and other securities | | | | |
| Asset-backed securities..... | 5,112,738 | 6,313 | (68) | 5,118,983 |
| Variable corporate bonds..... | 521,974 | 462 | -- | 522,436 |
| Commercial paper..... | 58,030 | -- | -- | 58,030 |
| Federal funds & bank deposits..... | 425,000 | -- | -- | 425,000 |
| Other securities..... | 15,600 | -- | -- | 15,600 |
| Total available-for-sale investment securities..... | <u>\$7,273,485</u> | <u>\$ 512,070</u> | <u>\$ (508)</u> | <u>\$ 7,785,047</u> |
| HELD-TO-MATURITY | | | | |
| Other..... | <u>\$ 584,576</u> | <u>\$ 86</u> | <u>\$ (236)</u> | <u>\$ 584,426</u> |
| DECEMBER 31, 1996 | | | | |
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | MARKET VALUE |
| AVAILABLE-FOR-SALE | | | | |
| U.S. Treasury and other U.S. government agencies obligations | | | | |
| U.S. Treasury securities..... | \$ 809,164 | \$ 508,758 | \$ (41) | \$ 1,317,881 |
| State and political subdivisions of the United States | | | | |
| Student loan revenue bonds..... | 201,248 | 5,563 | (431) | 206,380 |
| Asset-backed and other securities | | | | |
| Asset-backed securities..... | 4,645,046 | 4,746 | (167) | 4,649,625 |
| Variable corporate bonds..... | 634,925 | 489 | -- | 635,414 |
| Commercial paper..... | 24,395 | -- | -- | 24,395 |
| Total available-for-sale investment securities..... | <u>\$ 6,314,778</u> | <u>\$ 519,556</u> | <u>\$ (639)</u> | <u>\$ 6,833,695</u> |
| HELD-TO-MATURITY | | | | |
| Other..... | <u>\$ 601,887</u> | <u>\$ 125</u> | <u>\$ (267)</u> | <u>\$ 601,745</u> |
| DECEMBER 31, 1995 | | | | |
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | MARKET VALUE |
| AVAILABLE-FOR-SALE | | | | |
| U.S. Treasury and other U.S. government agencies obligations | | | | |
| U.S. Treasury securities..... | \$ 728,584 | \$ 596,577 | \$ (56,661) | \$ 1,268,500 |
| State and political subdivisions of the United States | | | | |
| Student loan revenue bonds..... | 271,514 | 9,152 | (4) | 280,662 |
| Asset-backed and other securities | | | | |
| Asset-backed securities..... | 4,305,127 | 1,180 | (334) | 4,305,973 |
| Variable corporate bonds..... | 611,344 | 312 | (2) | 611,654 |
| Commercial paper..... | 121,410 | -- | -- | 121,410 |
| Federal funds and bank deposits..... | 400,000 | -- | -- | 400,000 |
| Total available-for-sale investment securities..... | <u>\$ 6,437,979</u> | <u>\$ 607,221</u> | <u>\$ (57,001)</u> | <u>\$ 6,988,199</u> |
| HELD-TO-MATURITY | | | | |
| Other..... | <u>\$ 625,856</u> | <u>\$ 928</u> | <u>\$ (97)</u> | <u>\$ 626,687</u> |

The Company sold available-for-sale securities with a carrying value of \$1.4 billion, \$2.6 billion, \$4.6 billion and \$6.6 billion for the six months ended June 30, 1997 and 1996 and for the years ended December 31, 1996 and 1995, respectively. There were no sales of available-for-sale securities in 1994.

As of June 30, 1997 and December 31, 1996, stated maturities and maturities if accelerated to the put or call dates for investments are shown in the following table:

| YEAR OF MATURITY | JUNE 30, 1997 | | | DECEMBER 31, 1996 | | |
|------------------|------------------|--------------------|------------------------------|-------------------|--------------------|------------------------------|
| | HELD-TO-MATURITY | AVAILABLE-FOR-SALE | | HELD-TO-MATURITY | AVAILABLE-FOR-SALE | |
| | STATED MATURITY | STATED MATURITY | MATURITY TO PUT OR CALL DATE | STATED MATURITY | STATED MATURITY | MATURITY TO PUT OR CALL DATE |
| 1997..... | \$ 82,171 | \$ 571,292 | \$ 571,292 | \$ 106,823 | \$ 216,807 | \$ 275,955 |
| 1998..... | 13,678 | 342,283 | 392,614 | 12,493 | 278,153 | 278,528 |
| 1999..... | 10,073 | 531,107 | 490,166 | 9,229 | 532,975 | 488,182 |
| 2000..... | 103,564 | 301,554 | 311,621 | 102,879 | 142,401 | 150,981 |
| 2001..... | 5,357 | 950,096 | 965,088 | 4,721 | 1,059,148 | 1,073,776 |
| 2002-2006..... | 45,100 | 2,352,269 | 2,336,199 | 46,058 | 2,534,058 | 2,514,787 |
| After 2006..... | 324,633 | 2,736,446 | 2,718,067 | 319,684 | 2,070,153 | 2,051,486 |
| | \$ 584,576 | \$ 7,785,047 | \$ 7,785,047 | \$ 601,887 | \$ 6,833,695 | \$ 6,833,695 |

7. SHORT-TERM BORROWINGS

Short-term borrowings have an original or remaining term to maturity of one year or less. The following tables summarize outstanding short-term notes at June 30, 1997, and December 31, 1996, 1995 and 1994, the weighted average interest rates at the end of each period, and the related average balances, weighted average interest rates and weighted average effective interest rates, which include the effects of related off-balance sheet financial instruments (see Note 10) during the periods.

| | AT JUNE 30, 1997 | | SIX MONTHS ENDED JUNE 30, 1997 | | |
|---|------------------|--------------------------------|--------------------------------|--------------------------------|--|
| | ENDING BALANCE | WEIGHTED AVERAGE INTEREST RATE | AVERAGE BALANCE | WEIGHTED AVERAGE INTEREST RATE | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE |
| Six month floating rate notes..... | \$ 2,749,528 | 5.34% | \$ 2,952,202 | 5.37% | 5.46% |
| Other floating rate notes..... | 2,800,789 | 5.36 | 2,522,616 | 5.35 | 5.37 |
| Discount notes..... | 4,237,503 | 5.76 | 6,046,055 | 5.38 | 5.43 |
| Fixed rate notes..... | 6,820,497 | 5.94 | 5,033,317 | 5.98 | 5.54 |
| Securities sold -- not yet purchased and repurchase agreements..... | 74,906 | 5.95 | 331,528 | 5.37 | 5.37 |
| Short-term portion of long-term notes..... | 9,166,848 | 5.57 | 10,309,073 | 5.67 | 5.51 |
| Total short-term notes..... | \$ 25,850,071 | 5.65% | \$ 27,194,791 | 5.60% | 5.48% |
| Maximum outstanding at any month end..... | \$ 29,084,281 | | | | |

| | AT DECEMBER 31, 1996 | | YEAR ENDED DECEMBER 31, 1996 | | |
|---|----------------------|--------------------------------|------------------------------|--------------------------------|--|
| | ENDING BALANCE | WEIGHTED AVERAGE INTEREST RATE | AVERAGE BALANCE | WEIGHTED AVERAGE INTEREST RATE | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE |
| Six month floating rate notes..... | \$ 2,699,477 | 5.23% | \$ 2,485,322 | 5.32% | 5.42% |
| Other floating rate notes..... | 2,188,722 | 5.25 | 2,088,347 | 5.43 | 5.35 |
| Discount notes..... | 2,377,976 | 6.43 | 3,072,019 | 5.31 | 5.36 |
| Fixed rate notes..... | 3,964,777 | 6.01 | 1,211,197 | 6.07 | 5.53 |
| Securities sold -- not yet purchased and repurchase agreements..... | -- | -- | 165,792 | 4.93 | 4.93 |
| Short-term portion of long-term notes..... | 11,286,675 | 5.55 | 11,956,008 | 5.75 | 5.45 |
| Total short-term notes..... | \$ 22,517,627 | 5.66% | \$ 20,978,685 | 5.61% | 5.43% |
| Maximum outstanding at any month end..... | \$ 25,271,494 | | | | |

| | AT DECEMBER 31, 1995 | | YEAR ENDED DECEMBER 31, 1995 | | |
|--|----------------------|---|------------------------------|---|--|
| | ENDING BALANCE | WEIGHTED AVERAGE INTEREST RATE | AVERAGE BALANCE | WEIGHTED AVERAGE INTEREST RATE | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE |
| Six month floating rate notes..... | \$ 2,699,595 | 5.64% | \$ 3,608,930 | 5.78% | 5.86% |
| Other floating rate notes..... | 1,942,360 | 5.82 | 1,221,480 | 5.60 | 5.78 |
| Discount notes..... | 1,074,257 | 5.58 | 1,427,363 | 5.81 | 5.86 |
| Fixed rate notes..... | 350,000 | 6.97 | 903,670 | 7.99 | 5.82 |
| Securities sold -- not yet purchased and repurchase agreements..... | 131,112 | 6.38 | 311,797 | 6.10 | 6.10 |
| Short-term portion of long-term notes..... | 11,249,676 | 5.79 | 7,937,658 | 5.83 | 5.90 |
| Total short-term notes..... | \$17,447,000 | 5.79% | \$15,410,898 | 5.93% | 5.88% |
| Maximum outstanding at any month end..... | \$18,046,974 | | | | |

| | AT DECEMBER 31, 1994 | | YEAR ENDED DECEMBER 31, 1994 | | |
|--|----------------------|---|------------------------------|---|--|
| | ENDING BALANCE | WEIGHTED AVERAGE INTEREST RATE | AVERAGE BALANCE | WEIGHTED AVERAGE INTEREST RATE | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE |
| Six month floating rate notes..... | \$ 3,849,125 | 5.39% | \$ 3,410,090 | 4.40% | 4.52% |
| Other floating rate notes..... | 811,550 | 5.75 | 596,894 | 3.96 | 4.43 |
| Discount notes..... | 2,696,122 | 5.89 | 3,244,158 | 4.28 | 4.45 |
| Fixed rate notes..... | 1,397,717 | 9.04 | 836,816 | 9.27 | 4.95 |
| Securities sold -- not yet purchased and repurchase agreements..... | 402,015 | 6.29 | 245,169 | 5.36 | 5.36 |
| Short-term portion of long-term notes..... | 6,859,065 | 5.90 | 8,243,360 | 5.75 | 4.35 |
| Total short-term notes..... | \$ 16,015,594 | 6.05% | \$ 16,576,487 | 5.29% | 4.45% |
| Maximum outstanding at any month end..... | \$ 19,030,670 | | | | |

At December 31, 1996, the short-term portion of long-term notes included issues totaling \$80 million repayable in U.S. dollars, with principal repayment obligations tied to foreign currency exchange rates. At June 30, 1997 and December 31, 1996, the short-term portion of long-term notes also included issues totaling \$778 million and \$771 million, respectively, which require the payment of interest and principal in foreign currencies. To eliminate its exposure to the effect of currency fluctuations on these contractual obligations, the Company has entered into various foreign currency agreements with independent parties (see Note 10).

To match the interest rate characteristics on short-term notes with the rate characteristics of its assets, the Company enters into interest rate swaps with independent parties. Under these agreements, the Company makes periodic payments, indexed to the related asset rates, in exchange for periodic payments which generally match the Company's interest obligations on fixed or variable rate notes (see Note 10).

8. LONG-TERM NOTES

The following tables summarize outstanding long-term notes at June 30, 1997, and December 31, 1996 and 1995, the weighted average interest rates and related notional amount of derivatives at the end of the periods, and the related average balances and weighted average effective interest rates, which include the effects of related off-balance sheet financial instruments (see Note 10), during the periods.

| | AT JUNE 30, 1997 | | SIX MONTHS ENDED JUNE 30, 1997 | | |
|--|-------------------|---|--------------------------------------|--------------------|--|
| | ENDING BALANCE | WEIGHTED AVERAGE INTEREST RATE | NOTIONAL AMOUNT OF DERIVATIVES | AVERAGE BALANCE | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE |
| Floating rate notes: | | | | | |
| U.S. dollar denominated: | | | | | |
| Interest bearing, due 1998-2003 | \$ 7,158,424 | 5.33% | \$ 1,554,023 | \$ 7,472,062 | 5.46% |
| Fixed rate notes: | | | | | |
| U.S. dollar denominated: | | | | | |
| Interest bearing, due 1998-2018..... | 11,481,801 | 6.17 | 18,646,147 | 12,131,991 | 5.60 |
| Zero coupon, due 1998-2022... | 339,998 | 8.28 | 362,772 | 333,417 | 7.64 |
| Dual currency, due 1998..... | 251,487 | 7.63 | 272,000 | 249,958 | 6.73 |
| Foreign currency: | | | | | |
| Interest bearing, due 1999-2000..... | 257,100 | 5.57 | 496,209 | 257,100 | 5.43 |
| Total fixed rate notes..... | 12,330,386 | 6.25 | 19,777,128 | 12,972,466 | 5.67 |
| Total long-term notes..... | \$19,488,810 | 5.91% | \$21,331,151 | \$20,444,528 | 5.59% |

| | AT DECEMBER 31, 1996 | | YEAR ENDED DECEMBER 31, 1996 | | |
|---|----------------------|---|--------------------------------------|--------------------|--|
| | ENDING BALANCE | WEIGHTED AVERAGE INTEREST RATE | NOTIONAL AMOUNT OF DERIVATIVES | AVERAGE BALANCE | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE |
| Floating rate notes: | | | | | |
| U.S. dollar denominated: | | | | | |
| Interest bearing, due 1998-2003..... | \$ 8,844,825 | 5.27% | \$ 2,022,044 | \$12,740,190 | 5.46% |
| Fixed rate notes: | | | | | |
| U.S. dollar denominated: | | | | | |
| Interest bearing, due 1998-2018..... | 12,928,983 | 6.35 | 21,676,042 | 11,971,640 | 5.59 |
| Zero coupon, due 1998-2022..... | 326,875 | 8.25 | 358,071 | 304,990 | 7.68 |
| Dual currency, due 1998..... | 248,443 | 7.63 | 272,000 | 245,569 | 6.65 |
| Foreign currency: | | | | | |
| Interest bearing, due 1999-2000..... | 257,100 | 5.34 | 495,785 | 577,592 | 5.31 |
| Zero coupon, due 1997..... | -- | -- | -- | 183,647 | 5.42 |
| Total fixed rate notes..... | 13,761,401 | 6.40 | 22,801,898 | 13,283,438 | 5.64 |
| Total long-term notes..... | \$22,606,226 | 5.96% | \$24,823,942 | \$26,023,628 | 5.55% |

| | AT DECEMBER 31, 1995 | | | YEAR ENDED DECEMBER 31, 1995 | |
|---|----------------------|---|--------------------------------------|---------------------------------|--|
| | ENDING BALANCE | WEIGHTED AVERAGE INTEREST RATE | NOTIONAL AMOUNT OF DERIVATIVES | AVERAGE BALANCE | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE |
| Floating rate notes: | | | | | |
| U.S. dollar denominated: | | | | | |
| Interest bearing, due 1997-2002..... | \$16,995,853 | 5.58% | \$ 5,053,732 | \$ 21,998,541 | 5.95% |
| Fixed rate notes: | | | | | |
| U.S. dollar denominated: | | | | | |
| Interest bearing, due 1997-2018..... | 11,430,127 | 6.70 | 17,050,772 | 12,035,074 | 5.99 |
| Zero coupon, due 1997-2022..... | 400,023 | 8.27 | 435,001 | 283,282 | 7.99 |
| Dual currency, due 1998.... | 242,775 | 7.63 | 206,000 | 240,182 | 7.02 |
| Foreign currency: | | | | | |
| Interest bearing, due 1997-2000..... | 767,100 | 4.01 | 1,486,130 | 627,900 | 5.78 |
| Zero coupon, due 1997.... | 246,737 | 5.79 | 253,626 | 188,399 | 5.85 |
| Total fixed rate notes..... | 13,086,762 | 6.59 | 19,431,529 | 13,374,837 | 6.02 |
| Total long-term notes..... | \$30,082,615 | 6.02% | \$ 24,485,261 | \$ 35,373,378 | 5.98% |

At June 30, 1997 and December 31, 1996, the Company had outstanding long-term debt issues with call features totaling \$13.8 billion and \$14.1 billion, respectively. As of June 30, 1997 and December 31, 1996, the stated maturities and maturities if accelerated to the call dates for long-term notes are shown in the following table:

| YEAR OF MATURITY | JUNE 30, 1997 | | DECEMBER 31, 1996 | |
|------------------|--------------------|--------------------------|--------------------|--------------------------|
| | STATED MATURITY | MATURITY TO CALL DATE | STATED MATURITY | MATURITY TO CALL DATE |
| 1997..... | \$ -- | \$ 10,980,927 | \$ -- | \$ 12,794,908 |
| 1998..... | 4,010,521 | 3,824,302 | 7,466,131 | 5,510,293 |
| 1999..... | 7,952,279 | 2,361,092 | 7,676,221 | 2,185,610 |
| 2000..... | 4,206,943 | 1,683,893 | 4,077,772 | 1,483,972 |
| 2001..... | 2,366,570 | 79,200 | 2,465,758 | 79,200 |
| 2002-2022..... | 952,497 | 559,396 | 920,344 | 552,243 |
| | \$19,488,810 | \$19,488,810 | \$22,606,226 | \$ 22,606,226 |

For the years ended December 31, 1996, 1995 and 1994, the Company repurchased certain long-term notes prior to their scheduled maturity to lower future years' interest expense. The following table summarizes these transactions (dollars in millions):

| | YEARS ENDED DECEMBER 31, | | |
|---------------------|-----------------------------|-------|--------|
| | 1996 | 1995 | 1994 |
| Maturity value..... | \$ 90 | \$ 62 | \$ 138 |
| Carrying value..... | \$ 8 | \$ 8 | \$ 21 |
| Premiums..... | \$ 7 | \$ 8 | \$ 14 |

The Company issues debt with interest and/or principal payment characteristics tied to foreign currency indices to attempt to minimize its cost of funds. At June 30, 1997 and December 31, 1996 and 1995, the Company had outstanding long-term foreign currency notes which require the payment of principal and interest in foreign currencies, and dual currency notes which require the payment of interest in foreign currencies. To eliminate the corporation's exposure to the effect of currency fluctuations on these contractual obligations, the Company has entered into various foreign currency agreements with independent parties (see Note 10).

To match the interest rate characteristics on its long-term borrowings with the interest rate characteristics of its assets, the Company enters into interest rate swaps with independent parties. Under these agreements, the Company makes periodic payments, indexed to the related asset rates, in exchange for periodic payments which generally match the Company's interest obligations

on fixed or variable rate borrowings (see Note 10).

9. STUDENT LOAN SECURITIZATION

For the first six months of 1997 and 1996 and for the year ended December 31, 1996 and in October 1995, SLM Funding Corporation, a wholly-owned special purpose finance subsidiary, purchased from the GSE and sold \$4.5 billion, \$3 billion, \$6 billion and \$1 billion, respectively, of student loans to trusts which issued floating rate student loan asset-backed securities in underwritten public offerings. At June 30, 1997 and December 31, 1996, securitized student loans outstanding totaled \$10.0 billion and \$6.3 billion, respectively.

On July 23, 1997, the U.S. Department of Education decided that the 30 basis point annual offset fee which the GSE is required to pay on student loans which it owns does not apply to student loans that the GSE has securitized. The Department of Education was under a court order since January 10, 1997 to announce its final position on the application of the offset fee on securitized loans by July 31, 1997. The GSE initially filed suit in the U.S. District Court for the District of Columbia in April 1995 challenging the Secretary of Education's attempt to apply the offset fee to securitized loans. The GSE prevailed, and the Court of Appeals ruled that the fee applies only to loans that the GSE owns and remanded the case to the District Court with instructions to remand the matter to the Secretary of Education. In addition, the Court of Appeals upheld the constitutionality of the offset fee, which applies annually with respect to the principal amount of student loans that the GSE holds on balance sheet and that were acquired on or after August 10, 1993.

Based upon the favorable final ruling in this matter, the contingent gain of approximately \$97 million pre-tax that had not been recognized in income through June 30, 1997 will now be released and recognized in income in the third quarter. All future securitization gains will be calculated without consideration of the offset fee.

In October of 1997, the U.S. Supreme Court rejected the GSE's appeal of a U.S. Court of Appeals ruling that upheld the constitutionality of the offset fee on loans owned by the GSE.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Financial Instruments Held or Issued for Purposes Other than Trading

The Company enters into various financial instruments with off-balance sheet risk in the normal course of business primarily to reduce interest rate risk and foreign currency exposure on certain borrowings. These financial instruments include interest rate swaps, interest rate cap and collar agreements, foreign currency swaps, forward currency exchange agreements, options on currency exchange agreements, options on securities and financial futures contracts.

The Company enters into three general types of interest rate swaps under which it pays the following: 1) a floating rate in exchange for a fixed rate (standard swaps); 2) a fixed rate in exchange for a floating rate (reverse swaps); and 3) a floating rate in exchange for another floating rate, based upon different market indices (basis/reverse basis swaps). At June 30, 1997, the Company had outstanding \$19.3 billion, \$1.1 billion, and \$16.4 billion of notional principal amount of standard swaps, reverse swaps, and basis/reverse basis swaps, respectively. Of the Company's \$36.8 billion of interest rate swaps outstanding at June 30, 1997, \$35.7 billion was related to debt and \$1.1 billion was related to assets. At December 31, 1996, the Company had outstanding \$18.2 billion, \$1.1 billion, and \$17.8 billion of notional principal amount of standard swaps, reverse swaps, and basis/reverse basis swaps, respectively. Of the Company's \$37.1 billion of interest rate swaps outstanding at December 31, 1996, \$36 billion was related to debt and \$1.1 billion was related to assets.

The following tables summarize the ending balances of the borrowings that have been matched with interest rate swaps and foreign currency agreements at June 30, 1997, and December 31, 1996 and 1995 (dollars in billions).

AT JUNE 30, 1997

| | SWAPS | | | | | TOTAL DERIVATIVES |
|--|------------|----------|---------|-------------------------|-----------------------------------|----------------------|
| | BORROWINGS | STANDARD | REVERSE | BASIS/ REVERSE BASIS | FOREIGN CURRENCY AGREEMENTS | |
| SHORT-TERM NOTES | | | | | | |
| Six month floating rate notes..... | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Other floating rate notes..... | .3 | -- | -- | .5 | -- | .5 |
| Discount notes..... | -- | -- | -- | -- | -- | -- |
| Fixed rate notes..... | 6.0 | 6.0 | -- | 3.7 | -- | 9.7 |
| Securities sold-- not yet purchased and repurchase agreements..... | -- | -- | -- | -- | -- | -- |
| Short-term portion of long-term notes..... | 3.6 | 1.7 | -- | 2.7 | .7 | 5.1 |
| Total short-term notes..... | 9.9 | 7.7 | -- | 6.9 | .7 | 15.3 |
| LONG-TERM NOTES | | | | | | |
| Floating rate notes: | | | | | | |
| U.S. dollar denominated: | | | | | | |
| Interest bearing..... | 1.0 | .3 | -- | 1.3 | -- | 1.6 |
| Fixed rate notes: | | | | | | |
| U.S. dollar denominated: | | | | | | |
| Interest bearing..... | 10.9 | 10.9 | -- | 7.7 | -- | 18.6 |
| Zero coupon..... | .2 | .2 | -- | .2 | -- | .4 |
| Dual currency..... | .2 | .2 | -- | .1 | -- | .3 |
| Foreign currency: | | | | | | |
| Interest bearing..... | .3 | -- | -- | .2 | .3 | .5 |
| Total long-term notes..... | 12.6 | 11.6 | -- | 9.5 | .3 | 21.4 |
| Total notes..... | \$22.5 | \$19.3 | \$ -- | \$ 16.4 | \$ 1.0 | \$ 36.7 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

AT DECEMBER 31, 1996

| | SWAPS | | | | | |
|--|------------|----------|---------|-------------------------|-----------------------------------|----------------------|
| | BORROWINGS | STANDARD | REVERSE | BASIS/ REVERSE BASIS | FOREIGN CURRENCY AGREEMENTS | TOTAL DERIVATIVES |
| SHORT-TERM NOTES | | | | | | |
| Six month floating rate notes..... | \$.3 | \$ -- | \$ -- | \$.3 | \$ -- | \$.3 |
| Other floating rate notes..... | .3 | -- | -- | .6 | -- | .6 |
| Discount notes..... | -- | -- | -- | -- | -- | -- |
| Fixed rate notes..... | 3.4 | 3.4 | -- | 2.2 | -- | 5.6 |
| Securities sold-- not yet purchased and repurchase agreements..... | -- | -- | -- | -- | -- | -- |
| Short-term portion of long-term notes..... | 4.5 | 1.8 | -- | 3.2 | .9 | 5.9 |
| Total short-term notes..... | 8.5 | 5.2 | -- | 6.3 | .9 | 12.4 |
| LONG-TERM NOTES | | | | | | |
| Floating rate notes: | | | | | | |
| U.S. dollar denominated: | | | | | | |
| Interest bearing..... | 1.4 | .3 | -- | 1.8 | -- | 2.1 |
| Fixed rate notes: | | | | | | |
| U.S. dollar denominated: | | | | | | |
| Interest bearing..... | 12.3 | 12.3 | -- | 9.3 | -- | 21.6 |
| Zero coupon..... | .2 | .2 | -- | .1 | -- | .3 |
| Dual currency..... | .2 | .2 | -- | .1 | -- | .3 |
| Foreign currency: | | | | | | |
| Interest bearing..... | .3 | -- | -- | .2 | .3 | .5 |
| Zero coupon..... | -- | -- | -- | -- | -- | -- |
| Total long-term notes..... | 14.4 | 13.0 | -- | 11.5 | .3 | 24.8 |
| Total notes..... | \$22.9 | \$18.2 | \$ -- | \$17.8 | \$ 1.2 | \$37.2 |

AT DECEMBER 31, 1995

| | SWAPS | | | | | |
|--|------------|----------|---------|-------------------------|-----------------------------------|----------------------|
| | BORROWINGS | STANDARD | REVERSE | BASIS/ REVERSE BASIS | FOREIGN CURRENCY AGREEMENTS | TOTAL DERIVATIVES |
| SHORT-TERM NOTES | | | | | | |
| Six month floating rate notes..... | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Other floating rate notes..... | 1.5 | -- | -- | 2.8 | -- | 2.8 |
| Discount notes..... | -- | -- | -- | -- | -- | -- |
| Fixed rate notes..... | .3 | .3 | -- | -- | -- | .3 |
| Securities sold-- not yet purchased and repurchase agreements..... | -- | -- | -- | -- | -- | -- |
| Short-term portion of long-term notes..... | 5.7 | 1.4 | .3 | 6.7 | .3 | 8.7 |
| Total short-term notes..... | 7.5 | 1.7 | .3 | 9.5 | .3 | 11.8 |
| LONG-TERM NOTES | | | | | | |
| Floating rate notes: | | | | | | |
| U.S. dollar denominated: | | | | | | |
| Interest bearing..... | 3.9 | .9 | -- | 4.1 | -- | 5.0 |
| Fixed rate notes: | | | | | | |
| U.S. dollar denominated: | | | | | | |
| Interest bearing..... | 10.8 | 10.8 | -- | 6.1 | .2 | 17.1 |
| Zero coupon..... | .3 | .3 | -- | .2 | -- | .5 |
| Dual currency..... | .2 | .2 | -- | -- | -- | .2 |
| Foreign currency: | | | | | | |
| Interest bearing..... | .8 | -- | -- | .7 | .8 | 1.5 |
| Zero coupon..... | .2 | -- | -- | -- | .2 | .2 |
| Total long-term notes..... | 16.2 | 12.2 | -- | 11.1 | 1.2 | 24.5 |
| Total notes..... | \$23.7 | \$13.9 | \$.3 | \$20.6 | \$1.5 | \$36.3 |

The following table summarizes the activity for the Company's interest rate swaps, foreign currency agreements and futures contracts held or issued for purposes other than trading for the years ended December 31, 1994, 1995 and 1996 and the six months ended June 30, 1997 (dollars in millions).

| | NOTIONAL PRINCIPAL | | |
|---------------------------------|------------------------|-----------------------------------|--------------------------------|
| | INTEREST RATE SWAPS | FOREIGN CURRENCY AGREEMENTS | FUTURES CONTRACT AMOUNTS |
| Balance, December 31, 1993..... | \$ 23,253 | \$ 1,500 | \$ 1,805 |
| Issuances/Opens | 15,402 | 510 | 4,437 |
| Maturities/Expirations | (9,518) | (575) | (3,088) |
| Terminations/Closes | (99) | (37) | (2,598) |
| Balance, December 31, 1994..... | 29,038 | 1,398 | 556 |
| Issuances/Opens | 19,549 | 466 | 2,370 |
| Maturities/Expirations | (10,634) | (380) | (535) |
| Terminations/Closes | (1,773) | -- | (2,211) |
| Balance, December 31, 1995..... | 36,180 | 1,484 | 180 |
| Issuances/Opens | 14,571 | 14 | 2,631 |
| Maturities/Expirations | (13,369) | (310) | (708) |
| Terminations/Closes | (300) | -- | (1,925) |
| Balance, December 31, 1996..... | 37,082 | 1,188 | 178 |
| Issuances/Opens | 4,840 | 7 | 1,958 |
| Maturities/Expirations | (5,094) | (160) | (510) |
| Terminations/Closes | -- | -- | (625) |
| Balance, June 30, 1997 | \$ 36,828 | \$ 1,035 | \$ 1,001 |

Interest Rate Swaps

Net payments related to the debt-related swaps are recorded in interest expense. For the six months ended June 30, 1997 and 1996 and for the years ended December 31, 1996, 1995 and 1994, the Company received net payments on all debt-related swaps reducing interest expense by \$66 million, \$89 million, \$165 million, \$94 million and \$262 million, respectively.

As of June 30, 1997 and December 31, 1996, stated maturities of interest rate swaps and maturities if accelerated to the put dates, are shown in the following table (dollars in millions). The maturities of interest rate swaps generally coincide with the maturities of the associated assets or borrowings.

| YEAR OF MATURITY | JUNE 30, 1997 | | DECEMBER 31, 1996 | |
|------------------|--------------------|-------------------------|--------------------|-------------------------|
| | STATED MATURITY | MATURITY TO PUT DATE | STATED MATURITY | MATURITY TO PUT DATE |
| 1997..... | \$ 4,671 | \$10,949 | \$ 7,599 | \$15,161 |
| 1998..... | 9,986 | 10,550 | 7,102 | 7,001 |
| 1999..... | 10,816 | 8,100 | 10,541 | 7,925 |
| 2000..... | 6,781 | 4,760 | 7,225 | 4,560 |
| 2001..... | 3,135 | 1,350 | 3,235 | 1,350 |
| 2002-2008..... | 1,439 | 1,119 | 1,380 | 1,085 |
| | \$36,828 | \$36,828 | \$37,082 | \$37,082 |

Foreign Currency Agreements

At December 31, 1996 and 1995, the Company had borrowings repayable in U.S. dollars, with principal repayment obligations tied to foreign currency exchange rates of \$80 million and \$235 million, respectively. At June 30, 1997 and December 31, 1996 and 1995, the Company also had borrowings with principal repayable in foreign currencies of \$1.0 billion. Such debt issuances were hedged by forward currency exchange agreements, foreign currency swaps, and options on currency exchange agreements. Such agreements typically mature concurrently with the maturities of the debt. At both June 30, 1997 and December 31, 1996, the Company also had outstanding \$1.0 billion of notional principal in foreign currency swaps. Also, at December 31, 1996, the Company had outstanding \$80 million of notional principal in foreign currency exchange agreements and in foreign currency options. The following table summarizes the outstanding amount of these borrowings and their currency translation values at June 30, 1997 and December 31, 1996 and 1995, using spot rates at the respective dates (dollars in millions).

| | JUNE 30, 1997 | DECEMBER 31, | |
|---|------------------|--------------|---------|
| | | 1996 | 1995 |
| Carrying value of outstanding foreign currency debt... | \$1,035 | \$1,108 | \$1,249 |
| Currency translation value of outstanding foreign currency debt..... | 949 | 1,002 | 1,149 |

Futures Contracts

The Company enters into financial futures contracts to hedge the risk of future interest rate changes. The contracts are typically anticipatory hedges of debt to be issued to fund the Company's assets, mainly the portfolio of student loans in the PLUS program. These student loans pay interest that are indexed to the one-year Treasury bill, reset annually on the final auction prior to June 1. The gains and losses on these hedging transactions are deferred and included in other assets and will be recognized as an adjustment of interest expense. At June 30, 1997 and December 31, 1996 and 1995, the futures contracts sold by the Company hedged approximately \$1 billion, \$178 million and \$180 million, respectively, of anticipated funding. Approximately \$1 million and \$2 million of realized losses have been deferred and are being amortized over the life of the underlying debt at June 30, 1997 and December 31, 1996, respectively, related to futures contracts. At December 31, 1995, approximately \$493,000 of realized gains related to futures contracts was deferred.

Derivative Financial Instruments Held or Issued for Trading Purposes

From time to time the Company maintains a small number of active trading positions in derivative financial instruments which are designed to generate additional income based on market conditions. Trading results for these positions were immaterial to the Company's financial statements for the six months ended June 30, 1997 and 1996 and for the years ended December 31, 1996, 1995 and 1994. During December 1995, the Company entered into a derivative contract of \$1.5 billion notional amount whose value is determined by both the market value and the yield of certain AAA rated variable rate asset-backed securities. The contract, which had an original maturity date of January 1997, was extended to January 1998. The mark-to-market gain on this contract, which is included in gains/(losses) on sales of securities in the Consolidated Statements of Income, was \$3 million, \$2 million, \$4 million and immaterial for the six months ended June 30, 1997 and 1996 and for the years ended December 31, 1996 and 1995, respectively.

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

FAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires estimation of the fair values of financial instruments. The following is a summary of the assumptions and methods used to estimate those values.

Student Loans

Fair value was determined by analyzing amounts which the Company has paid recently to acquire similar loans in the secondary market.

Warehousing Advances and Academic Facilities Financings

The fair values of both warehousing advances and academic facilities financings were determined through standard bond pricing formulas using current interest rates and credit spreads.

Cash and Investments

For investments with remaining maturities of three months or less, carrying value approximated fair value. Investments in U.S. Treasury securities were valued at market quotations. All other investments were valued through standard bond pricing formulas using current interest rates and credit spreads.

Short-term Borrowings and Long-term Notes

For borrowings with remaining maturities of three months or less, carrying value approximated fair value. Where available the fair value of financial liabilities was determined from market quotations. If market quotations were unavailable standard bond pricing formulas were applied using current interest rates and credit spreads.

Off-balance Sheet Financial Instruments

The fair values of off-balance sheet financial instruments, including interest rate swaps, interest rate cap and collar agreements, foreign currency swaps, forward exchange agreements and financial futures contracts, were estimated at the amount that would be required to terminate such agreements, taking into account current interest rates and credit spreads.

The following table summarizes the fair values of the Company's financial assets and liabilities, including off-balance sheet financial instruments (dollars in millions):

| | JUNE 30, 1997 | | | 1996 | | | DECEMBER 31, 1995 | | |
|---|---------------|----------------|------------|------------|----------------|------------|-------------------|----------------|------------|
| | FAIR VALUE | CARRYING VALUE | DIFFERENCE | FAIR VALUE | CARRYING VALUE | DIFFERENCE | FAIR VALUE | CARRYING VALUE | DIFFERENCE |
| EARNING ASSETS | | | | | | | | | |
| Student loans | \$ 31,779 | \$ 31,488 | \$ 291 | \$ 34,005 | \$ 33,754 | \$ 251 | \$ 34,551 | \$ 34,336 | \$ 215 |
| Warehousing advances | 2,488 | 2,495 | (7) | 2,793 | 2,790 | 3 | 3,878 | 3,865 | 13 |
| Academic facilities financings | 1,358 | 1,353 | 5 | 1,473 | 1,473 | -- | 1,347 | 1,313 | 34 |
| Cash and investments | 10,593 | 10,593 | -- | 7,706 | 7,706 | -- | 8,868 | 8,867 | 1 |
| Total earning assets | 46,218 | 45,929 | 289 | 45,977 | 45,723 | 254 | 48,644 | 48,381 | 263 |
| INTEREST BEARING LIABILITIES | | | | | | | | | |
| Short-term borrowings ... | 25,827 | 25,850 | 23 | 22,457 | 22,518 | 61 | 17,423 | 17,447 | 24 |
| Long-term notes | 19,385 | 19,489 | 104 | 22,519 | 22,606 | 87 | 30,252 | 30,083 | (169) |
| Total interest bearing liabilities | 45,212 | 45,339 | 127 | 44,976 | 45,124 | 148 | 47,675 | 47,530 | (145) |
| OFF-BALANCE SHEET FINANCIAL INSTRUMENTS | | | | | | | | | |
| Interest rate swaps | (41) | -- | (41) | (21) | -- | (21) | 245 | -- | 245 |
| Forward exchange agreements and foreign currency swaps..... | (141) | -- | (141) | (161) | -- | (161) | (184) | -- | (184) |
| Warehousing advance commitments | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Academic facilities financing commitments.. | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Letters of credit | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Excess of fair value over carrying value | | | \$ 234 | | | \$ 220 | | | \$ 179 |
| | | | ===== | | | ===== | | | ===== |

At June 30, 1997 and December 31, 1996 and 1995, substantially all interest rate swaps and foreign exchange agreements and foreign currency swaps were hedging liabilities.

12. COMMITMENTS AND CONTINGENCIES

The Company has committed to purchase student loans during specified periods and to lend funds under the warehousing advance commitment, academic facilities financing commitment and letters of credit programs. Letters of credit support the issuance of state student loan revenue bonds. They represent unconditional guarantees of the Company to repay holders of the bonds in the event of a default. In the event that letters of credit are drawn upon, such loans are collateralized by the student loans underlying the bonds.

Commitments outstanding are summarized below:

| | JUNE 30, 1997 | DECEMBER 31, | |
|---|---------------------|---------------------|---------------------|
| | | 1996 | 1995 |
| Student loan purchase commitments | \$19,548,570 | \$15,845,821 | \$14,244,234 |
| Warehousing advance commitments.. | 3,403,288 | 2,367,288 | 698,019 |
| Academic facilities financing commitments..... | 21,600 | 9,930 | 6,330 |
| Letters of credit | 4,624,695 | 3,743,892 | 3,063,390 |
| | <u>\$27,598,153</u> | <u>\$21,966,931</u> | <u>\$18,011,973</u> |
| | ===== | ===== | ===== |

The following schedules summarize expirations of commitments outstanding at June 30, 1997 and December 31, 1996:

| | JUNE 30, 1997 | | | | DECEMBER 31, 1996 | | | |
|-------------|------------------------|----------------------|--------------------------------|-------------------|------------------------|----------------------|--------------------------------|-------------------|
| | STUDENT LOAN PURCHASES | WAREHOUSING ADVANCES | ACADEMIC FACILITIES FINANCINGS | LETTERS OF CREDIT | STUDENT LOAN PURCHASES | WAREHOUSING ADVANCES | ACADEMIC FACILITIES FINANCINGS | LETTERS OF CREDIT |
| 1997..... | \$ 1,141,198 | \$ 6,500 | \$ 250 | \$ -- | \$ 3,299,173 | \$ 348,072 | \$1,230 | \$ 367,829 |
| 1998..... | 2,284,320 | 194,745 | 9,650 | 30,346 | 1,793,359 | 172,647 | -- | 1,122,724 |
| 1999..... | 6,656,026 | 40,000 | 11,700 | 167,428 | 4,367,745 | 103,609 | 8,700 | 861,630 |
| 2000..... | 1,423,172 | 52,387 | -- | 266,313 | 272,743 | 34,859 | -- | 826,690 |
| 2001..... | -- | -- | 0 | 271,306 | -- | -- | -- | 207,620 |
| 2002-2017.. | 8,043,854 | 3,109,656 | 0 | 3,889,302 | 6,112,801 | 1,708,101 | -- | 357,399 |
| Total.. | \$19,548,570 | \$3,403,288 | \$ 21,600 | \$4,624,695 | \$15,845,821 | \$2,367,288 | \$9,930 | \$3,743,892 |

LITIGATION

On June 11, 1996, Orange County, California filed a complaint against the Company in the U.S. Bankruptcy Court for the Central District of California. The case is currently pending in the U.S. District Court for the Central District of California. The complaint alleges that the Company made fraudulent representations and omitted material facts in offering circulars on various bond offerings purchased by Orange County, which contributed to Orange County's market losses and subsequent bankruptcy. The complaint seeks to hold SLMA responsible for losses resulting from Orange County's bankruptcy, but does not specify the amount of damages claimed. In addition, the complaint includes counts under the California Corporations Code, as well as a count for common law fraud. The Company believes that the complaint is without merit and intends to defend the case vigorously. At this time, Management believes the impact of the lawsuit will not be material to the Company.

13. MINORITY INTEREST

As part of the GSE's privatization, SLM Holding Corporation became the parent company of, and successor to, the GSE on August 7, 1997. As a result, the GSE's preferred stock is now reflected as a minority interest in the consolidated financial statements. The financial statements for prior periods have been restated to reflect this change.

The GSE's 4.3 million outstanding shares of non-voting adjustable rate cumulative preferred stock, par value \$50.00 per share, pay cumulative quarterly dividends at a per annum rate of 4.5 percentage points below the highest yield of certain United States Treasury obligations. However, the dividend rate for any dividend period will not be less than 5 percent per annum nor greater than 14 percent per annum. The dividend rate was 5 percent for the six months ended June 30, 1997 and 1996 and the years ended December 31, 1996, 1995 and 1994. The stock is redeemable, at the option of the GSE, in whole or in part, at \$50.00 per share plus accrued dividends.

In May 1986, the Board of Directors authorized management, under certain circumstances, to repurchase up to \$50 million of the GSE's adjustable rate cumulative preferred stock at market prices. As of June 30, 1997 and December 31, 1996, the GSE had repurchased 722,350 shares at an average price of \$45.23 per share, totaling \$32.7 million.

14. COMMON STOCK

The Board of Directors has reserved 11 million common shares for issuance under various compensation and benefit plans with 6 million shares remaining at both June 30, 1997 and December 31, 1996.

The Company has engaged in repurchases of its common stock since 1986. In December 1996, the Company retired 59 million shares of common stock held as treasury stock at an average price of \$44.36. As a result, treasury stock decreased by \$2.6 billion with a corresponding decrease of \$12 million to common stock, par; \$568 million to additional paid-in capital; and \$2.0 billion to retained earnings. As of June 30, 1997 and December 31, 1996, the Company held as treasury stock 13.8 million common shares purchased at an average price of \$53.41 and 12 million common shares purchased at an average price of \$44.75, respectively.

Earnings per common share are computed based on net income divided by the weighted average common and common equivalent shares outstanding for the period. Average common and common equivalent shares outstanding for the six months ended June 30, 1997 and 1996 and the years ended December 31, 1996, 1995 and 1994 totaled 53,316,841; 56,782,781; 55,811,279; 67,450,889; and 79,776,993, respectively.

15. STOCK OPTION PLANS

The Company maintains a stock option plan for key employees which permits grants of stock options for the purchase of common stock with exercise prices equal to the market value on the date of the grant. Stock options are exercisable one year after date of grant and have ten year terms. The Company's 1993-1998 Employee Stock Option Plan authorized the grant of options for up to 5.1 million shares of common stock. The following table summarizes employee stock options plan activity.

| | SIX MONTHS ENDED | | YEARS ENDED DECEMBER 31, | | | | | |
|---|------------------|---------------|--------------------------|---------------|-----------|---------------|-----------|---------------|
| | JUNE 30, 1997 | | 1996 | | 1995 | | 1994 | |
| | OPTIONS | AVERAGE PRICE | OPTIONS | AVERAGE PRICE | OPTIONS | AVERAGE PRICE | OPTIONS | AVERAGE PRICE |
| Outstanding at beginning of period..... | 931,857 | \$60.80 | 1,094,975 | \$48.80 | 931,255 | \$54.49 | 698,550 | \$58.80 |
| Granted..... | 353,800 | 107.92 | 325,545 | 73.08 | 517,800 | 37.15 | 367,150 | 48.03 |
| Exercised..... | (360,412) | 63.29 | (485,363) | 41.88 | (223,180) | 42.76 | (13,445) | 31.56 |
| Canceled..... | (15,750) | 108.00 | (3,300) | 73.00 | (130,900) | 53.52 | (121,000) | 62.33 |
| Outstanding at end of period..... | 909,495 | \$77.32 | 931,857 | \$60.80 | 1,094,975 | \$48.80 | 931,255 | \$54.49 |
| Exercisable at end of period | 570,195 | \$59.14 | 609,612 | \$54.30 | 641,075 | \$57.09 | 587,855 | \$58.34 |
| Weighted-average fair value of options granted during the period..... | | \$47.10 | | \$25.87 | | \$10.18 | | |

The following table summarizes the number, weighted-average of exercise prices (which ranged from \$34 to \$121) and weighted-average remaining contractual life of the employee stock options outstanding at June 30, 1997.

| EXERCISE PRICES | OPTIONS | AVERAGE PRICE | AVERAGE REMAINING CONTRACTUAL LIFE |
|-----------------|---------|---------------|------------------------------------|
| Under \$40 | 119,720 | \$36.73 | 7.0 yrs. |
| \$40-\$80 | 451,675 | 65.12 | 6.5 |
| Above \$80 | 338,100 | 108.01 | 9.5 |
| Total | 909,495 | \$77.33 | 7.5 yrs. |

The following table summarizes the number, weighted-average of exercise prices (which ranged from \$29 to \$95) and weighted-average remaining contractual life of the employee stock options outstanding at December 31, 1996.

| EXERCISE PRICES | OPTIONS | AVERAGE PRICE | AVERAGE REMAINING CONTRACTUAL LIFE |
|-----------------|---------|---------------|------------------------------------|
| Under \$40 | 178,938 | \$36.63 | 7.5 yrs. |
| \$40-\$80 | 751,419 | 66.48 | 7.0 |
| Above \$80 | 1,500 | 94.75 | 10.0 |
| Total | 931,857 | \$60.80 | 7.0 yrs. |

In May 1996, shareholders approved the Board of Directors Stock Option Plan, which authorized the grant of options to acquire up to 200,000 shares of common stock. Options under this plan are exercisable on the date of grant and have ten year terms. The following table summarizes the Board of Directors Stock Option Plan activity.

| | SIX MONTHS ENDED JUNE 30, 1997 | | YEAR ENDED DECEMBER 31, 1996 | |
|--|-----------------------------------|------------------|---------------------------------|------------------|
| | OPTIONS | AVERAGE PRICE | OPTIONS | AVERAGE PRICE |
| Outstanding at beginning of period..... | 63,000 | \$ 73.00 | -- | \$ -- |
| Granted..... | 21,000 | 108.00 | 63,000 | 73.00 |
| Exercised | (17,850) | 73.00 | -- | -- |
| Canceled | -- | -- | -- | -- |
| Outstanding at end of period..... | 66,150 | \$ 84.11 | 63,000 | \$73.00 |
| Exercisable at end of period..... | 66,150 | \$ 84.11 | 63,000 | \$73.00 |
| Weighted-average fair value of options granted during the period..... | | \$ 47.26 | | \$25.84 |

At both June 30, 1997 and December 31, 1996, the outstanding Board of Directors options had a weighted-average remaining contractual life of 9 years.

The Company accounts for its stock option plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," which results in no compensation expense for stock options granted under the plans.

The following table summarizes pro forma disclosures for the six months ended June 30, 1997 and 1996 and for the years ended December 31, 1996 and 1995, as if the Company had accounted for employee and Board of Directors stock options granted subsequent to December 31, 1994 under the fair market value method as set forth in FAS No. 123, "Accounting for Stock-Based Compensation." The fair value for these options was estimated at the date of grant using the Extended Binomial Options Pricing Model, a variation of the Black-Sholes option pricing model, with the following weighted average assumptions for the six months ended June 30, 1997 and 1996 and for the years ended December 31, 1996 and 1995, respectively: risk-free interest rate of 7 percent, 6 percent, 6 percent and 8 percent; volatility factor of the expected market price of the Company's common stock of 30 percent, 29 percent, 29 percent and 29 percent; dividend growth rate of 8 percent; vesting period of one year from date of grant; and time of exercise-expiration date.

| | SIX MONTHS ENDED JUNE 30, | | YEARS ENDED DECEMBER 31, | |
|---|------------------------------|-----------|-----------------------------|-----------|
| | 1997 | 1996 | 1996 | 1995 |
| Net income..... | \$232,654 | \$200,528 | \$408,716 | \$355,585 |
| Pro forma net income..... | \$227,687 | \$197,480 | \$402,427 | \$352,806 |
| Earnings per common share..... | \$ 4.36 | \$ 3.53 | \$ 7.32 | \$ 5.27 |
| Pro forma earnings per common share..... | \$ 4.27 | \$ 3.48 | \$ 7.21 | \$ 5.23 |

16. BENEFIT PLANS

Pension Plans

The Company has a qualified noncontributory defined benefit pension plan (the "Plan") covering substantially all employees who meet certain service requirements. The Plan's benefits are based on years of service and the employee's compensation. Effective April 1, 1995, the Company modified the Plan to compute plan benefits on 5-year highest average base salary, a maximum service accrual period of 30 years, and normal retirement age of 62. Prior to these modifications, plan benefits were computed based on 3-year highest average base salary, a maximum service accrual period of 26.67 years, and a normal retirement age of 60. The Plan is funded annually based on the maximum amount that can be deducted for federal income tax purposes. The assets of the plan are primarily invested in equities and fixed income securities.

The following table sets forth the Plan's actuarially determined funded status and amounts recognized in the Company's consolidated financial statements.

| 1996 | 1995 |
|------|------|
| ---- | ---- |

Accumulated Benefits:
Actuarial present value of accumulated benefit

obligations:

| | | |
|----------------|----------|----------|
| Vested..... | \$39,949 | \$34,232 |
| Nonvested..... | 5,099 | 6,840 |
| | ----- | ----- |
| Total..... | \$45,048 | \$41,072 |
| | ===== | ===== |

Pension Asset (Liability):
Actuarial present value of projected benefit
obligation for

| | | |
|---|-------------|-------------|
| service rendered to date..... | \$ (75,106) | \$ (72,361) |
| Plan assets at fair value..... | 75,587 | 54,222 |
| | ----- | ----- |
| Plan assets (less than) greater than projected benefit obligation..... | 481 | (18,139) |
| Unrecognized prior service cost..... | (4,023) | (4,444) |
| Unrecognized transition obligation..... | 1,286 | 1,500 |
| Unrecognized (gain) loss..... | (7,149) | 12,613 |
| | ----- | ----- |
| Accrued pension cost..... | \$ (9,405) | \$ (8,470) |
| | ===== | ===== |

In determining the projected benefit obligation, the weighted-average assumed discount rate used was 7.5 percent in 1996, 7.0 percent in 1995 and 8.0 percent in 1994, while the assumed average rate of compensation increase was 6.0 percent in 1996 and in 1995 and 7.0 percent in 1994. The expected long-term rate of return on plan assets used in determining net periodic pension cost was 8.0 percent in 1996, 1995 and 1994.

Net periodic pension cost included the following components:

| | 1996 ----- | 1995 ----- | 1994 ----- |
|--|---------------|---------------|---------------|
| Service cost -- benefits earned during the period..... | \$ 8,369 | \$ 8,867 | \$ 6,737 |
| Interest cost on project benefit obligations..... | 5,055 | 3,659 | 3,345 |
| Actual return on plan assets..... | (13,009) | (11,736) | (1,228) |
| Net amortization and deferral..... | 8,429 | 8,327 | (220) |
| | ----- | ----- | ----- |
| Net periodic pension cost..... | \$ 8,844 | \$ 9,117 | \$ 8,634 |
| | ===== | ===== | ===== |

The Company maintains a non-qualified pension plan for certain key employees as designated by the Board of Directors and a nonqualified pension plan for its Board of Directors. Total pension expense for these plans in 1996, 1995 and 1994 was \$11.9 million, \$11.2 million and \$11.7 million, respectively.

Thrift and Savings Plans

The Company's Thrift and Savings Plan ("the Plan") is a defined contribution plan that is intended to qualify under section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees who have been employed by the Company for one or more years and have completed at least a thousand hours of service. Participating employees may contribute up to 6 percent of base salary and these contributions are matched 100 percent by the Company.

The Company also maintains a non-qualified Thrift and Savings Plan to assure that designated participants receive the full amount of benefits to which they would have been entitled under the Thrift and Savings Plan but for limits on compensation and contribution levels imposed by the Internal Revenue Code.

Total expenses related to the Thrift and Savings Plan was \$5.0 million, \$4.9 million and \$4.8 million in 1996, 1995 and 1994, respectively.

17. FEDERAL INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the company's deferred tax liabilities and assets as of June 30, 1997 and December 31, 1996 and 1995 under the liability method are as follows:

| | JUNE 30, 1997 ----- | DECEMBER 31, ----- | |
|---|---------------------------|-----------------------|-----------|
| | | 1996 | 1995 |
| | | ----- | ----- |
| Deferred tax liabilities: | | | |
| Leases..... | \$347,987 | \$351,093 | \$344,438 |
| Unrealized investment gains..... | 185,569 | 188,050 | 199,686 |
| Other..... | 36,441 | 32,669 | 19,574 |
| | ----- | ----- | ----- |
| | 569,997 | 571,812 | 563,698 |
| | ----- | ----- | ----- |
| Deferred tax assets: | | | |
| ExportSS operating costs..... | 66,459 | 68,874 | 54,953 |
| Student loan reserves..... | 50,173 | 47,004 | 31,566 |
| In-substance defeasance transactions..... | 30,627 | 30,788 | 31,014 |
| Asset valuation allowances..... | 24,490 | 24,842 | 25,512 |
| Securitization transactions..... | 19,473 | 13,076 | -- |
| Other..... | 34,440 | 31,211 | 25,522 |
| | ----- | ----- | ----- |
| | 225,662 | 215,795 | 168,567 |
| | ----- | ----- | ----- |
| Net deferred tax liabilities..... | \$344,335 | \$356,017 | \$395,131 |
| | ===== | ===== | ===== |

The GSE is exempt from all state, local and District of Columbia taxes except for real property taxes. Deferred tax assets on in-substance defeasance transactions resulted from premiums on the debt extinguished. These premiums are capitalized and amortized over the life of the defeasance trust for tax purposes.

Reconciliations of the statutory United States federal income tax rates to the Company's effective tax rate follow:

| | SIX MONTHS ENDED JUNE 30, | | YEARS ENDED DECEMBER 31, | | |
|--|---------------------------------|-------|-----------------------------|-------|-------|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| Statutory rate..... | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% |
| Tax exempt interest and dividends received deduction..... | (3.3) | (3.5) | (3.8) | (6.4) | (5.7) |
| Other, net..... | (1.0) | (1.2) | (1.3) | (1.2) | (.4) |
| Effective tax rate..... | 30.7% | 30.3% | 29.9% | 27.4% | 28.9% |

Federal income taxes paid for the six months ended June 30, 1997 and 1996 and for the years ended December 31, 1996, 1995 and 1994 were \$110 million, \$109 million, \$202 million, \$122 million and \$188 million, respectively.

18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| | 1997 | | 1996 | | | |
|---|------------------|-------------------|------------------|-------------------|------------------|-------------------|
| | FIRST QUARTER | SECOND QUARTER | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
| Net interest income..... | \$199,026 | \$207,461 | \$232,679 | \$219,561 | 208,988 | \$205,208 |
| Other income..... | 75,940 | 78,055 | 21,754 | 27,899 | 35,211 | 62,052 |
| Operating expenses..... | 101,559 | 115,283 | 98,773 | 100,145 | 100,075 | 106,659 |
| Federal income taxes..... | 54,570 | 51,069 | 47,968 | 44,340 | 42,877 | 48,313 |
| Minority interest in net earnings of subsidiary..... | 2,674 | 2,673 | 2,673 | 2,674 | 2,673 | 2,674 |
| Income before premiums on debt extinguished..... | 116,163 | 116,491 | 105,019 | 100,301 | 98,574 | 109,614 |
| Premiums on debt extinguished, net of tax..... | -- | -- | (4,792) | -- | -- | -- |
| Net income..... | \$116,163 | \$116,491 | \$100,227 | \$100,301 | \$98,574 | \$109,614 |
| Earnings per common share before premiums on debt extinguished..... | \$ 2.17 | \$ 2.20 | \$ 1.82 | \$ 1.79 | \$ 1.79 | \$ 2.01 |
| Earnings per common share..... | \$ 2.17 | \$ 2.20 | \$ 1.74 | \$ 1.79 | \$ 1.79 | \$ 2.01 |

| | 1995 | | | |
|--|------------------|-------------------|------------------|-------------------|
| | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
| Net interest income..... | \$221,147 | \$222,694 | \$227,952 | \$228,948 |
| Other operating income..... | 321 | 7,883 | 8,971 | 33,238 |
| Operating expenses..... | 101,768 | 111,368 | 118,325 | 107,240 |
| Federal income taxes..... | 30,906 | 31,187 | 32,031 | 47,139 |
| Minority interest in net earnings of subsidiary..... | 2,674 | 2,673 | 2,674 | 2,673 |
| Income before premiums on debt extinguished..... | 86,120 | 85,349 | 83,893 | 105,134 |
| Premiums on debt extinguished, net of tax..... | -- | -- | -- | (4,911) |
| Net income..... | \$ 86,120 | \$ 85,349 | \$ 83,893 | \$100,223 |
| Earnings per common share before premiums on debt extinguished..... | \$ 1.17 | \$ 1.20 | \$ 1.28 | \$ 1.76 |
| Earnings per common share..... | \$ 1.17 | \$ 1.20 | \$ 1.28 | \$ 1.67 |

19. COLLEGE CONSTRUCTION LOAN INSURANCE ASSOCIATION

In 1987, the Company assisted in creating the College Construction Loan Insurance Association ("Connie Lee"), a private, for-profit, stockholder-owned corporation, authorized by Congress to insure and reinsure educational facilities obligations. At both June 30, 1997 and December 31, 1996, the carrying value of the Company's investment in Connie Lee was approximately \$44 million, and as of June 30, 1997 and December 31, 1996, through its ownership of preferred and common stock and through agreements with other shareholders, the Company effectively controlled 42 percent and 36 percent, respectively, of Connie Lee's outstanding voting stock. In February 1997, Connie Lee converted to a private, shareholder-controlled corporation pursuant to statutory provisions under Pub. L. No. 104-208 that required Connie Lee to repurchase

shares of its stock owned by the U.S. government at a purchase price determined by an independent appraisal. On February 28, 1997 the Company loaned Connie Lee \$18 million to repurchase the shares. On May 27, 1997 the term of this loan was extended to June 29, 1997 and on June 26, 1997, the loan was further extended to December 29, 1997.

 NO DEALER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE SELLING STOCKHOLDERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY OR THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE AS OF WHICH SUCH INFORMATION IS GIVEN. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY TO ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANYONE TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

SLM HOLDING CORPORATION
 555,015 SHARES OF COMMON STOCK

 PROSPECTUS

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OCTOBER 21, 1997

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth all expenses payable by the Company in connection with the offering of the Shares being registered, other than discounts and commissions. The Selling Stockholders will not share any portion of these expenses.

| | |
|--|--------------|
| Registration Fee | \$27,056.98 |
| Printing Expenses | 12,000.00 |
| Legal Fees and Expenses | 30,000.00 |
| Accounting Fees and Expenses | 30,000.00 |
| Miscellaneous | 943.02 |
| | ----- |
| Total | \$100,000.00 |
| | ===== |

ITEM 14. INDEMNIFICATION OF OFFICERS AND DIRECTORS

Article XIII of the Registrant's By-Laws provides for indemnification of the officers and directors of SLM Holding Corporation to the fullest extent permitted by applicable law. Section 145 of the Delaware General Corporation Law provides, in relevant part, that a corporation organized under the laws of Delaware shall have the power, and in certain cases the obligation, to indemnify any person who was or is a party or is threatened to be made a party to any suit or proceeding because such person is or was a director, officer, employee or agent of the corporation or is or was serving, at the request of the corporation, as a director, officer, employee or agent of another corporation, against all costs actually and reasonably incurred by him in connection with such suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal proceeding, he had no reason to believe his conduct was unlawful. Similar indemnity is permitted to be provided to such persons in connection with an action or suit by or in right of the corporation, provided such person acted in good faith and in a manner he believed to be in or not opposed to the best interests of the corporation, and provided further (unless a court of competent jurisdiction otherwise determines) that such person shall not have been adjudged liable to the corporation.

The directors and officers of the Registrant and its subsidiaries will be covered by a policy of insurance under which they will be insured, within limits and subject to certain limitations, against certain expenses in connection with the defense of actions, suits or proceedings, and certain liabilities that might be imposed as a result of such actions, suits or proceedings in which they are parties by reason of being or having been directors or officers.

ITEM 15: RECENT SALES OF UNREGISTERED SECURITIES

None

ITEM 16. EXHIBITS

The following exhibits are filed herewith or incorporated by reference:

| EXHIBIT NO. ----- | DESCRIPTION OF DOCUMENT ----- |
|----------------------|---|
| **2 | Agreement and Plan of Reorganization by and among the Student Loan Marketing Association ("Sallie Mae"), SLM Holding Corporation ("Registrant"), and Sallie Mae Merger Company ("MergerCo") |
| *3.1 | Amended and Restated Certificate of Incorporation of Registrant |
| *3.2 | By-Laws of Registrant |
| *4 | Warrant Certificate No. W-2, dated as of August 7, 1997 |
| *5 | Opinion of Marianne M. Keler, General Counsel, as to the legality of the securities being registered |
| **10.1 | Board of Directors' Restricted Stock Plan |
| **10.2 | Board of Directors' Stock Option Plan |
| **10.3 | Deferred Compensation Plan for Directors |
| **10.4 | Incentive Performance Plan |
| **10.5 | Stock Compensation Plan |
| **10.6 | 1993-1998 Stock Option Plan |
| **10.7 | Supplemental Pension Plan |
| **10.8 | Supplemental Employees' Thrift & Savings Plan |
| **21 | Subsidiaries of the Registrant |
| *23.1 | Consent of Ernst & Young LLP |
| *24.2 | Power of Attorney (contained on the signature page hereto) |
| *27 | Financial Data Schedule |
| **99.1 | Charter of the GSE |
| *99.2 | By-Laws of the GSE |

* Filed herewith.
** Previously filed.

ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the registration statement is on Form S-3 or Form S-8, and the information required to be included in the post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes to supplement the prospectus, after the expiration of the subscription period, to set forth the results of the subscription offer, the transactions by the underwriters during the subscription period, the amount of unsubscribed securities to be purchased by the underwriters, and the terms of any subsequent reoffering thereof. If any public offering by the underwriters is to be made on terms differing from those set forth on the cover page of the prospectus, a post-effective amendment will be filed to set forth the terms of such offering.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report, to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X is not set forth in the prospectus, to deliver, or cause to be delivered to each person to

whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Washington, District of Columbia.

SLM HOLDING CORPORATION
By: /s/ Edward A. Fox

Edward A. Fox
Chairman of the Board of Directors

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Edward A. Fox, Albert L. Lord, J. Paul Carey and Lucy C. Weymouth, and each of them, his attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully as to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE ----- | TITLE ----- | DATE ----- |
|---|--|------------------|
| /s/ Edward A. Fox ----- Edward A. Fox | Chairman of the Board of Directors | October 21, 1997 |
| /s/ Albert L. Lord ----- Albert L. Lord | Chief Executive Officer (principal executive officer) | October 21, 1997 |
| /s/ Mark G. Overend ----- Mark G. Overend | Chief Financial Officer (principal financial and accounting officer) | October 21, 1997 |
| /s/ James E. Brandon ----- James E. Brandon | Director | October 21, 1997 |
| /s/ Charles L. Daley ----- Charles L. Daley | Director | October 21, 1997 |
| /s/ Thomas J. Fitzpatrick ----- Thomas J. Fitzpatrick | Director | October 21, 1997 |
| /s/ Diane S. Gilleland ----- Diane S. Gilleland | Director | October 21, 1997 |
| /s/ Ann Torre Grant ----- Ann Torre Grant | Director | October 21, 1997 |

| SIGNATURE ----- | TITLE ----- | DATE ----- |
|---|----------------|------------------|
| /s/ Ronald F. Hunt ----- Ronald F. Hunt | Director | October 21, 1997 |
| /s/ Benjamin J. Lambert, III ----- Benjamin J. Lambert, III | Director | October 21, 1997 |
| /s/ Marie V. McDemmond ----- Marie V. McDemmond | Director | October 21, 1997 |
| /s/ Barry A. Munitz ----- Barry A. Munitz | Director | October 21, 1997 |
| /s/ A. Alexander Porter ----- A. Alexander Porter | Director | October 21, 1997 |
| /s/ Wolfgang Schoellkopf ----- Wolfgang Schoellkopf | Director | October 21, 1997 |
| /s/ Steven L. Shapiro ----- Steven L. Shapiro | Director | October 21, 1997 |
| /s/ Randolph H. Waterfield ----- Randolph H. Waterfield | Director | October 21, 1997 |

EXHIBIT INDEX

| EXHIBIT NO. ----- | DESCRIPTION OF DOCUMENT ----- | SEQUENTIALLY NUMBERED PAGE ----- |
|----------------------|---|--|
| **2 | Agreement and Plan of Reorganization by and among the Student Loan Marketing Association ("Sallie Mae"), SLM Holding Corporation ("Registrant"), and Sallie Mae Merger Company ("MergerCo") | |
| *3.1 | Amended and Restated Certificate of Incorporation of Registrant | |
| *3.2 | By-Laws of Registrant | |
| *4 | Warrant Certificate No. W-2, dated as of August 7, 1997 | |
| *5 | Opinion of Marianne M. Keler, General Counsel, as to the legality of the securities being registered | |
| **10.1 | Board of Directors' Restricted Stock Plan | |
| **10.2 | Board of Directors' Stock Option Plan | |
| **10.3 | Deferred Compensation Plan for Directors | |
| **10.4 | Incentive Performance Plan | |
| **10.5 | Stock Compensation Plan | |
| **10.6 | 1993-1998 Stock Option Plan | |
| **10.7 | Supplemental Pension Plan | |
| **10.8 | Supplemental Employees' Thrift & Savings Plan | |
| **21 | Subsidiaries of the Registrant | |
| *23.1 | Consent of Ernst & Young LLP | |
| *24.2 | Power of Attorney | + |
| *27 | Financial Data Schedule | |
| **99.1 | Charter of the GSE | |
| *99.2 | By-Laws of the GSE | |
| ----- | | |
| * | Filed herewith. | |
| ** | Previously filed. | |
| + | Contained on the signature page hereto. | |

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF

SLM HOLDING CORPORATION

SLM Holding Corporation, a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

(1) The name of the Corporation is SLM Holding Corporation.

(2) The name under which the Corporation was originally incorporated was SLM Holding Corporation and the original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on February 3, 1997.

(3) This Amended and Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation and by the sole stockholder of the Corporation in accordance with the provisions of Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware.

(4) This Amended and Restated Certificate of Incorporation restates and integrates and further amends the Amended and Restated Certificate of Incorporation of the Corporation.

(5) The Amended and Restated Certificate of Incorporation of the Corporation, upon its filing with the Secretary of State of the State of Delaware, shall read in its entirety as follows:

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF

SLM HOLDING CORPORATION

FIRST: The name of the Corporation is SLM Holding Corporation (hereinafter the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware as set forth in Title 8 of the Delaware Code (the "GCL").

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is 270,000,000 shares of capital stock, consisting of (i) 250,000,000 shares of common stock, par value \$.20 per share (the "Common Stock"), and (ii) 20,000,000 shares of preferred stock, par value \$.20 per share (the "Preferred Stock").

a. COMMON STOCK. The powers, preferences and rights, and the qualifications, limitations and restrictions, of the Common Stock are as follows:

(1) Voting. Except as otherwise expressly required by law or provided in this Certificate of Incorporation, and subject to any voting rights provided to holders of Preferred Stock at any time outstanding, at each annual or special meeting of stockholders, each holder of record of shares of Common Stock on the relevant record date shall be entitled to cast one vote in person or by proxy for each share of the Common Stock standing in such holder's name on the stock transfer records of the Corporation; provided, however, that at all elections of directors of the Corporation, each holder of record of shares of Common Stock on the relevant record date shall be entitled to cast as many votes, in person or by proxy, which (except for this provision) such holder would be entitled to cast for the election of directors with respect to its shares of stock multiplied by the number of directors to be elected at such election, and that such holder may cast all such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them as such holder sees fit.

(2) Dividends. Subject to the rights of the holders of Preferred Stock, and subject to any other provisions of this Certificate of Incorporation, as it may be amended from time to time, holders of shares of Common Stock shall be entitled to receive such dividends and other distributions in cash, stock or

property of the Corporation when, as and if declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor.

(3) Liquidation, Dissolution, etc. In the event of any liquidation, dissolution or winding up (either voluntary or involuntary) of the Corporation, the holders of shares of Common Stock shall be entitled to receive the assets and funds of the Corporation available for distribution after payments to creditors and to the holders of any Preferred Stock of the Corporation that may at the time be outstanding, in proportion to the number of shares held by them.

(4) No Preemptive or Subscription Rights. No holder of shares of Common Stock shall be entitled to preemptive or subscription rights.

b. PREFERRED STOCK. The Board of Directors is hereby expressly authorized to provide for the issuance of all or any shares of the Preferred Stock in one or more classes or series, and to fix for each such class or series such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such class or series, including, without limitation, the authority to provide that any such class or series may be (i) subject to redemption at such time or times and at such price or prices; (ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; or (iv) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock, of the Corporation at such price or prices or at such rates of exchange and with such adjustments; all as may be stated in such resolution or resolutions.

c. POWER TO SELL AND PURCHASE SHARES. Subject to the requirements of applicable law, the Corporation shall have the power to issue and sell all or any part of any shares of any class of stock herein or hereafter authorized to such persons, and for such consideration, as the Board of Directors shall from time to time, in its discretion, determine, whether or not greater consideration could be received upon the issue or sale of the same number of shares of another class, and as otherwise permitted by law. Unless approved by the affirmative vote of not less than a majority of the voting power of the shares of capital stock of the Corporation then entitled to vote at an election of directors, the Corporation shall not take any action that would result in the acquisition by the Corporation, directly or indirectly, from any person or "group" (as defined in Section 13(d) of the Securities Exchange Act of 1934) of five percent or more of the shares of Common Stock issued and outstanding, at a price in excess of the prevailing

market price of such Common Stock, other than pursuant to a tender offer made to all stockholders or to all stockholders owning less than 100 shares of Common Stock.

d. LIMITATION ON STOCKHOLDER RIGHTS PLAN. Notwithstanding any other powers set forth in this Certificate of Incorporation, the Board of Directors shall not adopt a stockholders "rights plan" (which for this purpose shall mean any arrangement pursuant to which, directly or indirectly, Common Stock or Preferred Stock purchase rights may be distributed to stockholders that provide all stockholders, other than persons who meet certain criteria specified in the arrangement, the right to purchase the Common Stock or Preferred Stock at less than the prevailing market price of the Common Stock or Preferred Stock), unless (i) such rights plan is ratified by the affirmative vote of a majority of the voting power of the shares of capital stock of the Corporation then entitled to vote at an election of directors at the next meeting (annual or special) of stockholders; (ii) by its terms, such rights plan expires within thirty-seven (37) months from the date of its adoption, unless extended by the affirmative vote of a majority of the voting power of the shares of capital stock of the Corporation then entitled to vote at an election of directors; and (iii) at any time the rights issued thereunder will be redeemed by the Corporation upon the affirmative vote of a majority of the voting power of the shares of capital stock of the Corporation then entitled to vote at an election of directors.

FIFTH: Reserved.

SIXTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

a. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

b. The directors shall have concurrent power with the stockholders to make, alter, amend, change, add to or repeal the By-Laws of the Corporation.

c. (1) (i) The number of directors of the Corporation shall be fifteen (15). The number of directors of the Corporation shall be changed only by the affirmative vote of not less than a majority of the voting power of the shares of capital stock of the Corporation then entitled to vote at an election of directors. Election of directors need not be by written ballot unless the By-Laws so provide.

(ii) Directors may be removed with or without cause by a vote of the holders of shares entitled to vote at an election of directors at a duly called meeting of such holders, provided that no director shall be removed for cause except by the affirmative vote of not less than a majority of the voting power of the shares then entitled to vote at an election of directors, and provided further that if less than the entire

board of directors is to be removed, no director may be removed without cause if the votes cast against his removal would be sufficient to elect him if then cumulatively voted at an election of the entire board of directors.

(iii) Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation applicable thereto.

(2) A director shall hold office until the succeeding annual meeting (or special meeting in lieu thereof) and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

(3) Any vacancy on the Board of Directors, regardless of whether resulting from death, resignation, retirement, disqualification, removal from office or otherwise, may be filled only by stockholders of the Corporation.

d. No director shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the GCL or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or modification of this Article SIXTH by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

e. In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the GCL, this Certificate of Incorporation, and any By-Laws adopted by the stockholders; provided, however, that no such action by the Board of Directors, unless approved by a majority of the voting shares of capital stock of the Corporation then entitled to vote at an election of directors, shall amend, alter, change or repeal the right of stockholders as provided for in the By-Laws to call a special meeting of stockholders; and provided further that no By-Laws hereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such By-Laws had not been adopted.

SEVENTH: Meetings of stockholders may be held within or without the State of Delaware, as the By-Laws may provide. The books of the Corporation may be kept (subject to any provision contained in the GCL) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-Laws of the Corporation.

EIGHTH: Any action required to be taken at any annual or special meeting of stockholders, or any action which may be taken at any annual or special meeting of stockholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation delivery to its registered office, its principal place of business or an officer or director of the Corporation having custody of the book in which proceedings of meetings of members are recorded.

NINTH: Pursuant to Section 203(b)(1) of the GCL, the Corporation hereby expressly opts not to be governED by GCL Section 203.

TENTH: Any action by the Board of Directors to make, alter, amend, change, add to or repeal this Certificate of Incorporation shall be approved by the affirmative vote of not less than a majority of the voting power of the shares of capital stock of the Corporation then entitled to vote at an election of directors. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

IN WITNESS WHEREOF, the Corporation has caused this Amended and Restated Certificate of Incorporation to be executed on its behalf this 6th day of August, 1997.

SLM HOLDING CORPORATION

By: /s/ Albert L. Lord

Albert L. Lord
Chief Executive Officer

BY-LAWS
OF
SLM HOLDING CORPORATION

(HEREINAFTER CALLED THE "CORPORATION")

ARTICLE I -- OFFICES

Section 1. Registered Office. The registered office of the Corporation shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. Offices. The principal office of the Corporation shall be located in the City and Jurisdiction as the Board of Directors may, from time to time, determine. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II -- MEETINGS OF STOCKHOLDERS

Section 1. Place of Meetings. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place within the continental United States, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors or, in the case of a special meeting called pursuant to Section 3 of this Article at the request in writing of the holders of at least one-third of the capital stock of the Corporation issued and outstanding and entitled to vote at an election of directors, as shall be designated by such stockholders or their representative, and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings. The Annual Meetings of Stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meetings the stockholders shall elect by a plurality vote a Board of Directors, and transact such other business as may properly be brought before the meeting. Written notice of the Annual Meeting, stating the place, date and hour of the meeting, shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

Section 3. Special Meetings. Unless otherwise prescribed by law or by the Certificate of Incorporation, Special Meetings of Stockholders, for any purpose or purposes, shall be called by the Secretary (i) at the direction of either (x) the Chairman or (y) the Chief Executive

Officer, if the Chief Executive Officer is a member of the Board of Directors, or (ii) at the request in writing of either (x) a majority of the Board of Directors or (y) the holders of at least one-third of the capital stock of the Corporation issued and outstanding and entitled to vote at an election of directors. Any such request shall state the purpose or purposes of the proposed meeting. Written notice of a Special Meeting, stating the place, date and hour of the meeting and purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

Section 4. Quorum. Except as otherwise provided by law or by the Certificate of Incorporation, at all meetings of the stockholders, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

Section 5. Voting. Unless otherwise required by law, the Certificate of Incorporation or these By-Laws, any question brought before any meeting of stockholders shall be decided by the vote of the holders of a majority of the stock represented and entitled to vote thereat. Each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stockholder, provided, however, that at all elections of directors of the Corporation, each holder of record of shares of Common Stock on the relevant record date shall be entitled to cast as many votes, in person or by proxy, which (except for this provision) such holder would be entitled to cast for the election of directors with respect to its shares of stock multiplied by the number of directors to be elected at such election, and that such holder may cast all such votes for a single director or may distribute them among the number of directors to be voted for, or for any two or more of them as such holder sees fit. Such votes may be cast in person or by proxy, but no proxy shall be voted on or after three years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast by written ballot.

Section 6. List of Stockholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary

business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the principal office of the Corporation. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

Section 7. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 6 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 8. Meeting Business. No business shall be brought before any meeting of shareholders unless it has been properly brought before the meeting in accordance with the procedures set forth in these By-Laws; provided, however, that nothing in this Section shall be deemed to preclude discussion by any shareholder of any business properly brought before such meeting.

To be properly brought before an annual meeting, such business must be either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (c) otherwise brought before the annual meeting by any shareholder of the Corporation who is a shareholder of record on the date of the giving of the notice provided for in Section 2 of this Article and on the record date for the determination of shareholders entitled to vote at the such annual meeting. To be properly brought before an annual meeting, such business also must be a proper subject for action by shareholders, provided that the law of Delaware shall govern whether such business is a proper subject for action by shareholders.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than thirty (30) nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the shareholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which notice of the date of such annual meeting was mailed. When a date is set for the determination of the timeliness of a shareholder's notice, such date shall apply to any adjournment of such meeting. To be in proper written form, a shareholder's notice to the Secretary must set forth as to each matter such shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and record address such shareholder, (c) the number of shares of the Corporation which are owned (beneficially or of record) by such

shareholder, (d) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder in such business, and (e) a representation that such shareholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting. This provision shall not prevent the consideration and approval or disapproval at the annual meeting of the reports of officers and committees, but in connection with such reports no new business shall be acted upon at such annual meeting unless brought before the meeting in accordance with the procedures set forth in this Section.

The business conducted at any special meeting of shareholders shall be limited to the purposes stated in the notice of such special meeting.

The Chairman shall determine the order of business and the procedure at any shareholder meeting, including such regulation of the manner of voting and the conduct of discussion as seem to the Chairman in order and not inconsistent with these By-Laws. If the Chairman determines that business was not properly brought before the meeting in accordance with these By-Laws, the Chairman shall so declare and such business shall not be conducted.

Section 9. Board Nominations. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors at any annual meeting of shareholders. Nominations of persons for election to the Board of Directors may be made at any annual meeting of shareholders (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (b) by any shareholder of the Corporation who is a shareholder of record on the date of the giving of the notice provided for in Section 2 of this Article II and on the record date for the determination of shareholders entitled to vote at such annual meeting.

In addition to any other applicable requirements, for a nomination to be made by a shareholder, the shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than thirty (30) nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the shareholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which notice of the date of such annual meeting was mailed. When a date is set for the determination of the timeliness of a shareholder's notice, such date shall apply to any adjournment of such meeting. To be in proper written form, a shareholder's notice to the Secretary must set forth (a) as to each person whom such shareholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person and the purported basis for such person's eligibility to serve on the Board of Directors, if elected, (iii) the number of shares of the Corporation which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required by law to be disclosed in a

proxy statement or in other filings required to be made in connection with solicitations of proxies for election of directors, including information required pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations promulgated thereunder; and (b) as to the shareholder giving the notice (i) the name and record address of such shareholder, (ii) the number of shares of the Corporation which are owned beneficially or of record by such shareholder, (iii) a description of all arrangements or understandings between such shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such shareholder, (iv) a representation that such shareholder intends to appear in person or by proxy at the annual meeting to nominate the persons named in its notice and (v) any other information relating to such shareholder that would be required by law to be disclosed in a proxy statement or in other filings required to be made in connection with solicitations of proxies for election of directors, including information required pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

If the Chairman determines that a nomination was not properly brought before the meeting in accordance with these By-Laws, the Chairman shall so declare and such defective nomination shall be disregarded.

ARTICLE III -- DIRECTORS

Section 1. Election of Directors. Except as provided in Section 2 of this Article, directors shall be elected by a plurality of the votes cast at Annual Meetings of Stockholders, and each director so elected shall hold office until the succeeding Annual Meeting (or special meeting in lieu thereof) and until his successor is duly elected and qualified, or until his earlier resignation or removal. Any director may resign at any time upon notice to the Corporation. Such resignation shall take effect at the time specified therein or, if the time be not specified, upon the receipt thereof and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Directors need not be stockholders of the Corporation. The number of directors of the Corporation shall be changed only by the affirmative vote of not less than a majority of the voting power of the shares then entitled to vote at an election of directors.

Section 2. Vacancies. Vacancies on the Board of Directors shall be filled in accordance with the provisions of the Corporation's Certificate of Incorporation.

Section 3. Duties and Powers. The business of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done by the stockholders.

Section 4. Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of

the Board of Directors may be held at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors shall be called by the Secretary (i) at the direction of (x) the Chairman or (y) the Chief Executive Officer, if the Chief Executive Officer is a member of the Board of Directors, or (ii) at the written request of a majority of the entire Board of Directors. Notice of a meeting of the Board of Directors, stating the place, date and hour of the meeting, shall be given to each director either by mail not less than forty-eight (48) hours before the date of such meeting, by telephone or by telegram or facsimile transmission not less than twenty-four (24) hours before the date of such meeting. A waiver of such notice by any director or directors, in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed the equivalent of such notice.

Section 5. Quorum. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these By-Laws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 6. Actions of Board. Unless otherwise provided by the Certificate of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all of the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings, setting forth the action so taken, are filed with the minutes of proceedings of the Board of Directors or committee.

Section 7. Meetings by Means of Conference Telephone. Unless otherwise provided by the Certificate of Incorporation or these By-Laws, members of the Board of Directors of the Corporation, or of any committee thereof, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 7 shall constitute presence in person at such meeting.

Section 8. Committees. The Board of Directors shall adopt resolutions establishing the following committees: (i) Executive, (ii) Audit, (iii) Nominations and Board Affairs and (iv) Compensation and Personnel. In addition, the Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more additional committees. Each committee shall consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member,

the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent allowed by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep regular minutes and report to the Board of Directors when required.

Section 9. Compensation. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum or a fixed number of shares of the Corporation's stock for attendance at each meeting of the Board of Directors and/or as compensation for service as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 10. Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (i) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

Section 11. Qualification of Directors. Notwithstanding any other provision of these By-Laws, (i) the Board of Directors shall consist of a majority of Independent directors, (ii) the Executive Committee of the Board of Directors shall consist of a majority of Independent directors, and (iii) the Audit, Nominations and Board Affairs and Compensation and Personnel Committees of the Board of Directors shall consist solely of Independent directors. For purposes hereof, a director will not generally be considered Independent if he or she: (a) has been employed by the Corporation or one of its affiliates in an executive capacity; (b) is an employee or owner of a firm that is one of the Corporation's or its affiliates' paid advisers or consultants; (c) is employed by a significant customer or supplier; (d) has a personal services

contract with the Corporation or one of its affiliates; (e) is employed by a foundation or university that receives significant grants or endowments from the Corporation or one of its affiliates; (f) is a relative of an executive of the Corporation or one of its affiliates; (g) is part of an interlocking directorate in which an executive officer of the Corporation serves on the board of another corporation that employs the director; or (h) is an employee of a firm that directly competes against the Corporation or one of its affiliates.

ARTICLE IV -- OFFICERS

Section 1. General. The officers of the Corporation shall be chosen by the Board of Directors and shall be a Chairman of the Board (who must be a director), a Chief Executive Officer, a General Counsel, a Secretary and a Treasurer. The Board of Directors, in its discretion, may also choose a President and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Certificate of Incorporation or these By-Laws. The officers of the Corporation need not be stockholders of the Corporation nor, except in the case of the Chairman of the Board of Directors, need such officers be directors of the Corporation.

Section 2. Election. The Board of Directors at its first meeting held after each Annual Meeting of Stockholders shall elect the officers of the Corporation who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. Any officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 3. Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the Chief Executive Officer or the General Counsel or such other authorized officer of the Corporation, and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 4. Chairman of the Board of Directors. The Chairman of the Board of Directors shall preside at all meetings of the stockholders and of the Board of Directors. The Chairman of the Board of Directors shall also perform such other duties and may exercise such

other powers as from time to time may be assigned to him by these By-Laws or by the Board of Directors.

Section 5. Chief Executive Officer. The Chief Executive Officer shall, subject to the control of the Board of Directors and the Chairman of the Board of Directors, have general supervision of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall execute all bonds, mortgages, contracts and other instruments of the Corporation requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except that the other officers of the Corporation may sign and execute documents when so authorized by these By-Laws, the Board of Directors or the Chief Executive Officer. In the absence or disability of the Chairman of the Board of Directors, the Chief Executive Officer shall preside at all meetings of the stockholders and the Board of Directors. The Chief Executive Officer shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these By-Laws or by the Board of Directors.

Section 6. Vice Presidents. At the request of the Chief Executive Officer or in his absence, or in the event of his inability or refusal to act, the Vice President or the Vice Presidents if there is more than one (in the order designated by the Board of Directors) shall perform the duties of the Chief Executive Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer. Each Vice President shall perform such other duties and have such other powers as the Board of Directors from time to time may prescribe. If there be no Vice President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the Chief Executive Officer, or in the event of the inability or refusal of the Chief Executive Officer to act, shall perform the duties of the Chief Executive Officer, and when so acting, such officer shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer.

Section 7. General Counsel. The General Counsel shall (a) be the principal consulting officer of the Corporation for all legal matters; (b) be responsible for and direct all counsel, attorneys, employees and agents in the performance of all legal duties and services for and on behalf of the Corporation; (c) perform such other duties and have such other powers as are ordinarily incident to the office of the General Counsel; and (d) perform such other duties as from time to time may be assigned to him by the Chief Executive Officer or by the Board of Directors.

Section 8. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties, when required, for the committees of the Board of Directors. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or Chief Executive Officer, under whose supervision he shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors

or the Chief Executive Officer may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it, and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

Section 9. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

Section 10. Assistant Secretaries. Except as may be otherwise provided in these By-Laws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, or the Secretary, and in the absence of the Secretary or in the event of his disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 11. Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, or the Treasurer, and in the absence of the Treasurer or in the event of his disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

Section 12. Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

Section 13. Employee Conduct. No officer or employee shall engage, directly or indirectly, in any personal business transaction or private arrangement for personal profit which accrues from or is based upon his official position or authority or upon confidential information which he gains by reason of such position or authority, and each officer and employee shall reasonably restrict his personal business affairs so as to avoid conflicts of interest with his official duties. No officer or employee shall divulge confidential information to any unauthorized person, or release any such information in advance of authorization for its release, nor shall he accept, directly or indirectly, any valuable gift, favor or service from any person with whom he transacts business on behalf of the Corporation.

Section 14. Outside or Private Employment. No officer or employee shall have any outside or private employment or affiliation with any firm or organization incompatible with his concurrent employment by the Corporation, nor shall he accept or perform any outside or private employment which the Chief Executive Officer of the Corporation determines will interfere with the efficient performance of his official duties.

ARTICLE V -- STOCK

Section 1. Form of Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman of the Board of Directors, the Chief Executive Officer or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation.

Section 2. Signatures. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 3. Lost Certificates. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these By-Laws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before a new certificate shall be issued.

Section 5. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 6. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VI -- NOTICES

Section 1. Notices. Whenever written notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Written notice may also be given personally or by facsimile, telegram, telex or cable.

Section 2. Waivers of Notice. Whenever any notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE VII -- GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds

of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 2. Acquisition of Common Stock by the Corporation. Unless approved by holders of a majority of the outstanding capital stock of the Corporation then entitled to vote at an election of directors, the Corporation shall not take any action that would result in the acquisition by the Corporation, directly or indirectly, from any one person or "group" (as defined in Section 13(d) of the Securities Exchange Act of 1934) of one percent or more of the shares of Common Stock then outstanding, in one or a series of related transactions, at a price in excess of the prevailing market price of such stock, other than pursuant to a tender offer made to all holders of Common Stock or to all holders of less than 100 shares of Common Stock.

Section 3. Disbursements. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 4. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 5. Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE VIII -- INDEMNIFICATION

Section 1. Power to Indemnify in Actions, Suits or Proceedings other than those by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably

believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 2. Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Authorization of Indemnification. Any indemnification under this Article VIII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Such determination shall be made (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (iii) by the stockholders. To the extent, however, that a director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case.

Section 4. Good Faith Defined. For purposes of any determination under Section 3 of this Article VIII, a person shall be deemed to have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe his conduct was unlawful, if his action is based on the records or books of account of the Corporation or another enterprise, or on information supplied to him by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or

by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 4 shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at the request of the Corporation as a director, officer, employee or agent. The provisions of this Section 4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Sections 1 or 2 of this Article VIII, as the case may be.

Section 5. Indemnification by a Court. Notwithstanding any contrary determination in the specific case under Section 3 of this Article VIII, and notwithstanding the absence of any determination thereunder, any director or officer may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article VIII. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because he has met the applicable standards of conduct set forth in Sections 1 or 2 of this Article VIII, as the case may be. Neither a contrary determination in the specific case under Section 3 of this Article VIII nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 5 shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

Section 6. Expenses Payable in Advance. Expenses incurred by a director or officer in defending or investigating a threatened or pending action, suit or proceeding may be paid by the Corporation, upon the determination by the Board of Directors, in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article VIII, provided the Corporation approves in advance counsel selected by the director or officer (which approval shall not be unreasonably withheld).

Section 7. Non-exclusivity of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by or granted pursuant to this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Certificate of Incorporation or any By-Law, agreement, contract, vote of stockholders or disinterested directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 1 and 2 of this Article VIII shall be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any person who is not specified in Sections 1 or 2 of this Article VIII but whom the Corporation has the power or

obligation to indemnify under the provisions of the General Corporation Law of the State of Delaware, or otherwise.

Section 8. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power or the obligation to indemnify him against such liability under the provisions of this Article VIII.

Section 9. Certain Definitions. For purposes of this Article VIII, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers, so that any person who is or was a director or officer of such constituent corporation, or is or was a director or officer of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article VIII.

Section 10. Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by the Corporation pursuant to this Article VIII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 11. Limitation on Indemnification. Notwithstanding anything contained in this Article VIII to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 5 hereof), the Corporation shall not be obligated to indemnify any director or officer (in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

Section 12. Indemnification of Employees and Agents. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article VIII to directors and officers of the Corporation.

ARTICLE IX -- AMENDMENTS

Section 1. Amendments. These By-Laws of the Corporation may be altered, amended, changed, added to or repealed in whole or in part, or new By-Laws may be adopted, by the stockholders or the Board of Directors, provided, however, that notice of such alteration, amendment, repeal or adoption of new By-Laws is provided before the date on which the meeting of stockholders at which such shall become effective or be voted on, as the case may be. For purposes of this Article IX, filing such alteration, amendment, repeal or new By-Laws with the Securities and Exchange Commission and/or the principal securities exchange on which the common stock of the Corporation is traded shall be deemed to provide notice thereof. All such amendments must be approved by either the holders of a majority of the outstanding capital stock of the Corporation entitled to vote thereon or by a majority of the entire Board of Directors.

NEITHER THE WARRANTS EVIDENCED BY THIS WARRANT CERTIFICATE
NOR THE COMMON STOCK ISSUABLE UPON EXERCISE OF SUCH WARRANTS
HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED,
AND NEITHER SUCH WARRANTS NOR SUCH COMMON STOCK MAY BE TRANSFERRED WITHOUT
AN EFFECTIVE REGISTRATION STATEMENT
RELATED THERETO UNLESS AN EXEMPTION UNDER SUCH ACT
IS THEN AVAILABLE. THE COMMON STOCK ISSUABLE UPON EXERCISE
OF SUCH WARRANTS IS SUBJECT TO THE REGISTRATION PROVISIONS OF SECTION 10 OF
THIS WARRANT CERTIFICATE.

No. W-2

555,015 Warrants

SLM HOLDING CORPORATION
(A Delaware Corporation)

WARRANT CERTIFICATE

Dated as of August 7, 1997

VOID AFTER 5:00 P.M., EASTERN TIME, ON SEPTEMBER 30, 2008

SLM Holding Corporation, a Delaware corporation (the "Company"), hereby certifies that NatWest Securities Limited or its registered assigns (the "Registered Holder") is registered as the holder of the number of warrants first set forth above (the "Warrants"), each of which entitles the Registered Holder to purchase from the Company, subject to the terms and conditions set forth in this Warrant Certificate, at any time or from time to time, on or before September 30, 2008 at not later than 5:00 p.m. Eastern time, one share of Common Stock, par value \$.20 per share, of the Company ("Common Stock"), at a purchase price of \$72.43 per share. The number of shares purchasable upon exercise of the Warrants, and the purchase price per share, each as adjusted from time to time pursuant to the provisions of this Warrant Certificate, are hereinafter referred to as the "Warrant Stock" and the "Purchase Price," respectively.

1. Exercise of Warrants.

(a) Manner of Exercise and Payment. The Warrants may be exercised by the Registered Holder, in whole or in part, by surrendering this Warrant Certificate, with an Election to Purchase in the form attached hereto as Exhibit A, duly executed by such Registered Holder, at the offices of the Company at the address set forth in Section 11, or at such other office or agency as the Company may designate, accompanied by payment in full, in lawful money of the United States, of the Purchase Price payable in respect of the number of shares of Warrant Stock purchased upon such exercise. Payment of the Purchase Price shall be in immediately available

funds by wire transfer to an account to be specified by the Company upon request by the Registered Holder prior to exercise. All Warrants that have not been exercised previously in accordance with the terms of this Warrant Certificate shall expire at 5:00 p.m. Eastern time on September 30, 2008.

(b) Effectiveness. An exercise of the Warrants shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant Certificate shall have been surrendered to the Company as provided in Section 1(a). At such time, the person or persons in whose name or names any certificates for Warrant Stock shall be issuable upon such exercise as provided in Section 1(c) shall be deemed to have become the holder or holders of record of the Warrant Stock represented by such certificates.

(c) Delivery of Certificates. As soon as practicable after the exercise of the Warrants in whole or in part, the Company, at its expense, will cause to be issued in the name of, and delivered to, the Registered Holder or, subject to the terms and conditions hereof and upon payment by such Registered Holder of any applicable transfer taxes, as such Registered holder may direct:

(i) a certificate or certificates for the number of full shares of Warrant Stock to which such Registered Holder shall be entitled upon such exercise plus, in lieu of any fractional share to which such Registered Holder would otherwise be entitled, cash in an amount determined pursuant to Section 1(d), and

(ii) in the event that such exercise is in part only, a new Warrant Certificate (dated the date hereof) of like tenor for the balance of the Warrants.

(d) Fractional Shares. The Company shall not be required upon the exercise of the Warrants to issue any fractional shares, but shall make an adjustment therefor in cash equal to the same fraction of the current market value of a share of Common Stock. For purposes of this Section 1(d), the current market value of a share of Common Stock shall be the closing price of the Common Stock on the New York Stock Exchange for the trading day immediately prior to the date of exercise of the Warrants; provided, however, that if the Common Stock is no longer traded on the New York Stock Exchange, then the current market value of a share of Common Stock shall be determined in good faith by the Board of Directors of the Company.

2. Anti-Dilution Provisions.

(a) Dilutive Issuances of Common Stock or Convertible Securities. If the Company shall issue or sell any shares of Common Stock (or any Common Stock Equivalent, as hereinafter defined), except for shares issued pursuant to employee stock plans and certain transactions as set forth in Section 2(f), at a price per share (or in the case of a Common Stock Equivalent, having a conversion or exercise price per share) that is less than the lesser of (1) the Purchase Price per share hereunder in effect immediately prior to such issuance or sale, or (2) the current market price per share of the Common Stock (as determined under Section 2(e)) on the

date of such issuance or sale, and if immediately following such issuance or sale the number of shares of Common Stock outstanding shall exceed 55,501,548 (as adjusted for any stock split, stock dividend or similar transaction), then in each case the Purchase Price per share hereunder shall be reduced, effective as of the Company's next business day after such issuance or sale, by multiplying such Purchase Price by a fraction, the numerator of which shall be the sum of

(i) the number of shares of Common Stock outstanding at the close of business on the day prior to the date of such issuance or sale, plus

(ii) the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for purchase (or the aggregate initial conversion or exercise price of such Common Stock Equivalents) would purchase at the Purchase Price in effect immediately prior to such issuance or sale (if the Purchase Price is required to be adjusted by reason of an issuance or sale below the Purchase Price in effect immediately prior to such issuance or sale), or at the then current market price (if the Purchase Price is required to be adjusted by reason of an issuance or sale below the then current market price),

and the denominator of which shall be the sum of

(x) the number of shares of Common Stock outstanding at the close of business on the day prior to the date of such issuance or sale, plus

(y) the number of shares of Common Stock offered for such issuance or sale or into which or for which the Common Stock Equivalents are initially convertible or exercisable.

Each such adjustment of the Purchase Price shall be calculated to the nearest cent.

(b) Adjustment to Number of Shares. Upon each adjustment of the Purchase Price as a result of the calculations made under Section 2(a), each Warrant outstanding immediately prior to the making of that adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of shares of Common Stock obtained by (x) multiplying the number of shares of Common Stock purchasable upon exercise of a Warrant immediately prior to that adjustment by the Purchase Price in effect immediately prior to that adjustment of the Purchase Price and (y) dividing the product so obtained by the Purchase Price in effect immediately after that adjustment of the Purchase Price.

(c) Treatment of Common Stock Equivalents. For the purposes of this Section 2, if the Company shall issue any Common Stock Equivalents, except for such rights issued pursuant to employee stock plans and certain transactions as set forth in Section 2(f), the maximum total number of shares of Common Stock issuable upon exercise of such rights shall thereupon be deemed to have been issued and to be outstanding, and the consideration received by the Company therefor shall be deemed to include the initial consideration payable upon the exercise of such rights. No further adjustment of the Purchase Price adjusted upon the issuance of such rights shall be made as a result of the actual issuance of shares of Common Stock on the

exercise of any such rights. If the provisions of any Common Stock Equivalents with respect to the purchase price or the number of shares purchasable shall change or expire, any adjustment previously made hereunder for such right shall be readjusted as of the date of issuance of such rights to such as would have obtained on the basis of the rights as modified by such change or expiration (except for the operation of any anti-dilution provisions thereof).

(d) Consideration. In case the Company shall issue shares of its Common Stock or Common Stock Equivalents for a consideration wholly or partly other than cash, the amount of the consideration other than cash received by the Company shall be as determined in good faith by the Board of Directors of the Company whose good faith determination shall be conclusive.

(e) Meanings of Terms. For purposes of this Section 2, the term "Common Stock Equivalents" includes any securities convertible into or exchangeable for shares of Common Stock.

For purposes of this Section 2, the number of shares of Common Stock outstanding at any time shall not include shares held in the treasury of the Company.

For purposes of this Section 2, the "current market price" per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for the twenty (20) consecutive trading days commencing thirty (30) trading days before the day in question. The closing price for each day shall be the last reported sales price regular way or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case on the New York Stock Exchange, or if the Common Stock is not listed or admitted to trading on such Exchange, on the principal national securities exchange on which the Common Stock is listed or admitted to trading, or if not listed or admitted to trading on any national securities exchange, on the National Association of Securities Dealers Automated Quotations National Market System or, if the Common Stock is not listed or admitted to trading on any national securities exchange or quoted on such National Market System, the average of the closing bid and asked prices in the over-the-counter market as furnished by any New York Stock Exchange member firm selected from time to time by the Company for that purpose. For the purposes of this Section 2(e), the term "trading day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday, other than any day on which securities are not traded on such exchange or in such market.

(f) Exceptions to Anti-Dilution. Notwithstanding any other provisions of this Section 2, no adjustments in the Purchase Price or the number of shares of Warrant Stock as provided for in this Section 2 shall be made by reason of or in connection with:

(i) the issuance of shares of Common Stock or Common Stock Equivalents (whether issued before, at the same time as or after the issuance of the Warrants) pursuant to employee stock option, stock purchase, stock incentive or stock compensation plan of any sort adopted by the Board of Directors of the Company for the issuance of shares of Common Stock or Common Stock Equivalents to directors, officers, employees or consultants, or

(ii) securities issued solely in consideration for the acquisition (whether by merger or otherwise) by the Company of all or substantially all of the assets or capital stock of any other entity or business organization, or securities issued solely in consideration for the grant by or to the Company of marketing rights, distribution rights, license rights or similar rights granted by or to the Company in consideration of the exchange of proprietary technology, whether of the Company or any other entity, provided the issuance of such securities is approved by the Board of Directors of the Company.

3. Adjustments. The number of shares of Warrant Stock shall be subject to the following adjustments:

(a) Changes in Common Stock. If the Company shall (i) subdivide the outstanding shares of Common Stock into a greater number of shares, (ii) issue additional shares of Common Stock as a dividend or other distribution with respect to the Common Stock, or (iii) combine the outstanding shares of Common Stock into a lesser number of shares, then the number of shares of Warrant Stock issuable upon exercise of each Warrant shall be adjusted so that the Registered Holder shall immediately thereafter be entitled to receive, upon exercise of each Warrant, the kind and number of shares of Common Stock or other securities of the Company that the Registered Holder would have been entitled to receive after the happening of any of the events described above if such Warrant had been exercised immediately prior to the happening of such event or any record date with respect thereto. The Purchase Price in effect immediately prior to any such subdivision of Common Stock or at the record date of such dividend or other distribution shall upon the effectiveness of such subdivision or immediately after such record date be proportionately reduced. The Purchase Price in effect immediately prior to any such combination of Common Stock shall, upon the effectiveness of such combination, be proportionately increased.

(b) Major Transactions. If there shall occur any capital reorganization or reclassification of the Common Stock (other than a change in par value or a subdivision or combination as provided for in Section 3(a)), or any consolidation or merger of the Company with or into another corporation, or a transfer of all or substantially all of the assets of the Company, or the payment of a liquidating distribution, then, as part of any such reorganization, reclassification, consolidation, merger, sale or liquidating distribution, lawful provision shall be made so that the Registered Holder shall have the right thereafter to receive, upon the exercise of the Warrants, the kind and amount of shares of stock or other securities or property which such Registered Holder would have been entitled to receive if, immediately prior to any such reorganization, reclassification, consolidation, merger, sale or liquidating distribution, as the case may be, such Registered Holder had held the number of shares of Common Stock which were then purchasable upon the exercise of such Warrants. In any such case, appropriate adjustment (as reasonably determined by the Board of Directors of the Company) shall be made in the application of the provisions set forth herein with respect to the rights and interests thereafter of the Registered Holder such that the provisions set forth in this Section 3 (including provisions with respect to adjustment of the Purchase Price) shall thereafter be applicable, as nearly as is

reasonably practicable, in relation to any shares of stock or other securities or property thereafter deliverable upon the exercise of the Warrants.

(c) Certificate of Adjustment. When any adjustment is required to be made in the Purchase Price pursuant to Section 2 or this Section 3, the Company shall promptly send to the Registered Holder a certificate setting forth the Purchase Price after such adjustment and including a brief statement of the facts requiring such adjustment. Such certificate shall also set forth the kind and amount of stock or other securities or property which shall be issuable upon exercise of the Warrants following the occurrence of any of the events specified in this Section 3.

4. Property Dividends. If the Company pays a dividend or makes a distribution on the Common Stock payable otherwise than in cash out of earnings or earned surplus (determined in accordance with generally accepted accounting principles) except for a stock dividend payable in shares of Common Stock (a "Property Dividend"), then the Company will pay or distribute to the Registered Holder, upon exercise of the Warrants, in addition to the Warrant Stock purchased upon such exercise, the Property Dividend which would have been paid to such Registered Holder if it had been the owner of record of such shares of Warrant Stock immediately prior to the date on which a record is taken for such Property Dividend or, if no record is taken, the date as of which the record holders of Common Stock entitled to such dividends or distribution are to be determined.

5. Compliance with Securities Laws.

(a) Warrants Not Registered. Each holder of the Warrants acknowledges that the Warrants have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and by accepting delivery of this Warrant Certificate agrees and covenants not to sell, pledge, distribute, offer for sale, transfer or otherwise dispose of the Warrants in the absence of (i) an effective registration statement under the Securities Act as to the Warrants and registration or qualification of the Warrants under any applicable state securities or "blue sky" laws, or (ii) an opinion of counsel or other evidence, in each case reasonably satisfactory to the Company, that such registration and qualification are not required.

(b) Delay of Transfers. Without limiting the generality of the foregoing, the Company may delay the registration of any transfer of the Warrants on the books of the Company pursuant to Section 8 until completion of any action or obtaining of any consent which the Company deems necessary under any applicable law (including, without limitation, state securities or "blue sky" laws).

6. Reservation of Stock. The Company will at all times reserve and keep available, solely for issuance and delivery upon the exercise of the Warrants, such shares of Warrant Stock and other stock, securities and property, as from time to time shall be issuable upon the exercise of the Warrants.

7. Replacement of Warrant Certificate. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant Certificate

and (i) in the case of loss, theft or destruction, upon delivery of an indemnity agreement (with surety if required by the Company) in an amount reasonably satisfactory to the Company, or (ii) in the case of mutilation, upon surrender and cancellation of this Warrant Certificate, the Company will issue, in lieu thereof, a new Warrant Certificate of like tenor.

8. Transfers of Warrants.

(a) Warrant Register. The Company will maintain a register containing the names and addresses of the Registered Holders of the Warrants (the "Warrant Register"). The Registered Holder may change its, his or her address as shown on the Warrant Register by written notice to the Company requesting such change.

(b) Transferability. Subject to the provisions of Section 5, the Warrants shall be transferable, in whole or in part, (in whole numbers only) on the Warrant Register, upon surrender of this Warrant Certificate at the offices of the Company at the address set forth in Section 11, or at such other office or agency as the Company may designate, together with (i) an Assignment in the form attached hereto as Exhibit B, duly executed by the Registered Holder, and (ii) any funds required to pay any transfer, stamp or other taxes payable in connection with such transfer. Upon such surrender and payment, the Company will cause to be issued a new Warrant Certificate, in the name of the assignee and in the denomination (in whole numbers only) specified on such Assignment; provided, however, that the Warrants may be transferred and new Warrant Certificates issued only in minimum denominations of 20,000 Warrants. If fewer than all of the Warrants are being transferred, the Company shall cancel the Warrant Certificate which was surrendered and cause to be issued a new Warrant Certificate (dated the date hereof) of like tenor for the balance of the Warrants.

(c) Recognition of Ownership. Until any transfer of the Warrants is made on the Warrant Register, the Company may treat the Registered Holder of the Warrants as the absolute owner hereof for all purposes; provided, however, that if and when this Warrant Certificate is properly assigned in blank, the Company may (but shall not be obligated to) treat the bearer hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

9. No Rights as Stockholder. Until the exercise of the Warrants, the Registered Holder of the Warrants shall not have or exercise any rights by virtue hereof as a stockholder of the Company.

10. Registration of Warrant Stock.

(a) Filing and Effectiveness of Registration Statement. The Company shall prepare and file with the Securities and Exchange Commission (the "SEC"), as soon as practicable but in any event on or prior to the date (the "Filing Date") which is 49 days following the date hereof, a registration statement (as amended from time to time, the "Registration Statement") on the appropriate form for an offering to be made on a continuous basis pursuant to

Rule 415 of the Securities Act, registering the offering and sale from time to time of the Warrant Stock (the Warrant Stock covered by the Registration Statement, the "Registered Warrant Stock") by the selling holders thereof (the "Selling Holders"). The Company shall use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as soon as practicable following the Filing Date, and shall use its best efforts to keep the Registration Statement continuously effective under the Securities Act, subject to the provisions of the immediately following sentence, until the date that is two years after the last outstanding Warrant has been exercised or the date the last outstanding Warrant has expired unexercised or, if earlier, the date on which all of the Registered Warrant Stock has been sold pursuant to the Registration Statement or all of the Warrant Stock has been sold pursuant to Rule 144(b) under the Securities Act or may be sold pursuant to Rule 144(k) under the Securities Act. In the event (A) of any Amendment Event (as defined herein), or (B) that, in the good faith judgment of the Company, it is advisable to suspend the use of the prospectus which forms part of the Registration Statement (the "Prospectus") due to a pending material corporate development or similar material event that has not at the time been publicly disclosed and as to which the Company believes public disclosure would be prejudicial to the Company, the Company shall provide notice to any Selling Holder and any Registered Holder who has requested to include Warrant Stock in the Registration Statement to the effect of the foregoing and thereafter the use of the Prospectus shall be suspended, and the Company, subject to the terms of this Section 10(a), shall thereafter not be required to maintain the effectiveness of or update the Registration Statement. The Company will use its best efforts to ensure that the use of the Prospectus may be resumed, in the case of suspension under clause (A), as soon as practicable and, in the case of suspension under clause (B), as soon as in the good faith judgment of the Company public disclosure of all such material corporate developments or similar material events would not be prejudicial to the Company. Notwithstanding the foregoing, the periods in which the use of the Prospectus is suspended pursuant to clause (A) or clause (B) in the aggregate shall not exceed 30 days in any three-month period.

For purposes of this Section 10(a), the term "Amendment Event" shall mean the occurrence (i) of any request by the SEC or any other federal or state governmental or self-regulatory authority for amendments or supplements to the Registration Statement or related Prospectus or for additional information, (ii) of the issuance by the SEC or any other federal or state governmental or self-regulatory authority of any stop order suspending the effectiveness of the Registration Statement or the initiation or threatening of any proceedings for that purpose, (iii) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the shares of the Registered Warrant Stock for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose, (iv) of the existence of any fact or happening of any event which makes any statement of a material fact in the Registration Statement or related Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue or which would require the making of any changes in the Registration Statement or related Prospectus in order that, in the case of the Registration Statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and that, in the case of the Prospectus, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or (v) of

the Company's determination that a post-effective amendment to the Registration Statement would be appropriate.

(b) Indemnification.

(i) Indemnification by the Company. In connection with any registration of securities pursuant to this Section 10, to the extent permitted by law, the Company shall indemnify and hold harmless each Selling Holder, its directors, trustees and officers or general and limited partners (and directors, trustees and officers thereof, and if such Selling Holder is a portfolio or investment fund, its investment advisers or agents) each underwriter, if any, for the sale or distribution of such Selling Holder's securities, and each person, if any, who controls such Selling Holder or underwriter (within the meaning of the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act")), (such Selling Holder and any such other person hereinafter referred to as an "Indemnitee") against any and all losses, claims, damages, liabilities and expenses to which such Indemnitee may become subject, under the Securities Act or the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement, Prospectus or preliminary prospectus, or any amendment or supplement to any of the foregoing, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company shall not be required to indemnify and hold harmless or reimburse an Indemnitee to the extent that any such loss, claim, damage, liability or expense (or any action in respect thereof) arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission in any document made in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Indemnitee expressly for use in the preparation of such Registration Statement, Prospectus or preliminary prospectus, or any amendment or supplement thereto.

(ii) Indemnification by Selling Holders. In connection with the Registration Statement in which Registered Warrant Stock of a Selling Holder is included, such Selling Holder shall furnish to the Company in writing such information as shall be reasonably requested by the Company for use in any such Registration Statement or Prospectus contained therein and shall, to the extent permitted by law, severally and not jointly, indemnify and hold harmless the Company, its directors, officers and agents and each person, if any, who controls the Company (within the meaning of the Securities Act or the Exchange Act) (the Company and any such other person hereinafter referred to as a "Company Indemnitee") against all losses, claims, damages, liabilities or expenses (or actions in respect thereof) to which any such Company Indemnitee may become subject, under the Securities Act or the

Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement, Prospectus or preliminary prospectus, or any amendment or supplement to any of the foregoing, or arise out of or are based upon the omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, in each case, to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Selling Holder expressly for use in the preparation of such Registration Statement, Prospectus or preliminary prospectus, or any amendment or supplement thereto; provided, however, in no event shall the liability of any Selling Holder or any affiliate thereof under this Section 10 be greater in amount than the dollar amount of the proceeds (net of payment of underwriting commissions, if any) received by such Selling Holder upon the sale of the Registered Warrant Stock giving rise to such indemnification obligation.

(iii) Indemnification Procedures. Promptly after receipt by an indemnified party under Section 10(b)(i) or Section 10(b)(ii) of notice of the commencement of any action, suit, proceeding or investigation or threat thereof (collectively, a "claim") made in writing for which such person will claim indemnification or contribution pursuant hereto, the indemnified party shall notify the indemnifying party thereof in writing and, unless in such indemnified party's reasonable judgment a conflict of interest may exist between such indemnifying and indemnified parties with respect to such claim, shall permit such indemnifying party to assume and control the defense of such claim at its expense with counsel reasonably satisfactory to such indemnified party. The failure so to notify the indemnifying party shall not relieve the indemnifying party from any liability hereunder with respect to such claim except to the extent that such indemnifying party is actually prejudiced by such failure to give notice. If the indemnifying party gives notice to such indemnified party of its election to assume and control the defense of such claim, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense or investigation of such claim unless the indemnified party shall have given the indemnifying party notice of a conflict of interest with respect to such claim. The failure of an indemnifying party to give notice to the indemnified party of its election to assume and control the defense of any claim for which notice has been received by the indemnifying party in accordance with this Section 10 (b)(iii) within 45 days after the receipt of such notice shall constitute an election by the indemnifying party not to assume and control the defense of such claim. An indemnifying party who is not entitled to, or elects not to, assume the defense of a claim shall not be obligated to pay the fees and expenses of more than one counsel (and, to the extent applicable, one local counsel) in any one jurisdiction for all parties indemnified by such indemnifying party with respect to such claim. No

indemnifying party shall consent to entry of any judgment or enter into any settlement with respect to a claim without the consent of the indemnified party. No indemnified party shall consent to entry of any judgment or enter into any settlement of any such action the defense of which has been assumed by an indemnifying party without the consent of such indemnifying party, which consent shall not be unreasonably withheld or delayed.

(iv) Rights of Contribution. In order to provide for just and equitable contribution in circumstances under which the indemnity contemplated by Sections 10(b)(i) and 10(b)(ii) for any reason not available, other than by reason of the exceptions provided therein, the parties required to indemnify by the terms thereof shall contribute to the aggregate losses, liabilities, claims, damages and expenses of the nature contemplated by such indemnity agreement incurred by the Company, any Selling Holder and one or more other indemnified parties, except to the extent that contribution is not permitted under Section 11(f) of the Securities Act. In determining the amounts which the respective parties shall contribute, there shall be considered the parties' relative knowledge and access to information concerning the matter with respect to which the claim was asserted, the opportunity to correct and prevent any statement or omission and any other equitable considerations appropriate under the circumstances. For purposes of this Section 10(b)(iv), each person, if any, who controls an underwriter within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as such underwriter, and each director, officer and agent of the Company and each person, if any, who controls the Company or a Selling Holder within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as the Company or Selling Holder, as the case may be.

11. Notices. All notices, requests and other communications hereunder shall be in writing, and shall be either (i) delivered by hand, (ii) made by facsimile transmission, (iii) sent by overnight courier, or (iv) sent by registered mail, postage prepaid, return receipt requested. Notices from the Company to the Registered Holder shall be sent to the address of the Registered Holder shown on the Warrant Register. All notices from the Registered Holder to the Company shall be delivered to the Company at its offices at 1050 Thomas Jefferson Street, NW, Washington, DC 20007, to the attention of the Corporate Secretary, or such other address as the Company shall so notify the Registered Holder. All notices, requests and other communications hereunder shall be deemed to have been given (i) if delivered by hand, at the time of the delivery thereof to the receiving party at the address of such party described above, (ii) if made by facsimile transmission, at the time that receipt thereof has been acknowledged by electronic confirmation or otherwise, (iii) if sent by overnight courier, on the next business day following the day such notice is delivered to the courier service, or (iv) if sent by registered mail, on the fifth business day following the day such mailing is made.

12. Waivers and Amendments. Any term or provision of this Warrant Certificate may be waived, amended or supplemented only by a written agreement executed by Company and

the Registered Holders of a majority of the then outstanding Warrants; provided, however, that the consent of each Registered Holder shall be required for any waiver, amendment or supplement pursuant to which the Purchase Price would be increased or the number of shares of Common Stock purchasable upon exercise of the Warrants would be decreased (other than pursuant to adjustments as provided for herein). Notwithstanding the foregoing, the Company may waive in a written document executed by it any term or provision of this Warrant Certificate to the benefit of which the Company is entitled.

13. Headings. The headings in this Warrant Certificate are for purposes of reference only and shall not limit or otherwise affect the meaning or construction of any term or provision of this Warrant Certificate.

14. Governing Law. This Warrant Certificate will be governed by and construed in accordance with the laws of the State of Delaware without regard to the conflict of laws principles of such jurisdiction.

SLM HOLDING CORPORATION

/s/ J. Paul Carey

J. Paul Carey
Executive Vice President,
Finance, Marketing and Administration

Date: 9/2/97

EXHIBIT A
FORM OF ELECTION TO PURCHASE

To: SLM Holding Corporation
[Address]

The undersigned, pursuant to the terms and provisions of the attached Warrant Certificate (No. W-____) (the "Warrant Certificate"), issued by SLM Holding Corporation (the "Company") and dated as of _____, hereby irrevocably elects to exercise the right represented by the Warrant Certificate to purchase _____ shares of Common Stock of the Company, par value \$.20 per share (or such other securities or assets of the Company as are purchasable in their place pursuant to the Warrant Certificate), and tenders payment for such shares (or other securities or assets) to the order of SLM Holding Corporation in the amount of \$_____ in immediately available funds in accordance with Section 1(a) of the Warrant Certificate. The undersigned requests that a certificate for such shares (or other securities) be registered in the name of _____, whose address is _____, and that such certificate be delivered to _____, whose address is _____. If said number of shares is less than all of the shares purchasable pursuant to the Warrant Certificate, the undersigned requests that a new Warrant Certificate representing the balance of the shares be registered in the name of _____, whose address is _____, and that such Warrant Certificate be delivered to _____, whose address is _____.

Dated: _____ [Name of Registered Holder]

By: _____

Name:
Title:
(Signature must conform in all respects to name of Registered Holder as specified on the face of the Warrant Certificate.)

EXHIBIT B
FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers to _____, whose address is _____, all of its, his or her right, title and interest in and to the attached Warrant Certificate (No. W-____) (the "Warrant Certificate"), issued by SLM Holding Corporation (the "Company") and dated as of _____, and does hereby irrevocably constitute and appoint _____ to be its, his or her true and lawful attorney to transfer the Warrant Certificate on the books of the Company, with full power of substitution. The undersigned hereby certifies that the Warrant Certificate is being sold, assigned and transferred pursuant to either (i) an effective registration statement under the Securities Act of 1933, as amended, as to the Warrants and registration or qualification of the Warrants under any applicable state securities or "blue sky" laws, or (ii) an opinion of counsel or other evidence, in each case reasonably satisfactory to the Company, that such registration and qualification are not required.

Dated: _____

[Name of Registered Holder]

By _____

Name:

Title:

(Signature must conform in all respects to name of Registered Holder as specified on the face of the Warrant Certificate.)

Marianne M. Keler
General Counsel

October 15, 1997

SLM Holding Corporation
11600 Sallie Mae Drive
Reston, Virginia 20193

Ladies and Gentlemen:

This opinion is being furnished in connection with the Registration Statement on Form S-1 (the "Registration Statement") being filed by SLM Holding Corporation, a Delaware corporation (the "Company") under the Securities Act of 1933, as amended, relating to the registration of up to 555,015 shares (the "Shares") of the Company's common stock, par value \$.20 per share (the "Common Stock") to be issued or issuable upon the exercise of outstanding warrants (the "Warrants") to purchase from the Company shares of Common Stock at \$72.43 per share on or before September 30, 2008. The Warrants were originally issued to the District of Columbia Financial Responsibility and Management Assistance Authority (the "Control Board") pursuant to Section 602(a) of the Student Loan Marketing Association Reorganization Act of 1996.

I or a member of my staff have examined originals or copies, certified or otherwise identified to my satisfaction, of such corporate records and other documents, and have conducted such other investigations of fact and law, as I have deemed necessary or advisable for purposes of this opinion.

Based upon the foregoing, I am of the opinion that the Shares have been duly authorized and, subject to the Registration Statement becoming effective, when issued pursuant to the terms of the Warrants, and upon receipt by the Company of the consideration therefor, the Shares will be legally issued, fully paid and nonassessable.

I consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to me in the Prospectus forming part of the Registration Statement.

Very truly yours,

/s/ Marianne M. Keler

Marianne M. Keler

Consent of Independent Auditors

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated January 13, 1997 (except as to the third and fourth paragraphs of Note 2, as to which the date is April 7, 1997), in the Registration Statement (Form S-1 No. 333-_____) and related Prospectus of SLM Holding Corporation for the registration of 555,015 shares of its common stock

/s/ Ernst & Young LLP

Washington, D.C.
October 21, 1997

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 JUN-30-1997 49,439
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BY-LAWS
OF
STUDENT LOAN MARKETING ASSOCIATION

EFFECTIVE SEPTEMBER 18, 1997

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BY-LAWS
OF
STUDENT LOAN MARKETING ASSOCIATION

ARTICLE I
LOCATION OF OFFICES AND SERVICE OF PROCESS

SECTION 1. Location of Offices

The principal office of the Corporation shall be located in Washington, D.C. The Corporation may establish other offices in such other places, within or without the District of Columbia, as the Board of Directors shall from time to time deem useful for the conduct of the Corporation's business.

SECTION 2. Service of Process

The General Counsel or the Corporate Secretary or any Assistant Secretary of the Corporation shall be agents of the Corporation upon whom any process, notice or demand required or permitted by law to be served upon the Corporation may be served.

ARTICLE II
PURPOSES

SECTION 1. Statutory Purposes

The Corporation is organized pursuant to the governing statute, Section 439 of the Higher Education Act of 1965, as amended, to serve as a secondary market and warehousing facility for student loans and to undertake such other activities authorized by said Act or the Public Health Service Act as may be necessary and appropriate to further the availability of funds for postsecondary education and education facilities.

SECTION 2. Ancillary Purposes

The Corporation is further organized to engage in such other related activities as are not prohibited and as the Board of Directors shall from time to time determine to be in furtherance of its statutory purpose.

ARTICLE III
BOARD OF DIRECTORS

SECTION 1. Powers

Except as otherwise provided in these By-laws, the powers of the Corporation shall be exercised by the Board of Directors. Pursuant to the governing statute, and in furtherance of the purposes expressed therein, the Corporation by the Board of Directors shall have all powers granted to it by its governing statute, as it may be amended from time to time, and such other powers not inconsistent with its governing statute or other applicable federal law, including but not limited to the power:

A. To have perpetual succession by its corporate name until dissolved;

B. To sue and be sued, complain and defend, in its corporate name and through its own counsel;

C. To adopt, alter and use the corporate seal, which shall be circular in form and shall have inscribed thereon the name of the Corporation, the year and fact of its creation by Act of Congress and the words "Corporate Seal";

D. To lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with any property, real, personal, mixed, or any interest therein, wherever situated;

E. To sell, convey, mortgage, pledge, lease, exchange and otherwise dispose of its property and assets;

F. To enter into contracts, to execute instruments and to incur liabilities, including but not limited to, obligations guaranteed by the Secretary of Education or issued with the approval of the Secretary of the Treasury, having such maturities and bearing such rate or rates of interest as may be determined by the Board of Directors or such committee of the Board of Directors, officer or officers as the Board of Directors may by resolution stipulate, such obligations being redeemable at the option of either the noteholder or the Corporation before maturity as the Board of Directors may stipulate therein;

G. To lend money, to enter into purchase and lending commitments including letters of credit, and to service, purchase or repurchase, sell or resell, offer participations or pooled interests in, insure or otherwise deal in, student loans, either insured or uninsured, or other obligations issued for the purpose of financing or

refinancing the construction, reconstruction, renovation or purchase of educational and training facilities and related equipment, instrumentation and furnishings at prices and on terms and conditions determined by the Board of Directors or such committee of the Board of Directors, officer or officers as the Board of Directors may by resolution stipulate;

H. To conduct its business, carry on its operations, and have officers and exercise the power granted by the governing statute in any State without regard to any qualification or similar statute in any such State;

I. To appoint such officers, attorneys, employees, special consultants, advisors and agents as may be required, to determine their qualifications, to define their duties, fix their compensation, require bonds and fix the penalty thereof in the same manner;

J. To accept gifts or donations of services, or of property, real, personal or mixed, tangible or intangible;

K. To pay pensions and establish pension plans, pension trusts and profit sharing plans for any or all of its directors, officers and employees;

L. To act as a committee of the whole in reviewing the Corporation's aggregate financing arrangements to ensure compliance with applicable federal capital requirements; and

M. To do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business.

SECTION 2. Number and Type of Directors

The Board of Directors shall consist of those directors appointed or elected as provided in Section 439 of Part B of Title IV of the Higher Education Act of 1965, as amended. Each director shall hold office for the term for which he is elected or appointed and until his successor is elected or appointed and shall qualify.

SECTION 3. Vacancies

Any vacancy occurring in the Board of Directors resulting from the death, resignation, removal or disqualification of any elected director may be filled by a majority of the shares entitled to vote at an election of directors.

Any vacancy occurring in the Board of Directors resulting from the death, resignation, removal or disqualification of any appointed director may be filled by appointment by the President of the United States.

SECTION 4. Removal

Any elected director may be removed with or without cause by a majority of the shares entitled to vote at an election of directors.

SECTION 5. Resignation

Any director may resign at any time upon written notice to the President and Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if the time be not specified, upon receipt thereof, and the acceptance of such resignation, unless required by the terms thereof, shall not be necessary to make such resignation effective.

SECTION 6. Meetings

A regular meeting of the Board of Directors may be held, without other notice than these By-laws, immediately after, and at the same place as, the annual meeting of the shareholders. Other meetings of the Board of Directors shall be held either within or without the District of Columbia, at the call of the Chairman or Vice Chairman of the Board of Directors, or upon either of their request, or upon the written request of a majority of the directors. Meetings may be held by attendance in person at a place prescribed or by use of a conference telephone or similar communications equipment as provided in Section 7 of this Article. Notice shall be given to all directors as to the time and manner of the meeting by the Secretary or by a person calling the meeting by mail, postage prepaid, not later than the fifth day before the meeting, or personally or by facsimile, telecopy, telegraph or telephone not later than the day before the meeting. If in writing and mailed, such notice shall be deemed delivered when deposited in the United States mail, properly addressed, with postage thereon prepaid. If notice be in writing and by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the carrier. In all other cases such notice shall be deemed given when actually received at the office or residence of the recipient.

SECTION 7. Conference Telephone Meetings

All or any one or more of the directors may participate in a meeting of the Board of Directors by means of a conference telephone or similar communications equipment by means of which all persons participating in such meeting can hear each other. Participation in a meeting pursuant to such communications shall constitute presence in person at such meeting. The minutes of any meeting of the Board of Directors held by conference telephone or similar communications equipment shall be prepared in the same manner as a meeting of the Board of Directors held in person.

SECTION 8. Waiver of Notice

The presence of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. A director may execute a written waiver of notice either before or after a meeting. Neither the business to be transacted at, nor the purpose of, any regular or other meeting of the Board of Directors or any Committee thereof need be specified in the notice or waiver of notice of the meeting.

SECTION 9. Quorum

A majority of the directors authorized by the governing statute serving at the time of a meeting shall constitute a quorum for the transaction of business, but if less than such majority are present at any meeting of the Board of Directors, a majority of the directors present may adjourn the meeting from time to time without further notice.

SECTION 10. Majority Vote

Except as otherwise provided in these By-laws, the act of a majority of directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

SECTION 11. Assumption of Assent

Any director of the Corporation who is present at a meeting of the Board of Directors at which any corporate action is taken shall be presumed to have assented to the taking of such action unless his dissent shall be entered in the minutes of the meeting, or unless he shall file his written dissent to such action with a person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation within ten days

after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 12. Action Without a Meeting

Any action required to be taken by the Board of Directors at a meeting, or by a committee of the Board of Directors at a meeting, may be taken without a meeting, if a consent in writing, setting forth the action so taken, is signed by a majority of the directors, or a majority of the members of the committee, as the case may be. Such consent shall have the same effect as a majority vote of the Board of Directors or committee, as the case may be. Written notice of any action taken pursuant to this section by a majority of the directors, or members of a committee, as the case may be, shall, within ten days of such action, be given to all directors or members of a committee not signing such action by written consent.

SECTION 13. Executive and Other Committees

The Board of the Directors may designate from among the members of the Board of Directors an Executive Committee and one or more other committees, each of which, to the extent provided in any resolution designating such membership and in these By-laws shall have and may exercise all the authority of the Board of Directors. No such committee shall have the authority of the Board of Directors in reference to any powers reserved to the full Board of Directors by any resolution or these By-laws. Unless otherwise provided by the Board of Directors, a majority of any such committee (or the member thereof, if only one) shall constitute a quorum for the transaction of business, and the vote of a majority of the members of such committee present at a meeting at which a quorum is present shall be the act of such committee. Each committee shall keep a record of its acts and proceedings and shall report thereon to the Board of Directors whenever requested so to do. Any or all members of any such committee may be removed, with or without cause, by resolution of the Board of Directors, passed by a majority of the whole Board. All notice provisions and provisions regarding telephonic meetings with respect to the Board of Directors set forth in these By-laws shall apply equally to such other committees of the Board.

SECTION 14. Conflicts of Interest

No contract or other transaction between the Corporation and one or more of its directors or officers or between the corporation and any other corporation, firm, association or entity in which one or more of its directors or officers are directors or officers, or financially interested, shall be either void or voidable solely because of such relationship or interest, or solely because such director or officer is present at or participates in the meeting of the Board of Directors or a committee thereof which authorizes, approves or ratifies such contract or transaction or solely because his or their votes are counted for such purpose if:

A. The material facts of such relationship or interest and as to the contract or transaction are disclosed or known to the Board of Directors or committee which in good faith authorizes, approves or ratifies the contract or transaction by a vote or consent sufficient for the purpose without counting the votes or consents of such interested directors; or

B. The material facts of such relationship or interest and as to the contract or transaction are disclosed or known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by the affirmative vote of the holders of a majority of shares; or

C. The contract or transaction is fair to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee or the shareholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or a committee thereof which authorizes, approves or ratifies such contract or transaction.

SECTION 15. Compensation

Each director shall be paid such compensation as may be fixed from time to time by resolution of the Board of Directors, and each director shall also be reimbursed for his travel and subsistence expenses incurred while attending meetings of the Board of Directors or committees thereof.

SECTION 16. Chairman and Vice Chairman

The President of the United States shall appoint one director to be Chairman of the Board of Directors, who shall preside over meetings of the Board of Directors.

The Board of Directors shall appoint one Vice Chairman, who shall be an elected Director, and who shall serve at the pleasure of the Board of Directors until the next regular annual meeting of the Board of Directors described in Section 6 of this Article following his appointment and until his successor has been elected and qualified or until his successor has been appointed and qualified. The Vice Chairman of the Board of Directors shall act as Chairman in the latter's absence and at any time when there is no incumbent Chairman.

ARTICLE IV
OFFICERS AND EMPLOYEES

SECTION 1. Number and Type

The officers of the Corporation shall be a President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), a Chief Financial Officer, a General Counsel, a Secretary, and Treasurer, each of whom shall be appointed by the Chairman of the Board of Directors subject to confirmation by resolution of the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be appointed by the Chairman subject to confirmation by resolution of the Board of Directors. Any of the above offices may be held by the same person, except the offices of President and Secretary.

SECTION 2. Appointment and Confirmation

The officers shall be appointed and confirmed annually at the first meeting of the Board of Directors held after each annual meeting of the shareholders. Each officer shall hold office until his successor shall have been duly appointed and confirmed or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

SECTION 3. Removal

Any officer may be removed, with or without cause, by the Board of Directors. Appointment or confirmation of an officer shall not create contract rights.

SECTION 4. Vacancies

A vacancy in an office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors.

SECTION 5. The President

The President shall be the principal executive officer of the Corporation and, subject to the control of the Board of Directors, shall, in general, supervise and control all of the business and affairs of the Corporation. He may sign, singly or with the Secretary or any other proper officer of the Corporation authorized by the Board of Directors, certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation, or shall be required to be otherwise signed or executed, and, in general, shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

SECTION 6. The Vice President

In the absence of the President or in the event of his death, inability, or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated at the time of their election) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President may sign, with the Secretary or Assistant Secretary, certificates for shares of the Corporation, and shall perform such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

SECTION 7. The Chief Financial Officer

The Chief Financial Officer shall: (a) have charge and custody of and be responsible for all funds and securities of the Corporation, receive and give receipts for monies due and to be payable to the Corporation from any source whatsoever, and deposit all such monies in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with a resolution of the Board of Directors; and (b) in general, perform all of the duties incident to the office of the Chief Financial Officer and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

SECTION 8. The General Counsel

The General Counsel shall: (a) be the principal consulting officer of the Corporation for all legal matters; (b) be responsible for and direct all counsel, attorneys, employees and agents in the performance of all legal duties and services for and on behalf of the Corporation; (c) perform such other duties and have such other powers as are ordinarily incident to the office of the General Counsel; and (d) perform such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

SECTION 9. The Secretary

The Secretary shall: (a) keep the minutes of the shareholders', the Board of Directors' and committees' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these By-laws; (c) be the custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized; (d) keep a register of the post office address of each registered shareholder which shall be furnished to the Secretary by such shareholder; (e) have custody of the seal of the Corporation and the Secretary or any Assistant Secretary shall have authority to affix the same to any instrument requiring it, and when so approved, it may be attested by the Secretary or any such Assistant Secretary; (f) see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be; (g) in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors. In the absence or inability to act as Secretary, any Assistant Secretary may perform all the duties and exercise all the powers of the Secretary. The performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act. An Assistant Secretary shall also perform such other duties as the Secretary or the Board of Directors may assign to him or her. The performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her

power to act. An Assistant Secretary shall also perform such other duties as the Secretary or the Board of Directors may assign to him or her.

SECTION 10. The Treasurer

The Treasurer shall perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned by the President, the Chief Financial Officer, or the Board of Directors. In the absence or inability to act of the Treasurer, any Assistant Treasurer may perform all the duties and exercise all the powers of the Treasurer. The performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act. An Assistant Treasurer shall also perform such other duties as the Treasurer or the Board of Directors may assign to him or her.

SECTION 11. Compensation

The compensation of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such compensation by reason that he is also a director of the Corporation.

SECTION 12. Bonds

If required by the Board of Directors, any officer or employee specified by the Board of Directors shall give a bond for the faithful discharge of his duties in such sum and with such sureties as the Board of Directors shall by resolution require.

SECTION 13. Employee Conduct

No officer shall engage, directly or indirectly, in any personal business transaction or private arrangement for personal profit which accrues from or is based upon his official position or authority or upon confidential information which he gains by reason of such position or authority, and he shall reasonably restrict his personal business affairs so as to avoid conflicts of interest with his official duties. No officer shall divulge confidential information to any unauthorized person, or release any such information in advance of authorization for its release, nor shall he accept, directly or indirectly, any valuable gift, favor or service from any person with whom he transacts business on behalf of the Corporation; provided, however, that nothing in this section shall prohibit any officer from sharing information with the Corporation's sole shareholder or the U. S. Department of Treasury.

SECTION 14. Outside or Private Employment

No officer shall have any outside or private employment or affiliation with any firm or organization incompatible with his concurrent employment by the Corporation, and he shall not accept or perform any outside or private employment which the President of the Corporation determines will interfere with the efficient performance of such officer's official duties.

SECTION 15. Voting Securities

Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities and ownership interests owned by the Corporation may be executed in the name of and on behalf of the Corporation by any officer of the Corporation and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and power incident to the ownership of such securities and which, as he owner thereof, the Corporation might have existed and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

ARTICLE V
SHAREHOLDERS

SECTION 1. Annual Meeting

An annual meeting of shareholders entitled to vote, for the purpose of selecting directors and transacting such other business as may properly be brought before the meeting, shall be held at such time and date as the Board of Directors shall designate from time to time and as shall be stated in the notice of the meeting. The annual meeting shall be held at such time and place within or without the District of Columbia as shall be fixed by the Board of Directors and as shall be designated in the notice of such meeting. If the Board of Directors shall fail to designate a place for the holding of the annual meeting, the place of the meeting shall be the principal office of the Corporation. At such meeting, the shareholders, to the extent they are entitled by the Higher Education Act of 1965, as amended, and these By-laws to do so, may elect directors and transact other business with the same force and effect as at an annual meeting duly called and held.

SECTION 2. Special Meetings

Special meetings of the shareholders shall be held upon the call of either the Chairman, the President, or a majority of the directors of the Corporation, and shall be called by the Chairman upon the written request of holders of at least one-third of the shares of the Corporation having voting power. A special meeting may be called for any purpose or purposes for which shareholders may legally meet, and shall be held, within or without the District of Columbia, at such place as may be determined by the Chairman, the President, or a majority of the directors of the Corporation, whichever shall call the meeting.

SECTION 3. Notice

Written or printed notice stating the place, day and hour of any meeting and, in the case of a special meeting, the purpose for which the meeting is called, shall be delivered not less than 10 nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the President, or the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage thereon prepaid, addressed to the shareholder at his address as it appears on the stock transfer books of the Corporation or such other address as the shareholder has in writing instructed the Secretary.

SECTION 4. Waiver of Notice

Attendance by a shareholder at a meeting of shareholders, whether in person or by proxy, without objection to the notice or lack thereof, shall constitute a waiver of notice of the meeting. Any shareholder may either before or after the time of the meeting execute a waiver of notice of such meeting.

SECTION 5. Record Date

For the purpose of determining shareholders entitled to notice or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors shall fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than 60 days and in case of a meeting of shareholders not less than 10 days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If the Board of Directors fails to designate such a date, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividends is adopted, as the case may be, shall be the record date for such determination of shareholders. When a date is set for the determination of shareholders entitled to vote at any meeting of shareholders, such determination shall apply to any adjournment thereof.

SECTION 6. Voting Lists

The officer or agent having charge of the stock transfer books for shares of the Corporation shall make a complete record of the shareholders entitled to vote at each meeting of the shareholders or any adjournment thereof, arranged in alphabetical order, with the address and the number of shares held by each. Such record shall be produced and kept open at the time and place of the meeting and shall be subject to inspection by any shareholder during the whole time of the meeting for the purposes thereof.

SECTION 7. Quorum

A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn a meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum. Shares of its own stock belonging to the Corporation shall not be counted in determining the total number of outstanding shares at any given time.

SECTION 8. Proxies

At all meetings of shareholders, a shareholder entitled to vote may vote by proxy executed in writing by a shareholder or by its duly authorized attorney-in-fact. Shares standing in the name of another corporation may be voted by such officer, agent or proxy as the by-laws of such corporation may prescribe, or, in the absence of such provision, as the board of directors of such corporation may determine. All proxies shall be filed with the Secretary of the Corporation before or at the time of the meeting, and shall be revocable, if such revocation be in writing, until exercised. No proxy shall be valid after eleven months from the date of its execution, unless otherwise provided in the proxy.

SECTION 9. Organization

Meetings of the shareholders shall be presided over by the Chairman of the Board of Directors, or if he is not present, by the Vice Chairman, or if neither the Chairman nor the Vice Chairman is present, by a chairman to be chosen by holders of a majority of the shares entitled to vote who are present in person or by proxy at the meeting. The Secretary of the Corporation shall act as secretary of every meeting, and if the Secretary is not present, the Chairman shall choose any person present to act as secretary of the meeting.

SECTION 10. Voting of Shares

Except as provided in this Section, at every meeting of the shareholders, every holder of common stock entitled to vote on a matter coming before such meeting shall be entitled to one vote for each share of common stock registered in its name on the stock transfer books of the Corporation at the close of the record date.

Every holder of common stock entitled to vote for the election of directors shall have the right to cast the number of votes that is equal to the product of the number of shares owned by it multiplied by the number of directors to be elected, and it may cast all such votes for one person or may distribute them evenly or unevenly among any number of persons not greater than the number of such directors to be elected, at its option. Shares of its own stock belonging to the Corporation shall not be eligible to vote on any matter.

Whenever directors are to be elected at a shareholders meeting, they shall be elected by a plurality of the votes cast at the meeting by the shareholders entitled to vote. Whenever any corporate action, other than the election of directors, is to be taken by vote of shareholders at a meeting, it shall, except as otherwise required by law (including without limitation Section 439 of the Higher Education Act of 1965, as amended) or by these By-laws, be authorized by a majority of the votes cast at the meeting by the shareholders entitled to vote thereon.

**ARTICLE VI
SHARES OF STOCK****SECTION 1. Issuance and Conditions**

The Board of Directors shall have power in accordance with the provisions of the governing statute to authorize the issuance of voting common, non-voting common, and preferred shares of stock.

SECTION 2. Common Stock

The Corporation shall have voting common stock having such par value as may be fixed by the Board of Directors. Each share of common stock shall be entitled to one vote, with rights of cumulative voting at all elections of directors.

Except as otherwise provided in these By-laws, the powers, preferences and relative and other special rights and the qualifications, limitations and restrictions applicable to all shares of common stock shall be identical in every respect.

Except as provided in this Section, the common stock shall be fully transferable, except that, as to the Corporation, it shall be transferred only on the books of the Corporation.

SECTION 3. Dividends on Common Stock

To the extent that income is earned and realized, the Board of Directors may from time to time declare, and the Corporation shall pay, dividends on the common stock. No dividend shall be declared or paid on any share of common stock at any time when any dividend is due on the shares of preferred stock and has not been paid.

SECTION 4. Preferred Stock

The Corporation may issue shares of preferred stock having such par value, and such other powers, preferences and relative and other special rights, and qualifications, limitations and restrictions applicable thereto, as may be fixed by the Board of Directors. Such shares shall be freely transferable, except that, as to the Corporation, such shares shall be transferred only on the books of the Corporation.

SECTION 5. Dividends, Redemption, Conversion of Preferred Shares

The holders of the preferred shares shall be entitled to such rate of dividends and such shares shall be subject to such redemption or conversion provisions as may be provided for at the time of issuance. Such dividends shall be paid out of the net income of the Corporation, to the extent earned and realized.

SECTION 6. Preference on Liquidation

In the event of any liquidation, dissolution, or winding up of the Corporation's business, the holders of shares of preferred stock shall be paid in full at par value thereof, plus all accrued dividends, before the holders of the common stock receive any payment.

SECTION 7. Purchase of Own Shares

The Corporation shall have the right, pursuant to resolution by the Board of Directors, to purchase, take, receive or otherwise acquire its own shares, but purchases, whether direct or indirect, shall be made only to the extent of unreserved and unrestricted earned or capital surplus available therefor.

SECTION 8. Rights and Options to Acquire Shares

The Corporation may create and issue, pursuant to resolution by the Board of Directors, rights or options entitling the holders thereof to purchase from the Corporation shares of any class or classes of shares. Such rights or options shall be evidenced in such manner as the Board of Directors shall stipulate and shall be issued and become exercisable upon such terms and conditions, for such duration and at such prices, subject to the provisions of these By-laws governing consideration, as the resolution shall provide.

SECTION 9. Consideration for Shares

The Corporation shall issue shares of stock for such consideration, expressed in dollars, but not less than the par value thereof, as shall be fixed from time to time by the Board of Directors. That part of the surplus of the Corporation which is transferred to stated capital upon issuance of shares as a share dividend shall be deemed to be the consideration for the shares so issued.

The consideration for the issuance of shares may be paid, in whole or in part, in cash or other property acceptable to the Board of Directors, except that a promissory note shall not constitute payment or partial payment for the issuance of shares of the Corporation.

SECTION 10. Stated Capital

The consideration received upon the issuance of any share of stock shall constitute stated capital to the extent of the par value of such shares, and the excess, if any, of such consideration shall constitute capital surplus. The stated capital of the Corporation may be increased from time to time by resolution of the Board of Directors directing that all or a part of the surplus of the Corporation be transferred to stated capital. The Board of Directors may direct that the amount of the surplus so transferred shall be deemed to be stated capital in respect of any designated class of shares.

The Board of Directors may by resolution from time to time reduce the stated capital of the Corporation but only in the amount of the aggregate par value of

any shares of the Corporation which shall have been reacquired and canceled or to the extent of any reduction in the par value of outstanding shares in accordance with these By-laws. Any surplus created by virtue of a reduction of stated capital shall be deemed to be capital surplus.

SECTION 11. No Preemptive Rights

No holder of the shares of the Corporation of any class, now or hereafter authorized, shall as such holder have any preemptive or preferential right to subscribe to, purchase, or receive any shares of the Corporation of any class, now or hereafter authorized, or any rights or options for any such shares or any rights or options to subscribe to or purchase any such shares or other securities convertible into or exchangeable for or carrying rights or options to purchase shares of any class or other securities, which may at any time be issued, sold, or offered for sale by the Corporation or subjected to the rights or options to purchase granted by the Corporation.

SECTION 12. Liability of Shareholders

A holder of shares of the Corporation shall be under no obligation to the Corporation with respect to such shares other than the obligation to pay to the Corporation the full consideration for which such shares were or are to be issued.

Any person becoming a transferee of shares in good faith and without notice or knowledge that the full consideration thereof had not been paid shall not be personally liable to the Corporation for any unpaid portion of such consideration.

ARTICLE VII CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. Certificates

The interest of each shareholder of the Corporation may be evidenced by certificates representing shares of stock of the Corporation, certifying the number of shares represented thereby, and shall be in such form not inconsistent with the governing statute of the Corporation as the Board of Directors may from time to time prescribe.

The certificates of stock shall be signed by the President or a Vice President and by the Secretary or Assistant Secretary and sealed with the corporate seal or an engraved or printed facsimile thereof. The signatures of such officers upon a certificate may be facsimile if the certificate is manually signed on behalf of a transfer agent or a registrar other than the Corporation itself or one of its employees. In the event that any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such before such certificate is issued, it may be issued by the Corporation with the same effect as if such officer had not ceased to be such at the time of the issue.

Each certificate or share shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled, and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in the case of a lost, destroyed or mutilated certificate, a new certificate may be issued upon such terms and with such indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 2. Contents

Each certificate representing shares shall state the following:

- A. That the Corporation is organized pursuant to an Act of Congress;
- B. The name of the person to whom issued;
- C. The number and class of shares, and the designation of the series, if any, which such certificate represents;
- D. The par value of each share represented by such certificate;
- E. The provisions by which such shares may be redeemed; and
- F. That the shares represented shall not have any preemptive rights to purchase unissued or treasury shares of the Corporation.

Each certificate representing shares of preferred stock shall state upon the face thereof the annual dividend rate for such shares, and shall state upon the reverse side thereof the powers, preferences and relative and other special rights, and the qualifications, limitations and restrictions applicable to such shares of preferred stock.

No certificate shall be issued for any share until such share is fully paid.

SECTION 3. Transfer

Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of the authority to transfer, or by his attorney thereto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares.

The person in whose name shares stand in the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

SECTION 4. Lost, Stolen or Destroyed Certificates

The Corporation may issue a new stock certificate in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate or his or her legal representative to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate. The Board of Directors may require such owner to satisfy other reasonable requirements.

ARTICLE VIII INDEMNIFICATION AND LIABILITY

SECTION 1. Indemnification in Third Party Actions

The Corporation shall indemnify, to the extent permitted by the Delaware General Corporation Law (as the same exists or may hereinafter be amended) for a corporation subject to such law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise,

against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 2. Indemnification in Actions By or in the Right of the Corporation

The Corporation shall indemnify, to the extent permitted by the Delaware General Corporation Law (as the same exists or may hereinafter be amended) for a corporation subject to such law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

SECTION 3. Indemnification in Cases of Successful Defense

To the extent that a director or officer has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

SECTION 4. Procedure

Any indemnification under Sections 1 and 2 of this Article (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 1 and 2 of this Article. Such determination shall be made (a) by the Board of Directors, or a duly designated committee thereof, by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (b) if such a quorum is not obtainable or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (c) by the shareholders at the next meeting of shareholders. In making a determination under this Article, the Board of Directors or shareholders may rely, as to all questions of law, on the advice of independent legal counsel.

SECTION 5. Advance Payments

Expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding, provided the Corporation approves in advance counsel selected by the director or officer (which approval shall not be unreasonably withheld), and upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article. Such expenses (including attorneys' fees) incurred by other employees of the Corporation may also be paid upon such terms and conditions, if any, as the Corporation deems appropriate.

SECTION 6. Other Rights to Indemnification

The indemnification and advancement of expenses provided by or granted pursuant to the other sections of this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any by-law, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, but no person shall be entitled to indemnification by the Corporation to the extent he is indemnified by any other party (other than a wholly-owned subsidiary of the Corporation), including an insurer.

SECTION 7. Insurance

The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under this Article.

SECTION 8. Indemnification After Merger or Consolidation

For purposes of this Article, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger with the Corporation which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers so that any person who is or was a director or officer of such constituent corporation, or is or was serving at the request of such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this Article with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

SECTION 9. Indemnification under Employee Benefit Plans

For purposes of this Article, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director or officer of the corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article.

SECTION 10. Heirs, Executors and Administrators

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 11. Limitation of Liability

Directors or officers of the Corporation shall not be personally liable to the Corporation or to shareholders for monetary damages for breach of fiduciary duty acting in their respective capacities, provided, however, such limitation of liability shall not apply to: (a) any breach of the party's duty of loyalty to the Corporation or its shareholders, (b) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or (c) any transaction from which the party derived an improper personal benefit. This provision shall not limit the liability of any party for any act or omission occurring prior to September 18, 1992.

ARTICLE IX
FISCAL YEAR

The fiscal year of the Corporation shall begin on the first day of January and end on the thirty-first day of December in each year.

ARTICLE X
CONTRACTS, LOANS, CHECKS AND DEPOSITS

SECTION 1. Contracts

The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 2. Loans

No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

SECTION 3. Checks, Drafts, etc.

All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents, of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 4. Deposits

All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select

ARTICLE XI
FACSIMILE SIGNATURES

The Board of Directors may by resolution authorize the use of facsimile signatures in lieu of manual signatures.

XII
AMENDMENTS

These By-laws may be altered, amended or repealed and new By-laws, consistent with the governing statute, may be adopted by the majority vote of the Board of Directors.