SLM CORP
Form 10-Q
August 05, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-13251

SLM Corporation
(Exact name of registrant as specified in its charter)

Delaware	**52-2013874**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
12061 Bluemont Way, Reston, Virginia	**20190**
(Address of principal executive offices)	*(Zip Code)*

(703) 810-3000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	**Outstanding at June 30, 2010**
Voting common stock, $.20 par value	485,706,763 shares

SLM CORPORATION

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(1) Definitions for capitalized terms used in this document can be found in the Glossary at the end of this document.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SLM CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	June 30, 2010	December 31, 2009
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $122,192 and $104,219, respectively)	$ 47,280,248	$ 42,978,874
FFELP Stafford Loans Held-for-Sale	20,177,860	9,695,714
FFELP Consolidation Loans (net of allowance for losses of $66,493 and $56,949, respectively)	81,034,596	68,378,560
Private Education Loans (net of allowance for losses of $2,042,413 and $1,443,440, respectively)	35,150,686	22,753,462
Investments:		
Available-for-sale	399,456	1,273,275
Other	1,013,621	740,553
Total investments	1,413,077	2,013,828
Cash and cash equivalents	6,267,039	6,070,013
Restricted cash and investments	6,252,914	5,168,871
Retained Interest in off-balance sheet securitized loans		1,828,075
Goodwill and acquired intangible assets, net	1,157,888	1,177,310
Other assets	8,584,404	9,920,591
Total assets	$ 207,318,712	$ 169,985,298
Liabilities		
Short-term borrowings	$ 46,472,435	$ 30,896,811
Long-term borrowings	152,250,912	130,546,272
Other liabilities	3,508,617	3,263,593
Total liabilities	202,231,964	164,706,676
Commitments and contingencies		
Equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized:		
Series A: 3,300 and 3,300 shares, respectively, issued at stated value of $50 per share	165,000	165,000
	400,000	400,000

Series B: 4,000 and 4,000 shares, respectively, issued at stated value of $100 per share		
Series C: 7.25% mandatory convertible preferred stock; 810 and 810 shares, respectively, issued at liquidation preference of $1,000 per share	810,370	810,370
Common stock, par value $.20 per share, 1,125,000 shares authorized: 553,571 and 552,220 shares issued, respectively	110,715	110,444
Additional paid-in capital	5,122,583	5,090,891
Accumulated other comprehensive loss (net of tax benefit of $24,917 and $23,448, respectively)	(43,333)	(40,825)
Retained earnings	391,169	604,467
Total SLM Corporation stockholders equity before treasury stock	6,956,504	7,140,347
Common stock held in treasury at cost: 67,775 and 67,222 shares, respectively	1,869,760	1,861,738
Total SLM Corporation stockholders equity	5,086,744	5,278,609
Noncontrolling interest	4	13
Total equity	5,086,748	5,278,622
Total liabilities and equity	$ 207,318,712	$ 169,985,298

Supplemental information assets and liabilities of variable interest entities:

	June 30, 2010	December 31, 2009
FFELP Stafford and Other Student Loans, net	$ 66,130,975	$ 51,067,680
FFELP Consolidation Loans, net	79,558,032	67,664,019
Private Education Loans, net	23,556,999	10,107,298
Restricted cash and investments	5,881,972	4,596,147
Other assets	2,856,872	3,639,918
Short-term borrowings	37,014,277	23,384,051
Long-term borrowings	127,904,461	101,012,628

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Interest income:				
FFELP Stafford and Other Student Loans	$ 325,042	$ 323,939	$ 608,479	$ 666,755
FFELP Consolidation Loans	550,920	460,690	1,074,245	950,052
Private Education Loans	575,340	393,019	1,140,494	780,060
Other loans	7,254	18,468	16,250	34,888
Cash and investments	6,299	7,044	11,248	13,015
Total interest income	1,464,855	1,203,160	2,850,716	2,444,770
Total interest expense	568,933	819,459	1,100,317	1,846,006
Net interest income	895,922	383,701	1,750,399	598,764
Less: provisions for loan losses	382,239	278,112	741,359	528,391
Net interest income (loss) after provisions for loan losses	513,683	105,589	1,009,040	70,373
Other income (loss):				
Securitization servicing and Residual Interest revenue (loss)		87,488		(7,817)
Gains (losses) on sales of loans and securities, net	(3,515)		5,138	
Gains (losses) on derivative and hedging activities, net	95,316	(561,795)	12,906	(457,770)
Contingency fee revenue	88,181	73,368	168,492	148,183
Collections revenue	17,219	23,933	39,185	67,589
Guarantor servicing fees	22,457	24,772	58,547	58,780
Other	164,899	399,065	355,309	591,523
Total other income	384,557	46,831	639,577	400,488
Expenses:				
Salaries and benefits	140,233	137,783	290,617	272,925
Other operating expenses	206,287	170,381	383,923	330,355
Restructuring expenses	17,666	3,333	43,948	7,106
Total expenses	364,186	311,497	718,488	610,386
Income (loss) from continuing operations, before income tax expense (benefit)	534,054	(159,077)	930,129	(139,525)

Income tax expense (benefit)		196,103		(43,110)		351,898		(48,627)
Net income (loss) from continuing operations		337,951		(115,967)		578,231		(90,898)
Loss from discontinued operations, net of tax benefit				(6,542)				(52,716)
Net income (loss)		337,951		(122,509)		578,231		(143,614)
Less: net income attributable to noncontrolling interest		133		211		273		492
Net income (loss) attributable to SLM Corporation		337,818		(122,720)		577,958		(144,106)
Preferred stock dividends		18,711		25,800		37,389		52,195
Net income (loss) attributable to SLM Corporation common stock	$	319,107	$	(148,520)	$	540,569	$	(196,301)
Net income (loss) attributable to SLM Corporation:								
Continuing operations, net of tax	$	337,818	$	(116,178)	$	577,958	$	(91,390)
Discontinued operations, net of tax				(6,542)				(52,716)
Net income (loss) attributable to SLM Corporation	$	337,818	$	(122,720)	$	577,958	$	(144,106)
Basic earnings (loss) per common share attributable to SLM Corporation common shareholders:								
Continuing operations	$	.66	$	(.31)	$	1.12	$	(.31)
Discontinued operations				(.01)				(.11)
Total	$	.66	$	(.32)	$	1.12	$	(.42)
Average common shares outstanding		484,832		466,799		484,547		466,780
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:								
Continuing operations	$	.63	$	(.31)	$	1.08	$	(.31)
Discontinued operations				(.01)				(.11)
Total	$	.63	$	(.32)	$	1.08	$	(.42)
Average common and common equivalent shares outstanding		527,391		466,799		527,013		466,780
Dividends per common share attributable to SLM Corporation common shareholders	$		$		$		$	

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(Dollars in thousands, except share and per share amounts)
(Unaudited)

Common Stock Shares			Preferred	Common	Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Treasury
Issued	Treasury	Outstanding	Stock	Stock	Capital	(Loss)	Earnings	Stock
4,698,117	(67,105,360)	467,592,757	$ 1,714,770	$ 106,940	$ 4,694,155	$ (70,450)	$ 378,387	$ (1,859,9
							(122,720)	
						1,319		
						20,606		
						(158)		
							(2,875)	
							(1,923)	
							(20,840)	
							(2)	
143,762		143,762		29	181			
					162		(162)	
					(1,324)			
					15,879			

	(22,839)	(22,839)						(4
4,841,879	(67,128,199)	467,713,680	$ 1,714,770	$ 106,969	$ 4,709,053	$ (48,683)	$ 229,865	$ (1,860,4
3,407,785	(67,563,788)	485,843,997	$ 1,375,370	$ 110,682	$ 5,106,094	$ (42,511)	$ 72,062	$ (1,866,0
							337,818	
						1,615		
						(2,439)		
						2		
							(2,875)	
							(1,014)	
							(14,688)	
163,599		163,599		33	3,765			
					134		(134)	
					(1,212)			
					13,802			
	(211,014)	(211,014)						(3,7
3,571,384	(67,774,802)	485,796,582	$ 1,375,370	$ 110,715	$ 5,122,583	$ (43,333)	$ 391,169	$ (1,869,7

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(Dollars in thousands, except share and per share amounts)
(Unaudited)

Common Stock Shares			Preferred	Common	Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Treasury
ssued	Treasury	Outstanding	Stock	Stock	Capital	(Loss)	Earnings	Stock
4,411,271	(66,958,400)	467,452,871	$ 1,714,770	$ 106,883	$ 4,684,112	$ (76,476)	$ 426,175	$ (1,856,39
							(144,106)	
						2,269		
						26,015		
						(491)		
							(5,750)	
							(4,443)	
							(41,680)	
							(9)	
430,608	98	430,706		86	2,226			
					322		(322)	
					(5,819)			
					28,212			

	(169,897)	(169,897)						(4,05
4,841,879	(67,128,199)	467,713,680	$ 1,714,770	$ 106,969	$ 4,709,053	$ (48,683)	$ 229,865	$ (1,860,44
2,219,576	(67,221,942)	484,997,634	$ 1,375,370	$ 110,444	$ 5,090,891	$ (40,825)	$ 604,467	$ (1,861,73
							577,958	
						1,678		
						(4,151)		
						(35)		
							(5,750)	
							(1,969)	
							(29,376)	
							(11)	
1,351,808		1,351,808		271	10,166			
					294		(294)	
					(4,805)			
					26,037			
							(753,856)	
	(552,860)	(552,860)						(8,02

3,571,384	(67,774,802)	485,796,582	$	1,375,370	$	110,715	$	5,122,583	$	(43,333)	$	391,169	$ (1,869,76

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Operating activities		
Net income (loss)	$ 578,231	$ (143,614)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Loss from discontinued operations, net of tax benefit		52,716
Gains on sales of loans and securities, net	(5,138)	
Stock-based compensation cost	26,097	30,144
Unrealized (gains)/losses on derivative and hedging activities	(444,732)	497,361
Provisions for loan losses	741,359	528,391
Student loans originated for sale, net	(10,482,146)	(10,171,363)
Decrease in restricted cash other	41,403	52,552
(Increase) decrease in accrued interest receivable	(147,462)	481,791
Increase (decrease) in accrued interest payable	34,677	(409,109)
Adjustment for non-cash loss related to Retained Interest		351,331
Decrease (increase) in other assets, goodwill and acquired intangible assets, net	1,221,154	(173,504)
Decrease in other liabilities	(130,832)	(150,321)
Cash used in operating activities continuing operations	(9,145,620)	(8,910,011)
Cash provided by operating activities discontinued operations		174,701
Total net cash used in operating activities	(8,567,389)	(8,878,924)
Investing activities		
Student loans acquired	(4,672,819)	(4,944,270)
Loans purchased from securitized trusts		(3,698)
Reduction of student loans:		
Installment payments, claims and other	7,004,240	5,148,780
Proceeds from sales of student loans	164,046	462,311
Other loans originated		(2,817)
Other loans repaid	100,860	217,557
Other investing activities, net	(282,912)	(736,002)
Purchases of available-for-sale securities	(27,885,519)	(66,062,442)
Proceeds from sales of available-for-sale securities		100,056
Proceeds from maturities of available-for-sale securities	28,725,393	65,615,526
Purchases of other securities	(64,188)	
Proceeds from maturities of held-to-maturity securities and other securities	71,812	68,928
Return of investment from Retained Interest		16,361
Increase in restricted cash on-balance sheet trusts	(218,129)	(663,658)

Net cash provided by (used in) investing activities	2,942,784	(783,368)
Financing activities		
Borrowings collateralized by loans in trust issued	2,723,345	9,040,986
Borrowings collateralized by loans in trust repaid	(4,274,591)	(2,932,288)
Asset-backed commercial paper conduits, net	(1,999,582)	(12,454,223)
ED Participation Program, net	10,849,768	9,871,053
ED Conduit Program facility, net	1,559,198	11,094,745
Other short-term borrowings issued		298,294
Other short-term borrowings repaid	(198,183)	(990,720)
Other long-term borrowings issued	1,463,538	4,333,168
Other long-term borrowings repaid	(4,512,180)	(4,935,047)
Other financing activities, net	247,613	(1,533,226)
Excess tax benefit from the exercise of stock-based awards	355	
Common stock issued	194	5
Preferred dividends paid	(37,095)	(51,873)
Noncontrolling interest, net	(749)	(8,627)
Net cash provided by financing activities	5,821,631	11,732,247
Net increase in cash and cash equivalents	197,026	2,069,955
Cash and cash equivalents at beginning of period	6,070,013	4,070,002
Cash and cash equivalents at end of period	$ 6,267,039	$ 6,139,957
Cash disbursements made (refunds received) for:		
Interest	$ 1,144,499	$ 2,303,145
Income taxes, net	$ (450,851)	$ 177,478

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company or Sallie Mae) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results for the year ending December 31, 2010. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Form 10-K).

Reclassifications

Certain reclassifications have been made to the balances as of and for the three and six months ended June 30, 2009 to be consistent with classifications adopted for 2010, and had no effect on net income, total assets, or total liabilities.

Recently Issued Accounting Standards

Transfers of Financial Assets and the Variable Interest Entity (VIE) Consolidation Model

In June 2009, the Financial Accounting Standards Board (FASB) issued topic updates to Accounting Standards Codification (ASC) 860, Transfers and Servicing, and to ASC 810, Consolidation.

The topic update to ASC 860, among other things, (1) eliminates the concept of a qualifying special purpose entity (QSPE), (2) changes the requirements for derecognizing financial assets, (3) changes the amount of the recognized gain/loss on a transfer accounted for as a sale when beneficial interests are received by the transferor, and (4) requires additional disclosure. The topic update to ASC 860 is effective for transactions which occur after December 31, 2009. The impact of ASC 860 to future transactions will depend on how such transactions are structured. ASC 860 relates primarily to the Company s secured borrowing facilities. All of the Company s secured borrowing facilities entered into in 2008 and 2009, including securitization trusts, have been accounted for as on-balance sheet financing facilities. These transactions would have been accounted for in the same manner if ASC 860 had been effective during these years.

The topic update to ASC 810, significantly changes the consolidation model for variable interest entities (VIEs). The topic update amends ASC 810 and, among other things, (1) eliminates the exemption for QSPEs, (2) provides a new approach for determining which entity should consolidate a VIE that is more focused on control rather than economic interest, (3) changes when it is necessary to reassess who should consolidate a VIE and (4) requires additional disclosure. The topic update to ASC 810 is effective as of January 1, 2010.

Under ASC 810, if an entity has a variable interest in a VIE and that entity is determined to be the primary beneficiary of the VIE then that entity will consolidate the VIE. The primary beneficiary is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

potentially be significant to the VIE. As it relates to the Company s securitized assets, the Company is the servicer of the securitized assets and owns the Residual Interest of the securitization trusts. As a result, the Company is the primary beneficiary of its securitization trusts and consolidated those trusts that were previously off-balance sheet at their historical cost basis on January 1, 2010. The historical cost basis is the basis that would exist if these securitization trusts had remained on-balance sheet since they settled. ASC 810 did not change the accounting of any other VIEs the Company has a variable interest in as of January 1, 2010. These new accounting rules will also apply to new transactions entered into from January 1, 2010 forward.

Upon adoption of topic updates to ASC 810, the Company removed the $1.8 billion of Residual Interests (associated with its previously off-balance sheet securitization trusts as of December 31, 2009) from the consolidated balance sheet and the Company consolidated $35.0 billion of assets ($32.6 billion of which are student loans, net of an approximate $550 million allowance for loan loss) and $34.4 billion of liabilities (primarily trust debt), which resulted in an approximate $750 million after-tax reduction of stockholders equity (recorded as a cumulative effect adjustment to retained earnings). After the adoption of topic updates to ASC 810, the Company s results of operations no longer reflect securitization servicing and Residual Interest revenue related to these securitization trusts, but instead report interest income, provisions for loan losses associated with the securitized assets and interest expense associated with the debt issued from the securitization trusts to third parties, consistent with the Company s accounting treatment of prior on-balance securitization trusts. As of January 1, 2010, there are no longer differences between the Company s GAAP and Core Earnings presentation for securitization accounting. As a result, effective January 1, 2010, the Company s Managed and on-balance sheet (GAAP) student loan portfolios are the same.

Fair Value Measurements

In January 2010, the FASB issued a topic update to ASC 820, Fair Value Measurements and Disclosures. The update requires separate disclosures of the amounts of significant transfers in and out of Level 1 and 2 of fair value measurements and a description of the reasons for the transfers. In addition, a reporting unit should report separately information about purchases, sales, issuances, and settlements within the reconciliation of activity in Level 3 fair value measurements. Finally, the update clarifies existing disclosure requirements regarding the level of disaggregation in reporting classes of assets and liabilities and discussion of the inputs and valuation techniques used for Level 2 and 3 fair values. This topic update is effective for annual and interim periods beginning January 1, 2010, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for annual and interim periods beginning January 1, 2011.

Disclosures Regarding Credit Quality of Receivables

In July 2010, the FASB issued an update to the accounting guidance for receivables. This update requires companies to provide additional disclosures about the credit quality of receivables as well as additional information related to the allowance for loan losses. These new rules are effective for the Company s annual reporting period ending December 31, 2010. Other than requiring additional disclosures regarding the credit quality of its loan portfolio, this standard will not have an impact on the Company s financial statements.

2. Allowance for Loan Losses

The Company s provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred losses, net of expected recoveries, in the held-for-investment loan portfolios. The evaluation of the provisions for loan losses is inherently subjective as it requires material estimates that may

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Loan Losses (Continued)

be susceptible to significant changes. The Company believes that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios.

The following table summarizes the total loan provisions for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Private Education Loans	$ 349,211	$ 241,759	$ 674,233	$ 445,304
FFELP Stafford and Other Student Loans	28,613	25,595	51,609	59,993
Mortgage and consumer loans	4,415	10,758	15,517	23,094
Total provisions for loan losses	$ 382,239	$ 278,112	$ 741,359	$ 528,391

Allowance for Private Education Loan Losses

The following table summarizes changes in the allowance for loan losses for Private Education Loans for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Allowance at beginning of period	$ 2,018,676	$ 1,384,454	$ 1,443,440	$ 1,308,043
Provision for Private Education Loan losses	349,211	241,759	674,233	445,304
Charge-offs	(335,766)	(238,943)	(620,244)	(377,758)
Reclassification of interest reserve	10,292	9,437	20,934	21,118
Consolidation of off-balance sheet trusts[1]			524,050	
Allowance at end of period	$ 2,042,413	$ 1,396,707	$ 2,042,413	$ 1,396,707
Charge-offs as a percentage of average loans in repayment (annualized)	5.3%	8.2%	5.0%	6.7%
Charge-offs as a percentage of average loans in repayment and forbearance	5.1%	7.6%	4.8%	6.2%

(annualized)				
Allowance as a percentage of the ending total loan balance	5.4%	5.9%	5.4%	5.9%
Allowance as a percentage of ending loans in repayment	7.9%	11.5%	7.9%	11.5%
Allowance coverage of charge-offs (annualized)	1.5	1.5	1.6	1.8
Ending total loans[2]	$ 38,098,535	$ 23,784,039	$ 38,098,535	$ 23,784,039
Average loans in repayment	$ 25,178,957	$ 11,700,129	$ 24,913,768	$ 11,405,253
Ending loans in repayment	$ 25,721,573	$ 12,145,736	$ 25,721,573	$ 12,145,736

(1) Upon the adoption of topic updates to ASC 810 on January 1, 2010, the Company consolidated all of its previously off-balance sheet securitization trusts. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards - Transfers of Financial Assets and the VIE Consolidation Model for further discussion.)*

(2) Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans.

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2. Allowance for Loan Losses (Continued)

Private Education Loan Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of June 30, 2010, December 31, 2009, and June 30, 2009.

	Private Education Loan Delinquencies					
	June 30, 2010		December 31, 2009		June 30, 2009	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 10,051		$ 8,910		$ 10,355	
Loans in forbearance[2]	1,437		967		945	
Loans in repayment and percentage of each status:						
Loans current	22,669	88.2%	12,421	86.4%	10,294	84.8%
Loans delinquent 31-60 days[3]	948	3.7	647	4.5	504	4.2
Loans delinquent 61-90 days[3]	604	2.3	340	2.4	335	2.7
Loans delinquent greater than 90 days[3]	1,501	5.8	971	6.7	1,013	8.3
Total Private Education Loans in repayment	25,722	100.0%	14,379	100.0%	12,146	100.0%
Total Private Education Loans, gross	37,210		24,256		23,446	
Private Education Loan unamortized discount	(905)		(559)		(537)	
Total Private Education Loans	36,305		23,697		22,909	
Private Education Loan receivable for partially charged-off loans	888		499		338	
Private Education Loan allowance for losses	(2,042)		(1,443)		(1,396)	
Private Education Loans, net	$ 35,151		$ 22,753		$ 21,851	
Percentage of Private Education Loans in repayment		69.1%		59.3%		51.8%
		11.9%		13.6%		15.2%

Delinquencies as a percentage of Private Education Loans in repayment			
Loans in forbearance as a percentage of loans in repayment and forbearance	5.3%	6.3%	7.2%

(1) Loans for borrowers who may be attending school or engaging in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

(2) Loans for borrowers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with established loan program servicing policies and procedures.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

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2. Allowance for Loan Losses (Continued)

Allowance for FFELP Loan Losses

The following table summarizes changes in the allowance for loan losses for the FFELP loan portfolio for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Allowance at beginning of period	$ 186,215	$ 152,294	$ 161,168	$ 137,543
Provision for FFELP loan losses	28,613	25,595	51,609	59,993
Charge-offs	(24,235)	(24,851)	(45,639)	(43,731)
Decrease for student loan sales and other	(1,908)		(3,602)	(767)
Consolidation of off-balance sheet trusts(1)			25,149	
Allowance at end of period	$ 188,685	$ 153,038	$ 188,685	$ 153,038
Charge-offs as a percentage of average loans in repayment (annualized)	.1%	.1%	.1%	.1%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.1%	.1%	.1%	.1%
Allowance as a percentage of the ending total loan balance	.1%	.1%	.1%	.1%
Allowance as a percentage of ending loans in repayment	.2%	.2%	.2%	.2%
Allowance coverage of charge-offs (annualized)	1.9	1.5	2.1	1.7
Ending total loans, gross	$ 145,932,811	$ 130,084,026	$ 145,932,811	$ 130,084,026
Average loans in repayment	$ 82,449,191	$ 68,657,756	$ 82,443,391	$ 68,949,585
Ending loans in repayment	$ 82,978,473	$ 70,011,495	$ 82,978,473	$ 70,011,495

(1)

Upon the adoption of topic updates to ASC 810 on January 1, 2010, the Company consolidated all of its previously off-balance sheet securitization trusts. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further discussion.)

The Company maintains an allowance for Risk Sharing loan losses on its FFELP loan portfolio. The level of Risk Sharing has varied over the past few years with legislative changes. As of June 30, 2010, 48 percent of the FFELP loan portfolio was subject to 3 percent Risk Sharing, 51 percent was subject to 2 percent Risk Sharing and the remaining 1 percent was not subject to any Risk Sharing.

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2. Allowance for Loan Losses (Continued)

FFELP Loan Delinquencies

The table below shows the Company s FFELP loan delinquency trends as of June 30, 2010, December 31, 2009 and June 30, 2009.

	FFELP Loan Delinquencies					
	June 30, 2010		December 31, 2009		June 30, 2009	
(Dollars in millions)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 43,397		$ 35,079		$ 46,644	
Loans in forbearance[2]	19,557		14,121		13,428	
Loans in repayment and percentage of each status:						
Loans current	68,657	82.7%	57,528	82.4%	58,746	83.9%
Loans delinquent 31-60 days[3]	4,837	5.8	4,250	6.1	3,996	5.7
Loans delinquent 61-90 days[3]	2,540	3.1	2,205	3.1	1,959	2.8
Loans delinquent greater than 90 days[3]	6,945	8.4	5,844	8.4	5,311	7.6
Total FFELP loans in repayment	82,979	100.0%	69,827	100.0%	70,012	100.0%
Total FFELP loans, gross	145,933		119,027		130,084	
FFELP loan unamortized premium	2,748		2,187		2,375	
Total FFELP loans	148,681		121,214		132,459	
FFELP loan allowance for losses	(189)		(161)		(153)	
FFELP loans, net	$ 148,492		$ 121,053		$ 132,306	
Percentage of FFELP loans in repayment		56.9%		58.7%		53.8%
Delinquencies as a percentage of FFELP loans in repayment		17.3%		17.6%		16.1%
FFELP loans in forbearance as a percentage of loans in repayment and forbearance		19.1%		16.8%		16.1%

(1) Loans for borrowers who may be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as loans for borrowers who have requested extension of grace period during employment transition or who have temporarily ceased making full payments due to hardship or other factors.

(2) Loans for borrowers who have used their allowable deferment time or do not qualify for deferment, and need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors, consistent with the established loan program servicing policies and procedures.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

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3. Investments

A summary of investments and restricted investments as of June 30, 2010 and December 31, 2009 follows:

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments				
Available-for-sale:				
U.S. Treasury securities	$ 5,103	$	$	$ 5,103
Other securities:				
Certificates of deposit	300,000			300,000
Asset-backed securities	79,369	1,879	(1)	81,247
Commercial paper and asset-backed commercial paper				
Municipal bonds	9,558	2,168		11,726
Other	1,547		(167)	1,380
Total investment securities available-for-sale	$ 395,577	$ 4,047	$ (168)	$ 399,456
Restricted Investments				
Available-for sale:				
U.S. Treasury securities	$ 40,091	$	$	$ 40,091
Guaranteed investment contracts	23,385			23,385
Total restricted investments available-for-sale	$ 63,476	$	$	$ 63,476
Held-to-maturity:				
Guaranteed investment contracts	$ 3,175	$	$	$ 3,175
Total restricted investments held-to-maturity	$ 3,175	$	$	$ 3,175

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3. Investments (Continued)

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments				
Available-for-sale:				
U.S. Treasury securities	$ 272	$	$	$ 272
Other securities:				
Asset-backed securities	110,336	306	(893)	109,749
Commercial paper and asset-backed commercial paper	1,149,981			1,149,981
Municipal bonds	9,935	1,942		11,877
Other	1,550		(154)	1,396
Total investment securities available-for-sale	$ 1,272,074	$ 2,248	$ (1,047)	$ 1,273,275
Restricted Investments				
Available-for sale:				
U.S. Treasury securities	$ 25,026	$	$	$ 25,026
Guaranteed investment contracts	26,951			26,951
Total restricted investments available-for-sale	$ 51,977	$	$	$ 51,977
Held-to-maturity:				
Guaranteed investment contracts	$ 3,550	$	$	$ 3,550
Other	215			215
Total restricted investments held-to-maturity	$ 3,765	$	$	$ 3,765

In addition to the restricted investments detailed above, at June 30, 2010 and December 31, 2009, the Company had restricted cash and cash equivalents of $6.2 billion and $5.1 billion, respectively. As of June 30, 2010 and December 31, 2009, $40 million (all of which is in restricted cash and investments on the balance sheet) and $50 million ($25 million of which is in restricted cash and investments on the balance sheet), respectively, of available-for-sale investment securities were pledged as collateral.

There were no sales of investments, including available-for-sale securities, during the three and six months ended June 30, 2010 and the three months ended June 30, 2009. In the six months ended June 30, 2009, the Company sold available-for-sale securities with a fair value of $100 million, resulting in no realized gain or loss. The cost basis for these securities was determined through specific identification of the securities sold.

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3. Investments (Continued)

As of June 30, 2010, the stated maturities for the investments (including restricted investments) are as follows:

	June 30, 2010		
	Held-to-Maturity	Available-for-Sale[1]	Other
Year of Maturity			
2010	$	$ 346,574	$ 976,358
2011			4,823
2012			
2013		599	
2014			
2015-2019		11,726	58,027
After 2019	3,175	104,033	761
Total	$ 3,175	$ 462,932	$ 1,039,969

(1) Available-for-sale securities are stated at fair value.

At June 30, 2010 and December 31, 2009, the Company also had other investments of $1.0 billion and $741 million, respectively. At June 30, 2010 and December 31, 2009, other investments included $950 million and $636 million, respectively, of receivables for cash collateral posted with derivative counterparties. Other investments also included leveraged leases which at June 30, 2010 and December 31, 2009, totaled $57 million and $66 million, respectively, that are general obligations of American Airlines and Federal Express Corporation.

4. Goodwill and Acquired Intangible Assets

Goodwill

All acquisitions must be assigned to a reporting unit or units. A reporting unit is the same as or one level below an operating segment. The following table summarizes the Company s historical allocation of goodwill to its reporting units, accumulated impairments and net goodwill for each reporting unit.

	As of June 30, 2010 and December 31, 2009 Accumulated

(Dollars in millions)	Gross	Impairments	Net
Lending	$ 412	$ (24)	$ 388
APG	401		401
Guarantor Servicing	62		62
Upromise	140		140
Other	1	(1)	
Total	$ 1,016	$ (25)	$ 991

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4. Goodwill and Acquired Intangible Assets (Continued)

Impairment Testing

The Company performs goodwill impairment testing annually in the fourth quarter as of a September 30 valuation date or more frequently if an event occurs or circumstances change such that it is more likely than not that the fair value of a reporting unit or reporting units may be below their respective carrying values.

On March 30, 2010, President Obama signed into law H.R. 4872, which included the Student Aid and Fiscal Responsibility Act (SAFRA). Effective July 1, 2010, this law eliminated the authority to provide new loans under FFELP and requires that all new federal loans are to be made through the Direct Student Loan Program (DSLP). The new law did not alter or affect the terms and conditions of existing FFELP loans. The Company is currently in the process of restructuring its operations to reflect this change in law. This restructuring will result in both a significant amount of restructuring expenses incurred as well as a significant reduction of on-going operating costs once the restructuring is complete. See Note 13, Restructuring Activities for further details.

In connection with SAFRA becoming law on March 30, 2010, a trigger event occurred for the Lending, APG and Guarantor Servicing reporting units which required the Company to assess potential goodwill impairment as of March 31, 2010. As part of the impairment assessment, the Company considered the implications of the SAFRA legislation to these reporting units as well as continued uncertainty in the economy and the tight credit markets during the first quarter of 2010. The impairment assessment methodology utilized a discounted cash flow analysis for each reporting unit affected by the new SAFRA legislation. This assessment resulted in estimated fair values of the Company s reporting units in excess of their carrying values at March 31, 2010. Accordingly, there was no indicated impairment for these reporting units in the first quarter of 2010. Likewise, in conjunction with the Company s annual impairment assessment in the fourth quarter of 2009, the cash flow projections for the Lending, APG and Guarantor Servicing reporting units were valued assuming the proposed SAFRA legislation was passed. There was no indicated impairment for any of the reporting units in the fourth quarter of 2009.

During the second quarter of 2010, no trigger event occured to warrant an impairment assessment.

As a result of the passage of SAFRA, certain revenue streams in the Lending and APG reporting units and the entire revenue stream of the Guarantor Servicing reporting unit will wind down over time. As these revenue streams wind down, goodwill impairment may be triggered in future periods for the Lending and APG reporting units and will definitely be triggered in the future for the Guarantor Servicing reporting unit due to the passage of time and depletion of projected cash flows stemming from FFELP-related contracts.

Management acknowledges that the economic slowdown could adversely affect the operating results of the Company s reporting units. If the forecasted performance of the Company s reporting units is not achieved, or if the Company s stock price declines to a depressed level resulting in deterioration in the Company s total market capitalization, the fair value of one or more of the reporting units could be significantly reduced, and the Company may be required to record a charge, which could be material, for an impairment of goodwill.

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4. Goodwill and Acquired Intangible Assets (Continued)

Goodwill by Reportable Segments

A summary of the Company s goodwill by reportable segment is as follows:

(Dollars in millions)	December 31, 2009	June 30, 2010
Lending	$ 388	$ 388
Asset Performance Group	401	401
Other	202	202
Total	$ 991	$ 991

Acquired Intangible Assets

Acquired intangible assets include the following:

(Dollars in millions)	Average Amortization Period	As of June 30, 2010 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services and lending relationships	13 years	$ 332	$ (226)	$ 106
Software and technology	7 years	98	(91)	7
Non-compete agreements		11	(11)	
Total		441	(328)	113
Intangible assets not subject to amortization:				
Trade names and trademarks	Indefinite	54		54
Total acquired intangible assets		$ 495	$ (328)	$ 167

(Dollars in millions)	Average Amortization Period	As of December 31, 2009 Gross	Accumulated Amortization	Net

Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 332	$ (208)	$ 124
Software and technology	7 years	98	(89)	9
Non-compete agreements		11	(11)	
Total		441	(308)	133
Intangible assets not subject to amortization:				
Trade names and trademarks	Indefinite	54		54
Total acquired intangible assets		$ 495	$ (308)	$ 187

The Company recorded amortization of acquired intangible assets from continuing operations totaling $10 million for both the three months ended June 30, 2010 and 2009, respectively and $20 million and $19 million for the six months ended June 30, 2010 and 2009, respectively. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives.

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5. Borrowings

The following table summarizes the Company s borrowings as of June 30, 2010 and December 31, 2009.

	June 30, 2010			December 31, 2009		
(Dollars in millions)	**Short Term**	**Long Term**	**Total**	**Short Term**	**Long Term**	**Total**
Unsecured borrowings	$ 5,544	$ 19,681	$ 25,225	$ 5,185	$ 22,797	$ 27,982
Unsecured term bank deposits	1,687	3,291	4,978	842	4,795	5,637
FHLB-DM facility	575		575			
ED Participation Program facility	19,856		19,856	9,006		9,006
ED Conduit Program facility	15,873		15,873	14,314		14,314
ABCP borrowings	1,238	5,000	6,238		8,801	8,801
Securitizations		121,373	121,373		89,200	89,200
Indentured trusts	47	1,415	1,462	64	1,533	1,597
Other[(1)]	1,527		1,527	1,472		1,472
Total before hedge accounting adjustments	46,347	150,760	197,107	30,883	127,126	158,009
Hedge accounting adjustments	125	1,491	1,616	14	3,420	3,434
Total	$ 46,472	$ 152,251	$ 198,723	$ 30,897	$ 130,546	$ 161,443

(1) Other primarily consists of cash collateral held related to derivative exposures that are recorded as a short-term debt obligation.

Secured Borrowings

VIEs are required to be consolidated by their primary beneficiaries. The criteria to be considered the primary beneficiary changed on January 1, 2010 upon the adoption of topic updates to ASC 810 (see Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further discussion). A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about an entity s activities that have a significant impact on the success of the entity, the obligation to absorb the expected losses of an entity, and the rights to receive the expected residual returns of the entity.

The Company currently consolidates a number of financing entities that are VIEs as a result of being the entities primary beneficiary. As a result, these financing VIEs are accounted for as secured borrowings. The

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5. Borrowings (Continued)

Company is the primary beneficiary of and currently consolidates the following financing VIEs as of June 30, 2010 and December 31, 2009:

	June 30, 2010						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings:							
ED Participation Program facility	$ 19,856	$	$ 19,856	$ 20,056	$ 227	$ 291	$ 20,574
ED Conduit Program facility	15,873		15,873	16,022	472	436	16,930
ABCP borrowings	1,238	5,000	6,238	7,032	140	60	7,232
Securitizations		121,373	121,373	124,376	4,851	2,051	131,278
Indentured trusts	47	1,415	1,462	1,760	192	19	1,971
Total before hedge accounting adjustments	37,014	127,788	164,802	169,246	5,882	2,857	177,985
Hedge accounting adjustments		117	117				
Total	$ 37,014	$ 127,905	$ 164,919	$ 169,246	$ 5,882	$ 2,857	$ 177,985

	December 31, 2009						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings:							
ED Participation Program facility	$ 9,006	$	$ 9,006	$ 9,397	$ 115	$ 61	$ 9,573
	14,314		14,314	14,594	478	372	15,444

ED Conduit Program facility							
ABCP borrowings		8,801	8,801	9,929	204	100	10,233
Securitizations		89,200	89,200	93,021	3,627	3,083	99,731
Indentured trusts	64	1,533	1,597	1,898	172	24	2,094
Total before hedge accounting adjustments	23,384	99,534	122,918	128,839	4,596	3,640	137,075
Hedge accounting adjustments		1,479	1,479				
Total	$ 23,384	$ 101,013	$ 124,397	$ 128,839	$ 4,596	$ 3,640	$ 137,075

The Department of Education (ED) Funding Programs

In August 2008, ED implemented the Loan Purchase Commitment Program (the Purchase Program) and the Loan Purchase Participation Program (the Participation Program) pursuant to The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). Under the Purchase Program, ED purchases eligible FFELP loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one-percent

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5. Borrowings (Continued)

origination fee paid to ED, and (iv) a fixed amount of $75 per loan. Under the Participation Program, ED provides short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged a rate equal to the preceding quarter commercial paper rate plus 0.50 percent on the principal amount of participation interests outstanding. Under the terms of the Participation Program, on September 30, 2010, academic year (AY) 2009-2010 loans funded under the Participation Program must be either repurchased by the Company or sold to ED pursuant to the Participation Program, which has identical economics to the Purchase Program. Given the state of the credit markets, we currently expect to sell all of the loans we fund under the Participation Program to ED for settlement in the fourth quarter of 2010. Loans eligible for the Participation or Purchase Programs are limited to FFELP Stafford or PLUS Loans, first disbursed on or after May 1, 2008 but no later than July 1, 2010, with no ongoing borrower benefits other than permitted rate reductions of 0.25 percent for automatic payment processing. As of June 30, 2010, the Company had $19.9 billion of advances outstanding under the Participation Program.

Also pursuant to ECASLA, on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS Loans from a conduit vehicle established to provide funding for eligible student lenders (the ED Conduit Program). Loans eligible for the ED Conduit Program must be first disbursed on or after October 1, 2003, but not later than July 1, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements, including those relating to borrower benefits. The ED Conduit Program was launched on May 11, 2009 and accepted eligible loans through July 1, 2010. The ED Conduit Program expires on January 19, 2014. Funding for the ED Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. If the conduit does not have sufficient funds to make the required payments on the notes issued by the conduit, then the notes will be repaid with funds from the Federal Financing Bank (FFB). The FFB will hold the notes for a short period of time and, if at the end of that time, the notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the ED Conduit will be sold to ED through a put agreement at a price of 97 percent of the face amount of the loans. As of June 30, 2010, approximately $16.0 billion face amount of our Stafford and PLUS Loans were funded through the ED Conduit Program. For the second quarter of 2010, the average interest rate paid on this facility was approximately 0.72 percent.

Asset-Backed Financing Facilities

During the first quarter of 2008, the Company entered into three new asset-backed financing facilities (the 2008 Asset-Backed Financing Facilities) to fund FFELP and Private Education Loans. In 2009, the FFELP facilities were subsequently amended and reduced and the Private Education facility was retired.

On January 15, 2010, the Company terminated the 2008 Asset-Backed Financing Facilities for FFELP and entered into new multi-year ABCP facilities (the 2010 Facility) which will continue to provide funding for the Company s federally guaranteed student loans. The 2010 Facility provides for maximum funding of $10 billion for the first year, $5 billion for the second year and $2 billion for the third year. Upfront fees related to the 2010 Facility were approximately $4 million. The underlying cost of borrowing under the 2010 Facility for the first year is expected to be commercial paper issuance cost plus 0.50 percent, excluding up-front commitment and unused fees.

Borrowings under the 2010 Facility are non-recourse to the Company. The maximum amount the Company may borrow under the 2010 Facility is limited based on certain factors, including market conditions and the fair value of student loans in the facility. Funding under the 2010 Facility is subject to usual and customary conditions. The 2010 Facility is subject to termination under certain circumstances, including the

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5. Borrowings (Continued)

Company s failure to comply with the principal financial covenants in its unsecured revolving credit facility. Increases in the borrowing rate of up to LIBOR plus 450 basis points could occur if certain asset coverage ratio thresholds are not met. Failure to pay off the 2010 Facility on the maturity date or to reduce amounts outstanding below the annual maximum step downs will result in a 90-day extension of the 2010 Facility with the interest rate increasing from LIBOR plus 200 basis points to LIBOR plus 300 basis points over that period. If, at the end of the 90-day extension, these required paydown amounts have not been made, the collateral can be foreclosed upon. As of June 30, 2010, there was approximately $6.2 billion outstanding in this facility. The book basis of the assets securing this facility at June 30, 2010 was $7.2 billion.

Securitizations

On February 6, 2009, the Federal Reserve Bank of New York published proposed terms for a program designed to facilitate renewed issuance of consumer and small business ABS at lower interest rate spreads. The Term Asset-Backed Securities Loan Facility (TALF) was initiated on March 17, 2009 and provided investors who purchase eligible ABS with funding of up to five years. Eligible ABS include AAA rated student loan ABS backed by FFELP and Private Education Loans first disbursed since May 1, 2007. For student loan collateral, TALF expired on March 31, 2010.

In 2009, the Company completed four FFELP long-term ABS transactions totaling $5.9 billion. The FFELP transactions were composed primarily of FFELP Consolidation Loans which were not eligible for the ED Conduit Program or the TALF.

During 2009, the Company completed $7.5 billion of Private Education Loan term ABS transactions, all of which were private placement transactions. On January 6, 2009, the Company closed a $1.5 billion 12.5 year ABS based facility (Total Return Swap Facility). This facility is used to provide up to $1.5 billion term financing for Private Education Loans. The fully utilized cost of financing obtained under this facility is expected to be LIBOR plus 5.75 percent. In connection with this facility, the Company completed one Private Education Loan term ABS transaction totaling $1.5 billion in the first quarter of 2009. The net funding received under the ABS based facility for this issuance was $1.1 billion. In addition, the Company completed $6.0 billion of Private Education Loan term ABS transactions which were TALF-eligible.

On March 3, 2010, the Company priced a $1.6 billion Private Education Loan term ABS transaction which was TALF-eligible. The notes settled on March 11, 2010 and the issuance included one $149 million tranche bearing a coupon of Prime minus 0.05 percent and a second $1.401 billion tranche bearing a coupon of 1-month LIBOR plus 3.25 percent.

On April 12, 2010, the Company priced a $1.2 billion FFELP long-term ABS transaction. The transaction settled on April 15, 2010 and includes $1.2 billion A Notes bearing a coupon of 1-month LIBOR plus 0.40 percent and $37 million B Notes bearing a coupon of 1-month LIBOR plus 0.90 percent. The B Notes were purchased by the Company in their entirety on the settlement date. This transaction was composed primarily of FFELP Stafford and

PLUS loans.

On July 22, 2010, the Company redeemed its $1.5 billion SLM Private Education Loan Trust 2009-A ABS issue and closed new offerings of its $869 million SLM 2010-B and $1.7 billion SLM 2010-C Private Education Loan Trust ABS issues. Approximately $875 million of the 2010-B and 2010-C bonds were issued at a weighted average coupon of 1-month LIBOR plus 2.23 percent; the remaining $1.7 billion of bonds were financed under the Company s Total Return Swap Facility. These concurrent transactions raised approximately $1.0 billion of net additional cash for the Company.

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5. Borrowings (Continued)

The Company has $5.3 billion face amount of Private Education Loan securitization bonds outstanding at June 30, 2010, where the Company has the ability to call the bonds at a discount to par between 2011 and 2014. The Company has concluded that it is probable it will call these bonds at the call date at the respective discount. Probability is based on the Company s assessment of whether these bonds can be refinanced at the call date at or lower than a breakeven cost of funds based on the call discount. As a result, the Company is accreting this call discount as a reduction to interest expense through the call date. If it becomes less than probable that the Company will call these bonds at a future date, it will result in the Company reversing this prior accretion as a cumulative catch-up adjustment. The Company has accreted approximately $112 million, cumulatively, and $27 million in the second quarter of 2010 as a reduction of interest expense.

Auction Rate Securities

At June 30, 2010, the Company had $3.3 billion of taxable and $1.1 billion of tax-exempt auction rate securities outstanding in securitizations and indentured trusts, respectively. Since February 2008, problems in the auction rate securities market as a whole led to failures of the auctions pursuant to which certain of the Company s auction rate securities interest rates are set. As a result, $3.5 billion of the Company s auction rate securities as of June 30, 2010 bore interest at the maximum rate allowable under their terms. The maximum allowable interest rate on the Company s taxable auction rate securities is generally LIBOR plus 1.50 percent. The maximum allowable interest rate on many of the Company s tax-exempt auction rate securities is a formula driven rate, which produced various maximum rates up to 0.84 percent during the second quarter of 2010. As of June 30, 2010, $0.9 billion of auction rate securities with shorter weighted average terms to maturity have had successful auctions, resulting in an average rate of 1.12 percent.

Indentured Trusts

The Company has secured assets and outstanding bonds in indentured trusts resulting from the acquisition of various student loan providers in prior periods. The indentures were created and bonds issued to finance the acquisition of student loans guaranteed under the Higher Education Act. The bonds are limited obligations of the Company and are secured by and payable from payments associated with the underlying secured loans.

Federal Home Loan Bank in Des Moines (FHLB-DM)

On January 15, 2010, HICA Education Loan Corporation (HICA), a subsidiary of the Company, entered into a lending agreement with the FHLB-DM. Under the agreement, the FHLB-DM will provide advances backed by Federal Housing Finance Agency approved collateral which includes federally-guaranteed student loans. The initial borrowing of $25 million at a rate of 0.23 percent under this facility occurred on January 15, 2010 and matured on January 22, 2010. The amount, price and tenor of future advances will vary and will be determined at the time of each borrowing. The maximum amount that can be borrowed, as of June 30, 2010, subject to available collateral, is approximately $11 billion. As of June 30, 2010 borrowing under the facility totaled $575 million, of which $300 million matured on July 26, 2010 and $275 million matures on August 24, 2010. The Company has provided a guarantee to the FHLB-DM for the performance and payment of HICA s obligations.

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5. Borrowings (Continued)

Other Funding Sources

Sallie Mae Bank

During the fourth quarter of 2008, Sallie Mae Bank, the Company s Utah industrial bank subsidiary, began expanding its deposit base to fund new Private Education Loan originations. Sallie Mae Bank raises deposits primarily through intermediaries in the retail brokered Certificate of Deposit (CD) market and through retail deposit channels. As of June 30, 2010, total term bank deposits were $5.0 billion and cash and liquid investments totaled $2.6 billion. In addition to its deposit base, Sallie Mae Bank has borrowing capacity with the Federal Reserve Bank (FRB) through a collateralized lending facility. Borrowing capacity is limited by the availability of acceptable collateral. As of June 30, 2010, borrowing capacity was approximately $0.6 billion and there were no outstanding borrowings.

Unsecured Revolving Credit Facility

As of June 30, 2010, the Company had $1.6 billion in an unsecured revolving credit facility which provides liquidity support for general corporate purposes. This facility matures in October 2011. On May 5, 2010, the $1.9 billion revolving credit facility maturing in October 2010 was terminated.

The principal financial covenants in the unsecured revolving credit facility require the Company to maintain consolidated tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was $3.2 billion as of June 30, 2010. The covenants also require the Company to meet either a minimum interest coverage ratio or a minimum net adjusted revenue test based on the four preceding quarters adjusted Core Earnings financial performance. The Company was compliant with both of the minimum interest coverage ratio and the minimum net adjusted revenue tests as of the quarter ended June 30, 2010. In the past, the Company has not relied upon the Company s unsecured revolving credit facilities as a primary source of liquidity. Even though the Company has never borrowed under these facilities, the revolving credit facility maturing October 2011 remains available to be drawn upon for general corporate purposes.

6. Student Loan Securitization

The Company securitizes its FFELP Stafford loans, FFELP Consolidation Loans and Private Education Loan assets. Prior to the adoption of topic updates to the FASB s ASC 810 on January 1, 2010, for transactions qualifying as sales, the Company retained a Residual Interest and servicing rights (as the Company retained the servicing responsibilities), all of which were referred to as the Company s Retained Interest in off-balance sheet securitized loans. The Residual Interest is the right to receive cash flows from the student loans and reserve accounts in excess of the amounts needed to pay servicing, derivative costs (if any), other fees, and the principal and interest on the bonds backed by the student loans. As a result of adopting the topic updates to ASC 810, the Company removed the $1.8 billion of Residual Interests (associated with its previously off-balance sheet securitization trusts as of December 31, 2009) from the consolidated balance sheet (see Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further details). While this accounting has changed, our economic interest in these assets remains unchanged.

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6. Student Loan Securitization (Continued)

Securitization Activity

The following table summarizes the Company s securitization activity for the three and six months ended June 30, 2010 and 2009. The securitizations in the periods presented below were accounted for as financings under ASC 860.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010		2009		2010		2009	
(Dollars in millions)	No. of Transactions	Loan Amount Securitized	No. of Transactions	Loan Amount Securitized	No. of Transactions	Loan Amount Securitized	No. of Transactions	Loan Amount Securitized
Securitizations:								
FFELP Stafford/PLUS Loans	1	$ 1,211		$	1	$ 1,211		$
FFELP Consolidation Loans			2	4,524			2	4,524
Private Education Loans			1	3,527	1	1,929	2	6,419
Total securitizations	1	$ 1,211	3	$ 8,051	2	$ 3,140	4	$ 10,943

The following table summarizes cash flows received from or paid to the previously off-balance sheet securitization trusts during the three and six months ended June 30, 2009.

(Dollars in millions)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Net proceeds from new securitizations completed during the period	$	$
Cash distributions from trusts related to Residual Interests	154	268
Servicing fees received[(1)]	57	115
Purchases of previously transferred financial assets for representation and warranty violations	(2)	(5)
Reimbursements of borrower benefits[(2)]	(8)	(16)
Purchases of delinquent Private Education Loans from securitization trusts using delinquent loan call option		
Purchases of loans using clean-up call option		

(1) The Company receives annual servicing fees of 90 basis points, 50 basis points and 70 basis points of the outstanding securitized loan balance related to its FFELP Stafford, FFELP Consolidation Loan and Private Education Loan securitizations, respectively.

(2) Under the terms of the securitizations, the transaction documents require that the Company reimburse the trusts for any borrower benefits afforded the borrowers of the underlying securitized loans.

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company s Residual Interests, included in the Company s Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated

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6. Student Loan Securitization (Continued)

as sales as of December 31, 2009. As noted previously, the Residual Interest was removed from the balance sheet on January 1, 2010.

	As of December 31, 2009			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts[1]**	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests	$ 243	$ 791	$ 794	$ 1,828
Underlying securitized loan balance	5,377	14,369	12,986	32,732
Weighted average life	3.3 yrs.	9.0 yrs.	6.3 yrs.	
Prepayment speed (annual rate)[2]				
Interim status	0%	N/A	0%	
Repayment status	0-14%	2-4%	2-15%	
Life of loan repayment status	9%	3%	6%	
Expected remaining credit losses (% of outstanding student loan principal)[3][4]	.10%	.25%	5.31%	
Residual cash flows discount rate	10.6%	12.3%	27.5%	

(1) Includes $569 million related to the fair value of the Embedded Floor Income as of December 31, 2009.

(2) The Company uses Constant Prepayment Rate (CPR) curves for Residual Interest valuations that are based on seasoning (the number of months since entering repayment). Under this methodology, a different CPR is applied to each year of a loan s seasoning. Repayment status CPR used is based on the number of months since first entering repayment (seasoning). Life of loan CPR is related to repayment status only and does not include the impact of the loan while in interim status. The CPR assumption used for all periods includes the impact of projected defaults.

(3) Remaining expected credit losses as of the respective balance sheet date.

(4) For Private Education Loan trusts, estimated defaults from settlement to maturity are 12.2 percent at December 31, 2009. These estimated defaults do not include recoveries related to defaults but do include prior purchases of loans at par by the Company when loans reached 180 days delinquent (prior to default) under a contingent call option. Although these loan purchases do not result in a realized loss to the trust, the Company has included them here. Not including these purchases in the disclosure would result in estimated defaults of 9.3 percent at December 31, 2009.

The Company recorded net unrealized mark-to-market losses in securitization servicing and Residual Interest revenue (loss) of $90 million and $351 million for the three and six months ended June 30, 2009.

As of June 30, 2009, the Company did not change any significant assumptions compared to those used as of March 31, 2009, to determine the fair value of the Residual Interests. The $90 million unrealized mark-to-market loss in the second quarter of 2009 was primarily a result of an increase in forward interest rates which resulted in a higher discount rate used to value the Residual Interests as well as a reduction in the fair value of the Embedded Fixed Rate Floor Income.

The $351 million mark-to-market loss for the six months ended June 30, 2009 was primarily due to:

Life of loan default rate assumptions for Private Education Loans were increased as a result of the continued weakening of the U.S. economy. This resulted in a $49 million unrealized mark-to-market loss.

The discount rate risk premium assumption related to the Private Education Loan Residual Interests was increased by 500 basis points to take into account the level of cash flow uncertainty and lack of liquidity that existed with the Residual Interests as of June 30, 2009. This resulted in a $126 million unrealized mark-to-market loss.

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6. Student Loan Securitization (Continued)

An increase in the forward curves interest rates used to value the Embedded Fixed Rate Floor Income component of the Residual Interests resulted in a $133 million mark-to-market loss.

The table below shows the Company s off-balance sheet Private Education Loan delinquencies as of June 30, 2009.

	Off-Balance Sheet Private Education Loan Delinquencies June 30, 2009		
(Dollars in millions)		**Balance**	**%**
Loans in-school/grace/deferment[1]	$	2,974	
Loans in forbearance[2]		583	
Loans in repayment and percentage of each status:			
Loans current		8,874	90.4%
Loans delinquent 31-60 days[3]		261	2.7
Loans delinquent 61-90 days[3]		174	1.8
Loans delinquent greater than 90 days[3]		505	5.1
Total off-balance sheet Private Education Loans in repayment		9,814	100.0%
Total off-balance sheet Private Education Loans, gross	$	13,371	

(1) Loans for borrowers who may be attending school or engaging in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

(2) Loans for borrowers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardships or other factors, consistent with established loan program servicing policies and procedures.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

The following table summarizes charge-off activity for Private Education Loans in the off-balance sheet trusts for the three and six months ended June 30, 2009.

(Dollars in millions)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Charge-offs	$ 116	$ 179
Charge-offs as a percentage of average loans in repayment (annualized)	4.8%	3.8%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.6%	3.6%
Ending off-balance sheet total Private Education Loans(1)	$ 13,520	$ 13,520
Average off-balance sheet Private Education Loans in repayment	$ 9,630	$ 9,522
Ending off-balance sheet Private Education Loans in repayment	$ 9,814	$ 9,814

(1) Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans (see Note 2, Allowance for Loan Losses).

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7. Derivative Financial Instruments

Derivative instruments are used as part of the Company s interest rate and foreign currency risk management strategy and include interest rate swaps, basis swaps, cross-currency interest rate swaps, interest rate futures contracts, and interest rate floor and cap contracts with indices that relate to the pricing of specific balance sheet assets and liabilities. (For a full discussion of the Company s risk management strategy and use of derivatives, please see the Company s 2009 Form 10-K, Note 9, Derivative Financial Instruments, to the consolidated financial statements.) The accounting of the Company s derivatives requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The Company s derivative instruments are classified and accounted for by the Company as fair value hedges, cash flow hedges or trading activities.

Fair Value Hedges

Fair value hedges are generally used by the Company to hedge the exposure to changes in fair value of a recognized fixed rate asset or liability. The Company enters into interest rate swaps to convert fixed rate assets into variable rate assets and fixed rate debt into variable rate debt. The Company also enters into cross-currency interest rate swaps to convert foreign currency denominated fixed and floating debt to U.S. dollar denominated variable debt. Changes in value for both the hedge and the hedged item are recorded to earnings. These amounts offset each other with the net amount representing the ineffectiveness of the relationship.

Cash Flow Hedges

Cash flow hedges are used by the Company to hedge the exposure to variability in cash flows for a forecasted debt issuance and for exposure to variability in cash flows of floating rate debt. This strategy is used primarily to minimize the exposure to volatility from future changes in interest rates. Gains and losses on the effective portion of a qualifying hedge are accumulated in other comprehensive income and ineffectiveness is recorded immediately to earnings.

Trading Activities

When instruments do not qualify as hedges, they are accounted for as trading where all changes in fair value of the derivatives are recorded through earnings. In general, derivative instruments included in trading activities include Floor Income Contracts, basis swaps and various other derivatives that do not qualify for hedge accounting.

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7. Derivative Financial Instruments (Continued)

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at June 30, 2010 and December 31, 2009, and their impact on other comprehensive income and earnings for the three and six months ended June 30, 2010 and 2009.

Impact of Derivatives on Consolidated Balance Sheet

(Dollars in millions)	Hedged Risk Exposure	Cash Flow June 30, 2010	Cash Flow Dec. 31, 2009	Fair Value June 30, 2010	Fair Value Dec. 31, 2009	Trading June 30, 2010	Trading Dec. 31, 2009	Total June 30, 2010	Total Dec. 31, 2009
Fair Values(1)									
Derivative Assets									
Interest rate swaps	Interest rate	$	$	$ 1,170	$ 684	$ 252	$ 133	$ 1,422	$ 817
Cross currency interest rate swaps	Foreign currency and interest rate			919	2,932	69	44	988	2,976
Total derivative assets(3)				2,089	3,616	321	177	2,410	3,793
Derivative Liabilities									
Interest rate swaps	Interest rate	(90)	(78)		(6)	(411)	(639)	(501)	(723)
Floor Income Contracts	Interest rate					(1,487)	(1,234)	(1,487)	(1,234)
Cross currency interest rate swaps	Foreign currency and interest rate			(386)	(192)		(1)	(386)	(193)
Other(2)	Interest rate					(10)	(20)	(10)	(20)
Total derivative liabilities(3)		(90)	(78)	(386)	(198)	(1,908)	(1,894)	(2,384)	(2,170)
Net total derivatives		$ (90)	$ (78)	$ 1,703	$ 3,418	$ (1,587)	$ (1,717)	$ 26	$ 1,623

(1) Fair values reported are exclusive of collateral held and pledged and accrued interest. Assets and liabilities are presented without consideration of master netting agreements. Derivatives are carried on the balance sheet based on net position by counterparty under master netting agreements, and classified in other assets or other liabilities depending on whether in a net positive or negative position.

(2) Other includes the fair value of Euro-dollar futures contracts, the embedded derivatives in asset-backed financings, and derivatives related to the Company s Total Return Swap Facility. The embedded derivatives are required to be accounted for as derivatives.

(3) The following table reconciles gross positions without the impact of master netting agreements to the balance sheet classification:

	Other Assets		Other Liabilities	
	June 30, 2010	**December 31, 2009**	**June 30, 2010**	**December 31, 2009**
Gross position	$ 2,410	$ 3,793	$ (2,384)	$ (2,170)
Impact of master netting agreements	(915)	(1,009)	915	1,009
Derivative values with impact of master netting agreements (as carried on balance sheet)	1,495	2,784	(1,469)	(1,161)
Cash collateral (held) pledged	(1,095)	(1,268)	950	636
Net position	$ 400	$ 1,516	$ (519)	$ (525)

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7. Derivative Financial Instruments (Continued)

(Dollars in billions)	Cash Flow June 30, 2010	Cash Flow Dec. 31, 2009	Fair Value June 30, 2010	Fair Value Dec. 31, 2009	Trading June 30, 2010	Trading Dec. 31, 2009	Total June 30, 2010	Total Dec. 31, 2009
Notional Values								
Interest rate swaps	$ 1.7	$ 1.7	$ 14.6	$ 12.4	$ 145.0	$ 148.2	$ 161.3	$ 162.3
Floor Income Contracts					41.2	47.1	41.2	47.1
Cross currency interest rate swaps			20.1	19.3	.3	.3	20.4	19.6
Other[1]					1.2	1.1	1.2	1.1
Total derivatives	$ 1.7	$ 1.7	$ 34.7	$ 31.7	$ 187.7	$ 196.7	$ 224.1	$ 230.1

(1) Other includes Euro-dollar futures contracts, embedded derivatives bifurcated from securitization debt, as well as derivatives related to the Company s Total Return Swap Facility.

Impact of Derivatives on Consolidated Statements of Income

	Three Months Ended June 30,							
(Dollars in millions)	Unrealized Gain (Loss) on Derivatives[1][2] 2010	Unrealized Gain (Loss) on Derivatives[1][2] 2009	Realized Gain (Loss) on Derivatives[3] 2010	Realized Gain (Loss) on Derivatives[3] 2009	Unrealized Gain (Loss) on Hedged Item[1] 2010	Unrealized Gain (Loss) on Hedged Item[1] 2009	Total Gain (Loss) 2010	Total Gain (Loss) 2009
Fair Value Hedges								
Interest rate swaps	$ 437	$ (487)	$ 129	$ 97	$ (475)	$ 521	$ 91	$ 131
Cross currency interest rate swaps	(1,733)	1,163	81	120	1,800	(1,524)	148	(241)
Total fair value derivatives	(1,296)	676	210	217	1,325	(1,003)	239	(110)
Cash Flow Hedges								
Interest rate swaps	1	(5)	(15)	(21)			(14)	(26)
	1	(5)	(15)	(21)			(14)	(26)

Total cash flow derivatives								
Trading								
Interest rate swaps	289	(301)	(6)	119			283	(182)
Floor Income Contracts	(42)	236	(222)	(171)			(264)	65
Cross currency interest rate swaps	33	(1)	2	1			35	
Other	12	(115)	(1)	2			11	(113)
Total trading derivatives	292	(181)	(227)	(49)			65	(230)
Total	(1,003)	490	(32)	147	1,325	(1,003)	290	(366)
Less: realized gains (losses) recorded in interest expense			195	196			195	196
Gains (losses) on derivative and hedging activities, net	$ (1,003)	$ 490	$ (227)	$ (49)	$ 1,325	$ (1,003)	$ 95	$ (562)

(1) Recorded in "Gains (losses) on derivative and hedging activities, net" in the consolidated statements of income.

(2) Represents ineffectiveness related to cash flow hedges.

(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in "Gains (losses) on derivative and hedging activities, net."

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7. Derivative Financial Instruments (Continued)

	Six Months Ended June 30,							
	Unrealized Gain (Loss) on Derivatives[1][2]		Realized Gain (Loss) on Derivatives[3]		Unrealized Gain (Loss) on Hedged Item[1]		Total Gain (Loss)	
(Dollars in millions)	2010	2009	2010	2009	2010	2009	2010	2009
Fair Value Hedges								
Interest rate swaps	$ 492	$ (670)	$ 249	$ 176	$ (538)	$ 715	$ 203	$ 221
Cross currency interest rate swaps	(3,081)	241	182	196	3,163	(501)	264	(64)
Total fair value derivatives	(2,589)	(429)	431	372	2,625	214	467	157
Cash Flow Hedges								
Interest rate swaps			(30)	(39)			(30)	(39)
Total cash flow derivatives			(30)	(39)			(30)	(39)
Trading								
Interest rate swaps	400	(601)		348			400	(253)
Floor Income Contracts	(23)	402	(433)	(311)			(456)	91
Cross currency interest rate swaps	26	(34)	3	1			29	(33)
Other	6	(50)	(2)	2			4	(48)
Total trading derivatives	409	(283)	(432)	40			(23)	(243)
Total	(2,180)	(712)	(31)	373	2,625	214	414	(125)
Less: realized gains (losses) recorded in interest expense			401	333			401	333
Gains (losses) on derivative and hedging activities, net	$ (2,180)	$ (712)	$ (432)	$ 40	$ 2,625	$ 214	$ 13	$ (458)

(1) Recorded in Gains (losses) on derivative and hedging activities, net in the consolidated statements of income.

(2) Represents ineffectiveness related to cash flow hedges.

(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in Gains (losses) on derivative and hedging activities, net.

Impact of Derivatives on Consolidated Statements of Changes in Stockholders Equity (net of tax)

(Dollars in millions)	**Three Months Ended June 30, 2010**	**2009**	**Six Months Ended June 30, 2010**	**2009**
Total gains (losses) on cash flow hedges	$ (11)	$ 5	$ (26)	$ 1
Realized (gains) losses reclassified to interest expense(1)(2)(3)	10	13	22	25
Hedge ineffectiveness reclassified to earnings(1)(4)	(1)	3		
Total change in stockholders equity for unrealized gains (losses) on derivatives	$ (2)	$ 21	$ (4)	$ 26

(1) Amounts included in Realized gain (loss) on derivatives in the Impact of Derivatives on Consolidated Statements of Income table above.

(2) Includes net settlement income/expense.

(3) The Company expects to reclassify $.1 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to net settlement accruals on interest rate swaps.

(4) Recorded in Gains (losses) derivatives and hedging activities, net in the consolidated statements of income.

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7. Derivative Financial Instruments (Continued)

Collateral

Collateral held and pledged at June 30, 2010 and December 31, 2009 related to derivative exposures between the Company and its derivative counterparties are detailed in the following table:

(Dollars in millions)		June 30, 2010		December 31, 2009
Collateral held:				
Cash (obligation to return cash collateral is recorded in short-term borrowings)[1]	$	1,095	$	1,268
Securities at fair value corporate derivatives (not recorded in financial statements)[2]				112
Securities at fair value on-balance sheet securitization derivatives (not recorded in financial statements)[3]		343		717
Total collateral held	$	1,438	$	2,097
Derivative asset at fair value including accrued interest	$	1,765	$	3,119
Collateral pledged to others:				
Cash (right to receive return of cash collateral is recorded in investments)	$	950	$	636
Securities at fair value (recorded in investments)[4]				25
Securities at fair value (recorded in restricted investments)[5]		40		25
Securities at fair value re-pledged (not recorded in financial statements)[5][6]				87
Total collateral pledged	$	990	$	773
Derivative liability at fair value including accrued interest and premium receivable	$	1,106	$	758

(1) At June 30, 2010 and December 31, 2009, $251 million and $447 million, respectively, were held in restricted cash accounts.

(2) Effective with the downgrade in the Company s unsecured credit ratings on May 13, 2009, certain counterparties restrict the Company s ability to sell or re-pledge securities it holds as collateral.

(3) The trusts do not have the ability to sell or re-pledge securities they hold as collateral.

(4) Counterparty does not have the right to sell or re-pledge securities.

(5) Counterparty has the right to sell or re-pledge securities.

(6) Represents securities the Company holds as collateral that have been pledged to other counterparties.

The Company s corporate derivatives contain credit contingent features. At the Company s current unsecured credit rating, it has fully collateralized its corporate derivative liability position (including accrued interest and net of premiums receivable) of $926 million with its counterparties. Further downgrades would not result in any additional collateral requirements, except to increase the frequency of collateral calls. Two counterparties have the right to terminate the contracts with further downgrades. The Company currently has a liability position with these derivative counterparties (including accrued interest and net of premiums receivable) of $90 million and has posted $87 million of collateral to these counterparties. If the credit contingent feature was triggered for these two counterparties and the counterparties exercised their right to terminate, the Company would be required to deliver assets totaling $3 million to settle the contracts. Trust related derivatives do not contain credit contingent features related to the Company s or trusts credit ratings.

At December 31, 2009, $381 million in collateral related to off-balance sheet trust derivatives were held by these off-balance sheet trusts. Collateral posted by third parties to the off-balance sheet trusts cannot be sold or re-pledged by the trusts. As of January 1, 2010, the off-balance sheet trusts were consolidated with the adoption of topic updates to ASC 810. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model.)

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8. Other Assets

The following table provides detail on the Company s other assets at June 30, 2010 and December 31, 2009.

	June 30, 2010		December 31, 2009	
	Ending Balance	% of Balance	Ending Balance	% of Balance
Accrued interest receivable	$ 3,251,276	38%	$ 2,566,984	26%
Derivatives at fair value	1,495,064	17	2,783,696	28
Income tax asset, net current and deferred	1,378,470	16	1,750,424	18
APG purchased paper receivables and real estate owned	208,770	2	286,108	3
Benefit and insurance-related investments	477,113	6	472,079	5
Fixed assets, net	320,835	4	322,481	3
Accounts receivable general	670,013	8	807,086	8
Other loans	309,658	4	420,233	4
Other	473,205	5	511,500	5
Total	$ 8,584,404	100%	$ 9,920,591	100%

The Derivatives at fair value line in the above table represents the fair value of the Company s derivatives in a net gain position by counterparty, exclusive of accrued interest and collateral. At June 30, 2010 and December 31, 2009, these balances included $1.7 billion and $3.4 billion, respectively, of cross-currency interest rate swaps and interest rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged debt. As of June 30, 2010 and December 31, 2009, the cumulative mark-to-market adjustment to the hedged debt was $(1.5) billion and $(3.4) billion, respectively.

9. Stockholders Equity

The following table summarizes the Company s common share repurchases and issuances for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Shares in millions)	**2010**	**2009**	**2010**	**2009**
Common shares repurchased:				

Benefit plans[1]	.2		.6	.1
Total shares repurchased	.2		.6	.1
Average purchase price per share	$ 17.72	$	$ 14.51	$ 23.84
Common shares issued	.2	.1	1.4	.4
Authority remaining at end of period for repurchases	38.8	38.8	38.8	38.8

(1) Includes shares withheld from stock option exercises and vesting of restricted stock for employees tax withholding obligations and shares tendered by employees to satisfy option exercise costs.

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9. Stockholders Equity (Continued)

The closing price of the Company s common stock on June 30, 2010 was $10.39.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss includes the after-tax change in unrealized gains and losses on available-for-sale investments, unrealized gains and losses on derivatives, and the defined benefit pension plans adjustment. The following table presents the cumulative balances of the components of other comprehensive loss as of June 30, 2010 and December 31, 2009.

	June 30, 2010	December 31, 2009
Net unrealized gains on investments[1][2]	$ 3,307	$ 1,629
Net unrealized losses on derivatives[3]	(58,050)	(53,899)
Net gain on defined benefit pension plans[4]	11,410	11,445
Total accumulated other comprehensive loss	$ (43,333)	$ (40,825)

(1) Net of tax expense of $2 million and $.9 million as of June 30, 2010 and December 31, 2009, respectively.

(2) Net unrealized gains (losses) on investments include currency translation gains of $.8 million and $.8 million as of June 30, 2010 and December 31, 2009, respectively.

(3) Net of tax benefit of $34 million and $31 million as of June 30, 2010 and December 31, 2009, respectively.

(4) Net of tax expense of $7 million and $7 million as of June 30, 2010 and December 31, 2009, respectively.

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10. Earnings (Loss) per Common Share

Basic earnings (loss) per common share (EPS) are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Numerator:				
Net income (loss) from continuing operations attributable to common stock	$ 319,107	$ (141,978)	$ 540,569	$ (143,585)
Adjusted for dividends of convertible preferred stock series C(1)	14,688		29,376	
Net income (loss) from continuing operations attributable to common stock, adjusted	333,795	(141,978)	569,945	(143,585)
Net (loss) from discontinued operations		(6,542)		(52,716)
Net income (loss) attributable to common stock, adjusted	$ 333,795	$ (148,520)	$ 569,945	$ (196,301)
Denominator (shares in thousands):				
Weighted average shares used to compute basic EPS	484,832	466,799	484,547	466,780
Effect of dilutive securities:				
Dilutive effect of convertible preferred stock series C(1)	41,240		41,240	
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units and Employee Stock Purchase Plan (ESPP)(2)	1,319		1,226	
Dilutive potential common shares(3)	42,559		42,466	
Weighted average shares used to compute diluted EPS	527,391	466,799	527,013	466,780
Basic earnings (loss) per common share:				
Continuing operations	$ .66	$ (.31)	$ 1.12	$ (.31)
Discontinued operations		(.01)		(.11)
Total	$ .66	$ (.32)	$ 1.12	$ (.42)

Diluted earnings (loss) per common share:								
Continuing operations	$	.63	$	(.31)	$	1.08	$	(.31)
Discontinued operations				(.01)				(.11)
Total	$	.63	$	(.32)	$	1.08	$	(.42)

(1) The Company s 7.25 percent mandatory convertible preferred stock Series C was issued on December 31, 2007. The mandatory convertible preferred stock will automatically convert on December 15, 2010, into between approximately 34 million shares and 41 million shares of common stock, depending upon the Company s stock price at that time. Depending upon the amount of the mandatory convertible preferred stock outstanding as of that date, the actual number of shares of common stock issued may be less. These instruments were anti-dilutive for the three and six months ended June 30, 2009.

(2) Includes the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options, non-vested deferred compensation and restricted stock, restricted stock units, and the outstanding commitment to issue shares under the ESPP, determined by the treasury stock method.

(3) For the three and six months ended June 30, 2010, stock options covering approximately 17 million shares for each period, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the three and six months ended June 30, 2009, stock options covering approximately 45 million shares for each period were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

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11. Stock-Based Compensation Plans and Arrangements

Stock Option Exchange Program

On May 17, 2010, the Company launched a one-time stock option exchange program to allow certain eligible employees (excluding the Company s named executive officers and members of its Board of Directors) to exchange certain out-of-the-money options for new options with an exercise price equal to the fair market value of the Company s stock as of the grant date. To be eligible for the exchange, the options had to have been granted on or before January 31, 2008, had an exercise price that was greater than or equal to \$20.94 per share, had a remaining term that expired after January 1, 2011 and were outstanding as of the start date of the offer and at the time the offer expired. The offering period closed on June 14, 2010. On that date, 15.1 million options were tendered and exchanged for 8.0 million new options with an exercise price of \$11.39. None of the replacement options were vested on the date of grant. Replacement options will vest in six months, twelve months or two annual installments following the grant date, depending on the original vesting status and vesting terms of the eligible options, and will maintain the original term of the eligible options for which they were exchanged. The exchange program was designed so that the fair market value of the new options would not be greater than the fair market value of the options exchanged, and as a result, this stock option exchange did not result in incremental compensation expense to the Company.

The following table summarizes stock option activity for the six months ended June 30, 2010.

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2009	43,294,720	$ 28.77		
Granted	7,151,300	10.32		
Granted in stock option exchange	7,962,176	11.39		
Exercised	(409,690)	11.26		
Canceled	(3,209,465)	26.74		
Canceled in stock option exchange	(15,106,197)	35.87		
Outstanding at June 30, 2010	39,682,844	$ 20.01	6.6 yrs	$
Exercisable at June 30, 2010	17,147,376	$ 30.40	4.8 yrs	$

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12. Other Income

The following table summarizes the components of Other income in the consolidated statements of income for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Gains on debt repurchases	$ 91,050	$ 325,294	$ 181,131	$ 389,049
Late fees and forbearance fees	36,384	32,051	77,767	68,763
Asset servicing and other transaction fees	30,007	26,391	57,899	51,446
Loan servicing fees	17,216	8,687	36,463	18,733
Foreign currency translation gains (losses), net	(19,240)	(5,692)	(18,393)	33,992
Other	9,482	12,334	20,442	29,540
Total	$ 164,899	$ 399,065	$ 355,309	$ 591,523

The change in other income over the prior periods presented was primarily the result of the gains on debt repurchases and foreign currency translation gains (losses). The Company began repurchasing its outstanding debt in the second quarter of 2008 in both open-market repurchases and public tender offers. The Company repurchased $1.4 billion and $1.1 billion face amount of its senior unsecured notes for the quarters ended June 30, 2010 and 2009, respectively. Since the second quarter of 2008, the Company has repurchased $8.0 billion face amount of its senior unsecured notes, with maturity dates ranging from 2008 to 2016. The foreign currency translation gains (losses) relate to a portion of the Company s foreign currency denominated debt that does not receive hedge accounting treatment under ASC 815. Partially offsetting gains (losses) were amounts recognized during the periods in the gains (losses) on derivative and hedging activities, net line item on the income statement related to the derivatives used to economically hedge these debt instruments.

13. Restructuring Activities

Restructuring expenses of $18 million and $3 million were recorded in the three months ended June 30, 2010 and 2009, respectively, and $44 million and $7 million were recorded in the six months ended June 30, 2010 and 2009, respectively. The following provides further information regarding the Company s two current restructuring programs.

On March 30, 2010, President Obama signed into law H.R. 4872, which included SAFRA. Effective July 1, 2010, this law eliminated the authority to provide new loans under FFELP and requires that all new federal loans to be made through the DSLP. The new law did not alter or affect the terms and conditions of existing FFELP loans. The Company is currently in the process of restructuring its operations to reflect this change in law which will result in a significant reduction of operating costs due to the elimination of positions and facilities associated with the origination of FFELP loans. In the second quarter of 2010, expenses associated with this restructuring plan were $18 million. Restructuring expenses for the six months ended June 30, 2010 were $41 million, associated with completed and planned position eliminations, all of which were recorded in continuing operations.

In connection with the SAFRA restructuring effort, on July 1, 2010, the Company announced its corporate headquarters will be moving from Reston, VA to Newark, DE by March 31, 2011. The Company is currently finalizing this restructuring plan and expects to incur an estimated $30 million of additional restructuring costs, primarily severance costs in connection with additional job

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13. Restructuring Activities (Continued)

abolishments. As a result of the SAFRA restructuring effort, the Company expects to reduce its workforce by approximately 2,500 positions, or approximately 30 percent.

In response to the College Cost Reduction and Access Act of 2007 (CCRAA) and challenges in the capital markets, the Company initiated a restructuring plan in the fourth quarter of 2007. This plan focused on conforming the Company s lending activities to the economic environment, exiting certain customer relationships and product lines, winding down or otherwise disposing of its debt purchased paper businesses, and significantly reducing its operating expenses. This restructuring plan was essentially completed in the fourth quarter of 2009. Under this plan, restructuring expenses of $0 and $3 million were recognized in continuing operations in the second quarters of 2010 and 2009, respectively. Restructuring expenses from the fourth quarter of 2007 through the second quarter of 2010 totaled $132 million, of which $123 million was recorded in continuing operations and $9 million was recorded in discontinued operations. The majority of these restructuring expenses were severance costs related to the completed and planned elimination of approximately 3,000 positions. The Company estimates approximately $5 million of additional restructuring expenses will be incurred in the future related to this restructuring plan.

The following table summarizes the restructuring expenses incurred during the three and six months ended June 30, 2010 and 2009 and cumulative restructuring expenses incurred through June 30, 2010 associated with restructuring related to the SAFRA and CCRAA restructuring plans as discussed above.

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Cumulative Expense(2) as of June 30, 2010
Severance costs	$ 17,660	$ 3,194	$ 42,458	$ 4,860	$ 138,758
Lease and other contract termination costs	(58)	67	1,388	742	11,795
Exit and other costs	64	72	102	1,504	13,183
Total restructuring costs from continuing operations(1)	17,666	3,333	43,948	7,106	163,736
Total restructuring costs from discontinued operations		1,097		2,097	8,621
Total	$ 17,666	$ 4,430	$ 43,948	$ 9,203	$ 172,357

(1) Aggregate restructuring expenses from continuing operations incurred across the Company s reportable segments during the three months ended June 30, 2010 and 2009 totaled $16 million and $4 million, respectively, in the Company s Lending reportable segment, $0 and ($1) million, respectively, in the Company s APG reportable segment, and $2 million and $0, respectively, in the Company s Other reportable segment. Aggregate restructuring expenses from continuing operations incurred across the Company s reportable segments during the six months ended June 30, 2010 and 2009 totaled $37 million and $6 million, respectively, in the Company s Lending reportable segment, $2 million and $0, respectively, in the Company s APG reportable segment, and $5 million and $1 million, respectively, in the Company s Other reportable segment.

(2) Cumulative expense incurred since the fourth quarter of 2007.

As of June 30, 2010 and 2009, since the fourth quarter of 2007, severance costs have been incurred in conjunction with the aggregate completed and planned position eliminations of approximately 5,500 and 2,900 positions, respectively, across all of the Company s reportable segments, with position eliminations ranging from senior executives to clerical personnel. Lease and other contract termination costs and exit and other costs incurred during the six months ended June 30, 2010 and 2009, respectively, related primarily to

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13. Restructuring Activities (Continued)

terminated or abandoned facility leases and consulting costs incurred in conjunction with various cost reduction and exit strategies.

The following table summarizes changes in the restructuring liability balance, which is included in other liabilities in the accompanying consolidated balance sheet.

	Severance Costs	Lease and Other Contract Termination Costs	Exit and Other Costs	Total
Balance at December 31, 2008	$ 15,124	$ 2,798	$ 60	$ 17,982
Net accruals from continuing operations	11,196	890	1,681	13,767
Net accruals from discontinued operations	6,462	1,900		8,362
Cash paid	(23,587)	(1,807)	(1,741)	(27,135)
Balance at December 31, 2009	9,195	3,781		12,976
Net accruals from continuing operations	42,458	1,388	102	43,948
Net accruals from discontinued operations				
Cash paid	(18,237)	(1,284)	(102)	(19,623)
Balance at June 30, 2010	$ 33,416	$ 3,885	$	$ 37,301

14. Fair Value Measurements

The Company uses estimates of fair value in applying various accounting standards for its financial statements. Under GAAP, fair value measurements are used in one of four ways:

In the consolidated balance sheet with changes in fair value recorded in the consolidated statement of income;

In the consolidated balance sheet with changes in fair value recorded in the accumulated other comprehensive income section of the consolidated statement of changes in stockholders equity;

In the consolidated balance sheet for instruments carried at lower of cost or fair value with impairment charges recorded in the consolidated statement of income; and

In the notes to the financial statements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, the Company s policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads (including for the Company s liabilities), relying first on observable data from active markets. Additional adjustments may be made for factors including liquidity, credit, bid/offer spreads, etc., depending on current market conditions. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model s output with market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

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14. Fair Value Measurements (Continued)

The Company categorizes its fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of financial instruments included in level 1 are highly liquid instruments with quoted prices.

Level 2 Inputs from active markets, other than quoted prices for identical instruments, are used to determine fair value. Significant inputs are directly observable from active markets for substantially the full term of the asset or liability being valued.

Level 3 Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs.

During the three and six months ended June 30, 2010, there were no significant transfers of financial instruments between levels.

Student Loans

The Company s FFELP loans and Private Education Loans are accounted for at cost or at the lower of cost or market if the loan is held-for-sale; however, the fair value is disclosed in compliance with GAAP. FFELP loans classified as held-for-sale are those which the Company has the ability and intent to sell under various ED loan purchase programs. In these instances, the FFELP loans are valued using the committed sales price under the programs. For all other FFELP loans and Private Education Loans, fair values were determined by modeling loan cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, required return on equity, and expected Repayment Borrower Benefits to be earned. In addition, the Floor Income component of the Company s FFELP loan portfolio is valued with option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are internally derived and not observable to market participants.

Other Loans

Facilities financings, and mortgage and consumer loans held for investment are accounted for at cost with fair values being disclosed. Mortgage loans held for sale are accounted for at lower of cost or market. Fair value was determined with discounted cash flow models using the stated terms of the loans and observable market yield curves. In addition, adjustments and assumptions were made for credit spreads, liquidity, prepayment speeds and defaults. A number of significant inputs into the models are not observable.

Cash and Investments (Including Restricted)

Cash and cash equivalents are carried at cost. Carrying value approximated fair value for disclosure purposes. Investments classified as trading or available-for-sale are carried at fair value in the financial statements. Investments in U.S. Treasury securities consisted of T-bills that trade in active markets. The fair value was determined using observable market prices. Investments in mortgage-backed securities are valued using observable market prices. These securities are primarily collateralized by real estate properties in Utah and are guaranteed by

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14. Fair Value Measurements (Continued)

either a government sponsored enterprise or the U.S. government. Other investments (primarily municipal bonds) for which observable prices from active markets are not available were valued through standard bond pricing models using observable market yield curves adjusted for credit and liquidity spreads. These valuations are immaterial to the overall investment portfolio. The fair value of investments in Commercial Paper, Asset Backed Commercial Paper, or Demand Deposits that have a remaining term of less than 90 days when purchased are estimated at cost and, when needed, adjustments for liquidity and credit spreads are made depending on market conditions and counterparty credit risks. At June 30, 2010, these investments consisted of overnight/weekly instruments with highly-rated counterparties. No additional adjustments were deemed necessary.

Borrowings

Borrowings are accounted for at cost in the financial statements except when denominated in a foreign currency or when designated as the hedged item in a fair value hedge relationship. When the hedged risk is the benchmark interest rate and not full fair value, the cost basis is adjusted for changes in value due to benchmark interest rates only. Foreign currency denominated borrowings are re-measured at current spot rates in the financial statements. The full fair value of all borrowings is disclosed. Fair value was determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, observable yield curves, foreign currency exchange rates, volatilities from active markets or from quotes from broker-dealers. Credit adjustments for unsecured corporate debt are made based on indicative quotes from observable trades and spreads on credit default swaps specific to the Company. Credit adjustments for secured borrowings are based on indicative quotes from broker-dealers. These adjustments for both secured and unsecured borrowings are material to the overall valuation of these items and, currently, are based on inputs from inactive markets.

Derivative Financial Instruments

All derivatives are accounted for at fair value in the financial statements. The fair value of a majority of derivative financial instruments was determined by standard derivative pricing and option models using the stated terms of the contracts and observable market inputs. In some cases, management utilized internally developed inputs that are not observable in the market, and as such, classified these instruments as level 3 fair values. Complex structured derivatives or derivatives that trade in less liquid markets require significant adjustments and judgment in determining fair value that cannot be corroborated with market transactions. It is the Company s policy to compare its derivative fair values to those received by its counterparties in order to validate the model s outputs.

When determining the fair value of derivatives, the Company takes into account counterparty credit risk for positions where it is exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposures for each counterparty are adjusted based on market information available for the specific counterparty, including spreads from credit default swaps. When the counterparty has exposure to the Company under derivatives with the Company, the Company fully collateralizes the exposure, minimizing the adjustment necessary to the derivative valuations for the Company s credit risk. While trusts that contain derivatives are not required to post collateral, when the counterparty is exposed to the trust the credit quality and securitized nature of the trusts minimizes any adjustments for the counterparty s exposure to the trusts. The net credit risk adjustment (adjustments for the Company s exposure to counterparties net of adjustments for the counterparties exposure to the Company) decreased the valuations by $21 million at June 30, 2010.

Inputs specific to each class of derivatives disclosed in the table below are as follows:

Interest rate swaps Derivatives are valued using standard derivative cash flow models. Derivatives that swap fixed interest payments for LIBOR interest payments (or vice versa) and derivatives swapping quarterly reset LIBOR for daily reset LIBOR were valued using the LIBOR swap yield curve which is an observable

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14. Fair Value Measurements (Continued)

input from an active market. These derivatives are a level 2 fair value in the hierarchy. Other derivatives swapping LIBOR interest payments for another variable interest payment (primarily T-Bill or Prime) or swapping interest payments based on the Consumer Price Index for LIBOR interest payments are valued using the LIBOR swap yield curve and observable market spreads for the specified index. The markets for these swaps are generally illiquid as indicated by a wide bid/ask spread. The adjustment made for liquidity decreased the valuations by $161 million at June 30, 2010. These derivatives are a level 3 fair value.

Cross-currency interest rate swaps Derivatives are valued using standard derivative cash flow models. Derivatives hedging foreign-denominated bonds are valued using the LIBOR swap yield curve (for both USD and the respective currency), cross-currency basis spreads, and forward foreign currency exchange rates. The derivatives are primarily British pound sterling and euro denominated. These inputs are observable inputs from active markets. Therefore, the resulting valuation is a level 2 fair value. Amortizing notional derivatives (derivatives whose notional amounts change based on changes in the balance of, or pool of assets or debt) hedging trust debt use internally derived assumptions for the trust assets prepayment speeds and default rates to model the notional amortization. Management makes assumptions concerning the extension features of derivatives hedging rate-reset notes denominated in a foreign currency. These inputs are not market observable; therefore, these derivatives are a level 3 fair value.

Floor Income Contracts Derivatives are valued using an option pricing model. Inputs to the model include the LIBOR swap yield curve and LIBOR interest rate volatilities. The inputs are observable inputs in active markets and these derivatives are a level 2 fair value.

The carrying value of borrowings designated as the hedged item in an ASC 815 fair value hedge are adjusted for changes in fair value due to benchmark interest rates and foreign-currency exchange rates. These valuations are determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, and observable yield curves, foreign currency exchange rates, and volatilities.

Residual Interests

Prior to the adoption of topic updates to ASC 810 on January 1, 2010 (see Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* Transfers of Financial Assets and the VIE Consolidation Model), the Residual Interests were carried at fair value in the financial statements. No active market exists for student loan Residual Interests; as such, the fair value was calculated using discounted cash flow models and option models. Observable inputs from active markets were used where available, including yield curves and volatilities. Significant unobservable inputs such as prepayment speeds, default rates, certain bonds costs of funds and discount rates were used in determining the fair value and required significant judgment. These unobservable inputs were internally determined based upon analysis of historical data and expected industry trends. On a quarterly basis the Company back-tested its prepayment speeds, default rates and costs of funds assumptions by comparing those assumptions to actual results experienced. The Company used non-binding broker quotes and industry analyst reports which show changes in the indicative prices of the asset-backed securities tranches immediately senior to the Residual Interest as an indication of potential changes in the discount rate used to value the Residual Interests. Market transactions were not available to validate the models results.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

14. Fair Value Measurements (Continued)

The following tables summarize the valuation of the Company s financial instruments that are marked-to-market on a recurring basis in the consolidated financial statements as of June 30, 2010 and December 31, 2009.

(Dollars in millions)	Fair Value Measurements on a Recurring Basis as of June 30, 2010 Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale investments:				
U.S. Treasury securities	$ 45	$	$	$ 45
Certificates of deposit		300		300
Asset-backed securities		81		81
Commercial paper and asset-backed commercial paper				
Guaranteed investment contracts		24		24
Other		13		13
Total available-for-sale investments	45	418		463
Derivative instruments:(1)				
Interest rate swaps		1,254	168	1,422
Cross currency interest rate swaps		338	650	988
Total derivative assets		1,592	818	2,410
Counterparty netting				(915)
Subtotal(3)				1,495
Cash collateral held				(1,095)
Net derivative assets				400
Total	$ 45	$ 2,010	$ 818	$ 863
Liabilities(2)				
Interest rate swaps	$	$ (171)	$ (330)	$ (501)
Floor Income Contracts		(1,487)		(1,487)
Cross currency interest rate swaps		(159)	(227)	(386)
Other	(1)		(9)	(10)
Total derivative instruments	(1)	(1,817)	(566)	(2,384)

Counterparty netting								915
Subtotal[3]								(1,469)
Cash collateral pledged								950
Net derivative liabilities								(519)
Total	$	(1)	$	(1,817)	$	(566)	$	(519)

(1) Fair value of derivative instruments is comprised of market value less accrued interest and excludes collateral.

(2) Borrowings which are the hedged items in a fair value hedge relationship and which are adjusted for changes in value due to benchmark interest rates only are not carried at full fair value and are not reflected in this table.

(3) As carried on the balance sheet.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

14. Fair Value Measurements (Continued)

	Fair Value Measurements on a Recurring Basis as of December 31, 2009						
(Dollars in millions)	Level 1	Level 2	Level 3	Counterparty Netting	Total[4]	Cash Collateral	Net
Assets							
Available-for-sale investments	$	$ 1,330	$	$	$ 1,330	$	$ 1,330
Retained Interest in off-balance sheet securitized loans			1,828		1,828		1,828
Derivative instruments[1][2]		2,023	1,770	(1,009)	2,784	(1,268)	1,516
Total assets	$	$ 3,353	$ 3,598	$ (1,009)	$ 5,942	$ (1,268)	$ 4,674
Liabilities[3]							
Derivative instruments[1][2]	$ (2)	$ (1,650)	$ (518)	$ 1,009	$ (1,161)	$ 636	$ (525)
Total liabilities	$ (2)	$ (1,650)	$ (518)	$ 1,009	$ (1,161)	$ 636	$ (525)

(1) Fair value of derivative instruments is comprised of market value less accrued interest and excludes collateral.

(2) Level 1 derivatives include Euro-dollar futures contracts. Level 2 derivatives include derivatives indexed to interest rate indices and currencies that are considered liquid. Level 3 derivatives include derivatives indexed to illiquid interest rate indices and derivatives for which significant adjustments were made to observable inputs.

(3) Borrowings which are the hedged items in a fair value hedge relationship and which are adjusted for changes in value due to benchmark interest rates only are not carried at full fair value and are not reflected in this table.

(4) As carried on the balance sheet.

The following tables summarize the change in balance sheet carrying value associated with Level 3 financial instruments carried at fair value on a recurring basis during the three and six months ended June 30, 2010 and 2009.

Three Months Ended June 30, 2010
Derivative instruments
Cross

(Dollars in millions)	Interest Rate Swaps	Floor Income Contracts	Currency Interest Rate Swaps	Other	Total Derivative Instruments
Balance, beginning of period	$ (329)	$	$ 1,548	$ (22)	$ 1,197
Total gains/(losses) (realized and unrealized):					
Included in earnings[(1)]	165		(1,086)	11	(910)
Included in other comprehensive income					
Purchases, issuances and settlements	2		(39)	2	(35)
Transfers in and/or out of Level 3					
Balance, end of period	$ (162)	$	$ 423	$ (9)	$ 252
Change in unrealized gains/(losses) relating to instruments still held at the reporting date[(3)]	$ 161	$	$ (1,125)	$ 12	$ (952)

SLM CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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June 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)**

14. Fair Value Measurements (Continued)

	Six Months Ended June 30, 2010						
		Derivative instruments					
(Dollars in millions)	Residual Interests	Interest Rate Swaps	Floor Income Contracts	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments	Total
Balance, beginning of period	$ 1,828	$ (272)	$ (54)	$ 1,596	$ (18)	$ 1,252	$ 3,080
Total gains/(losses) (realized and unrealized):							
Included in earnings(1)		104	3	(1,086)	4	(975)	(975)
Included in other comprehensive income							
Purchases, issuances and settlements		6	51	(87)	5	(25)	(25)
Removal of Residual Interests(2)	(1,828)						(1,828)
Transfers in and/or out of Level 3							
Balance, end of period	$	$ (162)	$	$ 423	$ (9)	$ 252	$ 252
Change in unrealized gains/(losses) relating to instruments still held at the reporting date(3)	$	$ 106	$	$ (1,174)	$ 6	$ (1,062)	$ (1,062)

	Three Months Ended June 30, 2009			Six Months Ended June 30, 2009		
(Dollars in millions)	Residual Interests	Derivative Instruments	Total	Residual Interests	Derivative Instruments	Total
Balance, beginning of period	$ 1,951	$ 437	$ 2,388	$ 2,200	$ (341)	$ 1,859
Total gains/(losses) (realized and unrealized):						

Included in earnings[1]	36	206	242	(99)	(124)	(223)
Included in other comprehensive income						
Purchases, issuances and settlements	(166)	147	(19)	(280)	187	(93)
Transfers in and/or out of Level 3					1,068	1,068
Balance, end of period	$ 1,821	$ 790	$ 2,611	$ 1,821	$ 790	$ 2,611
Change in unrealized gains/(losses) relating to instruments still held at the reporting date	$ (90)[4]	$ 339[3]	$ 249	$ (351)[4]	$ 66[3]	$ (285)

(1) Included in earnings is comprised of the following amounts recorded in the specified line item in the consolidated statements of income:

(Dollars in millions)	**Three Months Ended June 30, 2010**	**2009**	**Six Months Ended June 30, 2010**	**2009**
Securitization servicing and Residual Interest revenue (loss)	$	$ 36	$	$ (99)
Gains (losses) on derivative and hedging activities, net	(948)	264	(1,059)	(28)
Interest expense	38	(58)	84	(96)
Total	$ (910)	$ 242	$ (975)	$ (223)

(2) Upon adoption of topic updates to ASC 810, on January 1, 2010, the Company consolidated all of its previously off-balance sheet securitization trusts. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* Transfers of Financial Assets and the VIE Consolidation Model for further discussion.)

(3) Recorded in gains (losses) on derivative and hedging activities, net in the consolidated statements of income.

(4) Recorded in securitization servicing and Residual Interest revenue (loss) in the consolidated statements of income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2010 and for the three and six months ended
June 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

14. Fair Value Measurements (Continued)

The following table summarizes the fair values of the Company s financial assets and liabilities, including derivative financial instruments, as of June 30, 2010 and December 31, 2009.

	June 30, 2010			December 31, 2009		
(Dollars in millions)	**Fair Value**	**Carrying Value**	**Difference**	**Fair Value**	**Carrying Value**	**Difference**
Earning assets						
FFELP loans	$ 148,432	$ 148,493	$ (61)	$ 119,747	$ 121,053	$ (1,306)
Private Education Loans	32,095	35,151	(3,056)	20,278	22,753	(2,475)
Other loans (presented in other assets on the balance sheet)	99	310	(211)	219	420	(201)
Cash and investments	13,932	13,932		13,253	13,2534.	

U.S. Treasury obligations, U.S. agency obligations, agency mortgage-backed securities and other municipalities' obligations.

5. See Note 16 for the classification of derivatives in the consolidated balance sheets.
6. See Note 16 for information on fair value measurements of long-term debt.

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Basis of Fair Value Measurements on a Recurring Basis at Dec 31, 2017 In millions	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets at fair value:				
Cash equivalents [1]	$ —	$ 2,280	$ —	$2,280
Marketable securities	—	4	—	4
Interests in trade accounts receivable conduits [2]	—	—	677	677
Equity securities [3]	88	52	—	140
Debt securities: [3]				
Government debt [4]	—	639	—	639
Corporate bonds	—	733	—	733
Derivatives relating to: [5]				
Commodities	47	100	—	147
Foreign currency	—	126	—	126
Total assets at fair value	$ 135	$ 3,934	$ 677	$4,746
Liabilities at fair value:				
Long-term debt including debt due within one year [6]	$ —	$ 22,615	$ —	$22,615
Derivatives relating to: [5]				
Interest rates	—	4	—	4
Commodities	31	261	—	292
Foreign currency	—	216	—	216
Total liabilities at fair value	$ 31	$ 23,096	$ —	$23,127

1. Treasury bills, time deposits, and money market funds included in "Cash and cash equivalents" in the consolidated balance sheets and held at amortized cost, which approximates fair value.
2. Included in "Accounts and notes receivable - Other" in the consolidated balance sheets. See Note 9 for additional information on transfers of financial assets.
3. The Company’s investments in debt securities, which are primarily available-for-sale, and equity securities are included in “Other investments” in the consolidated balance sheets.
4. U.S. Treasury obligations, U.S. agency obligations, agency mortgage-backed securities and other municipalities’ obligations.
5. See Note 16 for the classification of derivatives in the consolidated balance sheets.
6. See Note 16 for information on fair value measurements of long-term debt.

The following table summarizes the changes in fair value measurements of interests held in trade receivable conduits using Level 3 inputs for the three and six months ended June 30, 2018 and 2017:

Fair Value Measurements Using Level 3 Inputs for Interests Held in Trade Receivable Conduits [1]	Three Months Ended		Six Months Ended	
In millions	Jun 30, 2018	Jun 30, 2017	Jun 30, 2018	Jun 30, 2017
Balance at beginning of period	$234	$1,663	$677	$1,237
Gain (loss) included in earnings [2]	1	(2)	3	(2)
Purchases [3]	—	1,386	—	2,363
Settlements [3]	(211)	(1,363)	(656)	(1,914)

Balance at end of period	$24	$1,684	$24	$1,684

1. Included in “Accounts and notes receivable – Other” in the consolidated balance sheets.
2. Included in “Selling, general and administrative expenses” in the consolidated statements of income.
3. Presented in accordance with ASU 2016-15. See Notes 1 and 2 for additional information. In connection with the review and implementation of ASU 2016-15, the Company also changed the prior year value of “Purchases” and "Settlements" due to additional interpretive guidance of the required method for calculating the cash received from beneficial interests in the conduits.

Fair Value Measurements on a Nonrecurring Basis

As part of the Synergy Program, the Company has or will shut down a number of manufacturing, research and development ("R&D") and corporate facilities around the world. In the first six months of 2018, manufacturing facilities and related assets and R&D facilities associated with this plan were written down to zero. The impairment charges related to the Synergy Program, totaling $75 million, were included in "Restructuring and asset related charges (credits) - net" in the consolidated statements of income. See Note 4 for additional information on the Company's restructuring activities.

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NOTE 18 – VARIABLE INTEREST ENTITIES
A summary of the Company's variable interest entities ("VIEs") can be found in Note 23 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Assets and Liabilities of Consolidated VIEs
The Company's consolidated financial statements include the assets, liabilities and results of operations of VIEs for which the Company is the primary beneficiary. The other equity holders' interests are reflected in "Net income attributable to noncontrolling interests" in the consolidated statements of income and "Noncontrolling interests" in the consolidated balance sheets.

The following table summarizes the carrying amounts of these entities' assets and liabilities included in the Company's consolidated balance sheets at June 30, 2018 and December 31, 2017:

Assets and Liabilities of Consolidated VIEs In millions	Jun 30, 2018	Dec 31, 2017
Cash and cash equivalents	$116	$107
Other current assets	129	131
Net property	786	907
Other noncurrent assets	47	50
Total assets [1]	$1,078	$1,195
Current liabilities	$325	$303
Long-term debt	147	249
Other noncurrent obligations	35	41
Total liabilities [2]	$507	$593

1. All assets were restricted at June 30, 2018 and December 31, 2017.
2. All liabilities were nonrecourse at June 30, 2018 and December 31, 2017.

In addition, the Company holds a variable interest in an entity created to monetize accounts receivable of select European entities. Dow is the primary beneficiary of this entity as a result of holding subordinated notes while maintaining servicing responsibilities for the accounts receivable. The carrying amounts of assets and liabilities included in the Company's consolidated balance sheets pertaining to this entity were current assets of $7 million (zero restricted) at June 30, 2018 ($671 million, zero restricted, at December 31, 2017), and current liabilities of less than $1 million (zero nonrecourse) at June 30, 2018 (less than $1 million, zero nonrecourse, at December 31, 2017).

Amounts presented in the consolidated balance sheets and the table above as restricted assets or nonrecourse obligations relating to consolidated VIEs at June 30, 2018 and December 31, 2017, are adjusted for intercompany eliminations and parental guarantees.

Nonconsolidated VIEs
The following table summarizes the carrying amounts of assets and liabilities included in the consolidated balance sheets at June 30, 2018 and December 31, 2017, related to variable interests in joint ventures or entities for which the Company is not the primary beneficiary. The Company's maximum exposure to loss is the same as the carrying amounts, unless otherwise noted below.

Carrying Amounts of Assets and Liabilities Related to Nonconsolidated VIEs In millions	Description of asset or liability	Jun 30, 2018	Dec 31, 2017
Hemlock Semiconductor L.L.C.	Equity method investment [1]	$(717)	$(752)

Silicon joint ventures	Equity method investments [2]	$ 102	$ 103
AgroFresh Solutions, Inc	Equity method investment [2]	$ 42	$ 51
	Other receivable [3]	$ —	$ 4

1. Classified as "Other noncurrent obligations" in the consolidated balance sheets. The Company's maximum exposure to loss was zero at June 30, 2018 (zero at December 31, 2017).
2. Classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheets.
3. Classified as "Accounts and notes receivable - Other" in the consolidated balance sheets.

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NOTE 19 – RELATED PARTY TRANSACTIONS

Effective with the Merger, Dow reports transactions with DowDuPont and DuPont and its affiliates as related party transactions.

The Company has committed to fund a portion of DowDuPont's share repurchases, dividends paid to common stockholders and certain governance expenses. Funding is accomplished through intercompany loans. On a quarterly basis, the Company's Board reviews and determines a dividend distribution to DowDuPont to settle the intercompany loans. The dividend distribution considers the level of the Company's earnings and cash flows and the outstanding intercompany loan balances. In the second quarter of 2018, the Company declared and paid dividends to DowDuPont of $1,053 million ($2,110 million for the first six months of 2018). At June 30, 2018, the Company's outstanding intercompany loan balance was insignificant (insignificant at December 31, 2017). In addition, at June 30, 2018, Dow had a receivable related to a tax sharing agreement with DowDuPont of $388 million ($354 million at December 31, 2017), included in "Accounts and notes receivable - Other" in the consolidated balance sheets.

On June 25, 2018, DowDuPont declared a dividend of $0.38 per share, payable on September 14, 2018, to its shareholders of record on August 31, 2018. Dow's portion of this shareholder dividend has not yet been determined. The Company expects to declare and pay a dividend to DowDuPont in September 2018.

Dow sells to and procures from DuPont and its affiliates certain feedstocks, energy and raw materials that are consumed in each company's manufacturing process. The following table presents revenue earned and expenses incurred related to transactions with DuPont and its affiliates:

Sales to DuPont and its Affiliates In millions	Three Months Ended Jun 30, 2018	Six Months Ended Jun 30, 2018
Net sales	$ 64	$ 107
Cost of sales	$ 42	$ 68

Purchases from DuPont and its affiliates were $34 million in the second quarter of 2018 and $78 million in the first six months of 2018.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

Effective August 31, 2017, pursuant to the merger of equals transaction contemplated by the Agreement and Plan of Merger, dated as of December 11, 2015, as amended on March 31, 2017, Dow and E. I. du Pont de Nemours and Company ("DuPont") each merged with subsidiaries of DowDuPont Inc. ("DowDuPont") and, as a result, Dow and DuPont became subsidiaries of DowDuPont (the "Merger"). Following the Merger, Dow and DuPont intend to pursue, subject to the receipt of approval by the board of directors of DowDuPont and customary closing conditions, the separation of the combined company's agriculture, materials science and specialty products businesses through one or more tax-efficient transactions ("Intended Business Separations").

Effective with the Merger, Dow's business activities are components of its parent company's business operations. Dow's business activities, including the assessment of performance and allocation of resources, ultimately are reviewed and managed by DowDuPont. Information used by the chief operating decision maker of Dow relates to the Company in its entirety. Accordingly, there are no separate reportable business segments for the Company under Accounting Standards Codification Topic 280 "Segment Reporting" and the Company's business results are reported in this Form 10-Q as a single operating segment.

Pursuant to General Instruction H(1)(a) and (b) for Form 10-Q "Omission of Information by Certain Wholly-Owned Subsidiaries," the Company is filing this Form 10-Q with a reduced disclosure format. In addition, the Company has elected to make certain changes in the presentation of its Consolidated Financial Statements and Notes to the Consolidated Financial Statements to conform with the presentation adopted for DowDuPont. See Note 1 to the Consolidated Financial Statements for additional discussion of these changes.

Except as otherwise indicated by the context, the term "Union Carbide" means Union Carbide Corporation, a wholly owned subsidiary of Dow, and "Dow Silicones" means Dow Silicones Corporation (formerly known as Dow Corning Corporation, which changed its name effective as of February 1, 2018), a wholly owned subsidiary of Dow.

RECENT DEVELOPMENTS

On July 1, 2018, Andrew N. Liveris, Chief Executive Officer and Chairman of the Board, retired from the Company. Jim Fitterling was appointed the new Chief Executive Officer of the Company.

Impact From Recently Enacted Tariffs

Certain countries where the Company's products are manufactured, distributed or sold have recently enacted or are considering imposing new tariffs on certain products. The Company has analyzed the potential impact from tariffs that took effect on July 6, 2018 and does not expect such tariffs will have a material impact on its results of operations in 2018 because of the Company's mitigation actions and its global asset base. The Company will continue to monitor the situation and take actions, where possible, to mitigate any potential impact as events unfold.

Selected Financial Data [1]	Three Months Ended		Six Months Ended	
In millions	Jun 30, 2018	Jun 30, 2017	Jun 30, 2018	Jun 30, 2017
Net sales	$15,793	$13,834	$30,692	$27,064
Cost of sales ("COS")	$12,400	$10,761	$23,952	$20,955
Percent of net sales	78.5 %	77.8 %	78.0 %	77.4 %
Research and development expenses ("R&D")	$407	$408	$793	$827
Percent of net sales	2.6 %	2.9 %	2.6 %	3.1 %
Selling, general and administrative expenses ("SG&A")	$748	$720	$1,499	$1,479
Percent of net sales	4.7 %	5.2 %	4.9 %	5.5 %
Effective tax rate	23.7 %	25.1 %	22.3 %	22.7 %
Net income available for common stockholder	$1,279	$1,321	$2,621	$2,209

1. Prior year amounts have been updated to conform with the current year presentation.

RESULTS OF OPERATIONS

Net Sales

Net sales in the second quarter of 2018 were $15.8 billion, up 14 percent from $13.8 billion in the second quarter of last year, primarily reflecting demand growth, increased selling prices and the favorable impact of currency. Sales increased in all geographic regions with double-digit gains in Asia Pacific (up 24 percent) and Europe, Middle East and Africa ("EMEA") (up 16 percent). Volume increased 8 percent with gains in most principal product groups. The most notable volume increases were in Polyurethanes & CAV, Packaging and Specialty Plastics, Industrial Solutions, Hydrocarbons & Energy and Crop Protection, which were partially offset by a decline in Seed. Volume increased in all geographic regions, including a double-digit increase in Asia Pacific (up 19 percent). Local price increased 4 percent driven by broad-based pricing actions as well as in response to higher feedstock and raw material costs. Local price increased in all geographic regions and across all principal product groups, except Electronics & Imaging and Seed, with the most notable increases in Consumer Solutions, Polyurethanes & CAV, Packaging and Specialty Plastics, Hydrocarbons & Energy and Industrial Solutions. Currency was up 3 percent compared with the same period last year, driven primarily by EMEA (up 7 percent).

Net sales for the first six months of 2018 were $30.7 billion, up 13 percent from $27.1 billion in the same period last year, primarily reflecting higher sales volume, increased selling prices and the favorable impact of currency. Sales increased in all geographic regions with double-digit increases in Asia Pacific (up 22 percent) and EMEA (up 18 percent). Volume was up 7 percent compared with the same period last year, reflecting growth in most principal product groups with the most notable increases in Polyurethanes & CAV, Packaging and Specialty Plastics, Industrial Solutions and Hydrocarbons & Energy. Volume increased in all geographic regions, including a double-digit increase in Asia Pacific (up 17 percent). Local price increased 4 percent, with increases in all geographic regions in response to higher feedstock and raw material costs. Local price increased across most principal product groups, with notable increases in Polyurethanes & CAV, Consumer Solutions, Packaging and Specialty Plastics, Coatings & Performance Monomers and Industrial Solutions, which more than offset declines in Hydrocarbons & Energy and Seed. Currency was up 3 percent compared with the same period last year, driven primarily by EMEA (up 9 percent).

The following table summarizes sales variances by geographic region from the prior year:

Sales Variances by Geographic Region	Three Months Ended Jun 30, 2018					Six Months Ended Jun 30, 2018				
Percentage change from prior year	Local Price & Product Mix	Currency	Volume	Portfolio & Other [1]	Total	Local Price & Product Mix	Currency	Volume	Portfolio & Other [1]	Total
U.S. & Canada	3%	— %	6 %	— %	9 %	3%	— %	4 %	— %	7 %
EMEA	5	7	4	—	16	4	9	5	—	18
Asia Pacific	5	2	19	(2)	24	4	3	17	(2)	22
Latin America	6	—	2	(2)	6	6	—	2	(2)	6
Total	4%	3 %	8 %	(1)%	14 %	4%	3 %	7 %	(1)%	13 %

1. Includes the divestitures of SKC Haas Display Films group of companies, the global Ethylene Acrylic Acid copolymers and ionomers business and a portion of Dow AgroSciences' corn seed business in Brazil.

Cost of Sales

COS was $12.4 billion in the second quarter of 2018, up from $10.8 billion in the second quarter of 2017. For the first six months of 2018, COS was $24.0 billion, up from $21.0 billion in the first six months of 2017. For the three and six months ended June 30, 2018, COS increased primarily due to increased sales volume, higher feedstock and other raw material costs and increased planned maintenance turnaround costs which more than offset lower commissioning expenses related to U.S. Gulf Coast growth projects and cost synergies. COS as a percentage of net sales in the second quarter of 2018 was 78.5 percent (77.8 percent in the second quarter of 2017) and was 78.0 percent for the first six months of 2018 (77.4 percent for the first six months of 2017).

Research and Development Expenses

R&D expenses totaled $407 million in the second quarter of 2018, essentially flat from $408 million in the second quarter of 2017. For the first six months of 2018, R&D expenses totaled $793 million, down $34 million (4 percent) from $827 million in the first six months of 2017. R&D expenses decreased in the first six months of 2018 primarily due to cost synergies.

Selling, General and Administrative Expenses

SG&A expenses were $748 million in the second quarter of 2018, up $28 million (4 percent) from $720 million in the second quarter of last year. For the first six months of 2018, SG&A expenses totaled $1,499 million, up $20 million (1 percent) from $1,479 million in the first six months of 2017. SG&A expenses for the three and six months ended June 30, 2018, were higher compared with the prior year as the prior year expenses were favorably impacted by a recovery of costs related to the Nova Chemicals Corporation ("Nova") patent infringement award in the second quarter of 2017. See Note 11 to the Consolidated Financial Statements for additional information.

Amortization of Intangibles

Amortization of intangibles was $155 million in the second quarter of 2018, compared with $157 million in the second quarter of 2017. In the first six months of 2018, amortization of intangibles was $314 million, compared with $312 million in the same period last year. See Note 8 to the Consolidated Financial Statements for additional information on intangible assets.

Restructuring and Asset Related Charges (Credits) - Net

DowDuPont Cost Synergy Program

In September and November 2017, DowDuPont approved post-merger restructuring actions under the DowDuPont Cost Synergy Program (the "Synergy Program") which is designed to integrate and optimize the organization following the Merger and in preparation for the Intended Business Separations. Based on all actions approved to date under the Synergy Program, the Company expects to record total pretax restructuring charges of approximately $1.3 billion, comprised of approximately $525 million to $575 million of severance and related benefit costs; $400 million to $440 million of asset write-downs and write-offs; and $290 million to $310 million of costs associated with exit and disposal activities.

For the three months ended June 30, 2018, the Company recorded pretax restructuring charges of $88 million, consisting of severance and related benefit costs of $38 million, asset write-downs and write-offs of $27 million and costs associated with exit and disposal activities of $23 million. For the six months ended June 30, 2018, the Company recorded pretax restructuring charges of $251 million, consisting of severance and related benefit costs of $142 million, asset write-downs and write-offs of $75 million and costs associated with exit and disposal activities of $34 million.

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2016 Restructuring

For the three months ended June 30, 2018, the Company recorded pretax restructuring charges of $7 million, consisting of a favorable adjustment to the severance reserve of $8 million and a charge of $15 million for costs associated with exit and disposal activities. For the six months ended June 30, 2018, the Company recorded pretax restructuring charges of $6 million, consisting of a favorable adjustment to the severance reserve of $8 million and a charge of $14 million for costs associated with exit and disposal activities. See Note 4 to the Consolidated Financial Statements for details on the Company's restructuring activities.

Integration and Separation Costs

Integration and separation costs, which reflect costs related to the Merger and the ownership restructure of Dow Silicones, as well as post-Merger integration and Intended Business Separation activities, were $231 million in the second quarter of 2018, up from $136 million in the second quarter of 2017. In the first six months of 2018, integration and separation costs were $433 million, up from $245 million in the first six months of 2017. For the three and six months ended June 30, 2018, integration and separation costs increased primarily from post-Merger integration and Intended Business Separation activities.

Equity in Earnings of Nonconsolidated Affiliates

Dow's share of the earnings of nonconsolidated affiliates was $231 million in the second quarter of 2018, up from $54 million in the second quarter of 2017, primarily due to higher earnings from the Kuwait joint ventures (driven by increased volume and improved monoethylene glycol prices) and lower equity losses from Sadara Chemical Company ("Sadara"). In the first six months of 2018, Dow's share of the earnings of nonconsolidated affiliates was $474 million, up from $250 million in the first six months of 2017, as lower equity losses from Sadara and higher earnings from the Kuwait joint ventures were partially offset by lower equity earnings from the HSC Group, which reflected customer settlements in the first quarter of 2017 related to long-term polysilicon sales agreements.

Sundry Income (Expense) - Net

Sundry income (expense) – net includes a variety of income and expense items such as foreign currency exchange gains and losses, interest income, dividends from investments, gains and losses on sales of investments and assets, non-operating pension and other postretirement benefit plan credits or costs, and certain litigation matters. Sundry income (expense) – net in the second quarter of 2018 was income of $5 million, a decrease of $317 million compared with income of $322 million in the second quarter of 2017. The second quarter of 2017 included a $137 million gain related to the Nova patent infringement matter and gain on sales of assets and other investments.

Year to date, sundry income (expense) - net was income of $88 million, an increase of $210 million compared with expense of $122 million in the same period last year. In addition to the amounts previously discussed, the first six months of 2017 included a $469 million loss related to the Bayer CropScience arbitration matter. See Notes 5 and 11 to the Consolidated Financial Statements for additional information.

Interest Expense and Amortization of Debt Discount

Interest expense and amortization of debt discount was $274 million in the second quarter of 2018, up from $226 million in the second quarter of 2017. Interest expense and amortization of debt discount was $544 million in the first six months of 2018, up from $445 million in the first six months of 2017. The increase primarily reflects lower capitalized interest as a result of decreased capital spending.

Provision for Income Taxes

The Company's effective tax rate fluctuates based on, among other factors, where income is earned and by the level of equity earnings, since most of the earnings from the Company's equity method investments are taxed at the joint venture level.

On December 22, 2017, the Tax Cuts and Jobs Act ("The Act") was enacted. The Act reduces the U.S. federal corporate income tax rate from 35 percent to 21 percent, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously deferred, creates new provisions related to foreign sourced earnings, eliminates the domestic manufacturing deduction and moves towards a territorial system. The Company recorded adjustments related to The Act during the first quarter of 2018 which resulted in a charge of $7 million to "Provision for income taxes." In the second quarter of 2018, no additional adjustments related to The Act were recorded.

The effective tax rate for the second quarter of 2018 was 23.7 percent, compared with 25.1 percent for the second quarter of 2017. For the first six months of 2018, the effective tax rate was 22.3 percent, compared with 22.7 percent for the first six months of 2017. The tax rate in the second quarter of 2018 was favorably impacted by the reduced U.S. federal corporate income tax rate and unfavorably impacted by non-deductible restructuring costs and certain provisions in The Act related to the taxability of foreign earnings. In addition to the items previously discussed, the tax rate for the first six months of 2018 was favorably impacted by tax benefits related to the issuance of stock-based compensation. The tax rate in the second quarter of 2017 was primarily impacted by the geographic mix of earnings. In addition, the tax rate for the first six months of 2017 reflected a tax benefit from the Bayer CropScience arbitration matter and the adoption of Accounting Standards Update ("ASU") 2016-09, which resulted in the recognition of excess tax benefits related to stock-based compensation in the provision for income taxes. See Notes 6 and 11 to the Consolidated Financial Statements for additional information.

Net Income Attributable to Noncontrolling Interests
Net income attributable to noncontrolling interests was $31 million in the second quarter of 2018, down from $38 million in the second quarter of 2017. For the first six months of 2018, net income attributable to noncontrolling interests was $66 million, compared with $65 million for the same period last year.

Net Income Available for the Common Stockholder
Net income available for the common stockholder was $1,279 million in the second quarter of 2018, compared with $1,321 million in the second quarter of 2017. Net income available for the common stockholder in the first six months of 2018 was $2,621 million, up from $2,209 million in the same period last year. Effective with the Merger, Dow no longer has publicly traded common stock. Dow's common shares are owned solely by its parent company, DowDuPont.

CHANGES IN FINANCIAL CONDITION
The Company had cash and cash equivalents of $4,823 million at June 30, 2018 and $6,188 million at December 31, 2017, of which $2,902 million at June 30, 2018 and $4,318 million at December 31, 2017, was held by subsidiaries in foreign countries, including United States territories. For each of its foreign subsidiaries, the Company makes an assertion regarding the amount of earnings intended for permanent reinvestment, with the balance available to be repatriated to the United States.

The Company is currently evaluating the impact of The Act on its permanent reinvestment assertion. The Act requires companies to pay a one-time transition tax on earnings of foreign subsidiaries, a majority of which were previously considered permanently reinvested by the Company (see Note 6 to the Consolidated Financial Statements for further details of The Act). A tax liability was accrued for the estimated U.S. federal tax on all unrepatriated earnings at December 31, 2017, in accordance with The Act. The cash held by foreign subsidiaries for permanent reinvestment is generally used to finance the subsidiaries' operational activities and future foreign investments. The Company has the ability to repatriate additional funds to the U.S., which could result in an adjustment to the tax liability for foreign withholding taxes, foreign and/or U.S. state income taxes and the impact of foreign currency movements. During 2018, the Company has and expects to continue repatriating certain funds from its non-U.S. subsidiaries that are not needed to finance local operations or separation activities; however, these particular repatriation activities have not and are not expected to result in a significant incremental tax liability to the Company.

The Company's cash flows from operating, investing and financing activities, as reflected in the consolidated statements of cash flows, are summarized in the following table:

Cash Flow Summary	Six Months Ended	
In millions	Jun 30, 2018	Jun 30, 2017 [1]
Cash provided by (used for):		
Operating activities	$1,550	$(101)
Investing activities	(424)	192
Financing activities	(2,397)	(690)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(68)	208

Summary		
Decrease in cash, cash equivalents and restricted cash	$(1,339)	$(391)
Cash, cash equivalents and restricted cash at beginning of period	6,207	6,624
Cash, cash equivalents and restricted cash at end of period [2]	$4,868	$6,233

1. Updated for ASU 2016-15 and ASU 2016-18. See Notes 1 and 2 to the Consolidated Financial Statements for additional information.
2. Includes restricted cash of $45 million at June 30, 2018 and $15 million at June 30, 2017, which is included in "Other current assets" in the consolidated balance sheets.

Reclassification of Prior Period Amounts Related to Accounts Receivable Securitization

In connection with the review and implementation of ASU 2016-15, the Company changed the prior period presentation and amount of proceeds from interests in trade accounts receivable conduits due to additional interpretive guidance related to the required method for calculating the cash received from beneficial interests in the conduits. In the first six months of 2017, changes

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related to the calculation and presentation of proceeds from interests in trade accounts receivable conduits resulted in a reclassification of $1,914 million from cash used for operating activities to cash provided by investing activities.

Cash Flows from Operating Activities
In the first six months of 2018, cash provided by operating activities was $1,550 million, compared with cash used for operating activities of $101 million in the first six months of 2017, primarily reflecting a decrease in cash used for working capital requirements and higher cash earnings.

Cash Flows from Investing Activities
In the first six months of 2018, cash used for investing activities was $424 million, primarily due to capital expenditures and purchases of investments, which were partially offset by proceeds from sales and maturities of investments and proceeds from interests in trade accounts receivable conduits. In the first six months of 2017, cash provided by investing activities was $192 million, primarily due to proceeds from interests in trade accounts receivable conduits, proceeds from sales and maturities of investments and net proceeds from sales of property and businesses, which more than offset capital expenditures, loans to Sadara and purchases of investments.

Capital spending was $987 million in the first six months of 2018, compared with $1,549 million in the first six months of 2017. The Company expects full year capital spending in 2018 to be approximately $3.0 billion to $3.2 billion, commensurate with depreciation and amortization expense. In addition, the Company expects an additional $100 million to $200 million of capital spending for targeted cost synergy and business separation projects by the end of 2018.

In the first six months of 2018, the Company entered into a shareholder loan reduction agreement with Sadara and converted $140 million of the existing loan balance into equity. The Company expects to loan between zero and $200 million to Sadara during the remainder of 2018. All or a portion of the outstanding loans to Sadara could potentially be converted into equity in future periods.

Cash Flows from Financing Activities
In the first six months of 2018, cash used for financing activities increased to $2,397 million compared with $690 million in the same period last year due to an increase in dividends paid, an increase in payments of long-term debt and a decrease in proceeds from sales/issuance of common stock.

Liquidity & Financial Flexibility
The Company’s primary source of incremental liquidity is cash flows from operating activities. The generation of cash from operations and the Company's ability to access debt markets is expected to meet the Company’s cash requirements for working capital, capital expenditures, debt maturities, contributions to pension plans, dividend distributions to its parent company and other needs. In addition to cash provided by operating activities, the Company’s current liquidity sources also include U.S. and Euromarket commercial paper, committed credit facilities, accounts receivable securitization facilities and other debt markets. Additional details on sources of liquidity are as follows:

Commercial Paper
Dow issues promissory notes under its U.S. and Euromarket commercial paper programs. The Company had $500 million of commercial paper outstanding at June 30, 2018 ($231 million at December 31, 2017). The Company maintains access to the commercial paper market at competitive rates. Amounts outstanding under the Company's commercial paper programs during the period may be greater, or less than, the amount reported at the end of the period. Subsequent to June 30, 2018, the Company issued approximately $1.1 billion of commercial paper.

Committed Credit Facilities

In the event Dow has short-term liquidity needs and is unable to issue commercial paper for any reason, Dow has the ability to access liquidity through its committed and available credit facilities. On May 27, 2018, the Company renewed a $200 million Bilateral Revolving Credit Facility agreement, which has a maturity date in May 2020 and provides for interest at floating rates, as defined in the agreement. On July 20, 2018, the Company renewed a $200 million Bilateral Revolving Credit Facility agreement, which has a maturity date in July 2020 and provides for interest at floating rates, as defined in the agreement.

In connection with the Dow Silicones ownership restructure, on May 31, 2016, Dow Silicones incurred $4.5 billion of indebtedness under a certain third party credit agreement ("Term Loan Facility"). The Company subsequently guaranteed the obligations of Dow Silicones under the Term Loan Facility and, as a result, the covenants and events of default applicable to the Term Loan Facility are substantially similar to the covenants and events of default set forth in the Company's Five Year Competitive Advance and Revolving Credit Facility. In the second quarter of 2018, Dow Silicones exercised a 19-month extension option making

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amounts borrowed under the Term Loan Facility repayable on December 30, 2019, and amended the Term Loan Facility to include an additional 2-year extension option, at Dow Silicones' election, upon satisfaction of certain customary conditions precedent.

At June 30, 2018, the Company had total committed credit facilities of $10.9 billion and available credit facilities of $6.4 billion. See Note 15 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, for additional information on committed and available credit facilities.

Accounts Receivable Securitization Facilities

The Company has access to committed accounts receivable securitization facilities in the United States and Europe, from which amounts available for funding are based upon available and eligible accounts receivable within each of the facilities. The Company renewed the United States facility in June 2015, as amended in June 2018, for a term that extends to September 2018. The Europe facility was renewed in July 2015, as amended in June 2018, for a term that extends to October 2018.

In the fourth quarter of 2017, the Company suspended further sales of trade accounts receivable through these facilities and began reducing outstanding balances through collections of trade accounts receivable previously sold to such conduits. The Company has the ability to resume such sales to the conduits, subject to certain prior notice requirements, at the discretion of the Company. See Note 9 to the Consolidated Financial Statements for additional information.

Debt

As Dow continues to maintain its strong balance sheet and financial flexibility, management is focused on net debt (a non-GAAP financial measure), as Dow believes this is the best representation of the Company's financial leverage at this point in time. As shown in the following table, net debt is equal to total gross debt minus "Cash and cash equivalents" and "Marketable securities." At June 30, 2018, net debt as a percent of total capitalization increased to 36.2 percent, compared with 35.4 percent at December 31, 2017, primarily due to a decrease in cash and cash equivalents.

Total Debt	Jun 30,	Dec 31,
In millions	2018	2017
Notes payable	$862	$484
Long-term debt due within one year	2,837	752
Long-term debt	17,122	19,765
Gross debt	$20,821	$21,001
- Cash and cash equivalents	$4,823	$6,188
- Marketable securities	133	4
Net debt	$15,865	$14,809
Gross debt as a percent of total capitalization	42.6 %	43.7 %
Net debt as a percent of total capitalization	36.2 %	35.4 %

Dow's public debt instruments and primary, private credit agreements contain, among other provisions, certain customary restrictive covenant and default provisions. The Company's most significant debt covenant with regard to its financial position is the obligation to maintain the ratio of the Company's consolidated indebtedness to consolidated capitalization at no greater than 0.65 to 1.00 at any time the aggregate outstanding amount of loans under the Five Year Competitive Advance and Revolving Credit Facility Agreement equals or exceeds $500 million. The ratio of the Company's consolidated indebtedness to consolidated capitalization as defined in the Five Year Competitive Advance and Revolving Credit Facility Agreement was 0.42 to 1.00 at June 30, 2018. Management believes the Company was in compliance with all of its covenants and default provisions at June 30, 2018. For information on Dow's covenants and default provisions, see Note 15 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Management expects that the Company will continue to have sufficient liquidity and financial flexibility to meet all of its business obligations.

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Credit Ratings
At July 31, 2018, the Company's credit ratings were as follows:

Credit Ratings	Long-Term Rating	Short-Term Rating	Outlook
Standard & Poor’s	BBB	A-2	Stable
Moody’s Investors Service	Baa2	P-2	Stable
Fitch Ratings	BBB	F2	Rating Watch Positive

Downgrades in the Company's credit ratings will increase borrowing costs on certain indentures and could impact the Company's ability to access credit markets.

Dividends
Effective with the Merger, Dow no longer has publicly traded common stock. Dow's common shares are owned solely by its parent company, DowDuPont. The Company has committed to fund a portion of DowDuPont's share repurchases, dividends paid to common stockholders and governance expenses. Funding is accomplished through intercompany loans. On a quarterly basis, the Company’s Board of Directors review and determine a dividend distribution to DowDuPont to settle the intercompany loans. The dividend distribution considers the level of the Company’s earnings and cash flows and the outstanding intercompany loan balances. In the second quarter of 2018, the Company declared and paid dividends to DowDuPont of $1,053 million ($2,110 million for the first six months of 2018).

On June 25, 2018, DowDuPont declared a dividend of $0.38 per share, payable on September 14, 2018, to its shareholders of record on August 31, 2018. Dow’s portion of this shareholder dividend has not yet been determined. The Company expects to declare and pay a dividend to DowDuPont in September 2018. See Note 19 to the Consolidated Financial Statements for additional information.

Restructuring
The activities related to the Synergy Program are expected to result in additional cash expenditures of approximately $600 million to $670 million, primarily through the end of 2019, consisting of severance and related benefit costs and costs associated with exit and disposal activities, including environmental remediation (see Note 4 to the Consolidated Financial Statements). The Company expects to incur additional costs in the future related to its restructuring activities. Future costs are expected to include demolition costs related to closed facilities and restructuring plan implementation costs; these costs will be recognized as incurred. The Company also expects to incur additional employee-related costs, including involuntary termination benefits, related to its other optimization activities. These costs cannot be reasonably estimated at this time.

Contractual Obligations
Information related to the Company’s contractual obligations, commercial commitments and expected cash requirements for interest can be found in Notes 15, 16 and 19 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. With the exception of the item noted below, there have been no material changes in the Company’s contractual obligations since December 31, 2017.

Contractual Obligations at Jun 30, 2018	Payments Due In				
In millions	2018	2019-2020	2021-2022	2023 and beyond	Total
Purchase obligations [1]	$3,279	$ 5,142	$ 3,997	$7,527	$19,945

1. Includes outstanding purchase orders and other commitments greater than $1 million obtained through a survey conducted within the Company.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements are obligations the Company has with nonconsolidated entities related to transactions, agreements or other contractual arrangements. The Company holds variable interests in joint ventures accounted for under the equity method of accounting. The Company is not the primary beneficiary of these joint ventures and therefore is not required to consolidate these entities (see Note 18 to the Consolidated Financial Statements). In addition, see Note 9 to the Consolidated Financial Statements for information regarding the transfer of financial assets.

Guarantees arise during the ordinary course of business from relationships with customers and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others if specific triggering events occur. The Company had outstanding guarantees at June 30, 2018 of $5,467 million, down from $5,663 million at December 31, 2017. Additional information related to guarantees can be found in the "Guarantees" section of Note 11 to the Consolidated Financial Statements.

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Fair Value Measurements

See Note 17 to the Consolidated Financial Statements for additional information concerning fair value measurements.

OTHER MATTERS

Recent Accounting Guidance

See Note 2 to the Consolidated Financial Statements for a summary of recent accounting guidance.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 1 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 10-K") describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Dow's accounting policies that are impacted by judgments, assumptions and estimates are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2017 10-K. Since December 31, 2017, there have been no material changes in the Company's accounting policies that are impacted by judgments, assumptions and estimates.

Asbestos-Related Matters of Union Carbide Corporation

Union Carbide is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past four decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages. The alleged claims primarily relate to products that Union Carbide sold in the past, alleged exposure to asbestos-containing products located on Union Carbide's premises, and Union Carbide's responsibility for asbestos suits filed against a former Union Carbide subsidiary, Amchem Products, Inc. ("Amchem"). In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that injuries incurred in fact resulted from exposure to Union Carbide's products.

The table below provides information regarding asbestos-related claims pending against Union Carbide and Amchem based on criteria developed by Union Carbide and its external consultants.

Asbestos-Related Claim Activity	2018	2017
Claims unresolved at Jan 1	15,427	16,141
Claims filed	3,537	3,644
Claims settled, dismissed or otherwise resolved	(5,230)	(3,875)
Claims unresolved at Jun 30	13,734	15,910
Claimants with claims against both Union Carbide and Amchem	(4,928)	(5,648)
Individual claimants at Jun 30	8,806	10,262

Plaintiffs' lawyers often sue numerous defendants in individual lawsuits or on behalf of numerous claimants. As a result, the damages alleged are not expressly identified as to Union Carbide, Amchem or any other particular defendant, even when specific damages are alleged with respect to a specific disease or injury. In fact, there are no personal injury cases in which only Union Carbide and/or Amchem are the sole named defendants. For these reasons and based upon Union Carbide's litigation and settlement experience, Union Carbide does not consider the damages alleged against Union Carbide and Amchem to be a meaningful factor in its determination of any potential asbestos-related liability.

For additional information, see Asbestos-Related Matters of Union Carbide Corporation in Note 11 to the Consolidated Financial Statements and Part II, Item 1. Legal Proceedings.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Omitted pursuant to General Instruction H of Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company’s Disclosure Committee and the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to paragraph (b) of Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 and 15d-15 that was conducted during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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The Dow Chemical Company and Subsidiaries
PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
Asbestos-Related Matters of Union Carbide Corporation
No material developments regarding this matter occurred in the second quarter of 2018. For a current status of this matter, see Note 11 to the Consolidated Financial Statements.

Environmental Matters
On July 5, 2018, the Company received a draft consent decree from the EPA, the Department of Justice (“DOJ”) and the Louisiana Department of Environmental Quality (“DEQ”), relating to the operation of steam-assisted flares at Dow’s olefins manufacturing facilities in Freeport, Texas; Plaquemine, Louisiana; and St. Charles, Louisiana. Discussions between the EPA, the DOJ and the DEQ are ongoing.

ITEM 1A. RISK FACTORS
There were no material changes in the Company's risk factors in the second quarter of 2018.

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable.

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ITEM 5. OTHER INFORMATION

In the first quarter of 2018, the Company adopted new accounting standards that required retrospective application. The Company updated the consolidated statements of income as a result of adopting Accounting Standards Update ("ASU") 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The consolidated statements of cash flows were updated as a result of adopting ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" and ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." See Notes 1 and 2 for additional information.

Changes to the Consolidated Financial Statements as a result of the retrospective application of the new accounting standards are summarized as follows:

Summary of Changes to the Consolidated Statements of Income	For the Years Ended Dec 31					
In millions	2017 As Filed	2017 Updated [1]	2016 As Filed	2016 Updated [1]	2015 As Filed	2015 Updated [1]
Cost of sales	$44,308	$43,612	$37,640	$37,668	$37,745	$37,512
Research and development expenses	$1,637	$1,648	$1,584	$1,593	$1,598	$1,564
Selling, general and administrative expenses	$2,917	$2,920	$2,956	$2,953	$2,948	$2,898
Sundry income (expense) - net	$877	$195	$1,452	$1,486	$4,716	$4,399

1. Reflects changes resulting from the adoption of ASU 2017-07.

Summary of Changes to the Consolidated Statements of Cash Flows	For the Years Ended Dec 31					
In millions	2017 As Filed	2017 Updated [1]	2016 As Filed	2016 Updated [1]	2015 As Filed	2015 Updated [1]
Operating Activities						
Accounts and notes receivable	$(4,734)	$(7,104)	$(1,539)	$(4,252)	$(84)	$(3,427)
Proceeds from interests in trade accounts receivable conduits	$2,269	$—	$1,257	$—	$1,034	$—
Other assets and liabilities, net	$(104)	$(102)	$(717)	$(723)	$(48)	$(44)
Cash provided by (used for) operating activities	$4,502	$(135)	$5,600	$1,624	$7,607	$3,234
Investing Activities						
Payment into escrow account	$(130)	$—	$(835)	$—	$—	$—
Distribution from escrow account	$130	$—	$835	$—	$—	$—
Acquisitions of property and businesses, net of cash acquired	$16	$47	$(187)	$(187)	$(123)	$(123)
Cash acquired in step acquisition of nonconsolidated affiliate	$—	$—	$1,050	$1,070	$—	$—
Proceeds from interests in trade accounts receivable conduits	$—	$4,639	$—	$3,970	$—	$4,377
Cash provided by (used for) investing activities	$(1,941)	$2,729	$(3,479)	$511	$(1,350)	$3,027
Financing Activities						
Contingent payment for acquisition of businesses	$—	$(31)	$—	$—	$—	$—
Other financing activities, net	$(4)	$(4)	$(2)	$(2)	$(88)	$(89)
Cash used for financing activities	$(3,300)	$(3,331)	$(4,014)	$(4,014)	$(3,132)	$(3,133)
Summary						
Increase (decrease) in cash, cash equivalents and restricted cash	$(419)	$(417)	$(1,970)	$(1,956)	$2,923	$2,926
Cash, cash equivalents and restricted cash at beginning of period	$6,607	$6,624	$8,577	$8,580	$5,654	$5,654
Cash, cash equivalents and restricted cash at end of period	$6,188	$6,207	$6,607	$6,624	$8,577	$8,580

1.

Reflects the adoption of ASU 2016-15 and ASU 2016-18. In connection with the review and implementation of ASU 2016-15, the Company also changed the value of “Proceeds from interests in trade accounts receivable conduits” due to additional interpretive guidance of the required method for calculating the cash received from beneficial interests in the conduits.

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ITEM 6. EXHIBITS

EXHIBIT NO.	DESCRIPTION
12.1 *	Computation of Ratio of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividend Requirements.
23 *	Ankura Consulting Group, LLC's Consent.
31.1 *	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 *	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 *	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith

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The Dow Chemical Company and Subsidiaries
Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE DOW CHEMICAL COMPANY
Registrant
Date: August 3, 2018

/s/ RONALD C. EDMONDS
Ronald C. Edmonds
Controller and Vice President
of Controllers and Tax