

Sallie Mae Bank



Dodd-Frank Act Stress Test
2016 Results Disclosure

October, 2016

I. Overview and Requirements

Sallie Mae Bank, more commonly known as Sallie Mae, with \$15.4 billion in assets is the nation's leading saving, planning and paying for education company. Our primary business is to originate and service Private Education Loans that we make to students and their families. We use the term "Private Education Loans" to mean education loans to students or their families that are not made, insured or guaranteed by any state or federal government. At June 30, 2016, we had a portfolio of \$12.3 billion Private Education Loans.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("DFAST") requires Banks with assets totaling \$10 billion - \$50 billion to conduct stress testing for three macroeconomic scenarios (base, adverse and severely adverse) on the consolidated balance sheet, income statement and the bank's capital across a range of macroeconomic and financial scenarios provided by the Federal Reserve Board. Banks are also required to provide qualitative supporting information on the methodologies and processes used to develop those internal projections. The stress test is based on December 31, 2015 actual results and covers a forecast of the next nine (9) quarters.

In accordance with the Dodd-Frank Act, Sallie Mae Bank has submitted the results of the stress testing and supporting information to its Board of Directors and to its primary financial regulatory agency, the Federal Deposit Insurance Corporation (the FDIC). Additionally, the Dodd-Frank Act instructs covered financial institutions to publish a summary of its severely adverse stress test results.

This document summarizes the results of the severely adverse scenario for Sallie Mae Bank and provides a forward-looking perspective on potential impacts to capital under this scenario. The severely adverse scenario describes a hypothetical set of conditions designed to assess the strength of banking organizations and their resilience to adverse economic environments. Sallie Mae's stress test results may not be comparable to the results of other institutions, as methodologies between institutions may vary.

II. Severely Adverse Scenario Overview

The severely adverse scenario released by the FDIC and the Federal Reserve Board is characterized by a severe and prolonged recession in the U.S. economy comparable to that experienced during the recent recession of 2007-2009. Real GDP growth falls sharply for five straight quarters, falling 7.5% in the second quarter of 2016. The unemployment rate rises steadily from 5% at the end of 2015 to 10% in the third quarter of 2017. Unemployment only drops 0.2% by the first quarter of 2018 to 9.8%.

Against this economic backdrop, the three-month Treasury bill rate moves into negative territory and remains at -0.5% for most of the nine-quarter period; the Federal Funds rate is

negative as well. The capital markets are extremely volatile and the value of equities and residential real estate drop precipitously. The 10-year Treasury rate declines sharply, while BBB corporate bond yields increase significantly. The spread between the 10-year Treasury bond and the BBB corporate bond increases from 2.4% at the end of 2015 to 5.8% in the fourth quarter of 2016 and then gradually declines to 4.1% by the scenario's end.

III. Risks

An important benefit of the stress test process is the identification and measurement of risks and vulnerabilities that most impact Sallie Mae Bank. This section describes the key risks considered in the stress test: credit risk, funding and liquidity risk, and Private Education Loan originations risk.

Credit risk is the risk of loss if Sallie Mae Bank cannot collect on contractual obligations of its Private Education Loan borrowers and co-signers. Gross defaults are the most important variable in the severely adverse scenario. Gross Defaults (and net charge-offs as a percentage of loans in repayment) are projected to be \$180 million (2.0%) in 2016, \$341 million (3.1%) in 2017 and \$282 million (2.2%) in 2018. This is an extremely stressful scenario from a credit perspective. To build the appropriate allowance for loan losses under the severely adverse scenario, the Bank would be required to book a total provision expense of \$453 million in 2016, \$346 million in 2017 and \$320 million in 2018.

Funding and liquidity risk is the risk that Sallie Mae can't meet a demand for funds by increasing liabilities at reasonable costs. Despite the projected decline in origination volume under the severely adverse scenario, the Bank's asset base continues to grow significantly during the scenario period requiring similar growth in our funding base. During the severely adverse scenario period, the Bank raises funds through retail and brokered deposit markets as it was able to do during the recent financial crisis. These markets proved broad and deep and there was a movement from other investment alternatives to federally-insured deposits. The Bank assumes that funding from the term asset-backed securitization market is unavailable due to capital market volatility. Throughout the scenario period, we maintain a mix of 60% brokered deposits and 40% retail deposits.

Private Education Loan origination risk is the risk that Private Education Loan originations deviate substantially from historical performance. In the severely adverse scenario, which is characterized by massive economic weakness, we assume tuition prices decline 2% per year. Also, in the severely adverse scenario we assume that Federal Stafford Loan limits are increased for the first time in ten years by \$2,000 in response to the reduction of private capital available for higher education funding. Finally, in the severely adverse scenario we assume that we tighten underwriting standards significantly in response to higher unemployment and declining creditworthiness of applicants. Our assumptions were informed by actual experience during the 2007-2009 recession.

Other risks such as operational risk, regulatory risk and technology risk were considered and did not have a significant impact on earnings or capital.

IV. Stress Test Methodologies

The stress testing process at Sallie Mae Bank incorporates macro-economic variables provided by the Federal Reserve and variables specific to our primary product, the Private Education Loan. All major business areas were involved in the stress testing process, including Credit, Marketing, Finance, Financial Planning and Analysis and Treasury. The Bank utilized a combination of statistical models and expert judgment logic and assumption models to derive the results. All models were subject to a model validation process coordinated by the Bank's Enterprise Risk Management Group. A robust governance framework exists within the Bank and was used to provide oversight and effective challenge to the stress testing activities. It is comprised of Management and Board level committees, charters and policies.

V. Stress Test Results

Capital Ratios

The table below summarizes Sallie Mae Bank's capital ratios after applying the DFAST severely adverse scenario over the nine-quarter planning horizon. The Bank remains significantly above the regulatory capital levels of a well-capitalized bank in all periods despite the severely adverse economic environment.

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	Sallie Mae Bank					Well Capitalized
	2015 (Actual)	2016	2017	1Q18	2018	
Severely Adverse:						
Tier 1 Leverage Capital Ratio	12.3%	10.6%	10.8%	11.0%	10.7%	5.0%
Tier 1 Risk-Based Capital Ratio	14.4%	11.8%	11.9%	12.0%	11.9%	8.0%
Total Risk-Based Capital Ratio	15.4%	13.1%	13.2%	13.3%	13.2%	10.0%

Pre-Provision Net Revenue (PPNR)

PPNR for the Bank is presented in the table below. Operating expenses include a 15% increase in Legal, Audit, Compliance and Enterprise Risk Management to cover potential operational risks, and we assumed no reductions in headcount or marketing spend. Net interest income grows in line with the balance sheet, though at a lower relative rate due to the impact of the scenario on originations and margins.

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PPNR Summary

(\$ in millions)		Severely Adverse		
		2016	2017	2018
Metrics	Total Assets	\$ 17,935	\$ 20,319	\$ 22,842
	Private Education Loans	\$ 13,814	\$ 15,753	\$ 17,583
	Total Asset Growth	19%	13%	12%
	Net Interest Margin	5.51%	5.44%	5.46%
PPNR	Pre-Provision Net Revenue	\$ 522	\$ 600	\$ 690
	Net Income	\$ 41	\$ 155	\$ 226

Provision for Loan Losses

The below table summarizes Sallie Mae's provision for loan losses in the severely adverse case. Projected charge-off rates are consistent with charge-off rates experienced in 2009 and 2010 on similar assets. Results are influenced by several economic variables, but are most sensitive to the level of unemployment.

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PLL Summary

(\$ in millions)	2016	2017	2018
Allowance for Loan Losses	\$ 386	\$ 410	\$ 472
Reserve % of Balance	2.80%	2.61%	2.69%

VI. Significant Drivers of Stress Test Results

The most significant drivers of Sallie Mae's stress test results are Private Education Loan originations, costs of funds and defaults. Despite the decline in originations growth in the severely adverse scenario, the Bank's Private Education Loan portfolio and asset base continues to grow during the forecast period. Net interest income grows in line with the balance sheet, though at a lower, relative rate due to lower originations and slightly compressed margins. Our assumptions for these drivers were informed by our actual experience of the recent financial crisis.

Conclusion

The Bank's capital levels exceed regulatory expectations for 'Well Capitalized' Institutions even in the severely adverse scenario. This is principally due to strong credit attributes, product design, and a conservative approach to funding that generates stable, attractive profitability.

Forward-Looking Statements

This document contains “forward-looking statements” and information based on management’s current expectations as of the date of this document. Statements that are not historical facts, including statements about the Bank's beliefs, opinions or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in Item 1A “Risk Factors” and elsewhere in the Annual Report of SLM Corporation (the parent of the Bank) on Form 10-K for the year ended Dec. 31, 2015 (filed with the Securities and Exchange Commission (“SEC”) on Feb. 26, 2016) and subsequent filings with the SEC; increases in financing costs; limits on liquidity; increases in costs associated with compliance with laws and regulations; changes in accounting standards and the impact of related changes in significant accounting estimates; any adverse outcomes in any significant litigation to which the Bank or any of its affiliates is a party; credit risk associated with the Bank's or its affiliates' exposure to third parties, including counterparties to the Bank's or affiliates' derivative transactions; and changes in the terms of education loans and the educational credit marketplace (including changes resulting from new laws and the implementation of existing laws). The Bank could also be affected by, among other things: changes in its funding costs and availability; reductions to credit ratings; failures or breaches of its operating systems or infrastructure, including those of third-party vendors; damage to its reputation; failures to successfully implement cost-cutting and restructuring initiatives and adverse effects of such initiatives on the Bank's or its affiliates' business; risks associated with restructuring initiatives; changes in the demand for educational

financing or in financing preferences of lenders, educational institutions, students and their families; changes in law and regulations with respect to the student lending business and financial institutions generally; changes in banking rules and regulations, including increased capital requirements; increased competition from banks and other consumer lenders; the creditworthiness of its customers; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments and those of its earning assets versus its funding arrangements; rates of prepayments on the loans made by the Bank; changes in general economic conditions and the Bank's or its affiliates' ability to successfully effectuate any acquisitions; and other strategic initiatives. The preparation of the information described in this document also requires management to make certain estimates and assumptions, including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this document are qualified by these cautionary statements and are made only as of the date of this document. The Bank does not undertake any obligation to update or revise these forward-looking statements to conform such statements to actual results or changes in its expectations.