



## NEWS RELEASE

For immediate release

### **Navient Reports First-Quarter 2017 Financial Results and Agreement to Purchase a \$6.9 Billion Education Loan Portfolio**

**WILMINGTON, Del., April 18, 2017** — Navient (Nasdaq: NAVI) today released first-quarter 2017 financial results. Navient announced earlier today that it will purchase JPMorgan Chase’s approximately \$6.9 billion education loan portfolio, comprised of \$3.7 billion in FFELP loans and \$3.2 billion in private education loans.

“With the acquisition of nearly \$7 billion of education loans, we again demonstrate our capability to successfully execute large, complex transactions for the benefit of our customers and shareholders,” said Jack Remondi, president and CEO, Navient. “This transaction, combined with new business processing solutions contracts in the quarter, delivers on our business strategy to add significant assets to our portfolio and grow our fee businesses.”

For the first-quarter 2017, GAAP net income was \$88 million (\$0.30 diluted earnings per share), compared with \$181 million (\$0.53 diluted earnings per share) for the year-ago quarter.

Core earnings for the quarter were \$107 million (\$0.36 diluted core earnings per share), compared with \$147 million (\$0.43 diluted core earnings per share) for the year-ago quarter. The decrease in diluted core earnings per share was primarily the result of an \$82 million reduction in net interest income primarily due to the amortization of the portfolio, partially offset by a \$4 million reduction in provisions for loan losses, a \$5 million increase in fee revenue, a \$9 million decrease in operating expenses, and fewer shares outstanding due to common share repurchases. First-quarter 2017 and 2016 diluted core earnings per share were \$0.37 and \$0.44, respectively, excluding regulatory-related costs of \$4 million recognized in each period.

Navient reports core earnings because management makes its financial decisions based on such measures. The changes in GAAP net income for the periods presented in this Earnings Release are impacted by the same items in core earnings that are discussed below, as well as changes in net income attributable to (1) unrealized, mark-to-market gains/losses on derivatives and (2) goodwill and acquired intangible asset amortization and impairment. These items are recognized in GAAP results but have not been included in core earnings results. First-quarter 2017 GAAP results included losses of \$23 million from derivative accounting treatment that are excluded from core earnings results, compared with gains of \$54 million in the year-ago period. See “Differences between Core Earnings and GAAP” on page 14 for a complete reconciliation between GAAP net income and core earnings.

#### **Federally Guaranteed Student Loans (FFELP)**

In its FFELP loans segment, Navient acquires and finances FFELP loans.

Core earnings for the segment were \$51 million in first-quarter 2017, compared with the year-ago quarter’s \$66 million. This decrease was primarily the result of a \$29 million decrease in net interest income due to the amortization of the portfolio and a decrease in net interest margin, partially offset by an \$11 million decrease in operating expenses.

The company acquired \$686 million of FFELP loans in the first-quarter 2017. At March 31, 2017, Navient held \$85.3 billion of FFELP loans, compared with \$94.9 billion of FFELP loans held at March 31, 2016.

## **Private Education Loans**

In its private education loans segment, Navient acquires, finances and services private education loans.

Core earnings for the segment were \$35 million in first-quarter 2017, compared with the year-ago quarter's \$61 million. This decrease was primarily the result of a \$53 million decrease in net interest income due to the amortization of the portfolio and a decrease in net interest margin, partially offset by a \$9 million decrease in the provision for loan losses.

Core earnings first-quarter 2017 private education loan portfolio results vs. first-quarter 2016 are as follows:

- Delinquencies of 90 days or more of \$746 million, down \$3 million from \$749 million in first-quarter 2016.
- Total delinquencies of \$1.45 billion, down \$24 million from \$1.47 billion in first-quarter 2016.
- Charge-offs of \$137 million, down \$7 million from \$144 million in first-quarter 2016.
- Net interest margin of 3.16 percent, down from 3.56 percent.
- Provision for private education loan losses of \$95 million, down from \$104 million.

The company acquired \$112 million of private education loans in the first-quarter 2017. At March 31, 2017, Navient held \$22.6 billion of private education loans, compared with \$25.5 billion of private education loans held at March 31, 2016.

## **Business Services**

Navient's business services segment generates revenue from business processing solutions related to servicing, asset recovery and other business processing activities.

Business services core earnings were \$77 million in first-quarter 2017, compared with \$75 million in the year-ago quarter.

The company services education loans for more than 12 million customers, including 6.1 million customers for the U.S. Department of Education.

## **Operating Expenses**

First-quarter 2017 and 2016 core earnings operating expenses were \$234 million and \$243 million, respectively, excluding regulatory-related costs of \$4 million recognized in each period. The decrease from the year-ago quarter was primarily due to a general reduction in costs primarily related to operating efficiency initiatives.

## **Funding and Liquidity**

During the first-quarter 2017, Navient issued \$1.9 billion in FFELP Loan ABS and \$843 million in unsecured debt. Additionally, Navient retired or repurchased \$568 million of senior unsecured debt during the first-quarter 2017.

In the first-quarter 2017, Navient extended the maturity date of its FFELP ABCP facility. The facility's maturity date was extended to April 2019 from March 2018 and its maximum financing amount was decreased as scheduled to \$6.75 billion from \$7.5 billion, with a step down to \$6.0 billion in April 2018. This facility provides liquidity for FFELP loans.

## **Shareholder Distributions**

In the first-quarter 2017, Navient paid a common stock dividend of \$0.16 per share.

Navient repurchased 7.4 million shares of common stock for \$110 million in the first quarter of 2017. The shares were repurchased under the company's previously disclosed \$600 million share repurchase program. Navient repurchased 19.2 million shares of common stock for \$200 million in the year-ago quarter.

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### **Non-GAAP Financial Measures**

In addition to financial results reported on a GAAP basis, Navient also provides certain core earnings performance measures which are non-GAAP financial measures. The difference between the company's core earnings and its GAAP results for the periods presented in this Earnings Release is attributable to (1) unrealized, mark-to-market gains/losses on derivatives and (2) goodwill and acquired intangible asset amortization and impairment. While these items are recognized under GAAP, they are excluded from core earnings results. Management uses core earnings in making decisions regarding the company's performance and the allocation of corporate resources. In addition, Navient's equity investors, credit rating agencies and debt capital investors use these core earnings measures to monitor the company's business performance. See "Core Earnings" — Definition and Limitations" for a further discussion and a complete reconciliation between GAAP net income and core earnings.

Definitions for capitalized terms in this release can be found in Navient's Annual Report on Form 10-K for the year ended Dec. 31, 2016 (filed with the SEC on Feb. 24, 2017). Certain reclassifications have been made to the balances as of and for the three months ended March 31, 2016, to be consistent with classifications adopted for 2017, and had no effect on net income, total assets or total liabilities.

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Navient will host an earnings conference call tomorrow, April 19, at 8 a.m. EDT. Navient executives will be on hand to discuss various highlights of the quarter and to answer questions related to the company's performance. To participate, join a live audio webcast at [navient.com/investors](http://navient.com/investors) or dial 855-838-4156 (USA and Canada) or dial 267-751-3600 (international) and use access code 1316028 starting at 7:45 a.m. EDT.

Presentation slides for the conference call, as well as additional information about the company's loan portfolios, operating segments and other details, may be accessed at [www.navient.com/investors](http://www.navient.com/investors) under the webcasts tab.

A replay of the conference call will be available approximately two hours after the call's conclusion through May 2 at [navient.com/investors](http://navient.com/investors) or by dialing 855-859-2056 (USA and Canada) or 404-537-3406 (international) with access code 1316028.

**This press release contains "forward-looking statements" and other information that is based on management's current expectations as of the date of this release.** Statements that are not historical facts, including statements about the company's beliefs, opinions or expectations and statements that assume or are dependent upon future events, are forward-looking statements and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," or "target." 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. For Navient, these factors include, among others, the risks and uncertainties associated with increases in financing costs or the availability of financing; limits on our liquidity resulting from disruptions in the capital markets or other factors; unanticipated increases in costs associated with compliance with federal, state or local laws and regulations; changes in the marketplaces in which we compete (including changes in demand or changes resulting from new laws and regulations); changes in accounting standards including but not limited to changes pertaining to loan loss reserves and estimates or other accounting standards that may impact our operations; adverse outcomes in any significant litigation to which the company is a party; credit risk associated with the company's exposure to third parties, including counterparties to the company's hedging 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 company could also be affected by, among other things: unanticipated deferrals in our FFELP securitization trusts that would delay repayment of the bonds beyond their legal final maturity date; reductions in our credit ratings, the credit ratings of asset-backed securitizations we sponsor or the credit ratings of the

United States of America; failures of our operating systems or infrastructure or those of third-party vendors; risks related to cybersecurity including the potential disruption of our systems or potential disclosure of confidential customer information; damage to our reputation resulting from cyber-breaches, litigation, the politicization of student loan servicing or other actions or factors; failure to successfully implement cost-cutting initiatives and adverse effects of such initiatives on our business; failure to adequately integrate acquisitions or realize anticipated benefits from acquisitions including delays or errors in converting portfolio acquisitions to our servicing platform; changes in law and regulations including but not limited to changes with respect to the student lending or servicing business and financial institutions generally, securitizations or derivatives; increased competition from banks and other consumer lenders; changes in the general interest rate environment, including the relationship between the relevant money-market index rate and the rate at which our assets are priced; our ability to successfully effectuate any acquisitions and other strategic initiatives; changes in the demand for asset management and business processing solutions; and changes in general economic conditions and the other factors that are described in the “Risk Factors” section of Navient’s Annual Report on Form 10-K and in its future reports filed with the Securities and Exchange Commission. The preparation of the company’s consolidated financial statements 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 and actual results could differ materially. All forward-looking statements contained in this release are qualified by these cautionary statements and are made only as of the date of this release. The company does not undertake any obligation to update or revise these forward-looking statements except as required by law.

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#### **About Navient**

Navient (Nasdaq: NAVI) is a Fortune 500 company that provides asset management and business processing solutions to education, healthcare, and government clients at the federal, state, and local levels. The company helps its clients and millions of Americans achieve financial success through services and support. Headquartered in Wilmington, Del., Navient employs team members in western New York, northeastern Pennsylvania, Indiana, Tennessee, Texas, Virginia, and other locations. Learn more at [navient.com](http://navient.com).

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## Selected Historical Financial Information and Ratios

(In millions, except per share data)	Quarters Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
<b>GAAP Basis</b>			
Net income attributable to Navient Corporation . . . . .	\$ 88	\$ 145	\$ 181
Diluted earnings per common share attributable to Navient Corporation . . .	\$ .30	\$ .48	\$ .53
Weighted average shares used to compute diluted earnings per share . . . . .	296	300	343
Net interest margin, FFELP Loans <sup>(1)</sup> . . . . .	.80%	.92%	1.12%
Net interest margin, Private Education Loans <sup>(1)</sup> . . . . .	3.15%	3.04%	3.49%
Return on assets . . . . .	.31%	.49%	.57%
Ending FFELP Loans, net . . . . .	\$ 85,284	\$ 87,730	\$ 94,922
Ending Private Education Loans, net . . . . .	22,552	23,340	25,547
Ending total education loans, net . . . . .	<u>\$107,836</u>	<u>\$111,070</u>	<u>\$120,469</u>
Average FFELP Loans . . . . .	\$ 86,752	\$ 88,914	\$ 95,721
Average Private Education Loans . . . . .	23,500	24,237	26,577
Average total education loans . . . . .	<u>\$110,252</u>	<u>\$113,151</u>	<u>\$122,298</u>
<b>“Core Earnings” Basis<sup>(2)</sup></b>			
Net income attributable to Navient Corporation . . . . .	\$ 107	\$ 129	\$ 147
Diluted earnings per common share attributable to Navient Corporation . . .	\$ .36	\$ .43	\$ .43
Weighted average shares used to compute diluted earnings per share . . . . .	296	300	343
Net interest margin, FFELP Loans <sup>(1)</sup> . . . . .	.77%	.89%	.81%
Net interest margin, Private Education Loans <sup>(1)</sup> . . . . .	3.16%	3.08%	3.56%
Return on assets . . . . .	.38%	.43%	.46%
Ending FFELP Loans, net . . . . .	\$ 85,284	\$ 87,730	\$ 94,922
Ending Private Education Loans, net . . . . .	22,552	23,340	25,547
Ending total education loans, net . . . . .	<u>\$107,836</u>	<u>\$111,070</u>	<u>\$120,469</u>
Average FFELP Loans . . . . .	\$ 86,752	\$ 88,914	\$ 95,721
Average Private Education Loans . . . . .	23,500	24,237	26,577
Average total education loans . . . . .	<u>\$110,252</u>	<u>\$113,151</u>	<u>\$122,298</u>

<sup>(1)</sup> The net interest margin for the fourth-quarter 2016 reflects the revised prepayment rates that resulted from a correction to our policy regarding the application of the interest method. As a result of this correction, the Private Education Loan discount balance increased by \$9 million (resulting in a \$9 million reduction to net interest income and a 0.14 percent reduction to fourth-quarter 2016 Private Education Loan net interest margin) and the FFELP Loan premium balance increased by \$7 million (resulting in a \$7 million increase to net interest income and a 0.03 percent increase to fourth-quarter 2016 FFELP Loan net interest margin). The net impact of this correction was a decrease of \$2 million to net interest income.

<sup>(2)</sup> “Core Earnings” are non-GAAP financial measures and do not represent a comprehensive basis of accounting. For a greater explanation of “Core Earnings,” see the section titled ““Core Earnings” — Definition and Limitations” and subsequent sections.

*FFELP Loan Segment Performance Metrics — “Core Earnings”*

<b>(Dollars in millions)</b>	<b>Quarters Ended</b>		
	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
FFELP Loan spread <sup>(1)</sup> .....	.86%	.98%	.89%
Net interest margin <sup>(1)</sup> .....	.77%	.89%	.81%
Provision for loan losses .....	\$ 10	\$ 13	\$ 7
Charge-offs .....	\$ 13	\$ 12	\$ 16
Charge-off rate .....	.07%	.07%	.09%
Total delinquency rate .....	11.4%	12.2%	14.1%
Greater than 90-day delinquency rate .....	6.2%	6.3%	7.0%
Forbearance rate .....	13.5%	12.9%	14.4%

*Private Education Loan Segment Performance Metrics — “Core Earnings”*

<b>(Dollars in millions)</b>	<b>Quarters Ended</b>		
	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Private Education Loan spread <sup>(1)</sup> .....	3.33%	3.23%	3.70%
Net interest margin <sup>(1)</sup> .....	3.16%	3.08%	3.56%
Provision for loan losses .....	\$ 95	\$ 87	\$ 104
Charge-offs .....	\$ 137	\$ 130	\$ 144
Charge-off rate .....	2.6%	2.3%	2.4%
Total delinquency rate .....	6.8%	7.4%	6.2%
Greater than 90-day delinquency rate .....	3.5%	3.6%	3.2%
Forbearance rate .....	3.6%	3.4%	3.7%
Loans in repayment with more than 12 payments made .....	95%	95%	95%
Cosigner rate .....	64%	64%	64%

<sup>(1)</sup> The net interest margin for the fourth-quarter 2016 reflects the revised prepayment rates that resulted from a correction to our policy regarding the application of the interest method. As a result of this correction, the Private Education Loan discount balance increased by \$9 million (resulting in a \$9 million reduction to net interest income and a 0.14 percent reduction to fourth-quarter 2016 Private Education Loan net interest margin) and the FFELP Loan premium balance increased by \$7 million (resulting in a \$7 million increase to net interest income and a 0.03 percent increase to fourth-quarter 2016 FFELP Loan net interest margin). The net impact of this correction was a decrease of \$2 million to net interest income.

*Business Services Segment Performance Metrics — “Core Earnings”*

<b>(Dollars in billions)</b>	<b>As of</b>		
	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Number of accounts serviced for ED (in millions) .....	6.1	6.2	6.3
Total federal loans serviced .....	\$ 295	\$ 293	\$ 291
Contingent collections receivables inventory:			
Education loans .....	\$ 8.8	\$ 9.9	\$10.1
Other .....	9.9	10.1	9.1
Total contingent collections receivables inventory .....	<u>\$18.7</u>	<u>\$20.0</u>	<u>\$19.2</u>

## Results of Operations

We present the results of operations below first on a consolidated basis in accordance with GAAP. Following our discussion of consolidated earnings results on a GAAP basis, we present our results on a segment basis. We have four business segments: FFELP Loans, Private Education Loans, Business Services and Other. Since these segments operate in distinct business environments and we manage and evaluate the financial performance of these segments using non-GAAP financial measures, these segments are presented on a “Core Earnings” basis (see “Core Earnings’ — Definition and Limitations”).

### GAAP Statements of Income (Unaudited)

(In millions, except per share data)	Quarters Ended			March 31, 2017 vs. December 31, 2016		March 31, 2017 vs. March 31, 2016	
	March 31, 2017	December 31, 2016	March 31, 2016	Increase (Decrease)		Increase (Decrease)	
				\$	%	\$	%
Interest income:							
FFELP Loans	\$ 629	\$ 645	\$ 634	\$ (16)	(2)%	\$ (5)	(1)%
Private Education Loans	374	373	411	1	—	(37)	(9)
Other loans	5	4	1	1	25	4	400
Cash and investments	7	5	5	2	40	2	40
Total interest income	1,015	1,027	1,051	(12)	(1)	(36)	(3)
Total interest expense	675	649	565	26	4	110	19
Net interest income	340	378	486	(38)	(10)	(146)	(30)
Less: provisions for loan losses	107	102	111	5	5	(4)	(4)
Net interest income after provisions for loan losses	233	276	375	(43)	(16)	(142)	(38)
Other income (loss):							
Servicing revenue	76	74	82	2	3	(6)	(7)
Asset recovery and business processing revenue	100	102	90	(2)	(2)	10	11
Other income (loss)	(8)	41	(13)	(49)	(120)	5	(38)
Gains on debt repurchases	—	1	—	(1)	(100)	—	—
Gains (losses) on derivative and hedging activities, net	(16)	6	1	(22)	(367)	(17)	(1,700)
Total other income (loss)	152	224	160	(72)	(32)	(8)	(5)
Expenses:							
Operating expenses	238	246	247	(8)	(3)	(9)	(4)
Goodwill and acquired intangible asset impairment and amortization expense	6	13	4	(7)	(54)	2	50
Total expenses	244	259	251	(15)	(6)	(7)	(3)
Income before income tax expense	141	241	284	(100)	(41)	(143)	(50)
Income tax expense	53	96	103	(43)	(45)	(50)	(49)
<b>Net income</b>	<b>88</b>	<b>145</b>	<b>181</b>	<b>(57)</b>	<b>(39)</b>	<b>(93)</b>	<b>(51)</b>
Less: net income (loss) attributable to noncontrolling interest	—	—	—	—	—	—	—
Net income attributable to Navient Corporation	\$ 88	\$ 145	\$ 181	\$ (57)	(39)	\$ (93)	(51)
<b>Basic earnings per common share attributable to Navient Corporation</b>	<b>\$ .31</b>	<b>\$ .49</b>	<b>\$ .53</b>	<b>\$ (.18)</b>	<b>(37)%</b>	<b>\$ (.22)</b>	<b>(42)%</b>
<b>Diluted earnings per common share attributable to Navient Corporation</b>	<b>\$ .30</b>	<b>\$ .48</b>	<b>\$ .53</b>	<b>\$ (.18)</b>	<b>(38)%</b>	<b>\$ (.23)</b>	<b>(43)%</b>
Dividends per common share attributable to Navient Corporation	\$ .16	\$ .16	\$ .16	\$ —	—%	\$ —	—%

## GAAP Balance Sheet (Unaudited)

<u>(In millions, except share and per share data)</u>	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>March 31,</u> <u>2016</u>
<b>Assets</b>			
FFELP Loans (net of allowance for losses of \$64, \$67 and \$69, respectively) . . . . .	\$ 85,284	\$ 87,730	\$ 94,922
Private Education Loans (net of allowance for losses of \$1,311, \$1,351 and \$1,434, respectively) . . . . .	22,552	23,340	25,547
Cash and investments . . . . .	1,678	1,603	1,595
Restricted cash and investments . . . . .	3,720	3,600	3,818
Goodwill and acquired intangible assets, net . . . . .	664	670	702
Other assets . . . . .	3,992	4,193	4,727
Total assets . . . . .	<u>\$117,890</u>	<u>\$121,136</u>	<u>\$131,311</u>
<b>Liabilities</b>			
Short-term borrowings . . . . .	\$ 2,160	\$ 2,334	\$ 2,363
Long-term borrowings . . . . .	109,586	112,368	122,920
Other liabilities . . . . .	2,472	2,711	2,255
Total liabilities . . . . .	<u>114,218</u>	<u>117,413</u>	<u>127,538</u>
<b>Commitments and contingencies</b>			
<b>Equity</b>			
Common stock, par value \$0.01 per share; 1.125 billion shares authorized: 439 million, 436 million and 433 million shares, respectively, issued . . .	4	4	4
Additional paid-in capital . . . . .	3,047	3,022	2,975
Accumulated other comprehensive income, net of tax expense . . . . .	22	6	(132)
Retained earnings . . . . .	2,930	2,890	2,538
Total Navient Corporation stockholders' equity before treasury stock . . . . .	6,003	5,922	5,385
Less: Common stock held in treasury: 154 million, 145 million and 103 million shares, respectively . . . . .	(2,355)	(2,223)	(1,636)
Total Navient Corporation stockholders' equity . . . . .	3,648	3,699	3,749
Noncontrolling interest . . . . .	24	24	24
Total equity . . . . .	<u>3,672</u>	<u>3,723</u>	<u>3,773</u>
Total liabilities and equity . . . . .	<u>\$117,890</u>	<u>\$121,136</u>	<u>\$131,311</u>



## Consolidated Earnings Summary — GAAP basis

### Three Months Ended March 31, 2017 Compared with Three Months Ended March 31, 2016

For the three months ended March 31, 2017, net income was \$88 million, or \$0.30 diluted earnings per common share, compared with net income of \$181 million, or \$0.53 diluted earnings per common share, for the three months ended March 31, 2016. The decrease in net income was primarily due to a \$146 million decrease in net interest income and a \$17 million decrease in net gains on derivative and hedging activities. This was partially offset by a \$4 million decrease in the provision for loan losses and a \$9 million decrease in operating expenses.

The primary contributors to each of the identified drivers of changes in net income for the current quarter compared with the year-ago quarter are as follows:

- Net interest income decreased by \$146 million, primarily as a result of a decline in the net interest margin and the amortization of the education loan balance. The decline in net interest margin was primarily due to higher funding credit spreads and a widening of the asset and related funding interest rate indices.
- Provisions for loan losses decreased \$4 million from the year-ago quarter, primarily related to the provision for Private Education Loan losses. The provision for Private Education Loan losses was \$95 million in the first quarter of 2017, down \$9 million from the first quarter of 2016 primarily due to a 12 percent decrease in Private Education Loans outstanding and a \$7 million and \$24 million reduction in charge-offs and delinquent loans, respectively, compared to the year-ago quarter. These factors led to decreases in expected future charge-offs.
- Net gains on derivative and hedging activities decreased \$17 million. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments fluctuate based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may vary significantly in future periods.
- First-quarter 2017 and 2016 expenses included regulatory-related costs of \$4 million in each period. Excluding these regulatory-related costs, operating expenses were \$234 million in first-quarter 2017, a \$9 million decrease from first-quarter 2016. This decrease was primarily due to a general reduction in costs primarily related to operating efficiency initiatives.

We repurchased 7.4 million and 19.2 million shares of our common stock during the three months ended March 31, 2017 and 2016, respectively, as part of our common share repurchase programs. Primarily as a result of ongoing common share repurchases, our average outstanding diluted shares decreased by 47 million common shares (or 14 percent) from the year-ago quarter.

### **“Core Earnings” — Definition and Limitations**

We prepare financial statements and present financial results in accordance with GAAP. However, we also evaluate our business segments and present financial results on a basis that differs from GAAP. We refer to this different basis of presentation as “Core Earnings.” We provide this “Core Earnings” basis of presentation on a consolidated basis for each business segment because this is what we review internally when making management decisions regarding our performance and how we allocate resources. We also refer to this information in our presentations with credit rating agencies, lenders and investors. Because our “Core Earnings” basis of presentation corresponds to our segment financial presentations, we are required by GAAP to provide “Core Earnings” disclosure in the notes to our consolidated financial statements for our business segments.

“Core Earnings” are not a substitute for reported results under GAAP. We use “Core Earnings” to manage our business segments because “Core Earnings” reflect adjustments to GAAP financial results for three items, discussed below, that are either related to the Spin-Off or create significant volatility mostly due to timing factors generally beyond the control of management. Accordingly, we believe that “Core Earnings” provide management with a useful basis from which to better evaluate results from ongoing operations against the business plan or against results from prior periods. Consequently, we disclose this information because we believe it provides investors with additional information regarding the operational and performance indicators that are most closely assessed by management. When compared to GAAP results, the three items we remove to result in our “Core Earnings” presentations are:

1. Unrealized mark-to-market gains/losses resulting from our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness;
2. The accounting for goodwill and acquired intangible assets; and
3. The financial results attributable to the operations of SLM BankCo prior to the Spin-Off and related restructuring and reorganization expense incurred in connection with the Spin-Off, including the restructuring expenses related to the restructuring initiative launched in second-quarter 2015 to simplify and streamline the Company’s management structure post-Spin-Off. For GAAP purposes, Navient reflected the deemed distribution of SLM BankCo on April 30, 2014. For “Core Earnings,” we exclude the consumer banking business (SLM BankCo) as if it had never been a part of Navient’s historical results prior to the deemed distribution of SLM BankCo on April 30, 2014. There are no adjustments related to this for the periods presented in this Earnings Release (see 2016 Form 10-K for description of how earlier periods were impacted by this adjustment).

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

Quarter Ended March 31, 2017

(Dollars in millions)	Private				Total "Core Earnings"	Adjustments			Total GAAP	
	FFELP Loans	Education Loans	Business Services	Other Eliminations <sup>(1)</sup>		Reclassifications	Additions/ (Subtractions)	Total Adjustments <sup>(2)</sup>		
Interest income:										
Education loans	\$623	\$374	\$ —	\$ —	\$ —	\$ 997	\$ 20	\$(14)	\$ 6	\$1,003
Other loans	—	—	—	5	—	5	—	—	—	5
Cash and investments	5	—	—	2	—	7	—	—	—	7
Total interest income	628	374	—	7	—	1,009	20	(14)	6	1,015
Total interest expense	457	187	—	31	—	675	3	(3)	—	675
Net interest income (loss)	171	187	—	(24)	—	334	17	(11)	6	340
Less: provisions for loan losses	10	95	—	2	—	107	—	—	—	107
Net interest income (loss) after provisions for loan losses	161	92	—	(26)	—	227	17	(11)	6	233
Other income (loss):										
Servicing revenue	13	4	149	—	(90)	76	—	—	—	76
Asset recovery and business processing revenue	—	—	100	—	—	100	—	—	—	100
Other income (loss)	—	—	—	5	—	5	(17)	(12)	(29)	(24)
Gains on debt repurchases	—	—	—	—	—	—	—	—	—	—
Total other income (loss)	13	4	249	5	(90)	181	(17)	(12)	(29)	152
Expenses:										
Direct operating expenses	93	40	126	7	(90)	176	—	—	—	176
Overhead expenses	—	—	—	62	—	62	—	—	—	62
Operating expenses	93	40	126	69	(90)	238	—	—	—	238
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	—	6	6	6
Total expenses	93	40	126	69	(90)	238	—	6	6	244
Income (loss) before income tax expense (benefit)	81	56	123	(90)	—	170	—	(29)	(29)	141
Income tax expense (benefit) <sup>(3)</sup>	30	21	46	(34)	—	63	—	(10)	(10)	53
Net income (loss)	\$ 51	\$ 35	\$ 77	\$(56)	\$ —	\$ 107	\$ —	\$(19)	\$(19)	\$ 88

<sup>(1)</sup> The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

<sup>(2)</sup> "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Quarter Ended March 31, 2017		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 6	\$—	\$ 6
Total other income (loss)	(29)	—	(29)
Goodwill and acquired intangible asset impairment and amortization	—	6	6
Total "Core Earnings" adjustments to GAAP	\$(23)	\$(6)	\$(29)
Income tax expense (benefit)	—	—	(10)
Net income (loss)	—	—	\$(19)

<sup>(3)</sup> Income taxes are based on a percentage of net income before tax for the individual reportable segment.

Quarter Ended December 31, 2016

(Dollars in millions)	Private				Total "Core Earnings"	Adjustments			Total GAAP	
	FFELP Loans	Education Loans	Business Services	Other Eliminations <sup>(1)</sup>		Reclassifications	Additions/ (Subtractions)	Total Adjustments <sup>(2)</sup>		
Interest income:										
Education loans	\$635	\$373	\$ —	\$ —	\$ —	\$1,008	\$ 24	\$(14)	\$10	\$1,018
Other loans	—	—	—	4	—	4	—	—	—	4
Cash and investments	4	1	—	—	—	5	—	—	—	5
Total interest income	639	374	—	4	—	1,017	24	(14)	10	1,027
Total interest expense	433	182	—	29	—	644	5	—	5	649
Net interest income (loss)	206	192	—	(25)	—	373	19	(14)	5	378
Less: provisions for loan losses	13	87	—	2	—	102	—	—	—	102
Net interest income (loss) after provisions for loan losses	193	105	—	(27)	—	271	19	(14)	5	276
Other income (loss):										
Servicing revenue	11	3	153	—	(93)	74	—	—	—	74
Asset recovery and business processing revenue	—	—	102	—	—	102	—	—	—	102
Other income (loss)	—	—	—	2	—	2	(19)	64	45	47
Gains on debt repurchases	—	—	—	1	—	1	—	—	—	1
Total other income (loss)	11	3	255	3	(93)	179	(19)	64	45	224
Expenses:										
Direct operating expenses	96	44	142	4	(93)	193	—	—	—	193
Overhead expenses	—	—	—	53	—	53	—	—	—	53
Operating expenses	96	44	142	57	(93)	246	—	—	—	246
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	—	13	13	13
Total expenses	96	44	142	57	(93)	246	—	13	13	259
Income (loss) before income tax expense (benefit)	108	64	113	(81)	—	204	—	37	37	241
Income tax expense (benefit) <sup>(3)</sup>	40	23	42	(30)	—	75	—	21	21	96
Net income (loss)	\$ 68	\$ 41	\$ 71	\$(51)	\$ —	\$ 129	\$ —	\$ 16	\$16	\$ 145

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Quarter Ended December 31, 2016		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 5	\$ —	\$ 5
Total other income (loss)	45	—	45
Goodwill and acquired intangible asset impairment and amortization	—	13	13
Total "Core Earnings" adjustments to GAAP	\$50	\$(13)	37
Income tax expense (benefit)	—	—	21
Net income (loss)	—	—	\$16

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

Quarter Ended March 31, 2016

(Dollars in millions)						Total "Core Earnings"	Adjustments			Total GAAP
	FFELP Loans	Private Education Loans	Business Services	Other Eliminations <sup>(1)</sup>			Reclassifications	Additions/ (Subtractions)	Total Adjustments <sup>(2)</sup>	
Interest income:										
Education loans	\$555	\$411	\$ —	\$ —	\$ —	\$966	\$ 138	\$ (59)	\$ 79	\$1,045
Other loans	—	—	—	1	—	1	—	—	—	1
Cash and investments	3	1	—	1	—	5	—	—	—	5
Total interest income	558	412	—	2	—	972	138	(59)	79	1,051
Total interest expense	358	172	—	26	—	556	9	—	9	565
Net interest income (loss)	200	240	—	(24)	—	416	129	(59)	70	486
Less: provisions for loan losses	7	104	—	—	—	111	—	—	—	111
Net interest income (loss) after provisions for loan losses	193	136	—	(24)	—	305	129	(59)	70	375
Other income (loss):										
Servicing revenue	16	4	163	—	(101)	82	—	—	—	82
Asset recovery and business processing revenue	—	—	90	—	—	90	—	—	—	90
Other income (loss)	—	—	1	3	—	4	(129)	113	(16)	(12)
Gains on debt repurchases	—	—	—	—	—	—	—	—	—	—
Total other income (loss)	16	4	254	3	(101)	176	(129)	113	(16)	160
Expenses:										
Direct operating expenses	104	43	134	6	(101)	186	—	—	—	186
Overhead expenses	—	—	—	61	—	61	—	—	—	61
Operating expenses	104	43	134	67	(101)	247	—	—	—	247
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	—	4	4	4
Total expenses	104	43	134	67	(101)	247	—	4	4	251
Income (loss) before income tax expense (benefit)	105	97	120	(88)	—	234	—	50	50	284
Income tax expense (benefit) <sup>(3)</sup>	39	36	45	(33)	—	87	—	16	16	103
Net income (loss)	\$ 66	\$ 61	\$ 75	\$(55)	\$ —	\$147	\$ —	\$ 34	\$ 34	\$ 181

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Quarter Ended March 31, 2016		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 70	\$ —	\$ 70
Total other income (loss)	(16)	—	(16)
Goodwill and acquired intangible asset impairment and amortization	—	4	4
Total "Core Earnings" adjustments to GAAP	\$ 54	\$ (4)	50
Income tax expense (benefit)	—	—	16
Net income (loss)	—	—	\$ 34

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

***Differences between “Core Earnings” and GAAP***

The following discussion summarizes the differences between “Core Earnings” and GAAP net income and details each specific adjustment required to reconcile our “Core Earnings” segment presentation to our GAAP earnings.

(Dollars in millions)	Quarters Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
<b>“Core Earnings” net income attributable to Navient Corporation . . . . .</b>	\$107	\$129	\$147
“Core Earnings” adjustments to GAAP:			
Net impact of derivative accounting . . . . .	(23)	50	54
Net impact of goodwill and acquired intangible assets . . . . .	(6)	(13)	(4)
Net tax effect . . . . .	10	(21)	(16)
Total “Core Earnings” adjustments to GAAP . . . . .	(19)	16	34
<b>GAAP net income attributable to Navient Corporation . . . . .</b>	<b>\$ 88</b>	<b>\$145</b>	<b>\$181</b>

- (1) **Derivative Accounting:** “Core Earnings” exclude periodic unrealized gains and losses that are caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP, as well as the periodic unrealized gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. These unrealized gains and losses occur in our FFELP Loans, Private Education Loans and Other business segments. Under GAAP, for our derivatives that are held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal \$0 except for Floor Income Contracts, where the cumulative unrealized gain will equal the amount for which we sold the contract. In our “Core Earnings” presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item’s life.

The table below quantifies the adjustments for derivative accounting between GAAP and “Core Earnings” net income.

(Dollars in millions)	Quarters Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
<b>“Core Earnings” derivative adjustments:</b>			
Gains (losses) on derivative and hedging activities, net, included in other income	\$(16)	\$ 6	\$ 1
Plus: Realized losses on derivative and hedging activities, net <sup>(1)</sup>	17	19	129
Unrealized gains (losses) on derivative and hedging activities, net <sup>(2)</sup>	1	25	130
Amortization of net premiums on Floor Income Contracts in net interest income for “Core Earnings”	(14)	(14)	(59)
Other derivative accounting adjustments <sup>(3)</sup>	(10)	39	(17)
Total net impact of derivative accounting <sup>(4)</sup>	<u>\$(23)</u>	<u>\$ 50</u>	<u>\$ 54</u>

<sup>(1)</sup> See “Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities” below for a detailed breakdown of the components of realized losses on derivative and hedging activities.

<sup>(2)</sup> “Unrealized gains on derivative and hedging activities, net” comprises the following unrealized mark-to-market gains (losses):

(Dollars in millions)	Quarters Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
Floor Income Contracts	\$ 53	\$150	\$ 27
Basis swaps	(1)	(2)	12
Foreign currency hedges	(32)	(86)	88
Other	(19)	(37)	3
Total unrealized gains (losses) on derivative and hedging activities, net	<u>\$ 1</u>	<u>\$ 25</u>	<u>\$130</u>

<sup>(3)</sup> Other derivative accounting adjustments consist of adjustments related to: (1) foreign currency denominated debt that is adjusted to spot foreign exchange rates for GAAP where such adjustments are reversed for “Core Earnings” and (2) certain terminated derivatives that did not receive hedge accounting treatment under GAAP but were economic hedges under “Core Earnings” and, as a result, such gains or losses are amortized into “Core Earnings” over the life of the hedged item.

<sup>(4)</sup> Negative amounts are subtracted from “Core Earnings” net income to arrive at GAAP net income and positive amounts are added to “Core Earnings” net income to arrive at GAAP net income.

#### *Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities*

Derivative accounting requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as “realized gains (losses) on derivative and hedging activities”) that do not qualify as hedges to be recorded in a separate income statement line item below net interest income. Under our “Core Earnings” presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our “Core Earnings” net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our Floor Income Contracts to education loan interest income; and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense. The table below summarizes the realized losses on derivative and hedging activities and the associated reclassification on a “Core Earnings” basis.

(Dollars in millions)	Quarters Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
<b>Reclassification of realized gains (losses) on derivative and hedging activities:</b>			
Net settlement expense on Floor Income Contracts reclassified to net interest income	\$(20)	\$(24)	\$(138)
Net settlement income on interest rate swaps reclassified to net interest income	3	5	9
Total reclassifications of realized losses on derivative and hedging activities	<u>\$(17)</u>	<u>\$(19)</u>	<u>\$(129)</u>

*Cumulative Impact of Derivative Accounting under GAAP compared to “Core Earnings”*

As of March 31, 2017, derivative accounting has reduced GAAP equity by approximately \$90 million as a result of cumulative net unrealized losses (after tax) recognized under GAAP, but not in “Core Earnings.” The following table rolls forward the cumulative impact to GAAP equity due to these unrealized after tax net losses related to derivative accounting.

<u>(Dollars in millions)</u>	<u>Quarters Ended</u>		
	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Beginning impact of derivative accounting on GAAP equity . .	\$ (90)	\$ (255)	\$ (281)
Net impact of net unrealized gains (losses) under derivative accounting <sup>(1)</sup> . . . . .	<u>—</u>	<u>165</u>	<u>(48)</u>
Ending impact of derivative accounting on GAAP equity . . . .	<u>\$ (90)</u>	<u>\$ (90)</u>	<u>\$ (329)</u>

<sup>(1)</sup> Net impact of net unrealized gains (losses) under derivative accounting is composed of the following:

<u>(Dollars in millions)</u>	<u>Quarters Ended</u>		
	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Total pre-tax net impact of derivative accounting recognized in net income <sup>(a)</sup> . . . . .	\$ (23)	\$ 50	\$ 54
Tax impact of derivative accounting adjustments recognized in net income . . . . .	8	(18)	(20)
Change in unrealized gain (losses) on derivatives, net of tax recognized in other comprehensive income . . . . .	<u>15</u>	<u>133</u>	<u>(82)</u>
Net impact of net unrealized gains (losses) under derivative accounting . . . . .	<u>\$ —</u>	<u>\$ 165</u>	<u>\$ (48)</u>

<sup>(a)</sup> See “Core Earnings’ derivative adjustments” table above.

*Hedging FFELP Loan Embedded Floor Income*

Net Floor premiums received on Floor Income Contracts that have not been amortized into “Core Earnings” as of the respective period-ends are presented in the table below. These net premiums will be recognized in “Core Earnings” in future periods and are presented net of tax. As of March 31, 2017, the remaining amortization term of the net floor premiums was approximately 5.0 years. Historically, we have sold Floor Income Contracts on a periodic basis and depending upon market conditions and pricing, we may enter into additional Floor Income Contracts in the future. The balance of unamortized Floor Income Contracts will increase as we sell new contracts and decline due to the amortization of existing contracts.

In addition to using Floor Income Contracts, we also use pay-fixed interest rate swaps to hedge the embedded Floor Income within FFELP Loans. These interest rate swaps qualify as GAAP hedges and are accounted for as cash flow hedges of variable rate debt. For GAAP, gains and losses on the effective portion of these hedges are recorded in accumulated other comprehensive income and gains and losses on the ineffective portion are recorded immediately to earnings. Hedged Floor Income from these cash flow hedges that has not been recognized into “Core Earnings” and GAAP as of the respective period-ends is presented in the table below. This hedged Floor Income will be recognized in “Core Earnings” and GAAP in future periods and is presented net of tax. As of March 31, 2017, the remaining hedged period is approximately 5.2 years. Historically, we have used pay-fixed interest rate swaps on a periodic basis to hedge embedded Floor Income and depending upon market conditions and pricing, we may enter into swaps in the future. The balance of unrecognized hedged Floor Income will increase as we enter into new swaps and decline as revenue is recognized.



<u>(Dollars in millions)</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Unamortized net Floor premiums (net of tax) . . . . .	\$(158)	\$(147)	\$(114)
Unrecognized hedged Floor Income related to pay fixed interest rate swaps (net of tax) . . . . .	<u>(537)</u>	<u>(551)</u>	<u>(524)</u>
Total <sup>(1)</sup> . . . . .	<u><u>\$(695)</u></u>	<u><u>\$(698)</u></u>	<u><u>\$(638)</u></u>

<sup>(1)</sup> \$(1.1) billion, \$(1.1) billion and \$(1.0) billion on a pre-tax basis as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively.

- (2) **Goodwill and Acquired Intangible Assets:** Our “Core Earnings” exclude goodwill and intangible asset impairment and the amortization of acquired intangible assets. The following table summarizes the goodwill and acquired intangible asset adjustments.

<u>(Dollars in millions)</u>	<u>Quarters Ended</u>		
	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
“Core Earnings” goodwill and acquired intangible asset adjustments <sup>(1)</sup> . . . . .	\$(6)	\$(13)	\$(4)

<sup>(1)</sup> Negative amounts are subtracted from “Core Earnings” net income to arrive at GAAP net income.

## Financial Condition

This section provides additional information regarding the credit quality and performance indicators related to our Private Education Loan portfolio.

### Private Education Loans Portfolio Performance

Private Education Loan Delinquencies and Forbearance — GAAP and “Core Earnings” Basis

(Dollars in millions)	March 31, 2017		December 31, 2016		March 31, 2016	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 1,337		\$ 1,393		\$ 1,927	
Loans in forbearance <sup>(2)</sup>	793		790		916	
Loans in repayment and percentage of each status:						
Loans current	19,918	93.2%	20,506	92.6%	22,313	93.8%
Loans delinquent 31-60 days <sup>(3)</sup>	424	2.0	522	2.4	434	1.8
Loans delinquent 61-90 days <sup>(3)</sup>	279	1.3	321	1.4	290	1.2
Loans delinquent greater than 90 days <sup>(3)</sup>	746	3.5	801	3.6	749	3.2
Total Private Education Loans in repayment	<u>21,367</u>	<u>100%</u>	<u>22,150</u>	<u>100%</u>	<u>23,786</u>	<u>100%</u>
Total Private Education Loans, gross	23,497		24,333		26,629	
Private Education Loan unamortized discount	(434)		(457)		(515)	
Total Private Education Loans	23,063		23,876		26,114	
Private Education Loan receivable for partially charged-off loans	800		815		867	
Private Education Loan allowance for losses	(1,311)		(1,351)		(1,434)	
Private Education Loans, net	<u>\$22,552</u>		<u>\$23,340</u>		<u>\$25,547</u>	
Percentage of Private Education Loans in repayment		<u>90.9%</u>		<u>91.0%</u>		<u>89.3%</u>
Delinquencies as a percentage of Private Education Loans in repayment		<u>6.8%</u>		<u>7.4%</u>		<u>6.2%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>3.6%</u>		<u>3.4%</u>		<u>3.7%</u>
Loans in repayment with more than 12 payments made		<u>95%</u>		<u>95%</u>		<u>95%</u>
Cosigner rate		<u>64%</u>		<u>64%</u>		<u>64%</u>

<sup>(1)</sup> Deferment includes customers who have returned to school or are engaged 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.

<sup>(2)</sup> Loans for customers 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.

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

*Allowance for Private Education Loan Losses — GAAP and “Core Earnings” Basis*

<b>(Dollars in millions)</b>	<b>Quarters Ended</b>		
	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Allowance at beginning of period . . . . .	\$ 1,351	\$ 1,392	\$ 1,471
Provision for Private Education Loan losses . . . . .	95	87	104
Charge-offs <sup>(1)</sup> . . . . .	(137)	(130)	(144)
Reclassification of interest reserve <sup>(2)</sup> . . . . .	2	2	3
Allowance at end of period . . . . .	<u>\$ 1,311</u>	<u>\$ 1,351</u>	<u>\$ 1,434</u>
Charge-offs as a percentage of average loans in repayment (annualized) . . . . .	2.6%	2.3%	2.4%
Allowance coverage of charge-offs (annualized) . . . . .	2.4	2.6	2.5
Allowance as a percentage of the ending total loan balance . . . . .	5.4%	5.4%	5.2%
Allowance as a percentage of ending loans in repayment . . . . .	6.1%	6.1%	6.0%
Ending total loans <sup>(3)</sup> . . . . .	\$24,297	\$25,148	\$27,496
Average loans in repayment . . . . .	\$21,791	\$22,412	\$24,180
Ending loans in repayment . . . . .	\$21,367	\$22,150	\$23,786

- <sup>(1)</sup> Charge-offs are reported net of expected recoveries. The expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See “Receivable for Partially Charged-Off Private Education Loans” for further discussion.
- <sup>(2)</sup> Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan’s principal balance.
- <sup>(3)</sup> Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans.

In establishing the allowance for Private Education Loan losses as of March 31, 2017, we considered several factors with respect to our Private Education Loan portfolio. Among these factors were: total loan delinquencies decreased to \$1.45 billion, down \$24 million from \$1.47 billion in the year-ago quarter. Loan delinquencies of 90 days or more decreased to \$746 million, down \$3 million from \$749 million in the year-ago quarter. Charge-offs decreased to \$137 million, down \$7 million from \$144 million in the year-ago quarter. Loans in forbearance decreased to \$793 million, down \$123 million from \$916 million in the year-ago quarter.

The provision for Private Education Loan losses was \$95 million in the first quarter of 2017, down \$9 million from the first quarter of 2016 primarily due to a 12 percent decrease in Private Education Loans outstanding and a \$7 million and \$24 million reduction in charge-offs and delinquent loans, respectively, compared to the year-ago period. These factors led to decreases in expected future charge-offs.

*Receivable for Partially Charged-Off Private Education Loans*

At the end of each month, for loans that are 212 or more days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the “receivable for partially charged-off loans.” If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for Private Education Loan losses with an offsetting reduction in the receivable for partially charged-off Private Education Loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered.

The following table summarizes the activity in the receivable for partially charged-off Private Education Loans (GAAP-basis and “Core Earnings”-basis are the same).

(Dollars in millions)	Quarters Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
Receivable at beginning of period . . . . .	\$815	\$828	\$881
Expected future recoveries of current period defaults <sup>(1)</sup> . . . . .	34	32	36
Recoveries <sup>(2)</sup> . . . . .	(44)	(41)	(47)
Charge-offs <sup>(3)</sup> . . . . .	(5)	(4)	(3)
Receivable at end of period . . . . .	<u>\$800</u>	<u>\$815</u>	<u>\$867</u>

<sup>(1)</sup> Represents our estimate of the amount to be collected in the future.

<sup>(2)</sup> Current period cash collections.

<sup>(3)</sup> Represents the current period recovery shortfall — the difference between what was expected to be collected and what was actually collected. These amounts are included in total charge-offs as reported in the “Allowance for Private Education Loan Losses” table.

### Liquidity and Capital Resources

We expect to fund our ongoing liquidity needs, including the repayment of \$0.6 billion of senior unsecured notes that mature in the next twelve months, primarily through our current cash, investments and unencumbered FFELP Loan portfolio, the predictable operating cash flows provided by operating activities, the repayment of principal on unencumbered education loan assets, and the distribution of overcollateralization from our securitization trusts. We may also, depending on market conditions and availability, draw down on our secured FFELP Loan and Private Education Loan facilities, issue term asset-backed securities (“ABS”), enter into additional Private Education Loan ABS repurchase facilities, or issue additional unsecured debt.

We no longer originate Private Education Loans or FFELP Loans and therefore no longer have liquidity requirements for new originations. We have purchased and may purchase, in future periods, Private Education Loan and FFELP Loan portfolios from third parties. Those purchases, if any, will be part of our ongoing liquidity needs.

### Sources of Liquidity and Available Capacity

#### Ending Balances

(Dollars in millions)	March 31, 2017	December 31, 2016	March 31, 2016
<b>Sources of primary liquidity:</b>			
Total unrestricted cash and liquid investments . . . . .	\$1,366	\$1,256	\$1,173
Unencumbered FFELP Loans . . . . .	<u>594</u>	<u>359</u>	<u>640</u>
Total GAAP and “Core Earnings” basis . . . . .	<u>\$1,960</u>	<u>\$1,615</u>	<u>\$1,813</u>

#### Average Balances

(Dollars in millions)	Quarters Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
<b>Sources of primary liquidity:</b>			
Total unrestricted cash and liquid investments . . . . .	\$1,093	\$1,030	\$1,186
Unencumbered FFELP Loans . . . . .	<u>904</u>	<u>1,032</u>	<u>1,108</u>
Total GAAP and “Core Earnings” basis . . . . .	<u>\$1,997</u>	<u>\$2,062</u>	<u>\$2,294</u>

Liquidity may also be available under secured credit facilities to the extent we have eligible collateral and capacity available. Maximum borrowing capacity under the FFELP Loan-other facilities will vary and be subject to each agreement's borrowing conditions, including, among others, facility size, current usage and availability of qualifying collateral from unencumbered FFELP Loans. As of March 31, 2017, December 31, 2016 and March 31, 2016, the maximum additional capacity under these facilities was \$3.1 billion, \$2.2 billion and \$1.2 billion, respectively. For the three months ended March 31, 2017, December 31, 2016 and March 31, 2016, the average maximum additional capacity under these facilities was \$2.7 billion, \$3.4 billion and \$1.9 billion, respectively.

In addition to the FFELP Loan-other facilities, liquidity may also be available from our Private Education Loan asset-backed commercial paper ("ABCP") facility which matures on June 26, 2017. This facility's maximum financing amount is \$750 million. At March 31, 2017, the available capacity under this facility was \$209 million. Borrowing under this facility will vary and is subject to the availability of qualifying collateral from unencumbered Private Education Loans and the other terms and conditions set forth in the agreement.

At March 31, 2017, we had a total of \$6.9 billion of unencumbered assets inclusive of those listed in the table above as sources of primary liquidity. Total unencumbered education loans comprised \$3.3 billion of our unencumbered assets of which \$2.7 billion and \$0.6 billion related to Private Education Loans and FFELP Loans, respectively. In addition, as of March 31, 2017, we had \$10.8 billion of encumbered net assets (i.e., overcollateralization) in our various financing facilities (consolidated variable interest entities). In fourth-quarter 2015, we closed on a \$550 million Private Education Loan ABS Repurchase Facility and in the second-quarter 2016, we closed on a second \$478 million Private Education Loan ABS Repurchase Facility. Both repurchase facilities are collateralized by Residual Interests in previously issued Private Education Loan ABS trusts. These are examples of how we can effectively finance previously encumbered assets to generate additional liquidity in addition to the unencumbered assets we traditionally have encumbered in the past. Additionally, these repurchase facilities had a cost of funds lower than that of a new unsecured debt issuance.

For further discussion of our various sources of liquidity, our access to the ABS market, our asset-backed financing facilities, and our issuance of unsecured debt, see "Note 6 — Borrowings" in our Annual Report on Form 10-K for the year ended December 31, 2016.

The following table reconciles encumbered and unencumbered assets and their net impact on GAAP total tangible equity.

<u>(Dollars in billions)</u>	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>March 31,</u> <u>2016</u>
Net assets of consolidated variable interest entities			
(encumbered assets) — FFELP Loans . . . . .	\$ 4.7	\$ 4.7	\$ 4.9
Net assets of consolidated variable interest entities			
(encumbered assets) — Private Education Loans . . . . .	6.1	6.1	6.4
Tangible unencumbered assets <sup>(1)</sup> . . . . .	6.9	6.8	7.6
Senior unsecured debt . . . . .	(14.0)	(13.7)	(14.1)
Mark-to-market on unsecured hedged debt <sup>(2)</sup> . . . . .	(.4)	(.4)	(1.0)
Other liabilities, net . . . . .	(.3)	(.4)	(.7)
Total tangible equity — GAAP Basis . . . . .	<u>\$ 3.0</u>	<u>\$ 3.1</u>	<u>\$ 3.1</u>

<sup>(1)</sup> At March 31, 2017, December 31, 2016 and March 31, 2016, excludes goodwill and acquired intangible assets, net, of \$664 million, \$670 million and \$702 million, respectively.

<sup>(2)</sup> At March 31, 2017, December 31, 2016 and March 31, 2016, there were \$319 million, \$403 million and \$913 million, respectively, of net gains on derivatives hedging this debt in unencumbered assets, which partially offset these losses.