Synchrony Financial
Form 10-Q
April 28, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
001-36560
(Commission File Number)
SYNCHRONY FINANCIAL
(Exact name of registrant as specified in its charter)

Delaware	51-0483352
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

777 Long Ridge Road

Stamford, Connecticut	06902
(Address of principal executive offices)	(Zip Code)

(Registrant’s telephone number, including area code) (203) 585-2400

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 ý No ¨
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
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 ý	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The number of shares of the registrant’s common stock, par value $0.001 per share, outstanding as of April 26, 2016 was 833,920,403.

Synchrony Financial

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Cautionary Note Regarding Forward-Looking Statements:
Various statements in this Quarterly Report on Form 10-Q may contain “forward-looking statements” as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the “safe harbor” created by those sections. Forward-looking statements may be identified by words such as “expects,” “intends,” “anticipates,” “plans,” “believes,” “seeks,” “targets,” “outl “estimates,” “will,” “should,” “may” or words of similar meaning, but these words are not the exclusive means of identifying forward-looking statements.
Forward-looking statements are based on management’s current expectations and assumptions, and are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. As a result, actual results could differ materially from those indicated in these forward-looking statements. Factors that could cause actual results to differ materially include global political, economic, business, competitive, market, regulatory and other factors and risks, such as: the impact of macroeconomic conditions and whether industry trends we have identified develop as anticipated; retaining existing partners and attracting new partners, concentration of our platform revenue in a small number of Retail Card partners, promotion and support of our products by our partners, and financial performance of our partners; higher borrowing costs and adverse financial market conditions impacting our funding and liquidity, and any reduction in our credit ratings; our ability to securitize our loans, occurrence of an early amortization of our securitization facilities, loss of the right to service or subservice our securitized loans, and lower payment rates on our securitized loans; our ability to grow our deposits in the future; changes in market interest rates and the impact of any margin compression; effectiveness of our risk management processes and procedures, reliance on models which may be inaccurate or misinterpreted, our ability to manage our credit risk, the sufficiency of our allowance for loan losses and the accuracy of the assumptions or estimates used in preparing our financial statements; our ability to offset increases in our costs in retailer share arrangements; competition in the consumer finance industry; our concentration in the U.S. consumer credit market; our ability to successfully develop and commercialize new or enhanced products and services; our ability to realize the value of strategic investments; reductions in interchange fees; fraudulent activity; cyber-attacks or other security breaches; failure of third parties to provide various services that are important to our operations; our transition to a replacement third-party vendor to manage the technology platform for our online retail deposits; disruptions in the operations of our computer systems and data centers; international risks and compliance and regulatory risks and costs associated with international operations; alleged infringement of intellectual property rights of others and our ability to protect our intellectual property; litigation and regulatory actions; damage to our reputation; our ability to attract, retain and motivate key officers and employees; tax legislation initiatives or challenges to our tax positions and state sales tax rules and regulations; a material indemnification obligation to GE under the tax sharing and separation agreement with GE (the "TSSA") if we cause the split-off from GE or certain preliminary transactions to fail to qualify for tax-free treatment or in the case of certain significant transfers of our stock following the split-off; obligations associated with being an independent public company; regulation, supervision, examination and enforcement of our business by governmental authorities, the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and the impact of the Consumer Financial Protection Bureau's (the “CFPB”) regulation of our business; changes to our methods of offering our CareCredit products; impact of capital adequacy rules and liquidity requirements; restrictions that limit our ability to pay dividends and repurchase our common stock, and restrictions that limit Synchrony Bank’s ability to pay dividends to us; regulations relating to privacy, information security and data protection; use of third-party vendors and ongoing third-party business relationships; and failure to comply with anti-money laundering and anti-terrorism financing laws.
For the reasons described above, we caution you against relying on any forward-looking statements, which should also be read in conjunction with the other cautionary statements that are included elsewhere in this report and in our public filings, including under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 (our “2015 Form 10-K”). You should not consider any list of such factors to be an exhaustive statement of all of the risks, uncertainties, or potentially inaccurate assumptions that could cause our current expectations or beliefs to change. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update or revise any forward-looking statement to reflect events or

circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as otherwise may be required by the federal securities laws.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this quarterly report and in our 2015 Form 10-K. The discussion below contains forward-looking statements that are based upon current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations. See "Cautionary Note Regarding Forward-Looking Statements." References in this Form 10-Q to the "Company", "we", "us" and "our" are to Synchrony Financial and its consolidated subsidiaries unless the context otherwise requires; references to "GE" are to General Electric Company and its subsidiaries; references to "GECC" are to General Electric Capital Corporation (a subsidiary of GE) and its subsidiaries; and references to the "Bank" are to our wholly-owned subsidiary, Synchrony Bank.

Introduction and Business Overview

We are one of the premier consumer financial services companies in the United States. We provide a range of credit products through programs we have established with a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and healthcare service providers, which we refer to as our "partners." For the three months ended March 31, 2016, we financed $27.0 billion of purchase volume and had 66.1 million average active accounts, and at March 31, 2016, we had $65.8 billion of loan receivables. For the three months ended March 31, 2016, we had net earnings of $582 million, representing a return on assets of 2.8%.

We offer our credit products primarily through our wholly-owned subsidiary, the Bank. Through the Bank, we offer, directly to retail and commercial customers, a range of deposit products insured by the Federal Deposit Insurance Corporation ("FDIC"), including certificates of deposit, individual retirement accounts ("IRAs"), money market accounts and savings accounts. We also take deposits at the Bank through third-party securities brokerage firms that offer our FDIC-insured deposit products to their customers. We have expanded and continue to expand our online direct banking operations to increase our deposit base as a source of stable and diversified low cost funding for our credit activities. We had $45.0 billion in deposits at March 31, 2016.

In November 2015, Synchrony Financial became a stand-alone savings and loan holding company following the completion of GE's exchange offer, in which GE exchanged shares of GE common stock for all of the shares of our common stock it owned (the "Separation").

Our Sales Platforms

We conduct our operations through a single business segment. Our revenue activities are managed for the business as a whole. Substantially all of our operations are within the United States. We offer our credit products through three sales platforms (Retail Card, Payment Solutions and CareCredit). Those platforms are organized by the types of products we offer and the partners we work with, and are measured on platform revenues, loan receivables, new accounts and other sales metrics.

(1) For a definition of platform revenue, which is a non-GAAP measure, and its reconciliation to interest and fees on loans, see “Results of Operations—Platform Analysis—Non-GAAP Measure”.

Retail Card

Retail Card is a leading provider of private label credit cards, and also provides Dual Cards and small and medium-sized business credit products. Our patented Dual Cards are credit cards that function as private label credit cards when used to purchase goods and services from our partners and as general purpose credit cards when used elsewhere. We offer one or more of these products primarily through 23 national and regional retailers with which we have ongoing program agreements. The average length of our relationship with these Retail Card partners is 17 years. Retail Card’s platform revenue consists of interest and fees on our loan receivables, plus other income, less retailer share arrangements. Other income primarily consists of interchange fees earned on Dual Card transactions (when the card is used outside of our partners' sales channels) and fees paid to us by customers who purchase our debt cancellation products, less loyalty program payments. Substantially all of the credit extended in this platform is on standard terms.

Payment Solutions

Payment Solutions is a leading provider of promotional financing for major consumer purchases, offering private label credit cards and installment loans. Payment Solutions offers these products through participating partners consisting of national and regional retailers, local merchants, manufacturers, buying groups and industry associations. Substantially all of the credit extended in Payment Solutions is promotional financing. Payment Solutions’ platform revenue primarily consists of interest and fees on our loan receivables, including “merchant discounts,” which are fees paid to us by our partners in almost all cases to compensate us for all or part of foregone interest revenue associated with promotional financing.

CareCredit

CareCredit is a leading provider of promotional financing to consumers for elective healthcare procedures, products or services, such as dental, veterinary, cosmetic, vision and audiology. CareCredit offers financing through a CareCredit-branded private label credit card that may be used across our network of CareCredit providers in which the vast majority are individual or small groups of independent healthcare providers. Substantially all of the credit extended in this platform is promotional financing. CareCredit’s platform revenue primarily consists of interest and fees on our credit products and from merchant discounts. We also process general purpose card transactions for some providers as their acquiring bank within most of the credit card network associations, for which we obtain an interchange fee.

Our Credit Products

Through our platforms, we offer three principal types of credit products: credit cards, commercial credit products and consumer installment loans. We also offer a debt cancellation product.

The following table sets forth each credit product by type and indicates the percentage of our total loan receivables that are under standard terms only or pursuant to a promotional financing offer at March 31, 2016.

Credit Product	Standard Terms Only	Promotional Offer		Total
		Deferred Interest	Other Promotional	
Credit cards	66.6 %	16.9 %	12.6 %	96.1 %
Commercial credit products	2.0	—	—	2.0
Consumer installment loans	—	—	1.8	1.8
Other	0.1	—	—	0.1
Total	68.7 %	16.9 %	14.4 %	100.0 %

Credit Cards

We offer two principal types of credit cards: private label credit cards and Dual Cards:

- Private label credit cards. Private label credit cards are partner-branded credit cards (e.g., Lowe’s or Amazon) or program-branded credit cards (e.g., CarCareONE or CareCredit) that are used primarily for the purchase of goods and services from the partner or within the program network. In addition, in some cases, cardholders may be permitted to access their credit card accounts for cash advances. In Retail Card, credit under our private label credit cards typically is extended on standard terms only, and in Payment Solutions and CareCredit, credit under our private label credit cards typically is extended pursuant to a promotional financing offer.
- Dual Cards. Our patented Dual Cards are general purpose credit cards that function as private label credit cards when used to purchase goods and services from our partners and as general purpose credit cards when used elsewhere. Credit extended under our Dual Cards typically is extended under standard terms only. Currently, only our Retail Card platform offers Dual Cards. At March 31, 2016, we offered Dual Cards through 16 of our 23 ongoing Retail Card programs.

Commercial Credit Products

We offer private label cards and co-branded cards for commercial customers that are similar to our consumer offerings. We also offer a commercial pay-in-full accounts receivable product to a wide range of business customers. We offer commercial credit products primarily through our Retail Card platform to the commercial customers of our Retail Card partners.

Installment Loans

In Payment Solutions, we originate installment loans to consumers (and a limited number of commercial customers) in the United States, primarily in the power product market (motorcycles, ATVs and lawn and garden). Installment loans are closed-end credit accounts where the customer pays down the outstanding balance in installments. Installment loans are assessed periodic finance charges using fixed interest rates.

Business Trends and Conditions

We believe our business and results of operations will be impacted in the future by various trends and conditions, including the following:

- Growth in loan receivables and interest income
- Extended duration of our Retail Card program agreements
- Increases in retailer share arrangement payments and other expense under extended program agreements
- Stable asset quality
- Growth in interchange revenues and loyalty program costs
- Impact of regulatory developments
- Capital and liquidity levels

For a discussion of these trends and conditions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Trends and Conditions" in our 2015 Form 10-K. For a discussion of how these trends and conditions impacted the three months ended March 31, 2016, see "Results of Operations."

Seasonality

In our Retail Card and Payment Solutions platforms, we experience fluctuations in transaction volumes and the level of loan receivables as a result of higher seasonal consumer spending and payment patterns that typically result in an increase of loan receivables from August through a peak in late December, with reductions in loan receivables occurring over the first and second quarters of the following year as customers pay their balances down.

The seasonal impact to transaction volumes and the loan receivables balance typically results in fluctuations in our results of operations, delinquency metrics and the allowance for loan losses as a percentage of total loan receivables between quarterly periods.

In addition to the seasonal variance in loan receivables discussed above, we also experience a seasonal increase in delinquency rates and delinquent loan receivables balances during the third and fourth quarters of each year due to lower customer payment rates. Our delinquency rates and delinquent loan receivables balances typically decrease during the subsequent first and second quarters as customers begin to pay down their loan balances and return to current status. Because customers who were delinquent during the fourth quarter of a calendar year have a higher probability of returning to current status when compared to customers who are delinquent at the end of each of our interim reporting periods, we expect that a higher proportion of delinquent accounts outstanding at an interim period end will result in charge-offs, as compared to delinquent accounts outstanding at a year end. Consistent with this historical experience, we generally experience a higher allowance for loan losses as a percentage of total loan receivables at the end of an interim period, as compared to the end of a calendar year. In addition, despite improving credit metrics such as declining past due amounts, we may experience an increase in our allowance for loan losses at an interim period end compared to the prior year end, reflecting these same seasonal trends.

The seasonal trends discussed above are most evident between the fourth quarter and the first quarter of the following year. Loan receivables decreased by $2.4 billion, or 3.6%, to $65.8 billion at March 31, 2016, and our allowance for loan losses as a percentage of total loan receivables increased to 5.50% at March 31, 2016, from 5.12% at December 31, 2015, reflecting the effects of these trends. Past due balances declined to $2.5 billion at March 31, 2016 from $2.8 billion at December 31, 2015, primarily due to collections from customers that were previously delinquent. The increase in the allowance for loan losses at March 31, 2016 compared to December 31, 2015, despite a decrease in our past due balances as a percentage of loan receivables at March 31, 2016 compared to December 31, 2015, reflects these same seasonal trends.

Results of Operations

Highlights for the Three Months Ended March 31, 2016

Below are highlights of our performance for the three months ended March 31, 2016 compared to the three months ended March 31, 2015, as applicable, except as otherwise noted.

- Net earnings increased 5.4% to $582 million for the three months ended March 31, 2016, driven by higher net interest income, partially offset by increases in provision for loan losses and other expenses.
- Loan receivables increased 13.0% to $65,849 million at March 31, 2016 compared to March 31, 2015, primarily driven by higher purchase volume and average active account growth, and included growth associated with the BP portfolio acquired in the second quarter of 2015.
- Net interest income increased 11.6% to $3,209 million for the three months ended March 31, 2016, primarily due to higher average loan receivables.
- Retailer share arrangements increased 1.5% to $670 million for the three months ended March 31, 2016, primarily as a result of growth and improved performance of the programs in which we have retailer share arrangements, partially offset by higher provision for loan losses and loyalty costs associated with these programs.
- Asset quality continued to remain relatively stable, sustained by general improvement in the U.S. economy. Over-30 day loan delinquencies as a percentage of period-end loan receivables increased slightly to 3.85% at March 31, 2016 from 3.79% at March 31, 2015, and the net charge-off rate increased 17 basis points to 4.70% for the three months ended March 31, 2016.
- Provision for loan losses increased by $216 million, or 31.4%, for the three months ended March 31, 2016, primarily due to portfolio growth and a lower loan loss reserve build in the prior year. Our allowance coverage ratio (allowance for loan losses as a percent of end of period loan receivables) decreased slightly to 5.50% at March 31, 2016, as compared to 5.59% at March 31, 2015.
- Other expense increased by $54 million, or 7.2%, for the three months ended March 31, 2016, driven by growth and infrastructure build.
- We continue to invest in our direct banking activities to grow our deposit base. Total deposits increased 3.7% to $45.0 billion at March 31, 2016, compared to December 31, 2015, driven primarily by growth in our direct deposits of 9.4% to $32.5 billion, partially offset by a reduction in our brokered deposits.

New and Extended Partner Agreements

- We extended our Retail Card program agreement with Stein Mart, launched our new program with Citgo, and announced our new partnership with Marvel.
- We extended our Payment Solutions program agreement with La-Z-Boy.

Summary Earnings

The following table sets forth our results of operations for the periods indicated.

	Three months ended March 31,	
($ in millions)	2016	2015
Interest income	$3,520	$3,150
Interest expense	311	275
Net interest income	3,209	2,875
Retailer share arrangements	(670)	(660)
Net interest income, after retailer share arrangements	2,539	2,215
Provision for loan losses	903	687
Net interest income, after retailer share arrangements and provision for loan losses	1,636	1,528
Other income	92	101
Other expense	800	746
Earnings before provision for income taxes	928	883
Provision for income taxes	346	331
Net earnings	$582	$552

Other Financial and Statistical Data[1]

The following table sets forth certain other financial and statistical data for the periods indicated.

	At and for the Three months ended March 31,					
($ in millions)	2016			2015		
Financial Position Data (Average):						
Loan receivables, including held for sale	$	66,705		$	59,775	
Total assets	$	82,835		$	73,695	
Deposits	$	44,327		$	35,029	
Borrowings	$	22,073		$	25,063	
Total equity	$	12,901		$	10,749	
Selected Performance Metrics:						
Purchase volume[2]	$	26,977		$	23,139	
Retail Card	$	21,550		$	18,410	
Payment Solutions	$	3,392		$	2,948	
CareCredit	$	2,035		$	1,781	
Average active accounts (in thousands)[3]	66,134			61,604		
Net interest margin[4]	15.76		%	15.79		%
Net charge-offs	$	780		$	668	
Net charge-offs as a % of average loan receivables, including held for sale	4.70		%	4.53		%
Allowance coverage ratio[5]	5.50		%	5.59		%
Return on assets[6]	2.8		%	3.0		%
Return on equity[7]	18.1		%	20.8		%
Equity to assets[8]	15.57		%	14.59		%
Other expense as a % of average loan receivables, including held for sale	4.82		%	5.06		%
Efficiency ratio[9]	30.4		%	32.2		%
Effective income tax rate	37.3		%	37.5		%
Selected Period End Data:						
Loan receivables	$	65,849		$	58,248	
Allowance for loan losses	$	3,620		$	3,255	
30+ days past due as a % of period-end loan receivables[10]	3.85		%	3.79		%
	1.84		%	1.81		%

90+ days past due as a % of period-end loan receivables[10]		
Total active accounts (in thousands)[3]	64,689	59,761

(1) Certain balance sheet amounts and related metrics have been updated to reflect the adoption of ASU 2015-03. See “Management's Discussion and Analysis—New Accounting Standards” for a more detailed discussion.

(2) Purchase volume, or net credit sales, represents the aggregate amount of charges incurred on credit cards or other credit product accounts less returns during the period. Purchase volume includes activity related to our portfolios classified as held for sale.

(3) Active accounts represent credit card or installment loan accounts on which there has been a purchase, payment or outstanding balance in the current month.

(4) Net interest margin represents net interest income divided by average interest-earning assets.

(5) Allowance coverage ratio represents allowance for loan losses divided by total period-end loan receivables.

(6) Return on assets represents net earnings as a percentage of average total assets.

(7) Return on equity represents net earnings as a percentage of average total equity.

(8) Equity to assets represents average equity as a percentage of average total assets.

(9) Efficiency ratio represents (i) other expense, divided by (ii) net interest income, after retailer share arrangements, plus other income.

(10) Based on customer statement-end balances extrapolated to the respective period-end date.

Average Balance Sheet

The following table set forth information for the periods indicated regarding average balance sheet data, which are used in the discussion of interest income, interest expense and net interest income that follows.

Three months ended March 31 ($ in millions)	2016 Average Balance[1]	2016 Interest Income / Expense	2016 Average Yield / Rate[2]	2015 Average Balance[1]	2015 Interest Income/ Expense	2015 Average Yield / Rate[2]
Assets						
Interest-earning assets:						
Interest-earning cash and equivalents[3]	$12,185	$ 16	0.53 %	$11,331	$ 6	0.21 %
Securities available for sale	2,995	6	0.81 %	2,725	4	0.60 %
Loan receivables:						
Credit cards, including held for sale[4]	64,194	3,436	21.53 %	57,390	3,079	21.76 %
Consumer installment loans	1,159	27	9.37 %	1,057	25	9.59 %
Commercial credit products	1,313	35	10.72 %	1,305	36	11.19 %
Other	39	—	— %	23	—	— %
Total loan receivables	66,705	3,498	21.09 %	59,775	3,140	21.30 %
Total interest-earning assets	81,885	3,520	17.29 %	73,831	3,150	17.30 %
Non-interest-earning assets:						
Cash and due from banks	1,277			497		
Allowance for loan losses	(3,583)			(3,272)		
Other assets	3,256			2,639		
Total non-interest-earning assets	950			(136)		
Total assets	$82,835			$73,695		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	$44,101	$ 172	1.57 %	$34,887	$ 137	1.59 %
Borrowings of consolidated securitization entities	12,950	58	1.80 %	14,087	52	1.50 %
Bank term loan	2,565	24	3.76 %	6,498	47	2.93 %
Senior unsecured notes	6,558	57	3.50 %	4,071	35	3.49 %
Related party debt	—	—	— %	407	4	3.99 %
Total interest-bearing liabilities	66,174	311	1.89 %	59,950	275	1.86 %
Non-interest-bearing liabilities:						
Non-interest-bearing deposit accounts	226			142		
Other liabilities	3,534			2,854		
Total non-interest-bearing liabilities	3,760			2,996		
Total liabilities	69,934			62,946		
Equity						
Total equity	12,901			10,749		
Total liabilities and equity	$82,835			$73,695		
Interest rate spread[5]			15.40 %			15.44 %
Net interest income		$ 3,209			$ 2,875	
Net interest margin[6]			15.76 %			15.79 %

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(1) Average balances are based on monthly balances, including beginning of period balances, except where monthly balances are unavailable and quarterly balances are used. Collection of daily averages involves undue burden and expense. We believe our average balance sheet data appropriately incorporates the seasonality in the level of our loan receivables and is representative of our operations.

(2) Average yields/rates are based on total interest income/expense over average monthly balances.

(3) Includes average restricted cash balances of $541 million and $723 million for the three months ended March 31, 2016 and 2015, respectively.
(4) Interest income on credit cards includes fees on loans of $584 million and $534 million for the three months ended March 31, 2016 and 2015, respectively.
(5) Interest rate spread represents the difference between the yield on total interest-earning assets and the rate on total interest-bearing liabilities.
(6) Net interest margin represents net interest income divided by average total interest-earning assets.

For a summary description of the composition of our key line items included in our Statements of Earnings, see Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2015 Form 10-K.

Interest Income

Interest income increased by $370 million, or 11.7%, for the three months ended March 31, 2016, driven primarily by growth in our average loan receivables.

Average interest-earning assets

	Three months ended March 31,	
($ in millions)	2016	2015
Loan receivables, including held for sale	$66,705	$59,775
Liquidity portfolio and other	15,180	14,056
Total average interest-earning assets	$81,885	$73,831

The increase in average loan receivables of 11.6% was driven primarily by higher purchase volume of 16.6% for the three months ended March 31, 2016, as a result of average active account growth and higher purchase volume per account, and also included growth associated with the BP portfolio acquired in the second quarter of 2015. Average active accounts increased 7.4% to 66.1 million for the three months ended March 31, 2016 from 61.6 million for the three months ended March 31, 2015.

Yield on average interest-earning assets

	Three months ended
Yield on average interest-earning assets for the period ended March 31, 2015	17.30 %
Yield on loan receivables, including held for sale	(0.21)%
Liquidity portfolio	0.20 %
Yield on average interest-earning assets for the period ended March 31, 2016	17.29 %

The yield on interest-earning assets remained stable for the three months ended March 31, 2016 as the decline in yield on our average loan receivables was largely offset by improved rates earned by our liquidity portfolio. The yield on our average loan receivables decreased to 21.09% for the three months ended March 31, 2016, reflecting the impact of higher payment rates from our customers and growth in promotional balances.

Interest Expense

Interest expense increased by $36 million, or 13.1%, for the three months ended March 31, 2016, driven primarily by the increase in our deposit liabilities. Our cost of funds remained stable at 1.89% for the three months ended March 31, 2016, compared to 1.86% for the three months ended March 31, 2015.

Average interest-bearing liabilities

($ in millions)	Three months ended March 31, 2016	2015
Interest-bearing deposit accounts	$44,101	$34,887
Borrowings of consolidated securitization entities	12,950	14,087
Third-party debt	9,123	10,569
Related party debt	—	407
Total average interest-bearing liabilities	$66,174	$59,950

The increase in average interest-bearing liabilities for the three months ended March 31, 2016 was driven primarily by growth in our direct deposits partially offset by the repayment of third-party debt.

Net Interest Income

Net interest income increased by $334 million, or 11.6%, for the three months ended March 31, 2016, driven by higher average loan receivables.

Retailer Share Arrangements

Retailer share arrangements increased by $10 million, or 1.5%, for the three months ended March 31, 2016, driven primarily by the growth and improved performance of the programs in which we have retailer share arrangements, partially offset by higher provision for loan losses and loyalty costs associated with these programs.

Provision for Loan Losses

Provision for loan losses increased by $216 million, or 31.4%, for the three months ended March 31, 2016, primarily due to portfolio growth and a lower loan loss reserve build in prior year.

Our allowance coverage ratio decreased slightly to 5.50% at March 31, 2016, as compared to 5.59% at March 31, 2015.

Other Income

($ in millions)	Three months ended March 31, 2016	2015
Interchange revenue	$130	$100
Debt cancellation fees	64	65
Loyalty programs	(110)	(78)
Other	8	14
Total other income	$92	$101

Other income decreased by $9 million, or 8.9%, for the three months ended March 31, 2016. The decrease was primarily due to higher loyalty costs arising from the launch of new partner programs and new rewards programs with our existing partners, partially offset by increased interchange revenue driven by increased purchase volume outside of our retail partners' sales channels.

Other Expense

($ in millions)	Three months ended March 31, 2016	2015
Employee costs	$280	$239
Professional fees	146	162
Marketing and business development	94	82
Information processing	82	63
Other	198	200
Total other expense	$800	$746

Other expense increased by $54 million, or 7.2%, for the three months ended March 31, 2016, primarily due to increases in employee costs, marketing and business development and information processing, partially offset by a decrease in professional fees.

Employee costs increased primarily due to new employees added to support the continued growth of the business and build the necessary infrastructure for Separation. Professional fees decreased due to lower third-party expenses following the completion of the Separation. Marketing and business development costs increased due to increases in portfolio marketing campaigns and promotional offers. Information processing costs increased primarily due to higher information technology investment and higher transaction volume.

Provision for Income Taxes

($ in millions)	Three months ended March 31, 2016	2015
Effective tax rate	37.3 %	37.5 %
Provision for income taxes	$346	$331

The effective tax rate for the three months ended March 31, 2016 decreased slightly compared to the same period in the prior year primarily due to the discrete impact of a change in state tax rates. In each period, the effective tax rate differs from the U.S. federal statutory tax rate of 35.0%, primarily due to state income taxes.

Platform Analysis

As discussed above under “—Our Sales Platforms,” we offer our products through three sales platforms (Retail Card, Payment Solutions and CareCredit), which management measures based on their revenue-generating activities. The following is a discussion of the platform revenue for each of our platforms.

Non-GAAP Measure

In order to assess and internally report the revenue performance of our three sales platforms, we use a measure we refer to as “platform revenue.” Platform revenue is the sum of three line items in our Condensed Consolidated Statements of Earnings prepared in accordance with GAAP: “interest and fees on loans,” plus “other income,” less “retailer share arrangements.” Platform revenue itself is not a measure presented in accordance with GAAP. We deduct retailer share arrangements but do not deduct other line item expenses, such as interest expense, provision for loan losses and other expense, because those items are managed for the business as a whole. We believe that platform revenue is a useful measure to investors because it represents management’s view of the net revenue contribution of each of our platforms. This measure should not be considered a substitute for interest and fees on loans or other measures of performance we have reported in accordance with GAAP. The reconciliation of platform revenue to interest and fees on loans for each platform is set forth in the table included in the discussion of each of our three platforms below. The following table sets forth the reconciliation of total platform revenue to total interest and fees on loans for the periods indicated.

	Three months ended March 31,	
($ in millions)	2016	2015
Interest and fees on loans	$3,498	$3,140
Other income	92	101
Retailer share arrangements	(670)	(660)
Platform revenue	$2,920	$2,581

Retail Card

The following table sets forth supplemental information related to our Retail Card platform for the periods indicated.

	Three months ended March 31,	
($ in millions)	2016	2015
Purchase volume	$21,550	$18,410
Period-end loan receivables	$45,113	$39,685
Average loan receivables, including held for sale	$45,900	$40,986
Average active accounts (in thousands)	52,969	49,617
Platform revenue:		
Interest and fees on loans	$2,614	$2,337
Other income	79	86
Retailer share arrangements	(661)	(651)
Platform revenue	$2,032	$1,772

Retail Card platform revenue increased by $260 million, or 14.7%, for the three months ended March 31, 2016. The increase was primarily the result of an increase in interest and fees on loans driven by an increase in average loan receivables.

Payment Solutions

The following table sets forth supplemental information related to our Payment Solutions platform for the periods indicated.

	Three months ended March 31,	
($ in millions)	2016	2015
Purchase volume	$3,392	$2,948
Period-end loan receivables	$13,420	$11,833
Average loan receivables	$13,482	$11,970
Average active accounts (in thousands)	8,134	7,271
Platform revenue:		
Interest and fees on loans	$457	$403
Other income	4	5
Retailer share arrangements	(7)	(8)
Platform revenue	$454	$400

Payment Solutions platform revenue increased by $54 million, or 13.5%, for the three months ended March 31, 2016. The increase was primarily the result of higher interest and fees on loans driven primarily by an increase in average loan receivables.

CareCredit

The following table sets forth supplemental information related to our CareCredit platform for the periods indicated.

	Three months ended March 31,	
($ in millions)	2016	2015
Purchase volume	$2,035	$1,781
Period-end loan receivables	$7,316	$6,730
Average loan receivables	$7,323	$6,819
Average active accounts (in thousands)	5,031	4,716
Platform revenue:		
Interest and fees on loans	$427	$400
Other income	9	10
Retailer share arrangements	(2)	(1)
Platform revenue	$434	$409

CareCredit platform revenue increased by $25 million, or 6.1%, for the three months ended March 31, 2016. The increase was primarily the result of an increase in interest and fees on loans driven primarily by an increase in average loan receivables, partially offset with a reduction in receivable yield.

Investment Securities

The following discussion provides supplemental information regarding our investment securities portfolio. All of our investment securities are classified as available-for-sale at March 31, 2016 and December 31, 2015, and are primarily short-term obligations of the U.S. Treasury or held to comply with the Community Reinvestment Act. Investment securities classified as available-for-sale are reported in our Condensed Consolidated Statements of Financial Position at fair value.

The following table sets forth the amortized cost and fair value of our portfolio of investment securities at the dates indicated:

	At March 31, 2016		At December 31, 2015	
($ in millions)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debt:				
U.S. government and federal agency	$2,564	$ 2,563	$2,768	$ 2,761
State and municipal	49	48	51	49
Residential mortgage-backed	319	323	323	317
Equity	15	15	15	15
Total	$2,947	$ 2,949	$3,157	$ 3,142

Unrealized gains and losses, net of the related tax effect, on available-for-sale securities that are not other-than-temporarily impaired are excluded from earnings and are reported as a separate component of comprehensive income (loss) until realized. At March 31, 2016, our investment securities had gross unrealized gains of $5 million and gross unrealized losses of $3 million. At December 31, 2015, our investment securities had gross unrealized gains of $2 million and gross unrealized losses of $17 million.

Our investment securities portfolio had the following maturity distribution at March 31, 2016. Equity securities have been excluded from the table because they do not have a maturity.

($ in millions)	Due in 1 Year or Less	Due After 1 through 5 Years	Due After 5 through 10 Years	Due After 10 years	Total
Debt:					
U.S. government and federal agency	$ 1,114	$ 1,449	$ —	$ —	$2,563
State and municipal	—	—	—	48	48
Residential mortgage-backed	—	—	—	323	323
Total[(1)]	$ 1,114	$ 1,449	$ —	$ 371	$2,934
Weighted average yield[(2)]	0.3 %	0.7 %	— %	3.5 %	0.9 %

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(1) Amounts stated represent estimated fair value.

(2) Weighted average yield is calculated based on the amortized cost of each security. In calculating yield, no adjustment has been made with respect to any tax exempt obligations.

At March 31, 2016, we did not hold investments in any single issuer with an aggregate book value that exceeded 10% of equity, excluding obligations of the U.S. government.

Loan Receivables

The following discussion provides supplemental information regarding our loan receivables portfolio.
Loan receivables are our largest category of assets and represent our primary source of revenues. The following table sets forth the composition of our loan receivables portfolio by product type at the dates indicated.

($ in millions)	At March 31, 2016	(%)	At December 31, 2015	(%)
Loans				
Credit cards	$63,309	96.1 %	$65,773	96.3 %
Consumer installment loans	1,184	1.8	1,154	1.7
Commercial credit products	1,318	2.0	1,323	1.9
Other	38	0.1	40	0.1
Total loans	$65,849	100.0%	$68,290	100.0%

Loan receivables decreased by $2,441 million, or 3.6%, at March 31, 2016 compared to December 31, 2015, primarily driven by the seasonality of our business.
Loan receivables increased by $7,601 million, or 13.0%, at March 31, 2016 compared to March 31, 2015, primarily driven by higher purchase volume, average active account growth and also included growth associated with the BP portfolio acquired in the second quarter of 2015.
Our loan receivables portfolio had the following geographic concentration at March 31, 2016.

($ in millions) State	Loan Receivables Outstanding[(1)]	% of Total Loan Receivables Outstanding
Texas	$ 6,542	9.9 %
California	$ 6,448	9.8 %
Florida	$ 5,254	8.0 %
New York	$ 3,663	5.6 %
Pennsylvania	$ 2,886	4.4 %

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(1) Based on March 2016 customer statement-end balances extrapolated to March 31, 2016. Individual customer balances at March 31, 2016 are not available without undue burden and expense.

Impaired Loans and Troubled Debt Restructurings

Our loss mitigation strategy is intended to minimize economic loss and at times can result in rate reductions, principal forgiveness, extensions or other actions, which may cause the related loan to be classified as a Troubled Debt Restructuring ("TDR") and also be impaired. We use short-term (3 to 12 months) or long-term (12 to 60 months) modification programs for borrowers experiencing financial difficulty as a loss mitigation strategy to improve long-term collectability of the loans that are classified as TDRs. For our credit card customers, the short-term program primarily consists of a reduced minimum payment and an interest rate reduction, both lasting for a period no longer than 12 months. The long-term program involves changing the structure of the loan to a fixed payment loan with a maturity no longer than 60 months and reducing the interest rate on the loan. The long-term program does not normally provide for the forgiveness of unpaid principal, but may allow for the reversal of certain unpaid interest or fee assessments. We also make loan modifications for some customers who request financial assistance through external sources, such as a consumer credit counseling agency program. The loans that are modified typically receive a reduced interest rate but continue to be subject to the original minimum payment terms and do not normally include waiver of unpaid principal, interest or fees. The determination of whether these changes to the terms and conditions meet the TDR criteria includes our consideration of all relevant facts and circumstances.

Loans classified as TDRs are recorded at their present value with impairment measured as the difference between the loan balance and the discounted present value of cash flows expected to be collected, discounted at the original effective interest rate of the loan. Our allowance for loan losses on TDRs is generally measured based on the difference between the recorded loan receivable and the present value of the expected future cash flows.

Interest income from loans accounted for as TDRs is accounted for in the same manner as other accruing loans. We accrue interest on credit card balances until the accounts are charged-off in the period the accounts become 180 days past due. The following table presents the amount of loan receivables that are not accruing interest, loans that are 90 days or more past-due and still accruing interest, and earning TDRs for the periods presented.

($ in millions)	At March 31, 2016	At December 31, 2015
Non-accrual loan receivables	$2	$ 3
Loans contractually 90 days past-due and still accruing interest	1,210	1,270
Earning TDRs[1]	725	712
Non-accrual, past-due and restructured loan receivables	$1,937	$ 1,985

(1) At March 31, 2016 and December 31, 2015, balances exclude $53 million and $51 million, respectively, of TDRs which are included in loans contractually 90 days past-due and still accruing interest on the balance. See Note 4. Loan Receivables and Allowance for Loan Losses to our condensed consolidated financial statements for additional information on the financial effects of TDRs for the three months ended March 31, 2016 and 2015.

($ in millions)	Three months ended March 31, 2016	2015
Gross amount of interest income that would have been recorded in accordance with the original contractual terms	$42	$ 36
Interest income recognized	12	13
Total interest income foregone	$30	$ 23

Delinquencies

Asset quality continued to remain relatively stable, sustained by general improvements in the U.S. economy. Over-30 day loan delinquencies as a percentage of period-end loan receivables increased slightly to 3.85% at March 31, 2016

from 3.79% at March 31, 2015 and decreased from 4.06% at December 31, 2015. The decrease as compared to December 31, 2015 was primarily driven by the seasonality of our business.

Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine are uncollectible, net of recovered amounts. We exclude accrued and unpaid finance charges and fees and third-party fraud losses from charge-offs. Charged-off and recovered finance charges and fees are included in interest and fees on loans while third-party fraud losses are included in other expense. Charge-offs are recorded as a reduction to the allowance for loan losses and subsequent recoveries of previously charged-off amounts are credited to the allowance for loan losses. Costs incurred to recover charged-off loans are recorded as collection expense and included in other expense in our Condensed Consolidated Statements of Earnings.

The table below sets forth the ratio of net charge-offs to average loan receivables, including held for sale, for the periods indicated.

	Three months ended March 31,	
	2016	2015
Ratio of net charge-offs to average loan receivables, including held for sale	4.70%	4.53%

Allowance for Loan Losses

The allowance for loan losses totaled $3,620 million at March 31, 2016 compared with $3,497 million at December 31, 2015, representing our best estimate of probable losses inherent in the portfolio. Our allowance for loan losses as a percentage of total loan receivables increased to 5.50% at March 31, 2016, from 5.12% at December 31, 2015 due to the seasonality of our business.

The following tables provide changes in our allowance for loan losses for the periods presented:

($ in millions)	Balance at January 1, 2016	Provision charged to operations	Gross charge-offs[1]	Recoveries	Balance at March 31, 2016
Credit cards	$ 3,420	$ 884	$ (954)	$ 193	$ 3,543
Consumer installment loans	26	13	(11)	3	31
Commercial credit products	50	5	(13)	2	44
Other	1	1	—	—	2
Total	$ 3,497	$ 903	$ (978)	$ 198	$ 3,620

($ in millions)	Balance at January 1, 2015	Provision charged to operations	Gross charge-offs[1]	Recoveries	Balance at March 31, 2015
Credit cards	$ 3,169	$ 669	$ (834)	$ 180	$ 3,184
Consumer installment loans	22	7	(9)	4	24
Commercial credit products	45	11	(11)	2	47
Total	$ 3,236	$ 687	$ (854)	$ 186	$ 3,255

(1) Net charge-offs (gross charge-offs less recoveries) in certain portfolios may exceed the beginning allowance for loan losses as our revolving credit portfolios turn over more than once per year or, in all portfolios, can reflect losses that are incurred subsequent to the beginning of the period due to information becoming available during the period, which may identify further deterioration of existing loan receivables.

Funding, Liquidity and Capital Resources

We maintain a strong focus on liquidity and capital. Our funding, liquidity and capital policies are designed to ensure that our business has the liquidity and capital resources to support our daily operations, our business growth, our credit ratings and our regulatory and policy requirements, in a cost effective and prudent manner through expected and unexpected market environments.

Funding Sources

Our primary funding sources include cash from operations, deposits (direct and brokered deposits), third-party debt and securitized financings.

The following table summarizes information concerning our funding sources during the periods indicated:

Three months ended March 31 ($ in millions)	2016 Average Balance	%	Average Rate	2015 Average Balance	%	Average Rate
Deposits[1]	$44,101	66.6 %	1.6 %	$34,887	58.2 %	1.6 %
Securitized financings	12,950	19.6	1.8	14,087	23.5	1.5
Senior unsecured notes	6,558	9.9	3.5	4,071	6.8	3.5
Bank term loan	2,565	3.9	3.8	6,498	10.8	2.9
Related party debt[2]	—	—	—	407	0.7	4.0
Total	$66,174	100.0%	1.9 %	$59,950	100.0%	1.9 %

(1) Excludes $226 million and $142 million average balance of non-interest-bearing deposits for the three months ended March 31, 2016 and March 31, 2015, respectively. Non-interest-bearing deposits comprise less than 10% of total deposits for the three months ended March 31, 2016 and 2015.

(2) Represents amounts outstanding under GECC Term Loan, which were fully repaid in the three months ended March 31, 2015.

Deposits

We obtain deposits directly from retail and commercial customers (“direct deposits”) or through third-party brokerage firms that offer our deposits to their customers (“brokered deposits”). At March 31, 2016, we had $32.5 billion in direct deposits (which includes deposits from banks and financial institutions) and $12.5 billion in deposits originated through brokerage firms (including network deposit sweeps procured through a program arranger that channels brokerage account deposits to us). A key part of our liquidity plan and funding strategy is to continue to expand our direct deposits base as a source of stable and diversified low cost funding.

Our direct deposits include a range of FDIC-insured deposit products, including certificates of deposit, IRAs, money market accounts and savings accounts.

Brokered deposits are primarily from retail customers of large brokerage firms. We have relationships with 10 brokers that offer our deposits through their networks. Our brokered deposits consist primarily of certificates of deposit that bear interest at a fixed rate and at March 31, 2016, had a weighted average remaining life of 3.2 years. These deposits generally are not subject to early withdrawal.

Our ability to attract deposits is sensitive to, among other things, the interest rates we pay, and therefore, we bear funding and interest rate risk if we fail, or are required to pay higher rates, to attract new deposits or retain existing deposits. To mitigate these risks, we pursue a funding strategy that seeks to match our assets and liabilities by interest rate and expected maturity characteristics, and we seek to maintain access to multiple other funding sources, including securitized financings (including our undrawn committed capacity) and unsecured debt.

Over the next several years, we are seeking to increase our direct deposits through investing in our direct deposit programs and capabilities. The growth of direct deposits will be supported by a significant investment in marketing and brand awareness.

The following table summarizes certain information regarding our interest-bearing deposits by type (all of which constitute U.S. deposits) for the periods indicated:

	2016			2015		
Three months ended March 31 ($ in millions)	Average Balance	% of Total	Average Rate	Average Balance	% of Total	Average Rate
Direct deposits:						