Synchrony Financial
Form 10-Q
October 25, 2018
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 September 30, 2018
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 every Interactive Data File required to be submitted 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 such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 October 22, 2018 was 718,731,714.

Synchrony Financial

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Certain Defined Terms

Except as the context may otherwise require in this report, references to:

- “we,” “us,” “our” and the “Company” are to SYNCHRONY FINANCIAL and its subsidiaries;
- “Synchrony” are to SYNCHRONY FINANCIAL only;
- “GE” are to General Electric Company and its subsidiaries;
- the “Bank” are to Synchrony Bank (a subsidiary of Synchrony);
- the “Board of Directors” are to Synchrony's board of directors;
- the “Tax Act” are to P.L. 115-97, commonly referred to as the Tax Cuts and Jobs Act, signed into law on December 22, 2017;
- “Separation” are to Synchrony's separation from GE in November 2015 when Synchrony 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 the remaining shares of our common stock it owned; and
- “FICO” are to a credit score developed by Fair Isaac & Co., which is widely used as a means of evaluating the likelihood that credit users will pay their obligations.

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, in our business and in this report, we refer to as our “partners.” The terms of the programs all require cooperative efforts between us and our partners of varying natures and degrees to establish and operate the programs. Our use of the term “partners” to refer to these entities is not intended to, and does not, describe our legal relationship with them, imply that a legal partnership or other relationship exists between the parties or create any legal partnership or other relationship. The “average length of our relationship” with respect to a specified group of partners or programs is measured on a weighted average basis by interest and fees on loans for the year ended December 31, 2017 for those partners or for all partners participating in a program, based on the date each partner relationship or program, as applicable, started.

Unless otherwise indicated, references to “loan receivables” do not include loan receivables held for sale.

For a description of certain other terms we use, including “active account” and “purchase volume,” see the notes to “Item 7. Management’s Discussion and Analysis—Results of Operations—Other Financial and Statistical Data” in our Annual Report on Form 10-K for the year ended December 31, 2017 (our “2017 Form 10-K”). There is no standard industry definition for many of these terms, and other companies may define them differently than we do.

“Synchrony” and its logos and other trademarks referred to in this report, including CareCredit®, Quickscreen®, Dual Card™, Synchrony Car Care™ and SyPI™, belong to us. Solely for convenience, we refer to our trademarks in this report without the ™ and ® symbols, but such references are not intended to indicate that we will not assert, to the fullest extent under applicable law, our rights to our trademarks. Other service marks, trademarks and trade names referred to in this report are the property of their respective owners.

On our website at www.synchronyfinancial.com, we make available under the "Investors-SEC Filings" menu selection, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such reports or amendments are electronically filed with, or furnished to, the SEC. The SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information that we file electronically with the SEC.

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 "future," "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 revenue in a small number of Retail Card partners, promotion and support of our products by our partners, and financial performance of our partners; cyber-attacks or other security breaches; higher borrowing costs and adverse financial market conditions impacting our funding and liquidity, and any reduction in our credit ratings; our ability to grow our deposits in the future; our ability to securitize our loan receivables, occurrence of an early amortization of our securitization facilities, loss of the right to service or subservice our securitized loan receivables, and lower payment rates on our securitized loan receivables; 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 acquisitions and strategic investments; our ability to realize the benefits of and expected capital available from strategic options; reductions in interchange fees; fraudulent activity; failure of third-parties to provide various services that are important to our operations; 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/or interpretations and state sales tax rules and regulations; a material indemnification obligation to GE under the Tax Sharing and Separation Agreement with GE 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; 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; 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 the 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 2017 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 2017 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."

Introduction and Business Overview

We are a premier consumer financial services company delivering customized financing programs across key industries including retail, health, auto, travel and home, along with award-winning consumer banking products. We provide a range of credit products through our financing programs which 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 and nine months ended September 30, 2018, we financed $36.4 billion and $100.3 billion of purchase volume, respectively, and had 75.5 million and 72.6 million average active accounts, respectively, and at September 30, 2018, we had $87.5 billion of loan receivables.

We offer our credit products primarily through our wholly-owned subsidiary, the Bank. In addition, 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 significantly expanded our online direct banking operations in recent years and our deposit base serves as a source of stable and diversified low cost funding for our credit activities. At September 30, 2018, we had $62.3 billion in deposits, which represented 72% of our total funding sources.

Our Sales Platforms

We conduct our operations through a single business segment. Profitability and expenses, including funding costs, loan losses and operating expenses, 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 interest and fees on loans, loan receivables, new accounts and other sales metrics.

Retail Card

Retail Card is a leading provider of private label credit cards, and also provides Dual Cards, general purpose co-branded credit cards and small- and medium-sized business credit products. We offer one or more of these products primarily through 27 national and regional retailers with which we have ongoing program agreements. The average length of our relationship with these Retail Card partners is 21 years. Retail Card’s revenue primarily consists of interest and fees on our loan receivables. Other income primarily consists of interchange fees earned when our Dual Card or general purpose co-branded credit cards are used outside of our partners' sales channels and fees paid to us by customers who purchase our debt cancellation products, less loyalty program payments. In addition, the majority of our retailer share arrangements, which generally provide for payment to our partner if the economic performance of the program exceeds a contractually-defined threshold, are with partners in the Retail Card sales platform. 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 primarily 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 this platform is promotional financing. Payment Solutions’ 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 income associated with promotional financing.

CareCredit

CareCredit is a leading provider of promotional financing to consumers for health and personal care procedures, products or services. We have a network of CareCredit providers and health-focused retailers, the vast majority of which are individual or small groups of independent healthcare providers, through which we offer a CareCredit branded private label credit card and our CareCredit Dual Card offering. Substantially all of the credit extended in this platform is promotional financing. CareCredit’s revenue primarily consists of interest and fees on our loan receivables, including merchant discounts.

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 September 30, 2018.

Credit Product	Standard Terms Only	Promotional Offer		Total
		Deferred Interest	Other Promotional	
Credit cards	66.2 %	16.9 %	13.3 %	96.4 %
Commercial credit products	1.5	—	—	1.5
Consumer installment loans	—	—	2.0	2.0
Other	0.1	—	—	0.1
Total	67.8 %	16.9 %	15.3 %	100.0 %

Credit Cards

We typically offer the following principal types of credit 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., Synchrony Car Care 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 and General Purpose Co-Brand Cards. 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 also offer general purpose co-branded credit cards that do not function as private label cards. Credit extended under our Dual Cards and general purpose co-branded credit cards typically is extended under standard terms only. Dual Cards and general purpose co-branded credit cards are primarily offered through our Retail Card platform. At September 30, 2018, we offered these credit cards through 20 of our 27 ongoing Retail Card programs, of which the majority are Dual Cards.

Commercial Credit Products

We offer private label cards and Dual 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 our 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 products 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. For a discussion of certain trends and conditions, see “Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Trends and Conditions” in our 2017 Form 10-K. For a discussion of how certain trends and conditions impacted the three and nine months ended September 30, 2018, see “—Results of Operations.”

On July 2, 2018, we completed our acquisition of the U.S. PayPal Credit financing program, comprising of $7.6 billion of outstanding loan receivables (the “PayPal Credit acquisition”). The new program contributed to significant increases in loan receivables, interest income and provision for loan losses for the three and nine months ended September 30, 2018. See Note 4. Loan Receivables and Allowance for Loan Losses to our condensed consolidated financial statements for further details on this acquisition.

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 resulting in higher net charge-off rates in the first and second quarters. 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 resulting in lower net charge-off rates in the third and fourth quarters. 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.

Results of Operations

Highlights for the Three and Nine Months Ended September 30, 2018

Below are highlights of our performance for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017, as applicable, except as otherwise noted.

- Net earnings increased 20.9% to $671 million and 29.5% to $2,007 million for the three and nine months ended September 30, 2018, respectively, driven by higher net interest income and lower provision for income taxes, partially offset by increases in provision for loan losses and other expense.
- Loan receivables increased 13.8% to $87,521 million at September 30, 2018 compared to September 30, 2017, primarily driven by the PayPal Credit acquisition, higher purchase volume and average active account growth.
- Net interest income increased 8.5% to $4,206 million and 6.2% to $11,785 million for the three and nine months ended September 30, 2018, respectively, primarily due to the PayPal Credit acquisition and higher average loan receivables, partially offset by increases in interest expense reflecting higher benchmark interest rates.
- Retailer share arrangements increased 8.2% to $871 million and 4.0% to $2,244 million for the three and nine months ended September 30, 2018, primarily due to growth of the programs in which we have retailer share arrangements, including the PayPal Credit acquisition. The increases in the three and nine months ended September 30, 2018 were partially offset by the impact from the Toys "R" Us bankruptcy.
- Over-30 day loan delinquencies as a percentage of period-end loan receivables decreased 21 basis points to 4.59% at September 30, 2018 from 4.80% at September 30, 2017, and net charge-off rate remained relatively flat at 4.97% and increased 44 basis points to 5.67% for the three and nine months ended September 30, 2018, respectively.
- Provision for loan losses increased by $141 million, or 10.8%, and $151 million, or 3.8%, for the three and nine months ended September 30, 2018, respectively, primarily due to the reserve build for the PayPal Credit portfolio and higher net charge-offs, partially offset by a lower loan loss reserve build for our existing portfolio. Our allowance coverage ratio (allowance for loan losses as a percent of end of period loan receivables) increased to 7.11% at September 30, 2018, as compared to 6.97% at September 30, 2017.
- Other expense increased by $96 million, or 10.0%, and $240 million, or 8.6%, for the three and nine months ended September 30, 2018, respectively, primarily driven by business growth and the PayPal Credit acquisition.
- Provision for income taxes decreased by $102 million, or 31.5%, and $274 million, or 30.5%, for the three and nine months ended September 30, 2018, respectively, primarily due to the reduction in the corporate tax rate included in the Tax Act.
- At September 30, 2018, deposits represented 72% of our total funding sources. Total deposits increased 10.3% to $62.3 billion at September 30, 2018, compared to December 31, 2017, driven primarily by growth in our direct deposits of 13.3% to $48.4 billion.
- On May 17, 2018, the Board announced plans to increase our quarterly dividend to $0.21 per share commencing in the third quarter of 2018 and approval of a share repurchase program of up to $2.2 billion through June 30, 2019. During the nine months ended September 30, 2018, we repurchased $1.9 billion of our outstanding common stock, and declared and paid cash dividends of $0.51 per share, or $383 million.
- In June 2018, we completed our acquisition of Loop Commerce, a provider of digital and in-store gifting services.

2018 Partner Agreements

- On July 2, 2018, we completed our acquisition of the U.S. PayPal Credit financing program, comprising of $7.6 billion of outstanding loan receivables. We also extended our existing co-brand credit card program with PayPal and Synchrony Bank is now PayPal's exclusive issuing bank for the PayPal Credit consumer financing program in the United States.
- On July 26, 2018, we announced that we will not be renewing our Retail Card program agreement with Walmart, which expires July 31, 2019. See "Our Sales Platforms — Retail Card" in our 2017 Form 10-K for further information on our current program with Walmart.
- We extended our Retail Card program agreements with Lowe's and JCPenney and announced our new partnership with Crate and Barrel.
- We extended our Payment Solutions program agreements with American Signature Furniture, Ashley HomeStore, Associated Materials, Briggs & Stratton, Generac, Havertys, Nationwide Marketing Group, Robbins Brothers and Sleep Number and announced our new partnerships with Furniture Row, Fred Meyer Jewelers, Mahindra and jtv.
- In our CareCredit sales platform, we renewed LCA Vision and expanded our network to include American Med Spa Association, Eargo, The Good Feet Store, the Spa Industry Association and the American Veterinary Medical Association.

Summary Earnings

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

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2018	2017	2018	2017
Interest income	$4,694	$4,233	$13,112	$12,116
Interest expense	488	357	1,327	1,016
Net interest income	4,206	3,876	11,785	11,100
Retailer share arrangements	(871)	(805)	(2,244)	(2,158)
Net interest income, after retailer share arrangements	3,335	3,071	9,541	8,942
Provision for loan losses	1,451	1,310	4,093	3,942
Net interest income, after retailer share arrangements and provision for loan losses	1,884	1,761	5,448	5,000
Other income	63	76	201	226
Other expense	1,054	958	3,017	2,777
Earnings before provision for income taxes	893	879	2,632	2,449
Provision for income taxes	222	324	625	899
Net earnings	$671	$555	$2,007	$1,550

Other Financial and Statistical Data

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

	At and for the Three months ended September 30,		At and for the Nine months ended September 30,	
($ in millions)	2018	2017	2018	2017
Financial Position Data (Average):				
Loan receivables, including held for sale	$86,783	$76,165	$81,270	$74,803
Total assets	$100,449	$91,121	$97,474	$90,004
Deposits	$60,398	$53,526	$58,223	$52,555
Borrowings	$21,858	$20,010	$21,334	$20,079
Total equity	$14,421	$14,431	$14,369	$14,399
Selected Performance Metrics:				
Purchase volume(1)	$36,443	$32,893	$100,337	$95,249
Retail Card	$29,264	$26,347	$79,986	$76,400
Payment Solutions	$4,606	$4,178	$12,717	$11,794
CareCredit	$2,573	$2,368	$7,634	$7,055
Average active accounts (in thousands)(2)	75,482	69,331	72,594	69,319
Net interest margin(3)	16.41 %	16.74 %	15.94 %	16.38 %
Net charge-offs	$1,087	$950	$3,444	$2,925
Net charge-offs as a % of average loan receivables, including held for sale	4.97 %	4.95 %	5.67 %	5.23 %
Allowance coverage ratio(4)	7.11 %	6.97 %	7.11 %	6.97 %
Return on assets(5)	2.7 %	2.4 %	2.8 %	2.3 %
Return on equity(6)	18.5 %	15.3 %	18.7 %	14.4 %
Equity to assets(7)	14.36 %	15.84 %	14.74 %	16.00 %
Other expense as a % of average loan receivables, including held for sale	4.82 %	4.99 %	4.96 %	4.96 %
Efficiency ratio(8)	31.0 %	30.4 %	31.0 %	30.3 %
Effective income tax rate	24.9 %	36.9 %	23.7 %	36.7 %
Selected Period-End Data:				
Loan receivables	$87,521	$76,928	$87,521	$76,928
Allowance for loan losses	$6,223	$5,361	$6,223	$5,361
30+ days past due as a % of period-end loan receivables(9)	4.59 %	4.80 %	4.59 %	4.80 %
90+ days past due as a % of period-end loan receivables(9)	2.09 %	2.22 %	2.09 %	2.22 %
Total active accounts (in thousands)(2)	75,457	69,008	75,457	69,008

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(1) 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.

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

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

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

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

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

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

(8)

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

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

Average Balance Sheet

The following tables 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 September 30 ($ in millions)	2018 Average Balance	2018 Interest Income / Expense	2018 Average Yield / Rate[1]	2017 Average Balance	2017 Interest Income/ Expense	2017 Average Yield / Rate[1]
Assets						
Interest-earning assets:						
Interest-earning cash and equivalents[2]	$7,901	$ 39	1.96 %	$11,895	$ 37	1.23 %
Securities available for sale	7,022	38	2.15 %	3,792	14	1.46 %
Loan receivables[3]:						
Credit cards, including held for sale	83,609	4,538	21.53 %	73,172	4,111	22.29 %
Consumer installment loans	1,753	41	9.28 %	1,543	35	9.00 %
Commercial credit products	1,355	37	10.83 %	1,392	36	10.26 %
Other	66	1	NM	58	—	— %
Total loan receivables	86,783	4,617	21.11 %	76,165	4,182	21.78 %
Total interest-earning assets	101,706	4,694	18.31 %	91,852	4,233	18.28 %
Non-interest-earning assets:						
Cash and due from banks	1,217			877		
Allowance for loan losses	(5,956)			(5,125)		
Other assets	3,482			3,517		
Total non-interest-earning assets	(1,257)			(731)		
Total assets	$100,449			$91,121		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	$60,123	$ 314	2.07 %	$53,294	$ 219	1.63 %
Borrowings of consolidated securitization entities	12,306	86	2.77 %	11,759	65	2.19 %
Senior unsecured notes	9,552	88	3.66 %	8,251	73	3.51 %
Total interest-bearing liabilities	81,981	488	2.36 %	73,304	357	1.93 %
Non-interest-bearing liabilities:						
Non-interest-bearing deposit accounts	275			232		
Other liabilities	3,772			3,154		
Total non-interest-bearing liabilities	4,047			3,386		
Total liabilities	86,028			76,690		
Equity						
Total equity	14,421			14,431		
Total liabilities and equity	$100,449			$91,121		
Interest rate spread[4]			15.95 %			16.35 %
Net interest income		$ 4,206			$ 3,876	
Net interest margin[5]			16.41 %			16.74 %

Nine months ended September 30 ($ in millions)	2018 Average Balance	Interest Income / Expense	Average Yield / Rate[1]	2017 Average Balance	Interest Income/ Expense	Average Yield / Rate[1]
Assets						
Interest-earning assets:						
Interest-earning cash and equivalents[2]	$11,128	$145	1.74 %	$11,073	$86	1.04 %
Securities available for sale	6,475	97	2.00 %	4,732	44	1.24 %
Loan receivables[3]:						
Credit cards, including held for sale	78,227	12,647	21.62 %	71,920	11,780	21.90 %
Consumer installment loans	1,658	114	9.19 %	1,465	101	9.22 %
Commercial credit products	1,329	107	10.76 %	1,363	104	10.20 %
Other	56	2	4.77 %	55	1	2.43 %
Total loan receivables	81,270	12,870	21.17 %	74,803	11,986	21.42 %
Total interest-earning assets	98,873	13,112	17.73 %	90,608	12,116	17.88 %
Non-interest-earning assets:						
Cash and due from banks	1,192			836		
Allowance for loan losses	(5,779)			(4,774)		
Other assets	3,188			3,334		
Total non-interest-earning assets	(1,399)			(604)		
Total assets	$97,474			$90,004		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	$57,941	$836	1.93 %	$52,325	$615	1.57 %
Borrowings of consolidated securitization entities	12,178	240	2.63 %	12,096	193	2.13 %
Senior unsecured notes	9,156	251	3.67 %	7,983	208	3.48 %
Total interest-bearing liabilities	79,275	1,327	2.24 %	72,404	1,016	1.88 %
Non-interest-bearing liabilities:						
Non-interest-bearing deposit accounts	282			230		
Other liabilities	3,548			2,971		
Total non-interest-bearing liabilities	3,830			3,201		
Total liabilities	83,105			75,605		
Equity						
Total equity	14,369			14,399		
Total liabilities and equity	$97,474			$90,004		
Interest rate spread[4]			15.49 %			16.00 %
Net interest income		$11,785			$11,100	
Net interest margin[5]			15.94 %			16.38 %

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

(2) Includes average restricted cash balances of $480 million and $816 million for the three months ended September 30, 2018 and 2017, respectively, and $538 million and $659 million for the nine months ended September 30, 2018 and 2017, respectively.

(3) Interest income on loan receivables includes fees on loans of $732 million and $692 million for the three months ended September 30, 2018 and 2017, respectively, and $1,971 million and $1,945 million for the nine months ended September 30, 2018 and 2017, respectively.

(4) Interest rate spread represents the difference between the yield on total interest-earning assets and the rate on total interest-bearing liabilities.

(5) 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 2017 Form 10-K.

Interest Income

Interest income increased by $461 million, or 10.9%, and $996 million, or 8.2%, for the three and nine months ended September 30, 2018, driven primarily by the PayPal Credit acquisition and other growth in our average loan receivables.

Average interest-earning assets

Three months ended September 30 ($ in millions)	2018	%	2017	%
Loan receivables, including held for sale	$86,783	85.3 %	$76,165	82.9 %
Liquidity portfolio and other	14,923	14.7 %	15,687	17.1 %
Total average interest-earning assets	$101,706	100.0%	$91,852	100.0%

Nine months ended September 30 ($ in millions)	2018	%	2017	%
Loan receivables, including held for sale	$81,270	82.2 %	$74,803	82.6 %
Liquidity portfolio and other	17,603	17.8 %	15,805	17.4 %
Total average interest-earning assets	$98,873	100.0%	$90,608	100.0%

The increases in average loan receivables of 13.9% and 8.6% for the three months and nine months ended September 30, 2018, respectively, were driven by higher purchase volume of 10.8% and 5.3% and average active account growth of 8.9% and 4.7%, respectively, primarily due to the PayPal Credit acquisition.

Average active accounts increased to 75.5 million and 72.6 million for the three and nine months ended September 30, 2018, respectively, and the average balance per active account increased 4.7% and 3.7% for the three and nine months ended September 30, 2018, respectively.

Yield on average interest-earning assets

The yield on average interest-earning assets increased slightly for the three months ended September 30, 2018, primarily due to a higher percentage of interest-earning assets attributable to loan receivables for the three months ended September 30, 2018, largely offset by lower yield on our average loan receivables of 67 basis points to 21.11%. The yield on average interest-earning assets decreased for the nine months ended September 30, 2018, primarily due to a decrease in the yield on our average loan receivables of 25 basis points to 21.17%.

Interest Expense

Interest expense increased by $131 million, or 36.7%, and $311 million, or 30.6%, for the three and nine months ended September 30, 2018, respectively, driven primarily by higher cost of funds and the growth in our deposit liabilities. Our cost of funds increased to 2.36% and 2.24% for the three and nine months ended September 30, 2018, respectively, compared to 1.93% and 1.88% for the three and nine months ended September 30, 2017, respectively, primarily due to higher benchmark interest rates and the funding strategy for the PayPal Credit acquisition.

Average interest-bearing liabilities

Three months ended September 30 ($ in millions)	2018	%	2017	%
Interest-bearing deposit accounts	$60,123	73.3 %	$53,294	72.7 %
Borrowings of consolidated securitization entities	12,306	15.0 %	11,759	16.0 %
Third-party debt	9,552	11.7 %	8,251	11.3 %
Total average interest-bearing liabilities	$81,981	100.0%	$73,304	100.0%

Nine months ended September 30 ($ in millions)	2018	%	2017	%
Interest-bearing deposit accounts	$57,941	73.1 %	$52,325	72.3 %
Borrowings of consolidated securitization entities	12,178	15.4 %	12,096	16.7 %
Third-party debt	9,156	11.5 %	7,983	11.0 %
Total average interest-bearing liabilities	$79,275	100.0%	$72,404	100.0%

The increase in average interest-bearing liabilities for the three and nine months ended September 30, 2018 was driven primarily by growth in our direct deposits.

Net Interest Income

Net interest income increased by $330 million, or 8.5%, and $685 million, or 6.2%, for the three and nine months ended September 30, 2018, respectively, driven primarily by the PayPal Credit acquisition and higher average loan receivables, partially offset by increases in interest expense reflecting higher benchmark rates.

Retailer Share Arrangements

Retailer share arrangements increased by $66 million, or 8.2%, and $86 million, or 4.0%, for the three and nine months ended September 30, 2018, respectively, primarily due to growth of the programs in which we have retailer share arrangements including the PayPal Credit acquisition. The increases for the three and nine months ended September 30, 2018 were partially offset by the impact from the Toys "R" Us bankruptcy.

Provision for Loan Losses

Provision for loan losses increased by $141 million, or 10.8%, and $151 million, or 3.8%, for the three and nine months ended September 30, 2018, respectively, primarily due to the reserve build for the PayPal Credit program and higher net charge-offs, partially offset by a lower loan loss reserve build for our existing portfolio.

Our allowance coverage ratio increased to 7.11% at September 30, 2018, as compared to 6.97% at September 30, 2017, reflecting an increase in forecasted losses inherent in our loan portfolio.

Other Income

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2018	2017	2018	2017
Interchange revenue	$182	$164	$517	$474
Debt cancellation fees	65	67	197	203
Loyalty programs	(196)	(168)	(543)	(511)
Other	12	13	30	60
Total other income	$63	$76	$201	$226

Other income decreased by $13 million, or 17.1%, and $25 million, or 11.1%, for the three and nine months ended September 30, 2018. Interchange revenue increased in both periods driven by increased purchase volume outside of our retail partners' sales channels. Loyalty costs increased for both periods primarily due to the launch of new rewards programs with our partners and growth in purchase volume associated with existing loyalty programs. Other income also decreased for the nine months ended September 30, 2018 due to the impact of a pre-tax gain of $18 million recognized in the nine months ended September 30, 2017.

Other Expense

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2018	2017	2018	2017
Employee costs	$365	$333	$1,074	$974
Professional fees	232	161	575	470
Marketing and business development	131	124	362	342
Information processing	105	96	308	274
Other	221	244	698	717
Total other expense	$1,054	$958	$3,017	$2,777

Other expense increased by $96 million, or 10.0%, and $240 million, or 8.6%, for the three and nine months ended September 30, 2018, respectively, primarily due to increases in professional fees, as well as increases in employee costs and information processing.

The increases in professional fees were primarily due to interim servicing costs associated with the PayPal Credit acquisition. Employee costs increases were primarily due to new employees added to support the continued growth of the business. Information processing costs increased primarily due to both business growth and strategic investments.

Provision for Income Taxes

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2018	2017	2018	2017
Effective tax rate	24.9 %	36.9 %	23.7 %	36.7 %
Provision for income taxes	$222	$324	$625	$899

The effective tax rate for the three and nine months ended September 30, 2018 decreased compared to the same period in the prior year primarily due to the reduction in the corporate tax rate from 35% to 21%. In each period, the effective tax rate differs from the applicable U.S. federal statutory rate 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 certain supplemental information for the three and nine months ended September 30, 2018, for each of our sales platforms.

Retail Card

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2018	2017	2018	2017
Purchase volume	$29,264	$26,347	$79,986	$76,400
Period-end loan receivables	$60,564	$52,119	$60,564	$52,119
Average loan receivables	$60,389	$51,817	$55,522	$51,002
Average active accounts (in thousands)	59,846	54,471	57,140	54,639
Interest and fees on loans	$3,465	$3,102	$9,554	$8,890
Retailer share arrangements	$(851)	$(795)	$(2,209)	$(2,133)
Other income	$51	$61	$164	$163

Retail Card interest and fees on loans increased by $363 million, or 11.7%, and $664 million, or 7.5%, for the three and nine months ended September 30, 2018, respectively. These increases were primarily the result of the PayPal Credit acquisition and other growth in average loan receivables.

Retailer share arrangements increased by $56 million, or 7.0%, and $76 million, or 3.6%, for the three and nine months ended September 30, 2018, respectively, primarily as a result of the factors discussed under the heading "Retailer Share Arrangements" above.

Other income decreased by $10 million, or 16.4%, for the three months ended September 30, 2018, primarily as a result of the changes in interchange revenue and loyalty costs discussed under the heading "Other Income" above. Other income was relatively flat for the nine months ended September 30, 2018.

Payment Solutions

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2018	2017	2018	2017
Purchase volume	$4,606	$4,178	$12,717	$11,794
Period-end loan receivables	$17,639	$16,153	$17,639	$16,153
Average loan receivables	$17,234	$15,848	$16,810	$15,538
Average active accounts (in thousands)	9,675	9,183	9,569	9,108
Interest and fees on loans	$601	$559	$1,729	$1,607
Retailer share arrangements	$(17)	$(9)	$(28)	$(19)
Other income	$4	$2	$10	$12

Payment Solutions interest and fees on loans increased by $42 million, or 7.5%, and $122 million, or 7.6%, for the three and nine months ended September 30, 2018, respectively. These increases were primarily driven by growth in average loan receivables.

CareCredit

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Purchase volume	$2,573	$2,368	$7,634	$7,055
Period-end loan receivables	$9,318	$8,656	$9,318	$8,656
Average loan receivables	$9,160	$8,500	$8,938	$8,263
Average active accounts (in thousands)	5,961	5,677	5,885	5,572
Interest and fees on loans	$551	$521	$1,587	$1,489
Retailer share arrangements	$(3)	$(1)	$(7)	$(6)
Other income	$8	$13	$27	$51

CareCredit interest and fees on loans increased by $30 million, or 5.8%, and $98 million, or 6.6%, for the three and nine months ended September 30, 2018. The increase was primarily driven by growth in average loan receivables.

Debt Securities

The following discussion provides supplemental information regarding our debt securities portfolio. All of our debt securities are classified as available-for-sale at September 30, 2018 and December 31, 2017, and are held to meet our liquidity objectives and to comply with the Community Reinvestment Act. Debt 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 debt securities at the dates indicated:

($ in millions)	At September 30, 2018 Amortized Cost	At September 30, 2018 Estimated Fair Value	At December 31, 2017 Amortized Cost	At December 31, 2017 Estimated Fair Value
U.S. government and federal agency	$4,300	$ 4,291	$2,419	$ 2,416
State and municipal	40	39	44	44
Residential mortgage-backed	1,216	1,161	1,258	1,231
Asset-backed	1,791	1,788	781	780
U.S. corporate debt	2	2	2	2
Total	$7,349	$ 7,281	$4,504	$ 4,473

Unrealized gains and losses, net of the related tax effects, on available-for-sale debt 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 September 30, 2018, our debt securities had gross unrealized gains of $1 million and gross unrealized losses of $69 million. At December 31, 2017, our debt securities had gross unrealized gains of $1 million and gross unrealized losses of $32 million.

Our debt securities portfolio had the following maturity distribution at September 30, 2018.

($ 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
U.S. government and federal agency	$ 4,024	$ 267	$ —	$—	$4,291
State and municipal	—	—	5	34	39
Residential mortgage-backed	—	1	160	1,000	1,161
Asset-backed	1,412	376	—	—	1,788
U.S. corporate debt	2	—	—	—	2
Total[(1)]	$ 5,438	$ 644	$ 165	$1,034	$7,281
Weighted average yield[(2)]	2.2 %	2.2 %	3.2 %	2.8 %	2.3 %

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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 September 30, 2018, 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 revenue. The following table sets forth the composition of our loan receivables portfolio by product type at the dates indicated.

($ in millions)	At September 30, 2018	(%)	At December 31, 2017	(%)
Loans				
Credit cards	$ 84,319	96.4 %	$79,026	96.5 %
Consumer installment loans	1,789	2.0	1,578	1.9
Commercial credit products	1,353	1.5	1,303	1.6
Other	60	0.1	40	—
Total loans	$ 87,521	100.0%	$81,947	100.0%

Loan receivables increased by $5,574 million, or 6.8%, at September 30, 2018 compared to December 31, 2017, primarily driven by the PayPal Credit acquisition, partially offset by the seasonality of our business.

Loan receivables increased by $10,593 million, or 13.8%, at September 30, 2018 compared to September 30, 2017, primarily driven by the PayPal Credit acquisition, higher purchase volume and average active account growth.

Our loan receivables portfolio had the following geographic concentration at September 30, 2018.

($ in millions) State	Loan Receivables Outstanding	% of Total Loan Receivables Outstanding	
California	$ 9,148	10.5	%
Texas	$ 8,796	10.1	%
Florida	$ 7,274	8.3	%
New York	$ 4,984	5.7	%
Pennsylvania	$ 3,639	4.2	%

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 long-term 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. 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.

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 September 30, 2018	At December 31, 2017
Non-accrual loan receivables	$ 4	$ 5
Loans contractually 90 days past-due and still accruing interest	1,829	1,864
Earning TDRs[(1)]	1,048	940
Non-accrual, past-due and restructured loan receivables	$ 2,881	$ 2,809

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(1) At September 30, 2018 and December 31, 2017, balances exclude $105 million and $103 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 and nine months ended September 30, 2018 and 2017.

($ in millions)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
	$ 68	$ 58	$ 195	$ 162

Gross amount of interest income that would have been recorded in accordance with the original contractual terms				
Interest income recognized	13	13	37	36
Total interest income foregone	$ 55	$ 45	$ 158	$ 126

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Delinquencies

Over-30 day loan delinquencies as a percentage of period-end loan receivables decreased to 4.59% at September 30, 2018 from 4.80% at September 30, 2017, and decreased from 4.67% at December 31, 2017. These decreases include the impact in the current year from certain underwriting refinements. The decrease as compared to December 31, 2017 was partially offset by the effects of 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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Ratio of net charge-offs to average loan receivables, including held for sale	4.97%	4.95%	5.67%	5.23%

Allowance for Loan Losses

The allowance for loan losses totaled $6,223 million at September 30, 2018, compared with $5,574 million at December 31, 2017 and $5,361 million at September 30, 2017, 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 7.11% at September 30, 2018, from 6.80% at December 31, 2017 and 6.97% at September 30, 2017, which reflects the increase in forecasted net charge-offs over the next twelve months. The increase from December 31, 2017 also includes the effects of the seasonality of our business. See "Business Trends and Conditions — Asset Quality" in our 2017 Form 10-K for discussion of the various factors that contribute to forecasted net charge-offs over the next twelve months.

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

($ in millions)	Balance at July 1, 2018	Provision charged to operations	Gross charge-offs	Recoveries	Balance at September 30, 2018
Credit cards	$ 5,757	$ 1,427	$ (1,269)	$ 202	$ 6,117
Consumer installment loans	51	9	(13)	4	51
Commercial credit products	50	15	(13)	2	54
Other	1	—	—	—	1
Total	$ 5,859	$ 1,451	$ (1,295)	$ 208	$ 6,223

($ in millions)	Balance at July 1, 2017	Provision charged to operations	Gross charge-offs	Recoveries	Balance at September 30, 2017
Credit cards	$ 4,906	$ 1,287	$ (1,140)	$ 211	$ 5,264
Consumer installment loans	34	14	(12)	3	39
Commercial credit products	60	9	(14)	2	57
Other	1	—	—	—	1
Total	$ 5,001	$ 1,310	$ (1,166)	$ 216	$ 5,361

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($ in millions)	Balance at January 1, 2018	Provision charged to operations	Gross charge-offs	Recoveries	Balance at September 30, 2018
Credit cards	$5,483	$ 4,016	$ (4,016)	$ 634	$ 6,117
Consumer installment loans	40	39	(40)	12	51
Commercial credit products	50	38	(39)	5	54
Other	1	—	—	—	1
Total	$5,574	$ 4,093	$ (4,095)	$ 651	$ 6,223

($ in millions)	Balance at January 1, 2017	Provision charged to operations	Gross charge-offs	Recoveries	Balance at September 30, 2017
Credit cards	$4,254	$ 3,866	$ (3,518)	$ 662	$ 5,264
Consumer installment loans	37	28	(37)	11	39
Commercial credit products	52	48	(48)	5	57
Other	1	—	—	—	1
Total	$4,344	$ 3,942	$ (3,603)	$ 678	$ 5,361

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), securitized financings and third-party debt.

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

Three months ended September 30 ($ in millions)	2018 Average Balance	%	Average Rate	2017 Average Balance	%	Average Rate
Deposits[1]	$60,123	73.3 %	2.1 %	$53,294	72.7 %	1.6 %
Securitized financings	12,306	15.0	2.8	11,759	16.0	2.2
Senior unsecured notes	9,552	11.7	3.7	8,251	11.3	3.5
Total	$81,981	100.0%	2.4 %	$73,304	100.0%	1.9 %

(1) Excludes $275 million and $232 million average balance of non-interest-bearing deposits for the three months ended September 30, 2018 and 2017, respectively. Non-interest-bearing deposits comprise less than 10% of total deposits for the three months ended September 30, 2018 and 2017.

Nine months ended September 30 ($ in millions)	2018 Average Balance	%	Average Rate	2017 Average Balance	%	Average Rate
Deposits[(1)]	$57,941	73.1 %	1.9 %	$52,325	72.3 %	1.6 %
Securitized financings	12,178	15.4	2.6	12,096	16.7	2.1
Senior unsecured notes	9,156	11.5	3.7	7,983	11.0	3.5
Total	$79,275	100.0%	2.2 %	$72,404	100.0%	1.9 %

(1) Excludes $282 million and $230 million average balance of non-interest-bearing deposits for the nine months ended September 30, 2018 and 2017, respectively. Non-interest-bearing deposits comprise less than 10% of total deposits for the nine months ended September 30, 2018 and 2017.

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 September 30, 2018, we had $48.4 billion in direct deposits and $13.9 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 September 30, 2018, had a weighted average remaining life of 2.4 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 risk if we fail to pay higher rates, or interest rate risk if we are required to pay higher rates, to retain existing deposits or attract new deposits. To mitigate these risks, our funding strategy includes a range of deposit products, and we seek to maintain access to multiple other funding sources, such as securitized financings (including our undrawn committed capacity) and unsecured debt.

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

Three months ended September 30 ($ in millions)	2018 Average Balance	% of Total	Average Rate	2017 Average Balance	% of Total	Average Rate
Direct deposits:						
Certificates of deposit (including IRA certificates of deposit)	$28,804	47.9 %	2.0 %	$23,331	43.8 %	1.6 %
Savings accounts (including money market accounts)	18,072	30.1	1.8	17,522	32.9	1.2
Brokered deposits	13,247	22.0	2.6	12,441	23.3	2.3
Total interest-bearing deposits	$60,123	100.0%	2.1 %	$53,294	100.0%	1.6 %

Nine months ended September 30 ($ in millions)	2018 Average Balance	% of Total	Average Rate	2017 Average Balance	% of Total	Average Rate
Direct deposits:						
Certificates of deposit (including IRA certificates of deposit)	$27,255	47.1 %	1.9 %	$22,138	42.3 %	1.6 %
Savings accounts (including money market accounts)	18,031	31.1	1.6	17,492	33.4	1.1
Brokered deposits	12,655	21.8	2.5	12,695	24.3	2.2
Total interest-bearing deposits	$57,941	100.0%	1.9 %	$52,325	100.0%	1.6 %

Our deposit liabilities provide funding with maturities ranging from one day to ten years. At September 30, 2018, the weighted average maturity of our interest-bearing time deposits was 1.3 years. See Note 7. Deposits to our condensed consolidated financial statements for more information on their maturities.

The following table summarizes deposits by contractual maturity at September 30, 2018.

($ in millions)	3 Months or Less	Over 3 Months but within 6 Months	Over 6 Months but within 12 Months	Over 12 Months	Total
U.S. deposits (less than $100,000)[1]	$ 8,766	$ 3,741	$ 5,366	$ 9,822	$27,695
U.S. deposits ($100,000 or more)					
Direct deposits:					
Certificates of deposit (including IRA certificates of deposit)	3,135	4,538	6,745	5,239	19,657
Savings accounts (including money market accounts)	13,253	—	—	—	13,253
Brokered deposits:					
Sweep accounts	1,712	—	—	—	1,712
Total	$ 26,866	$ 8,279	$ 12,111	$ 15,061	$62,317

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(1) Includes brokered certificates of deposit for which underlying individual deposit balances are assumed to be less than $100,000.

Securitized Financings

We have been engaged in the securitization of our credit card receivables since 1997. We access the asset-backed securitization market using the Synchrony Credit Card Master Note Trust (“SYNCT”) and the Synchrony Card Issuance Trust (“SYNIT”) through which we issue asset-backed securities through both public transactions and private transactions funded by financial institutions and commercial paper conduits. In addition, we issue asset-backed securities in private transactions through the Synchrony Sales Finance Master Trust (“SFT”).

The following table summarizes expected contractual maturities of the investors' interests in securitized financings, excluding debt premiums, discounts and issuance costs at September 30, 2018.

($ in millions)	Less Than One Year	One Year Through Three Years	After Three Through Five Years	After Five Years	Total
Scheduled maturities of long-term borrowings—owed to securitization investors:					
SYNCT[1]	$ 2,752	$ 3,333	$ 1,591	$ —	$ 7,676
SFT	900	3,125	—	—	4,025
SYNIT[1]	—	2,500	—	—	2,500
Total long-term borrowings—owed to securitization investors	$ 3,652	$ 8,958	$ 1,591	$ —	$ 14,201

(1) Excludes subordinated classes of SYNCT notes and SYNIT notes that we own.

We retain exposure to the performance of trust assets through: (i) in the case of SYNCT, SFT and SYNIT, subordinated retained interests in the loan receivables transferred to the trust in excess of the principal amount of the notes for a given series to provide credit enhancement for a particular series, as well as a pari passu seller's interest in each trust and (ii) in the case of SYNCT and SYNIT, subordinated classes of notes that we own.

All of our securitized financings include early repayment triggers, referred to as early amortization events, including events related to material breaches of representations, warranties or covenants, inability or failure of the Bank to transfer loan receivables to the trusts as required under the securitization documents, failure to make required payments or deposits pursuant to the securitization documents, and certain insolvency-related events with respect to the related securitization depositor, Synchrony (solely with respect to SYNCT) or the Bank. In addition, an early amortization event will occur with respect to a series if the excess spread as it relates to a particular series or for the trust, as applicable, falls below zero. Following an early amortization event, principal collections on the loan receivables in the applicable trust are applied to repay principal of the trust's asset-backed securities rather than being available on a revolving basis to fund the origination activities of our business. The occurrence of an early amortization event also would limit or terminate our ability to issue future series out of the trust in which the early amortization event occurred. No early amortization event has occurred with respect to any of the securitized financings in SYNCT, SFT or SYNIT.

The following table summarizes for each of our trusts the three-month rolling average excess spread at September 30, 2018.

	Note Principal Balance ($ in millions)	# of Series Outstanding	Three-Month Rolling Average Excess Spread[1]
SYNCT[2]	$ 8,625	15	~14.5% to 16%
SFT	$ 4,025	10	11.1 %
SYNIT[2][3]	$ 2,515	5	~17.8% to 18.4%

(1) Represents the excess spread (generally calculated as interest income collected from the applicable pool of loan receivables less applicable net charge-offs, interest expense and servicing costs, divided by the aggregate principal amount of loan receivables in the applicable pool) for SFT or, in the case of SYNCT and SYNIT, a range of the excess spreads relating to the particular series issued within each trust, in each case calculated in accordance with the applicable trust or series documentation, for the three securitization monthly periods ended September 30, 2018.

(2) Includes subordinated classes of SYNCT and SYNIT notes that we own.

(3) A three-month rolling average excess spread is not available for SYNIT's public series, because the first issuance for such series closed in September 2018.

Third-Party Debt

Senior Unsecured Notes

The following table provides a summary of our outstanding senior unsecured notes at September 30, 2018.

($ in millions)	Maturity	Principal Amount Outstanding[1]
Fixed rate senior unsecured notes:		
Synchrony Financial		
2.600% senior unsecured notes	January, 2019	$ 1,000
3.000% senior unsecured notes	August, 2019	1,100
2.700% senior unsecured notes	February, 2020	750
3.750% senior unsecured notes	August, 2021	750
4.250% senior unsecured notes	August, 2024	1,250
4.500% senior unsecured notes	July, 2025	1,000
3.700% senior unsecured notes	August, 2026	500
3.950% senior unsecured notes	December, 2027	1,000
Synchrony Bank		
3.000% senior unsecured notes	June, 2022	750
3.650% senior unsecured notes	May, 2021	750
Total fixed rate senior unsecured notes		$ 8,850
Floating rate senior unsecured notes:		
Synchrony Financial		
Three-month LIBOR plus 1.23% senior unsecured notes	February, 2020	$ 250
Synchrony Bank		
Three-month LIBOR plus 0.625% senior unsecured notes	March, 2020	500
Total floating rate senior unsecured notes		$ 750

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(1) The amounts shown exclude unamortized debt discount, premiums and issuance cost.

At September 30, 2018, the aggregate amount of outstanding senior unsecured notes was $9.6 billion and the weighted average interest rate was 3.51%.

Short-Term Borrowings

Except as described above, there were no material short-term borrowings for the periods presented.

Other

At September 30, 2018, we had more than $25.0 billion of unencumbered assets in the Bank available to be used to generate additional liquidity through secured borrowings or asset sales or to be pledged to the Federal Reserve Board for credit at the discount window.

Covenants

The indenture pursuant to which our senior unsecured notes have been issued includes various covenants. If we do not satisfy any of these covenants, the maturity of amounts outstanding thereunder may be accelerated and become payable. We were in compliance with all of these covenants at September 30, 2018.

At September 30, 2018, we were not in default under any of our credit facilities or senior unsecured notes.

Credit Ratings

Our borrowing costs and capacity in certain funding markets, including securitizations and senior and subordinated debt, may be affected by the credit ratings of the Company, the Bank and the ratings of our asset-backed securities. At September 30, 2018, Synchrony's senior unsecured debt is rated BBB- (negative outlook) by Fitch and BBB- (negative outlook) by S&P. The Bank’s senior unsecured debt is rated BBB- (negative outlook) by Fitch and BBB (negative outlook) by S&P. In addition, certain of the asset-backed securities issued by SYNCT and SYNIT are rated by Fitch, S&P and/or Moody’s. A credit rating is not a recommendation to buy, sell or hold securities, may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating. Downgrades in these credit ratings could materially increase the cost of our funding from, and restrict our access to, the capital markets.

Liquidity

We seek to ensure that we have adequate liquidity to sustain business operations, fund asset growth, satisfy debt obligations and to meet regulatory expectations under normal and stress conditions.

We maintain policies outlining the overall framework and general principles for managing liquidity risk across our business, which is the responsibility of our Asset and Liability Management Committee, a subcommittee of our Risk Committee. We employ a variety of metrics to monitor and manage liquidity. We perform regular liquidity stress testing and contingency planning as part of our liquidity management process. We evaluate a range of stress scenarios including Company specific and systemic events that could impact funding sources and our ability to meet liquidity needs.

We maintain a liquidity portfolio, which at September 30, 2018 had $18.2 billion of liquid assets, primarily consisting of cash and equivalents and short-term obligations of the U.S. Treasury, less cash in transit which is not considered to be liquid, compared to $15.1 billion of liquid assets at December 31, 2017. The increase in liquid assets was primarily due to the retention of excess cash flows from operations and deposit growth, partially offset by the deployment of some of our liquidity to support the PayPal Credit acquisition.

As additional sources of liquidity, at September 30, 2018, we had an aggregate of $4.6 billion of undrawn committed capacity on our securitized financings, subject to customary borrowing conditions, from private lenders under our securitization programs and $0.5 billion of undrawn committed capacity under our unsecured revolving credit facility with private lenders, and we had more than $25.0 billion of unencumbered assets in the Bank available to be used to generate additional liquidity through secured borrowings or asset sales or to be pledged to the Federal Reserve Board for credit at the discount window.

As a general matter, investments included in our liquidity portfolio are expected to be highly liquid, giving us the ability to readily convert them to cash. The level and composition of our liquidity portfolio may fluctuate based upon the level of expected maturities of our funding sources as well as operational requirements and market conditions.

We rely significantly on dividends and other distributions and payments from the Bank for liquidity; however, bank regulations, contractual restrictions and other factors limit the amount of dividends and other distributions and payments that the Bank may pay to us. For a discussion of regulatory restrictions on the Bank’s ability to pay dividends, see “Item 1A. Risk Factors—Risks Relating to Regulation—We are subject to restrictions that limit our ability to pay dividends and repurchase our common stock; the Bank is subject to restrictions that limit its ability to pay dividends to us, which could limit our ability to pay dividends, repurchase our common stock or make payments on our indebtedness” and “Item 1A. Business—Regulation—Savings Association Regulation—Dividends and Stock Repurchases” in our 2017 Form 10-K.

Capital

Our primary sources of capital have been earnings generated by our business and existing equity capital. We seek to manage capital to a level and composition sufficient to support the risks of our business, meet regulatory requirements, adhere to rating agency targets and support future business growth. The level, composition and utilization of capital are influenced by changes in the economic environment, strategic initiatives and legislative and regulatory developments. Within these constraints, we are focused on deploying capital in a manner that will provide attractive returns to our stockholders.

Synchrony and the Bank are required to conduct stress tests on an annual basis. Under the Office of the Comptroller of the Currency of the U.S. Treasury's (the "OCC") and the Federal Reserve Board's stress test regulations, the Bank and Synchrony are required to use stress-testing methodologies providing for results under various scenarios of economic and financial market stress. In addition, while as a savings and loan holding company and a financial holding company, we currently are not subject to the Federal Reserve Board's capital planning rule, we submitted a capital plan to the Federal Reserve Board in 2018.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act was enacted, which among other things, includes changes to stress testing reporting thresholds based on an institution's total consolidated assets. The Act will likely decrease the overall regulatory burden on savings and loan holding companies, though the ultimate impact will not be known until the regulators have finalized the law's implementation.

Dividend and Share Repurchases

Cash Dividends Declared	Month of Payment	Amount per Common Share	Amount
($ in millions, except per share data)			
Three months ended March 31, 2018	February, 2018	$ 0.15	$ 114
Three months ended June 30, 2018	May, 2018	0.15	113
Three months ended September 30, 2018	August, 2018	0.21	156
Total dividends declared		$ 0.51	$ 383

On May 17, 2018, the Board announced plans to increase our quarterly dividend to $0.21 per share commencing in the third quarter of 2018. The declaration and payment of future dividends to holders of our common stock will be at the discretion of the Board and will depend on many factors. For a discussion of regulatory and other restrictions on our ability to pay dividends and repurchase stock, see "Risk Factors—Risks Relating to Regulation—We are subject to restrictions that limit our ability to pay dividends and repurchase our common stock; the Bank is subject to restrictions that limit its ability to pay dividends to us, which could limit our ability to pay dividends, repurchase our common stock or make payments on our indebtedness" in our 2017 Form 10-K.

Shares Repurchased Under Publicly Announced Programs	Total Number of Shares Purchased	Dollar Value of Shares Purchased
($ and shares in millions)		
Three months ended March 31, 2018	10.4	$ 410
Three months ended June 30, 2018	14.0	491
Three months ended September 30, 2018	30.3	966
Total	54.7	$ 1,867

In May 2018, we completed our share repurchase program of up to $1.64 billion (the "2017 Share Repurchase Program"). On May 17, 2018, the Company approved a share repurchase program of up to $2.2 billion through June 30, 2019 (the "2018 Share Repurchase Program"). Through the end of the third quarter of 2018, we have repurchased approximately $1.2 billion of common stock as part of the 2018 Share Repurchase Program and expect to complete the share repurchase program by the end of the second quarter of 2019. We made, and expect to continue to make, share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals.

Regulatory Capital Requirements - Synchrony Financial

As a savings and loan holding company, we are required to maintain minimum capital ratios, under the applicable U.S. Basel III capital rules. For more information, see “Regulation—Savings and Loan Holding Company Regulation” in our 2017 Form 10-K.

For Synchrony Financial to be a well-capitalized savings and loan holding company, Synchrony Bank must be well-capitalized and Synchrony Financial must not be subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the Federal Reserve Board to meet and maintain a specific capital level for any capital measure. As of September 30, 2018, Synchrony Financial met all the requirements to be deemed well-capitalized.

The following table sets forth the composition of our capital ratios for the Company calculated under the Basel III regulatory capital standards at September 30, 2018 and December 31, 2017, respectively.

	Basel III			
	At September 30, 2018[1]		At December 31, 2017[2]	
($ in millions)	Amount	Ratio[3]	Amount	Ratio[3]
Total risk-based capital	$13,315	15.5 %	$13,954	17.3 %
Tier 1 risk-based capital	$12,178	14.2 %	$12,890	16.0 %
Tier 1 leverage	$12,178	12.3 %	$12,890	13.8 %
Common equity Tier 1 capital	$12,178	14.2 %	$12,890	16.0 %
Risk-weighted assets	$85,941		$80,669	

(1) Amounts presented do not reflect certain modifications to the regulatory capital rules proposed by the federal banking agencies in September 2017, which among other things, may increase the risk weighting of certain deferred tax assets from 100% to 250% if the proposed rule becomes effective.

(2) Amounts at December 31, 2017 are presented in accordance with applicable transition guidelines.

(3) Tier 1 leverage ratio represents total tier 1 capital as a percentage of total average assets, after certain adjustments. All other ratios presented above represent the applicable capital measure as a percentage of risk-weighted assets.

The decrease in our Common equity Tier 1 capital ratio was primarily due to the increase in loan receivables as a result of the PayPal Credit acquisition and a corresponding increase in risk-weighted assets in the nine months ended September 30, 2018.

Regulatory Capital Requirements - Synchrony Bank

At September 30, 2018 and December 31, 2017, the Bank met all applicable requirements to be deemed well-capitalized pursuant to OCC regulations and for purposes of the Federal Deposit Insurance Act. The following table sets forth the composition of the Bank’s capital ratios calculated under the Basel III rules at September 30, 2018 and December 31, 2017.

($ in millions)	At September 30, 2018 Amount	Ratio	At December 31, 2017 Amount	Ratio	Minimum to be Well-Capitalized under Prompt Corrective Action Provisions Ratio
Total risk-based capital	$11,588	15.7%	$10,842	16.2%	10.0%
Tier 1 risk-based capital	$10,607	14.4%	$9,958	14.9%	8.0%
Tier 1 leverage	$10,607	12.5%	$9,958	12.9%	5.0%
Common equity Tier 1 capital	$10,607	14.4%	$9,958	14.9%	6.5%

Failure to meet minimum capital requirements can result in the initiation of certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could limit our business activities and have a material adverse effect on our business, results of operations and financial condition. See "Risk Factors—Risks Relating to Regulation—Failure by Synchrony and the Bank to meet applicable capital adequacy and liquidity requirements could have a material adverse effect on us" in our 2017 Form 10-K.

Off-Balance Sheet Arrangements and Unfunded Lending Commitments

We do not have any significant off-balance sheet arrangements, including guarantees of third-party obligations. Guarantees are contracts or indemnification agreements that contingently require us to make a guaranteed payment or perform an obligation to a third-party based on certain trigger events. At September 30, 2018, we had not recorded any contingent liabilities in our Condensed Consolidated Statement of Financial Position related to any guarantees. See Note 9 - Fair Value Measurements to our condensed consolidated financial statements for information on contingent consideration liabilities related to business acquisitions.

We extend credit, primarily arising from agreements with customers for unused lines of credit on our credit cards, in the ordinary course of business. See Note 4 - Loan Receivables and Allowance for Loan Losses to our condensed consolidated financial statements for more information on our unfunded lending commitments.

Critical Accounting Estimates

In preparing our condensed consolidated financial statements, we have identified certain accounting estimates and assumptions that we consider to be the most critical to an understanding of our financial statements because they involve significant judgments and uncertainties. The critical accounting estimates we have identified relate to allowance for loan losses, income taxes and fair value measurements. All of these estimates reflect our best judgment about current, and for some estimates future, economic and market conditions and their effects based on information available as of the date of these financial statements. If these conditions change from those expected, it is reasonably possible that these judgments and estimates could change, which may result in incremental losses on loan receivables and the establishment of valuation allowances on deferred tax assets and increases in our tax liabilities, among other effects. See "Management's Discussion and Analysis—Critical Accounting Estimates" in our 2017 Form 10-K, for a detailed discussion of these critical accounting estimates.

New Accounting Standards

See Note 2. Basis of Presentation and Summary of Significant Accounting Policies — New Accounting Standards, for additional information related to recent accounting pronouncements.

Regulation and Supervision

Our business, including our relationships with our customers, is subject to regulation, supervision and examination under U.S. federal, state and foreign laws and regulations. These laws and regulations cover all aspects of our business, including lending practices, treatment of our customers, safeguarding deposits, customer privacy and information security, capital structure, liquidity, dividends and other capital distributions, transactions with affiliates, and conduct and qualifications of personnel.

As a savings and loan holding company and a financial holding company, Synchrony is subject to regulation, supervision and examination by the Federal Reserve Board. As a large provider of consumer financial services, we are

also subject to regulation, supervision and examination by the CFPB.
The Bank is a federally chartered savings association. As such, the Bank is subject to regulation, supervision and examination by the OCC, which is its primary regulator, and by the CFPB. In addition, the Bank, as an insured depository institution, is supervised by the FDIC.

See "Regulation" in our 2017 Form 10-K for additional information. See also "—Capital" above, for discussion of the impact of regulations and supervision on our capital and liquidity, including our ability to pay dividends and repurchase stock.

ITEM 1. FINANCIAL STATEMENTS
Synchrony Financial and subsidiaries
Condensed Consolidated Statements of Earnings
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
($ in millions, except per share data)	2018	2017	2018	2017
Interest income:				
Interest and fees on loans (Note 4)	$4,617	$4,182	$12,870	$11,986
Interest on debt securities	77	51	242	130
Total interest income	4,694	4,233	13,112	12,116
Interest expense:				
Interest on deposits	314	219	836	615
Interest on borrowings of consolidated securitization entities	86	65	240	193
Interest on third-party debt	88	73	251	208
Total interest expense	488	357	1,327	1,016
Net interest income	4,206	3,876	11,785	11,100
Retailer share arrangements	(871)	(805)	(2,244)	(2,158)
Net interest income, after retailer share arrangements	3,335	3,071	9,541	8,942
Provision for loan losses (Note 4)	1,451	1,310	4,093	3,942
Net interest income, after retailer share arrangements and provision for loan losses	1,884	1,761	5,448	5,000
Other income:				
Interchange revenue	182	164	517	474
Debt cancellation fees	65	67	197	203
Loyalty programs	(196)	(168)	(543)	(511)
Other	12	13	30	60
Total other income	63	76	201	226
Other expense:				
Employee costs	365	333	1,074	974
Professional fees	232	161	575	470
Marketing and business development	131	124	362	342
Information processing	105	96	308	274
Other	221	244	698	717
Total other expense	1,054	958	3,017	2,777
Earnings before provision for income taxes	893	879	2,632	2,449
Provision for income taxes (Note 12)	222	324	625	899
Net earnings	$671	$555	$2,007	$1,550
Earnings per share				
Basic	$0.91	$0.70	$2.68	$1.93
Diluted	$0.91	$0.70	$2.66	$1.93
Dividends declared per common share	$0.21	$0.15	$0.51	$0.41

See accompanying notes to condensed consolidated financial statements.

Synchrony Financial and subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2018	2017	2018	2017
Net earnings	$671	$555	$2,007	$1,550
Other comprehensive income (loss)				
Debt securities	(5)	3	(29)	6
Currency translation adjustments	—	6	(6)	7
Employee benefit plans	(1)	—	—	—
Other comprehensive income (loss)	(6)	9	(35)	13
Comprehensive income	$665	$564	$1,972	$1,563

Amounts presented net of taxes.

See accompanying notes to condensed consolidated financial statements.

Synchrony Financial and subsidiaries
Condensed Consolidated Statements of Financial Position

($ in millions)	At September 30, 2018 (Unaudited)	At December 31, 2017
Assets		
Cash and equivalents	$ 12,068	$ 11,602
Debt securities (Note 3)	7,281	4,473
Loan receivables: (Notes 4 and 5)		
Unsecuritized loans held for investment	59,868	55,526
Restricted loans of consolidated securitization entities	27,653	26,421
Total loan receivables	87,521	81,947
Less: Allowance for loan losses	(6,223)	(5,574)
Loan receivables, net	81,298	76,373
Goodwill	1,024	991
Intangible assets, net (Note 6)	1,105	749
Other assets	1,769	1,620
Total assets	$ 104,545	$ 95,808
Liabilities and Equity		
Deposits: (Note 7)		
Interest-bearing deposit accounts	$ 62,030	$ 56,276
Non-interest-bearing deposit accounts	287	212
Total deposits	62,317	56,488
Borrowings: (Notes 5 and 8)		
Borrowings of consolidated securitization entities	14,187	12,497
Senior unsecured notes	9,554	8,302
Total borrowings	23,741	20,799
Accrued expenses and other liabilities	4,491	4,287
Total liabilities	$ 90,549	$ 81,574
Equity:		
Common Stock, par share value $0.001 per share; 4,000,000,000 shares authorized; 833,984,684 shares issued at both September 30, 2018 and December 31, 2017; 718,710,316 and 770,531,433 shares outstanding at September 30, 2018 and December 31, 2017, respectively	$ 1	$ 1
Additional paid-in capital	9,470	9,445
Retained earnings	8,355	6,809
Accumulated other comprehensive income (loss):		
Debt securities	(48)	(19)
Currency translation adjustments	(23)	(17)
Other	(28)	(28)
Treasury Stock, at cost; 115,274,368 and 63,453,251 shares at September 30, 2018 and December 31, 2017, respectively	(3,731)	(1,957)
Total equity	13,996	14,234
Total liabilities and equity	$ 104,545	$ 95,808

See accompanying notes to condensed consolidated financial statements.

Synchrony Financial and subsidiaries
Condensed Consolidated Statements of Changes in Equity
(Unaudited)

($ in millions, shares in thousands)	Common Stock Shares Issued	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
Balance at January 1, 2017	833,985	$ 1	$ 9,393	$ 5,330	$ (53)	$ (475)	$ 14,196
Net earnings	—	—	—	1,550	—	—	1,550
Other comprehensive income	—	—	—	—	13	—	13
Purchases of treasury stock	—	—	—	—	—	(1,066)	(1,066)
Stock-based compensation	—	—	36	(9)	—	10	37
Dividends - common stock	—	—	—	(328)	—	—	(328)
Balance at September 30, 2017	833,985	$ 1	$ 9,429	$ 6,543	$ (40)	$ (1,531)	$ 14,402
Balance at January 1, 2018	833,985	$ 1	$ 9,445	$ 6,809	$ (64)	$ (1,957)	$ 14,234
Net earnings	—	—	—	2,007	—	—	2,007
Other comprehensive income	—	—	—	—	(35)	—	(35)
Purchases of treasury stock	—	—	—	—	—	(1,868)	(1,868)
Stock-based compensation	—	—	25	(81)	—	94	38
Dividends - common stock	—	—	—	(383)	—	—	(383)
Other	—	—	—	3	—		3
Balance at September 30, 2018	833,985	$ 1	$ 9,470	$ 8,355	$ (99)	$ (3,731)	$ 13,996

See accompanying notes to condensed consolidated financial statements.

Synchrony Financial and subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30,	
($ in millions)	2018	2017
Cash flows - operating activities		
Net earnings	$2,007	$1,550
Adjustments to reconcile net earnings to cash provided from operating activities		
Provision for loan losses	4,093	3,942
Deferred income taxes	(53)	186
Depreciation and amortization	222	187
(Increase) decrease in interest and fees receivable	(36)	(110)
(Increase) decrease in other assets	(39)	(79)
Increase (decrease) in accrued expenses and other liabilities	120	(58)
All other operating activities	452	488
Cash provided from (used for) operating activities	6,766	6,106
Cash flows - investing activities		
Maturity and sales of debt securities	3,961	2,987
Purchases of debt securities	(6,805)	(1,247)
Acquisition of loan receivables	(7,342)	(73)
Net (increase) decrease in loan receivables	(1,950)	(3,706)
All other investing activities	(615)	(383)
Cash provided from (used for) investing activities	(12,751)	(2,422)
Cash flows - financing activities		
Borrowings of consolidated securitization entities		
Proceeds from issuance of securitized debt	4,493	2,381
Maturities and repayment of securitized debt	(2,807)	(2,884)
Third-party debt		
Proceeds from issuance of third-party debt	1,244	741
Maturities and repayment of third-party debt	—	(500)
Net increase (decrease) in deposits	5,792	2,400
Purchases of treasury stock	(1,868)	(1,066)
Dividends paid on common stock	(383)	(328)
All other financing activities	(32)	(8)
Cash provided from (used for) financing activities	6,439	736
Increase (decrease) in cash and equivalents, including restricted amounts	454	4,420
Cash and equivalents, including restricted amounts, at beginning of period	11,817	9,668
Cash and equivalents at end of period:		
Cash and equivalents	12,068	13,915
Restricted cash and equivalents included in other assets	203	173
Total cash and equivalents, including restricted amounts, at end of period	$12,271	$14,088

See accompanying notes to condensed consolidated financial statements.

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Synchrony Financial and subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1. BUSINESS DESCRIPTION

Synchrony Financial (the “Company”) provides a range of credit products through programs it has established with a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and healthcare service providers. We primarily offer private label, Dual Card and general purpose co-branded credit cards, promotional financing and installment lending, loyalty programs and FDIC-insured savings products through Synchrony Bank (the “Bank”).