Synchrony Financial
Form 10-Q
July 28, 2017
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 June 30, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
001-36560
(Commission File Number)
SYNCHRONY FINANCIAL
(Exact name of registrant as specified in its charter)

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

777 Long Ridge Road Stamford, Connecticut	06902
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer ý	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	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 July 24, 2017 was 795,335,232.

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 "Bank Term Loan" are to the term loan agreement, dated as of July 30, 2014, among Synchrony, as borrower, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders from time to time party thereto, as amended;
- the "Board of Directors" are to Synchrony's board of directors; and
- "FICO" score 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, 2016 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—Other Financial and Statistical Data" in our Annual Report on Form 10-K for the year ended December 31, 2016 (our "2016 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®, Dual Card™, eQuickscreen™, Quickscreen® and Synchrony Car Care™, 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 “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 securitize our loans, occurrence of an early amortization of our securitization facilities, loss of the right to service or subservice our securitized loans, and lower payment rates on our securitized loans; our ability to grow our deposits in the future; changes in market interest rates and the impact of any margin compression; effectiveness of our risk management processes and procedures, reliance on models which may be inaccurate or misinterpreted, our ability to manage our credit risk, the sufficiency of our allowance for loan losses and the accuracy of the assumptions or estimates used in preparing our financial statements; our ability to offset increases in our costs in retailer share arrangements; competition in the consumer finance industry; our concentration in the U.S. consumer credit market; our ability to successfully develop and commercialize new or enhanced products and services; our ability to realize the value of strategic investments; reductions in interchange fees; fraudulent activity; 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 state sales tax rules and regulations; a material indemnification obligation to GE under the Tax Sharing and Separation Agreement with GE (the "TSSA") if we cause the split-off from GE or certain preliminary transactions to fail to qualify for tax-free treatment or in the case of certain significant transfers of our stock following the split-off; 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 2016 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.

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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 2016 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 one of the premier consumer financial services companies in the United States. We provide a range of credit products through programs we have established with a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and healthcare service providers, which we refer to as our “partners.” For the three and six months ended June 30, 2017, we financed $33.5 billion and $62.4 billion of purchase volume and had 68.6 million and 69.3 million average active accounts, respectively and at June 30, 2017, we had $75.5 billion of loan receivables. For the three and six months ended June 30, 2017, we had net earnings of $496 million and $995 million, respectively, representing a return on assets of 2.2% for both periods.

We offer our credit products primarily through our wholly-owned subsidiary, Synchrony Bank (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 June 30, 2017, we had $52.9 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 28 national and regional retailers with which we have ongoing program agreements. The average length of our relationship with these Retail Card partners is 19 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 Retail Card sales platform includes 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. 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. 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 June 30, 2017.

		Promotional Offer		
Credit Product	Standard Terms Only	Deferred Interest	Other Promotional	Total
Credit cards	66.7 %	16.2 %	13.2 %	96.1 %
Commercial credit products	1.8	—	—	1.8
Consumer installment loans	—	—	2.0	2.0
Other	0.1	—	—	0.1
Total	68.6 %	16.2 %	15.2 %	100.0 %

Credit Cards

We 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. Currently, only our Retail Card platform offers Dual Cards and general purpose co-branded credit cards. At June 30, 2017, we offered these credit cards through 20 of our 28 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 these trends and conditions, see “Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Trends and Conditions” in our 2016 Form 10-K. For a discussion of how these trends and conditions impacted the three and six months ended June 30, 2017, see “—Results of Operations.”

Seasonality

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

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

In addition to the seasonal variance in loan receivables discussed above, we also experience a seasonal increase in delinquency rates and delinquent loan receivables balances during the third and fourth quarters of each year due to lower customer payment rates 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 Six Months Ended June 30, 2017

Below are highlights of our performance for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016, as applicable, except as otherwise noted.

- Net earnings increased 1.4% to $496 million for the three months ended June 30, 2017, driven by higher net interest income, partially offset by increases in provision for loan losses and other expense. Net earnings decreased 7.1% to $995 million for the six months ended June 30, 2017, driven by increases in provision for loan losses and other expense, partially offset by higher net interest income.
- Loan receivables increased 10.5% to $75,458 million at June 30, 2017 compared to June 30, 2016, primarily driven by higher purchase volume and average active account growth.
- Net interest income increased 13.2% to $3,637 million and 12.5% to $7,224 million for the three and six months ended June 30, 2017, respectively, primarily due to higher average loan receivables.
- Retailer share arrangements remained relatively flat for the three and six months ended June 30, 2017, primarily as a result of growth and improved performance of the programs in which we have retailer share arrangements, largely offset by higher provision for loan losses and loyalty costs associated with these programs.
- Over-30 day loan delinquencies as a percentage of period-end loan receivables increased 46 basis points to 4.25% at June 30, 2017 from 3.79% at June 30, 2016, and net charge-off rate increased 91 basis points to 5.42% and 74 basis points to 5.37% for the three and six months ended June 30, 2017, respectively.
- Provision for loan losses increased by $305 million, or 29.9%, for the three months ended June 30, 2017, primarily due to higher net charge-offs and loan receivables growth. Provision for loan losses increased by $708 million, or 36.8%, for the six months ended June 30, 2017, primarily due to an increase in net charge-offs and higher loan loss reserve. Our allowance coverage ratio (allowance for loan losses as a percent of end of period loan receivables) increased to 6.63% at June 30, 2017, as compared to 5.70% at June 30, 2016.
- Other expense increased by $72 million, or 8.6%, and $180 million, or 11.0%, for the three and six months ended June 30, 2017, respectively, primarily driven by business growth.
- We continue to invest in our direct banking activities to grow our deposit base. Total deposits increased 1.6% to $52.9 billion at June 30, 2017, compared to December 31, 2016, driven primarily by growth in our direct deposits of 6.6% to $40.4 billion, partially offset by a reduction in our brokered deposits.
- On May 18, 2017, the Board announced plans to increase our quarterly dividend to $0.15 per share commencing in the third quarter of 2017 and approval of a share repurchase program of up to $1.64 billion through June 30, 2018. During the six months ended June 30, 2017, we repurchased $676 million of our outstanding common stock, and declared and paid cash dividends of $0.26 per share, or $210 million.
- During the six months ended June 30, 2017, we announced our acquisition of GPShopper, a developer of mobile applications that offers retailers and brands a full suite of commerce, engagement and analytical tools.

New and Extended Partner Agreements during the six months ended June 30, 2017

- We extended our Retail Card program agreements with Belk and QVC, launched our new programs with Cathay Pacific, Nissan and Infiniti and announced our new partnership with zulily.
- We launched our Synchrony Car Care program in our Payment Solutions sales platform and extended our program agreements with MEGA Group USA, City Furniture and Midas.

- In our CareCredit sales platform, we acquired the Citi Health Card portfolio and renewed National Veterinary Associates in our network of providers.

Summary Earnings

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

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2017	2016	2017	2016
Interest income	$3,970	$3,515	$7,883	$7,035
Interest expense	333	303	659	614
Net interest income	3,637	3,212	7,224	6,421
Retailer share arrangements	(669)	(664)	(1,353)	(1,334)
Net interest income, after retailer share arrangements	2,968	2,548	5,871	5,087
Provision for loan losses	1,326	1,021	2,632	1,924
Net interest income, after retailer share arrangements and provision for loan losses	1,642	1,527	3,239	3,163
Other income	57	83	150	175
Other expense	911	839	1,819	1,639
Earnings before provision for income taxes	788	771	1,570	1,699
Provision for income taxes	292	282	575	628
Net earnings	$496	$489	$995	$1,071

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 June 30,		At and for the Six months ended June 30,	
($ in millions)	2017	2016	2017	2016
Financial Position Data (Average):				
Loan receivables, including held for sale	$74,090	$66,561	$74,111	$66,377
Total assets	$89,394	$81,413	$89,431	$81,962
Deposits	$52,054	$45,731	$52,062	$45,135
Borrowings	$20,146	$19,137	$20,114	$20,362
Total equity	$14,442	$13,543	$14,383	$13,236
Selected Performance Metrics:				
Purchase volume[(1)]	$33,476	$31,507	$62,356	$58,484
Retail Card	$27,101	$25,411	$50,053	$46,961
Payment Solutions	$3,930	$3,903	$7,616	$7,295
CareCredit	$2,445	$2,193	$4,687	$4,228
Average active accounts (in thousands)[(2)]	68,635	65,531	69,307	65,996
Net interest margin[(3)]	16.20 %	15.94 %	16.19 %	15.89 %
Net charge-offs	$1,001	$747	$1,975	$1,527
Net charge-offs as a % of average loan receivables, including held for sale	5.42 %	4.51 %	5.37 %	4.63 %
Allowance coverage ratio[(4)]	6.63 %	5.70 %	6.63 %	5.70 %
Return on assets[(5)]	2.2 %	2.4 %	2.2 %	2.6 %
Return on equity[(6)]	13.8 %	14.5 %	14.0 %	16.3 %
Equity to assets[(7)]	16.16 %	16.63 %	16.08 %	16.15 %
Other expense as a % of average loan receivables, including held for sale	4.93 %	5.07 %	4.95 %	4.97 %
Efficiency ratio[(8)]	30.1 %	31.9 %	30.2 %	31.1 %
Effective income tax rate	37.1 %	36.6 %	36.6 %	37.0 %
Selected Period-End Data:				
Loan receivables	$75,458	$68,282	$75,458	$68,282
Allowance for loan losses	$5,001	$3,894	$5,001	$3,894
30+ days past due as a % of period-end loan receivables[(9)]	4.25 %	3.79 %	4.25 %	3.79 %
90+ days past due as a % of period-end loan receivables[(9)]	1.90 %	1.67 %	1.90 %	1.67 %
Total active accounts (in thousands)[(2)]	69,277	66,491	69,277	66,491

(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 June 30 ($ in millions)	2017 Average Balance	2017 Interest Income / Expense	2017 Average Yield / Rate[1]	2016 Average Balance	2016 Interest Income/ Expense	2016 Average Yield / Rate[1]
Assets						
Interest-earning assets:						
Interest-earning cash and equivalents[2]	$10,758	$ 28	1.04 %	$11,623	$ 14	0.48 %
Securities available for sale	5,195	15	1.16 %	2,858	7	0.99 %
Loan receivables[3]:						
Credit cards, including held for sale	71,206	3,858	21.73 %	63,876	3,432	21.61 %
Consumer installment loans	1,461	34	9.33 %	1,233	28	9.13 %
Commercial credit products	1,378	34	9.90 %	1,388	33	9.56 %
Other	45	1	NM	64	1	NM
Total loan receivables	74,090	3,927	21.26 %	66,561	3,494	21.11 %
Total interest-earning assets	90,043	3,970	17.68 %	81,042	3,515	17.44 %
Non-interest-earning assets:						
Cash and due from banks	829			895		
Allowance for loan losses	(4,781)			(3,732)		
Other assets	3,303			3,208		
Total non-interest-earning assets	(649)			371		
Total assets	$89,394			$81,413		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	$51,836	$ 202	1.56 %	$45,523	$ 179	1.58 %
Borrowings of consolidated securitization entities	12,213	63	2.07 %	12,211	59	1.94 %
Bank term loan	—	—	— %	65	7	NM
Senior unsecured notes	7,933	68	3.44 %	6,861	58	3.40 %
Total interest-bearing liabilities	71,982	333	1.86 %	64,660	303	1.88 %
Non-interest-bearing liabilities:						
Non-interest-bearing deposit accounts	218			208		
Other liabilities	2,752			3,002		
Total non-interest-bearing liabilities	2,970			3,210		
Total liabilities	74,952			67,870		
Equity						
Total equity	14,442			13,543		
Total liabilities and equity	$89,394			$81,413		
Interest rate spread[5]			15.82 %			15.56 %
Net interest income		$ 3,637			$ 3,212	
Net interest margin[6]			16.20 %			15.94 %

Six months ended June 30 ($ in millions)	2017 Average Balance	Interest Income / Expense	Average Yield / Rate[1]	2016 Average Balance	Interest Income/ Expense	Average Yield / Rate[1]
Assets						
Interest-earning assets:						
Interest-earning cash and equivalents[2]	$10,656	$ 49	0.93 %	$11,957	$ 30	0.50 %
Securities available for sale	5,204	30	1.16 %	2,918	13	0.90 %
Loan receivables[3]:						
Credit cards, including held for sale	71,285	7,669	21.69 %	63,781	6,868	21.65 %
Consumer installment loans	1,425	66	9.34 %	1,194	55	9.26 %
Commercial credit products	1,348	68	10.17 %	1,350	68	10.13 %
Other	53	1	3.80 %	52	1	3.87 %
Total loan receivables	74,111	7,804	21.23 %	66,377	6,992	21.18 %
Total interest-earning assets	89,971	7,883	17.67 %	81,252	7,035	17.41 %
Non-interest-earning assets:						
Cash and due from banks	816			1,131		
Allowance for loan losses	(4,595)			(3,661)		
Other assets	3,239			3,240		
Total non-interest-earning assets	(540)			710		
Total assets	$89,431			$81,962		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	$51,833	$ 396	1.54 %	$44,914	$ 351	1.57 %
Borrowings of consolidated securitization entities	12,267	128	2.10 %	12,535	117	1.88 %
Bank term loan[4]	—	—	— %	1,118	31	5.58 %
Senior unsecured notes	7,847	135	3.47 %	6,709	115	3.45 %
Total interest-bearing liabilities	71,947	659	1.85 %	65,276	614	1.89 %
Non-interest-bearing liabilities:						
Non-interest-bearing deposit accounts	229			221		
Other liabilities	2,872			3,229		
Total non-interest-bearing liabilities	3,101			3,450		
Total liabilities	75,048			68,726		
Equity						
Total equity	14,383			13,236		
Total liabilities and equity	$89,431			$81,962		
Interest rate spread[5]			15.82 %			15.52 %
Net interest income		$ 7,224			$ 6,421	
Net interest margin[6]			16.19 %			15.89 %

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

(2) Includes average restricted cash balances of $464 million and $641 million for the three months ended June 30, 2017 and 2016, respectively and $578 million and $536 million for the six months ended June 30, 2017 and 2016, respectively.

(3) Interest income on loan receivables includes fees on loans of $625 million and $570 million for the three months ended June 30, 2017 and 2016, respectively, and $1,253 million and $1,154 million for the six months ended June 30, 2017 and 2016 respectively.

(4)

The effective interest rates for the Bank term loan for the six months ended June 30, 2016 was 2.48%. The Bank term loan's effective rate excludes the impact of charges incurred in connection with prepayments of the loan.

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

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

For a summary description of the composition of our key line items included in our Statements of Earnings, see Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2016 Form 10-K.

Interest Income

Interest income increased by $455 million, or 12.9%, and by $848 million, or 12.1%, for the three and six months ended June 30, 2017, respectively, driven primarily by growth in our average loan receivables.

Average interest-earning assets

Three months ended June 30 ($ in millions)	2017	%	2016	%
Loan receivables, including held for sale	$74,090	82.3 %	$66,561	82.1 %
Liquidity portfolio and other	15,953	17.7 %	14,481	17.9 %
Total average interest-earning assets	$90,043	100.0%	$81,042	100.0%

Six months ended June 30 ($ in millions)	2017	%	2016	%
Loan receivables, including held for sale	$74,111	82.4 %	$66,377	81.7 %
Liquidity portfolio and other	15,860	17.6 %	14,875	18.3 %
Total average interest-earning assets	$89,971	100.0%	$81,252	100.0%

The increases in average loan receivables of 11.3% and 11.7% for the three and six months ended June 30, 2017, respectively, were driven primarily by higher purchase volume of 6.2% and 6.6% and average active account growth of 4.7% and 5.0%, respectively.

Average active accounts increased to 68.6 million and 69.3 million for the three and six months ended June 30, 2017, and the average balances per these active accounts increased 6.3% for both periods.

Yield on average interest-earning assets

The yield on average interest-earning assets increased for the three and six months ended June 30, 2017. The increase in the three months ended June 30, 2017 was primarily due to an increase in the yield on our average loan receivables of 15 basis points to 21.26%. The increase in yield was primarily driven by higher revolve rates as well as a higher benchmark interest rate.

The increase in the six months ended June 30, 2017 was primarily due to an increase in the percentage of average interest-earning assets attributable to loan receivables.

Interest Expense

Interest expense increased by $30 million, or 9.9%, and by $45 million, or 7.3%, for the three and six months ended June 30, 2017, respectively, driven primarily by the growth in our deposit liabilities. Our cost of funds decreased slightly to 1.86% and 1.85% for the three and six months ended June 30, 2017, respectively, compared to 1.88% and 1.89% for the three and six months ended June 30, 2016, primarily due to a more favorable funding mix as deposits were a larger proportion of our funding.

Average interest-bearing liabilities

Three months ended June 30 ($ in millions)	2017	%	2016	%
Interest-bearing deposit accounts	$51,836	72.0 %	$45,523	70.4 %
Borrowings of consolidated securitization entities	12,213	17.0 %	12,211	18.9 %
Third-party debt	7,933	11.0 %	6,926	10.7 %
Total average interest-bearing liabilities	$71,982	100.0%	$64,660	100.0%

Six months ended June 30 ($ in millions)	2017	%	2016	%
Interest-bearing deposit accounts	$51,833	72.0 %	$44,914	68.8 %
Borrowings of consolidated securitization entities	12,267	17.1 %	12,535	19.2 %
Third-party debt	7,847	10.9 %	7,827	12.0 %
Total average interest-bearing liabilities	$71,947	100.0%	$65,276	100.0%

The increase in average interest-bearing liabilities for the three and six months ended June 30, 2017 was driven primarily by growth in our direct deposits. The increase in the six months ended June 30, 2017 was partially offset by lower securitized financings.

Net Interest Income

Net interest income increased by $425 million, or 13.2%, and by $803 million, or 12.5%, for the three and six months ended June 30, 2017, primarily driven by higher average loan receivables.

Retailer Share Arrangements

Retailer share arrangements remained relatively flat for the three and six months ended June 30, 2017, driven primarily by the growth and improved performance of the programs in which we have retailer share arrangements, partially offset by higher provision for loan losses and loyalty costs associated with these programs.

Provision for Loan Losses

Provision for loan losses increased by $305 million, or 29.9%, for the three months ended June 30, 2017, primarily due to higher net charge-offs and loan receivables growth. Provision for loan losses increased by $708 million, or 36.8%, for the six months ended June 30, 2017, primarily due to an increase in net charge-offs and higher loan loss reserve.

Our allowance coverage ratio increased to 6.63% at June 30, 2017, as compared to 5.70% at June 30, 2016, reflecting the increase in forecasted losses inherent in our loan portfolio.

Other Income

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2017	2016	2017	2016
Interchange revenue	$165	$151	$310	$281
Debt cancellation fees	68	63	136	127
Loyalty programs	(206)	(135)	(343)	(245)
Other	30	4	47	12
Total other income	$57	$83	$150	$175

Other income decreased by $26 million, or 31.3%, and by $25 million, or 14.3%, for the three and six months ended June 30, 2017, respectively. These decreases were primarily due to higher loyalty costs, which included the impact from higher reward redemption rates we experienced in one of our programs. The increases in loyalty costs were partially offset by increased interchange revenue driven by increased purchase volume outside of our retail partners' sales channels and a pre-tax gain of $18 million associated with the sale of contractual relationships related to processing of general purpose card transactions for certain merchants.

Other Expense

($ in millions)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Employee costs	$321	$301	$646	$581
Professional fees	158	154	309	300
Marketing and business development	124	107	218	201
Information processing	88	81	178	163
Other	220	196	468	394
Total other expense	$911	$839	$1,819	$1,639

Other expense increased by $72 million, or 8.6%, and by $180 million, or 11.0%, for the three and six months ended June 30, 2017, respectively, primarily due to increases in employee costs, marketing and business development, information processing and other expenses.

The increases in employee costs were primarily due to new employees added to support the continued growth of the business and replacement of certain third-party services. Marketing and business development expense increased primarily due to strategic investments in our sales platforms, increased marketing on retail deposits and higher amortization expense associated with retail partner contract acquisitions and extensions. Information processing costs increased primarily due to higher information technology investment and higher transaction volume. The increases in "other" were primarily driven by higher operational losses and growth of the business.

Provision for Income Taxes

($ in millions)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Effective tax rate	37.1 %	36.6 %	36.6 %	37.0 %
Provision for income taxes	$292	$282	$575	$628

The effective tax rate for the three months ended June 30, 2017 increased compared to the same period in the prior year primarily due to the discrete impact of a research and development credit and an additional tax benefit reimbursable to GE, that were both recorded in the prior year. The effective tax rate for the six months ended June 30, 2017 decreased compared to the same period in the prior year primarily due to state-related discrete items recorded during the current year. In each period the effective tax rate differs from the U.S. federal statutory rate of 35% 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 six months ended June 30, 2017, for each of our sales platforms.

Retail Card

($ in millions)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Purchase volume	$27,101	$25,411	$50,053	$46,961
Period-end loan receivables	$51,437	$46,705	$51,437	$46,705
Average loan receivables, including held for sale	$50,533	$45,593	$50,588	$45,536
Average active accounts (in thousands)	54,058	52,314	54,729	52,798
Interest and fees on loans	$2,900	$2,585	$5,788	$5,199
Retailer share arrangements	$(657)	$(656)	$(1,338)	$(1,317)
Other income	$25	$69	$102	$148

Retail Card interest and fees on loans increased by $315 million, or 12.2%, and by $589 million, or 11.3%, for the three and six months ended June 30, 2017, respectively. These increases were primarily the result of growth in average loan receivables.

Retailer share arrangements remained relatively flat, for the three and six months ended June 30, 2017, respectively, primarily as a result of the factors discussed under the heading “Retailer Share Arrangements” above.

Other income decreased by $44 million, or 63.8%, and by $46 million, or 31.1%, for the three and six months ended June 30, 2017, respectively, as a result of higher loyalty costs, partially offset by increased interchange revenue driven by increased purchase volume outside of our retail partners' sales channels.

Payment Solutions

($ in millions)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Purchase volume	$3,930	$3,903	$7,616	$7,295
Period-end loan receivables	$15,595	$13,997	$15,595	$13,997
Average loan receivables	$15,338	$13,554	$15,381	$13,492
Average active accounts (in thousands)	9,031	8,153	9,061	8,148
Interest and fees on loans	$533	$467	$1,048	$924
Retailer share arrangements	$(9)	$(7)	$(10)	$(14)
Other income	$6	$3	$10	$7

Payment Solutions interest and fees on loans increased by $66 million, or 14.1%, and by $124 million, or 13.4%, for the three and six months ended June 30, 2017, respectively. These increases were primarily driven by growth in average loan receivables.

CareCredit

($ in millions)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Purchase volume	$2,445	$2,193	$4,687	$4,228
Period-end loan receivables	$8,426	$7,580	$8,426	$7,580
Average loan receivables	$8,219	$7,414	$8,142	$7,349
Average active accounts (in thousands)	5,546	5,064	5,517	5,050
Interest and fees on loans	$494	$442	$968	$869
Retailer share arrangements	$(3)	$(1)	$(5)	$(3)
Other income	$26	$11	$38	$20

CareCredit interest and fees on loans increased by $52 million, or 11.8%, and by $99 million, or 11.4%, for the three and six months ended June 30, 2017, respectively. These increases were primarily driven by growth in average loan receivables.

Investment Securities

The following discussion provides supplemental information regarding our investment securities portfolio. All of our investment securities are classified as available-for-sale at June 30, 2017 and December 31, 2016, and are held to meet our liquidity objectives and to comply with the Community Reinvestment Act. Investment securities classified as available-for-sale are reported in our Condensed Consolidated Statements of Financial Position at fair value.

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

($ in millions)	At June 30, 2017 Amortized Cost	At June 30, 2017 Estimated Fair Value	At December 31, 2016 Amortized Cost	At December 31, 2016 Estimated Fair Value
Debt:				
U.S. government and federal agency	$2,576	$ 2,576	$3,676	$ 3,676
State and municipal	45	44	47	46
Residential mortgage-backed	1,384	1,362	1,400	1,373
Equity	15	15	15	15
Total	$4,020	$ 3,997	$5,138	$ 5,110

Unrealized gains and losses, net of the related tax effects, on available-for-sale securities that are not other-than-temporarily impaired are excluded from earnings and are reported as a separate component of comprehensive income (loss) until realized. At June 30, 2017, our investment securities had gross unrealized gains of $4 million and gross unrealized losses of $27 million. At December 31, 2016, our investment securities had gross unrealized gains of $3 million and gross unrealized losses of $31 million.

Our investment securities portfolio had the following maturity distribution at June 30, 2017. Equity securities have been excluded from the table because they do not have a maturity.

($ in millions)	Due in 1 Year or Less	Due After 1 through 5 Years	Due After 5 through 10 Years	Due After 10 years	Total
Debt:					
U.S. government and federal agency	$ 2,300	$ 276	$ —	$—	$2,576
State and municipal	—	—	2	42	44
Residential mortgage-backed	—	—	—	1,362	1,362
Total[(1)]	$ 2,300	$ 276	$ 2	$1,404	$3,982
Weighted average yield[(2)]	0.9 %	1.9 %	3.4 %	2.8 %	1.6 %

(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 June 30, 2017, 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 June 30, 2017	(%)	At December 31, 2016	(%)
Loans				
Credit cards	$72,492	96.1 %	$73,580	96.4 %
Consumer installment loans	1,514	2.0	1,384	1.8
Commercial credit products	1,386	1.8	1,333	1.7
Other	66	0.1	40	0.1
Total loans	$75,458	100.0%	$76,337	100.0%

Loan receivables decreased by $879 million, or 1.2%, at June 30, 2017 compared to December 31, 2016, primarily driven by the seasonality of our business.

Loan receivables increased by $7,176 million, or 10.5%, at June 30, 2017 compared to June 30, 2016, primarily driven by higher purchase volume and average active account growth.

Our loan receivables portfolio had the following geographic concentration at June 30, 2017.

($ in millions) State	Loan Receivables Outstanding	% of Total Loan Receivables Outstanding
Texas	$ 7,686	10.2 %
California	$ 7,545	10.0 %
Florida	$ 6,139	8.1 %
New York	$ 4,208	5.6 %
Pennsylvania	$ 3,213	4.3 %

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 primarily use long-term (12 to 60 months) modification programs for borrowers experiencing financial difficulty as a loss mitigation strategy to improve long-term collectability of the loans that are classified as TDRs. 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 June 30, 2017	At December 31, 2016
Non-accrual loan receivables	$2	$ 4
Loans contractually 90 days past-due and still accruing interest	1,433	1,542
Earning TDRs[(1)]	854	802
Non-accrual, past-due and restructured loan receivables	$2,289	$ 2,348

(1) At June 30, 2017 and December 31, 2016, balances exclude $78 million and $66 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 six months ended June 30, 2017 and 2016.

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2017	2016	2017	2016
Gross amount of interest income that would have been recorded in accordance with the original contractual terms	$53	$ 43	$104	$ 85

Interest income recognized	11	12	23	24
Total interest income foregone	$42	$ 31	$81	$ 61

Delinquencies

Over-30 day loan delinquencies as a percentage of period-end loan receivables increased to 4.25% at June 30, 2017 from 3.79% at June 30, 2016, and decreased from 4.32% at December 31, 2016. The 46 basis point increase compared to the same period in the prior year was primarily driven by the factors discussed in "Business Trends and Conditions — Stable Asset Quality" in our 2016 Form 10-K. The decrease as compared to December 31, 2016, was primarily driven by the seasonality of our business, partially offset by the various factors referenced above.

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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Ratio of net charge-offs to average loan receivables, including held for sale	5.42 %	4.51 %	5.37 %	4.63 %

Allowance for Loan Losses

The allowance for loan losses totaled $5,001 million at June 30, 2017 compared with $4,344 million at December 31, 2016 and $3,894 million at June 30, 2016, 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 6.63% at June 30, 2017, from 5.69% at December 31, 2016 and 5.70% at June 30, 2016, which reflects the increase in forecasted net charge-offs over the next twelve months. See "Business Trends and Conditions — Stable Asset Quality" in our 2016 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 April 1, 2017	Provision charged to operations	Gross charge-offs	Recoveries	Balance at June 30, 2017
Credit cards	$ 4,585	$ 1,301	$ (1,194)	$ 214	$ 4,906
Consumer installment loans	40	1	(11)	4	34
Commercial credit products	50	24	(16)	2	60
Other	1	—	—	—	1
Total	$ 4,676	$ 1,326	$ (1,221)	$ 220	$ 5,001

($ in millions)	Balance at April 1, 2016	Provision charged to operations	Gross charge-offs	Recoveries	Balance at June 30, 2016
Credit cards	$ 3,543	$ 988	$ (947)	$ 216	$ 3,800
Consumer installment loans	31	14	(9)	3	39
Commercial credit products	44	19	(13)	3	53

Other	2	—	—	—	$ 2
Total	$ 3,620	$ 1,021	$ (969)	$ 222	$ 3,894

($ in millions)	Balance at January 1, 2017	Provision charged to operations	Gross charge-offs	Recoveries	Balance at June 30, 2017
Credit cards	$4,254	$ 2,579	$ (2,378)	$ 451	$4,906
Consumer installment loans	37	14	(25)	8	34
Commercial credit products	52	39	(34)	3	60
Other	1	—	—	—	1
Total	$4,344	$ 2,632	$ (2,437)	$ 462	$5,001

($ in millions)	Balance at January 1, 2016	Provision charged to operations	Gross charge-offs	Recoveries	Balance at June 30, 2016
Credit cards	$3,420	$ 1,872	$ (1,901)	$ 409	$ 3,800
Consumer installment loans	26	27	(20)	6	39
Commercial credit products	50	24	(26)	5	53
Other	1	1	—	—	2
Total	$3,497	$ 1,924	$ (1,947)	$ 420	$ 3,894

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:

	2017			2016		
Three months ended June 30 ($ in millions)	Average Balance	%	Average Rate	Average Balance	%	Average Rate
Deposits[(1)]	$51,836	72.0 %	1.6 %	$45,523	70.4 %	1.6 %
Securitized financings	12,213	17.0	2.1	12,211	18.9	1.9
Senior unsecured notes	7,933	11.0	3.4	6,861	10.6	3.4
Bank term loan	—	—	—	65	0.1	NM
Total	$71,982	100.0%	1.9 %	$64,660	100.0%	1.9 %

(1) Excludes $218 million and $208 million average balance of non-interest-bearing deposits for the three months ended June 30, 2017 and 2016, respectively. Non-interest-bearing deposits comprise less than 10% of total deposits for the three months ended June 30, 2017 and 2016.

Six months ended June 30 ($ in millions)	2017 Average Balance	%	Average Rate	2016 Average Balance	%	Average Rate
Deposits[1]	$51,833	72.0 %	1.5 %	$44,914	68.8 %	1.6 %
Securitized financings	12,267	17.1	2.1	12,535	19.2	1.9
Senior unsecured notes	7,847	10.9	3.5	6,709	10.3	3.4
Bank term loan	—	—	—	1,118	1.7	5.6
Total	$71,947	100.0%	1.8 %	$65,276	100.0%	1.9 %

(1) Excludes $229 million and $221 million average balance of non-interest-bearing deposits for the six months ended June 30, 2017 and 2016, respectively. Non-interest-bearing deposits comprise less than 10% of total deposits for the three months ended June 30, 2017 and 2016.

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 June 30, 2017, we had $40.4 billion in direct deposits (which includes deposits from banks and financial institutions) and $12.5 billion in deposits originated through brokerage firms (including network deposit sweeps procured through a program arranger that channels brokerage account deposits to us). A key part of our liquidity plan and funding strategy is to continue to expand our direct deposits base as a source of stable and diversified low cost funding.

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

Brokered deposits are primarily from retail customers of large brokerage firms. We have relationships with 10 brokers that offer our deposits through their networks. Our brokered deposits consist primarily of certificates of deposit that bear interest at a fixed rate and at June 30, 2017, had a weighted average remaining life of 3.2 years. These deposits generally are not subject to early withdrawal.

Our ability to attract deposits is sensitive to, among other things, the interest rates we pay, and therefore, we bear funding 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, including 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 June 30 ($ in millions)	2017 Average Balance	% of Total	Average Rate	2016 Average Balance	% of Total	Average Rate
Direct deposits:						
Certificates of deposit (including IRA certificates of deposit)	$21,825	42.1 %	1.6 %	$19,393	42.6 %	1.5 %
Savings accounts (including money market accounts)	17,607	34.0	1.1	13,708	30.1	1.0
Brokered deposits	12,404	23.9	2.3	12,422	27.3	2.2
Total interest-bearing deposits	$51,836	100.0%	1.6 %	$45,523	100.0%	1.6 %

Six months ended June 30 ($ in millions)	2017 Average Balance	% of Total	Average Rate	2016 Average Balance	% of Total	Average Rate
Direct deposits:						
Certificates of deposit (including IRA certificates of deposit)	$21,532	41.6 %	1.6 %	$18,856	42.0 %	1.5 %
Savings accounts (including money market accounts)	17,477	33.7	1.1	13,168	29.3 %	1.0
Brokered deposits	12,824	24.7	2.2	12,890	28.7 %	2.2
Total interest-bearing deposits	$51,833	100.0%	1.5 %	$44,914	100.0%	1.6 %

Our deposit liabilities provide funding with maturities ranging from one day to ten years. At June 30, 2017, the weighted average maturity of our interest-bearing time deposits was 1.9 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 June 30, 2017.

($ 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)]	$ 7,335	$ 1,211	$ 3,334	$ 10,650	$22,530
U.S. deposits ($100,000 or more)					
Direct deposits:					
Certificates of deposit (including IRA certificates of deposit)	2,349	1,748	4,559	6,447	15,103
Savings accounts (including money market accounts)	13,669	—	—	—	13,669
Brokered deposits:					
Sweep accounts	1,583	—	—	—	1,583
Total	$ 24,936	$ 2,959	$ 7,893	$ 17,097	$52,885

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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") 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 cost at June 30, 2017.

($ 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]	$ 3,604	$ 4,753	$ 959	$ —	$ 9,316
SFT	242	2,658	—	—	2,900
Total long-term borrowings—owed to securitization investors	$ 3,846	$ 7,411	$ 959	$ —	$ 12,216

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

We retain exposure to the performance of trust assets through: (i) in the case of SYNCT and SFT, subordinated retained interests in the 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) subordinated classes of SYNCT 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 loans 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 falls below zero. Following an early amortization event, principal collections on the loans in our trusts are applied to repay principal of the 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 or SFT.

The following table summarizes for each of our trusts the three-month rolling average excess spread at June 30, 2017.

	Note Principal Balance ($ in millions)	# of Series Outstanding	Three-Month Rolling Average Excess Spread[1]
SYNCT[2]	$ 10,840	18	~14.8% to 17.5%
SFT	$ 2,900	10	12.0 %

(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 each trust (or, in the case of SYNCT, represents a range of the excess spreads relating to the particular series issued within the trust), in each case calculated in accordance with the applicable trust or series documentation, for the three securitization monthly periods ending prior to June 30, 2017.

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

Third-Party Debt

Senior Unsecured Notes

The following table provides a summary of our outstanding senior unsecured notes at June 30, 2017.

($ in millions)	Maturity	Principal Amount Outstanding(1)
Fixed rate senior unsecured notes:		
Synchrony Financial		
1.875% senior unsecured notes	August, 2017	$ 500
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
Synchrony Bank		
3.000% senior unsecured notes	June, 2022	750
Total fixed rate senior unsecured notes		$ 7,600
Floating rate senior unsecured notes:		
Synchrony Financial		
Three-month LIBOR plus 1.40% senior unsecured notes	November, 2017	$ 700
Three-month LIBOR plus 1.23% senior unsecured notes	February, 2020	$ 250
Total floating rate senior unsecured notes		$ 950

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

At June 30, 2017, the aggregate amount of outstanding senior unsecured notes was $8.5 billion and the weighted average interest rate was 3.27%.

Short-Term Borrowings

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

Undrawn Credit Facilities

At June 30, 2017, we had an aggregate of $6.1 billion of undrawn committed capacity on our securitized financings, subject to customary borrowing conditions, from private lenders under our two existing securitization programs, and an aggregate of $0.5 billion of undrawn committed capacity under our unsecured revolving credit facility with private lenders.

Other

At June 30, 2017, 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 June 30, 2017.

Our real estate leases also include various covenants, but typically do not include financial covenants. If we do not satisfy the covenants in the real estate leases, the leases may be terminated and we may be liable for damage claims. At June 30, 2017, we were not in default under any of our credit facilities or senior unsecured notes and had not received any notices of default under any of our real estate leases.

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. Our senior unsecured debt is rated BBB- (stable outlook) by Fitch and BBB- (stable outlook) by S&P. In addition, certain of the asset-backed securities issued by SYNCT 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 June 30, 2017 had $15.3 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 $13.6 billion of liquid assets at December 31, 2016. The increase in liquid assets was primarily due to the retention of excess cash flows from operations within our Company.

As additional sources of liquidity, at June 30, 2017, we had an aggregate of $6.6 billion of undrawn credit facilities, subject to customary borrowing conditions, from private lenders under our existing securitization programs and an unsecured revolving credit facility, 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 "Regulation—Savings Association Regulation—Dividends and Stock Repurchases" in our 2016 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.

Our capital adequacy assessment also includes tax and accounting considerations in accordance with regulatory guidance. We maintain a net deferred tax asset on our balance sheet, and we include this asset when calculating our regulatory capital levels. However, for regulatory capital purposes, deferred tax assets are limited to (i) the amount of taxes previously paid that a company could recover through loss carrybacks; and (ii) 10% of the amount of our Tier 1 capital. At June 30, 2017, no portion of our deferred tax asset was disallowed for regulatory capital purposes.

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 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 April 2017.

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, 2017	February 2017	$ 0.13	$ 105
Three months ended June 30, 2017	May 2017	$ 0.13	105
Total dividends declared		$ 0.26	$ 210

On May 18, 2017, the Board announced plans to increase the quarterly dividend to $0.15 per share commencing in the third quarter of 2017. 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, including the financial condition, earnings, capital and liquidity requirements of us and the Bank, regulatory restrictions, corporate law and contractual restrictions and other factors that our Board of Directors deems relevant. In addition, banking laws and regulations and our banking regulators may limit our ability to pay dividends and make repurchases of our stock. For a discussion of regulatory restrictions on our and the Bank's ability to pay dividends and repurchase stock, see "Risk Factors—Risks Relating to Regulation—Synchrony is subject to restrictions that limit its ability to pay dividends and repurchase its common stock; the Bank is subject to restrictions that limit its ability to pay dividends to Synchrony, which could limit Synchrony's ability to pay dividends, repurchase its common stock or make payments on its indebtedness" in our 2016 Form 10-K.

Shares Repurchased Under Publicly Announced Programs	Total Number of Shares Purchased	Dollar Value of Share Purchased
($ and shares in millions)		
Three months ended March 31, 2017	6.6	$ 238
Three months ended June 30, 2017	15.7	438
Total	22.3	$ 676

In May 2017 we completed our initial share repurchase program of up to $952 million (the "2016 Share Repurchase Program"). On May 18, 2017, the Company approved a share repurchase program of up to $1.64 billion through June 30, 2018 (the "2017 Share Repurchase Program"). 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 2016 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 June 30, 2017, Synchrony Financial met all the requirements to be deemed well-capitalized.

The following table sets forth at June 30, 2017 and December 31, 2016 the composition of our capital ratios for the Company calculated under the Basel III regulatory capital standards, respectively.

	Basel III Transition (unless otherwise stated)			
	At June 30, 2017		At December 31, 2016	
($ in millions)	Amount	Ratio[(1)]	Amount	Ratio[(1)]
Total risk-based capital	$14,022	18.7 %	$14,129	18.5 %
Tier 1 risk-based capital	$13,037	17.4 %	$13,135	17.2 %
Tier 1 leverage	$13,037	14.8 %	$13,135	15.0 %
Common equity Tier 1 capital	$13,037	17.4 %	$13,135	17.2 %
Common equity Tier 1 capital - fully phased-in (estimated)	$12,891	17.2 %	$12,872	17.0 %

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(1) 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 increase in our Common equity Tier 1 capital ratio was primarily due to the decrease in risk-weighted assets in the six months ended June 30, 2017. The decrease in risk-weighted assets was primarily due to the seasonal decrease in our loan receivables.

Non-GAAP Measures

The capital ratios presented above include Common equity Tier 1 capital ("CET1") as calculated under the U.S. Basel III capital rules on a fully phased-in basis, which is not currently required by our regulators to be disclosed and, as such, is considered to be a non-GAAP measure. We believe that this capital ratio is a useful measure to investors because it is widely used by analysts and regulators to assess the capital position of financial services companies, although this ratio may not be comparable to similarly titled measures reported by other companies. The following table sets forth a reconciliation of the components of our CET1 capital ratio as calculated on a fully phased-in basis set forth above, to the comparable GAAP components at June 30, 2017 and December 31, 2016.

($ in millions)	At June 30, 2017	At December 31, 2016
Basel III - Common equity Tier 1 (transition)	$13,037	$ 13,135
Adjustments related to capital components during transition[1]	(146)	(263)
Basel III - Common equity Tier 1 (fully phased-in)	$12,891	$ 12,872
Risk-weighted assets - Basel III (transition)	$74,792	$76,179
Adjustments related to risk weighted assets during transition[2]	(44)	(238)
Risk-weighted assets - Basel III (fully phased-in)	$74,748	$75,941

(1) Adjustments related to capital components to determine CET1 (fully phased-in) include the phase-in of the intangible asset exclusion.

(2) Key differences between Basel III transition rules and fully phased-in Basel III rules relate to the calculation of risk-weighted assets including, but not limited to, adjustments for certain intangible assets and risk weighting of deferred tax assets.

Regulatory Capital Requirements - Synchrony Bank

At June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016.

	At June 30, 2017		At December 31, 2016		Minimum to be Well-Capitalized under Prompt Corrective Action Provisions - Basel III	
($ in millions)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital	$10,193	16.8%	$10,101	16.7%	$ 6,067	10.0 %
Tier 1 risk-based capital	$9,391	15.5%	$9,312	15.4%	$ 4,853	8.0 %
Tier 1 leverage	$9,391	13.1%	$9,312	13.2%	$ 3,581	5.0 %
Common equity Tier 1 capital	$9,391	15.5%	$9,312	15.4%	$ 3,943	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 2016 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 June 30, 2017, we had not recorded any contingent liabilities in our Condensed Consolidated Statement of Financial Position related to any guarantees.

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, asset impairment, 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, future impairments of investment securities, goodwill and intangible assets, 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 2016 Form 10-K, for a detailed discussion of these critical accounting estimates.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. In July 2015, the FASB approved a one-year deferral of this standard, with a revised effective date for annual and interim reporting periods beginning after December 15, 2017. The scope of ASU 2014-09 excludes interest and fee income on loans and gains and losses on investment securities, derivatives and the sales of financial instruments, and as a result, the majority of the Company's revenue will not be affected by the ASU. The standard permits the use of either the retrospective or modified retrospective (cumulative effect) transition method. We do not expect the guidance to have a material impact on the timing or measurement of the Company’s revenues.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments. This ASU replaces the existing incurred loss impairment guidance with a new impairment model known as the Current Expected Credit Loss ("CECL") model, which is based on expected credit losses. The CECL model requires, upon origination of a loan, the recognition of all expected credit losses over the life of the loan based on historical experience, current conditions and reasonable and supportable forecasts. This standard is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2019, with early adoption permitted for annual and interim periods for fiscal years beginning after December 15, 2018. The amendments in this standard will be recognized through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. While we are evaluating the effect that ASU 2016-13 will have on our consolidated financial statements and related disclosures, this standard is expected to result in an increase to the Company’s allowance for loan losses given the change to expected losses for the estimated life of the financial asset. The extent of the increase will depend on the asset quality of the portfolio, and economic conditions and forecasts at adoption.

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, as of June 2017, 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 2016 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)

($ in millions, except per share data)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Interest income:				
Interest and fees on loans (Note 4)	$3,927	$3,494	$7,804	$6,992
Interest on investment securities	43	21	79	43
Total interest income	3,970	3,515	7,883	7,035
Interest expense:				
Interest on deposits	202	179	396	351
Interest on borrowings of consolidated securitization entities	63	59	128	117
Interest on third-party debt	68	65	135	146
Total interest expense	333	303	659	614
Net interest income	3,637	3,212	7,224	6,421
Retailer share arrangements	(669)	(664)	(1,353)	(1,334)
Net interest income, after retailer share arrangements	2,968	2,548	5,871	5,087
Provision for loan losses (Note 4)	1,326	1,021	2,632	1,924
Net interest income, after retailer share arrangements and provision for loan losses	1,642	1,527	3,239	3,163
Other income:				
Interchange revenue	165	151	310	281
Debt cancellation fees	68	63	136	127
Loyalty programs	(206)	(135)	(343)	(245)
Other	30	4	47	12
Total other income	57	83	150	175
Other expense:				
Employee costs	321	301	646	581
Professional fees	158	154	309	300
Marketing and business development	124	107	218	201
Information processing	88	81	178	163
Other	220	196	468	394
Total other expense	911	839	1,819	1,639
Earnings before provision for income taxes	788	771	1,570	1,699
Provision for income taxes (Note 12)	292	282	575	628
Net earnings	$496	$489	$995	$1,071
Earnings per share				
Basic	$0.62	$0.59	$1.23	$1.28
Diluted	$0.61	$0.58	$1.23	$1.28
Dividends declared per common share	$0.13	$—	$0.26	$—

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2017	2016	2017	2016
Net earnings	$496	$489	$995	$1,071
Other comprehensive income (loss)				
Investment securities	4	6	3	17
Currency translation adjustments	2	5	1	6
Employee benefit plans	—	—	—	(2)
Other comprehensive income (loss)	6	11	4	21
Comprehensive income	$502	$500	$999	$1,092

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 June 30, 2017	At December 31, 2016
	(Unaudited)	
Assets		
Cash and equivalents	$ 12,020	$ 9,321
Investment securities (Note 3)	3,997	5,110
Loan receivables: (Notes 4 and 5)		
Unsecuritized loans held for investment	52,550	52,332
Restricted loans of consolidated securitization entities	22,908	24,005
Total loan receivables	75,458	76,337
Less: Allowance for loan losses	(5,001)	(4,344)
Loan receivables, net	70,457	71,993
Goodwill	991	949
Intangible assets, net (Note 6)	787	712
Other assets[(a)]	2,888	2,122
Total assets	$ 91,140	$ 90,207
Liabilities and Equity		
Deposits: (Note 7)		
Interest-bearing deposit accounts	$ 52,659	$ 51,896
Non-interest-bearing deposit accounts	226	159
Total deposits	52,885	52,055
Borrowings: (Notes 5 and 8)		
Borrowings of consolidated securitization entities	12,204	12,388
Senior unsecured notes	8,505	7,759
Total borrowings	20,709	20,147
Accrued expenses and other liabilities	3,214	3,809
Total liabilities	$ 76,808	$ 76,011
Equity:		
Common Stock, par share value $0.001 per share; 4,000,000,000 shares authorized; 833,984,684 shares issued at both June 30, 2017 and December 31, 2016; 795,324,028 and 817,352,328 shares outstanding at June 30, 2017 and December 31, 2016, respectively	$ 1	$ 1
Additional paid-in capital	9,415	9,393
Retained earnings	6,109	5,330
Accumulated other comprehensive income (loss):		
Investment securities	(15)	(18)
Currency translation adjustments	(19)	(20)
Other	(15)	(15)
Treasury Stock, at cost; 38,660,656 and 16,632,356 shares at June 30, 2017 and December 31, 2016, respectively	(1,144)	(475)
Total equity	14,332	14,196
Total liabilities and equity	$ 91,140	$ 90,207

(a) Other assets include restricted cash and equivalents of $867 million and $347 million at June 30, 2017 and December 31, 2016, respectively.
See accompanying notes to condensed consolidated financial statements.

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

	Common Stock						
($ in millions, shares in thousands)	Shares Issued	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
Balance at January 1, 2016	833,828	$ 1	$ 9,351	$ 3,293	$ (41)	$—	$ 12,604
Net earnings	—	—	—	1,071	—	—	1,071
Other comprehensive income	—	—	—	—	21	—	21
Stock-based compensation	93	—	19	—	—	—	19
Balance at June 30, 2016	833,921	$ 1	$ 9,370	$ 4,364	$ (20)	$—	$ 13,715
Balance at January 1, 2017	833,985	$ 1	$ 9,393	$ 5,330	$ (53)	$ (475)	$ 14,196
Net earnings	—	—	—	995	—	—	995
Other comprehensive income	—	—	—	—	4	—	4
Purchases of treasury stock	—	—	—	—	—	(676)	(676)
Stock-based compensation	—	—	22	(6)	—	7	23
Dividends - common stock	—	—	—	(210)	—	—	(210)
Balance at June 30, 2017	833,985	$ 1	$ 9,415	$ 6,109	$ (49)	$ (1,144)	$ 14,332

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended June 30,	
($ in millions)	2017	2016
Cash flows - operating activities		
Net earnings	$995	$1,071
Adjustments to reconcile net earnings to cash provided from operating activities		
Provision for loan losses	2,632	1,924
Deferred income taxes	(181)	97
Depreciation and amortization	118	108
(Increase) decrease in interest and fees receivable	(96)	(35)
(Increase) decrease in other assets	(31)	42
Increase (decrease) in accrued expenses and other liabilities	(242)	(496)
All other operating activities	323	261
Cash provided from (used for) operating activities	3,518	2,972
Cash flows - investing activities		
Maturity and redemption of investment securities	2,075	996
Purchases of investment securities	(966)	(565)
Acquisition of loan receivables	(73)	(54)
Net (increase) decrease in restricted cash and equivalents	(520)	87
Net (increase) decrease in loan receivables	(1,179)	(1,613)
All other investing activities	(297)	(86)
Cash provided from (used for) investing activities	(960)	(1,235)
Cash flows - financing activities		
Borrowings of consolidated securitization entities		
Proceeds from issuance of securitized debt	1,570	2,167
Maturities and repayment of securitized debt	(1,758)	(3,524)
Third-party debt		
Proceeds from issuance of third-party debt	741	498
Maturities and repayment of third-party debt	—	(4,151)
Net increase (decrease) in deposits	478	2,737
Purchases of treasury stock	(676)	—
Dividends paid on common stock	(210)	—
All other financing activities	(4)	(2)
Cash provided from (used for) financing activities	141	(2,275)
Increase (decrease) in cash and equivalents	2,699	(538)
Cash and equivalents at beginning of period	9,321	12,325
Cash and equivalents at end of period	$12,020	$11,787

See accompanying notes to condensed consolidated financial statements.

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").

References to the "Company", "we", "us" and "our" are to Synchrony Financial and its consolidated subsidiaries unless the context otherwise requires.

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

NOTE 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles ("GAAP").

Preparing financial statements in conformity with U.S. GAAP requires us to make estimates based on assumptions about current, and for some estimates, future, economic and market conditions (for example, unemployment, housing, interest rates and market liquidity) which affect reported amounts and related disclosures in our condensed consolidated financial statements. Although our current estimates contemplate current conditions and how we expect them to change in the future, as appropriate, it is reasonably possible that actual conditions could be different than anticipated in those estimates, which could materially affect our results of operations and financial position. Among other effects, such changes could result in incremental losses on loan receivables, future impairments of investment securities, goodwill and intangible assets, increases in reserves for contingencies, establishment of valuation allowances on deferred tax assets and increases in our tax liabilities.

We primarily conduct our operations within the United States and Canada. Substantially all of our revenues are from U.S. customers. The operating activities conducted by our non-U.S. affiliates use the local currency as their functional currency. The effects of translating the financial statements of these non-U.S. affiliates to U.S. dollars are included in equity. Asset and liability accounts are translated at period-end exchange rates, while revenues and expenses are translated at average rates for the respective periods.

Consolidated Basis of Presentation

The Company's financial statements have been prepared on a consolidated basis. Under this basis of presentation, our financial statements consolidate all of our subsidiaries – i.e., entities in which we have a controlling financial interest, most often because we hold a majority voting interest.

To determine if we hold a controlling financial interest in an entity, we first evaluate if we are required to apply the variable interest entity (“VIE”) model to the entity, otherwise the entity is evaluated under the voting interest model. Where we hold current or potential rights that give us the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance (“power”) combined with a variable interest that gives us the right to receive potentially significant benefits or the obligation to absorb potentially significant losses (“significant economics”), we have a controlling financial interest in that VIE. Rights held by others to remove the party with power over the VIE are not considered unless one party can exercise those rights unilaterally. We consolidate certain securitization entities under the VIE model because we have both power and significant economics. See Note 5. Variable Interest Entities.

Interim Period Presentation

The condensed consolidated financial statements and notes thereto are unaudited. These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to present a fair statement of our results of operations, financial position and cash flows. The results reported in these condensed consolidated financial statements should not be considered as necessarily indicative of results that may be expected for the entire year. These condensed consolidated financial statements should be read in conjunction with our 2016 annual consolidated and combined financial statements and the related notes in our Annual Report on Form 10-K for the year ended December 31, 2016 (our "2016 Form 10-K").

Summary of Significant Accounting Policies

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. In July 2015, the FASB approved a one-year deferral of this standard, with a revised effective date for annual and interim reporting periods beginning after December 15, 2017. The scope of ASU 2014-09 excludes interest and fee income on loans and gains and losses on investment securities, derivatives and the sales of financial instruments, and as a result, the majority of our revenue will not be affected by the ASU. The standard permits the use of either the retrospective or modified retrospective (cumulative effect) transition method. We do not expect the guidance to have a material impact on the timing or measurement of the Company’s revenues.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments. This ASU replaces the existing incurred loss impairment guidance with a new impairment model known as the Current Expected Credit Loss ("CECL") model, which is based on expected credit losses. The CECL model requires, upon origination of a loan, the recognition of all expected credit losses over the life of the loan based on historical experience, current conditions and reasonable and supportable forecasts. This standard is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2019, with early adoption permitted for annual and interim periods for fiscal years beginning after December 15, 2018. The amendments in this standard will be recognized through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. While we are evaluating the effect that ASU 2016-13 will have on our consolidated financial statements and related disclosures, this standard is expected to result in an increase to our allowance for loan losses given the change to expected losses for the estimated life of the financial asset. The extent of the increase will depend on the asset quality of the portfolio, and economic conditions and forecasts at adoption.

See Note 2. Basis of Presentation and Summary of Significant Accounting Policies to our 2016 annual consolidated and combined financial statements in our 2016 Form 10-K, for additional information on our significant accounting policies.

NOTE 3. INVESTMENT SECURITIES

All of our investment securities are classified as available-for-sale and are held to meet our liquidity objectives or to comply with the Community Reinvestment Act. Our investment securities consist of the following:

	June 30, 2017				December 31, 2016			
($ in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Debt								
U.S. government and federal agency	$2,576	$ 2	$ (2)	$ 2,576	$3,676	$ 1	$ (1)	$ 3,676
State and municipal	45	—	(1)	44	47	—	(1)	46
Residential mortgage-backed[(a)]	1,384	2	(24)	1,362	1,400	2	(29)	1,373
Equity	15	—	—	15	15	—	—	15
Total	$4,020	$ 4	$ (27)	$ 3,997	$5,138	$ 3	$ (31)	$ 5,110

(a) All of our residential mortgage-backed securities have been issued by government-sponsored entities and are collateralized by U.S. mortgages. At June 30, 2017 and December 31, 2016, $381 million and $363 million, respectively, are pledged by the Bank as collateral to the Federal Reserve to secure Federal Reserve Discount Window advances.

The following table presents the estimated fair values and gross unrealized losses of our available-for-sale investment securities:

	In loss position for Less than 12 months		12 months or more	
($ in millions)	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
At June 30, 2017				
Debt				
U.S. government and federal agency	$2,300	$ (2)	$—	$ —
State and municipal	32	(1)	3	—
Residential mortgage-backed	1,183	(22)	55	(2)
Equity	14	—	—	—
Total	$3,529	$ (25)	$58	$ (2)
At December 31, 2016				
Debt				
U.S. government and federal agency	$1,701	$ (1)	$—	$ —
State and municipal	35	(1)	4	—
Residential mortgage-backed	1,235	(28)	35	(1)
Equity	14	—	1	—
Total	$2,985	$ (30)	$40	$ (1)

We regularly review investment securities for impairment using both qualitative and quantitative criteria. We presently do not intend to sell our debt securities that are in an unrealized loss position and believe that it is not more likely than not that we will be required to sell these securities before recovery of our amortized cost.

There were no other-than-temporary impairments recognized for the three and six months ended June 30, 2017 and 2016.

Contractual Maturities of Investments in Available-for-Sale Debt Securities (excluding residential mortgage-backed securities)

At June 30, 2017 ($ in millions)	Amortized cost	Estimated fair value
Due		
Within one year	$ 2,302	$ 2,300
After one year through five years	$ 274	$ 276
After five years through ten years	$ 3	$ 2
After ten years	$ 42	$ 42

We expect actual maturities to differ from contractual maturities because borrowers have the right to prepay certain obligations.

There were no material realized gains or losses recognized for the three and six months ended June 30, 2017 and 2016. Although we generally do not have the intent to sell any specific securities held at June 30, 2017, in the ordinary course of managing our investment securities portfolio, we may sell securities prior to their maturities for a variety of reasons, including diversification, credit quality, yield, liquidity requirements and funding obligations.

NOTE 4. LOAN RECEIVABLES AND ALLOWANCE FOR LOAN LOSSES

($ in millions)	June 30, 2017	December 31, 2016
Credit cards	$72,492	$ 73,580
Consumer installment loans	1,514	1,384
Commercial credit products	1,386	1,333
Other	66	40
Total loan receivables, before allowance for losses[(a)(b)]	$75,458	$ 76,337

(a) Total loan receivables include $22.9 billion and $24.0 billion of restricted loans of consolidated securitization entities at June 30, 2017 and December 31, 2016, respectively. See Note 5. Variable Interest Entities for further information on these restricted loans.

(b) At June 30, 2017 and December 31, 2016, loan receivables included deferred expense, net of deferred income, of $98 million and $82 million, respectively.

Allowance for Loan Losses

($ in millions)	Balance at April 1, 2017	Provision charged to operations	Gross charge-offs	Recoveries	Balance at June 30, 2017
Credit cards	$4,585	$ 1,301	$ (1,194)	$ 214	$4,906
Consumer installment loans	40	1	(11)	4	34
Commercial credit products	50	24	(16)	2	60
Other	1	—	—	—	$1
Total	$4,676	$ 1,326	$ (1,221)	$ 220	$5,001

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($ in millions)	Balance at April 1, 2016	Provision charged to operations	Gross charge-offs	Recoveries	Balance at June 30, 2016
Credit cards	$ 3,543	$ 988	$ (947)	$ 216	$ 3,800
Consumer installment loans	31	14	(9)	3	39
Commercial credit products	44	19	(13)	3	53
Other	2	—	—	—	$ 2
Total	$ 3,620	$ 1,021	$ (969)	$ 222	$ 3,894

($ in millions)	Balance at January 1, 2017	Provision charged to operations	Gross charge-offs	Recoveries	Balance at June 30, 2017
Credit cards	$ 4,254	$ 2,579	$ (2,378)	$ 451	$ 4,906
Consumer installment loans	37	14	(25)	8	34
Commercial credit products	52	39	(34)	3	60
Other	1	—	—	—	$ 1
Total	$ 4,344	$ 2,632	$ (2,437)	$ 462	$ 5,001

($ in millions)	Balance at January 1, 2016	Provision charged to operations	Gross charge-offs	Recoveries	Balance at June 30, 2016
Credit cards	$ 3,420	$ 1,872	$ (1,901)	$ 409	$ 3,800
Consumer installment loans	26	27	(20)	6	39
Commercial credit products	50	24	(26)	5	53
Other	1	1	—	—	2
Total	$ 3,497	$ 1,924	$ (1,947)	$ 420	$ 3,894

Delinquent and Non-accrual Loans

At June 30, 2017 ($ in millions)	30-89 days delinquent	90 or more days delinquent	Total past due	90 or more days delinquent and accruing	Total non-accruing
Credit cards	$ 1,727	$ 1,415	$ 3,142	$ 1,415	$ —
Consumer installment loans	18	2	20	—	2
Commercial credit products	28	18	46	18	—
Total delinquent loans	$ 1,773	$ 1,435	$ 3,208	$ 1,433	$ 2
Percentage of total loan receivables	2.4 %	1.9 %	4.3 %	1.9 %	— %

At December 31, 2016 ($ in millions)	30-89 days delinquent	90 or more days delinquent	Total past due	90 or more days delinquent and accruing	Total non-accruing
Credit cards	$ 1,695	$ 1,524	$3,219	$ 1,524	$ —
Consumer installment loans	19	4	23	—	4
Commercial credit products	35	18	53	18	—
Total delinquent loans	$ 1,749	$ 1,546	$3,295	$ 1,542	$ 4
Percentage of total loan receivables	2.3 %	2.0 %	4.3 %	2.0 %	— %

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Impaired Loans and Troubled Debt Restructurings

Most of our non-accrual loan receivables are smaller balance loans evaluated collectively, by portfolio, for impairment and therefore are outside the scope of the disclosure requirements for impaired loans. Accordingly, impaired loans represent restructured smaller balance homogeneous loans meeting the definition of a Troubled Debt Restructuring ("TDR"). We use certain loan modification programs for borrowers experiencing financial difficulties. These loan modification programs include interest rate reductions and payment deferrals in excess of three months, which were not part of the terms of the original contract.

We have both internal and external loan modification programs. We primarily use long-term (12 to 60 months) modification programs for borrowers experiencing financial difficulty as a loss mitigation strategy to improve long-term collectability of the loans that are classified as TDRs. 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 customers who request financial assistance through external sources, such as consumer credit counseling agency programs. These loans 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 following table provides information on loans that entered a loan modification program during the periods presented:

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2017	2016	2017	2016
Credit cards	$175	$119	$347	$251
Consumer installment loans	—	—	—	—
Commercial credit products	1	—	2	1
Total	$176	$119	$349	$252

Our allowance for loan losses on TDRs is generally measured based on the difference between the recorded loan receivable and the present value of the expected future cash flows, 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.

The following table provides information about loans classified as TDRs and specific reserves. We do not evaluate credit card loans for impairment on an individual basis but instead estimate an allowance for loan losses on a collective basis. As a result, there are no impaired loans for which there is no allowance.

At June 30, 2017 ($ in millions)	Total recorded investment	Related allowance	Net recorded investment	Unpaid principal balance
Credit cards	$ 927	$ (355)	$ 572	$ 823
Consumer installment loans	—	—	—	—
Commercial credit products	5	(2)	3	5
Total	$ 932	$ (357)	$ 575	$ 828

At December 31, 2016 ($ in millions)	Total recorded investment	Related allowance	Net recorded investment	Unpaid principal balance
Credit cards	$ 862	$ (321)	$ 541	$ 761
Consumer installment loans	—	—	—	—
Commercial credit products	6	(3)	3	5
Total	$ 868	$ (324)	$ 544	$ 766

Financial Effects of TDRs

As part of our loan modifications for borrowers experiencing financial difficulty, we may provide multiple concessions to minimize our economic loss and improve long-term loan performance and collectability. The following table presents the types and financial effects of loans modified and accounted for as TDRs during the periods presented:

Three months ended June 30,	2017			2016		
($ in millions)	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment
Credit cards	$ 11	$ 53	$ 910	$ 12	$ 43	$ 773
Consumer installment loans	—	—	—	—	—	—
Commercial credit products	—	—	6	—	—	6
Total	$ 11	$ 53	$ 916	$ 12	$ 43	$ 779

Six months ended June 30,	2017			2016		
($ in millions)	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment
Credit cards	$ 23	$ 104	$ 894	$ 24	$ 85	$ 768
Consumer installment loans	—	—	—	—	—	—
Commercial credit products	—	—	6	—	—	6
Total	$ 23	$ 104	$ 900	$ 24	$ 85	$ 774

Payment Defaults

The following table presents the type, number and amount of loans accounted for as TDRs that enrolled in a modification plan within the previous 12 months from the applicable balance sheet date and experienced a payment default during the periods presented. A customer defaults from a modification program after two consecutive missed payments.

Three months ended June 30,	2017		2016	
($ in millions)	Accounts defaulted	Loans defaulted	Accounts defaulted	Loans defaulted
Credit cards	19,318	$ 40	7,735	$ 25
Consumer installment loans	—	—	—	—
Commercial credit products	44	—	44	—
Total	19,362	$ 40	7,779	$ 25

Six months ended June 30,	2017		2016	
($ in millions)	Accounts defaulted	Loans defaulted	Accounts defaulted	Loans defaulted
Credit cards	35,399	$ 73	18,024	$ 46
Consumer installment loans	—	—	—	—
Commercial credit products	84	1	81	—
Total	35,483	$ 74	18,105	$ 46

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Credit Quality Indicators

Our loan receivables portfolio includes both secured and unsecured loans. Secured loan receivables are largely comprised of consumer installment loans secured by equipment. Unsecured loan receivables are largely comprised of our open-ended consumer and commercial revolving credit card loans. As part of our credit risk management activities, on an ongoing basis, we assess overall credit quality by reviewing information related to the performance of a customer's account with us, as well as information from credit bureaus, such as a Fair Isaac Corporation ("FICO") or other credit scores, relating to the customer's broader credit performance. FICO scores are generally obtained at origination of the account and are refreshed, at a minimum quarterly, but could be as often as weekly, to assist in predicting customer behavior. We categorize these credit scores into the following three credit score categories: (i) 661 or higher, which are considered the strongest credits; (ii) 601 to 660, considered moderate credit risk; and (iii) 600 or less, which are considered weaker credits. There are certain customer accounts for which a FICO score is not available where we use alternative sources to assess their credit and predict behavior. The following table provides the most recent FICO scores available for our customers at June 30, 2017 and December 31, 2016, respectively, as a percentage of each class of loan receivable. The table below excludes 0.7%, 0.7% and 0.9% of our total loan receivables balance at June 30, 2017, December 31, 2016 and June 30, 2016, respectively, which represents those customer accounts for which a FICO score is not available.

	June 30, 2017			December 31, 2016			June 30, 2016		
	661 or higher	601 to 660	600 or less	661 or higher	601 to 660	600 or less	661 or higher	601 to 660	600 or less
Credit cards	72 %	20 %	8 %	73 %	20 %	7 %	73 %	20 %	7 %
Consumer installment loans	78 %	16 %	6 %	78 %	16 %	6 %	79 %	16 %	5 %
Commercial credit products	89 %	7 %	4 %	87 %	9 %	4 %	87 %	9 %	4 %

Unfunded Lending Commitments

We manage the potential risk in credit commitments by limiting the total amount of credit, both by individual customer and in total, by monitoring the size and maturity of our portfolios and by applying the same credit standards for all of our credit products. Unused credit card lines available to our customers totaled approximately $360 billion and $348 billion at June 30, 2017 and December 31, 2016, respectively. While these amounts represented the total available unused credit card lines, we have not experienced and do not anticipate that all of our customers will access their entire available line at any given point in time.

Interest Income by Product

The following table provides additional information about our interest and fees on loans from our loan receivables, including held for sale:

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2017	2016	2017	2016
Credit cards	$3,858	$3,432	$7,669	$6,868
Consumer installment loans	34	28	66	55
Commercial credit products	34	33	68	68
Other	1	1	1	1
Total	$3,927	$3,494	$7,804	$6,992

NOTE 5. VARIABLE INTEREST ENTITIES

We use VIEs to securitize loans and arrange asset-backed financing in the ordinary course of business. Investors in these entities only have recourse to the assets owned by the entity and not to our general credit. We do not have implicit support arrangements with any VIE and we did not provide non-contractual support for previously transferred loan receivables to any VIE in the three and six months ended June 30, 2017 and 2016. Our VIEs are able to accept new loan receivables and arrange new asset-backed financings, consistent with the requirements and limitations on such activities placed on the VIE by existing investors. Once an account has been designated to a VIE, the contractual arrangements we have require all existing and future loans originated under such account to be transferred to the VIE. The amount of loan receivables held by our VIEs in excess of the minimum amount required under the asset-backed financing arrangements with investors may be removed by us under random removal of accounts provisions. All loan receivables held by a VIE are subject to claims of third-party investors.

In evaluating whether we have the power to direct the activities of a VIE that most significantly impact its economic performance, we consider the purpose for which the VIE was created, the importance of each of the activities in which it is engaged and our decision-making role, if any, in those activities that significantly determine the entity’s economic performance as compared to other economic interest holders. This evaluation requires consideration of all facts and circumstances relevant to decision-making that affects the entity’s future performance and the exercise of professional judgment in deciding which decision-making rights are most important.

In determining whether we have the right to receive benefits or the obligation to absorb losses that could potentially be significant to a VIE, we evaluate all of our economic interests in the entity, regardless of form (debt, equity, management and servicing fees, and other contractual arrangements). This evaluation considers all relevant factors of the entity’s design, including: the entity’s capital structure, contractual rights to earnings or losses, subordination of our interests relative to those of other investors, as well as any other contractual arrangements that might exist that could have the potential to be economically significant. The evaluation of each of these factors in reaching a conclusion about the potential significance of our economic interests is a matter that requires the exercise of professional judgment.

We consolidate VIEs where we have the power to direct the activities that significantly affect the VIEs' economic performance, typically because of our role as either servicer or administrator for the VIEs. The power to direct exists because of our role in the design and conduct of the servicing of the VIEs’ assets as well as directing certain affairs of the VIEs, including determining whether and on what terms debt of the VIEs will be issued.

The loan receivables in these entities have risks and characteristics similar to our other financing receivables and were underwritten to the same standard. Accordingly, the performance of these assets has been similar to our other comparable loan receivables, and the blended performance of the pools of receivables in these entities reflects the eligibility criteria that we apply to determine which receivables are selected for transfer. Contractually, the cash flows from these financing receivables must first be used to pay third-party debt holders, as well as other expenses of the entity. Excess cash flows, if any, are available to us. The creditors of these entities have no claim on our other assets.

The table below summarizes the assets and liabilities of our consolidated securitization VIEs described above.

($ in millions)	June 30, 2017	December 31, 2016
Assets		
Loan receivables, net[(a)]	$21,707	$ 22,892
Other assets[(b)]	670	107
Total	$22,377	$ 22,999
Liabilities		
Borrowings	$12,204	$ 12,388
Other liabilities	19	21
Total	$12,223	$ 12,409

(a) Includes $1.2 billion and $1.1 billion of related allowance for loan losses resulting in gross restricted loans of $22.9 billion and $24.0 billion at June 30, 2017 and December 31, 2016, respectively.

(b) Includes $665 million and $100 million of segregated funds held by the VIEs at June 30, 2017 and December 31, 2016, respectively, which are classified as restricted cash and equivalents and included as a component of other assets in our Condensed Consolidated Statements of Financial Position.

The balances presented above are net of intercompany balances and transactions that are eliminated in our condensed consolidated financial statements.

We provide servicing for all of our consolidated VIEs. Collections are required to be placed into segregated accounts owned by each VIE in amounts that meet contractually specified minimum levels. These segregated funds are invested in cash and cash equivalents and are restricted as to their use, principally to pay maturing principal and interest on debt and the related servicing fees. Collections above these minimum levels are remitted to us on a daily basis.

Income (principally, interest and fees on loans) earned by our consolidated VIEs was $1.1 billion for both the three months ended June 30, 2017 and 2016. Related expenses consisted primarily of provision for loan losses of $303 million and $275 million for the three months ended June 30, 2017 and 2016, respectively, and interest expense of $63 million and $59 million for the three months ended June 30, 2017 and 2016, respectively.

Income (principally, interest and fees on loans) earned by our consolidated VIEs was $2.1 billion and $2.3 billion for the six months ended June 30, 2017 and 2016, respectively. Related expenses consisted primarily of provision for loan losses of $601 million and $517 million for the six months ended June 30, 2017 and 2016, respectively, and interest expense of $128 million and $117 million for the six months ended June 30, 2017 and 2016, respectively.

NOTE 6. INTANGIBLE ASSETS

	June 30, 2017			December 31, 2016		
($ in millions)	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Customer-related	$1,207	$ (616)	$591	$1,069	$ (560)	$509
Capitalized software	343	(147)	196	318	(115)	203
Total	$1,550	$ (763)	$787	$1,387	$ (675)	$712

During the six months ended June 30, 2017, we recorded additions to intangible assets subject to amortization of $175 million, primarily related to customer-related intangible assets, as well as capitalized software expenditures.

Customer-related intangible assets primarily relate to retail partner contract acquisitions and extensions, as well as purchased credit card relationships. During the six months ended June 30, 2017 and 2016, we recorded additions to customer-related intangible assets subject to amortization of $150 million and $25 million, respectively, primarily related to payments made to acquire and extend certain retail partner relationships. These additions had a weighted average amortizable life of 11 years and 9 years for the six months ended June 30, 2017 and 2016, respectively. Amortization expense related to retail partner contracts was $28 million and $25 million for the three months ended June 30, 2017 and 2016, respectively, and $55 million and $50 million for the six months ended June 30, 2017 and 2016, respectively and is included as a component of marketing and business development expense in our Condensed Consolidated Statements of Earnings. All other amortization expense was $20 million and $19 million for both the three months ended June 30, 2017 and 2016, respectively and $38 million and $37 million for the six months ended June 30, 2017 and 2016, respectively and is included as a component of other expense in our Condensed Consolidated Statements of Earnings.

NOTE 7. DEPOSITS

	June 30, 2017		December 31, 2016	
($ in millions)	Amount	Average rate[(a)]	Amount	Average rate[(a)]
Interest-bearing deposits	$52,659	1.5 %	$51,896	1.5 %
Non-interest-bearing deposits	226	—	159	—
Total deposits	$52,885		$52,055	

(a) Based on interest expense for the six months ended June 30, 2017 and the year ended December 31, 2016 and average deposits balances.

At June 30, 2017 and December 31, 2016, interest-bearing deposits included $15.1 billion and $14.2 billion of certificates of deposit of $100,000 or more, respectively. Of the total certificates of deposit of $100,000 or more, $4.8 billion and $4.4 billion were certificates of deposit of $250,000 or more at June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017, our interest-bearing time deposits maturing for the remainder of 2017 and over the next four years and thereafter were as follows:

($ in millions)	2017	2018	2019	2020	2021	Thereafter
Deposits	$7,058	$10,999	$5,373	$3,119	$2,257	$ 3,246

The above maturity table excludes $17.5 billion of demand deposits with no defined maturity, of which $15.6 billion are savings accounts. In addition, at June 30, 2017, we had $3.1 billion of broker network deposit sweeps procured through a program arranger who channels brokerage account deposits to us. Unless extended, the contracts associated with these broker network deposit sweeps will terminate between 2019 and 2021.

NOTE 8. BORROWINGS

	June 30, 2017				December 31, 2016
($ in millions)	Maturity date	Interest Rate	Weighted average interest rate	Outstanding Amount[(a)]	Outstanding Amount[(a)]
Borrowings of consolidated securitization entities:					
Fixed securitized borrowings	2017 - 2021	1.35% - 2.64%	1.83 %	$ 9,304	$ 8,731
Floating securitized borrowings	2018 - 2020	1.70% - 2.04%	1.82 %	2,900	3,657
Total borrowings of consolidated securitization entities			1.83 %	12,204	12,388
Synchrony Financial senior unsecured notes:					
Fixed senior unsecured notes	2017 - 2026	1.87% - 4.50%	3.41 %	6,815	6,811
Floating senior unsecured notes	2017 - 2020	2.40% - 2.59%	2.53 %	949	948
Synchrony Bank senior unsecured notes:					
Fixed senior unsecured notes	2022	3.00 %	3.00 %	741	—
Total senior unsecured notes			3.27 %	8,505	7,759
Total borrowings				$ 20,709	$ 20,147

(a) The amounts presented above for outstanding borrowings include unamortized debt premiums, discounts and issuance cost.

Debt Maturities

The following table summarizes the maturities of the principal amount of our borrowings of consolidated securitization entities and senior unsecured notes for the remainder of 2017 and over the next four years and thereafter:

($ in millions)	2017	2018	2019	2020	2021	Thereafter
Borrowings	$3,153	$2,749	$6,810	$3,146	$1,408	$ 3,500

Third-Party Debt

Senior Unsecured Notes

On June 12, 2017, the Bank issued a total of $750 million principal amount of 3.000% senior unsecured notes due 2022.

Credit Facilities

As additional sources of liquidity, we have undrawn committed capacity under credit facilities, primarily related to our securitization programs.

At June 30, 2017, we had an aggregate of $6.1 billion of undrawn committed capacity under our securitization financings, subject to customary borrowing conditions, from private lenders under our two existing securitization programs, and an aggregate of $0.5 billion of undrawn committed capacity under our unsecured revolving credit facility with private lenders.

NOTE 9. FAIR VALUE MEASUREMENTS

For a description of how we estimate fair value, see Note 2. Basis of Presentation and Summary of Significant Accounting Policies in our 2016 annual consolidated and combined financial statements in our 2016 Form 10-K.
The following tables present our assets and liabilities measured at fair value on a recurring basis.

Recurring Fair Value Measurements

The following tables present our assets measured at fair value on a recurring basis.

At June 30, 2017 ($ in millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment securities				
Debt				
U.S. Government and Federal Agency	$ —	$2,576	$ —	$2,576
State and municipal	—	—	44	44
Residential mortgage-backed	—	1,362	—	1,362
Equity	15	—	—	15
Total	$ 15	$3,938	$ 44	$3,997

At December 31, 2016 ($ in millions)				
Assets				
Investment securities				
Debt				
U.S. Government and Federal Agency	$ —	$3,676	$ —	$3,676
State and municipal	—	—	46	46
Residential mortgage-backed	—	1,373	—	1,373
Equity	15	—	—	15
Total	$ 15	$5,049	$ 46	$5,110

For the six months ended June 30, 2017, there were no securities transferred between Level 1 and Level 2 or between Level 2 and Level 3. At June 30, 2017 and December 31, 2016, we did not have any significant liabilities measured at fair value on a recurring basis.

Our Level 3 recurring fair value measurements primarily relate to state and municipal debt instruments which are valued using non-binding broker quotes or other third-party sources. For a description of our process to evaluate third-party pricing servicers, see Note 2. Basis of Presentation and Summary of Significant Accounting Policies in our 2016 annual consolidated and combined financial statements in our 2016 Form 10-K. Our state and municipal debt securities are classified as available-for-sale with changes in fair value included in accumulated other comprehensive income.

The following table presents the changes in our Level 3 debt instruments that are measured on a recurring basis for the three and six months ended June 30, 2017 and 2016.

Changes in Level 3 Instruments

($ in millions)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Balance at beginning of period	$43	$ 48	$46	$49
Net realized/unrealized gains (losses)	—	1	—	2
Purchases	1	—	1	—
Settlements	—	—	(3)	(2)
Balance at end of period	$44	$ 49	$44	$49

Non-Recurring Fair Value Measurements

We hold certain assets that have been measured at fair value on a non-recurring basis at June 30, 2017 and 2016. These assets can include repossessed assets and cost method investments that are written down to fair value when they are impaired, as well as loan receivables held for sale. Assets that are written down to fair value when impaired are not subsequently adjusted to fair value unless further impairment occurs. The assets held by us that were measured at fair value on a non-recurring basis and the effects of the remeasurement to fair value were not material for all periods presented.

Financial Assets and Financial Liabilities Carried at Other than Fair Value

At June 30, 2017 ($ in millions)	Carrying value	Corresponding fair value amount Total	Level 1	Level 2	Level 3
Financial Assets					
Financial assets for which carrying values equal or approximate fair value:					
Cash and equivalents[(a)]	$12,020	$12,020	$12,020	$—	$—
Other assets[(b)]	$867	$867	$867	$—	$—
Financial assets carried at other than fair value:					
Loan receivables, net[(c)]	$70,457	$78,695	$—	$—	$78,695
Financial Liabilities					
Financial liabilities carried at other than fair value:					
Deposits	$52,885	$53,333	$—	$53,333	$—
Borrowings of consolidated securitization entities	$12,204	$12,225	$—	$9,322	$2,903
Senior unsecured notes	$8,505	$8,641	$—	$8,641	$—

At December 31, 2016 ($ in millions)	Carrying value	Corresponding fair value amount Total	Level 1	Level 2	Level 3
Financial Assets					
Financial assets for which carrying values equal or approximate fair value:					
Cash and equivalents[(a)]	$9,321	$9,321	$9,321	$—	$—
Other assets[(b)]	$347	$347	$347	$—	$—
Financial assets carried at other than fair value:					
Loan receivables, net[(c)]	$71,993	$79,566	$—	$—	$79,566
Financial Liabilities					
Financial liabilities carried at other than fair value:					
Deposits	$52,055	$52,507	$—	$52,507	$—
Borrowings of consolidated securitization entities	$12,388	$12,402	$—	$9,191	$3,211
Senior unsecured notes	$7,759	$7,875	$—	$7,875	$—

(a) For cash and equivalents, carrying value approximates fair value due to the liquid nature and short maturity of these instruments.

(b) This balance relates to restricted cash and equivalents, which is included in other assets.

(c) Under certain retail partner program agreements, the expected sales proceeds related to the sale of their credit card portfolio may be limited to the amounts owed by our customers, which may be less than the fair value indicated above.

NOTE 10. REGULATORY AND CAPITAL ADEQUACY

As a savings and loan holding company and, as of June 2017, a financial holding company, we are subject to regulation, supervision and examination by the Federal Reserve Board and subject to the capital requirements as prescribed by Basel III capital rules and the requirements of the Dodd-Frank Act. The Bank is a federally chartered savings association. As such, the Bank is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency of the U.S. Treasury (the “OCC”), which is its primary regulator, and by the Consumer Financial Protection Bureau (“CFPB”). In addition, the Bank, as an insured depository institution, is supervised by the Federal Deposit Insurance Corporation.

Failure to meet minimum capital requirements can initiate 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 consolidated financial statements. Under capital adequacy guidelines, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined).

For Synchrony Financial to be a well-capitalized savings and loan holding company, the 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.

At June 30, 2017 and December 31, 2016, Synchrony Financial met all applicable requirements to be deemed well-capitalized pursuant to Federal Reserve Board regulations. At June 30, 2017 and December 31, 2016, the Bank also met all applicable requirements to be deemed well-capitalized pursuant to OCC regulations and for purposes of the Federal Deposit Insurance Act. There are no conditions or events subsequent to June 30, 2017 that management believes have changed the Company's or the Bank’s capital category.

The actual capital amounts, ratios and the applicable required minimums of the Company and the Bank are as follows:

Synchrony Financial

At June 30, 2017 ($ in millions)	Actual			Minimum for capital adequacy purposes		
	Amount	Ratio[a]		Amount	Ratio	
Total risk-based capital	$14,022	18.7	%	$5,983	8.0	%
Tier 1 risk-based capital	$13,037	17.4	%	$4,488	6.0	%
Tier 1 leverage	$13,037	14.8	%	$3,523	4.0	%
Common equity Tier 1 Capital	$13,037	17.4	%	$3,366	4.5	%

At December 31, 2016 ($ in millions)	Actual			Minimum for capital adequacy purposes		
	Amount	Ratio[a]		Amount	Ratio	
Total risk-based capital	$14,129	18.5	%	$6,094	8.0	%
Tier 1 risk-based capital	$13,135	17.2	%	$4,571	6.0	%
Tier 1 leverage	$13,135	15.0	%	$3,508	4.0	%
Common equity Tier 1 Capital	$13,135	17.2	%	$3,428	4.5	%

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Synchrony Bank

At June 30, 2017 ($ in millions)	Actual		Minimum for capital adequacy purposes		Minimum to be well-capitalized under prompt corrective action provisions	
	Amount	Ratio[(a)]	Amount	Ratio[(b)]	Amount	Ratio
Total risk-based capital	$10,193	16.8 %	$4,853	8.0 %	$6,067	10.0 %
Tier 1 risk-based capital	$9,391	15.5 %	$3,640	6.0 %	$4,853	8.0 %
Tier 1 leverage	$9,391	13.1 %	$2,864	4.0 %	$3,581	5.0 %
Common equity Tier I capital	$9,391	15.5 %	$2,730	4.5 %	$3,943	6.5 %

At December 31, 2016 ($ in millions)	Actual		Minimum for capital adequacy purposes		Minimum to be well-capitalized under prompt corrective action provisions	
	Amount	Ratio[(a)]	Amount	Ratio[(b)]	Amount	Ratio
Total risk-based capital	$10,101	16.7 %	$4,825	8.0 %	$6,031	10.0 %
Tier 1 risk-based capital	$9,312	15.4 %	$3,619	6.0 %	$4,825	8.0 %
Tier 1 leverage	$9,312	13.2 %	$2,816	4.0 %	$3,520	5.0 %
Common equity Tier I capital	$9,312	15.4 %	$2,714	4.5 %	$3,920	6.5 %

(a) Capital ratios are calculated based on the Basel III Standardized Approach rules, subject to applicable transition provisions, at June 30, 2017 and December 31, 2016.

(b) At June 30, 2017 and at December 31, 2016, Synchrony Financial and the Bank also must maintain a capital conservation buffer of common equity Tier 1 capital in excess of minimum risk-based capital ratios by at least 1.25 percentage points and 0.625 percentage points, respectively, to avoid limits on capital distributions and certain discretionary bonus payments to executive officers and similar employees.

The Bank may pay dividends on its stock, with consent or non-objection from the OCC and the Federal Reserve Board, among other things, if its regulatory capital would not thereby be reduced below the applicable regulatory capital requirements.

NOTE 11. EARNINGS PER SHARE

Basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the assumed conversion of all dilutive securities.

The following table presents the calculation of basic and diluted earnings per share:

	Three months ended June 30,		Six months ended June 30,	
(in millions, except per share data)	2017	2016	2017	2016
Net earnings	$496	$489	$995	$1,071
Weighted average common shares outstanding, basic	804.0	833.9	808.5	833.9
Effect of dilutive securities	3.4	2.3	3.7	1.9
Weighted average common shares outstanding, dilutive	807.4	836.2	812.2	835.8

Earnings per basic common share	$0.62	$0.59	$1.23	$1.28
Earnings per diluted common share	$0.61	$0.58	$1.23	$1.28

We have issued certain stock based awards under the Synchrony Financial 2014 Long-Term Incentive Plan. A total of 5 million and 3 million shares for the three months ended June 30, 2017 and 2016, respectively, and 3 million shares for both the six months ended June 30, 2017 and 2016, related to these awards were considered anti-dilutive and therefore were excluded from the computation of diluted earnings per share.

NOTE 12. INCOME TAXES

We now file consolidated U.S. federal and state income tax returns separate and apart from GE. For periods up to and including the date of Separation, we were included in the consolidated U.S. federal and state income tax returns of GE, where applicable, but also filed certain separate state and foreign income tax returns. The tax provision is presented on a separate company basis as if we were a separate filer for tax purposes for all periods presented. The effects of tax adjustments and settlements from taxing authorities are presented in our condensed consolidated financial statements in the period in which they occur. Our current obligations for taxes are settled with the relevant tax authority, or GE, as applicable, on an estimated basis and adjusted in later periods as appropriate and are reflected in our consolidated financial statements in the periods in which those settlements occur. We recognize the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws. In calculating the provision for interim period income taxes, in accordance with Accounting Standards Codification 740, Income Taxes, we estimate the effective tax rate expected to be applicable for the full fiscal year and apply that estimated annual effective tax rate to year-to-date ordinary income. Adjustments to tax expense are made for year-to-date discrete items. See “Management's Discussion and Analysis—Critical Accounting Estimates” in our 2016 Form 10-K, for a discussion of the significant judgments and estimates related to income taxes.

For periods prior to Separation, we are under continuous examination by the Internal Revenue Service (“IRS”) and the tax authorities of various states as part of their audit of GE’s tax returns. The IRS is currently auditing GE's consolidated U.S. income tax returns for 2012 and 2013. We are under examination in various states going back to 2008 as part of their audit of GE’s tax returns. We are not currently under audit with respect to any post-Separation periods. We believe that there are no issues or claims that are likely to significantly impact our results of operations, financial position or cash flows. We further believe that we have made adequate provision for all income tax uncertainties that could result from such examinations.

Tax Sharing and Separation Agreement

In connection with our initial public offering in August 2014 (“IPO”), we entered into a Tax Sharing and Separation Agreement (“TSSA”), which governs certain Separation-related tax matters between the Company and GE following the IPO. The TSSA governs the allocation of the responsibilities for the taxes of the GE group between GE and the Company. The TSSA also allocates rights, obligations and responsibilities in connection with certain administrative matters relating to the preparation of tax returns and control of tax audits and other proceedings relating to taxes. See Note 14. Income Taxes to our 2016 annual consolidated and combined financial statements in our 2016 Form 10-K for additional information on the TSSA.

Unrecognized Tax Benefits

($ in millions)	June 30, 2017	December 31, 2016
Unrecognized tax benefits, excluding related interest expense and penalties	$ 163	$ 150
Portion that, if recognized, would reduce tax expense and effective tax rate[(a)]	108	99
Accrued interest on unrecognized tax benefits	9	6
Accrued penalties on unrecognized tax benefits	—	—

(a) Includes gross state and local unrecognized tax benefits net of the effects of associated U.S. federal income taxes. Excludes amounts attributable to any related valuation allowances resulting from associated increases in deferred tax assets.

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We compute our unrecognized tax benefits on a separate return basis. For unrecognized tax benefits associated with periods prior to 2014, we will settle our liabilities, as required, in accordance with the TSSA. The amount of unrecognized tax benefits that may be resolved in the next twelve months is not expected to be material to our results of operations.

NOTE 13. LEGAL PROCEEDINGS AND REGULATORY MATTERS

In the normal course of business, from time to time, we have been named as a defendant in various legal proceedings, including arbitrations, class actions and other litigation, arising in connection with our business activities. Certain of the legal actions include claims for substantial compensatory and/or punitive damages, or claims for indeterminate amounts of damages. We are also involved, from time to time, in reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding our business (collectively, "regulatory matters"), which could subject us to significant fines, penalties, obligations to change our business practices or other requirements resulting in increased expenses, diminished income and damage to our reputation. We contest liability and/or the amount of damages as appropriate in each pending matter. In accordance with applicable accounting guidance, we establish an accrued liability for legal and regulatory matters when those matters present loss contingencies which are both probable and reasonably estimable.

Legal proceedings and regulatory matters are subject to many uncertain factors that generally cannot be predicted with assurance, and we may be exposed to losses in excess of any amounts accrued.

For some matters, we are able to determine that an estimated loss, while not probable, is reasonably possible. For other matters, including those that have not yet progressed through discovery and/or where important factual information and legal issues are unresolved, we are unable to make such an estimate. We currently estimate that the reasonably possible losses for legal proceedings and regulatory matters, whether in excess of a related accrued liability or where there is no accrued liability, and for which we are able to estimate a possible loss, are immaterial. This represents management's estimate of possible loss with respect to these matters and is based on currently available information. This estimate of possible loss does not represent our maximum loss exposure. The legal proceedings and regulatory matters underlying the estimate will change from time to time and actual results may vary significantly from current estimates.

Our estimate of reasonably possible losses involves significant judgment, given the varying stages of the proceedings, the existence of numerous yet to be resolved issues, the breadth of the claims (often spanning multiple years), unspecified damages and/or the novelty of the legal issues presented. Based on our current knowledge, we do not believe that we are a party to any pending legal proceeding or regulatory matters that would have a material adverse effect on our condensed consolidated financial condition or liquidity. However, in light of the uncertainties involved in such matters, the ultimate outcome of a particular matter could be material to our operating results for a particular period depending on, among other factors, the size of the loss or liability imposed and the level of our earnings for that period, and could adversely affect our business and reputation.

Below is a description of certain of our regulatory matters and legal proceedings.

Regulatory Matters

On October 30, 2014, the United States Trustee, which is part of the Department of Justice, filed an application in In re Nyree Belton, a Chapter 7 bankruptcy case pending in the U.S. Bankruptcy Court for the Southern District of New York for orders authorizing discovery of the Bank pursuant to Rule 2004 of the Federal Rules of Bankruptcy Procedure, related to an investigation of the Bank's credit reporting. The discovery, which is ongoing, concerns allegations made in Belton et al. v. GE Capital Consumer Lending, a putative class action adversary proceeding pending in the same Bankruptcy Court. In the Belton adversary proceeding, which was filed on April 30, 2014, plaintiff alleges that the Bank violates the discharge injunction under Section 524(a)(2) of the Bankruptcy Code by attempting to collect discharged debts and by failing to update and correct credit information to credit reporting agencies to show that such debts are no longer due and owing because they have been discharged in bankruptcy. Plaintiff seeks declaratory judgment, injunctive relief and an unspecified amount of damages. On December 15, 2014, the Bankruptcy Court entered an order staying the adversary proceeding pending an appeal to the District Court of the Bankruptcy Court's order denying the Bank's motion to compel arbitration. On October 14, 2015, the District Court reversed the Bankruptcy Court and on November 4, 2015, the Bankruptcy Court granted the Bank's motion to compel arbitration.

On October 15, 2015, the Bank received a Civil Investigative Demand from the CFPB seeking information related to the Bank's credit bureau reporting with respect to sold accounts. The information sought by the CFPB generally relates to the allegations made in Belton et al. v. GE Capital Consumer Lending. On May 9, 2016, the Bank received a NORA (Notice of Opportunity to Respond and Advise) letter from the CFPB indicating that the CFPB Office of Enforcement is considering whether to recommend that the CFPB take legal action relating to this matter.

On May 9, 2017, the Bank received a Civil Investigative Demand from the CFPB seeking information related to the marketing and servicing of deferred interest promotions.

Other Matters

The Bank or the Company is, or has been, defending a number of putative class actions alleging claims under the federal Telephone Consumer Protection Act ("TCPA") as a result of phone calls made by the Bank. The complaints generally have alleged that the Bank or the Company placed calls to consumers by an automated telephone dialing system or using a pre-recorded message or automated voice without their consent and seek up to $1,500 for each violation, without specifying an aggregate amount. Campbell et al. v. Synchrony Bank was filed on January 25, 2017 in the U.S. District Court for the Northern District of New York. The original complaint named only J.C. Penney Company, Inc. and J.C. Penney Corporation, Inc. as the defendants but was amended on April 7, 2017 to replace those defendants with the Bank. Neal et al. v. Wal-Mart Stores, Inc. and Synchrony Bank, for which the Bank is indemnifying Wal-Mart, was filed on January 17, 2017 in the U.S. District Court for the Western District of North Carolina. The original complaint named only Wal-Mart Stores, Inc. as a defendant but was amended on March 30, 2017 to add Synchrony Bank as an additional defendant.

In addition to the TCPA class action lawsuits related to phone calls, the Company is a defendant in a putative class action lawsuit alleging claims under the TCPA relating to facsimiles. In Michael W. Kincaid, DDS et al. v. Synchrony Financial, plaintiff alleges that the Company violated the TCPA by sending fax advertisements without consent and without required notices, and seeks up to $1,500 for each violation. The amount of damages sought in the aggregate is unspecified. The original complaint was filed in U.S. District Court for the Northern District of Illinois on January 20, 2016. On August 11, 2016, the Court granted the Company's motion to dismiss based on the lack of personal jurisdiction. On August 15, 2016, the plaintiff re-filed the case in the Southern District of Ohio.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, correlations or other market factors will result in losses for a position or portfolio. We are exposed to market risk primarily from changes in interest rates.

We borrow money from a variety of depositors and institutions in order to provide loans to our customers. Changes in market interest rates cause our net interest income to increase or decrease, as some of our assets and liabilities carry interest rates that fluctuate with market benchmarks. The interest rate benchmark for our floating rate assets is generally the prime rate, and the interest rate benchmark for our floating rate liabilities is generally either LIBOR or the federal funds rate. The prime rate and the LIBOR or federal funds rate could reset at different times or could diverge, leading to mismatches in the interest rates on our floating rate assets and floating rate liabilities.

As of June 30, 2017, assuming an immediate 100 basis point increase in the interest rates affecting all interest rate sensitive assets and liabilities, we estimate that net interest income over the following 12-month period would increase by approximately $143 million. This estimate projects net interest income over the following 12-month period and takes into consideration future growth and balance sheet composition.

For a more detailed discussion of our exposure to market risk, refer to “Management's Discussion and Analysis—Quantitative and Qualitative Disclosures about Market Risk” in our 2016 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures, and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2017.

No change in internal control over financial reporting occurred during the quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of legal proceedings, see Note 13. Legal Proceedings and Regulatory Matters to our condensed consolidated financial statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in our 2016 Form 10-K under the heading “Risk Factors”.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information regarding purchases of our common stock primarily related to our share repurchase program that were made by us or on our behalf during the three months ended June 30, 2017.

($ in millions, except per share data)	Total Number of Shares Purchased[(a)]	Average Price Paid Per Share[(b)]	Total Number of Shares Purchased as Part of Publicly Announced Programs[(c)]	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Programs[(b)]
April 1 - 30, 2017	122,602	$ 34.30	—	$ 238.0
May 1 - 31, 2017	11,677,143	27.90	11,677,143	1,552.2
June 1 - 30, 2017	4,019,033	27.92	4,016,882	1,440.0
Total	15,818,778	$ 27.96	15,694,025	$ 1,440.0

(a) Primarily represents repurchases of shares of common stock under our publicly announced share repurchase programs of up to $952 million of our outstanding shares of common stock for the four quarters ending June 30, 2017 (the "2016 Share Repurchase Program") and up to $1.64 billion of our outstanding shares of common stock through June 30, 2018 (the "2017 Share Repurchase Program"). Also includes 122,602 shares, 0 shares and 2,151 shares withheld in April, May and June, respectively, to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock awards or upon the exercise of stock options.

(b) Amounts exclude commission costs.

(c) During the three months ended June 30, 2017, we completed our 2016 Share Repurchase Program. On May 18, 2017, our Board of Directors approved the 2017 Share Repurchase Program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS
See “Exhibit Index” for documents filed herewith and incorporated herein by reference.

Signatures

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

Synchrony Financial
(Registrant)

July 28, 2017	/s/ Brian D. Doubles
	Brian D. Doubles
Date	Executive Vice President and Chief Financial Officer
	(Duly Authorized Officer and Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
4*	Instruments defining rights of holders of long-term debt
10.1	Synchrony Financial Amended and Restated 2014 Long-Term Incentive Plan
10.2	Synchrony Financial Amended and Restated Executive Severance Plan
10.3	Synchrony Financial Amended and Restated Restoration Plan
12.1	Statement of Ratio of Earnings to Fixed Charges
31(a)	Certification Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended
31(b)	Certification Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended
32	Certification Pursuant to 18 U.S.C. Section 1350
101	The following materials from Synchrony Financial's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Earnings for the three and six months ended June 30, 2017 and 2016, (ii) Condensed Consolidated Statements of Comprehensive Income for the three months and six months ended June 30, 2017 and 2016, (iii) Condensed Consolidated Statements of Financial Position at June 30, 2017 and December 31, 2016, (iv) Condensed Consolidated Statements of Changes in Equity for the six months ended June 30, 2017 and 2016, (v) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016, and (vi) Notes to Condensed Consolidated Financial Statements.

(*) Pursuant to Item 601(4)(iii) of Regulation S-K, the Company is not required to file any instrument with respect to long-term debt not being registered if the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company hereby agrees to furnish a copy of any such instrument to the SEC upon request.