Synchrony Financial
Form 10-Q
May 01, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
001-36560
(Commission File Number)
SYNCHRONY FINANCIAL
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 51-0483352 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 777 Long Ridge Road Stamford, Connecticut | 06902 |
| (Address of principal executive offices) | (Zip Code) |

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | o | Accelerated filer | o |
| Non-accelerated filer | ý (Do not check if a smaller reporting company) | Smaller reporting company | o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The number of shares of the registrant's common stock, par value $0.001 per share, outstanding as of April 29, 2015 was 833,764,589.

Synchrony Financial


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Cautionary Note Regarding Forward-Looking Statements:
Various statements in this Quarterly Report on Form 10-Q may contain "forward-looking statements" as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are subject to the "safe harbor" created by those sections. Forward-looking statements may be identified by words such as "expects," "intends," "anticipates," "plans," "believes," "seeks," "targets," "outl "estimates," "will," "should," "may" or words of similar meaning, but these words are not the exclusive means of identifying forward-looking statements.
Forward-looking statements are based on management's current expectations and assumptions, and are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. As a result, actual results could differ materially from those indicated in these forward-looking statements. Factors that could cause actual results to differ materially include global political, economic, business, competitive, market, regulatory and other factors and risks, such as: the impact of macroeconomic conditions and whether industry trends we have identified develop as anticipated; retaining existing partners and attracting new partners, concentration of our platform revenue in a small number of Retail Card partners, promotion and support of our products by our partners, and financial performance of our partners; our need for additional financing, 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 reliance on dividends, distributions and other payments from Synchrony Bank (the "Bank"); our ability to grow our deposits in the future; changes in market interest rates and the impact of any margin compression; effectiveness of our risk management processes and procedures, reliance on models which may be inaccurate or misinterpreted, our ability to manage our credit risk, the sufficiency of our allowance for loan losses and the accuracy of the assumptions or estimates used in preparing our financial statements; our ability to offset increases in our costs in retailer share arrangements; competition in the consumer finance industry; our concentration in the U.S. consumer credit market; our ability to successfully develop and commercialize new or enhanced products and services; our ability to realize the value of strategic investments; reductions in interchange fees; fraudulent activity; cyber-attacks or other security breaches; failure of third parties to provide various services that are important to our operations; 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; significant and extensive regulation, supervision, examination and enforcement of our business by governmental authorities, the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and the impact of the Consumer Financial Protection Bureau's (the "CFPB") regulation of our business; changes to our methods of offering our CareCredit products; impact of capital adequacy rules; restrictions that limit the Bank's ability to pay dividends; regulations relating to privacy, information security and data protection; use of third-party vendors and ongoing third-party business relationships; failure to comply with anti-money laundering and anti-terrorism financing laws; effect of GECC being subject to regulation by the Federal Reserve Board both as a savings and loan holding company and as a systemically important financial institution; GE not completing the separation from us as planned or at all, GE's inability to obtain savings and loan holding company deregistration (the "GE SLHC Deregistration") and GE continuing to have significant control over us; completion by the Federal Reserve Board of a review (with satisfactory results) of our preparedness to operate on a standalone basis, independently of GE, and Federal Reserve Board approval required for us to continue to be a savings and loan holding company, including the timing of the approval and the imposition of any significant additional capital or liquidity requirements; our need to establish and significantly expand many aspects of our operations and infrastructure; delays in receiving or failure to receive Federal Reserve Board agreement required for us to be treated as a financial holding company after the GE SLHC Deregistration; loss of association with GE's strong brand and reputation; limited right to use the GE brand name and logo and need to establish a new brand; GE has significant control over us; terms of our arrangements with GE may be more favorable than what we will be able to obtain from unaffiliated third parties;

obligations associated with being a public company; our incremental cost of operating as a standalone public company could be substantially more than anticipated; GE could engage in businesses that compete with us, and conflicts of interest may arise between us and GE; and failure caused by us of GE's distribution of our common stock to its stockholders in exchange for its common stock to qualify for tax-free treatment, which may result in significant tax liabilities to GE for which we may be required to indemnify GE.

For the reasons described above, we caution you against relying on any forward-looking statements, which should also be read in conjunction with the other cautionary statements that are included elsewhere in this report and in our public filings, including under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014 (our "2014 Form 10-K"). You should not consider any list of such factors to be an exhaustive statement of all of the risks, uncertainties, or potentially inaccurate assumptions that could cause our current expectations or beliefs to change. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as otherwise may be required by the federal securities laws.

PART I. FINANCIAL INFORMATION

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated and combined financial statements and related notes included elsewhere in this quarterly report and in our 2014 Form 10-K. The discussion below contains forward-looking statements that are based upon current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations. See “Cautionary Note Regarding Forward-Looking Statements.” References in this Form 10-Q to the “Company”, “we”, “us” and “our” are to Synchrony Financial and its combined and consolidated subsidiaries unless the context otherwise requires; references to “GE” are to General Electric Company and its subsidiaries; references to “GECC” are to General Electric Capital Corporation (a subsidiary of GE) and its subsidiaries; and references to the “Bank” are to our wholly-owned subsidiary, Synchrony Bank.

Introduction and Business Overview

We are one of the premier consumer financial services companies in the United States. We provide a range of credit products through programs we have established with a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and healthcare service providers, which we refer to as our “partners.” For the three months ended March 31, 2015, we financed $23.1 billion of purchase volume and had 61.6 million average active accounts, and at March 31, 2015, we had $58.2 billion of loan receivables. For the three months ended March 31, 2015, we had net earnings of $552 million, representing a return on assets of 3.0%.

We offer our credit products primarily through our wholly-owned subsidiary, Synchrony Bank. Through the Bank, we offer a range of deposit products insured by the Federal Deposit Insurance Corporation (“FDIC”). We are continuing to expand our direct banking operations to increase our deposit base as a source of stable and diversified low cost funding for our credit activities. We had $35.0 billion in deposits at March 31, 2015.

In 2014, we closed the initial public offering (the "IPO") of 128.5 million shares of our common stock. Following the IPO, GE owned, and currently owns, approximately 84.6% of our common stock.

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 products through three sales platforms (Retail Card, Payment Solutions and CareCredit). Those platforms are organized by the types of products we offer and the partners we work with, and are measured on platform revenues, loan receivables, new accounts and other sales metrics.

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

Retail Card

Retail Card is a leading provider of private label credit cards, and also provides Dual Cards and small and medium-sized business credit products. Our patented Dual Cards are credit cards that function as private label credit cards when used to purchase goods and services from our partners and as general purpose credit cards when used elsewhere. We offer one or more of these products primarily through 19 national and regional retailers with which we have ongoing program agreements. The average length of our relationship with these Retail Card partners is 16 years. Retail Card’s platform revenue consists of interest and fees on our loan receivables, plus other income, less retailer share arrangements. Other income primarily consists of interchange fees earned on Dual Card transactions (when the card is used outside of our partners' sales channels) and fees paid to us by customers who purchase our debt cancellation products, less loyalty program payments. Substantially all of the credit extended in this platform is on standard terms.

Payment Solutions

Payment Solutions is a leading provider of promotional financing for major consumer purchases, offering 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’ platform revenue primarily consists of interest and fees on our loan receivables, including “merchant discounts,” which are fees paid to us by our partners in almost all cases to compensate us for all or part of foregone interest revenue associated with promotional financing.

CareCredit

CareCredit is a leading provider of promotional financing to consumers for elective healthcare procedures or services, such as dental, veterinary, cosmetic, vision and audiology. CareCredit offers financing through a CareCredit branded private label credit card that may be used across a network of providers in which the vast majority are individual or small groups of independent healthcare providers. Substantially all of the credit extended in this platform is promotional financing. CareCredit’s platform revenue primarily consists of interest and fees on our 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.

The following table sets forth each credit product by type and indicates the percentage of our total loan receivables that are under standard terms only or pursuant to a promotional financing offer at March 31, 2015.

| Credit Product | Standard Terms | | Promotional Offer | | Total | |
|---|---|---|---|---|---|---|
| Credit cards | 67.5 | % | 28.5 | % | 96.0 | % |
| Commercial credit products | 2.2 | | — | | 2.2 | |
| Consumer installment loans | — | | 1.8 | | 1.8 | |
| Total | 69.7 | % | 30.3 | % | 100.0 | % |

### Credit Cards

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

- Private label credit cards. Private label credit cards are partner-branded credit cards (e.g., Lowe's or Amazon) or program-branded credit cards (e.g., CarCareONE or CareCredit) that are used primarily for the purchase of goods and services from the partner or within the program network. In Retail Card, credit under our private label credit cards typically is extended on standard terms only, and in Payment Solutions and CareCredit, credit under our private label credit cards typically is extended pursuant to a promotional financing offer.
- Dual Cards. Our patented Dual Cards are credit cards that function as private label credit cards when used to purchase goods and services from our partners and as general purpose credit cards when used elsewhere. Credit extended under our Dual Cards typically is extended under standard terms only. Currently, only Retail Card offers Dual Cards. At March 31, 2015, we offered Dual Cards through 14 of our 19 ongoing Retail Card programs.

### Commercial Credit Products

We offer private label cards and co-branded cards for commercial customers that are similar to our consumer offerings. We also offer a commercial pay-in-full accounts receivable product to a wide range of business customers, and are rolling out an improved customer experience for this product with enhanced functionality. We offer commercial credit products primarily through our Retail Card platform to the commercial customers of our Retail Card partners.

### Installment Loans

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

## Business Trends and Conditions

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

- Growth in loan receivables and interest income
- Changing funding mix and increased funding costs, including:

continued growth in our direct deposits as a source of stable and low cost funding
the changing mix in our funding sources, as our historical related party debt was replaced during 2014 by higher cost funding primarily provided by third-party debt
a rising interest rate environment

- Extended duration of program agreements
- Increases in retailer share arrangement payments and other expense under extended program agreements
- Stable asset quality and enhancements to allowance for loan loss methodology
- Increases in other expense to operate as a fully independent company
- Impact of regulatory developments
- Increased capital and liquidity levels

For a discussion of these trends and conditions, see “Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Trends and Conditions” in our 2014 Form 10-K. For a discussion of how these trends and conditions impacted the three months ended March 31, 2015, 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 down their balances.

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

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

The seasonal trends discussed above are generally most evident between the fourth quarter and the first quarter of the following year. Loan receivables decreased by $3.0 billion, or 5.0%, to $58.2 billion at March 31, 2015 , and our allowance for loan losses as a percentage of total loan receivables increased to 5.59% at March 31, 2015, from 5.28% at December 31, 2014, reflecting the effects of these trends. Past due balances declined to $2.2 billion at March 31, 2015 from $2.5 billion at December 31, 2014, primarily due to collections from customers that were previously delinquent. The increase in the allowance for loan losses at March 31, 2015 compared to December 31, 2014, despite a decrease in our past due balances as a percentage of loan receivables at March 31, 2015 compared to December 31, 2014, reflected these same seasonal trends.

Results of Operations

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Highlights for the Three Months Ended March 31, 2015

Below are highlights of our performance for the three months ended March 31, 2015 compared to the three months ended March 31, 2014, as applicable, except as otherwise noted.

- Net earnings decreased 1.1% to $552 million for the three months ended March 31, 2015, driven by increases in retailer share arrangements and other expenses, partially offset by higher net interest income and a reduction in our provision for loan losses.
- Loan receivables increased 7.3% to $58,248 million at March 31, 2015 compared to March 31, 2014, primarily driven by higher purchase volume and average active account growth.
- Net interest income increased 4.8% to $2,875 million for the three months ended March 31, 2015, primarily due to higher average loan receivables.
- Retailer share arrangements increased 11.1% to $660 million for the three months ended March 31, 2015, primarily as a result of the growth and improved performance of the programs in which we have retailer share arrangements.
- Loan delinquencies as a percentage of receivables decreased with the over-30 day delinquency rate decreasing to 3.79% at March 31, 2015 from 4.09% at March 31, 2014, driven by improvement in the U.S. economy. Net charge-off rates decreased to 4.53% for the three months ended March 31, 2015 from 4.86% for the three months ended March 31 2014.
- Provision for loan losses decreased by $77 million, or 10.1%, for the three months ended March 31, 2015 primarily due to improving asset quality trends. Our allowance coverage ratio (allowance for loan losses as a percent of end of period loan receivables) increased slightly to 5.59% at March 31, 2015, as compared to 5.52% at March 31, 2014, reflecting a stable credit outlook.
- Other expense increased by $136 million, or 22.3%, for the three months ended March 31, 2015, driven by incremental costs associated with building a standalone infrastructure and business growth, as well as a $44 million reduction in reserves for regulatory matters in the three months ended March 31, 2014.
- We have invested in our direct banking activities to grow our deposit base. Total deposits remained stable at $35.0 billion at March 31, 2015, compared to December 31, 2014, driven primarily by growth in our direct deposits of 8.2% to $21.3 billion at March 31, 2015, offset by a reduction in our brokered deposits.
- During the three months ended March 31, 2015, we extended our Retail Card program agreement with Amazon. In our Payment Solutions sales platform, we entered into a program agreement with Guitar Center, which we expect to launch in the second half of 2015, and extended our program agreement with MEGA Group USA, a national home furnishings buying group of independent retailers. In our CareCredit sales platform, we added a new endorsement with VSP, the nation's largest vision insurance provider.

Summary Earnings

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

| | Three months ended March 31, | |
|---|---|---|
| ($ in millions) | 2015 | 2014 |
| Interest income | $3,150 | $2,933 |
| Interest expense | 275 | 190 |
| Net interest income | 2,875 | 2,743 |
| Retailer share arrangements | (660) | (594) |
| Net interest income, after retailer share arrangements | 2,215 | 2,149 |
| Provision for loan losses | 687 | 764 |
| Net interest income, after retailer share arrangements and provision for loan losses | 1,528 | 1,385 |
| Other income | 101 | 115 |
| Other expense | 746 | 610 |
| Earnings before provision for income taxes | 883 | 890 |
| Provision for income taxes | 331 | 332 |
| Net earnings | $552 | $558 |

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 March 31, | |
|---|---|---|
| ($ in millions) | 2015 | 2014 |
| Financial Position Data (Average): | | |
| Loan receivables, including held for sale | $59,775 | $55,495 |
| Total assets | $73,858 | $59,421 |
| Deposits | $35,123 | $26,648 |
| Borrowings | $25,132 | $23,116 |
| Total equity | $10,749 | $6,475 |
| Selected Performance Metrics: | | |
| Purchase volume[(1)] | $23,139 | $21,086 |
| Retail Card | $18,410 | $16,713 |
| Payment Solutions | $2,948 | $2,687 |
| CareCredit | $1,781 | $1,686 |
| Average active accounts (in thousands)[(2)] | 61,604 | 59,342 |
| Net interest margin[(3)] | 15.79 % | 18.83 % |
| Net charge-offs | $668 | $658 |
| Net charge-offs as a % of average loan receivables, including held for sale | 4.53 % | 4.86 % |
| Allowance coverage ratio[(4)] | 5.59 % | 5.52 % |
| Return on assets[(5)] | 3.0 % | 3.9 % |
| Return on equity[(6)] | 20.8 % | 35.3 % |
| Equity to assets[(7)] | 14.55 % | 10.90 % |
| Other expense as a % of average loan receivables, including held for sale | 5.06 % | 4.51 % |
| Efficiency ratio[(8)] | 32.2 % | 26.9 % |
| Effective income tax rate | 37.5 % | 37.3 % |
| Selected Period End Data: | | |
| Loan receivables | $58,248 | $54,285 |
| Allowance for loan losses | $3,255 | $2,998 |
| 30+ days past due as a % of period-end loan receivables | 3.79 % | 4.09 % |
| 90+ days past due as a % of period-end loan receivables | 1.81 % | 1.93 % |
| Total active accounts (in thousands)[(2)] | 59,761 | 57,349 |

(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.

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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.

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| Three months ended March 31 ($ in millions) | Average Balance(1) | Interest Income / Expense | Average Yield / Rate(2) | Average Balance(1) | Interest Income/ Expense | Average Yield / Rate(2) |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-earning cash and equivalents(3) | $11,331 | $6 | 0.21 % | $4,001 | $2 | 0.21 % |
| Securities available for sale | 2,725 | 4 | 0.60 % | 250 | 3 | 4.92 % |
| Loan receivables(4): | | | | | | |
| Credit cards, including held for sale(5) | 57,390 | 3,079 | 21.76 % | 53,211 | 2,867 | 22.10 % |
| Consumer installment loans | 1,057 | 25 | 9.59 % | 959 | 23 | 9.84 % |
| Commercial credit products | 1,305 | 36 | 11.19 % | 1,311 | 38 | 11.89 % |
| Other | 23 | — | — % | 14 | — | — % |
| Total loan receivables | 59,775 | 3,140 | 21.30 % | 55,495 | 2,928 | 21.64 % |
| Total interest-earning assets | 73,831 | 3,150 | 17.30 % | 59,746 | 2,933 | 20.13 % |
| Non-interest-earning assets: | | | | | | |
| Cash and due from banks | 497 | | | 561 | | |
| Allowance for loan losses | (3,272 ) | | | (2,931 ) | | |
| Other assets | 2,802 | | | 2,045 | | |
| Total non-interest-earning assets | 27 | | | (325 ) | | |
| Total assets | $73,858 | | | $59,421 | | |
| Liabilities | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposit accounts | $34,981 | $137 | 1.59 % | $26,317 | $96 | 1.50 % |
| Borrowings of consolidated securitization entities | 14,101 | 52 | 1.50 % | 14,830 | 47 | 1.30 % |
| Bank term loan | 6,531 | 47 | 2.92 % | — | — | — % |
| Senior unsecured notes | 4,093 | 35 | 3.47 % | — | — | — % |
| Related party debt | 407 | 4 | 3.99 % | 8,286 | 47 | 2.33 % |
| Total interest-bearing liabilities | 60,113 | 275 | 1.86 % | 49,433 | 190 | 1.58 % |
| Non-interest-bearing liabilities | | | | | | |
| Non-interest-bearing deposit accounts | 142 | | | 331 | | |
| Other liabilities | 2,854 | | | 3,182 | | |
| Total non-interest-bearing liabilities | 2,996 | | | 3,513 | | |
| Total liabilities | 63,109 | | | 52,946 | | |
| Equity | | | | | | |
| Total equity | 10,749 | | | 6,475 | | |
| Total liabilities and equity | $73,858 | | | $59,421 | | |
| Interest rate spread(6) | | | 15.44 % | | | 18.55 % |
| Net interest income | | $2,875 | | | $2,743 | |
| Net interest margin(7) | | | 15.79 % | | | 18.83 % |

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

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

(3) Includes average restricted cash balances of $723 million and $92 million for the three months ended March 31, 2015 and 2014, respectively.
(4) Non-accrual loans are included in the average loan receivables balances.
(5) Interest income on credit cards includes fees on loans of $534 million and $528 million for the three months ended March 31, 2015 and 2014, respectively.
(6) Interest rate spread represents the difference between the yield on total interest-earning assets and the rate on total interest-bearing liabilities.
(7) 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 2014 Form 10-K.

Interest Income

Interest income increased by $217 million, or 7.4%, for the three months ended March 31, 2015. This increase was driven primarily by growth in our loan receivables.

- Average interest-earning assets. Interest-earning assets are comprised primarily of loan receivables. Average loan receivables, including loans held for sale, increased by $4,280 million, or 7.7%, for the three months ended March 31, 2015. This increase in average loan receivables was driven primarily by higher purchase volume resulting from an increase in average active credit card accounts to 61.6 million for the three months ended March 31, 2015 from 59.3 million for the three months ended March 31, 2014.
- Yield on average interest-earning assets. The yield on interest-earning assets decreased to 17.30% for the three months ended March 31, 2015 from 20.13% for the three months ended March 31, 2014, driven primarily by the growth in our liquidity portfolio resulting in an increase in our average interest-earning cash and equivalents which earn a lower yield than our loan receivables. The yield on our average loan receivables, including loans held for sale, decreased slightly to 21.30% for the three months ended March 31, 2015 from 21.64% for the three months ended March 31, 2014 reflecting the impact of slightly higher payment rates from our customers and growth in promotional balances.

Interest Expense

Interest expense increased by $85 million, or 44.7%, for the three months ended March 31, 2015, driven primarily by an increase in average interest-bearing liabilities of $10,680 million, or 21.6%, and a change in our funding mix resulting in higher interest expense. The increase in average interest-bearing liabilities for the three months ended March 31, 2015 was driven primarily by an increase of $8,664 million in our average interest-bearing deposit accounts, as well as an increase of $10,624 million in third-party debt, partially offset by a reduction in average borrowings under our securitization programs and our related party debt. Our cost of funds increased to 1.86% for the three months ended March 31, 2015 from 1.58% for the three months ended March 31, 2014 reflecting the higher cost of our third-party debt.

Net Interest Income

Net interest income increased by $132 million, or 4.8%, for the three months ended March 31, 2015 driven by growth in loan receivables, partially offset by higher interest expense and a decrease in our yield on interest-earning assets due to a higher average interest-earning cash and equivalents balance.

Retailer Share Arrangements

Retailer share arrangements increased by $66 million, or 11.1%, for the three months ended March 31, 2015, driven primarily by the growth and improved performance of the programs in which we have retailer share arrangements, including the effect of a lower provision for loan losses.

Provision for Loan Losses

Provision for loan losses decreased by $77 million, or 10.1%, for the three months ended March 31, 2015.  This decrease was primarily due to improving asset quality trends.

Our allowance coverage ratio increased slightly to 5.59% at March 31, 2015, as compared to 5.52% at March 31, 2014, as our credit outlook remains stable despite the recent improvements in asset quality trends.

Other Income

| | Three months ended March 31, | |
|---|---|---|
| ($ in millions) | 2015 | 2014 |
| Interchange revenue | $100 | $76 |
| Debt cancellation fees | 65 | 70 |
| Loyalty programs | (78) | (43) |
| Other | 14 | 12 |
| Total other income | $101 | $115 |

Other income decreased by $14 million, or 12.2%, for the three months ended March 31, 2015. This decrease was primarily due to higher loyalty costs arising from the launch of new rewards programs with our partners, partially offset by increased interchange revenue driven by increased purchase volume outside of our retail partners' sales channels.

Other Expense

| | Three months ended March 31, | |
|---|---|---|
| ($ in millions) | 2015 | 2014 |
| Employee costs | $239 | $193 |
| Professional fees | 162 | 130 |
| Marketing and business development | 82 | 83 |
| Information processing | 63 | 52 |
| Other | 200 | 152 |
| Total other expense | $746 | $610 |

Other expense increased by $136 million, or 22.3%, for the three months ended March 31, 2015 primarily due to increases in employee costs, professional fees and other expense.

Employee costs increased primarily due to additional compensation expenses for new employees related to the building of our standalone infrastructure and to support business growth. Professional fees increased due to higher professional and other consulting fees related to our planned separation from GE and business growth.

The “other” component increased for the three months ended March 31, 2015 primarily due to a $44 million reduction in our estimated reserves for litigation and regulatory matters in the first quarter of 2014.

Provision for Income Taxes

| | Three months ended March 31, | |
|---|---|---|
| ($ in millions) | 2015 | 2014 |
| Effective tax rate | 37.5% | 37.3% |
| Provision for income taxes | $331 | $332 |

The effective tax rate for the three months ended March 31, 2015 differs from the effective tax rate in the same period in the previous year primarily due to an increase to state income taxes and certain non-deductible expenses. In each period, the effective tax rate differs from the U.S. federal statutory tax rate of 35.0%, primarily due to state income taxes.

Platform Analysis

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

Non-GAAP Measure

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

| | Three months ended March 31, | |
|---|---|---|
| ($ in millions) | 2015 | 2014 |
| Interest and fees on loans | $3,140 | $2,928 |
| Other income | 101 | 115 |
| Retailer share arrangements | (660) | (594) |
| Platform revenue | $2,581 | $2,449 |

Retail Card

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

| | Three months ended March 31, | |
|---|---|---|
| ($ in millions) | 2015 | 2014 |
| Purchase volume | $18,410 | $16,713 |
| Period-end loan receivables | $39,685 | $37,175 |
| Average loan receivables, including held for sale | $40,986 | $38,223 |
| Average active accounts (in thousands) | 49,617 | 48,168 |
| | | |
| Platform revenue: | | |
| Interest and fees on loans | $2,337 | $2,178 |
| Other income | 86 | 96 |
| Retailer share arrangements | (651) | (584) |
| Platform revenue | $1,772 | $1,690 |

Retail Card platform revenue increased by $82 million, or 4.9%, for the three months ended March 31, 2015. The increase was primarily the result of an increase in interest and fees on loans driven by an increase in average loan receivables, partially offset by increases in retailer share arrangement payments. The increases in these payments were as a result of the factors discussed under the heading "Retailer Share Arrangements" above.

Payment Solutions

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

| | Three months ended March 31, | |
|---|---|---|
| ($ in millions) | 2015 | 2014 |
| Purchase volume | $2,948 | $2,687 |
| Period-end loan receivables | $11,833 | $10,647 |
| Average loan receivables | $11,970 | $10,775 |
| Average active accounts (in thousands) | 7,271 | 6,737 |
| | | |
| Platform revenue: | | |
| Interest and fees on loans | $403 | $372 |
| Other income | 5 | 8 |
| Retailer share arrangements | (8) | (9) |
| Platform revenue | $400 | $371 |

Payment Solutions platform revenue increased by $29 million, or 7.8%, for the three months ended March 31, 2015. The increase was primarily the result of higher interest and fees on loans due to an increase in average loan receivables.

CareCredit

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

| | Three months ended March 31, | |
|---|---|---|
| ($ in millions) | 2015 | 2014 |
| Purchase volume | $1,781 | $1,686 |
| Period-end loan receivables | $6,730 | $6,463 |
| Average loan receivables | $6,819 | $6,497 |
| Average active accounts (in thousands) | 4,716 | 4,437 |
| | | |
| Platform revenue: | | |
| Interest and fees on loans | $400 | $378 |
| Other income | 10 | 11 |
| Retailer share arrangements | (1) | (1) |
| Platform revenue | $409 | $388 |

CareCredit platform revenue increased by $21 million, or 5.4%, for the three months ended March 31, 2015. The increase was primarily the result of an increase in interest and fees on loans driven primarily by an increase in average loan receivables.

Services and Funding Provided by GE and GECC

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Services provided by GE

GE owns approximately 84.6% of our common stock and continues to provide a variety of services to us, which are governed by the Transitional Services Agreement ("TSA") and various other agreements with GE and GECC that we entered into in connection with the IPO. The services provided include, among other things, employee benefits and benefit administration, information technology, telecommunication services and leases for vehicles, equipment and facilities. Under the TSA, all of the costs billed to us by GE subsequent to the IPO are at GE's cost in accordance with historic billing methodologies. We expect the majority of the services provided by GE will be replaced within two years from the closing date of the IPO.

For periods prior to the IPO, we were an indirect wholly owned subsidiary of GE and GECC and in addition to the services discussed above, we also received a corporate overhead allocation and assessment from GE and GECC for corporate activities that either directly or indirectly benefited our business.

Funding provided by GECC

GECC no longer provides funding to our business. In connection with the IPO, in August 2014, all of the historical related party debt outstanding was repaid, and GECC provided transitional funding pursuant to the $1.5 billion GECC Term Loan Facility ("GECC Term Loan"). During the three months ended March 31, 2015, we prepaid all of the remaining outstanding indebtedness provided by the GECC Term Loan. Prior to the IPO, GECC was a key source of funding for our business pursuant to various intercompany funding arrangements.

See Note 13. Related Party Transactions to our condensed consolidated and combined financial statements for additional information on our transactions with GE and GECC, and see "Funding, Liquidity and Capital Resources—Funding Sources—Related Party Debt" for additional information on the funding that has been provided by GECC to us and the related interest expense.

Investment Securities

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The following discussion provides supplemental information regarding our investment securities portfolio. All of our investment securities are classified as available-for-sale at March 31, 2015 and December 31, 2014, and are primarily obligations of the U.S. Treasury or investments held to comply with the Community Reinvestment Act. Investment securities classified as available-for-sale are reported in our Condensed Consolidated and Combined Statements of Financial Position at fair value.

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

| | At March 31, 2015 | | At December 31, 2014 | |
|---|---|---|---|---|
| ($ in millions) | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Debt: | | | | |
| U.S. government and federal agency | $2,746 | $2,747 | $1,252 | $1,252 |
| State and municipal | 55 | 55 | 57 | 57 |
| Residential mortgage-backed | 304 | 304 | 271 | 271 |
| U.S. corporate debt | — | — | 3 | 3 |
| Equity | 15 | 15 | 15 | 15 |
| Total | $3,120 | $3,121 | $1,598 | $1,598 |

Unrealized gains and losses, net of the related tax effect, on available-for-sale securities that are not other-than-temporarily impaired are excluded from earnings and are reported as a separate component of comprehensive income (loss) until realized. At March 31, 2015, our investment securities had gross unrealized gains of $5 million and gross unrealized losses of $4 million. At December 31, 2014, our investment securities had gross unrealized gains of $4 million and gross unrealized losses of $4 million.

Our investment securities portfolio had the following maturity distribution at March 31, 2015. Equity securities have been excluded from the table because they do not have a maturity.

| ($ in millions) | Due in 1 Year or Less | Due After 1 through 5 Years | Due After 5 through 10 Years | Due After 10 years | Total |
|---|---|---|---|---|---|
| Debt: | | | | | |
| U.S. government and federal agency | $1,897 | $850 | $— | $— | $2,747 |
| State and municipal | — | — | 1 | 54 | 55 |
| Residential mortgage-backed | — | — | — | 304 | 304 |
| Total(1) | $1,897 | $850 | $1 | $358 | $3,106 |
| Weighted average yield(2) | 0.1 % | 0.5 % | 3.9 % | 3.5 % | 0.6 % |

(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 March 31, 2015, we did not hold investments in any single issuer, other than investments in U.S. government and federal agencies, with an aggregate book value that exceeded 10% of equity.

Loan Receivables

The following discussion provides supplemental information regarding our loan receivables portfolio.

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

| ($ in millions) | At March 31, 2015 | (%) | At December 31, 2014 | (%) |
|---|---|---|---|---|
| Loans | | | | |
| Credit cards | $55,866 | 96.0 % | $58,880 | 96.1 % |
| Consumer installment loans | 1,062 | 1.8 | 1,063 | 1.7 |
| Commercial credit products | 1,295 | 2.2 | 1,320 | 2.2 |
| Other | 25 | — | 23 | — |
| Total loans | $58,248 | 100.0 % | $61,286 | 100.0 % |

Loan receivables decreased by $3,038 million, or 5.0%, at March 31, 2015 compared to December 31, 2014 primarily driven by the seasonality of our business, partially offset by higher purchase volume and average active account growth.

Loan receivables increased by $3,963 million, or 7.3%, at March 31, 2015 compared to March 31, 2014, driven by higher purchase volume and average active account growth.

Our loan receivables portfolio had the following maturity distribution at March 31, 2015.

| ($ in millions) | Within 1 Year[(1)] | 1-5 Years | After 5 Years | Total |
|---|---|---|---|---|
| Loans | | | | |
| Credit cards | $55,866 | $— | $— | $55,866 |
| Consumer installment loans | 18 | 569 | 475 | 1,062 |
| Commercial credit products | 1,295 | — | — | 1,295 |
| Other | — | 15 | 10 | 25 |
| Total loans | $57,179 | $584 | $485 | $58,248 |
| Loans due after one year at fixed interest rates | N/A | $584 | $485 | $1,069 |
| Loans due after one year at variable interest rates | N/A | — | — | — |
| Total loans due after one year | N/A | $584 | $485 | $1,069 |

(1) Credit card loans have minimum payment requirements but no stated maturity and therefore are included in the due within one year category. However, many of our credit card holders will revolve their balances, which may extend their repayment period beyond one year for balances at March 31, 2015.

Our loan receivables portfolio had the following geographic concentration at March 31, 2015.

| ($ in millions)<br>State | Loan Receivables Outstanding[(1)] | % of Total Loan Receivables Outstanding | |
|---|---|---|---|
| Texas | $5,822 | 10.0 | % |
| California | $5,772 | 9.9 | % |
| Florida | $4,552 | 7.8 | % |
| New York | $3,288 | 5.6 | % |
| Pennsylvania | $2,578 | 4.4 | % |

(1) Based on March 2015 customer statement-end balances extrapolated to March 31, 2015. Individual customer balances at March 31, 2015 are not available without undue burden and expense.

Impaired Loans and Troubled Debt Restructurings

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

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

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

| ($ in millions) | At March 31, 2015 | At December 31, 2014 |
|---|---|---|
| Non-accrual loan receivables | $2 | $2 |
| Loans contractually 90 days past-due and still accruing interest | 1,054 | 1,160 |
| Earning TDRs[1] | 672 | 670 |
| Non-accrual, past-due and restructured loan receivables | $1,728 | $1,832 |

(1) At March 31, 2015 and December 31, 2014, balances exclude $54 million of TDRs which are included in loans contractually 90 days past-due and still accruing interest balance. See Note 4. Loan Receivables and Allowance for Loan Losses to our condensed consolidated and combined financial statements for additional information on the financial effects of TDRs for the three months ended March 31, 2015 and 2014.

Delinquencies

Loan delinquencies as a percentage of period-end loan receivables decreased with the over-30 day delinquency rate decreasing to 3.79% at March 31, 2015, as compared to 4.09% at March 31, 2014 and 4.14% at December 31, 2014. The 30 basis point decrease compared to the same period in prior year was primarily driven by improvement in the U.S. economy. The decrease as compared to December 31, 2014 was primarily driven by the seasonality of our business, as well as improvement in the U.S. economy.

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 and Combined Statements of Earnings.

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

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| Ratio of net charge-offs to average loan receivables, including held for sale | 4.53 | % | 4.86 | % |

Allowance for Loan Losses

The allowance for loan losses remained relatively flat at $3,255 million at March 31, 2015 compared with $3,236 million at December 31, 2014, representing our best estimate of probable losses inherent in the portfolio. Our allowance for loan losses as a percentage of total loan receivables increased to 5.59% at March 31, 2015, from 5.28% at December 31, 2014 due to the seasonality in our business.

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

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

| ($ in millions) | Balance at January 1, 2014 | Provision Charged to Operations | Gross Charge-Offs | Recoveries | Balance at March 31, 2014 |
|---|---|---|---|---|---|
| Credit cards | $2,827 | $752 | $(781) | $137 | $2,935 |
| Consumer installment loans | 19 | 2 | (7) | 3 | 17 |
| Commercial credit products | 46 | 10 | (12) | 2 | 46 |
| Total | $2,892 | $764 | $(800) | $142 | $2,998 |

Funding, Liquidity and Capital Resources

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

Funding Sources

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

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| Three months ended March 31 ($ in millions) | Average Balance | % | Average Rate | Average Balance | % | Average Rate |
| Deposits[(1)] | $34,981 | 58.2 % | 1.6 % | $26,317 | 53.2 % | 1.5 % |
| Securitized financings | 14,101 | 23.4 | 1.5 | 14,830 | 30.0 | 1.3 |
| Bank term loan | 6,531 | 10.9 | 2.9 | — | — | — |
| Senior unsecured notes | 4,093 | 6.8 | 3.5 | — | — | — |
| Related party debt | 407 | 0.7 | 4.0 | 8,286 | 16.8 | 2.3 |
| Total | $60,113 | 100.0 % | 1.9 % | $49,433 | 100.0 % | 1.6 % |

(1) Excludes $142 million and $331 million average balance of non-interest-bearing deposits for the three months ended March 31, 2015 and March 31, 2014, respectively. Non-interest-bearing deposits comprise less than 10% of total deposits for the three months ended March 31, 2015 and 2014.

Deposits

We obtain deposits directly from retail and commercial customers ("direct deposits") or through third-party brokerage firms that offer our deposits to their customers ("brokered deposits"). At March 31, 2015, we had $21.3 billion in direct deposits (which includes deposits from banks and financial institutions) and $13.7 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 significantly 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, which we offer under our Optimizer+Plus brand.

Brokered deposits are primarily from retail customers of large brokerage firms. We have relationships with eight brokers that offer our deposits through their networks. Our brokered deposits consist primarily of certificates of deposit that bear interest at a fixed rate and at March 31, 2015, had a weighted average remaining life of 3.4 years. These deposits generally are not subject to early withdrawal.

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

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

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

| Three months ended March 31 ($ in millions) | 2015 Average Balance[(1)] | % of Total | | Average Rate | | 2014 Average Balance[(1)] | % of Total | | Average Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| Direct deposits: | | | | | | | | | | |
| Certificates of deposit (including IRA certificates of deposit) | $13,830 | 39.5 | % | 1.4 | % | $8,796 | 33.4 | % | 1.1 | % |
| Savings accounts (including money market accounts) | 6,487 | 18.6 | | 0.9 | | 2,827 | 10.8 | | 0.9 | |
| Brokered deposits | 14,664 | 41.9 | | 2.1 | | 14,694 | 55.8 | | 1.8 | |
| Total interest-bearing deposits | $34,981 | 100.0 | % | 1.6 | % | $26,317 | 100.0 | % | 1.5 | % |

(1) Average balances are based on monthly balances. Calculation of daily averages at this time involves undue burden and expense. We believe our average balance data is representative of our operations.

Our deposit liabilities provide funding with maturities ranging from one day to ten years. At March 31, 2015, the weighted average maturity of our interest-bearing time deposits was 2.4 years. See Note 7. Deposits to our condensed consolidated and combined financial statements for more information on their maturities.

The following table summarizes deposits by contractual maturity at March 31, 2015.

| ($ 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] | $4,241 | $1,304 | $2,417 | $11,753 | $19,715 |
| U.S. deposits ($100,000 or more) | | | | | |
| Direct deposits: | | | | | |
| Certificates of deposit (including IRA certificates of deposit) | 1,463 | 1,475 | 3,342 | 3,626 | 9,906 |
| Savings accounts (including money market accounts) | 5,215 | — | — | — | 5,215 |
| Brokered deposits: | | | | | |
| Sweep accounts | 114 | — | — | — | 114 |
| Total | $11,033 | $2,779 | $5,759 | $15,379 | $34,950 |

(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 (“MNT”) 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”) and the Synchrony Receivables Trust ("SRT").

The following table summarizes expected contractual maturities of the investors’ interests in securitized financings at March 31, 2015.

| ($ in millions) | Less Than One Year | One Year Through Three Years | Four Years Through Five Years | After Five Years | Total |
|---|---|---|---|---|---|
| Scheduled maturities of long-term borrowings—owed to securitization investors: | | | | | |
| MNT[1] | $1,326 | $8,353 | $1,913 | $— | $11,592 |
| SFT | — | 2,000 | — | — | 2,000 |
| SRT | 177 | 48 | — | — | 225 |
| Total long-term borrowings—owed to securitization investors | $1,503 | $10,401 | $1,913 | $— | $13,817 |

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

We retain exposure to the performance of trust assets through: (i) in the case of MNT, SFT and SRT, 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 MNT 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, GECC (solely with respect to MNT) 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 MNT, SFT or SRT.

The following table summarizes for each of our trusts the three-month rolling average excess spread at March 31, 2015.

| | Note Principal Balance ($ in millions) | # of Series Outstanding | Three-Month Rolling Average Excess Spread[1] | |
|---|---|---|---|---|
| MNT[2] | $12,900 | 21 | 14.0% to 17.7% | |
| SFT | $2,000 | 8 | 13.5 | % |
| SRT | $225 | 1 | 36.0 | % |

(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 MNT, 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 March 31, 2015.

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

Third-Party Debt

Bank Term Loan

During the three months ended March 31, 2015, we prepaid an additional $2.6 billion in the aggregate of the Bank Term Loan, which included the use of a portion of the net proceeds from the issuance of senior unsecured notes in February 2015. At March 31, 2015, the total indebtedness outstanding under the Bank Term Loan following these additional prepayments was $5.7 billion and the weighted average interest rate was 2.07%.

Senior Unsecured Notes

On February 2, 2015, we issued a total of $1.0 billion principal amount of senior unsecured notes, comprising $750 million aggregate principal amount of 2.700% senior notes due 2020, and $250 million aggregate principal amount of floating rate (three-month LIBOR plus 1.23%) senior notes due 2020. All of the net proceeds from this issuance were used to prepay the Bank Term Loan and GECC Term Loan on a pro rata basis.

At March 31, 2015, the aggregate principal amount of outstanding senior unsecured notes debt was $4.6 billion and the weighted average interest rate was 3.21%.

Related Party Debt

During the three months ended March 31, 2015, we prepaid $655 million of the GECC Term Loan, which represented all of the remaining outstanding indebtedness under that agreement, and at March 31, 2015, GECC no longer provided funding to our business.

During the three months ended March 31, 2014, GECC was a key source of our debt funding pursuant to various intercompany funding arrangements.

The aggregate interest and fees incurred with respect to funding provided by GECC to us was $4 million and $47 million for the three months ended March 31, 2015 and 2014, respectively.

Short-Term Borrowings

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

Undrawn securitized financings

At March 31, 2015, we had an aggregate of $6.6 billion of undrawn committed capacity on our securitized financings, subject to customary borrowing conditions, from private lenders under two of our existing securitization programs.

Other

At March 31, 2015, 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.

Off-Balance Sheet Items—Guarantees

We do not have any significant off-balance sheet items, 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 March 31, 2015, we had not recorded any contingent liabilities in our Condensed Consolidated and Combined Statements of Financial Position related to any guarantees.

Covenants

The Bank Term Loan includes: (a) affirmative covenants, which, among other things, require the Bank to remain a wholly-owned subsidiary of ours and (b) negative covenants which, among other things, restrict our and certain of our subsidiaries' ability (subject to various exceptions) to incur liens, incur indebtedness, engage in transactions with affiliates, amend or prepay the other term loan facility (except under the limited circumstances and in the manner specified in the term loan facilities), amend the Master Agreement and enter into certain restrictive agreements. The negative covenants also restrict our ability (subject to certain exceptions) to undergo various fundamental changes (including mergers, liquidations, sale-leaseback transactions and transfers of all or substantially all of our assets).

The Bank Term Loan also contains financial covenants (to be tested on a quarterly basis) that require (i) the Company and, until the Company is subject to or elects to report under Basel III, the Bank, to maintain a minimum Tier 1 common ratio of not less than 10% (calculated in accordance with Basel I or Basel III, as applicable), (ii) the Company to maintain minimum liquidity of not less than $4.0 billion and (iii) the Bank to maintain minimum liquidity of not less than $2.0 billion. The Bank Term Loan includes customary events of default, including the occurrence of a change of control (which will not be triggered by our separation from GE) and the occurrence of certain material adverse regulatory events.

The indenture pursuant to which our senior unsecured notes were issued in August 2014 and February 2015 includes various covenants, including covenants that restrict (subject to certain exceptions) the Company's ability to dispose of, or incur liens on, any of the voting stock of the Bank or otherwise permit the Bank to be merged, consolidated, leased or sold in a manner that results in the Bank being less than 80% controlled by us.

If we do not satisfy any of the covenants discussed above, the maturity of amounts outstanding thereunder may be accelerated and become payable. We were in compliance with all of these covenants at March 31, 2015.

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 March 31, 2015, we were not in default under any of our credit facilities 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 MNT 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

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We seek to ensure that we have adequate liquidity to sustain business operations, fund asset growth and satisfy debt obligations 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 Enterprise Risk Management 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 March 31, 2015 had $13.8 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 $12.9 billion of liquid assets at December 31, 2014. The increase in liquid assets was primarily due to the seasonal paydown of cardholder debt, partially offset by prepayments of long-term debt.

As additional sources of liquidity, at March 31, 2015, we had an aggregate of approximately $6.6 billion of undrawn committed capacity, subject to customary borrowing conditions, from private lenders under two of our existing securitization programs, 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.

Our liquidity portfolio consists of cash and equivalents primarily in the form of deposits with the Federal Reserve Bank and short-term obligations of the U.S. Treasury. 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 will 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 "Risk Factors—Risks Relating to Regulation—We may pay dividends or repurchase our common stock, which may reduce the amount of funds available to satisfy our indebtedness; the Bank is subject to restrictions that limit its ability to pay dividends to us, which could limit our ability to pay dividends or make payments on our indebtedness" and "Regulation—Savings Association Regulation—Dividends and Stock Repurchases" in our 2014 Form 10-K.

## Capital

Our primary sources of capital have been earnings generated by our businesses and existing equity capital. The proceeds from the IPO have increased our equity capital significantly. We seek to manage capital to a level and composition sufficient to support the risks of our businesses, 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.

In connection with our separation from GE, we filed the related application to the Federal Reserve Board on April 30, 2015. We expect to continue to increase our capital levels by, among other things, retaining net earnings and by not paying a dividend or returning capital through stock repurchases until our application to the Federal Reserve Board is approved. For a further discussion of our separation from GE, see "Item 1 Business - GE Ownership and Our Separation from GE" in our 2014 Form 10-K. As part of our capital plan, thereafter, our board of directors intends to consider our policy for paying dividends and may consider stock repurchases. We are targeting Tier 1 common ratios well in excess of regulatory "well capitalized" levels.

The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend on many factors, including the financial condition, earnings, capital and liquidity requirements of us and the Bank, regulatory restrictions (including any restrictions that may be imposed in connection with our separation from GE), 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—We may pay dividends or repurchase our common stock, which may reduce the amount of funds available to satisfy our indebtedness; the Bank is subject to restrictions that limit its ability to pay dividends to us, which could limit our ability to pay dividends or make payments on our indebtedness" in our 2014 Form 10-K. There can be no assurance that we will declare and pay any dividends or repurchase any stock in the future.

### Regulatory Capital Requirements - Synchrony Financial

As a savings and loan holding company, we historically have not been required to maintain any specific amount of minimum capital. In connection with our separation from GE and the related application to the Federal Reserve Board, we expect that we will be subject to capital requirements under the applicable U.S. Basel III capital rules. For more information, see "Regulation—Savings and Loan Holding Company Regulation" in our 2014 Form 10-K.

The following table sets forth at March 31, 2015 and December 31, 2014 the composition of our capital ratios for the Company calculated under the Basel I regulatory standards.

| | At March 31, 2015 | | | At December 31, 2014 | | | Minimum to be Well-Capitalized under Prompt Corrective Action Provisions | | |
|---|---|---|---|---|---|---|---|---|---|
| ($ in millions) | Amount | Ratio | | Amount | Ratio | | Amount | Ratio | |
| Total risk-based capital | $10,582 | 18.2 | % | $10,106 | 16.2 | % | $5,818 | 10.0 | % |
| Tier 1 risk-based capital | $9,823 | 16.9 | % | $9,297 | 14.9 | % | $3,491 | 6.0 | % |
| Tier 1 leverage | $9,823 | 13.7 | % | $9,297 | 12.5 | % | $3,582 | 5.0 | % |
| Tier 1 common equity | $9,823 | 16.9 | % | $9,297 | 14.9 | % | N/A | N/A | |

The increase in our Tier 1 common capital ratio, as calculated under Basel I, was primarily due to a reduction in risk-weighted assets as a result of the seasonality of our business and an increase in Tier 1 capital resulting from the retention of the Company's net earnings for the three months ended March 31, 2015.

We anticipate that the Company will be subject to the new U.S. Basel III regulatory capital standards. At March 31, 2015, we had an estimated fully phased-in Basel III Tier 1 common ratio of 16.4% calculated in accordance with the U.S. Basel III capital rules.

Non-GAAP Measures

As a new savings and loan holding company, the Company historically has not been required by regulators to disclose capital ratios, and therefore these capital ratios are non-GAAP measures. We believe these capital ratios are useful measures to investors because they are widely used by analysts and regulators to assess the capital position of financial services companies, although our Basel I Tier 1 common ratio is not a Basel I defined regulatory capital ratio, and our Basel I common ratio and Basel III common equity Tier 1 capital ratio may not be comparable to similarly titled measures reported by other companies. Our Basel I Tier 1 common ratio is the ratio of Tier 1 common equity (as calculated below) to total risk-weighted assets as calculated in accordance with the U.S. Basel I capital rules. Our Basel III common equity Tier 1 capital ratio is the ratio of common equity Tier 1 capital to total risk-weighted assets, each as calculated in accordance with the U.S. Basel III capital rules (on a fully phased-in basis). Our Basel III capital ratios are a preliminary estimate reflecting management's interpretation of the final Basel III capital rules adopted in July 2013 by the Federal Reserve Board, which have not been fully implemented, and our estimate and interpretations are subject to, among other things, ongoing regulatory review and implementation guidance. The following tables set forth a reconciliation of each component of our capital ratios set forth above to the comparable GAAP component at March 31, 2015.

| ($ in millions) | At March 31, 2015 |
|---|---|
| Equity to Tier 1 capital, Tier 1 common equity and Risk-based capital | |
| Total equity | $11,036 |
| Unrealized (gains) / losses on investment securities[1] | — |
| Disallowed goodwill and other disallowed intangible assets[2] | (1,213) |
| Basel I - Tier 1 capital and Tier 1 common equity | $9,823 |
| Allowance for loan losses includible in risk-based capital | 759 |
| Basel I - Risk-based capital | $10,582 |
| Basel I - Tier 1 capital and Tier 1 common equity | $9,823 |
| Adjustments related to certain other disallowed intangible assets and deferred tax liabilities | (12) |
| Basel III - Common equity Tier 1 | $9,811 |
| Total assets to leveraged assets | |
| Total assets | $72,721 |
| Disallowed goodwill and other disallowed intangible assets[2] | (1,213) |
| Other | 136 |
| Total assets for leverage capital purposes - Basel I | $71,644 |
| Risk-weighted assets - Basel I | $58,184 |
| Additional risk weighting adjustments related to: | |
| Deferred taxes | 1,224 |
| Loan receivables delinquent over 90 days | 528 |
| Other | (10) |
| Risk-weighted assets - Basel III (fully phased-in) | $59,926 |

(1) Amounts are presented net of tax.
(2) Amounts are net of related deferred tax liabilities.

Regulatory Capital Requirements - Synchrony Bank
At March 31, 2015 and December 31, 2014, the Bank met all applicable requirements to be deemed well-capitalized pursuant to OCC regulations and for purposes of the Federal Deposit Insurance Act. Effective January 1, 2015, the Bank became subject to the U.S. Basel III regulatory capital standards, subject to transition provisions. The following table sets forth the composition of the Bank’s capital ratios calculated based on the Basel III Standardized Approach framework, subject to applicable transition provisions, at March 31, 2015 and calculated based on the Basel I capital framework at December 31, 2014.

| At March 31, 2015 ($ in millions) | Bank Amount | Ratio | | Minimum to be Well-Capitalized under Prompt Corrective Action Provisions - Basel III Amount | Ratio | |
|---|---|---|---|---|---|---|
| Common equity Tier 1 | $7,179 | 17.6 | % | $2,645 | 6.5 | % |
| Total risk-based capital | $7,712 | 19.0 | % | $4,069 | 10.0 | % |
| Tier 1 risk-based capital | $7,179 | 17.6 | % | $3,255 | 8.0 | % |
| Tier 1 leverage | $7,179 | 14.4 | % | $2,494 | 5.0 | % |

| At December 31, 2014 ($ in millions) | Bank Amount | Ratio | | Minimum to be Well-Capitalized under Prompt Corrective Action Provisions - Basel I Amount | Ratio | |
|---|---|---|---|---|---|---|
| Total risk-based capital | $7,100 | 17.1 | % | $4,152 | 10.0 | % |
| Tier 1 risk-based capital | $6,559 | 15.8 | % | $2,491 | 6.0 | % |
| Tier 1 leverage | $6,559 | 13.4 | % | $2,449 | 5.0 | % |

Under the Bank’s Operating Agreement with the OCC, which it entered into on January 11, 2013 in connection with its acquisition of the deposit business of MetLife, and regulatory capital requirements adopted by the OCC, the Bank must maintain minimum levels of capital, which have historically been higher than the minimum levels required under the applicable Basel capital standards. The minimum levels of capital required under the Operating Agreement (calculated in accordance with U.S. Basel I capital rules) are as follows (i) Total risk-based capital of 11.0%; (ii) Tier 1 risk-based capital of 7.0%; and (iii) Tier 1 leverage of 6.0%. The Bank's regulatory capital was in excess of these thresholds at March 31, 2015 and December 31, 2014.

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, the Bank and, until the GE SLHC Deregistration, GECC to meet applicable capital adequacy rules could have a material adverse effect on us” in our 2014 Form 10-K.

## Critical Accounting Estimates

In preparing our condensed consolidated and combined 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. Many of these estimates include determining fair value. 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 2014 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. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective on January 1, 2017, subject to an additional one-year deferral as proposed by the FASB. Early application is not permitted. The standard permits the use of either the retrospective or modified retrospective (cumulative effect) transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

## Regulation and Supervision

Our business, including our relationships with our customers, is subject to extensive 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, Synchrony is subject to extensive regulation, supervision and examination by the Federal Reserve Board. As a large provider of consumer financial services, we are also subject to extensive regulation, supervision and examination by the CFPB. Until the GE SLHC Deregistration, we will be controlled by GECC, which is also a savings and loan holding company and is subject to extensive regulation, supervision and examination by the Federal Reserve Board. In addition, the Financial Stability Oversight Council has designated GECC as a nonbank systemically important financial institution under the Dodd-Frank Act.

The Bank is a federally chartered savings association. As such, the Bank is subject to extensive 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 2014 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 and Combined Statements of Earnings
(Unaudited)

| | Three months ended March 31, | |
|---|---|---|
| ($ in millions, except per share data) | 2015 | 2014 |
| Interest income: | | |
| Interest and fees on loans (Note 4) | $3,140 | $2,928 |
| Interest on investment securities | 10 | 5 |
| Total interest income | 3,150 | 2,933 |
| Interest expense: | | |
| Interest on deposits | 137 | 96 |
| Interest on borrowings of consolidated securitization entities | 52 | 47 |
| Interest on third-party debt | 82 | — |
| Interest on related party debt (Note 13) | 4 | 47 |
| Total interest expense | 275 | 190 |
| Net interest income | 2,875 | 2,743 |
| Retailer share arrangements | (660) | (594) |
| Net interest income, after retailer share arrangements | 2,215 | 2,149 |
| Provision for loan losses (Note 4) | 687 | 764 |
| Net interest income, after retailer share arrangements and provision for loan losses | 1,528 | 1,385 |
| Other income: | | |
| Interchange revenue | 100 | 76 |
| Debt cancellation fees | 65 | 70 |
| Loyalty programs | (78) | (43) |
| Other | 14 | 12 |
| Total other income | 101 | 115 |
| Other expense: | | |
| Employee costs | 239 | 193 |
| Professional fees | 162 | 130 |
| Marketing and business development | 82 | 83 |
| Information processing | 63 | 52 |
| Other | 200 | 152 |
| Total other expense | 746 | 610 |
| Earnings before provision for income taxes | 883 | 890 |
| Provision for income taxes (Note 12) | 331 | 332 |
| Net earnings | $552 | $558 |
| | | |
| Earnings per share | | |
| Basic | $0.66 | $0.79 |
| Diluted | $0.66 | $0.79 |

See accompanying notes.

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

| | Three months ended March 31, | |
|---|---|---|
| ($ in millions) | 2015 | 2014 |
| Net earnings | $552 | $558 |
| Other comprehensive income (loss) | | |
| Investment securities | 1 | 2 |
| Currency translation adjustments | (6) | 1 |
| Other | 1 | — |
| Other comprehensive income (loss) | (4) | 3 |
| Comprehensive income | $548 | $561 |

Amounts presented net of taxes.

See accompanying notes.

Synchrony Financial and subsidiaries
Condensed Consolidated and Combined Statements of Financial Position

| ($ in millions) | At March 31, 2015 (Unaudited) | At December 31, 2014 |
|---|---|---|
| Assets | | |
| Cash and equivalents | $11,218 | $11,828 |
| Investment securities (Note 3) | 3,121 | 1,598 |
| Loan receivables: (Notes 4 and 5) | | |
| Unsecuritized loans held for investment | 33,424 | 34,335 |
| Restricted loans of consolidated securitization entities | 24,824 | 26,951 |
| Total loan receivables | 58,248 | 61,286 |
| Less: Allowance for loan losses | (3,255) | (3,236) |
| Loan receivables, net | 54,993 | 58,050 |
| Loan receivables held for sale (Note 4) | 359 | 332 |
| Goodwill | 949 | 949 |
| Intangible assets, net (Note 6) | 557 | 519 |
| Other assets[a] | 1,524 | 2,431 |
| Total assets | $72,721 | $75,707 |