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

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
001-36560
(Commission File Number)
SYNCHRONY FINANCIAL
(Exact name of registrant as specified in its charter)

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

777 Long Ridge Road

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The number of shares of the registrant’s common stock, par value $0.001 per share, outstanding as of July 25, 2016 was 833,925,364.

Synchrony Financial

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Certain Defined Terms

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

- "we," "us," "our" and the "Company" are to SYNCHRONY FINANCIAL and its subsidiaries;
- "Synchrony" are to SYNCHRONY FINANCIAL only;
- "GE" are to General Electric Company and its subsidiaries;
- "GECC" are to General Electric Capital Corporation (a subsidiary of GE) and its subsidiaries;
- the "Bank" are to Synchrony Bank (a subsidiary of Synchrony);
- the "Bank Term Loan" are to the term loan agreement, dated as of July 30, 2014, among Synchrony, as borrower, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders from time to time party thereto, as amended;
- the "GECC Term Loan" are to the term loan agreement, dated as of July 30, 2014, among Synchrony, as borrower, GECC, as administrative agent, and the other Lenders party thereto, as amended;
- "FICO" score are to a credit score developed by Fair Isaac & Co., which is widely used as a means of evaluating the likelihood that credit users will pay their obligations; and
- "EMV" are to new security technology that utilizes embedded security chips in our credit cards.

For a description of certain other terms we use, including "active account" and "purchase volume," see the notes to "Item 7. Management's Discussion and Analysis—Other Financial and Statistical Data" in our Annual Report on Form 10-K for the year ended December 31, 2015 (our "2015 Form 10-K"). There is no standard industry definition for many of these terms, and other companies may define them differently than we do.

We provide a range of credit products through programs we have established with a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and healthcare service providers, which, in our business and in this report, we refer to as our "partners." The terms of the programs all require cooperative efforts between us and our partners of varying natures and degrees to establish and operate the programs. Our use of the term "partners" to refer to these entities is not intended to, and does not, describe our legal relationship with them, imply that a legal partnership or other relationship exists between the parties or create any legal partnership or other relationship. The "average length of our relationship" with respect to a specified partner, group of partners or programs is measured on a weighted average basis by interest and fees on loans for the year ended December 31, 2015 for those partners or for all partners participating in a program, based on the date each partner relationship or program, as applicable, started.

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

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

On our website at www.synchronyfinancial.com, we make available under the "Investors-SEC Filings" menu selection, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such reports or amendments are electronically filed with, or furnished to, the SEC. Materials that we file or furnish to the SEC may also be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information that we file electronically with the SEC.

Cautionary Note Regarding Forward-Looking Statements:

Various statements in this Quarterly Report on Form 10-Q may contain “forward-looking statements” as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the “safe harbor” created by those sections. Forward-looking statements may be identified by words such as “expects,” “intends,” “anticipates,” “plans,” “believes,” “seeks,” “targets,” “outl “estimates,” “will,” “should,” “may” or words of similar meaning, but these words are not the exclusive means of identifying forward-looking statements.

Forward-looking statements are based on management’s current expectations and assumptions, and are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. As a result, actual results could differ materially from those indicated in these forward-looking statements. Factors that could cause actual results to differ materially include global political, economic, business, competitive, market, regulatory and other factors and risks, such as: the impact of macroeconomic conditions and whether industry trends we have identified develop as anticipated; retaining existing partners and attracting new partners, concentration of our revenue in a small number of Retail Card partners, promotion and support of our products by our partners, and financial performance of our partners; higher borrowing costs and adverse financial market conditions impacting our funding and liquidity, and any reduction in our credit ratings; our ability to securitize our loans, occurrence of an early amortization of our securitization facilities, loss of the right to service or subservice our securitized loans, and lower payment rates on our securitized loans; our ability to grow our deposits in the future; changes in market interest rates and the impact of any margin compression; effectiveness of our risk management processes and procedures, reliance on models which may be inaccurate or misinterpreted, our ability to manage our credit risk, the sufficiency of our allowance for loan losses and the accuracy of the assumptions or estimates used in preparing our financial statements; our ability to offset increases in our costs in retailer share arrangements; competition in the consumer finance industry; our concentration in the U.S. consumer credit market; our ability to successfully develop and commercialize new or enhanced products and services; our ability to realize the value of strategic investments; reductions in interchange fees; fraudulent activity; cyber-attacks or other security breaches; failure of third parties to provide various services that are important to our operations; our transition to a replacement third-party vendor to manage the technology platform for our online retail deposits; disruptions in the operations of our computer systems and data centers; international risks and compliance and regulatory risks and costs associated with international operations; alleged infringement of intellectual property rights of others and our ability to protect our intellectual property; litigation and regulatory actions; damage to our reputation; our ability to attract, retain and motivate key officers and employees; tax legislation initiatives or challenges to our tax positions and state sales tax rules and regulations; a material indemnification obligation to GE under the tax sharing and separation agreement with GE (the "TSSA") if we cause the split-off from GE or certain preliminary transactions to fail to qualify for tax-free treatment or in the case of certain significant transfers of our stock following the split-off; obligations associated with being an independent public company; regulation, supervision, examination and enforcement of our business by governmental authorities, the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and the impact of the Consumer Financial Protection Bureau's (the “CFPB”) regulation of our business; changes to our methods of offering our CareCredit products; impact of capital adequacy rules and liquidity requirements; restrictions that limit our ability to pay dividends and repurchase our common stock, and restrictions that limit Synchrony Bank’s ability to pay dividends to us; regulations relating to privacy, information security and data protection; use of third-party vendors and ongoing third-party business relationships; and failure to comply with anti-money laundering and anti-terrorism financing laws.

For the reasons described above, we caution you against relying on any forward-looking statements, which should also be read in conjunction with the other cautionary statements that are included elsewhere in this report and in our public filings, including under the heading “Risk Factors” in our 2015 Form 10-K. You should not consider any list of such factors to be an exhaustive statement of all of the risks, uncertainties, or potentially inaccurate assumptions that could cause our current expectations or beliefs to change. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as otherwise may be required by the federal securities laws.

PART I. FINANCIAL INFORMATION

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this quarterly report and in our 2015 Form 10-K. The discussion below contains forward-looking statements that are based upon current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations. See “Cautionary Note Regarding Forward-Looking Statements.”

Introduction and Business Overview

We are one of the premier consumer financial services companies in the United States. We provide a range of credit products through programs we have established with a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and healthcare service providers, which we refer to as our “partners.” For the three and six months ended June 30, 2016, we financed $31.5 billion and $58.5 billion of purchase volume and had 65.5 million and 66.0 million average active accounts, respectively, and at June 30, 2016, we had $68.3 billion of loan receivables. For the three and six months ended June 30, 2016, we had net earnings of $489 million and $1,071 million, respectively, representing a return on assets of 2.4% and 2.6%, respectively.

We offer our credit products primarily through our wholly-owned subsidiary, the Bank. Through the Bank, we offer, directly to retail and commercial customers, a range of deposit products insured by the Federal Deposit Insurance Corporation (“FDIC”), including certificates of deposit, individual retirement accounts (“IRAs”), money market accounts and savings accounts. We also take deposits at the Bank through third-party securities brokerage firms that offer our FDIC-insured deposit products to their customers. We have expanded and continue to expand our online direct banking operations to increase our deposit base as a source of stable and diversified low cost funding for our credit activities. At June 30, 2016 we had $46.4 billion in deposits, which represented 71% of our total funding sources.

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

Our Sales Platforms

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

Retail Card

Retail Card is a leading provider of private label credit cards, and also provides Dual Cards 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 24 national and regional retailers with which we have ongoing program agreements. The average length of our relationships with these Retail Card partners is 19 years. Retail Card's revenue primarily consists of interest and fees on our loan receivables. Other income earned by the Retail Card sales platform 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. In addition, the Retail Card sales platform includes the majority of our retailer share arrangements, which generally provide for payment to our partner if the economic performance of the program exceeds a contractually-defined threshold. Substantially all of the credit extended in this platform is on standard terms.

Payment Solutions

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

CareCredit

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

Our Credit Products

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

The following table sets forth each credit product by type and indicates the percentage of our total loan receivables that are under standard terms only or pursuant to a promotional financing offer at June 30, 2016.

Credit Product	Standard Terms Only	Promotional Offer Deferred Interest	Promotional Offer Other Promotional	Total
Credit cards	66.3 %	16.9 %	12.8 %	96.0 %
Commercial credit products	2.0	—	—	2.0
Consumer installment loans	—	—	1.9	1.9
Other	0.1	—	—	0.1
Total	68.4 %	16.9 %	14.7 %	100.0 %

Credit Cards

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

- Private label credit cards. Private label credit cards are partner-branded credit cards (e.g., Lowe’s or Amazon) or program-branded credit cards (e.g., CarCareONE or CareCredit) that are used primarily for the purchase of goods and services from the partner or within the program network. In addition, in some cases, cardholders may be permitted to access their credit card accounts for cash advances. In Retail Card, credit under our private label credit cards typically is extended on standard terms only, and in Payment Solutions and CareCredit, credit under our private label credit cards typically is extended pursuant to a promotional financing offer.
- Dual Cards. Our patented Dual Cards are co-branded general purpose credit cards that function as private label credit cards when used to purchase goods and services from our partners and as general purpose credit cards when used elsewhere. Credit extended under our Dual Cards typically is extended under standard terms only. Currently, only our Retail Card platform offers Dual Cards. At June 30, 2016, we offered Dual Cards or co-branded credit cards through 17 of our 24 ongoing Retail Card programs.

Commercial Credit Products

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

Installment Loans

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

Business Trends and Conditions

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

- Growth in loan receivables and interest income
- Extended duration of our Retail Card program agreements
- Increases in retailer share arrangement payments and other expense under extended program agreements
- Growth in interchange revenues and loyalty program costs
- Impact of regulatory developments
- Capital and liquidity levels; We continue to expect to maintain sufficient capital and liquidity resources to support our daily operations, our business growth, and our credit ratings as well as regulatory and compliance requirements in a cost effective and prudent manner through expected and unexpected market environments. As discussed in our 2015 Form 10-K, our Board of Directors (the "Board") intended to establish both dividend and share repurchase programs, and accordingly, on July 7, 2016, they approved a $0.13 quarterly common stock dividend as well as a share repurchase program of up to $952 million for the four quarters ending June 30, 2017. Our Board also declared our first quarterly cash dividend of $0.13 per share, payable on August 25, 2016 to holders of record at the close of business on August 12, 2016. While these programs have now been established, we continue to expect to maintain capital ratios well in excess of minimum regulatory requirements.
- Stable asset quality; During 2016, we have continued to note general improvement in the U.S. economy and our actual net charge-off rates have remained relatively stable, decreasing slightly by 14 basis points to 4.49% for the three months ended June 30, 2016, compared to 4.63% for the three months ended June 30, 2015. The assessment of our credit profile includes the evaluation of portfolio mix, account maturation, as well as broader consumer trends, such as payment behavior and overall indebtedness. During the second quarter of 2016, these factors contributed to an increase in our delinquent accounts and we are now estimating a 20-30 basis point increase in our net charge-off rate over the next twelve months. Accordingly, we also experienced a corresponding increase in our allowance coverage ratio, as we reserved for these forecasted losses inherent in our loan portfolio.

For a further discussion of these trends and conditions, see “Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Trends and Conditions” in our 2015 Form 10-K. For a discussion of how these trends and conditions impacted the three and six months ended June 30, 2016, see “Results of Operations.”

Seasonality

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

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

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

Results of Operations

Highlights for the Three and Six Months Ended June 30, 2016

Below are highlights of our performance for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, as applicable, except as otherwise noted.

- Net earnings decreased 9.6% to $489 million and 2.0% to $1,071 million for the three and six months ended June 30, 2016, respectively, driven by increases in provision for loan losses and other expense, partially offset by higher net interest income.
- Loan receivables increased 11.2% to $68,282 million at June 30, 2016 compared to June 30, 2015, primarily driven by higher purchase volume and average active account growth.
- Net interest income increased 10.5% to $3,212 million and 11.1% to $6,421 million for three and six months ended June 30, 2016, respectively, primarily due to higher average loan receivables.
- Retailer share arrangements increased 6.9% to $664 million and 4.1% to $1,334 million for the three and six months ended June 30, 2016, respectively, primarily as a result of growth and improved performance of the programs in which we have retailer share arrangements, partially offset by higher provision for loan losses and loyalty costs associated with these programs.
- Over-30 day loan delinquencies as a percentage of period-end loan receivables increased to 3.79% at June 30, 2016 from 3.53% at June 30, 2015, and the net charge-off rate decreased 14 basis points to 4.49% and increased 3 basis points to 4.59% for the three and six months ended June 30, 2016, respectively.
- Provision for loan losses increased by $281 million, or 38.0%, and $497 million or 34.8% for the three and six months ended June 30, 2016, respectively, due to a higher loan loss reserve build and receivable growth. Our allowance coverage ratio (allowance for loan losses as a percent of end of period loan receivables) increased to 5.70% at June 30, 2016, as compared to 5.38% at June 30, 2015.
- Other expense increased by $34 million, or 4.2%, and $88 million or 5.7% for three and six months ended June 30, 2016, respectively, driven by business growth.
- We continue to invest in our direct banking activities to grow our deposit base. Total deposits increased 7.1% to $46.4 billion at June 30, 2016, compared to December 31, 2015, driven primarily by growth in our direct deposits of 14.8% to $34.1 billion, partially offset by a reduction in our brokered deposits.

- On July 7, 2016, our Board approved a $0.13 quarterly common stock dividend as well as a share repurchase program of up to $952 million for the four quarters ending June 30, 2017. Our Board also declared our first quarterly cash dividend of $0.13 per share, payable on August 25, 2016 to holders of record at the close of business on August 12, 2016.

New and Extended Partner Agreements during the six months ended June 30, 2016

- We extended our Retail Card program agreement with Stein Mart, launched our new programs with Citgo and Marvel and announced our new partnerships with Cathay Pacific and Fareportal.
- We extended our Payment Solutions program agreements with La-Z-Boy, Ashley Homestore and Suzuki and launched our new program with Mattress Firm.
- In our CareCredit sales platform, we renewed our endorsements with the American Society of Plastic Surgeons and VCA Animal Hospitals.

Summary Earnings

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

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2016	2015	2016	2015
Interest income	$3,515	$3,177	$7,035	$6,327
Interest expense	303	270	614	545
Net interest income	3,212	2,907	6,421	5,782
Retailer share arrangements	(664)	(621)	(1,334)	(1,281)
Net interest income, after retailer share arrangements	2,548	2,286	5,087	4,501
Provision for loan losses	1,021	740	1,924	1,427
Net interest income, after retailer share arrangements and provision for loan losses	1,527	1,546	3,163	3,074
Other income	83	120	175	221
Other expense	839	805	1,639	1,551
Earnings before provision for income taxes	771	861	1,699	1,744
Provision for income taxes	282	320	628	651
Net earnings	$489	$541	$1,071	$1,093

Other Financial and Statistical Data[1]

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

($ in millions)	At and for the Three months ended June 30, 2016	2015	At and for the Six months ended June 30, 2016	2015
Financial Position Data (Average):				
Loan receivables, including held for sale	$66,943	$60,094	$66,963	$60,124
Total assets	$81,694	$73,985	$82,351	$74,023
Deposits	$45,707	$35,982	$45,024	$35,598
Borrowings	$19,474	$23,953	$20,815	$24,582
Total equity	$13,467	$11,300	$13,181	$11,023
Selected Performance Metrics:				
Purchase volume[2]	$31,507	$28,810	$58,484	$51,949
Retail Card	$25,411	$23,452	$46,961	$41,862
Payment Solutions	$3,903	$3,371	$7,295	$6,319
CareCredit	$2,193	$1,987	$4,228	$3,768
Average active accounts (in thousands)[3]	65,531	60,923	65,996	61,478
Net interest margin[4]	15.86 %	15.77 %	15.80 %	15.75 %
Net charge-offs	$747	$693	$1,527	$1,361
Net charge-offs as a % of average loan receivables, including held for sale	4.49 %	4.63 %	4.59 %	4.56 %
Allowance coverage ratio[5]	5.70 %	5.38 %	5.70 %	5.38 %
Return on assets[6]	2.4 %	2.9 %	2.6 %	3.0 %
Return on equity[7]	14.6 %	19.2 %	16.3 %	20.0 %
Equity to assets[8]	16.48 %	15.27 %	16.01 %	14.89 %
Other expense as a % of average loan receivables, including held for sale	5.04 %	5.37 %	4.92 %	5.20 %
Efficiency ratio[9]	31.9 %	33.5 %	31.1 %	32.8 %
Effective income tax rate	36.6 %	37.2 %	37.0 %	37.3 %
Selected Period End Data:				
Loan receivables	$68,282	$61,431	$68,282	$61,431
Allowance for loan losses	$3,894	$3,302	$3,894	$3,302
30+ days past due as a % of period-end loan receivables[10]	3.79 %	3.53 %	3.79 %	3.53 %
90+ days past due as a % of period-end loan receivables[10]	1.67 %	1.52 %	1.67 %	1.52 %
Total active accounts (in thousands)[3]	66,491	61,718	66,491	61,718

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

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

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

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

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

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

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

(8) Equity to assets represents average equity as a percentage of average total assets.
(9) Efficiency ratio represents (i) other expense, divided by (ii) net interest income, after retailer share arrangements, plus other income.
(10) Based on customer statement-end balances extrapolated to the respective period-end date.

Average Balance Sheet

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

	2016			2015		
Three months ended June 30 ($ 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]	$11,692	$ 14	0.48 %	$10,728	$ 6	0.22 %
Securities available for sale	2,805	7	1.00 %	3,107	5	0.65 %
Loan receivables:						
Credit cards, including held for sale[4]	64,269	3,432	21.48 %	57,588	3,106	21.63 %
Consumer installment loans	1,235	28	9.12 %	1,101	26	9.47 %
Commercial credit products	1,373	33	9.67 %	1,372	34	9.94 %
Other	66	1	NM	33	—	— %
Total loan receivables	66,943	3,494	20.99 %	60,094	3,166	21.13 %
Total interest-earning assets	81,440	3,515	17.36 %	73,929	3,177	17.24 %
Non-interest-earning assets:						
Cash and due from banks	774			583		
Allowance for loan losses	(3,729)			(3,285)		
Other assets	3,209			2,758		
Total non-interest-earning assets	254			56		
Total assets	$81,694			$73,985		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	$45,490	$ 179	1.58 %	$35,816	$ 146	1.64 %
Borrowings of consolidated securitization entities	12,291	59	1.93 %	14,011	53	1.52 %
Bank term loan	374	7	7.53 %	5,374	32	2.39 %
Senior unsecured notes	6,809	58	3.43 %	4,568	39	3.42 %
Related party debt	—	—	— %	—	—	— %
Total interest-bearing liabilities	64,964	303	1.88 %	59,769	270	1.81 %
Non-interest-bearing liabilities:						
Non-interest-bearing deposit accounts	217			166		
Other liabilities	3,046			2,750		
Total non-interest-bearing liabilities	3,263			2,916		
Total liabilities	68,227			62,685		
Equity						
Total equity	13,467			11,300		
Total liabilities and equity	$81,694			$73,985		
Interest rate spread[5]			15.48 %			15.43 %
Net interest income		$ 3,212			$ 2,907	
Net interest margin[6]			15.86 %			15.77 %

Six months ended June 30 ($ in millions)	2016 Average Balance[1]	Interest Income / Expense	Average Yield / Rate[2]	2015 Average Balance[1]	Interest Income/ Expense	Average Yield / Rate[2]
Assets						
Interest-earning assets:						
Interest-earning cash and equivalents[3]	$11,874	$ 30	0.51 %	$11,006	$ 12	0.22 %
Securities available for sale	2,893	13	0.90 %	2,887	9	0.63 %
Loan receivables:						
Credit cards, including held for sale[4]	64,363	6,868	21.46 %	57,670	6,185	21.63 %
Consumer installment loans	1,199	55	9.22 %	1,081	51	9.51 %
Commercial credit products	1,346	68	10.16 %	1,345	70	10.50 %
Other	55	1	NM	28	—	— %
Total loan receivables	66,963	6,992	21.00 %	60,124	6,306	21.15 %
Total interest-earning assets	81,730	7,035	17.31 %	74,017	6,327	17.24 %
Non-interest-earning assets:						
Cash and due from banks	1,036			578		
Allowance for loan losses	(3,661)			(3,282)		
Other assets	3,246			2,710		
Total non-interest-earning assets	621			6		
Total assets	$82,351			$74,023		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	$44,807	$ 351	1.58 %	$35,445	$ 283	1.61 %
Borrowings of consolidated securitization entities	12,648	117	1.86 %	14,085	105	1.50 %
Bank term loan	1,466	31	4.25 %	5,981	79	2.66 %
Senior unsecured notes	6,701	115	3.45 %	4,284	74	3.48 %
Related party debt	—	—	— %	232	4	3.48 %
Total interest-bearing liabilities	65,622	614	1.88 %	60,027	545	1.83 %
Non-interest-bearing liabilities:						
Non-interest-bearing deposit accounts	217			153		
Other liabilities	3,331			2,820		
Total non-interest-bearing liabilities	3,548			2,973		
Total liabilities	69,170			63,000		
Equity						
Total equity	13,181			11,023		
Total liabilities and equity	$82,351			$74,023		
Interest rate spread[5]			15.43 %			15.41 %
Net interest income		$ 6,421			$ 5,782	
Net interest margin[6]			15.80 %			15.75 %

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

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

(3) Includes average restricted cash balances of $586 million and $692 million for the three months ended June 30, 2016 and 2015, respectively, and $529 million and $775 million for the six months ended June 30, 2016 and 2015, respectively.

(4) Interest income on credit cards includes fees on loans of $570 million and $526 million for the three months ended June 30, 2016 and 2015, respectively, and $1,154 million and $1,060 million for the six months ended June 30, 2016 and 2015, respectively.

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

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

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

Interest Income

Interest income increased by $338 million, or 10.6%, and by $708 million, or 11.2%, for the three and six months ended June 30, 2016, driven primarily by growth in our average loan receivables.

Average interest-earning assets

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2016	2015	2016	2015
Loan receivables, including held for sale	$66,943	$60,094	$66,963	$60,124
Liquidity portfolio and other	14,497	13,835	14,767	13,893
Total average interest-earning assets	$81,440	$73,929	$81,730	$74,017

The increases in average loan receivables of 11.4% for both current year periods was driven primarily by higher purchase volume of 9.4% and 12.6% for the three and six months ended June 30, 2016, respectively, as a result of average active account growth and higher purchase volume per account. Average active accounts increased 7.6% to 65.5 million and 7.3% to 66.0 million for the three and six months ended June 30, 2016, respectively, from 60.9 million and 61.5 million for the three and six months ended June 30, 2015, respectively.

Yield on average interest-earning assets

	Three months ended	Six months ended
Yield on average interest-earning assets for the period ended June 30, 2015	17.24 %	17.24 %
Yield on loan receivables, including held for sale	(0.14)	(0.15)
Liquidity portfolio and other	0.26	0.22
Yield on average interest-earning assets for the period ended June 30, 2016	17.36 %	17.31 %

The yield on interest-earning assets increased for the three and six months ended June 30, 2016 as lower average liquidity as a percentage of interest-earning assets and improved rates earned on our liquidity portfolio were partially offset by the decline in yield on our average loan receivables. The yield on our average loan receivables decreased to 20.99% for the three months ended June 30, 2016, and decreased to 21.00% for the six months ended June 30, 2016, reflecting the growth in promotional balances.

Interest Expense

Interest expense increased by $33 million, or 12.2%, and by $69 million, or 12.7%, for the three and six months ended June 30, 2016, respectively, driven primarily by the increases in our deposit liabilities. Our cost of funds increased to 1.88% for both the three and six months ended June 30, 2016, compared to 1.81% and 1.83% for the three and six months ended June 30, 2015, respectively, primarily due to higher short-term benchmark rates.

Average interest-bearing liabilities

($ in millions)	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Interest-bearing deposit accounts	$45,490	$35,816	$44,807	$35,445
Borrowings of consolidated securitization entities	12,291	14,011	12,648	14,085
Third-party debt	7,183	9,942	8,167	10,265
Related party debt	—	—	—	232
Total average interest-bearing liabilities	$64,964	$59,769	$65,622	$60,027

The increases in average interest-bearing liabilities for the three and six months ended June 30, 2016 was driven primarily by growth in our direct deposits partially offset by the repayment of third-party debt and lower securitized financings.

Net Interest Income

Net interest income increased by $305 million, or 10.5%, and by $639 million, or 11.1%, for the three and six months ended June 30, 2016, respectively, driven by higher average loan receivables.

Retailer Share Arrangements

Retailer share arrangements increased by $43 million, or 6.9%, and by $53 million, or 4.1%, for the three and six months ended June 30, 2016, respectively, driven primarily by the growth and improved performance of the programs in which we have retailer share arrangements, partially offset by higher provision for loan losses and loyalty costs associated with these programs.

Provision for Loan Losses

Provision for loan losses increased by $281 million, or 38.0%, and by $497 million, or 34.8%, for the three and six months ended June 30, 2016, respectively, primarily due to higher expected losses and receivables growth. The increases in expected losses were primarily driven by an increase in our delinquent accounts, which occurred during the second quarter of 2016, and we are now estimating a 20-30 basis point increase in our forecasted net charge-off rate over the next twelve months.

Our allowance coverage ratio increased to 5.70% at June 30, 2016, as compared to 5.38% at June 30, 2015 reflecting this increase in forecasted losses inherent in our loan portfolio.

Other Income

($ in millions)	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Interchange revenue	$151	$123	$281	$223
Debt cancellation fees	63	61	127	126
Loyalty programs	(135)	(94)	(245)	(172)
Other	4	30	12	44
Total other income	$83	$120	$175	$221

Other income decreased by $37 million, or 30.8%, and by $46 million, or 20.8%, for the three and six months ended June 30, 2016, respectively. These decreases were primarily due to a pre-tax gain of $20 million associated with the sale of certain loan portfolios in the three and six months ended June 30, 2015 and higher loyalty costs in the three and six months ended June 30, 2016, partially offset by increased interchange revenue driven by increased purchase volume outside of our retail partners' sales channels.

Other Expense

($ in millions)	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Employee costs	$301	$250	$581	$489
Professional fees	154	156	300	318
Marketing and business development	107	108	201	190
Information processing	81	74	163	137
Other	196	217	394	417
Total other expense	$839	$805	$1,639	$1,551

Other expense increased by $34 million, or 4.2%, for the three months ended June 30, 2016, primarily due to an increase in employee costs, partially offset by a reduction in the "other" component of other expense. Employee costs increased primarily due to new employees added to support the continued growth of the business and build the necessary infrastructure for Separation. The decrease in "other" was primarily driven by EMV benefits and lower payments due to GE due to the replacement of certain services that were previously provided to us under the Transition Services Agreement ("TSA").

Other expense increased by $88 million, or 5.7%, for the six months ended June 30, 2016, primarily due to increases in employee costs and information processing, partially offset by a decrease in the "other" component of other expense. Employee costs increased primarily due to the same factors attributable to the increase for the three months ended June 30, 2016. Information processing costs increased in the six months ended June 30, 2016 primarily due to higher information technology investment and higher transaction volume. The decrease in "other" was primarily due to the same factors attributable to the decrease for the three months ended June 30, 2016.

Provision for Income Taxes

($ in millions)	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Effective tax rate	36.6 %	37.2 %	37.0 %	37.3 %
Provision for income taxes	$282	$320	$628	$651

The effective tax rate for the three and six months ended June 30, 2016 decreased compared to the same periods in the prior year primarily due to the discrete impact of a change in state tax rates, a research and development credit and an additional tax benefit that is reimbursable to GE under the terms of the TSSA. In each period, the effective tax rate differs from the U.S. federal statutory tax rate of 35.0%, primarily due to these discrete items and state income taxes.

Platform Analysis

As discussed above under "—Our Sales Platforms," we offer our products through three sales platforms (Retail Card, Payment Solutions and CareCredit), which management measures based on their revenue-generating activities. The following is a discussion of certain supplemental information for the three and six months ended June 30, 2016, for each of our sales platforms.

Retail Card

($ in millions)	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Purchase volume	$25,411	$23,452	$46,961	$41,862
Period-end loan receivables	$46,705	$42,315	$46,705	$42,315
Average loan receivables, including held for sale	$45,861	$41,303	$45,990	$41,302
Average active accounts (in thousands)	52,314	48,981	52,798	49,513
Interest and fees on loans	$2,585	$2,335	$5,199	$4,672
Retailer share arrangements	$(656)	$(606)	$(1,317)	$(1,257)
Other income	$69	$107	$148	$193

Retail Card interest and fees on loans increased by $250 million, or 10.7%, and by $527 million, or 11.3%, for the three and six months ended June 30, 2016, respectively. These increases were primarily the result of increases in average loan receivables.

Retailer share arrangements increased by $50 million, or 8.3%, and by $60 million, or 4.8%, for the three and six months ended June 30, 2016, respectively, primarily as a result of the factors discussed under the heading “Retailer Share Arrangements” above.

Other income decreased by $38 million, or 35.5%, and by $45 million, or 23.3%, for the three and six months ended June 30, 2016, respectively. These decreases were primarily as a result of the factors discussed under the heading “Other Income” above.

Payment Solutions

($ in millions)	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Purchase volume	$3,903	$3,371	$7,295	$6,319
Period-end loan receivables	$13,997	$12,194	$13,997	$12,194
Average loan receivables	$13,644	$11,971	$13,584	$11,990
Average active accounts (in thousands)	8,153	7,231	8,148	7,251
Interest and fees on loans	$467	$412	$924	$815
Retailer share arrangements	$(7)	$(14)	$(14)	$(22)
Other income	$3	$4	$7	$9

Payment Solutions interest and fees on loans increased by $55 million, or 13.3%, and by $109 million, or 13.4%, for the three and six months ended June 30, 2016, respectively. These increases were primarily driven by increases in average loan receivables.

CareCredit

($ in millions)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Purchase volume	$2,193	$1,987	$4,228	$3,768
Period-end loan receivables	$7,580	$6,922	$7,580	$6,922
Average loan receivables	$7,438	$6,820	$7,389	$6,832
Average active accounts (in thousands)	5,064	4,711	5,050	4,714
Interest and fees on loans	$442	$419	$869	$819
Retailer share arrangements	$(1)	$(1)	$(3)	$(2)
Other income	$11	$9	$20	$19

CareCredit interest and fees on loans increased by $23 million, or 5.5%, and by $50 million, or 6.1%, for the three and six months ended June 30, 2016, respectively. These increases were primarily the result of increases in average loan receivables, partially offset with a reduction in receivable yield.

Investment Securities

The following discussion provides supplemental information regarding our investment securities portfolio. All of our investment securities are classified as available-for-sale at June 30, 2016 and December 31, 2015, and are held to meet our liquidity objectives and to comply with the Community Reinvestment Act. Investment securities classified as available-for-sale are reported in our Condensed Consolidated Statements of Financial Position at fair value.

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

($ in millions)	At June 30, 2016 Amortized Cost	At June 30, 2016 Estimated Fair Value	At December 31, 2015 Amortized Cost	At December 31, 2015 Estimated Fair Value
Debt:				
U.S. government and federal agency	$1,800	$ 1,803	$2,768	$ 2,761
State and municipal	49	49	51	49
Residential mortgage-backed	848	856	323	317
Equity	15	15	15	15
Total	$2,712	$ 2,723	$3,157	$ 3,142

Unrealized gains and losses, net of the related tax effect, on available-for-sale securities that are not other-than-temporarily impaired are excluded from earnings and are reported as a separate component of comprehensive income (loss) until realized. At June 30, 2016, our investment securities had gross unrealized gains of $12 million and gross unrealized losses of $1 million. At December 31, 2015, our investment securities had gross unrealized gains of $2 million and gross unrealized losses of $17 million.

Our investment securities portfolio had the following maturity distribution at June 30, 2016. Equity securities have been excluded from the table because they do not have a maturity.

($ in millions)	Due in 1 Year or Less	Due After 1 through 5 Years	Due After 5 through 10 Years	Due After 10 years	Total
Debt:					
U.S. government and federal agency	$ 1,101	$ 702	$ —	$ —	$1,803
State and municipal	—	1	—	48	49
Residential mortgage-backed	—	—	—	856	856
Total[(1)]	$ 1,101	$ 703	$ —	$ 904	$2,708
Weighted average yield[(2)]	0.6 %	0.8 %	— %	3.0 %	1.4 %

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(1) Amounts stated represent estimated fair value.

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

At June 30, 2016, we did not hold investments in any single issuer with an aggregate book value that exceeded 10% of equity, excluding obligations of the U.S. government.

Loan Receivables

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

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

($ in millions)	At June 30, 2016	(%)	At December 31, 2015	(%)
Loans				
Credit cards	$65,511	96.0 %	$65,773	96.3 %
Consumer installment loans	1,293	1.9	1,154	1.7
Commercial credit products	1,389	2.0	1,323	1.9
Other	89	0.1	40	0.1
Total loans	$68,282	100.0%	$68,290	100.0%

Loan receivables remained relatively flat at June 30, 2016 compared to December 31, 2015, primarily driven by the seasonality of our business.

Loan receivables increased by $6,851 million, or 11.2%, at June 30, 2016 compared to June 30, 2015, primarily driven by higher purchase volume and average active account growth.

Our loan receivables portfolio had the following geographic concentration at June 30, 2016.

($ in millions) State	Loan Receivables Outstanding[(1)]	% of Total Loan Receivables Outstanding
Texas	$ 6,783	