Synchrony Financial
Form 10-Q
July 27, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
001-36560
(Commission File Number)
SYNCHRONY FINANCIAL
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

The number of shares of the registrant’s common stock, par value $0.001 per share, outstanding as of July 23, 2018 was 740,686,112.

Synchrony Financial

Certain Defined Terms

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

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

We provide a range of credit products through programs we have established with a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and healthcare service providers, which, in our business and in this report, we refer to as our "partners." The terms of the programs all require cooperative efforts between us and our partners of varying natures and degrees to establish and operate the programs. Our use of the term "partners" to refer to these entities is not intended to, and does not, describe our legal relationship with them, imply that a legal partnership or other relationship exists between the parties or create any legal partnership or other relationship. The "average length of our relationship" with respect to a specified group of partners or programs is measured on a weighted average basis by interest and fees on loans for the year ended December 31, 2017 for those partners or for all partners participating in a program, based on the date each partner relationship or program, as applicable, started.

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

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

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

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

Cautionary Note Regarding Forward-Looking Statements:

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

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

For the reasons described above, we caution you against relying on any forward-looking statements, which should also be read in conjunction with the other cautionary statements that are included elsewhere in this report and in our public filings, including under the heading "Risk Factors" in our 2017 Form 10-K. You should not consider any list of such factors to be an exhaustive statement of all of the risks, uncertainties, or potentially inaccurate assumptions that could cause our current expectations or beliefs to change. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as otherwise may be required by the federal securities laws.

PART I. FINANCIAL INFORMATION
ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this quarterly report and in our 2017 Form 10-K. The discussion below contains forward-looking statements that are based upon current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations. See “Cautionary Note Regarding Forward-Looking Statements.”
Introduction and Business Overview

We are a premier consumer financial services company delivering customized financing programs across key industries including retail, health, auto, travel and home, along with award-winning consumer banking products. We provide a range of credit products through our financing programs which we have established with a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and healthcare service providers, which we refer to as our “partners.” For the three and six months ended June 30, 2018, we financed $34.3 billion and $63.9 billion of purchase volume, respectively, and had 69.3 million and 70.5 million average active accounts, respectively, and at June 30, 2018, we had $78.9 billion of loan receivables.
We offer our credit products primarily through our wholly-owned subsidiary, the Bank. In addition, through the Bank, we offer, directly to retail and commercial customers, a range of deposit products insured by the Federal Deposit Insurance Corporation (“FDIC”), including certificates of deposit, individual retirement accounts (“IRAs”), money market accounts and savings accounts. We also take deposits at the Bank through third-party securities brokerage firms that offer our FDIC-insured deposit products to their customers. We have significantly expanded our online direct banking operations in recent years and our deposit base serves as a source of stable and diversified low cost funding for our credit activities. At June 30, 2018, we had $59.0 billion in deposits, which represented 73% of our total funding sources.
Our Sales Platforms

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

Retail Card

Retail Card is a leading provider of private label credit cards, and also provides Dual Cards, general purpose co-branded credit cards and small- and medium-sized business credit products. We offer one or more of these products primarily through 28 national and regional retailers with which we have ongoing program agreements. The average length of our relationship with these Retail Card partners is 21 years. Retail Card’s revenue primarily consists of interest and fees on our loan receivables. Other income primarily consists of interchange fees earned when our Dual Card or general purpose co-branded credit cards are used outside of our partners' sales channels and fees paid to us by customers who purchase our debt cancellation products, less loyalty program payments. In addition, the majority of our retailer share arrangements, which generally provide for payment to our partner if the economic performance of the program exceeds a contractually-defined threshold, are with partners in the Retail Card sales platform. Substantially all of the credit extended in this platform is on standard terms.

Payment Solutions

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

CareCredit

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

Our Credit Products

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

The following table sets forth each credit product by type and indicates the percentage of our total loan receivables that are under standard terms only or pursuant to a promotional financing offer at June 30, 2018.

		Promotional Offer		
Credit Product	Standard Terms Only	Deferred Interest	Other Promotional	Total
Credit cards	66.3 %	15.5 %	14.2 %	96.0 %
Commercial credit products	1.7	—	—	1.7
Consumer installment loans	—	—	2.2	2.2
Other	0.1	—	—	0.1
Total	68.1 %	15.5 %	16.4 %	100.0 %

Credit Cards

We typically offer the following principal types of credit cards:

- Private Label Credit Cards. Private label credit cards are partner-branded credit cards (e.g., Lowe's or Amazon) or program-branded credit cards (e.g., Synchrony Car Care or CareCredit) that are used primarily for the purchase of goods and services from the partner or within the program network. In addition, in some cases, cardholders may be permitted to access their credit card accounts for cash advances. In Retail Card, credit under our private label credit cards typically is extended on standard terms only, and in Payment Solutions and CareCredit, credit under our private label credit cards typically is extended pursuant to a promotional financing offer.
- Dual Cards and General Purpose Co-Brand Cards. Our patented Dual Cards are credit cards that function as private label credit cards when used to purchase goods and services from our partners and as general purpose credit cards when used elsewhere. We also offer general purpose co-branded credit cards that do not function as private label cards. Credit extended under our Dual Cards and general purpose co-branded credit cards typically is extended under standard terms only. Dual Cards and general purpose co-branded credit cards are primarily offered through our Retail Card platform. At June 30, 2018, we offered these credit cards through 21 of our 28 ongoing Retail Card programs, of which the majority are Dual Cards.

Commercial Credit Products

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

Installment Loans

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

Business Trends and Conditions

We believe our business and results of operations will be impacted in the future by various trends and conditions. For a discussion of certain trends and conditions, see “Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Trends and Conditions” in our 2017 Form 10-K. For a discussion of how certain trends and conditions impacted the three and six months ended June 30, 2018, 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, 2018

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

- Net earnings increased 40.3% to $696 million and 34.3% to $1,336 million for the three and six months ended June 30, 2018, respectively, driven by higher net interest income and lower provision for income taxes, partially offset by increases in other expense. The increase for the three months ended June 30, 2018 was also driven by lower provision for loan losses.
- Loan receivables increased 4.5% to $78,879 million at June 30, 2018 compared to June 30, 2017, primarily driven by higher purchase volume and average active account growth.
- Net interest income increased 2.7% to $3,737 million and 4.9% to $7,579 million for the three and six months ended June 30, 2018, respectively, primarily due to higher average loan receivables.
- Retailer share arrangements decreased 2.4% to $653 million for the three months ended June 30, 2018, primarily due to the impact from the Toys "R" Us bankruptcy. Retailer share arrangements increased 1.5% to $1,373 million for the six months ended June 30, 2018, primarily as a result of growth of the programs in which we have retailer share arrangements, partially offset by the impact from the Toys "R" Us bankruptcy.
- Over-30 day loan delinquencies as a percentage of period-end loan receivables decreased 8 basis points to 4.17% at June 30, 2018 from 4.25% at June 30, 2017, and net charge-off rate increased 55 basis points to 5.97% and 69 basis points to 6.06% for the three and six months ended June 30, 2018, respectively.
- Provision for loan losses decreased by $46 million, or 3.5%, for the three months ended June 30, 2018, primarily due to a lower loan loss reserve build, partially offset by higher net charge-offs. Provision for loan losses remained relatively flat for the six months ended June 30, 2018, as the increase in net charge-offs was largely offset by a lower loan loss reserve build. Our allowance coverage ratio (allowance for loan losses as a percent of end of period loan receivables) increased to 7.43% at June 30, 2018, as compared to 6.63% at June 30, 2017.
- Other expense increased by $64 million, or 7.0%, and $144 million, or 7.9%, for the three and six months ended June 30, 2018, respectively, primarily driven by business growth and strategic investments, as well as preparing for the expansion of the PayPal Credit portfolio.
- Provision for income taxes decreased by $96 million, or 32.9%, and $172 million, or 29.9%, for the three and six months ended June 30, 2018, respectively, primarily due to the reduction in the corporate tax rate included in the Tax Act.
- At June 30, 2018, deposits represented 73% of our total funding sources. Total deposits increased 4.5% to $59.0 billion at June 30, 2018, compared to December 31, 2017, driven primarily by growth in our direct deposits of 8.2% to $46.2 billion, partially offset by a reduction in our brokered deposits.
- On May 17, 2018, the Board announced plans to increase our quarterly dividend to $0.21 per share commencing in the third quarter of 2018 and approval of a share repurchase program of up to $2.2 billion through June 30, 2019. During the six months ended June 30, 2018, we repurchased $901 million of our outstanding common stock, and declared and paid cash dividends of $0.30 per share, or $227 million.
- In June 2018, we completed our acquisition of Loop Commerce, a provider of digital and in-store gifting services.

2018 New and Extended Partner Agreements

- On July 2, 2018, we completed our acquisition of $7.6 billion of loan receivables, comprising of PayPal's U.S. consumer credit portfolio, which totaled $6.8 billion, as well as approximately $0.8 billion in participation interests held by unaffiliated third parties. We also extended our existing co-brand credit card program with PayPal and Synchrony Bank is now PayPal's exclusive issuing bank for the PayPal Credit consumer financing program in the United States.
- On July 26, 2018, we announced that we will not be renewing our Retail Card program agreement with Walmart, which expires July 31, 2019. See "Our Sales Platforms — Retail Card" in our 2017 Form 10-K for further information on our current program with Walmart.
- We announced our new partnership with Crate and Barrel in our Retail Card sales platform.
- We extended our Payment Solutions program agreements with American Signature Furniture, Ashley HomeStore, Briggs & Stratton, Havertys, Nationwide Marketing Group, Robbins Brothers and Sleep Number and announced our new partnerships with Furniture Row, Mahindra and jtv.
- In our CareCredit sales platform, we renewed LCA Vision and expanded our network to include American Med Spa Association, The Good Feet Store, the Spa Industry Association and the American Veterinary Medical Association.

Summary Earnings

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

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2018	2017	2018	2017
Interest income	$4,174	$3,970	$8,418	$7,883
Interest expense	437	333	839	659
Net interest income	3,737	3,637	7,579	7,224
Retailer share arrangements	(653)	(669)	(1,373)	(1,353)
Net interest income, after retailer share arrangements	3,084	2,968	6,206	5,871
Provision for loan losses	1,280	1,326	2,642	2,632
Net interest income, after retailer share arrangements and provision for loan losses	1,804	1,642	3,564	3,239
Other income	63	57	138	150
Other expense	975	911	1,963	1,819
Earnings before provision for income taxes	892	788	1,739	1,570
Provision for income taxes	196	292	403	575
Net earnings	$696	$496	$1,336	$995

Other Financial and Statistical Data

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, 2018	2017	At and for the Six months ended June 30, 2018	2017
Financial Position Data (Average):				
Loan receivables, including held for sale	$77,853	$74,090	$78,468	$74,111
Total assets	$96,214	$89,394	$95,962	$89,431
Deposits	$57,573	$52,054	$57,117	$52,062
Borrowings	$20,935	$20,146	$21,069	$20,114
Total equity	$14,407	$14,442	$14,342	$14,383
Selected Performance Metrics:				
Purchase volume[(1)]	$34,268	$33,476	$63,894	$62,356
Retail Card	$27,340	$27,101	$50,722	$50,053
Payment Solutions	$4,288	$3,930	$8,111	$7,616
CareCredit	$2,640	$2,445	$5,061	$4,687
Average active accounts (in thousands)[(2)]	69,344	68,635	70,540	69,307
Net interest margin[(3)]	15.33 %	16.20 %	15.69 %	16.19 %
Net charge-offs	$1,159	$1,001	$2,357	$1,975
Net charge-offs as a % of average loan receivables, including held for sale	5.97 %	5.42 %	6.06 %	5.37 %
Allowance coverage ratio[(4)]	7.43 %	6.63 %	7.43 %	6.63 %
Return on assets[(5)]	2.9 %	2.2 %	2.8 %	2.2 %
Return on equity[(6)]	19.4 %	13.8 %	18.8 %	14.0 %
Equity to assets[(7)]	14.97 %	16.16 %	14.95 %	16.08 %
Other expense as a % of average loan receivables, including held for sale	5.02 %	4.93 %	5.04 %	4.95 %
Efficiency ratio[(8)]	31.0 %	30.1 %	30.9 %	30.2 %
Effective income tax rate	22.0 %	37.1 %	23.2 %	36.6 %
Selected Period-End Data:				
Loan receivables	$78,879	$75,458	$78,879	$75,458
Allowance for loan losses	$5,859	$5,001	$5,859	$5,001
30+ days past due as a % of period-end loan receivables[(9)]	4.17 %	4.25 %	4.17 %	4.25 %
90+ days past due as a % of period-end loan receivables[(9)]	1.98 %	1.90 %	1.98 %	1.90 %
Total active accounts (in thousands)[(2)]	69,767	69,277	69,767	69,277

---

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

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

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

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

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

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

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

(8)

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

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

Average Balance Sheet

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

	2018			2017		
Three months ended June 30 ($ in millions)	Average Balance	Interest Income / Expense	Average Yield / Rate[1]	Average Balance	Interest Income/ Expense	Average Yield / Rate[1]
Assets						
Interest-earning assets:						
Interest-earning cash and equivalents[2]	$13,097	$ 59	1.81 %	$10,758	$ 28	1.04 %
Securities available for sale	6,803	34	2.00 %	5,195	15	1.16 %
Loan receivables[3]:						
Credit cards, including held for sale	74,809	4,010	21.50 %	71,206	3,858	21.73 %
Consumer installment loans	1,648	37	9.01 %	1,461	34	9.33 %
Commercial credit products	1,346	34	10.13 %	1,378	34	9.90 %
Other	50	—	— %	45	1	NM
Total loan receivables	77,853	4,081	21.03 %	74,090	3,927	21.26 %
Total interest-earning assets	97,753	4,174	17.13 %	90,043	3,970	17.68 %
Non-interest-earning assets:						
Cash and due from banks	1,161			829		
Allowance for loan losses	(5,768)			(4,781)		
Other assets	3,068			3,303		
Total non-interest-earning assets	(1,539)			(649)		
Total assets	$96,214			$89,394		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	$57,303	$ 273	1.91 %	$51,836	$ 202	1.56 %
Borrowings of consolidated securitization entities	11,821	80	2.71 %	12,213	63	2.07 %
Senior unsecured notes	9,114	84	3.70 %	7,933	68	3.44 %
Total interest-bearing liabilities	78,238	437	2.24 %	71,982	333	1.86 %
Non-interest-bearing liabilities:						
Non-interest-bearing deposit accounts	270			218		
Other liabilities	3,299			2,752		
Total non-interest-bearing liabilities	3,569			2,970		
Total liabilities	81,807			74,952		
Equity						
Total equity	14,407			14,442		
Total liabilities and equity	$96,214			$89,394		
Interest rate spread[4]			14.89 %			15.82 %
Net interest income		$ 3,737			$ 3,637	
Net interest margin[5]			15.33 %			16.20 %

Six months ended June 30 ($ in millions)	2018 Average Balance	Interest Income / Expense	Average Yield / Rate[1]	2017 Average Balance	Interest Income/ Expense	Average Yield / Rate[1]
Assets						
Interest-earning assets:						
Interest-earning cash and equivalents[2]	$12,768	$ 106	1.67 %	$10,656	$ 49	0.93 %
Securities available for sale	6,197	59	1.92 %	5,204	30	1.16 %
Loan receivables[3]:						
Credit cards, including held for sale	75,492	8,109	21.66 %	71,285	7,669	21.69 %
Consumer installment loans	1,610	73	9.14 %	1,425	66	9.34 %
Commercial credit products	1,316	70	10.73 %	1,348	68	10.17 %
Other	50	1	4.03 %	53	1	3.80 %
Total loan receivables	78,468	8,253	21.21 %	74,111	7,804	21.23 %
Total interest-earning assets	97,433	8,418	17.42 %	89,971	7,883	17.67 %
Non-interest-earning assets:						
Cash and due from banks	1,179			816		
Allowance for loan losses	(5,689)			(4,595)		
Other assets	3,039			3,239		
Total non-interest-earning assets	(1,471)			(540)		
Total assets	$95,962			$89,431		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	$56,832	$ 522	1.85 %	$51,833	$ 396	1.54 %
Borrowings of consolidated securitization entities	12,114	154	2.56 %	12,267	128	2.10 %
Senior unsecured notes	8,955	163	3.67 %	7,847	135	3.47 %
Total interest-bearing liabilities	77,901	839	2.17 %	71,947	659	1.85 %
Non-interest-bearing liabilities:						
Non-interest-bearing deposit accounts	285			229		
Other liabilities	3,434			2,872		
Total non-interest-bearing liabilities	3,719			3,101		
Total liabilities	81,620			75,048		
Equity						
Total equity	14,342			14,383		
Total liabilities and equity	$95,962			$89,431		
Interest rate spread[4]			15.25 %			15.82 %
Net interest income		$ 7,579			$ 7,224	
Net interest margin[5]			15.69 %			16.19 %

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

(2) Includes average restricted cash balances of $365 million and $464 million for the three months ended June 30, 2018 and 2017, respectively, and $567 million and $578 million for the six months ended June 30, 2018 and 2017, respectively.

(3) Interest income on loan receivables includes fees on loans of $595 million and $625 million for the three months ended June 30, 2018 and 2017, respectively, and $1,239 million and $1,253 million for the six months ended June 30, 2018 and 2017, respectively.

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

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

For a summary description of the composition of our key line items included in our Statements of Earnings, see Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Form 10-K.

Interest Income

Interest income increased by $204 million, or 5.1%, and by $535 million, or 6.8%, for the three and six months ended June 30, 2018, driven primarily by growth in our average loan receivables.

Average interest-earning assets

Three months ended June 30 ($ in millions)	2018	%	2017	%
Loan receivables, including held for sale	$77,853	79.6 %	$74,090	82.3 %
Liquidity portfolio and other	19,900	20.4 %	15,953	17.7 %
Total average interest-earning assets	$97,753	100.0%	$90,043	100.0%

Six months ended June 30 ($ in millions)	2018	%	2017	%
Loan receivables, including held for sale	$78,468	80.5 %	$74,111	82.4 %
Liquidity portfolio and other	18,965	19.5 %	15,860	17.6 %
Total average interest-earning assets	$97,433	100.0%	$89,971	100.0%

The increases in average loan receivables of 5.1% and 5.9% for the three months and six months ended June 30, 2018, respectively, were driven primarily by higher purchase volume of 2.4% and 2.5% and average active account growth of 1.0% and 1.8%, respectively.

Average active accounts increased to 69.3 million and 70.5 million for the three and six months ended June 30, 2018, respectively, and the average balance per active account increased 4.0% for both periods.

Yield on average interest-earning assets

The yield on average interest-earning assets decreased for the three and six months ended June 30, 2018. The decreases were primarily due to a lower percentage of interest-earning assets attributable to loan receivables as a result of the pre-funding strategy for the PayPal Credit portfolio acquisition.

Interest Expense

Interest expense increased by $104 million, or 31.2%, and by $180 million, or 27.3%, for the three and six months ended June 30, 2018, respectively, driven primarily by higher cost of funds and the growth in our deposit liabilities. Our cost of funds increased to 2.24% and 2.17% for the three and six months ended June 30, 2018, respectively, compared to 1.86% and 1.85% for the three and six months ended June 30, 2017, respectively, primarily due to higher benchmark interest rates and the pre-funding strategy for the PayPal Credit portfolio acquisition.

Average interest-bearing liabilities

Three months ended June 30 ($ in millions)	2018	%	2017	%
Interest-bearing deposit accounts	$57,303	73.2 %	$51,836	72.0 %
Borrowings of consolidated securitization entities	11,821	15.1 %	12,213	17.0 %
Third-party debt	9,114	11.7 %	7,933	11.0 %
Total average interest-bearing liabilities	$78,238	100.0%	$71,982	100.0%

Six months ended June 30 ($ in millions)	2018	%	2017	%
Interest-bearing deposit accounts	$56,832	73.0 %	$51,833	72.0 %
Borrowings of consolidated securitization entities	12,114	15.5 %	12,267	17.1 %
Third-party debt	8,955	11.5 %	7,847	10.9 %
Total average interest-bearing liabilities	$77,901	100.0%	$71,947	100.0%

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

Net Interest Income

Net interest income increased by $100 million, or 2.7%, and $355 million, or 4.9%, for the three and six months ended June 30, 2018, respectively, primarily driven by higher average loan receivables.

Retailer Share Arrangements

Retailer share arrangements decreased by $16 million, or 2.4%, for the three months ended June 30, 2018, primarily due to the impact from the Toys "R" Us bankruptcy. Retailer share arrangements increased $20 million, or 1.5%, for the six months ended June 30, 2018, primarily as a result of growth of the programs in which we have retailer share arrangements, partially offset by the impact from the Toys "R" Us bankruptcy.

Provision for Loan Losses

Provision for loan losses decreased by $46 million, or 3.5%, for the three months ended June 30, 2018, primarily due to a lower loan loss reserve build, partially offset by higher net charge-offs. Provision for loan losses remained relatively flat for the six months ended June 30, 2018, as the increase in net charge-offs was largely offset by a lower loan loss reserve build.

Our allowance coverage ratio increased to 7.43% at June 30, 2018, as compared to 6.63% at June 30, 2017, reflecting an increase in forecasted losses inherent in our loan portfolio.

Other Income

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2018	2017	2018	2017
Interchange revenue	$177	$165	$335	$310
Debt cancellation fees	66	68	132	136
Loyalty programs	(192)	(206)	(347)	(343)
Other	12	30	18	47
Total other income	$63	$57	$138	$150

Other income increased by $6 million, or 10.5%, for the three months ended June 30, 2018 and decreased by $12 million, or 8.0%, for the six months ended June 30, 2018. Interchange revenue increased in both periods driven by increased purchase volume outside of our retail partners' sales channels. Loyalty costs decreased for the three months ended June 30, 2018 primarily due to higher reward redemption rates experienced in the prior year, and remained relatively flat for the six months ended June 30, 2018. Other income also decreased for both current year periods due to the impact of a pre-tax gain of $18 million recognized in the three months ended June 30, 2017.

Other Expense

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2018	2017	2018	2017
Employee costs	$351	$318	$709	$641
Professional fees	177	158	343	309
Marketing and business development	110	124	231	218
Information processing	99	88	203	178
Other	238	223	477	473
Total other expense	$975	$911	$1,963	$1,819

Other expense increased by $64 million, or 7.0%, and by $144 million, or 7.9%, for the three and six months ended June 30, 2018, respectively, primarily due to increases in employee costs, as well as increases in professional fees and information processing.

The increases in employee costs were primarily due to new employees added to support the continued growth of the business. Information processing costs and professional fees increased primarily due to both business growth and strategic investments.

Provision for Income Taxes

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2018	2017	2018	2017
Effective tax rate	22.0 %	37.1 %	23.2 %	36.6 %
Provision for income taxes	$196	$292	$403	$575

The effective tax rate for the three and six months ended June 30, 2018 decreased compared to the same period in the prior year primarily due to the reduction in the corporate tax rate from 35% to 21%. In each period, the effective tax rate differs from the applicable U.S. federal statutory rate primarily due to state income taxes.

Platform Analysis

As discussed above under “—Our Sales Platforms,” we offer our products through three sales platforms (Retail Card, Payment Solutions and CareCredit), which management measures based on their revenue-generating activities. The following is a discussion of certain supplemental information for the three and six months ended June 30, 2018, for each of our sales platforms.

Retail Card

($ in millions)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Purchase volume	$27,340	$27,101	$50,722	$50,053
Period-end loan receivables	$52,918	$51,437	$52,918	$51,437
Average loan receivables	$52,427	$50,533	$53,047	$50,588
Average active accounts (in thousands)	54,092	54,058	55,211	54,729
Interest and fees on loans	$2,993	$2,900	$6,089	$5,788
Retailer share arrangements	$(644)	$(657)	$(1,358)	$(1,338)
Other income	$48	$25	$113	$102

Retail Card interest and fees on loans increased by $93 million, or 3.2%, and by $301 million, or 5.