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.

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Synchrony Financial

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Certain Defined Terms

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

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

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

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

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

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

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

Cautionary Note Regarding Forward-Looking Statements:

Various statements in this Quarterly Report on Form 10-Q may contain “forward-looking statements” as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the “safe harbor” created by those sections. Forward-looking statements may be identified by words such as “expects,” “intends,” “anticipates,” “plans,” “believes,” “seeks,” “targets,” “outl “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

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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

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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.

| Credit Product | Standard Terms Only | Promotional Offer | | Total |
|---|---|---|---|---|
| | | Deferred Interest | Other Promotional | |
| 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.

| | At and for the Three months ended June 30, | | At and for the Six months ended June 30, | |
|---|---|---|---|---|
| ($ in millions) | 2018 | 2017 | 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<br>Average Balance | Interest Income / Expense | Average Yield / Rate[1] | 2017<br>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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ in millions) | 2018 | 2017 | 2018 | 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 5.2%, for the three and six months ended June 30, 2018, respectively. These increases were primarily the result of growth in average loan receivables.

Retailer share arrangements decreased by $13 million, or 2.0%, for the three months ended June 30, 2018 and increased by $20 million, or 1.5%, for the six months ended June 30, 2018, respectively, primarily as a result of the factors discussed under the heading “Retailer Share Arrangements” above.

Other income increased by $23 million, or 92.0%, and by $11 million, or 10.8%, for the three and six months ended June 30, 2018, respectively, primarily as a result of the changes in interchange revenue and loyalty costs discussed under the heading “Other Income” above.

Payment Solutions

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ in millions) | 2018 | 2017 | 2018 | 2017 |
| Purchase volume | $4,288 | $3,930 | $8,111 | $7,616 |
| Period-end loan receivables | $16,875 | $15,595 | $16,875 | $15,595 |
| Average loan receivables | $16,562 | $15,338 | $16,595 | $15,381 |
| Average active accounts (in thousands) | 9,433 | 9,031 | 9,492 | 9,061 |
| | | | | |
| Interest and fees on loans | $566 | $533 | $1,128 | $1,048 |
| Retailer share arrangements | $(7) | $(9) | $(11) | $(10) |
| Other income | $4 | $6 | $6 | $10 |

Payment Solutions interest and fees on loans increased by $33 million, or 6.2%, and by $80 million, or 7.6%, for the three and six months ended June 30, 2018, respectively. These increases were primarily driven by growth in average loan receivables.

CareCredit

| ($ 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 | $2,640 | $2,445 | $5,061 | $4,687 |
| Period-end loan receivables | $9,086 | $8,426 | $9,086 | $8,426 |
| Average loan receivables | $8,864 | $8,219 | $8,826 | $8,142 |
| Average active accounts (in thousands) | 5,819 | 5,546 | 5,837 | 5,517 |
| | | | | |
| Interest and fees on loans | $522 | $494 | $1,036 | $968 |
| Retailer share arrangements | $(2) | $(3) | $(4) | $(5) |
| Other income | $11 | $26 | $19 | $38 |

CareCredit interest and fees on loans increased by $28 million, or 5.7%, and by $68 million, or 7.0%, for the three and six months ended June 30, 2018. The increase was primarily driven by growth in average loan receivables.

Debt Securities

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The following discussion provides supplemental information regarding our debt securities portfolio. All of our debt securities are classified as available-for-sale at June 30, 2018 and December 31, 2017, and are held to meet our liquidity objectives and to comply with the Community Reinvestment Act. Debt securities classified as available-for-sale are reported in our Condensed Consolidated Statements of Financial Position at fair value.

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

| ($ in millions) | At June 30, 2018 Amortized Cost | At June 30, 2018 Estimated Fair Value | At December 31, 2017 Amortized Cost | At December 31, 2017 Estimated Fair Value |
|---|---|---|---|---|
| U.S. government and federal agency | $3,756 | $ 3,748 | $2,419 | $ 2,416 |
| State and municipal | 42 | 41 | 44 | 44 |
| Residential mortgage-backed | 1,283 | 1,234 | 1,258 | 1,231 |
| Asset-backed | 1,757 | 1,754 | 781 | 780 |
| U.S. corporate debt | 2 | 2 | 2 | 2 |
| Total | $6,840 | $ 6,779 | $4,504 | $ 4,473 |

Unrealized gains and losses, net of the related tax effects, on available-for-sale debt securities that are not other-than-temporarily impaired are excluded from earnings and are reported as a separate component of comprehensive income (loss) until realized. At June 30, 2018, our debt securities had gross unrealized gains of $1 million and gross unrealized losses of $62 million. At December 31, 2017, our debt securities had gross unrealized gains of $1 million and gross unrealized losses of $32 million.

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

| ($ in millions) | Due in 1 Year or Less | Due After 1 through 5 Years | Due After 5 through 10 Years | Due After 10 years | Total |
|---|---|---|---|---|---|
| U.S. government and federal agency | $ 3,480 | $ 268 | $ — | $— | $3,748 |
| State and municipal | — | — | 2 | 39 | 41 |
| Residential mortgage-backed | — | — | 135 | 1,099 | 1,234 |
| Asset-backed | 1,215 | 539 | — | — | 1,754 |
| U.S. corporate debt | 2 | — | — | — | 2 |
| Total[(1)] | $ 4,697 | $ 807 | $ 137 | $1,138 | $6,779 |
| Weighted average yield[(2)] | 2.1 % | 2.2 % | 3.3 % | 2.8 % | 2.2 % |

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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, 2018, we did not hold investments in any single issuer with an aggregate book value that exceeded 10% of equity, excluding obligations of the U.S. government.

Loan Receivables

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

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

| ($ in millions) | At June 30, 2018 | (%) | At December 31, 2017 | (%) |
|---|---|---|---|---|
| Loans | | | | |
| Credit cards | $75,753 | 96.0 % | $79,026 | 96.5 % |
| Consumer installment loans | 1,708 | 2.2 | 1,578 | 1.9 |
| Commercial credit products | 1,356 | 1.7 | 1,303 | 1.6 |
| Other | 62 | 0.1 | 40 | — |
| Total loans | $78,879 | 100.0% | $81,947 | 100.0% |

Loan receivables decreased by $3,068 million, or 3.7%, at June 30, 2018 compared to December 31, 2017, primarily driven by the seasonality of our business.

Loan receivables increased by $3,421 million, or 4.5%, at June 30, 2018 compared to June 30, 2017, primarily driven by higher purchase volume and average active account growth.

On July 2, 2018, we completed our acquisition of PayPal's U.S. consumer credit portfolio. See Note 14. Subsequent Events to our condensed consolidated financial statements for further details.

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

| ($ in millions) State | Loan Receivables Outstanding | % of Total Loan Receivables Outstanding |
|---|---|---|
| Texas | $ 8,079 | 10.2 % |
| California | $ 8,019 | 10.2 % |
| Florida | $ 6,619 | 8.4 % |
| New York | $ 4,380 | 5.6 % |
| Pennsylvania | $ 3,301 | 4.2 % |

Impaired Loans and Troubled Debt Restructurings

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

Loans classified as TDRs are recorded at their present value with impairment measured as the difference between the loan balance and the discounted present value of cash flows expected to be collected, discounted at the original effective interest rate of the loan.

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

| ($ in millions) | At June 30, 2018 | At December 31, 2017 |
|---|---|---|
| Non-accrual loan receivables | $3 | $ 5 |
| Loans contractually 90 days past-due and still accruing interest | 1,558 | 1,864 |
| Earning TDRs[(1)] | 996 | 940 |
| Non-accrual, past-due and restructured loan receivables | $2,557 | $ 2,809 |

(1) At June 30, 2018 and December 31, 2017, balances exclude $104 million and $103 million, respectively, of TDRs which are included in loans contractually 90 days past-due and still accruing interest on the balance. See Note 4. Loan Receivables and Allowance for Loan Losses to our condensed consolidated financial statements for additional information on the financial effects of TDRs for the three and six months ended June 30, 2018 and 2017.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ in millions) | 2018 | 2017 | 2018 | 2017 |
| Gross amount of interest income that would have been recorded in accordance with the original contractual terms | $65 | $ 53 | $127 | $104 |

| | | | | |
|---|---|---|---|---|
| Interest income recognized | 12 | 11 | 24 | 23 |
| Total interest income foregone | $53 | $ 42 | $103 | $81 |

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Delinquencies

Over-30 day loan delinquencies as a percentage of period-end loan receivables decreased to 4.17% at June 30, 2018 from 4.25% at June 30, 2017, and decreased from 4.67% at December 31, 2017. The 8 basis point decrease compared to the same period in the prior year includes the impact in the current year from certain underwriting refinements. The decrease as compared to December 31, 2017 was primarily driven by the seasonality of our business, as well as the factors referenced above.

Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine are uncollectible, net of recovered amounts. We exclude accrued and unpaid finance charges and fees and third-party fraud losses from charge-offs. Charged-off and recovered finance charges and fees are included in interest and fees on loans while third-party fraud losses are included in other expense. Charge-offs are recorded as a reduction to the allowance for loan losses and subsequent recoveries of previously charged-off amounts are credited to the allowance for loan losses. Costs incurred to recover charged-off loans are recorded as collection expense and included in other expense in our Condensed Consolidated Statements of Earnings.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Ratio of net charge-offs to average loan receivables, including held for sale | 5.97 % | 5.42 % | 6.06 % | 5.37 % |

Allowance for Loan Losses

The allowance for loan losses totaled $5,859 million at June 30, 2018, compared with $5,574 million at December 31, 2017 and $5,001 million at June 30, 2017, representing our best estimate of probable losses inherent in the portfolio. Our allowance for loan losses as a percentage of total loan receivables increased to 7.43% at June 30, 2018, from 6.80% at December 31, 2017 and 6.63% at June 30, 2017, which reflects the increase in forecasted net charge-offs over the next twelve months. The increase from December 31, 2017 also includes the effects of the seasonality of our business. See "Business Trends and Conditions — Asset Quality" in our 2017 Form 10-K for discussion of the various factors that contribute to forecasted net charge-offs over the next twelve months.

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

| ($ in millions) | Balance at April 1, 2018 | Provision charged to operations | Gross charge-offs | Recoveries | Balance at June 30, 2018 |
|---|---|---|---|---|---|
| Credit cards | $ 5,640 | $ 1,255 | $ (1,375 ) | $ 237 | $ 5,757 |
| Consumer installment loans | 45 | 14 | (12 ) | 4 | 51 |
| Commercial credit products | 52 | 11 | (14 ) | 1 | 50 |
| Other | 1 | — | — | — | 1 |
| Total | $ 5,738 | $ 1,280 | $ (1,401 ) | $ 242 | $ 5,859 |

| ($ in millions) | Balance at April 1, 2017 | Provision charged to operations | Gross charge-offs | Recoveries | Balance at June 30, 2017 |
|---|---|---|---|---|---|
| Credit cards | $ 4,585 | $ 1,301 | $ (1,194 ) | $ 214 | $ 4,906 |
| Consumer installment loans | 40 | 1 | (11 ) | 4 | 34 |

| | | | | | |
|---|---|---|---|---|---|
| Commercial credit products | 50 | 24 | (16 | ) 2 | 60 |
| Other | 1 | — | — | — | 1 |
| Total | $ 4,676 | $ 1,326 | $ (1,221 | ) $ 220 | $ 5,001 |

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| ($ in millions) | Balance at January 1, 2018 | Provision charged to operations | Gross charge-offs | Recoveries | Balance at June 30, 2018 |
|---|---|---|---|---|---|
| Credit cards | $5,483 | $ 2,589 | $ (2,747 ) | $ 432 | $5,757 |
| Consumer installment loans | 40 | 30 | (27 ) | 8 | 51 |
| Commercial credit products | 50 | 23 | (26 ) | 3 | 50 |
| Other | 1 | — | — | — | 1 |
| Total | $5,574 | $ 2,642 | $ (2,800 ) | $ 443 | $5,859 |

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

Funding, Liquidity and Capital Resources

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

Funding Sources

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

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

| Three months ended June 30 ($ in millions) | 2018 Average Balance | % | Average Rate | 2017 Average Balance | % | Average Rate |
|---|---|---|---|---|---|---|
| Deposits[(1)] | $57,303 | 73.2 % | 1.9 % | $51,836 | 72.0 % | 1.6 % |
| Securitized financings | 11,821 | 15.1 | 2.7 | 12,213 | 17.0 | 2.1 |
| Senior unsecured notes | 9,114 | 11.7 | 3.7 | 7,933 | 11.0 | 3.4 |
| Total | $78,238 | 100.0% | 2.2 % | $71,982 | 100.0% | 1.9 % |

(1) Excludes $270 million and $218 million average balance of non-interest-bearing deposits for the three months ended June 30, 2018 and 2017, respectively. Non-interest-bearing deposits comprise less than 10% of total deposits for the three months ended June 30, 2018 and 2017.

| Six months ended June 30 ($ in millions) | 2018 Average Balance | % | Average Rate | 2017 Average Balance | % | Average Rate |
|---|---|---|---|---|---|---|
| Deposits[(1)] | $56,832 | 73.0 % | 1.9 % | $51,833 | 72.0 % | 1.5 % |
| Securitized financings | 12,114 | 15.5 | 2.6 | 12,267 | 17.1 | 2.1 |
| Senior unsecured notes | 8,955 | 11.5 | 3.7 | 7,847 | 10.9 | 3.5 |
| Total | $77,901 | 100.0% | 2.2 % | $71,947 | 100.0% | 1.8 % |

(1) Excludes $285 million and $229 million average balance of non-interest-bearing deposits for the six months ended June 30, 2018 and 2017, respectively. Non-interest-bearing deposits comprise less than 10% of total deposits for the six months ended June 30, 2018 and 2017.

Deposits

We obtain deposits directly from retail and commercial customers ("direct deposits") or through third-party brokerage firms that offer our deposits to their customers ("brokered deposits"). At June 30, 2018, we had $46.2 billion in direct deposits and $12.8 billion in deposits originated through brokerage firms (including network deposit sweeps procured through a program arranger that channels brokerage account deposits to us). A key part of our liquidity plan and funding strategy is to continue to expand our direct deposits base as a source of stable and diversified low-cost funding.

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

Brokered deposits are primarily from retail customers of large brokerage firms. We have relationships with 10 brokers that offer our deposits through their networks. Our brokered deposits consist primarily of certificates of deposit that bear interest at a fixed rate and at June 30, 2018, had a weighted average remaining life of 2.7 years. These deposits generally are not subject to early withdrawal.

Our ability to attract deposits is sensitive to, among other things, the interest rates we pay, and therefore, we bear funding risk if we fail to pay higher rates, or interest rate risk if we are required to pay higher rates, to retain existing deposits or attract new deposits. To mitigate these risks, our funding strategy includes a range of deposit products, and we seek to maintain access to multiple other funding sources, including securitized financings (including our undrawn committed capacity) and unsecured debt.

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

| Three months ended June 30 ($ in millions) | 2018 Average Balance | % of Total | Average Rate | 2017 Average Balance | % of Total | Average Rate |
|---|---|---|---|---|---|---|
| Direct deposits: | | | | | | |
| Certificates of deposit (including IRA certificates of deposit) | $26,906 | 46.9 % | 1.9 % | $21,825 | 42.1 % | 1.6 % |
| Savings accounts (including money market accounts) | 18,206 | 31.8 | 1.6 | 17,607 | 34.0 | 1.1 |
| Brokered deposits | 12,191 | 21.3 | 2.5 | 12,404 | 23.9 | 2.3 |
| Total interest-bearing deposits | $57,303 | 100.0% | 1.9 % | $51,836 | 100.0% | 1.6 % |

| Six months ended June 30 ($ in millions) | 2018 Average Balance | % of Total | Average Rate | 2017 Average Balance | % of Total | Average Rate |
|---|---|---|---|---|---|---|
| Direct deposits: | | | | | | |
| Certificates of deposit (including IRA certificates of deposit) | $26,467 | 46.6 % | 1.8 % | $21,532 | 41.6 % | 1.6 % |
| Savings accounts (including money market accounts) | 18,011 | 31.7 | 1.5 | 17,477 | 33.7 | 1.1 |
| Brokered deposits | 12,354 | 21.7 | 2.4 | 12,824 | 24.7 | 2.2 |

| Total interest-bearing deposits | $56,832 | 100.0% | 1.9 % | $51,833 | 100.0% | 1.5 % |
|---|---|---|---|---|---|---|

Our deposit liabilities provide funding with maturities ranging from one day to ten years. At June 30, 2018, the weighted average maturity of our interest-bearing time deposits was 1.5 years. See Note 7. Deposits to our condensed consolidated financial statements for more information on their maturities.

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

| ($ in millions) | 3 Months or Less | Over 3 Months but within 6 Months | Over 6 Months but within 12 Months | Over 12 Months | Total |
|---|---|---|---|---|---|
| U.S. deposits (less than $100,000)[1] | $ 7,198 | $ 2,267 | $ 5,668 | $ 10,470 | $25,603 |
| U.S. deposits ($100,000 or more) | | | | | |
| Direct deposits: | | | | | |
| Certificates of deposit (including IRA certificates of deposit) | 1,639 | 3,143 | 7,097 | 6,341 | 18,220 |
| Savings accounts (including money market accounts) | 13,582 | — | — | — | 13,582 |
| Brokered deposits: | | | | | |
| Sweep accounts | 1,606 | — | — | — | 1,606 |
| Total | $ 24,025 | $ 5,410 | $ 12,765 | $ 16,811 | $59,011 |

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

Securitized Financings

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

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

| ($ in millions) | Less Than One Year | One Year Through Three Years | After Three Through Five Years | After Five Years | Total |
|---|---|---|---|---|---|
| Scheduled maturities of long-term borrowings—owed to securitization investors: | | | | | |
| SYNCT[1] | $ 1,778 | $ 4,663 | $ 1,591 | $ — | $ 8,032 |
| SFT | 233 | 2,617 | — | — | 2,850 |
| SYNIT | — | 1,300 | — | — | 1,300 |
| Total long-term borrowings—owed to securitization investors | $ 2,011 | $ 8,580 | $ 1,591 | $ — | $ 12,182 |

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

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

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

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

| | Note Principal Balance ($ in millions) | # of Series Outstanding | Three-Month Rolling Average Excess Spread[1] |
|---|---|---|---|
| SYNCT[2] | $ 9,048 | 16 | ~14.3% to 15.3% |
| SFT | $ 2,850 | 10 | 10.9 % |
| SYNIT | $ 1,300 | 4 | ~18.2% to 18.4% |

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

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

Third-Party Debt

Senior Unsecured Notes

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

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

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

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

Short-Term Borrowings

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

Other

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

Covenants

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

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

Credit Ratings

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

Liquidity

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

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

We maintain a liquidity portfolio, which at June 30, 2018 had $21.5 billion of liquid assets, primarily consisting of cash and equivalents and short-term obligations of the U.S. Treasury, less cash in transit which is not considered to be liquid, compared to $15.1 billion of liquid assets at December 31, 2017. The increase in liquid assets was primarily due to deposit growth as part of our pre-funding strategy for the PayPal Credit portfolio acquisition.

As additional sources of liquidity, at June 30, 2018, we had an aggregate of $6.0 billion of undrawn committed capacity on our securitized financings, subject to customary borrowing conditions, from private lenders under our securitization programs and $0.5 billion of undrawn committed capacity under our unsecured revolving credit facility with private lenders, and we had more than $25.0 billion of unencumbered assets in the Bank available to be used to generate additional liquidity through secured borrowings or asset sales or to be pledged to the Federal Reserve Board for credit at the discount window.

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

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



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## Capital

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

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

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

### Dividend and Share Repurchases

| Cash Dividends Declared | Month of Payment | Amount per Common Share | Amount |
|---|---|---|---|
| ($ in millions, except per share data) | | | |
| Three months ended March 31, 2018 | February, 2018 | $ 0.15 | $ 114 |
| Three months ended June 30, 2018 | May, 2018 | 0.15 | 113 |
| Total dividends declared | | $ 0.30 | $ 227 |

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

| Shares Repurchased Under Publicly Announced Programs | Total Number of Shares Purchased | Dollar Value of Shares Purchased |
|---|---|---|
| ($ and shares in millions) | | |
| Three months ended March 31, 2018 | 10.4 | $ 410 |
| Three months ended June 30, 2018 | 14.0 | $ 491 |
| Total | 24.4 | $ 901 |

In May 2018, we completed our share repurchase program of up to $1.64 billion (the "2017 Share Repurchase Program"). On May 17, 2018, the Company approved a share repurchase program of up to $2.2 billion through June 30, 2019 (the "2018 Share Repurchase Program"). Through the end of the second quarter of 2018, we have repurchased approximately $281 million of common stock as part of the 2018 Share Repurchase Program and expect

to complete the share repurchase program by the end of the second quarter of 2019. We made, and expect to continue to make, share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals.

Regulatory Capital Requirements - Synchrony Financial

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

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

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

| | Basel III | | | |
|---|---|---|---|---|
| | At June 30, 2018[1] | | At December 31, 2017[2] | |
| ($ in millions) | Amount | Ratio[3] | Amount | Ratio[3] |
| Total risk-based capital | $13,885 | 18.0 % | $13,954 | 17.3 % |
| Tier 1 risk-based capital | $12,858 | 16.6 % | $12,890 | 16.0 % |
| Tier 1 leverage | $12,858 | 13.6 % | $12,890 | 13.8 % |
| Common equity Tier 1 capital | $12,858 | 16.6 % | $12,890 | 16.0 % |
| Risk-weighted assets | $77,322 | | $80,669 | |

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

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

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

The increase in our Common equity Tier 1 capital ratio was primarily due to the seasonal decline in loan receivables which resulted in a corresponding decrease in risk-weighted assets in the six months ended June 30, 2018.

Regulatory Capital Requirements - Synchrony Bank

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

| | At June 30, 2018 | | At December 31, 2017 | | Minimum to be Well-Capitalized under Prompt Corrective Action Provisions - Basel III | |
|---|---|---|---|---|---|---|
| ($ in millions) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total risk-based capital | $11,386 | 17.6% | $10,842 | 16.2% | $ 6,487 | 10.0 % |
| Tier 1 risk-based capital | $10,521 | 16.2% | $9,958 | 14.9% | $ 5,189 | 8.0 % |
| Tier 1 leverage | $10,521 | 13.1% | $9,958 | 12.9% | $ 4,030 | 5.0 % |
| Common equity Tier 1 capital | $10,521 | 16.2% | $9,958 | 14.9% | $ 4,216 | 6.5 % |

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

## Off-Balance Sheet Arrangements and Unfunded Lending Commitments

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

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

## Critical Accounting Estimates

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

## New Accounting Standards

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

## Regulation and Supervision

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

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

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

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

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ in millions, except per share data) | 2018 | 2017 | 2018 | 2017 |
| Interest income: | | | | |
| Interest and fees on loans (Note 4) | $4,081 | $3,927 | $8,253 | $7,804 |
| Interest on debt securities | 93 | 43 | 165 | 79 |
| Total interest income | 4,174 | 3,970 | 8,418 | 7,883 |
| Interest expense: | | | | |
| Interest on deposits | 273 | 202 | 522 | 396 |
| Interest on borrowings of consolidated securitization entities | 80 | 63 | 154 | 128 |
| Interest on third-party debt | 84 | 68 | 163 | 135 |
| Total 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 (Note 4) | 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: | | | | |
| 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 expense: | | | | |
| 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 |
| Earnings before provision for income taxes | 892 | 788 | 1,739 | 1,570 |
| Provision for income taxes (Note 12) | 196 | 292 | 403 | 575 |
| Net earnings | $696 | $496 | $1,336 | $995 |
| | | | | |
| Earnings per share | | | | |
| Basic | $0.93 | $0.62 | $1.76 | $1.23 |
| Diluted | $0.92 | $0.61 | $1.75 | $1.23 |
| | | | | |
| Dividends declared per common share | $0.15 | $0.13 | $0.30 | $0.26 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ in millions) | 2018 | 2017 | 2018 | 2017 |
| Net earnings | $696 | $496 | $1,336 | $995 |
| Other comprehensive income (loss) | | | | |
| Debt securities | (4) | 4 | (24) | 3 |
| Currency translation adjustments | (3) | 2 | (6) | 1 |
| Employee benefit plans | — | — | 1 | — |
| Other comprehensive income (loss) | (7) | 6 | (29) | 4 |
| Comprehensive income | $689 | $502 | $1,307 | $999 |

Amounts presented net of taxes.

See accompanying notes to condensed consolidated financial statements.

Synchrony Financial and subsidiaries
Condensed Consolidated Statements of Financial Position

| ($ in millions) | At June 30, 2018 | At December 31, 2017 |
|---|---|---|
| | (Unaudited) | |
| Assets | | |
| Cash and equivalents | $ 15,675 | $ 11,602 |
| Debt securities (Note 3) | 6,779 | 4,473 |
| Loan receivables: (Notes 4 and 5) | | |
| Unsecuritized loans held for investment | 50,884 | 55,526 |
| Restricted loans of consolidated securitization entities | 27,995 | 26,421 |
| Total loan receivables | 78,879 | 81,947 |
| Less: Allowance for loan losses | (5,859) | (5,574) |
| Loan receivables, net | 73,020 | 76,373 |
| Goodwill | 1,024 | 991 |
| Intangible assets, net (Note 6) | 863 | 749 |
| Other assets | 1,761 | 1,620 |
| Total assets | $ 99,122 | $ 95,808 |
| | | |
| Liabilities and Equity | | |
| Deposits: (Note 7) | | |
| Interest-bearing deposit accounts | $ 58,734 | $ 56,276 |
| Non-interest-bearing deposit accounts | 277 | 212 |
| Total deposits | 59,011 | 56,488 |
| Borrowings: (Notes 5 and 8) | | |
| Borrowings of consolidated securitization entities | 12,170 | 12,497 |
| Senior unsecured notes | 9,551 | 8,302 |
| Total borrowings | 21,721 | 20,799 |
| Accrued expenses and other liabilities | 3,932 | 4,287 |
| Total liabilities | $ 84,664 | $ 81,574 |
| | | |
| Equity: | | |
| Common Stock, par share value $0.001 per share; 4,000,000,000 shares authorized; 833,984,684 shares issued at both June 30, 2018 and December 31, 2017; 746,598,245 and 770,531,433 shares outstanding at June 30, 2018 and December 31, 2017, respectively | $ 1 | $ 1 |
| Additional paid-in capital | 9,486 | 9,445 |
| Retained earnings | 7,906 | 6,809 |
| Accumulated other comprehensive income (loss): | | |
| Debt securities | (43) | (19) |
| Currency translation adjustments | (23) | (17) |
| Other | (27) | (28) |
| Treasury Stock, at cost; 87,386,439 and 63,453,251 shares at June 30, 2018 and December 31, 2017, respectively | (2,842) | (1,957) |
| Total equity | 14,458 | 14,234 |
| Total liabilities and equity | $ 99,122 | $ 95,808 |

See accompanying notes to condensed consolidated financial statements.

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

| ($ in millions, shares in thousands) | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Equity |
|---|---|---|---|---|---|---|---|
| | Shares Issued | Amount | | | | | |
| Balance at January 1, 2017 | 833,985 | $ 1 | $ 9,393 | $ 5,330 | $ (53) | $ (475) | $ 14,196 |
| Net earnings | — | — | — | 995 | — | — | 995 |
| Other comprehensive income | — | — | — | — | 4 | — | 4 |
| Purchases of treasury stock | — | — | — | — | — | $ (676) | (676) |
| Stock-based compensation | — | — | 22 | (6) | — | 7 | 23 |
| Dividends - common stock | — | — | — | (210) | — | — | (210) |
| Balance at June 30, 2017 | 833,985 | $ 1 | $ 9,415 | $ 6,109 | $ (49) | $ (1,144) | $ 14,332 |
| | | | | | | | |
| Balance at January 1, 2018 | 833,985 | $ 1 | $ 9,445 | $ 6,809 | $ (64) | $ (1,957) | $ 14,234 |
| Net earnings | — | — | — | 1,336 | — | — | 1,336 |
| Other comprehensive income | — | — | — | — | (29) | — | (29) |
| Purchases of treasury stock | — | — | — | — | — | (901) | (901) |
| Stock-based compensation | — | — | 41 | (12) | — | 16 | 45 |
| Dividends - common stock | — | — | — | (227) | — | — | (227) |
| Balance at June 30, 2018 | 833,985 | $ 1 | $ 9,486 | $ 7,906 | $ (93) | $ (2,842) | $ 14,458 |

See accompanying notes to condensed consolidated financial statements.

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

| ($ in millions) | Six months ended June 30, 2018 | 2017 |
|---|---|---|
| Cash flows - operating activities | | |
| Net earnings | $1,336 | $995 |
| Adjustments to reconcile net earnings to cash provided from operating activities | | |
| Provision for loan losses | 2,642 | 2,632 |
| Deferred income taxes | (11) | (181) |
| Depreciation and amortization | 144 | 118 |
| (Increase) decrease in interest and fees receivable | 16 | (96) |
| (Increase) decrease in other assets | (112) | (31) |
| Increase (decrease) in accrued expenses and other liabilities | (256) | (556) |
| All other operating activities | 322 | 323 |
| Cash provided from (used for) operating activities | 4,081 | 3,204 |
| Cash flows - investing activities | | |
| Maturity and sales of debt securities | 2,668 | 2,075 |
| Purchases of debt securities | (5,009) | (966) |
| Acquisition of loan receivables | — | (73) |
| Net (increase) decrease in loan receivables | 330 | (1,179) |
| All other investing activities | (263) | (297) |
| Cash provided from (used for) investing activities | (2,274) | (440) |
| Cash flows - financing activities | | |
| Borrowings of consolidated securitization entities | | |
| Proceeds from issuance of securitized debt | 2,121 | 1,570 |
| Maturities and repayment of securitized debt | (2,451) | (1,758) |
| Third-party debt | | |
| Proceeds from issuance of third-party debt | 1,244 | 741 |
| Net increase (decrease) in deposits | 2,484 | 792 |
| Purchases of treasury stock | (901) | (676) |
| Dividends paid on common stock | (227) | (210) |
| All other financing activities | (4) | (4) |
| Cash provided from (used for) financing activities | 2,266 | 455 |
| Increase (decrease) in cash and equivalents, including restricted amounts | 4,073 | 3,219 |
| Cash and equivalents, including restricted amounts, at beginning of period | 11,817 | 9,668 |
| Cash and equivalents at end of period: | | |
| Cash and equivalents | 15,675 | 12,020 |
| Restricted cash and equivalents included in other assets | 215 | 867 |
| Total cash and equivalents, including restricted amounts, at end of period | $15,890 | $12,887 |

See accompanying notes to condensed consolidated financial statements.

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

## NOTE 1. BUSINESS DESCRIPTION

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

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

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

### Basis of Presentation

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

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

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

### Consolidated Basis of Presentation

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

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

We have reclassified certain prior-period amounts to conform to current-period presentation.

Interim Period Presentation

The condensed consolidated financial statements and notes thereto are unaudited. These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to present a fair statement of our results of operations, financial position and cash flows. The results reported in these condensed consolidated financial statements should not be considered as necessarily indicative of results that may be expected for the entire year. These condensed consolidated financial statements should be read in conjunction with our 2017 annual consolidated financial statements and the related notes in our Annual Report on Form 10-K for the year ended December 31, 2017 (our "2017 Form 10-K").

New Accounting Standards

Newly Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new revenue recognition guidance became effective January 1, 2018 for the Company. The scope of ASU 2014-09 excludes interest and fee income on loans and as a result, the majority of the Company's revenue is not in the scope of the standard. The new guidance did not impact the timing or measurement of the Company's revenues, and as a result, the Company did not present any restated prior period results as a result of the standard becoming effective.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires restricted cash and restricted cash equivalents to be included within beginning and ending total cash amounts reported in the consolidated statements of cash flows. Disclosure of the nature of the restrictions on cash balances is required under the guidance. This standard is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2017. We adopted the guidance retrospectively effective as of January 1, 2018. Upon adoption, changes in restricted cash, which had previously been presented as investing activities, are now included within beginning and ending cash and equivalents, including restricted amounts, balances in our Consolidated Statements of Cash Flows. Additionally, in August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provided guidance on certain cash flow issues. This standard is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2017. We adopted the guidance retrospectively effective as of January 1, 2018, which did not have a material impact on our consolidated financial statements.

Effective January 1, 2018, we have adopted the provisions of ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which require equity investments (except those accounted for under the equity method of accounting or that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in the Consolidated Statements of Earnings. However, in accordance with the new guidance, the company has elected to measure certain equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes for similar investments of the issuer. The adoption of this new guidance did not have a material impact on the consolidated financial statements.

Recently Issued But Not Yet Adopted Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU requires lessees to recognize most leases on their balance sheet. Leases which are identified as capital leases currently, will generally be identified as financing leases under the new guidance but otherwise their accounting treatment will remain relatively unchanged. Leases identified as operating leases currently, will generally remain in that category under the new standard, but both a right-of-use asset and a liability for remaining lease payments will now be required to be recognized on the balance sheet. This guidance will be effective for the Company on January 1, 2019. Management does not expect this guidance to have a material impact on the consolidated financial statements.

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

See Note 2. Basis of Presentation and Summary of Significant Accounting Policies to our 2017 annual consolidated financial statements in our 2017 Form 10-K, for additional information on our significant accounting policies, including discussion of the nature of the restrictions on our cash balances.

NOTE 3. DEBT SECURITIES

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

| | June 30, 2018 | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ in millions) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| U.S. government and federal agency | $3,756 | $ — | $ (8) | $ 3,748 | $2,419 | $ — | $ (3) | $ 2,416 |
| State and municipal | 42 | — | (1) | 41 | 44 | — | — | 44 |
| Residential mortgage-backed[(a)] | 1,283 | 1 | (50) | 1,234 | 1,258 | 1 | (28) | 1,231 |
| Asset-backed[(b)] | 1,757 | — | (3) | 1,754 | 781 | — | (1) | 780 |
| U.S. corporate debt | 2 | — | — | 2 | 2 | — | — | 2 |
| Total | $6,840 | $ 1 | $ (62) | $ 6,779 | $4,504 | $ 1 | $ (32) | $ 4,473 |

(a) All of our residential mortgage-backed securities have been issued by government-sponsored entities and are collateralized by U.S. mortgages. At June 30, 2018 and December 31, 2017, $328 million and $344 million of residential mortgage-backed securities, respectively, are pledged by the Bank as collateral to the Federal Reserve to secure Federal Reserve Discount Window advances.

(b) All of our asset-backed securities are collateralized by credit card loans.

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

| | In loss position for | | | |
|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | |
| ($ in millions) | Estimated fair value | Gross unrealized losses | Estimated fair value | Gross unrealized losses |
| At June 30, 2018 | | | | |
| U.S. government and federal agency | $2,605 | $ (8 ) | $— | $ — |
| State and municipal | 34 | (1 ) | 3 | — |
| Residential mortgage-backed | 299 | (5 ) | 870 | (45 ) |
| Asset-backed | 1,570 | (3 ) | — | — |
| Total | $4,508 | $ (17 ) | $873 | $ (45 ) |
| | | | | |
| At December 31, 2017 | | | | |
| U.S. government and federal agency | $2,416 | $ (3 ) | $— | $ — |
| State and municipal | — | — | 29 | — |
| Residential mortgage-backed | 142 | (1 ) | 1,026 | (27 ) |
| Asset-backed | 626 | (1 ) | — | — |
| Total | $3,184 | $ (5 ) | $1,055 | $ (27 ) |

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

There were no other-than-temporary impairments recognized during the six months ended June 30, 2018 and 2017.

Contractual Maturities of Investments in Available-for-Sale Debt Securities

| At June 30, 2018 ($ in millions) | Amortized cost | Estimated fair value |
|---|---|---|
| Due | | |
| Within one year | $ 4,701 | $ 4,697 |
| After one year through five years | $ 815 | $ 807 |
| After five years through ten years | $ 137 | $ 137 |
| After ten years | $ 1,187 | $ 1,138 |

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

There were no material realized gains or losses recognized for the six months ended June 30, 2018 and 2017.

Although we generally do not have the intent to sell any specific securities held at June 30, 2018, in the ordinary course of managing our debt securities portfolio, we may sell securities prior to their maturities for a variety of reasons, including diversification, credit quality, yield, liquidity requirements and funding obligations.

NOTE 4. LOAN RECEIVABLES AND ALLOWANCE FOR LOAN LOSSES

| ($ in millions) | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Credit cards | $75,753 | $ 79,026 |
| Consumer installment loans | 1,708 | 1,578 |
| Commercial credit products | 1,356 | 1,303 |
| Other | 62 | 40 |
| Total loan receivables, before allowance for losses[(a)(b)] | $78,879 | $ 81,947 |

---

(a) Total loan receivables include $28.0 billion and $26.4 billion of restricted loans of consolidated securitization entities at June 30, 2018 and December 31, 2017, respectively. See Note 5. Variable Interest Entities for further information on these restricted loans.

(b) At June 30, 2018