

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2020

OR

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

(State or other jurisdiction of
incorporation or organization)

51-0483352

(I.R.S. Employer
Identification No.)

777 Long Ridge Road

Stamford, Connecticut

(Address of principal executive offices)

06902

(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.001 per share	SYF	New York Stock Exchange
Depository Shares Each Representing a 1/40th Interest in a Share of 5.625% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A	SYFPrA	New York Stock Exchange

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 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 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.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding as of July 16, 2020 was 583,755,011.

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;
- the “Bank” are to Synchrony Bank (a subsidiary of Synchrony);
- the “Board of Directors” or “Board” are to Synchrony’s board of directors;
- “GE” are to General Electric Company and its subsidiaries; 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, 2019 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 “ *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, 2019 (our “2019 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,” “outlook,” “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, including the future impacts of the novel coronavirus disease (“COVID-19”) outbreak and measures taken in response thereto for which future developments are highly uncertain and difficult to predict; retaining existing partners and attracting new partners, concentration of our revenue in a small number of Retail Card partners, and promotion and support of our products by our partners; cyber-attacks or other security breaches; disruptions in the operations of our computer systems and data centers; the financial performance of our partners; the sufficiency of our allowance for credit losses and the accuracy of the assumptions or estimates used in preparing our financial statements, including those related to the new CECL accounting guidance; 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; damage to our reputation; 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; 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; reductions in interchange fees; fraudulent activity; failure of third-parties to provide various services that are important to our operations; 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; 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 other legislative and regulatory developments 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 Relating to Our Business” and “Risk Factors Relating to Regulation” in our 2019 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 law.

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 2019 Form 10-K. The discussion below contains forward-looking statements that are based upon current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations. See "*Cautionary Note Regarding Forward-Looking Statements.*"

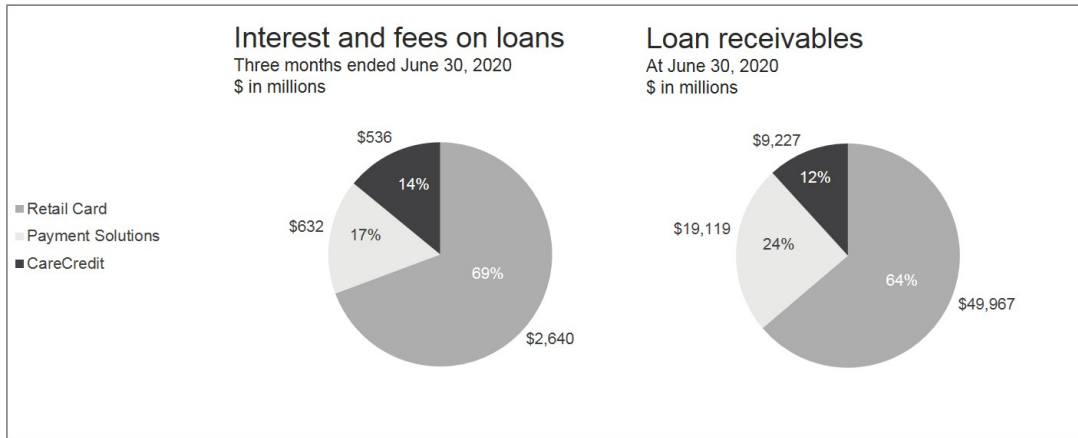
Introduction and Business Overview

We are a premier consumer financial services company delivering a wide range of specialized financing programs, as well as innovative consumer banking products, across key industries including digital, retail, home, auto, travel, health and pet. 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, 2020, we financed \$31.2 billion and \$63.2 billion of purchase volume, respectively, and had 64.8 million and 68.4 million average active accounts, respectively, and at June 30, 2020, we had \$78.3 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, 2020, we had \$64.1 billion in deposits, which represented 80% of our total funding sources.

Our Sales Platforms

We conduct our operations through a single business segment. Profitability and expenses, including funding costs, credit 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, active 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 27 national and regional retailers with which we have ongoing program agreements. The average length of our relationship with these Retail Card partners is 22 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 provide for payments 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 consumer choice for financing at the point of sale, including primarily private label credit cards, Dual Cards and installment loans. Payment Solutions offers these products through participating partners consisting of national and regional retailers, manufacturers, buying groups and industry associations. Credit extended in this platform, other than for our oil and gas retail partners, is primarily 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, veterinary and personal care procedures, services and products. 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, 2020.

Credit Product	Standard Terms Only	Promotional Offer		Total
		Deferred Interest	Other Promotional	
Credit cards	63.2%	17.3%	15.7%	96.2%
Commercial credit products	1.4	—	—	1.4
Consumer installment loans	—	—	2.3	2.3
Other	0.1	—	—	0.1
Total	64.7%	17.3%	18.0%	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 to make purchases from other retailers whenever cards from those card networks are accepted or for cash advance transactions. We also offer general purpose co-branded credit cards that do not function as private label cards, as well as, in limited circumstances, a Synchrony-branded general purpose credit card. Credit extended under our Dual Cards and general purpose co-branded credit cards typically is extended on standard terms only. We offer either Dual Cards or general purpose co-branded credit cards across all of our sales platforms, spanning 23 ongoing credit partners and our CareCredit Dual Card, of which the majority are Dual Cards. Consumer Dual Cards and Co-Branded cards totaled 23% of our total loan receivables portfolio at June 30, 2020.

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, including the following:

- **Growth in loan receivables and interest income.**
- **Adoption of ASU 2016-13 Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments (“CECL”).**
- **Asset quality.**
- **Retailer share arrangement payments under our program agreements.**
- **Extended duration of our Retail Card program agreements.**
- **Growth in interchange revenues and loyalty program costs.**
- **Capital and liquidity levels.**

For a further discussion of the above trends and conditions, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Business Trends and Conditions*” in our 2019 Form 10-K.

COVID-19

The outbreak of the global pandemic of COVID-19 and resultant economic effects of preventative measures taken across the United States and worldwide during the six months ended June 30, 2020 have resulted in significant and numerous changes to the previously disclosed trends and conditions referred to above. As of the date of filing of this report, the duration and magnitude of the effects of COVID-19 continue to be unknown, and as such the expectations and guidance for 2020 provided during the Company’s earnings conference call on January 24, 2020 can no longer be relied upon. While the magnitude of the impact from COVID-19 is uncertain and difficult to predict, we anticipate the following key trends will be affected:

- **Growth in loan receivables and interest income.** We have experienced significant declines in consumer purchase activity following the outbreak of COVID-19 and associated governmental preventative measures, such as closures of non-essential businesses. Interest and fees on loans decreased 18% for the three months ended June 30, 2020, primarily due to the sale of the Walmart consumer portfolio sale which drove a decline compared to the prior year period of approximately 10%. The remaining decrease in interest and fees on loans, along with a decline in loan receivables of 4% and a reduction in purchase volume for our ongoing partners of 13%, in all instances for the quarter ended June 30, 2020, were primarily due to the impacts of COVID-19. In addition, we have experienced a reduction in benchmark interest rates and we have also provided, for a temporary period of time, forbearance in terms of waivers of interest and fees and deferrals of minimum payments for qualifying cardholders that are impacted by COVID-19 and request relief. The decreases in loan receivables and benchmark interest rates along with the forbearance actions have led to the reductions in interest income for the three months ended June 30, 2020. While initial economic reopening phases have led to growth in purchase volume compared to the prior year for the last two weeks of the second quarter of 2020, we expect the above factors will likely result in a reduction in the growth of our interest income for the remainder of 2020. As noted above, the extent of the impacts from these conditions is currently uncertain and dependent on various factors. These factors include, the nature of and duration for which the preventative measures remain in place, including responses to recent increases in COVID-19 infections nationally, and the type of any additional stimulus measures and other policy responses that the U.S. government may adopt.

- **Adoption of ASU 2016-13 Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments ("CECL").** In response to the COVID-19 pandemic, in March 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law and includes a provision that permits financial institutions to defer temporarily the use of CECL. However, in a related action, the joint federal bank regulatory agencies issued an interim final rule that allows banking organizations to mitigate the effects of the CECL accounting standard in their regulatory capital. Banking organizations that are required under U.S. accounting standards to adopt CECL this year can elect to mitigate the estimated cumulative regulatory capital effects of CECL for up to two years. This two-year delay is in addition to the three-year transition period that the agencies had already made available. The Company has elected to adopt the option provided by the interim final rule, which will largely delay the effects of CECL on its regulatory capital for the next two years, after which the effects will be phased-in over a three-year period from January 1, 2022 through December 31, 2024. Under the interim final rule, the amount of adjustments to regulatory capital deferred until the phase-in period includes both the initial impact of our adoption of CECL at January 1, 2020 and 25% of subsequent changes in our allowance for credit losses during each quarter of the two-year period ended December 31, 2021.
- **Asset quality.** Prior to COVID-19, we had experienced slightly improving asset quality trends that reflected stable U.S. unemployment rates and consumer confidence. In addition, over-30 day loan delinquencies as a percentage of period-end loan receivables decreased to 3.13% at June 30, 2020 from 4.43% at June 30, 2019, primarily driven by an improvement in customer payment behavior and the effects of the sale of the Walmart consumer portfolio. Forbearance actions we have taken for our customers impacted by COVID-19 have also contributed to a temporary reduction in the Company's delinquencies as customers are not incurring changes to their delinquent status while enrolled in this short-term program. These accounts may not advance to the next delinquency cycle, including eventually to charge-off, in the same time frame that would have occurred had the forbearance relief not been granted. We anticipate that the current levels of filings for unemployment benefits in the United States, while partially mitigated by the effects of governmental actions such as the CARES Act which included unemployment benefits currently scheduled to expire in July 2020, will result in an increase in the Company's delinquencies and net charge-off rate in the second half of 2020 and into 2021, as compared to the prior year. Similarly, we have experienced an increase to our allowance for credit losses and provision for credit losses during the three and six months ended June 30, 2020 attributable to the impact of COVID-19. To the extent the current environment continues beyond our expectations or deteriorates further, we may experience further increases to our allowance for credit losses and provision for credit losses related to COVID-19.
- **Retailer share arrangement payments under our program agreements.** To the extent we experience further reductions in interest income and also increases in expected net charge-offs related to COVID-19 discussed above, we expect that the growth in absolute terms of our payments to our partners under our retailer share arrangements, compared to the prior year, will decrease.

For a further discussion of the risks and uncertainties relating to COVID-19 for our results of operations and business condition, see *Item 1A. Risk Factors*. For a discussion of how certain trends and conditions impacted the three and six months ended June 30, 2020, 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 credit 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 credit 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 credit 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, 2020

Below are highlights of our performance for the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019, as applicable, except as otherwise noted.

- Net earnings decreased 94.4% to \$48 million for the three months ended June 30, 2020 primarily driven by lower net interest income and higher provision for credit losses, partially offset by decreases in retailer share arrangements and other expense. Net earnings decreased 83.0% to \$334 million for the six months ended June 30, 2020 primarily driven by higher provision for credit losses as well as lower net interest income, partially offset by decreases in retailer share arrangements and other expense. These changes were primarily due to the impact of COVID-19 and the effects from the sale of the Walmart consumer portfolio in 2019.
- We adopted the new CECL accounting guidance in January 2020 and recorded an increase to our allowance for loan losses of \$3.0 billion. In addition, the increases in provision for credit losses for the three and six months ended June 30, 2020 included \$483 million, or \$365 million after-tax, and \$584 million, or \$441 million after-tax, respectively, attributable to applying the new CECL guidance as compared to the prior accounting guidance.
- Loan receivables decreased 4.3% to \$78.3 billion at June 30, 2020 compared to June 30, 2019, primarily driven by lower purchase volume and a decrease in average active accounts for our ongoing partner programs due to the impact of COVID-19, as well as the sale of loan receivables associated with the Yamaha portfolio.
- Net interest income decreased 18.3% to \$3.4 billion and 13.1% to \$7.3 billion for the three and six months ended June 30, 2020, respectively, primarily due to a decrease in interest and fees on loans due to the Walmart consumer portfolio sale and the impact of COVID-19, partially offset by a decrease in interest expense reflecting lower benchmark interest rates.
- Retailer share arrangements decreased 10.0% to \$773 million and 6.3% to \$1.7 billion for the three and six months ended June 30, 2020, respectively, reflecting the initial impact of COVID-19 on program performance.
- Over-30 day loan delinquencies as a percentage of period-end loan receivables decreased 130 basis points to 3.13% at June 30, 2020, and the net charge-off rate decreased 66 basis points to 5.35% and 69 basis points to 5.35% for the three and six months ended June 30, 2020, respectively.
- Provision for credit losses increased by \$475 million, or 39.6%, and \$1,293, or 62.9%, for the three and six months ended June 30, 2020, respectively, primarily driven by a higher reserve build reflecting the projected impacts of COVID-19, the increases attributable to CECL discussed above and the effects of the prior year reductions in reserves for credit losses of \$247 million and \$769 million, respectively, related to the Walmart consumer portfolio sale. Our allowance coverage ratio (allowance for credit losses as a percent of period-end loan receivables) increased to 12.52% at June 30, 2020, as compared to 7.10% at June 30, 2019, primarily due to the impact of the CECL implementation and impacts from COVID-19.
- Other expense decreased by \$73 million, or 6.9%, and \$114 million, or 5.4%, for the three and six months ended June 30, 2020, respectively, primarily driven by the cost reductions related to the sale of the Walmart consumer portfolio, the lower purchase volume and average active accounts experienced in the current quarter and reductions in certain discretionary spend. These decreases were partially offset by higher operational losses, expenditures related to our response to COVID-19 and charitable contributions made in the second quarter.
- At June 30, 2020, deposits represented 80% of our total funding sources. Total deposits decreased by 1.5% to \$64.1 billion at June 30, 2020, compared to December 31, 2019.

- During the six months ended June 30, 2020, we declared and paid cash dividends on our Series A 5.625% non-cumulative preferred stock of \$28.28 per share, or \$22 million.
- During the six months ended June 30, 2020, we repurchased \$1.0 billion of our outstanding common stock, and declared and paid cash dividends of \$0.44 per share, or \$263 million. In response to COVID-19, we have suspended share repurchases until we have greater visibility as to the current economic environment.

2020 Partner Agreements

- In our Retail Card sales platform, we launched new programs with Harbor Freight Tools and Verizon.
- In our Payment Solutions sales platform, we announced our new partnerships with Adorama, Club Champion, HiSun, Modani Furniture and Piaggio, extended our program agreements with ABC Warehouse, Bernina, CarX, Englert, Hanks, Icahn Enterprises LP automotive brands (Pep Boys, AAMCO Transmissions, Precision Tune Auto Care, Cottman Transmission and Auto Plus Auto Parts), Living Spaces, Puronics and Vanderhall and completed the sale of loan receivables associated with the Yamaha portfolio.
- In our CareCredit sales platform, we expanded our network through our new partnership with AdventHealth, extended Pets Best's relationship with Progressive and renewed our agreements with Vision Group Holdings and West Coast Dental.

Summary Earnings

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

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Interest income	\$ 3,830	\$ 4,738	\$ 8,237	\$ 9,524
Interest expense	434	583	951	1,143
Net interest income	3,396	4,155	7,286	8,381
Retailer share arrangements	(773)	(859)	(1,699)	(1,813)
Provision for credit losses	1,673	1,198	3,350	2,057
Net interest income, after retailer share arrangements and provision for credit losses	950	2,098	2,237	4,511
Other income	95	90	192	182
Other expense	986	1,059	1,988	2,102
Earnings before provision for income taxes	59	1,129	441	2,591
Provision for income taxes	11	276	107	631
Net earnings	\$ 48	\$ 853	\$ 334	\$ 1,960
Net earnings available to common stockholders	\$ 37	\$ 853	\$ 312	\$ 1,960

Other Financial and Statistical Data

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

(\$ in millions)	At and for the Three months ended June 30,		At and for the Six months ended June 30,	
	2020	2019	2020	2019
Financial Position Data (Average):				
Loan receivables, including held for sale	\$ 78,697	\$ 88,792	\$ 81,563	\$ 89,344
Total assets	\$ 97,958	\$ 104,903	\$ 99,340	\$ 105,100
Deposits	\$ 64,607	\$ 64,497	\$ 64,636	\$ 64,280
Borrowings	\$ 16,821	\$ 21,328	\$ 17,807	\$ 21,811
Total equity	\$ 12,181	\$ 14,818	\$ 12,386	\$ 14,804
Selected Performance Metrics:				
Purchase volume ⁽¹⁾⁽²⁾	\$ 31,155	\$ 38,291	\$ 63,197	\$ 70,804
Retail Card	\$ 24,380	\$ 29,530	\$ 48,388	\$ 54,190
Payment Solutions	\$ 4,823	\$ 5,948	\$ 10,198	\$ 11,197
CareCredit	\$ 1,952	\$ 2,813	\$ 4,611	\$ 5,417
Average active accounts (in thousands) ²⁾⁽³⁾	64,836	75,525	68,401	76,545
Net interest margin ⁽⁴⁾	13.53 %	15.75 %	14.35 %	15.92 %
Net charge-offs	\$ 1,046	\$ 1,331	\$ 2,171	\$ 2,675
Net charge-offs as a % of average loan receivables, including held for sale	5.35 %	6.01 %	5.35 %	6.04 %
Allowance coverage ratio ⁽⁵⁾	12.52 %	7.10 %	12.52 %	7.10 %
Return on assets ⁽⁶⁾	0.2 %	3.3 %	0.7 %	3.8 %
Return on equity ⁽⁷⁾	1.6 %	23.1 %	5.4 %	26.7 %
Equity to assets ⁽⁸⁾	12.43 %	14.13 %	12.47 %	14.09 %
Other expense as a % of average loan receivables, including held for sale	5.04 %	4.78 %	4.90 %	4.74 %
Efficiency ratio ⁽⁹⁾	36.3 %	31.3 %	34.4 %	31.1 %
Effective income tax rate	18.6 %	24.4 %	24.3 %	24.4 %
Selected Period-End Data:				
Loan receivables	\$ 78,313	\$ 81,796	\$ 78,313	\$ 81,796
Allowance for credit losses	\$ 9,802	\$ 5,809	\$ 9,802	\$ 5,809
30+ days past due as a % of period-end loan receivables ⁽¹⁰⁾	3.13 %	4.43 %	3.13 %	4.43 %
90+ days past due as a % of period-end loan receivables ⁽¹⁰⁾	1.77 %	2.16 %	1.77 %	2.16 %
Total active accounts (in thousands) ²⁾⁽³⁾	63,430	76,065	63,430	76,065

(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.

(2) Includes activity and accounts associated with loan receivables held for sale.

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

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

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

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

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

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

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

(10) 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.

	2020			2019		
	Average Balance	Interest Income / Expense	Average Yield / Rate ⁽¹⁾	Average Balance	Interest Income/ Expense	Average Yield / Rate ⁽¹⁾
<i>Three months ended June 30 (\$ in millions)</i>						
Assets						
Interest-earning assets:						
Interest-earning cash and equivalents ⁽²⁾	\$ 15,413	\$ 3	0.08%	\$ 10,989	\$ 66	2.41%
Securities available for sale	6,804	19	1.12%	6,010	36	2.40%
Loan receivables, including held for sale⁽³⁾:						
Credit cards	75,942	3,740	19.81%	85,488	4,557	21.38%
Consumer installment loans	1,546	37	9.63%	1,924	44	9.17%
Commercial credit products	1,150	30	10.49%	1,330	34	10.25%
Other	59	1	NM	50	1	NM
Total loan receivables, including held for sale	78,697	3,808	19.46%	88,792	4,636	20.94%
Total interest-earning assets	100,914	3,830	15.26%	105,791	4,738	17.96%
Non-interest-earning assets:						
Cash and due from banks	1,486			1,271		
Allowance for credit losses	(9,221)			(5,911)		
Other assets	4,779			3,752		
Total non-interest-earning assets	(2,956)			(888)		
Total assets	\$ 97,958			\$ 104,903		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	\$ 64,298	\$ 293	1.83%	\$ 64,226	\$ 397	2.48%
Borrowings of consolidated securitization entities	8,863	59	2.68%	11,785	90	3.06%
Senior unsecured notes	7,958	82	4.14%	9,543	96	4.03%
Total interest-bearing liabilities	81,119	434	2.15%	85,554	583	2.73%
Non-interest-bearing liabilities:						
Non-interest-bearing deposit accounts	309			271		
Other liabilities	4,349			4,260		
Total non-interest-bearing liabilities	4,658			4,531		
Total liabilities	85,777			90,085		
Equity						
Total equity	12,181			14,818		
Total liabilities and equity	\$ 97,958			\$ 104,903		
Interest rate spread⁽⁴⁾			13.11%			15.23%
Net interest income		\$ 3,396			\$ 4,155	
Net interest margin⁽⁵⁾			13.53%			15.75%

	2020			2019		
	Average Balance	Interest Income / Expense	Average Yield / Rate ⁽¹⁾	Average Balance	Interest Income/ Expense	Average Yield / Rate ⁽¹⁾
<i>Six months ended June 30 (\$ in millions)</i>						
Assets						
Interest-earning assets:						
Interest-earning cash and equivalents ⁽²⁾	\$ 14,158	\$ 45	0.64%	\$ 11,011	\$ 131	2.40%
Securities available for sale	6,379	44	1.39%	5,826	70	2.42%
Loan receivables, including held for sale⁽³⁾:						
Credit cards	78,830	8,012	20.44%	86,125	9,168	21.47%
Consumer installment loans	1,489	72	9.72%	1,884	86	9.21%
Commercial credit products	1,196	63	10.59%	1,291	68	10.62%
Other	48	1	4.19%	44	1	4.58%
Total loan receivables, including held for sale	81,563	8,148	20.09%	89,344	9,323	21.04%
Total interest-earning assets	102,100	8,237	16.22%	106,181	9,524	18.09%
Non-interest-earning assets:						
Cash and due from banks	1,468			1,303		
Allowance for credit losses	(8,965)			(6,125)		
Other assets	4,737			3,741		
Total non-interest-earning assets	(2,760)			(1,081)		
Total assets	\$ 99,340			\$ 105,100		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	\$ 64,332	\$ 649	2.03%	\$ 64,002	\$ 772	2.43%
Borrowings of consolidated securitization entities	9,425	132	2.82%	12,592	190	3.04%
Senior unsecured notes	8,382	170	4.08%	9,219	181	3.96%
Total interest-bearing liabilities	82,139	951	2.33%	85,813	1,143	2.69%
Non-interest-bearing liabilities:						
Non-interest-bearing deposit accounts	304			278		
Other liabilities	4,511			4,205		
Total non-interest-bearing liabilities	4,815			4,483		
Total liabilities	86,954			90,296		
Equity						
Total equity	12,386			14,804		
Total liabilities and equity	\$ 99,340			\$ 105,100		
Interest rate spread⁽⁴⁾			13.89%			15.40%
Net interest income		\$ 7,286			\$ 8,381	
Net interest margin⁽⁵⁾			14.35%			15.92%

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

(2) Includes average restricted cash balances of \$645 million and \$426 million for the three months ended June 30, 2020 and 2019, respectively, and \$813 million and \$706 million for the six months ended June 30, 2020 and 2019, respectively.

(3) Interest income on loan receivables includes fees on loans of \$448 million and \$661 million for the three months ended June 30, 2020 and 2019, respectively, and \$1.1 billion and \$1.4 billion for the six months ended June 30, 2020 and 2019, 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 2019 Form 10-K.

Interest Income

Interest income decreased by \$908 million, or 19.2%, for the three months ended June 30, 2020 primarily driven by a decrease in interest and fees on loans of 17.9%. The sale of the Walmart consumer portfolio drove a decline in interest and fees on loans compared to the prior year period of approximately 10% and the remaining decrease was primarily due to the impact of COVID-19.

Interest income decreased by \$1.3 billion, or 13.5%, for the six months ended June 30, 2020 primarily driven by a decrease in interest and fees on loans related to the Walmart consumer portfolio sale, as well as the impact of COVID-19.

Average interest-earning assets

Three months ended June 30 (\$ in millions)

	2020	%	2019	%
Loan receivables, including held for sale	\$ 78,697	78.0%	\$ 88,792	83.9%
Liquidity portfolio and other	22,217	22.0%	16,999	16.1%
Total average interest-earning assets	\$ 100,914	100.0%	\$ 105,791	100.0%

Six months ended June 30 (\$ in millions)

	2020	%	2019	%
Loan receivables, including held for sale	\$ 81,563	79.9%	\$ 89,344	84.1%
Liquidity portfolio and other	20,537	20.1%	16,837	15.9%
Total average interest-earning assets	\$ 102,100	100.0%	\$ 106,181	100.0%

The decreases in average loan receivables, including held for sale, of 11.4% and 8.7% for the three and six months ended June 30, 2020, respectively, were primarily driven by the sale of loan receivables associated with the Walmart and Yamaha portfolios, in October 2019 and January 2020, respectively. In addition, the decreases also reflect the decline in purchase volume and average active accounts at our ongoing partner programs for the quarter ended June 30, 2020 of 12.9% and 5.1%, respectively, due to the impact of COVID-19.

Yield on average interest-earning assets

The yield on average interest-earning assets decreased for the three and six months ended June 30, 2020, primarily due to decreases in the percentage of interest-earning assets attributable to loan receivables and decreases in loan receivable yield. The decrease in loan receivable yield was 148 basis points to 19.46% and 95 basis points to 20.09% for the three and six months ended June 30, 2020, respectively, primarily driven by lower benchmark rates, the sale of the Walmart consumer portfolio, as well as fee and interest waivers related to COVID-19.

Interest Expense

Interest expense decreased by \$149 million, or 25.6%, and \$192 million, or 16.8%, for the three and six months ended June 30, 2020, respectively, driven primarily by lower benchmark interest rates and a decrease in borrowings of our securitization entities. Our cost of funds decreased to 2.15% and 2.33% for the three and six months ended June 30, 2020, respectively, compared to 2.73% and 2.69% for the three and six months ended June 30, 2019, respectively.

Average interest-bearing liabilities

Three months ended June 30 (\$ in millions)

	2020	%	2019	%
Interest-bearing deposit accounts	\$ 64,298	79.3%	\$ 64,226	75.1%
Borrowings of consolidated securitization entities	8,863	10.9%	11,785	13.8%
Senior unsecured notes	7,958	9.8%	9,543	11.1%
Total average interest-bearing liabilities	\$ 81,119	100.0%	\$ 85,554	100.0%

Six months ended June 30 (\$ in millions)

	2020	%	2019	%
Interest-bearing deposit accounts	\$ 64,332	78.3%	\$ 64,002	74.6%
Borrowings of consolidated securitization entities	9,425	11.5%	12,592	14.7%
Senior unsecured notes	8,382	10.2%	9,219	10.7%
Total average interest-bearing liabilities	\$ 82,139	100.0%	\$ 85,813	100.0%

Net Interest Income

Net interest income decreased by \$759 million, or 18.3%, and \$1.1 billion, or 13.1%, for the three and six months ended June 30, 2020, respectively, primarily driven by a decrease in interest and fees on loans due to the Walmart consumer portfolio sale and the impact of COVID-19, partially offset by decreases in interest expense reflecting lower benchmark interest rates.

Retailer Share Arrangements

Retailer share arrangements decreased by \$86 million, or 10.0%, and \$114 million, or 6.3%, for the three and six months ended June 30, 2020, respectively, reflecting the initial impact of COVID-19 on program performance, including lower benchmark rates.

Provision for Credit Losses

Provision for credit losses increased by \$475 million, or 39.6%, and \$1.3 billion, or 62.9%, for the three and six months ended June 30, 2020, respectively, primarily driven by the higher reserve build in the current year periods and the prior year reductions in reserves for credit losses related to the Walmart consumer portfolio sale.

The higher reserve build reflects both the projected impacts of COVID-19 and the increases attributable to the CECL implementation of \$483 million and \$584 million for the three and six months ended June 30, 2020, respectively. The prior year reductions in reserves related to the Walmart portfolio were \$247 million and \$769 million for the three and six months ended June 30, 2020, respectively. These current year increases were partially offset by lower net charge-offs.

Other Income

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Interchange revenue	\$ 134	\$ 194	\$ 295	\$ 359
Debt cancellation fees	69	69	138	137
Loyalty programs	(134)	(192)	(292)	(359)
Other	26	19	51	45
Total other income	\$ 95	\$ 90	\$ 192	\$ 182

Other income increased by \$5 million, or 5.6%, and increased by \$10 million, or 5.5%, for the three and six months ended June 30, 2020, respectively, primarily driven by lower loyalty costs, partially offset by a decrease in interchange revenue.

The decreases in loyalty costs and interchange revenue were primarily due to the Walmart consumer portfolio sale and the reduction in purchase volume experienced in the current quarter due to the impact of COVID-19.

Other Expense

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Employee costs	\$ 327	\$ 358	\$ 651	\$ 711
Professional fees	189	231	386	463
Marketing and business development	91	135	202	258
Information processing	116	123	239	236
Other	263	212	510	434
Total other expense	\$ 986	\$ 1,059	\$ 1,988	\$ 2,102

Other expense decreased by \$73 million, or 6.9%, and \$114 million, or 5.4%, for the three and six months ended June 30, 2020, respectively, primarily driven by decreases in professional fees, marketing and business development and employee costs, partially offset by higher other expense.

The decreases in professional fees were primarily driven by interim servicing costs in the prior year associated with acquired portfolios, including the PayPal Credit portfolio. The decreases in marketing and business development were primarily driven by the reduction in purchase volume and active accounts we experienced in the quarter ended June 30, 2020 due to the impact of COVID-19. The decreases in employee costs, despite the subsequent conversion of acquired portfolios, were primarily due to cost reductions associated with the Walmart consumer portfolio sale and lower stock-based and other compensation expense. The "other" component increased primarily due to higher operational losses, expenditures related to our response to COVID-19 and charitable contributions.

Provision for Income Taxes

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Effective tax rate	18.6%	24.4%	24.3%	24.4%
Provision for income taxes	\$ 11	\$ 276	\$ 107	\$ 631

The effective tax rate for the three months ended June 30, 2020 decreased compared to the same period in the prior year primarily due to the significant decline in pre-tax income, which led to a larger impact related to discrete tax benefits. The effective tax rate for the six months ended June 30, 2020 decreased slightly compared to the same period in the prior year. For the six months ended June 30, 2020, the effective tax rate differs from the applicable U.S. federal statutory tax 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, 2020, for each of our sales platforms.

Retail Card

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Purchase volume	\$ 24,380	\$ 29,530	\$ 48,388	\$ 54,190
Period-end loan receivables	\$ 49,967	\$ 52,307	\$ 49,967	\$ 52,307
Average loan receivables, including held for sale	\$ 50,238	\$ 59,861	\$ 52,029	\$ 60,409
Average active accounts (in thousands)	46,970	57,212	49,982	58,132
Interest and fees on loans	\$ 2,640	\$ 3,390	\$ 5,677	\$ 6,844
Retailer share arrangements	\$ (752)	\$ (836)	\$ (1,656)	\$ (1,776)
Other income	\$ 56	\$ 59	\$ 115	\$ 135

Retail Card interest and fees on loans decreased by \$750 million, or 22.1%, for the three months ended June 30, 2020 primarily due to the sale of the Walmart consumer portfolio, which drove a decline compared to the prior year period of approximately 14%. The remaining decrease was primarily due to the impact of COVID-19. Retail Card interest and fees on loans decreased by \$1.2 billion, or 17.1%, for the six months ended June 30, 2020 driven by these same factors.

Retailer share arrangements decreased by \$84 million, or 10.0%, and \$120 million, or 6.8%, for the three and six months ended June 30, 2020, respectively, primarily as a result of the factors discussed under the heading "Retailer Share Arrangements" above.

Other income decreased by \$3 million, or 5.1%, and \$20 million, or 14.8%, for the three and six months ended June 30, 2020, respectively, primarily as a result of decreases in interchange revenue, partially offset by decreases in loyalty costs.

Payment Solutions

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Purchase volume	\$ 4,823	\$ 5,948	\$ 10,198	\$ 11,197
Period-end loan receivables	\$ 19,119	\$ 19,766	\$ 19,119	\$ 19,766
Average loan receivables, including held for sale	\$ 19,065	\$ 19,409	\$ 19,705	\$ 19,453
Average active accounts (in thousands)	11,900	12,227	12,266	12,321
Interest and fees on loans	\$ 632	\$ 685	\$ 1,338	\$ 1,371
Retailer share arrangements	\$ (18)	\$ (21)	\$ (36)	\$ (33)
Other income	\$ 14	\$ 11	\$ 27	\$ 12

Payment Solutions interest and fees on loans decreased by \$53 million, or 7.7%, and \$33 million, or 2.4%, for the three and six months ended June 30, 2020, respectively. The decreases were primarily driven by lower late fees in the three months ended June 30, 2020 as well as the sale of the Yamaha portfolio in January 2020.

CareCredit

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Purchase volume	\$ 1,952	\$ 2,813	\$ 4,611	\$ 5,417
Period-end loan receivables	\$ 9,227	\$ 9,723	\$ 9,227	\$ 9,723
Average loan receivables	\$ 9,394	\$ 9,522	\$ 9,829	\$ 9,482
Average active accounts (in thousands)	5,966	6,086	6,153	6,092
Interest and fees on loans	\$ 536	\$ 561	\$ 1,133	\$ 1,108
Retailer share arrangements	\$ (3)	\$ (2)	\$ (7)	\$ (4)
Other income	\$ 25	\$ 20	\$ 50	\$ 35

CareCredit interest and fees on loans decreased by \$25 million, or 4.5%, for the three months ended June 30, 2020, primarily driven by lower merchant discount as a result of the 31% decline in purchase volume in the current quarter.

CareCredit interest and fees on loans increased by \$25 million, or 2.3%, for the six months ended months ended June 30, 2020, primarily driven by growth in average loan receivables.

Loan Receivables

Loan receivables are our largest category of assets and represent our primary source of revenue. The following discussion provides supplemental information regarding our loan receivables portfolio. See Note 2. *Basis of Presentation and Summary of Significant Accounting Policies* and Note 4. *Loan Receivables and Allowance for Credit Losses* to our condensed consolidated financial statements for additional information related to our Loan Receivables, including troubled debt restructurings ("TDR's").

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, 2020		At December 31, 2019	
		(%)		(%)
Loans				
Credit cards	\$ 75,353	96.2%	\$ 84,606	97.1%
Consumer installment loans	1,779	2.3	1,347	1.5
Commercial credit products	1,140	1.4	1,223	1.4
Other	41	0.1	39	—
Total loans	\$ 78,313	100.0%	\$ 87,215	100.0%

Loan receivables decreased 10.2% to \$78.3 billion at June 30, 2020 compared to December 31, 2019, primarily driven by lower purchase volume and a decrease in average active accounts for our ongoing partner programs due to the impact of COVID-19, as well as the seasonality of our business.

Loan receivables decreased 4.3% to \$78.3 billion at June 30, 2020 compared to June 30, 2019, primarily driven by lower purchase volume and a decrease in average active accounts for our ongoing partner programs due to the impact of COVID-19, as well as the sale of loan receivables associated with the Yamaha portfolio.

Our loan receivables portfolio had the following geographic concentration at June 30, 2020.

(\$ in millions)

State	Loan Receivables Outstanding	% of Total Loan Receivables Outstanding
California	\$ 8,122	10.4 %
Texas	\$ 8,016	10.2 %
Florida	\$ 6,711	8.6 %
New York	\$ 4,326	5.5 %
North Carolina	\$ 3,230	4.1 %

COVID-19 Related Loan Modifications

TDRs are those loans for which we have granted a concession to a borrower experiencing financial difficulties where we do not receive adequate compensation. These loans are identified at the point when the borrower enters into a modification program. See Note 4 to our Condensed Consolidated Financial Statements for additional information on loans classified as TDRs. However, short-term loan modifications to support our customers impacted by COVID-19 are not accounted for as a TDR.

Under the CARES Act, banks may elect to deem that loan modifications do not result in TDRs if they are (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. At June 30, 2020, we have not made such an election. Additionally, certain other short-term modifications made on a good faith basis in response to COVID-19 are not considered TDRs under ASC Subtopic 310-40. This includes delays in payment that are insignificant or short-term (e.g., up to six months) modifications such as payment deferrals, fee waivers or extensions of repayment terms to borrowers who were current prior to any relief. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented.

We have provided support to our customers impacted by COVID-19 through various actions, such as minimum payment deferrals and interest and late fee waivers. Loans enrolled in minimum payment deferrals generally continue to accrue interest and their delinquency status as of the modification date will not advance through the deferment period. Our delinquency data at June 30, 2020 is impacted by these forbearance actions as these accounts do not advance to the next delinquency cycle, including eventually to charge-off, in the same time frame that would have occurred had the forbearance relief not been granted.

During the six-months ended June 30, 2020, we enrolled approximately 1.7 million customers in short-term modifications to defer minimum payments, representing \$3.2 billion in loan receivables. The substantial majority of these enrollments were for our credit card customers. For certain customers we also provided waivers of interest charges or late fees. During the six-months ended June 30, 2020, the waivers of interest and late fees provided to our customers resulted in foregone interest and fee income of \$67 million.

At June 30, 2020, approximately 0.5 million customers, representing \$1.1 billion in loan receivables or approximately 1% of total loan receivables, remained in these short-term modification programs.

Delinquencies

Over-30 day loan delinquencies as a percentage of period-end loan receivables decreased to 3.13% at June 30, 2020 from 4.43% at June 30, 2019, and decreased from 4.44% at December 31, 2019. The decrease compared to the prior year period was primarily driven by an improvement in customer payment behavior and the effects of the sale of the Walmart consumer portfolio. The current quarter decrease as compared to December 31, 2019 primarily reflects the impact from the improvement in customer payment behavior as well as the seasonality of our business.

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 credit losses and subsequent recoveries of previously charged-off amounts are credited to the allowance for credit 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, ("net charge-off rate") for the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net charge-off rate	5.35%	6.01%	5.35%	6.04%

Allowance for Credit Losses and Impact of Adoption of CECL

The allowance for credit losses totaled \$9.8 billion at June 30, 2020, compared with allowance for loan losses of \$5.6 billion at December 31, 2019 and \$5.8 billion at June 30, 2019. Similarly, our allowance for credit losses as a percentage of total loan receivables increased to 12.52% at June 30, 2020, from 6.42% at December 31, 2019 and increased from 7.10% at June 30, 2019.

The increases in the allowance for credit losses and allowance coverage ratio reflect the impact of the CECL adoption and implementation in January 2020. Upon adoption of the new accounting standard on January 1, 2020, we recorded an increase to our allowance for loan losses of \$3.0 billion. The allowance for credit losses at June 30, 2020 reflects our estimate of expected credit losses for the life of the loan receivables on our condensed consolidated statement of financial position at June 30, 2020, which includes the consideration of current and expected macroeconomic conditions that existed at that date.

During the initial year of implementation of the new CECL accounting standard we continue to determine what our allowance for credit losses and allowance coverage ratio would have been if the prior accounting guidance were still in effect, in order to help provide comparability with our prior year results. The following table illustrates the effects of the implementation of the new accounting standard to our allowance for credit losses and allowance coverage ratio at June 30, 2020.

(\$ in millions) At June 30, 2020	Amounts under prior accounting guidance ⁽¹⁾	Impact of adoption of CECL	Ongoing implementation of CECL model	GAAP reported amounts
Allowance for credit losses	\$ 6,197	\$ 3,021	\$ 584	\$ 9,802
Allowance coverage ratio	7.91%	3.86%	0.75%	12.52%

(1) Amounts shown above as if the prior accounting guidance remained in effect are non-GAAP measures, and are presented only in this initial year after adoption for comparability with the prior year reported GAAP metrics.

In addition to the effects of the increases attributable to CECL noted in the above table, our allowance coverage ratio increased as compared to both December 31, 2019 and June 30, 2019 primarily due the projected impacts from COVID-19.

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 senior unsecured notes.

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

	2020			2019		
	Average Balance	%	Average Rate	Average Balance	%	Average Rate
<i>Three months ended June 30 (\$ in millions)</i>						
Deposits ⁽¹⁾	\$ 64,298	79.3%	1.8%	\$ 64,226	75.1%	2.5%
Securitized financings	8,863	10.9	2.7	11,785	13.8	3.1
Senior unsecured notes	7,958	9.8	4.1	9,543	11.1	4.0
Total	\$ 81,119	100.0%	2.2%	\$ 85,554	100.0%	2.7%

(1) Excludes \$309 million and \$271 million average balance of non-interest-bearing deposits for the three months ended June 30, 2020 and 2019, respectively. Non-interest-bearing deposits comprise less than 10% of total deposits for the three months ended June 30, 2020 and 2019.

	2020			2019		
	Average Balance	%	Average Rate	Average Balance	%	Average Rate
<i>Six months ended June 30 (\$ in millions)</i>						
Deposits ⁽¹⁾	\$ 64,332	78.3%	2.0%	\$ 64,002	74.6%	2.4%
Securitized financings	9,425	11.5	2.8	12,592	14.7	3.0
Senior unsecured notes	8,382	10.2	4.1	9,219	10.7	4.0
Total	\$ 82,139	100.0%	2.3%	\$ 85,813	100.0%	2.7%

(1) Excludes \$304 million and \$278 million average balance of non-interest-bearing deposits for the six months ended June 30, 2020 and 2019, respectively. Non-interest-bearing deposits comprise less than 10% of total deposits for the six months ended June 30, 2020 and 2019.

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, 2020, we had \$53.0 billion in direct deposits and \$11.1 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 utilize 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 11 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, 2020, had a weighted average remaining life of 2.1 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, such as 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:

	2020			2019		
	Average Balance	%	Average Rate	Average Balance	%	Average Rate
<i>Three months ended June 30 (\$ in millions)</i>						
Direct deposits:						
Certificates of deposit (including IRA certificates of deposit)	\$ 31,806	49.5%	2.2%	\$ 33,492	52.2%	2.5%
Savings accounts (including money market accounts)	21,023	32.7	1.3	18,628	29.0	2.2
Brokered deposits	11,469	17.8	1.8	12,106	18.8	2.8
Total interest-bearing deposits	\$ 64,298	100.0%	1.8%	\$ 64,226	100.0%	2.5%

	2020			2019		
	Average Balance	% of Total	Average Rate	Average Balance	% of Total	Average Rate
<i>Six months ended June 30 (\$ in millions)</i>						
Direct deposits:						
Certificates of deposit (including IRA certificates of deposit)	\$ 32,913	51.2%	2.4%	\$ 32,662	51.1%	2.5%
Savings accounts (including money market accounts)	20,333	31.6	1.5	18,509	28.9	2.2
Brokered deposits	11,086	17.2	2.1	12,831	20.0	2.7
Total interest-bearing deposits	\$ 64,332	100.0%	2.0%	\$ 64,002	100.0%	2.4%

Our deposit liabilities provide funding with maturities ranging from one day to ten years.

The following table summarizes total deposits by contractual maturity at June 30, 2020:

	3 Months or Less	Over 3 Months but within 6 Months	Over 6 Months but within 12 Months	Over 12 Months	Total
	<i>(\$ in millions)</i>				
U.S. deposits (less than FDIC insurance limit)⁽¹⁾⁽²⁾	\$ 25,208	\$ 4,040	\$ 11,109	\$ 10,973	\$ 51,330
U.S. deposits (in excess of FDIC insurance limit)⁽²⁾					
Direct deposits:					
Certificates of deposit (including IRA certificates of deposit)	1,108	1,170	3,256	1,920	7,454
Savings accounts (including money market accounts)	5,336	—	—	—	5,336
Brokered deposits:					
Sweep accounts	28	—	—	—	28
Total	\$ 31,680	\$ 5,210	\$ 14,365	\$ 12,893	\$ 64,148

(1) Includes brokered certificates of deposit for which underlying individual deposit balances are assumed to be less than \$250,000.

(2) The standard deposit insurance amount is \$250,000 per depositor, for each account ownership category. Deposits in excess of FDIC insurance limit presented above include partially uninsured accounts.

At June 30, 2020, the weighted average maturity of our interest-bearing time deposits was 1.2 years. See Note 7. *Deposits* to our condensed consolidated financial statements for more information on the maturities of our time deposits.

Securitized Financings

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

The following table summarizes expected contractual maturities of the investors’ interests in securitized financings, excluding debt premiums, discounts and issuance costs at June 30, 2020.

(\$ in millions)	Less Than One Year	One Year Through Three Years	Four Years Through Five Years	After Five Years	Total
Scheduled maturities of long-term borrowings—owed to securitization investors:					
SYNCT ⁽¹⁾	\$ 2,202	\$ 3,015	\$ —	\$ —	\$ 5,217
SFT	—	300	—	—	300
SYNIT ⁽¹⁾	—	2,600	—	—	2,600
Total long-term borrowings—owed to securitization investors	\$ 2,202	\$ 5,915	\$ —	\$ —	\$ 8,117

(1) Excludes any subordinated classes of SYNCT notes and SYNIT notes that we owned at June 30, 2020.

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 and SYNIT, any 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, 2020.

	Note Principal Balance (\$ in millions)	# of Series Outstanding	Three-Month Rolling Average Excess Spread ⁽¹⁾
SYNCT	\$ 5,484	10	~15.9% to 18.1%
SFT	\$ 300	8	16.7%
SYNIT	\$ 2,600	1	16.8%

(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 and omitting any series that have not been outstanding for at least three full monthly periods, in each case calculated in accordance with the applicable trust or series documentation, for the three securitization monthly periods ended June 30, 2020.

Senior Unsecured Notes

During the six months ended June 30, 2020 we made repayments of \$1.5 billion, which included all of our previously outstanding floating rate senior unsecured notes.

The following table provides a summary of our outstanding fixed rate senior unsecured notes at June 30, 2020.

Issuance Date	Interest Rate ⁽¹⁾	Maturity	Principal Amount Outstanding ⁽²⁾
<i>(\$ in millions)</i>			
Fixed rate senior unsecured notes:			
<i>Synchrony Financial</i>			
August 2014	3.750%	August 2021	\$ 750
August 2014	4.250%	August 2024	1,250
July 2015	4.500%	July 2025	1,000
August 2016	3.700%	August 2026	500
December 2017	3.950%	December 2027	1,000
March 2019	4.375%	March 2024	600
March 2019	5.150%	March 2029	650
July 2019	2.850%	July 2022	750
<i>Synchrony Bank</i>			
June 2017	3.000%	June 2022	750
May 2018	3.650%	May 2021	750
Total fixed rate senior unsecured notes			\$ 8,000

(1) Weighted average interest rate of all senior unsecured notes at June 30, 2020 was 3.94%.

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

Short-Term Borrowings

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

Other

At June 30, 2020, 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, 2020.

At June 30, 2020, we were not in default under any of our credit facilities.

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.

The table below reflects our current credit ratings and outlooks:

	S&P	Fitch Ratings
Synchrony Financial		
Senior unsecured debt	BBB-	BBB-
Preferred stock	BB-	B+
Outlook for Synchrony Financial senior unsecured debt	Negative	Negative
Synchrony Bank		
Senior unsecured debt	BBB	BBB-
Outlook for Synchrony Bank senior unsecured debt	Negative	Negative

In addition, certain of the asset-backed securities issued by SYNCT and SYNIT are rated by Fitch, S&P and/or Moody's. A credit rating is not a recommendation to buy, sell or hold securities, may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating. Downgrades in these credit ratings could materially increase the cost of our funding from, and restrict our access to, the capital markets.

Liquidity

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

We maintain policies outlining the overall framework and general principles for managing liquidity risk across our business, which is the responsibility of our Asset and Liability Management Committee, a subcommittee of the Risk Committee of our Board of Directors. 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, 2020 had \$22.4 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 \$17.3 billion of liquid assets at December 31, 2019. The increase in liquid assets was primarily due to the reduction in our loan receivables, the retention of excess cash flows from operations and the seasonality of our business. Additionally, on March 15, 2020, in response to the COVID-19 pandemic, the Federal Reserve Board reduced reserve requirements for insured depository institutions to zero percent, which further increased the Bank's available liquidity. We believe our liquidity position at June 30, 2020 remains strong as we continue to operate in a period of uncertain economic conditions related to COVID-19 and we will continue to closely monitor our liquidity as economic conditions change.

As additional sources of liquidity, at June 30, 2020, we had an aggregate of \$5.2 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 "Regulation—Risk Factors Relating to Regulation—We are subject to restrictions that limit our ability to pay dividends and repurchase our common stock; the Bank is subject to restrictions that limit its ability to pay dividends to us, which could limit our ability to pay dividends, repurchase our common stock or make payments on our indebtedness" and "Regulation—Regulation Relating to Our Business—Savings Association Regulation—Dividends and Stock Repurchases" in our 2019 Form 10-K.

Capital

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

Synchrony is not currently required to conduct stress tests. See "Regulation—Regulation Relating to Our Business—Legislative and Regulatory Developments" in our 2019 Form 10-K. In addition, while as a savings and loan holding company, we have not been subject to the Federal Reserve Board's capital planning rule to-date, we submitted a capital plan to the Federal Reserve Board in 2020. While not required, our capital plan process does include certain internal stress testing.

Dividend and Share Repurchases

Common Stock Cash Dividends Declared	Month of Payment	Amount per Common Share	Amount
<i>(\$ in millions, except per share data)</i>			
Three months ended March 31, 2020	February 2020	\$ 0.22	\$ 135
Three months ended June 30, 2020	May 2020	0.22	128
Total dividends declared		\$ 0.44	\$ 263

Preferred Stock Cash Dividends Declared	Month of Payment	Amount per Preferred Share	Amount
<i>(\$ in millions, except per share data)</i>			
Three months ended March 31, 2020	February 2020	\$ 14.22	\$ 11
Three months ended June 30, 2020	May 2020	14.06	11
Total dividends declared		\$ 28.28	\$ 22

The declaration and payment of future dividends to holders of our common and preferred 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 "Regulation—Risk Factors 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" in our 2019 Form 10-K.

Common Shares Repurchased Under Publicly Announced Programs	Total Number of Shares Purchased	Dollar Value of Shares Purchased
<i>(\$ and shares in millions)</i>		
Three months ended March 31, 2020	33.6	\$ 984
Three months ended June 30, 2020	—	—
Total	33.6	\$ 984

On May 9, 2019, we announced our Board's approval of a share repurchase program of up to \$4.0 billion through June 30, 2020 (the "2019 Share Repurchase Program"). Through the end of the second quarter of 2020, we have repurchased \$3.6 billion of common stock as part of the 2019 Share Repurchase Program which expired at June 30, 2020. In response to COVID-19, we have suspended our share repurchase activities until we have greater visibility as to the current economic environment.

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 2019 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, 2020, Synchrony Financial met all the requirements to be deemed well-capitalized.

The following table sets forth the composition of our capital ratios for the Company calculated under the Basel III Standardized Approach rules at June 30, 2020 and December 31, 2019, respectively.

(\$ in millions)	Basel III			
	At June 30, 2020		At December 31, 2019	
	Amount	Ratio ⁽¹⁾	Amount	Ratio ⁽¹⁾
Total risk-based capital	\$ 13,558	17.6%	\$ 14,211	16.3%
Tier 1 risk-based capital	\$ 12,527	16.3%	\$ 13,064	15.0%
Tier 1 leverage	\$ 12,527	12.7%	\$ 13,064	12.6%
Common equity Tier 1 capital	\$ 11,793	15.3%	\$ 12,330	14.1%
Risk-weighted assets	\$ 77,048		\$ 87,302	

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

In response to the COVID-19 pandemic, in March 2020 the joint federal bank regulatory agencies issued an interim final rule that allows banking organizations to mitigate the effects of the CECL accounting standard in their regulatory capital. Banking organizations that adopt CECL in 2020 can elect to mitigate the estimated cumulative regulatory capital effects of CECL for two years. This two-year delay is in addition to the three-year transition period that the agencies had already made available. The Company has elected to adopt the option provided by the interim final rule, which will largely delay the effects of CECL on its regulatory capital for the next two years, after which the effects will be phased-in over a three-year period from January 1, 2022 through December 31, 2024. Under the interim final rule, the amount of adjustments to regulatory capital deferred until the phase-in period includes both the initial impact of our adoption of CECL at January 1, 2020 and 25% of subsequent changes in our allowance for credit losses during each quarter of the two-year period ended December 31, 2021, collectively the "CECL regulatory capital transition adjustment".

Capital amounts and ratios at June 30, 2020 in the above table all reflect the application of the CECL regulatory capital transition adjustment. The increase in our common equity Tier 1 capital ratio compared to December 31, 2019 was primarily due to the decrease in loan receivables and a corresponding decrease in risk-weighted assets in the six months ended June 30, 2020. The decrease in loan receivables reflects the impact of COVID-19 and the seasonality of our business.

Regulatory Capital Requirements - Synchrony Bank

At June 30, 2020 and December 31, 2019, 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 Standardized Approach rules at June 30, 2020 and December 31, 2019, and also reflects the CECL regulatory capital transition adjustment in the June 30, 2020 amounts and ratios.

(\$ in millions)	At June 30, 2020		At December 31, 2019		Minimum to be Well-Capitalized under Prompt Corrective Action Provisions
	Amount	Ratio	Amount	Ratio	Ratio
Total risk-based capital	\$ 11,753	17.4%	\$ 11,911	15.6%	10.0%
Tier 1 risk-based capital	\$ 10,846	16.0%	\$ 10,907	14.3%	8.0%
Tier 1 leverage	\$ 10,846	12.4%	\$ 10,907	11.9%	5.0%
Common equity Tier 1 capital	\$ 10,846	16.0%	\$ 10,907	14.3%	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 "Regulation—Risk Factors 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 2019 Form 10-K.

Off-Balance Sheet Arrangements and Unfunded Lending Commitments

We do not have any material 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, 2020, 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. Each unused credit card line is unconditionally cancellable by us. See Note 4 - *Loan Receivables and Allowance for Credit 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 credit losses and fair value measurements. 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, or material changes to our Condensed Consolidated Statement of Financial Position, among other effects.

Allowance for Credit Losses

Effective January 1, 2020, losses on loan receivables are estimated and recognized upon origination of the loan, based on expected credit losses for the life of the loan balance as of the period end date. This requires us to estimate expected losses in the portfolio as of each balance sheet date. The method for calculating the estimate of expected credit loss takes into account historical experience and current conditions for homogeneous pools of loans, and reasonable and supportable forecasts about the future. We also perform a qualitative assessment in addition to model estimates and apply qualitative adjustments as necessary. The reasonable and supportable forecast period is determined based upon the accuracy level of historical loss forecast estimates, models and methodology utilized, an assessment of the current economic outlook, including the effects of COVID-19, and consideration of material changes in our loan portfolio such as changes in growth, portfolio mix and credit strategy. The reasonable and supportable forecast period used in our estimate of credit losses at June 30, 2020 was 12 months, consistent with the forecast period utilized since adoption of CECL. The Company reassesses the reasonable and supportable forecast period on a quarterly basis. Beyond the reasonable and supportable forecast period, we revert to historical loss information at the loan receivables segment level over a 6-month period, gradually increasing the weight of historical losses in the reversion period, and utilize historical loss information thereafter for the remaining life of the portfolio. The reversion period, similar to the reasonable and supportable forecast period, may change in the future depending on multiple factors such as forecasting methods, portfolio changes, and macroeconomic environment.

We evaluate each portfolio quarterly. For credit card receivables, our estimation process includes analysis of historical data, and there is a significant amount of judgment applied in selecting inputs and analyzing the results produced by the models to determine the allowance for credit losses. Our risk process includes standards and policies for reviewing major risk exposures and concentrations, and evaluates relevant data either for individual loans or on a portfolio basis, as appropriate. More specifically, we use an enhanced migration analysis to estimate the likelihood that a loan will progress through the various stages of delinquency. The enhanced migration analysis considers uncollectible principal, interest and fees reflected in the loan receivables, segmented by credit and business parameters. We use other analyses to estimate losses on non-delinquent accounts, which include past performance, bankruptcy activity such as filings, policy changes, loan volume and amounts. Holistically, for assessing the portfolio credit loss content, we also evaluate portfolio risk management techniques applied to various accounts, historical behavior of different account vintages, account seasoning, economic conditions, recent trends in delinquencies, account collection management, forecasting uncertainties, expectations about the future, and a qualitative assessment of the adequacy of the allowance for credit losses.

We estimate our allowance for credit card loan losses using pools of homogeneous loans. Further, experience is not available for new portfolios; therefore, while we accumulate experience, we utilize our experience with the most closely analogous products and segments in our portfolio. The underlying assumptions, estimates and assessments we use to provide for losses are updated periodically to reflect our view of current conditions and expectations about the future and are subject to the regulatory examination process, which can result in changes to our assumptions. Changes in such estimates can significantly affect the allowance and provision for credit losses. It is possible that we will experience credit losses that are different from our current estimates of expected credit losses.

See “*Management’s Discussion and Analysis—Critical Accounting Estimates*” in our 2019 Form 10-K, for a detailed discussion of the critical accounting estimate related to fair value measurements.

New Accounting Standards

See Note 2. *Basis of Presentation and Summary of Significant Accounting Policies — New Accounting Standards*, to our condensed consolidated financial statements for additional information related recent accounting pronouncements, including ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments, which was effective and adopted by the Company on January 1, 2020.

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.

On March 27, 2020, the CARES Act was signed into law, and includes a provision that permits financial institutions to defer temporarily the use of CECL. However, in a related action, the joint federal bank regulatory agencies issued an interim final rule effective March 31, 2020, that allows banking organizations that implement CECL this year to elect to mitigate the effects of the CECL accounting standard on their regulatory capital for two years. This two-year delay is in addition to the three-year transition period that the agencies had already made available. The Company has elected to defer the regulatory capital effects of CECL in accordance with the interim final rule, and not to apply the provision of the CARES Act discussed above. See “—*Capital*” above for additional details.

The CARES Act also includes a provision that permits a financial institution to elect to suspend temporarily troubled debt restructuring accounting under ASC Subtopic 310-40 in certain circumstances (“section 4013”).

To be eligible under section 4013, a loan modification must be (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. In response to this section of the CARES Act, the federal banking agencies issued a revised interagency statement on April 7, 2020 that, in consultation with the Financial Accounting Standards Board, confirmed that for loans not subject to section 4013, short-term modifications made on a good faith basis in response to COVID-19 are not considered troubled debt restructurings under ASC Subtopic 310-40. This includes delays in payment that are insignificant or short-term (e.g., up to six months) modifications such as payment deferrals, fee waivers, and extensions of repayment terms to borrowers who were current prior to any relief. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented.

The CARES Act also includes a range of other provisions designed to support the U.S. economy and mitigate the impact of COVID-19 on financial institutions and their customers, including through the authorization of various programs and measures that the U.S. Department of the Treasury, the Small Business Administration, the Federal Reserve Board, and other federal banking agencies may or are required to implement. Further, in response to the COVID-19 outbreak, the Federal Reserve Board has implemented or announced a number of facilities to provide emergency liquidity to various segments of the U.S. economy and financial markets.

See “*Regulation*” in our 2019 Form 10-K for additional information on regulations that are currently applicable to us. 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,	
	2020	2019	2020	2019
<i>(\$ in millions, except per share data)</i>				
Interest income:				
Interest and fees on loans (Note 4)	\$ 3,808	\$ 4,636	\$ 8,148	\$ 9,323
Interest on cash and debt securities	22	102	89	201
Total interest income	3,830	4,738	8,237	9,524
Interest expense:				
Interest on deposits	293	397	649	772
Interest on borrowings of consolidated securitization entities	59	90	132	190
Interest on senior unsecured notes	82	96	170	181
Total interest expense	434	583	951	1,143
Net interest income	3,396	4,155	7,286	8,381
Retailer share arrangements	(773)	(859)	(1,699)	(1,813)
Provision for credit losses (Note 4)	1,673	1,198	3,350	2,057
Net interest income, after retailer share arrangements and provision for credit losses	950	2,098	2,237	4,511
Other income:				
Interchange revenue	134	194	295	359
Debt cancellation fees	69	69	138	137
Loyalty programs	(134)	(192)	(292)	(359)
Other	26	19	51	45
Total other income	95	90	192	182
Other expense:				
Employee costs	327	358	651	711
Professional fees	189	231	386	463
Marketing and business development	91	135	202	258
Information processing	116	123	239	236
Other	263	212	510	434
Total other expense	986	1,059	1,988	2,102
Earnings before provision for income taxes	59	1,129	441	2,591
Provision for income taxes (Note 12)	11	276	107	631
Net earnings	\$ 48	\$ 853	\$ 334	\$ 1,960
Net earnings available to common stockholders	\$ 37	\$ 853	\$ 312	\$ 1,960
Earnings per share				
Basic	\$ 0.06	\$ 1.25	\$ 0.52	\$ 2.82
Diluted	\$ 0.06	\$ 1.24	\$ 0.52	\$ 2.81

See accompanying notes to condensed consolidated financial statements.

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

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net earnings	\$ 48	\$ 853	\$ 334	\$ 1,960
Other comprehensive income (loss)				
Debt securities	12	15	29	32
Currency translation adjustments	1	(1)	(7)	1
Employee benefit plans	(1)	(1)	(1)	(1)
Other comprehensive income (loss)	12	13	21	32
Comprehensive income	\$ 60	\$ 866	\$ 355	\$ 1,992

Amounts presented net of taxes.

See accompanying notes to condensed consolidated financial statements.

Synchrony Financial and subsidiaries
Condensed Consolidated Statements of Financial Position (Unaudited)

(\$ in millions)	At June 30, 2020	At December 31, 2019
Assets		
Cash and equivalents	\$ 16,344	\$ 12,147
Debt securities (Note 3)	6,623	5,911
Loan receivables: (Notes 4 and 5)		
Unsecuritized loans held for investment	52,629	58,398
Restricted loans of consolidated securitization entities	25,684	28,817
Total loan receivables	78,313	87,215
Less: Allowance for credit losses	(9,802)	(5,602)
Loan receivables, net	68,511	81,613
Loan receivables held for sale (Note 4)	4	725
Goodwill	1,078	1,078
Intangible assets, net (Note 6)	1,166	1,265
Other assets	2,818	2,087
Total assets	<u>\$ 96,544</u>	<u>\$ 104,826</u>
Liabilities and Equity		
Deposits: (Note 7)		
Interest-bearing deposit accounts	\$ 63,857	\$ 64,877
Non-interest-bearing deposit accounts	291	277
Total deposits	64,148	65,154
Borrowings: (Notes 5 and 8)		
Borrowings of consolidated securitization entities	8,109	10,412
Senior unsecured notes	7,960	9,454
Total borrowings	16,069	19,866
Accrued expenses and other liabilities	4,428	4,718
Total liabilities	<u>\$ 84,645</u>	<u>\$ 89,738</u>
Equity:		
Preferred stock, par share value \$0.001 per share; 750,000 shares authorized; 750,000 shares issued and outstanding at both June 30, 2020 and December 31, 2019 and aggregate liquidation preference of \$750 at both June 30, 2020 and December 31, 2019	\$ 734	\$ 734
Common Stock, par share value \$0.001 per share; 4,000,000,000 shares authorized; 833,984,684 shares issued at both June 30, 2020 and December 31, 2019; 583,714,002 and 615,925,168 shares outstanding at June 30, 2020 and December 31, 2019, respectively	1	1
Additional paid-in capital	9,532	9,537
Retained earnings	9,852	12,117
Accumulated other comprehensive income (loss):		
Debt securities	28	(1)
Currency translation adjustments	(31)	(24)
Employee benefit plans	(34)	(33)
Treasury stock, at cost; 250,270,682 and 218,059,516 shares at June 30, 2020 and December 31, 2019, respectively	(8,183)	(7,243)
Total equity	<u>11,899</u>	<u>15,088</u>
Total liabilities and equity	<u>\$ 96,544</u>	<u>\$ 104,826</u>

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)	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
	Shares Issued	Amount	Shares Issued	Amount					
Balance at January 1, 2019	—	\$ —	833,985	\$ 1	\$ 9,482	\$ 8,986	\$ (62)	\$ (3,729)	\$ 14,678
Net earnings	—	—	—	—	—	1,107	—	—	1,107
Other comprehensive income	—	—	—	—	—	—	19	—	19
Purchases of treasury stock	—	—	—	—	—	—	—	(967)	(967)
Stock-based compensation	—	—	—	—	7	(17)	—	32	22
Dividends - common stock (\$0.21 per share)	—	—	—	—	—	(150)	—	—	(150)
Other	—	—	—	—	—	13	(13)	—	—
Balance at March 31, 2019	—	\$ —	833,985	\$ 1	\$ 9,489	\$ 9,939	\$ (56)	\$ (4,664)	\$ 14,709
Net earnings	—	—	—	—	—	853	—	—	853
Other comprehensive income	—	—	—	—	—	—	13	—	13
Purchases of treasury stock	—	—	—	—	—	—	—	(725)	(725)
Stock-based compensation	—	—	—	—	11	(20)	—	38	29
Dividends - common stock (\$0.21 per share)	—	—	—	—	—	(145)	—	—	(145)
Balance at June 30, 2019	—	\$ —	833,985	\$ 1	\$ 9,500	\$ 10,627	\$ (43)	\$ (5,351)	\$ 14,734

(\$ in millions, shares in thousands)	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
	Shares Issued	Amount	Shares Issued	Amount					
Balance at January 1, 2020	750	\$ 734	833,985	\$ 1	\$ 9,537	\$ 12,117	\$ (58)	\$ (7,243)	\$ 15,088
Cumulative effect of change in accounting principle	—	—	—	—	—	(2,276)	—	—	(2,276)
Net earnings	—	—	—	—	—	286	—	—	286
Other comprehensive income	—	—	—	—	—	—	9	—	9
Purchases of treasury stock	—	—	—	—	—	—	—	(985)	(985)
Stock-based compensation	—	—	—	—	(14)	(21)	—	29	(6)
Dividends - preferred stock (\$14.22 per share)	—	—	—	—	—	(11)	—	—	(11)
Dividends - common stock (\$0.22 per share)	—	—	—	—	—	(135)	—	—	(135)
Balance at March 31, 2020	750	\$ 734	833,985	\$ 1	\$ 9,523	\$ 9,960	\$ (49)	\$ (8,199)	\$ 11,970
Net earnings	—	—	—	—	—	48	—	—	48
Other comprehensive income	—	—	—	—	—	—	12	—	12
Purchases of treasury stock	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	9	(17)	—	16	8
Dividends - preferred stock (\$14.06 per share)	—	—	—	—	—	(11)	—	—	(11)
Dividends - common stock (\$0.22 per share)	—	—	—	—	—	(128)	—	—	(128)
Balance at June 30, 2020	750	\$ 734	833,985	\$ 1	\$ 9,532	\$ 9,852	\$ (37)	\$ (8,183)	\$ 11,899

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,	
	2020	2019
Cash flows - operating activities		
Net earnings	\$ 334	\$ 1,960
Adjustments to reconcile net earnings to cash provided from operating activities		
Provision for credit losses	3,350	2,057
Deferred income taxes	(328)	135
Depreciation and amortization	193	179
(Increase) decrease in interest and fees receivable	348	(133)
(Increase) decrease in other assets	(34)	(65)
Increase (decrease) in accrued expenses and other liabilities	(312)	(162)
All other operating activities	367	284
Cash provided from (used for) operating activities	3,918	4,255
Cash flows - investing activities		
Maturity and sales of debt securities	4,227	4,097
Purchases of debt securities	(4,891)	(4,224)
Proceeds from sale of loan receivables	709	—
Net (increase) decrease in loan receivables, including held for sale	6,071	1,093
All other investing activities	(184)	(338)
Cash provided from (used for) investing activities	5,932	628
Cash flows - financing activities		
Borrowings of consolidated securitization entities		
Proceeds from issuance of securitized debt	500	3,045
Maturities and repayment of securitized debt	(2,806)	(5,547)
Senior unsecured notes		
Proceeds from issuance of senior unsecured notes	—	1,240
Maturities and repayment of senior unsecured notes	(1,500)	(1,500)
Dividends paid on preferred stock	(22)	—
Net increase (decrease) in deposits	(997)	1,616
Purchases of treasury stock	(985)	(1,692)
Dividends paid on common stock	(263)	(295)
All other financing activities	(10)	19
Cash provided from (used for) financing activities	(6,083)	(3,114)
Increase (decrease) in cash and equivalents, including restricted amounts	3,767	1,769
Cash and equivalents, including restricted amounts, at beginning of period	12,647	10,376
Cash and equivalents at end of period:		
Cash and equivalents	16,344	11,755
Restricted cash and equivalents included in other assets	70	390
Total cash and equivalents, including restricted amounts, at end of period	\$ 16,414	\$ 12,145

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 financing 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, and savings products insured by the Federal Deposit Insurance Corporation ("FDIC") 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*.

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 2019 annual consolidated financial statements and the related notes in our Annual Report on Form 10-K for the year ended December 31, 2019 (our "2019 Form 10-K").

New Accounting Standards

Newly Adopted Accounting Standards

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments. This ASU replaced 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 permits the use of judgment in determining an approach which is most appropriate for the Company, based on their facts and circumstances. The CECL model requires, upon origination of a loan, the recognition of all expected credit losses over the life of the loan balance based on historical experience, current conditions and reasonable and supportable forecasts.

We adopted this guidance on a modified retrospective basis as of January 1, 2020, which resulted in the recognition of the effects of adoption through a cumulative-effect adjustment to retained earnings. As a result of adoption, we incurred an increase of \$3.0 billion to the Company's allowance for loan losses. This guidance also applies to other financial assets, such as our debt securities, however the adoption did not have an impact on these financial statement line items. The total impact of adoption resulted in a reduction to retained earnings in our Condensed Consolidated Balance Sheet of \$2.3 billion, reflecting the above changes and the recognition of related additional deferred tax assets. Subsequent updates to our estimate of expected credit losses have been recorded through the provision for credit losses in our Consolidated Statement of Earnings.

Investment Securities

We report investments in debt and marketable equity securities at fair value. See Note 9. *Fair Value Measurements* for further information on fair value. Changes in fair value on debt securities, which are classified as available-for-sale, are generally included in equity, net of applicable taxes. Changes in fair value on equity securities are included in earnings starting in 2018. We regularly review investment securities for impairment using both quantitative and qualitative criteria.

For debt securities, if we do not intend to sell the security, or it is not more likely than not, that we will be required to sell the security before recovery of our amortized cost, we evaluate other qualitative criteria to determine whether we do not expect to recover the amortized cost basis of the security, such as the financial health of, and specific prospects for the issuer, including whether the issuer is in compliance with the terms and covenants of the security. We also evaluate quantitative criteria including determining whether there has been an adverse change in expected future cash flows. If we do not expect to recover the entire amortized cost basis of the security, we consider the debt security to be impaired. If the security is impaired, we determine whether the impairment is the result of a credit loss or other factors. If a credit loss exists, an allowance for credit losses is recorded, with a related charge to earnings, limited by the amount that the fair value of the security is less than its amortized cost. Given the nature of our current portfolio, we perform a qualitative assessment to determine whether any credit loss is warranted. The assessment considers factors such as adverse conditions and payment structure of the securities, history of payment, and market conditions. If we intend to sell the security or it is more likely than not we will be required to sell the debt security before recovery of its amortized cost basis, the security is also considered impaired and we recognize the entire difference between the security's amortized cost basis and its fair value in earnings.

Realized gains and losses are accounted for on the specific identification method.

Acquired Loans

To determine the fair value of loans at acquisition, we estimate expected cash flows and discount those cash flows using an observable market rate of interest, when available, adjusted for factors that a market participant would consider in determining fair value. In determining fair value, expected cash flows are adjusted to include prepayment, default rate, and loss severity estimates. The difference between the fair value and the amount contractually due is recorded as a loan discount or premium at acquisition.

Loans acquired that have experienced more-than-insignificant deterioration in credit quality since origination (referred to as “purchased credit deteriorated” or “PCD” assets) are subject to specific guidance upon acquisition. An allowance for PCD assets is added to the purchase price or fair value of the acquired loans to arrive at the amortized cost basis. Subsequent to initial recognition, the accounting for the PCD asset will generally follow the credit loss model described below.

Loans acquired without a more-than-insignificant credit deterioration since origination are measured under the Allowance for Credit Losses described below.

Allowance for Credit Losses

Losses on loan receivables are estimated and recognized upon origination of the loan, based on expected credit losses for the life of the loan balance as of the period end date. Expected credit loss estimates involve modeling loss projections attributable to existing loan balances, considering historical experience, current conditions and future expectations for homogeneous pools of loans over the reasonable and supportable forecast period. We also perform a qualitative assessment in addition to model estimates and apply qualitative adjustments as necessary. The reasonable and supportable forecast period is determined based upon the accuracy level of historical loss forecast estimates, models and methodology utilized, an assessment of the current economic outlook, including the effects of COVID-19, and consideration of material changes in our loan portfolio such as changes in growth, portfolio mix and credit strategy. The reasonable and supportable forecast period used in our estimate of credit losses at June 30, 2020 was 12 months, consistent with the forecast period utilized since adoption of CECL. The Company reassesses the reasonable and supportable forecast period on a quarterly basis. Beyond the reasonable and supportable forecast period, we revert to historical loss information at the loan receivables segment level over a 6-month period, gradually increasing the weight of historical losses in the reversion period, and utilize historical loss information thereafter for the remaining life of the portfolio. The historical loss information is derived from a combination of recessionary and non-recessionary performance periods, weighted by the time span of each period. Similar to the reasonable and supportable forecast period, we also reassess the reversion period and historical mean on a quarterly basis, considering any required adjustments for differences in underwriting standards, portfolio mix, and other relevant data shifts over time.

We generally segment our loan receivable population into homogeneous pools of loans at the major retailer and product level. Consistent with our other assumptions, we regularly review segmentation to determine whether the segmentation pools remain relevant as risk characteristics change.

Our loan receivables generally do not have a stated life. The life of a credit card loan receivable is dependent upon a variety of factors, including the principal balance, promotional terms, payments received, interest charges and fees as well as overall consumer usage pattern. In determining expected credit losses over the life of the loan balance, we utilize an approach which considers an allocation of future payments with appropriate haircuts. However, we do not permit payments from an account within a pool that has already paid down its measurement date balance, or has a nil balance as of measurement date, to be applied to other accounts within the pool, referred to as cross-subsidization.

We evaluate each portfolio quarterly. For credit card receivables, our estimation process includes analysis of historical data, and there is a significant amount of judgment applied in selecting inputs and analyzing the results produced by the models to determine the allowance for credit losses. We use an enhanced migration analysis to estimate the likelihood that a loan will progress through the various stages of delinquency. The enhanced migration analysis considers uncollectible principal, interest and fees reflected in the loan receivables, segmented by credit and business parameters. We use other analyses to estimate expected losses on non-delinquent accounts, which include past performance, bankruptcy activity such as filings, policy changes, and loan volumes and amounts. Holistically, for assessing the portfolio credit loss content, we also evaluate portfolio risk management techniques applied to various accounts, historical behavior of different account vintages, account seasoning, economic conditions, recent trends in delinquencies, account collection management, forecasting uncertainties, expectations about the future, and a qualitative assessment of the adequacy of the allowance for credit losses. We regularly review our collection experience (including delinquencies and net charge-offs) in determining our allowance for credit losses. We also consider our historical loss experience to date based on actual defaulted loans and overall portfolio indicators including delinquent and non-accrual loans, trends in loan volume and lending terms, credit policies and other observable environmental factors such as unemployment and home price indices.

The underlying assumptions, estimates and assessments we use to provide for losses are updated periodically to reflect our view of current and forecasted conditions and are subject to the regulatory examination process, which can result in changes to our assumptions. Changes in such estimates can significantly affect the allowance and provision for credit losses. It is possible that we will experience credit losses that are different from our current estimates. Charge-offs are deducted from the allowance for credit losses when we judge the principal to be uncollectible, and subsequent recoveries are added to the allowance, generally at the time cash is received on a charged-off account.

Delinquent receivables are those that are 30 days or more past due based on their contractual payments. Non-accrual loan receivables are those on which we have stopped accruing interest. We continue to accrue interest until the earlier of the time at which collection of an account becomes doubtful, or the account becomes 180 days past due, with the exception of non-credit card accounts, for which we stop accruing interest in the period that the account becomes 90 days past due.

Troubled debt restructurings ("TDR") are those loans for which we have granted a concession to a borrower experiencing financial difficulties where we do not receive adequate compensation. TDRs are identified at the point when the borrower enters into a modification program. Under the CARES Act, banks may elect to deem that loan modifications do not result in TDRs if they are (1) related to the novel coronavirus disease ("COVID-19"); (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. At June 30, 2020, we have not made such an election. Additionally, other short-term modifications made on a good faith basis in response to COVID-19 are not considered TDRs under ASC Subtopic 310-40. This includes delays in payment that are insignificant or short-term (e.g., up to six months) modifications such as payment deferrals, fee waivers or extensions of repayment terms to borrowers who were current prior to any relief. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented.

The same loan receivable may meet more than one of the definitions above. Accordingly, these categories are not mutually exclusive, and it is possible for a particular loan to meet the definitions of a TDR and non-accrual loan, and be included in each of these categories. The categorization of a particular loan also may not be indicative of the potential for loss.

Loan Modifications and 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 TDR. 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 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. Accordingly, TDRs are identified at the point when the borrower enters into a modification program. See Note 4. *Loan Receivables and Allowance for Credit Losses* for additional information on our loan modifications and restructurings.

Our allowance for credit losses on TDRs is generally measured based on the difference between the recorded loan receivable and the present value of the expected future cash flows, discounted at the original effective interest rate of the loan. If the loan is collateral dependent, we measure impairment based upon the fair value of the underlying collateral less estimated selling costs.

Data related to redefault experience is also considered in our overall reserve adequacy review. Once the loan has been modified, it returns to current status (re-aged), only after three consecutive minimum monthly payments are received post modification date, subject to a re-aging limitation of once a year, or twice in a five-year period in accordance with the Federal Financial Institutions Examination Council guidelines on Uniform Retail Credit Classification and Account Management policy issued in June 2000.

Revenue Recognition

Purchased Loans

Loans acquired by purchase are recorded at fair value, which may result in the recognition of a loan premium or loan discount. For acquired loans with evidence of more-than-insignificant deterioration in credit quality since origination, the initial allowance for credit losses at acquisition is added to the purchase price to determine the initial cost basis of the loans and loan premium or loan discount. Loan premiums and loan discounts are recognized into interest income over the estimated remaining life of the loans. The Company develops an allowance for credit losses for all purchased loans, which is recognized upon acquisition, similar to that of an originated financial asset. Subsequent changes to the expected credit losses for these loans follow the allowance for credit losses methodology described above under "*Allowance for Credit Losses.*"

See Note 2. *Basis of Presentation and Summary of Significant Accounting Policies* to our 2019 annual consolidated financial statements in our 2019 Form 10-K, for additional information on our other significant accounting policies.

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 ("CRA"). Our debt securities consist of the following:

	June 30, 2020				December 31, 2019			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
<i>(\$ in millions)</i>								
U.S. government and federal agency	\$ 3,198	\$ —	\$ —	\$ 3,198	\$ 2,468	\$ 1	\$ —	\$ 2,469
State and municipal	44	—	(1)	43	46	1	(2)	45
Residential mortgage-backed ^(a)	894	23	—	917	1,029	6	(9)	1,026
Asset-backed ^(b)	2,450	15	—	2,465	2,368	3	—	2,371
Total	\$ 6,586	\$ 38	\$ (1)	\$ 6,623	\$ 5,911	\$ 11	\$ (11)	\$ 5,911

(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, 2020 and December 31, 2019, \$308 million and \$351 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	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
<i>(\$ in millions)</i>				
<i>At June 30, 2020</i>				
U.S. government and federal agency	\$ 1,599	\$ —	\$ —	\$ —
State and municipal	3	—	22	(1)
Residential mortgage-backed	1	—	1	—
Asset-backed	121	—	—	—
Total	\$ 1,724	\$ —	\$ 23	\$ (1)
<i>At December 31, 2019</i>				
U.S. government and federal agency	\$ —	\$ —	\$ —	\$ —
State and municipal	—	—	24	(2)
Residential mortgage-backed	76	—	618	(9)
Asset-backed	202	—	—	—
Total	\$ 278	\$ —	\$ 642	\$ (11)

The adoption of CECL did not have a material impact on our accounting for available for sale debt securities. We regularly review debt securities for impairment resulting from credit loss using both qualitative and quantitative criteria, as necessary based on the composition of the portfolio at period end. Based on our assessment, no material impairments for credit losses were recognized during the period.

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.

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

At June 30, 2020 (\$ in millions)	Amortized cost	Estimated fair value	Weighted Average yield ^(a)
Due			
Within one year	\$ 4,875	\$ 4,883	0.6 %
After one year through five years	\$ 775	\$ 781	0.9 %
After five years through ten years	\$ 123	\$ 129	3.2 %
After ten years	\$ 813	\$ 830	2.8 %

(a) 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.

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, 2020 and 2019.

Although we generally do not have the intent to sell any specific securities held at June 30, 2020, 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 CREDIT LOSSES

(\$ in millions)	June 30, 2020	December 31, 2019
Credit cards	\$ 75,353	\$ 84,606
Consumer installment loans	1,779	1,347
Commercial credit products	1,140	1,223
Other	41	39
Total loan receivables, before allowance for losses^{(a)(b)}	\$ 78,313	\$ 87,215

(a) Total loan receivables include \$25.7 billion and \$28.8 billion of restricted loans of consolidated securitization entities at June 30, 2020 and December 31, 2019, respectively. See Note 5. *Variable Interest Entities* for further information on these restricted loans.

(b) At June 30, 2020 and December 31, 2019, loan receivables included deferred costs, net of deferred income, of \$137 million and \$140 million, respectively.

Disposition of Loan Receivables

In January 2020, we completed the sale of loan receivables associated with our Payment Solutions program agreement with Yamaha.

Allowance for Credit Losses^(a)

(\$ in millions)	Balance at April 1, 2020	Provision charged to operations	Gross charge- offs	Recoveries	Balance at June 30, 2020
Credit cards	\$ 9,029	\$ 1,633	\$ (1,265)	\$ 240	\$ 9,637
Consumer installment loans	83	28	(11)	3	103
Commercial credit products	62	12	(15)	2	61
Other	1	—	—	—	1
Total	\$ 9,175	\$ 1,673	\$ (1,291)	\$ 245	\$ 9,802

(\$ in millions)	Balance at January 1, 2020	Impact of ASU 2016-13 Adoption	Post-Adoption Balance at January 1, 2020	Provision charged to operations	Gross charge-offs	Recoveries	Balance at June 30, 2020
Credit cards	\$ 5,506	\$ 2,989	\$ 8,495	\$ 3,268	\$ (2,660)	\$ 534	\$ 9,637
Consumer installment loans	46	26	72	52	(27)	6	103
Commercial credit products	49	6	55	30	(29)	5	61
Other	1	—	1	—	—	—	1
Total	\$ 5,602	\$ 3,021	\$ 8,623	\$ 3,350	\$ (2,716)	\$ 545	\$ 9,802

Allowance for Loan Losses^(b)

(\$ in millions)	Balance at April 1, 2019	Provision charged to operations	Gross charge-offs	Recoveries	Balance at June 30, 2019
Credit cards	\$ 5,840	\$ 1,169	\$ (1,568)	\$ 261	\$ 5,702
Consumer installment loans	47	13	(14)	4	50
Commercial credit products	54	14	(15)	2	55
Other	1	2	(1)	—	2
Total	\$ 5,942	\$ 1,198	\$ (1,598)	\$ 267	\$ 5,809

(\$ in millions)	Balance at January 1, 2019	Provision charged to operations	Gross charge-offs	Recoveries	Balance at June 30, 2019
Credit cards	\$ 6,327	\$ 2,001	\$ (3,162)	\$ 536	\$ 5,702
Consumer installment loans	44	28	(31)	9	50
Commercial credit products	55	26	(29)	3	55
Other	1	2	(1)	—	2
Total	\$ 6,427	\$ 2,057	\$ (3,223)	\$ 548	\$ 5,809

(a) The allowance for credit losses at June 30, 2020 reflects our estimate of expected credit losses for the life of the loan receivables on our condensed consolidated statement of financial position at June 30, 2020, which includes the consideration of current and expected macroeconomic conditions that existed at that date.

(b) Comparative information is presented in accordance with applicable accounting standards in effect prior to the adoption of ASU 2016-13.

Delinquent and Non-accrual Loans

At June 30, 2020 (\$ in millions)	30-89 days delinquent	90 or more days delinquent	Total past due	90 or more days delinquent and accruing	Total non-accruing ^(a)
Credit cards	\$ 1,018	\$ 1,363	\$ 2,381	\$ 1,363	\$ —
Consumer installment loans	24	4	28	—	4
Commercial credit products	27	17	44	16	—
Total delinquent loans	\$ 1,069	\$ 1,384	\$ 2,453	\$ 1,379	\$ 4
Percentage of total loan receivables	1.4%	1.8%	3.1%	1.8%	—%

At December 31, 2019 (\$ in millions)	30-89 days delinquent	90 or more days delinquent	Total past due	90 or more days delinquent and accruing	Total non-accruing ^(a)
Credit cards	\$ 1,936	\$ 1,852	\$ 3,788	\$ 1,850	\$ —
Consumer installment loans	21	7	28	—	7
Commercial credit products	40	18	58	18	—
Total delinquent loans	\$ 1,997	\$ 1,877	\$ 3,874	\$ 1,868	\$ 7
Percentage of total loan receivables	2.3%	2.2%	4.4%	2.1%	—%

- (a) Excludes purchase credit deteriorated loan receivables.

Troubled Debt Restructurings

We use certain loan modification programs for borrowers experiencing financial difficulties. These loan modification programs include interest rate reductions and payment deferrals in excess of three months, which were not part of the terms of the original contract. Our TDR loans do not include loans that are classified as loan receivables held for sale or short-term modifications made on a good faith basis in response to COVID-19.

We have both internal and external loan modification programs. 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 customers who request financial assistance through external sources, such as consumer credit counseling agency programs. These loans typically receive a reduced interest rate but continue to be subject to the original minimum payment terms and do not normally include waiver of unpaid principal, interest or fees. The following table provides information on our TDR loan modifications during the periods presented:

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Credit cards	\$ 127	\$ 192	\$ 352	\$ 407
Consumer installment loans	—	—	—	—
Commercial credit products	—	1	1	2
Total	\$ 127	\$ 193	\$ 353	\$ 409

Our allowance for credit losses on TDRs is generally measured based on the difference between the recorded loan receivable and the present value of the expected future cash flows, discounted at the original effective interest rate of the loan. Interest income from loans accounted for as TDRs is accounted for in the same manner as other accruing loans.

The following table provides information about loans classified as TDRs and specific reserves. We do not evaluate credit card loans on an individual basis but instead estimate an allowance for credit losses on a collective basis.

At June 30, 2020 (\$ in millions)	Total recorded investment	Related allowance	Net recorded investment	Unpaid principal balance
Credit cards	\$ 1,115	\$ (518)	\$ 597	\$ 994
Consumer installment loans	—	—	—	—
Commercial credit products	3	(2)	1	3
Total	\$ 1,118	\$ (520)	\$ 598	\$ 997

At December 31, 2019 (\$ in millions)	Total recorded investment	Related allowance	Net recorded investment	Unpaid principal balance
Credit cards	\$ 1,146	\$ (550)	\$ 596	\$ 1,019
Consumer installment loans	—	—	—	—
Commercial credit products	4	(2)	2	4
Total	\$ 1,150	\$ (552)	\$ 598	\$ 1,023

Financial Effects of TDRs

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

Three months ended June 30,

(\$ in millions)	2020			2019		
	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment
Credit cards	\$ 9	\$ 67	\$ 1,133	\$ 11	\$ 66	\$ 1,060
Consumer installment loans	—	—	—	—	—	—
Commercial credit products	—	—	3	—	—	4
Total	\$ 9	\$ 67	\$ 1,136	\$ 11	\$ 66	\$ 1,064

Six months ended June 30,

(\$ in millions)	2020			2019		
	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment
Credit cards	\$ 21	\$ 139	\$ 1,137	\$ 22	\$ 130	\$ 1,107
Consumer installment loans	—	—	—	—	—	—
Commercial credit products	—	—	3	—	—	4
Total	\$ 21	\$ 139	\$ 1,140	\$ 22	\$ 130	\$ 1,111

Payment Defaults

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

Three months ended June 30,

(\$ in millions)	2020		2019	
	Accounts defaulted	Loans defaulted	Accounts defaulted	Loans defaulted
Credit cards	15,689	\$ 40	19,745	\$ 48
Consumer installment loans	—	—	—	—
Commercial credit products	54	—	32	—
Total	15,743	\$ 40	19,777	\$ 48

Six months ended June 30,

(\$ in millions)	2020		2019	
	Accounts defaulted	Loans defaulted	Accounts defaulted	Loans defaulted
Credit cards	31,914	\$ 80	34,312	\$ 82
Consumer installment loans	—	—	—	—
Commercial credit products	76	—	51	—
Total	31,990	\$ 80	34,363	\$ 82

Credit Quality Indicators

Our loan receivables portfolio includes both secured and unsecured loans. Secured loan receivables are largely comprised of consumer installment loans secured by equipment. Unsecured loan receivables are largely comprised of our open-ended consumer and commercial revolving credit card loans. As part of our credit risk management activities, on an ongoing basis, we assess overall credit quality by reviewing information related to the performance of a customer's account with us, as well as information from credit bureaus, such as a Fair Isaac Corporation ("FICO") or other credit scores, relating to the customer's broader credit performance. Credit scores are obtained at origination of the account and are refreshed, at a minimum quarterly, but could be as often as weekly, to assist in predicting customer behavior. We categorize these credit scores into the following three credit score categories: (i) 661 or higher, which are considered the strongest credits; (ii) 601 to 660, considered moderate credit risk; and (iii) 600 or less, which are considered weaker credits. There are certain customer accounts for which a FICO score is not available where we use alternative sources to assess their credit and predict behavior. The following table provides the most recent FICO scores available for our customers at June 30, 2020, December 31, 2019 and June 30, 2019, respectively, as a percentage of each class of loan receivable. The table below excludes 0.3%, 0.3% and 0.5% of our total loan receivables balance at each of June 30, 2020, December 31, 2019 and June 30, 2019, respectively, which represents those customer accounts for which a FICO score is not available.

	June 30, 2020			December 31, 2019			June 30, 2019		
	661 or higher	601 to 660	600 or less	661 or higher	601 to 660	600 or less	661 or higher	601 to 660	600 or less
Credit cards	76%	17%	7%	74%	18%	8%	76%	17%	7%
Consumer installment loans	79%	16%	5%	76%	17%	7%	81%	14%	5%
Commercial credit products	91%	5%	4%	90%	5%	5%	91%	5%	4%

Unfunded Lending Commitments

We manage the potential risk in credit commitments by limiting the total amount of credit, both by individual customer and in total, by monitoring the size and maturity of our portfolios and by applying the same credit standards for all of our credit products. Unused credit card lines available to our customers totaled approximately \$420 billion and \$419 billion at June 30, 2020 and December 31, 2019, respectively. While these amounts represented the total available unused credit card lines, we have not experienced and do not anticipate that all of our customers will access their entire available line at any given point in time.

Interest Income by Product

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

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Credit cards ^(a)	\$ 3,740	\$ 4,557	\$ 8,012	\$ 9,168
Consumer installment loans	37	44	72	86
Commercial credit products	30	34	63	68
Other	1	1	1	1
Total	\$ 3,808	\$ 4,636	\$ 8,148	\$ 9,323

(a) Interest income on credit cards that was reversed related to accrued interest receivables written off was \$418 million and \$504 million for the three months ended June 30, 2020 and 2019, respectively, and \$895 million and \$1.0 billion for the six months ended June 30, 2020 and 2019, respectively.

NOTE 5. VARIABLE INTEREST ENTITIES

We use VIEs to securitize loan receivables and arrange asset-backed financing in the ordinary course of business. Investors in these entities only have recourse to the assets owned by the entity and not to our general credit. We do not have implicit support arrangements with any VIE and we did not provide non-contractual support for previously transferred loan receivables to any VIE in the three and six months ended June 30, 2020 and 2019. Our VIEs are able to accept new loan receivables and arrange new asset-backed financings, consistent with the requirements and limitations on such activities placed on the VIE by existing investors. Once an account has been designated to a VIE, the contractual arrangements we have require all existing and future loan receivables originated under such account to be transferred to the VIE. The amount of loan receivables held by our VIEs in excess of the minimum amount required under the asset-backed financing arrangements with investors may be removed by us under removal of accounts provisions. All loan receivables held by a VIE are subject to claims of third-party investors.

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

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

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

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

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

<i>(\$ in millions)</i>	June 30, 2020	December 31, 2019
Assets		
Loan receivables, net ^(a)	\$ 23,031	\$ 27,217
Other assets ^(b)	48	68
Total	\$ 23,079	\$ 27,285
Liabilities		
Borrowings	\$ 8,109	\$ 10,412
Other liabilities	24	32
Total	\$ 8,133	\$ 10,444

(a) Includes \$2.7 billion of related allowance for credit losses resulting in gross restricted loans of \$25.7 billion at June 30, 2020 and \$1.6 billion of related allowance for loan losses resulting in gross restricted loans of \$28.8 billion at December 31, 2019.

(b) Includes \$43 million and \$62 million of segregated funds held by the VIEs at June 30, 2020 and December 31, 2019, respectively, which are classified as restricted cash and equivalents and included as a component of other assets in our Condensed Consolidated Statements of Financial Position.

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

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

Income (principally, interest and fees on loans) earned by our consolidated VIEs was \$1.2 billion and \$1.3 billion for the three months ended June 30, 2020 and 2019, respectively. Related expenses consisted primarily of provision for credit losses of \$480 million and \$371 million for the three months ended June 30, 2020 and 2019, respectively, and interest expense of \$59 million and \$90 million for the three months ended June 30, 2020 and 2019, respectively.

Income (principally, interest and fees on loans) earned by our consolidated VIEs was \$2.5 billion for both the six months ended June 30, 2020 and 2019, respectively. Related expenses consisted primarily of provision for credit losses of \$1,016 million and \$559 million for the six months ended June 30, 2020 and 2019, respectively, and interest expense of \$132 million and \$190 million for the six months ended June 30, 2020 and 2019, respectively.

NOTE 6. INTANGIBLE ASSETS

(\$ in millions)	June 30, 2020			December 31, 2019		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Customer-related	\$ 1,753	\$ (1,021)	\$ 732	\$ 1,749	\$ (952)	\$ 797
Capitalized software and other	915	(481)	434	861	(393)	468
Total	\$ 2,668	\$ (1,502)	\$ 1,166	\$ 2,610	\$ (1,345)	\$ 1,265

During the six months ended June 30, 2020, we recorded additions to intangible assets subject to amortization of \$74 million, primarily related to capitalized software expenditures, as well as customer-related intangible assets.

Customer-related intangible assets primarily relate to retail partner contract acquisitions and extensions, as well as purchased credit card relationships. During the six months ended June 30, 2020 and 2019, we recorded additions to customer-related intangible assets subject to amortization of \$18 million and \$103 million, respectively, primarily related to payments made to acquire and extend certain retail partner relationships. These additions had a weighted average amortizable life of 7 years for both the six months ended June 30, 2020 and 2019.

Amortization expense related to retail partner contracts was \$33 million for both the three months ended June 30, 2020 and 2019, respectively, and \$65 million and \$66 million for the six months ended June 30, 2020 and 2019, respectively, and is included as a component of marketing and business development expense in our Condensed Consolidated Statements of Earnings. All other amortization expense was \$49 million and \$42 million for the three months ended June 30, 2020 and 2019, respectively, and \$99 million and \$79 million for the six months ended June 30, 2020 and 2019, respectively, and is included as a component of other expense in our Condensed Consolidated Statements of Earnings.

NOTE 7. DEPOSITS

(\$ in millions)	June 30, 2020		December 31, 2019	
	Amount	Average rate ^(a)	Amount	Average rate ^(a)
Interest-bearing deposits	\$ 63,857	2.0 %	\$ 64,877	2.4 %
Non-interest-bearing deposits	291	—	277	—
Total deposits	\$ 64,148		\$ 65,154	

(a) Based on interest expense for the six months ended June 30, 2020 and the year ended December 31, 2019 and average deposits balances.

At June 30, 2020 and December 31, 2019, interest-bearing deposits included \$7.5 billion and \$8.5 billion, respectively, of certificates of deposit that exceeded applicable FDIC insurance limits, which are generally \$250,000 per depositor.

At June 30, 2020, our interest-bearing time deposits maturing for the remainder of 2020 and over the next four years and thereafter were as follows:

(\$ in millions)	2020	2021	2022	2023	2024	Thereafter
Deposits	\$ 9,737	\$ 18,305	\$ 4,268	\$ 1,674	\$ 2,311	\$ 701

The above maturity table excludes \$21.8 billion of demand deposits with no defined maturity, of which \$20.7 billion are savings accounts. In addition, at June 30, 2020, we had \$5.1 billion of broker network deposit sweeps procured through a program arranger who channels brokerage account deposits to us that are also excluded from the above maturity table. Unless extended, the contracts associated with these broker network deposit sweeps will terminate between 2021 and 2027.

NOTE 8. BORROWINGS

(\$ in millions)	June 30, 2020			December 31, 2019	
	Maturity date	Interest Rate	Weighted average interest rate	Outstanding Amount(a)	Outstanding Amount(a)
Borrowings of consolidated securitization entities:					
Fixed securitized borrowings	2020 - 2023	2.21% - 3.87%	2.86%	\$ 5,809	\$ 7,512
Floating securitized borrowings	2021 - 2023	0.78% - 1.25%	0.95%	2,300	2,900
Total borrowings of consolidated securitization entities			2.32%	8,109	10,412
Senior unsecured notes:					
<i>Synchrony Financial senior unsecured notes:</i>					
Fixed senior unsecured notes	2021 - 2029	2.80% - 5.15%	4.08%	6,465	7,211
Floating senior unsecured notes	N/A	—%	—%	—	250
<i>Synchrony Bank senior unsecured notes:</i>					
Fixed senior unsecured notes	2021 - 2022	3.00% - 3.65%	3.33%	1,495	1,493
Floating senior unsecured notes	N/A	—%	—%	—	500
Total senior unsecured notes			3.94%	7,960	9,454
Total borrowings				\$ 16,069	\$ 19,866

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

Debt Maturities

The following table summarizes the maturities of the principal amount of our borrowings of consolidated securitization entities and senior unsecured notes for the remainder of 2020 and over the next four years and thereafter:

(\$ in millions)	2020	2021	2022	2023	2024	Thereafter
Borrowings	\$ 301	\$ 5,125	\$ 4,484	\$ 1,207	\$ 1,850	\$ 3,150

Credit Facilities

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

At June 30, 2020, we had an aggregate of \$5.2 billion of undrawn committed capacity under our securitization financings, subject to customary borrowing conditions, from private lenders under our securitization programs, and an aggregate of \$0.5 billion of undrawn committed capacity under our unsecured revolving credit facility with private lenders.

NOTE 9. FAIR VALUE MEASUREMENTS

For a description of how we estimate fair value, see Note 2. *Basis of Presentation and Summary of Significant Accounting Policies* in our 2019 annual consolidated financial statements in our 2019 Form 10-K.

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

Recurring Fair Value Measurements

At June 30, 2020 (\$ in millions)

	Level 1	Level 2	Level 3	Total ^(a)
Assets				
Debt securities				
U.S. government and federal agency	\$ —	\$ 3,198	\$ —	\$ 3,198
State and municipal	—	—	43	43
Residential mortgage-backed	—	917	—	917
Asset-backed	—	2,465	—	2,465
Other assets ^(b)	15	—	20	35
Total	\$ 15	\$ 6,580	\$ 63	\$ 6,658
Liabilities				
Contingent consideration	—	—	14	14
Total	\$ —	\$ —	\$ 14	\$ 14

At December 31, 2019 (\$ in millions)

Assets				
Debt securities				
U.S. government and federal agency	\$ —	\$ 2,469	\$ —	\$ 2,469
State and municipal	—	—	45	45
Residential mortgage-backed	—	1,026	—	1,026
Asset-backed	—	2,371	—	2,371
Other assets ^(b)	15	—	21	36
Total	\$ 15	\$ 5,866	\$ 66	\$ 5,947
Liabilities				
Contingent consideration	—	—	13	13
Total	\$ —	\$ —	\$ 13	\$ 13

(a) For the six months ended June 30, 2020 and 2019, there were no fair value measurements transferred between levels.

(b) Other assets primarily relate to equity investments measured at fair value.

Level 3 Fair Value Measurements

Our Level 3 recurring fair value measurements primarily relate to state and municipal debt instruments, which are valued using non-binding broker quotes or other third-party sources, CRA investments, which are valued using net asset values, as well as contingent consideration obligations. See Note 2. *Basis of Presentation and Summary of Significant Accounting Policies* and Note 9. *Fair Value Measurements* in our 2019 annual consolidated financial statements in our 2019 Form 10-K for a description of our process to evaluate third-party pricing servicers and a description of our contingent consideration and compensation arrangements, respectively. Our state and municipal debt securities are classified as available-for-sale with changes in fair value included in accumulated other comprehensive income.

The changes in our Level 3 assets and liabilities that are measured on a recurring basis for the three and six months ended June 30, 2020 and 2019 were not material.

Financial Assets and Financial Liabilities Carried at Other Than Fair Value

At June 30, 2020 (\$ in millions)	Carrying value	Corresponding fair value amount			
		Total	Level 1	Level 2	Level 3
Financial Assets					
Financial assets for which carrying values equal or approximate fair value:					
Cash and equivalents ^(a)	\$ 16,344	\$ 16,344	\$ 15,244	\$ 1,100	\$ —
Other assets ^{(a)(b)}	\$ 70	\$ 70	\$ 70	\$ —	\$ —
Financial assets carried at other than fair value:					
Loan receivables, net ^(c)	\$ 68,511	\$ 81,557	\$ —	\$ —	\$ 81,557
Loan receivables held for sale ^(c)	\$ 4	\$ 4	\$ —	\$ —	\$ 4
Financial Liabilities					
Financial liabilities carried at other than fair value:					
Deposits	\$ 64,148	\$ 64,821	\$ —	\$ 64,821	\$ —
Borrowings of consolidated securitization entities	\$ 8,109	\$ 8,265	\$ —	\$ 5,983	\$ 2,282
Senior unsecured notes	\$ 7,960	\$ 8,364	\$ —	\$ 8,364	\$ —
At December 31, 2019 (\$ in millions)					
	Carrying value	Corresponding fair value amount			
		Total	Level 1	Level 2	Level 3
Financial Assets					
Financial assets for which carrying values equal or approximate fair value:					
Cash and equivalents ^(a)	\$ 12,147	\$ 12,147	\$ 10,799	\$ 1,348	\$ —
Other assets ^{(a)(b)}	\$ 500	\$ 500	\$ 500	\$ —	\$ —
Financial assets carried at other than fair value:					
Loan receivables, net ^(c)	\$ 81,613	\$ 90,941	\$ —	\$ —	\$ 90,941
Loan receivables held for sale ^(c)	\$ 725	\$ 726	\$ —	\$ —	\$ 726
Financial Liabilities					
Financial liabilities carried at other than fair value:					
Deposits	\$ 65,154	\$ 65,544	\$ —	\$ 65,544	\$ —
Borrowings of consolidated securitization entities	\$ 10,412	\$ 10,513	\$ —	\$ 7,613	\$ 2,900
Senior unsecured notes	\$ 9,454	\$ 9,924	\$ —	\$ 9,924	\$ —

(a) For cash and equivalents and restricted cash and equivalents, carrying value approximates fair value due to the liquid nature and short maturity of these instruments. Cash equivalents classified as Level 2 represent U.S. Government and Federal Agency debt securities with original maturities of three months or less or acquired within three months or less of their maturity.

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

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

NOTE 10. REGULATORY AND CAPITAL ADEQUACY

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

Failure to meet minimum capital requirements can initiate certain mandatory and, possibly, additional discretionary actions by regulators that, if undertaken, could limit our business activities and have a material adverse effect on our consolidated financial statements. Under capital adequacy guidelines, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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

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

In response to the COVID-19 pandemic, in March 2020 the joint federal bank regulatory agencies issued an interim final rule that allows banking organizations that implement CECL in 2020 to mitigate the effects of the CECL accounting standard in their regulatory capital for two years. This two-year delay is in addition to the three-year transition period that the agencies had already made available. The Company has elected to adopt the option provided by the interim final rule, which will largely delay the effects of CECL on its regulatory capital for the next two years, after which the effects will be phased-in over a three-year period from January 1, 2022 through December 31, 2024. Under the interim final rule, the amount of adjustments to regulatory capital deferred until the phase-in period include both the initial impact of our adoption of CECL at January 1, 2020 and 25% of subsequent changes in our allowance for credit losses during each quarter of the two-year period ended December 31, 2021, collectively the "CECL regulatory capital transition adjustment".

At June 30, 2020 and December 31, 2019, Synchrony Financial met all applicable requirements to be deemed well-capitalized pursuant to Federal Reserve Board regulations. At June 30, 2020 and December 31, 2019, the Bank also met all applicable requirements to be deemed well-capitalized pursuant to OCC regulations and for purposes of the Federal Deposit Insurance Act. There are no conditions or events subsequent to June 30, 2020 that management believes have changed the Company's or the Bank's capital category.

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

Synchrony Financial

At June 30, 2020 (\$ in millions)

	Actual		Minimum for capital adequacy purposes	
	Amount	Ratio ^(a)	Amount	Ratio ^(b)
Total risk-based capital	\$ 13,558	17.6%	\$ 6,164	8.0%
Tier 1 risk-based capital	\$ 12,527	16.3%	\$ 4,623	6.0%
Tier 1 leverage	\$ 12,527	12.7%	\$ 3,942	4.0%
Common equity Tier 1 Capital	\$ 11,793	15.3%	\$ 3,467	4.5%

At December 31, 2019 (\$ in millions)

	Actual		Minimum for capital adequacy purposes	
	Amount	Ratio ^(a)	Amount	Ratio ^(b)
Total risk-based capital	\$ 14,211	16.3%	\$ 6,984	8.0%
Tier 1 risk-based capital	\$ 13,064	15.0%	\$ 5,238	6.0%
Tier 1 leverage	\$ 13,064	12.6%	\$ 4,161	4.0%
Common equity Tier 1 Capital	\$ 12,330	14.1%	\$ 3,929	4.5%

Synchrony Bank

At June 30, 2020 (\$ in millions)

	Actual		Minimum for capital adequacy purposes		Minimum to be well-capitalized under prompt corrective action provisions	
	Amount	Ratio ^(a)	Amount	Ratio ^(b)	Amount	Ratio
Total risk-based capital	\$ 11,753	17.4%	\$ 5,410	8.0%	\$ 6,762	10.0%
Tier 1 risk-based capital	\$ 10,846	16.0%	\$ 4,057	6.0%	\$ 5,410	8.0%
Tier 1 leverage	\$ 10,846	12.4%	\$ 3,493	4.0%	\$ 4,366	5.0%
Common equity Tier I capital	\$ 10,846	16.0%	\$ 3,043	4.5%	\$ 4,396	6.5%

At December 31, 2019 (\$ in millions)

	Actual		Minimum for capital adequacy purposes		Minimum to be well-capitalized under prompt corrective action provisions	
	Amount	Ratio ^(a)	Amount	Ratio ^(b)	Amount	Ratio
Total risk-based capital	\$ 11,911	15.6%	\$ 6,094	8.0%	\$ 7,618	10.0%
Tier 1 risk-based capital	\$ 10,907	14.3%	\$ 4,571	6.0%	\$ 6,094	8.0%
Tier 1 leverage	\$ 10,907	11.9%	\$ 3,671	4.0%	\$ 4,589	5.0%
Common equity Tier I capital	\$ 10,907	14.3%	\$ 3,428	4.5%	\$ 4,952	6.5%

(a) Capital ratios are calculated based on the Basel III Standardized Approach rules Capital amounts and ratios at June 30, 2020 in the above tables reflect the application of the CECL regulatory capital transition adjustment.

(b) At June 30, 2020 and at December 31, 2019, Synchrony Financial and the Bank also must maintain a capital conservation buffer of common equity Tier 1 capital in excess of minimum risk-based capital ratios by at least 2.5 percentage points to avoid limits on capital distributions and certain discretionary bonus payments to executive officers and similar employees.

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

NOTE 11. EARNINGS PER SHARE

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

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

<i>(in millions, except per share data)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net earnings	\$ 48	\$ 853	\$ 334	\$ 1,960
Preferred stock dividends	(11)	—	(22)	—
Net earnings available to common stockholders	<u>\$ 37</u>	<u>\$ 853</u>	<u>\$ 312</u>	<u>\$ 1,960</u>
Weighted average common shares outstanding, basic	583.7	683.6	594.3	694.8
Effect of dilutive securities	0.7	2.9	1.6	2.9
Weighted average common shares outstanding, dilutive	<u>584.4</u>	<u>686.5</u>	<u>595.9</u>	<u>697.7</u>
Earnings per basic common share	<u>\$ 0.06</u>	<u>\$ 1.25</u>	<u>\$ 0.52</u>	<u>\$ 2.82</u>
Earnings per diluted common share	<u>\$ 0.06</u>	<u>\$ 1.24</u>	<u>\$ 0.52</u>	<u>\$ 2.81</u>

We have issued certain stock-based awards under the Synchrony Financial 2014 Long-Term Incentive Plan. A total of 11 million shares and 3 million shares for the three months ended June 30, 2020 and 2019, respectively, and 8 million and 4 million shares for the six months ended June 30, 2020 and 2019, respectively, related to these awards, were considered anti-dilutive and therefore were excluded from the computation of diluted earnings per share.

NOTE 12. INCOME TAXES

Unrecognized Tax Benefits

<i>(\$ in millions)</i>	June 30, 2020	December 31, 2019
Unrecognized tax benefits, excluding related interest expense and penalties ^(a)	\$ 260	\$ 255
Portion that, if recognized, would reduce tax expense and effective tax rate ^(b)	\$ 193	\$ 172

(a) Interest and penalties related to unrecognized tax benefits were not material for all periods presented.

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

We establish a liability that represents the difference between a tax position taken (or expected to be taken) on an income tax return and the amount of taxes recognized in our financial statements. The liability associated with the unrecognized tax benefits is adjusted periodically when new information becomes available. The amount of unrecognized tax benefits that is reasonably possible to be resolved in the next twelve months is expected to be \$88 million, of which \$57 million, if recognized, would reduce the Company's tax expense and effective tax rate.

For periods prior to separation from GE, we filed tax returns on a consolidated basis with GE and are under continuous examination by the Internal Revenue Service ("IRS") and the tax authorities of various states as part of their audit of GE's tax returns. For federal income tax purposes, the IRS is currently auditing GE's consolidated U.S. income tax returns for 2014 and 2015. Additionally, we are under examination in various states going back to 2012.

On February 28, 2020, the Company executed a Memorandum of Understanding with the IRS to participate voluntarily in the IRS Compliance Assurance Process ("CAP") program for the 2020 tax year, and thus the tax year is under audit. Under the CAP program, the IRS reviews the federal tax positions of the Company to identify and resolve any tax issues that may arise throughout the tax year. The objectives of the CAP program are to resolve issues in an efficient and contemporaneous manner and eliminate the need for a lengthy post-filing examination. During the period in connection with the CAP program, the IRS provided formal notice of examination of our 2017 and 2018 tax years.

We believe that there are no issues or claims that are likely to significantly impact our results of operations, financial position or cash flows. We further believe that we have made adequate provision for all income tax uncertainties that could result from such examinations.

NOTE 13. LEGAL PROCEEDINGS AND REGULATORY MATTERS

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

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

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

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

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

Regulatory Matters

On October 30, 2014, the United States Trustee, which is part of the Department of Justice, filed an application in *In re Nyree Belton*, a Chapter 7 bankruptcy case pending in the U.S. Bankruptcy Court for the Southern District of New York for orders authorizing discovery of the Bank pursuant to Rule 2004 of the Federal Rules of Bankruptcy Procedure, related to an investigation of the Bank's credit reporting. The discovery, which is ongoing, concerns allegations made in *Belton et al. v. GE Capital Consumer Lending*, a putative class action adversary proceeding pending in the same Bankruptcy Court. In the *Belton* adversary proceeding, which was filed on April 30, 2014, plaintiff alleges that the Bank violates the discharge injunction under Section 524(a)(2) of the Bankruptcy Code by attempting to collect discharged debts and by failing to update and correct credit information to credit reporting agencies to show that such debts are no longer due and owing because they have been discharged in bankruptcy. Plaintiff seeks declaratory judgment, injunctive relief and an unspecified amount of damages. On December 15, 2014, the Bankruptcy Court entered an order staying the adversary proceeding pending an appeal to the District Court of the Bankruptcy Court's order denying the Bank's motion to compel arbitration. On October 14, 2015, the District Court reversed the Bankruptcy Court and on November 4, 2015, the Bankruptcy Court granted the Bank's motion to compel arbitration. On March 4, 2019, on plaintiff's motion for reconsideration, the District Court vacated its decision reversing the Bankruptcy Court and affirmed the Bankruptcy Court's decision denying the Bank's motion to compel arbitration. On June 16, 2020, the Court of Appeals for the Second Circuit denied the Bank's appeal of the District Court's decision.

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

Other Matters

The Bank or the Company is, or has been, defending a number of putative class actions alleging claims under the federal Telephone Consumer Protection Act as a result of phone calls made by the Bank. The complaints generally have alleged that the Bank or the Company placed calls to consumers by an automated telephone dialing system or using a pre-recorded message or automated voice without their consent and seek up to \$1,500 for each violation, without specifying an aggregate amount. *Campbell et al. v. Synchrony Bank* was filed on January 25, 2017 in the U.S. District Court for the Northern District of New York. The original complaint named only J.C. Penney Company, Inc. and J.C. Penney Corporation, Inc. as the defendants but was amended on April 7, 2017 to replace those defendants with the Bank. *Neal et al. v. Wal-Mart Stores, Inc. and Synchrony Bank*, for which the Bank is indemnifying Wal-Mart, was filed on January 17, 2017 in the U.S. District Court for the Western District of North Carolina. The original complaint named only Wal-Mart Stores, Inc. as a defendant but was amended on March 30, 2017 to add Synchrony Bank as an additional defendant. *Mott et al. v. Synchrony Bank* was filed on February 2, 2018 in the U.S. District Court for the Middle District of Florida.

On November 2, 2018, a putative class action lawsuit, *Retail Wholesale Department Store Union Local 338 Retirement Fund v. Synchrony Financial, et al.*, was filed in the U.S. District Court for the District of Connecticut, naming as defendants the Company and two of its officers. The lawsuit asserts violations of the Exchange Act for allegedly making materially misleading statements and/or omitting material information concerning the Company's underwriting practices and private-label card business, and was filed on behalf of a putative class of persons who purchased or otherwise acquired the Company's common stock between October 21, 2016 and November 1, 2018. The complaint seeks an award of unspecified compensatory damages, costs and expenses. On February 5, 2019, the court appointed Stichting Depository APG Developed Markets Equity Pool as lead plaintiff for the putative class. On April 5, 2019, an amended complaint was filed, asserting a new claim for violations of the Securities Act in connection with statements in the offering materials for the Company's December 1, 2017 note offering. The Securities Act claims are filed on behalf of persons who purchased or otherwise acquired Company bonds in or traceable to the December 1, 2017 note offering between December 1, 2017 and November 1, 2018. The amended complaint names as additional defendants two additional Company officers, the Company's board of directors, and the underwriters of the December 1, 2017 note offering. The amended complaint is captioned *Stichting Depository APG Developed Markets Equity Pool and Stichting Depository APG Fixed Income Credit Pool v. Synchrony Financial et al.* On March 26, 2020, the District Court recaptioned the case *In re Synchrony Financial Securities Litigation* and on March 31, 2020, the District Court granted the defendants' motion to dismiss the complaint with prejudice. On April 20, 2020, plaintiffs filed a notice to appeal the decision to the United States Court of Appeal for the Second Circuit.

On January 28, 2019, a purported shareholder derivative action, *Gilbert v. Keane, et al.*, was filed in the U.S. District Court for the District of Connecticut against the Company as a nominal defendant, and certain of the Company's officers and directors. The lawsuit alleges breach of fiduciary duty claims based on the allegations raised by the plaintiff in the *Stichting Depositair APG* class action, unjust enrichment, waste of corporate assets, and that the defendants made materially misleading statements and/or omitted material information in violation of the Exchange Act. The complaint seeks a declaration that the defendants breached and/or aided and abetted the breach of their fiduciary duties to the Company, unspecified monetary damages with interest, restitution, a direction that the defendants take all necessary actions to reform and improve corporate governance and internal procedures, and attorneys' and experts' fees. On March 11, 2019, a second purported shareholder derivative action, *Aldridge v. Keane, et al.*, was filed in the U.S. District Court for the District of Connecticut. The allegations in the *Aldridge* complaint are substantially similar to those in the *Gilbert* complaint. On March 26, 2020, the District Court recaptioned the *Gilbert* and *Aldridge* cases as *In re Synchrony Financial Derivative Litigation*.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

The following table presents the approximate net interest income impacts forecasted over the next twelve months from an immediate and parallel change in interest rates affecting all interest rate sensitive assets and liabilities at June 30, 2020.

<u>Basis Point Change</u>	<u>At June 30, 2020</u>	
<i>(\$ in millions)</i>		
-100 basis points	\$	(64)
+100 basis points	\$	152

For a more detailed discussion of our exposure to market risk, refer to " *Management's Discussion and Analysis—Quantitative and Qualitative Disclosures about Market Risk*" in our 2019 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), and based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2020.

While we have incorporated certain new controls related to our final adoption of ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments into our existing internal control environment, there was no change in internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

The extent to which COVID-19 and measures taken in response thereto impact our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict. COVID-19 has and is likely to have a material adverse impact on our results of operations and financial condition and heighten many of our known risks.

The outbreak of the global pandemic of COVID-19 and resultant economic effects of preventative measures taken across the United States and worldwide have been weighing on the macroeconomic environment, negatively impacting consumer confidence, unemployment and other economic indicators that contribute to consumer spending behavior and demand for credit. Such economic conditions reduce the usage of our credit cards and other financing products and the average purchase amount of transactions on our credit cards and through our other products, which, in each case, reduces our interest and fee income. For more information on the risks related to the extent to which key macroeconomic conditions could have a material adverse effect on our business, results of operations and financial condition, see “*Risk Factors Relating to Our Business-Macroeconomic conditions could have a material adverse effect on our business, results of operations and financial condition*” in our Annual Report on Form 10-K for the year ended December 31, 2019.

The extent to which COVID-19 impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. While the magnitude of the impact from COVID-19 is uncertain, we could see:

- a continued decline in purchase volume, which ultimately impacts the growth of our loan receivables;
- a decline in the growth of our interest income, due to reductions in benchmark interest rates and an expectation that we will provide, for a temporary period of time, forbearance in terms of interest and fee waivers for our cardholders impacted by COVID-19; and
- increases in our delinquencies and net charge-off rate and our allowance for credit losses, given the recent increases in filings for unemployment benefits in the U.S.

For more information, see “*Management’s Discussion and Analysis-Results of Operations-Business Trends and Conditions.*”

In addition, the spread of COVID-19 has caused us to modify our business practices (including restricting employee travel and transitioning nearly all of our employees to working from home), and we may take further actions as may be required by government authorities or as we determine are in the best interests of our employees, partners and customers. The outbreak has adversely impacted and may further adversely impact our workforce and operations and the operations of our partners, customers, suppliers and third-party vendors, throughout the time period during which the spread of COVID-19 continues and related restrictions remain in place, and even after the COVID-19 outbreak has subsided. In particular, we may experience financial losses due to a number of operational factors, including:

- continued store closures by partners or if one or more partners becomes subject to a bankruptcy proceeding;
- third-party disruptions, including potential outages at third-party operated call centers and other suppliers;
- increased cyber and payment fraud risk related to COVID-19, as cybercriminals attempt to profit from the disruption, given increased online banking, e-commerce and other online activity;

- challenges to the availability and reliability of our network due to changes to normal operations, including the possibility of one or more clusters of COVID-19 cases affecting our employees or affecting the systems or employees of our partners; and
- an increased volume of unanticipated customer and regulatory requests for information and support, or additional regulatory requirements, which could require additional resources and costs to address, including, for example, government initiatives to reduce or eliminate payments costs.

Even after the COVID-19 outbreak has subsided, our business may continue to experience materially adverse impacts as a result of the virus's economic impact, including the availability and cost of funding and any recession that has occurred or may occur in the future. There are no comparable recent events that provide guidance as to the effect COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change.

We do not yet know the full extent of the impacts on our business, our operations or the economy as a whole. However, the effects are likely to have a material impact on our results of operations and heighten many of our known risks described in the "Risk Factors Relating to Our Business" and "Risk Factors Relating to Regulation" sections of our Annual Report on Form 10-K for the year ended December 31, 2019.

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

The table below sets forth information regarding purchases of our common stock primarily related to our share repurchase program that were made by us or on our behalf during the three months ended June 30, 2020.

<i>(\$ in millions, except per share data)</i>	Total Number of Shares Purchased ^(a)	Average Price Paid Per Share ^(b)	Total Number of Shares Purchased as Part of Publicly Announced Programs ^(c)	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Programs ^(b)
April 1 - 30, 2020	259,963	\$ 14.51	—	\$ 366.0
May 1 - 31, 2020	31	16.40	—	366.0
June 1 - 30, 2020	472	24.23	—	—
Total	260,466	\$ 14.53	—	\$ —

(a) Includes 259,963 shares, 31 shares and 472 shares withheld in April, May and June, respectively, to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying performance stock awards, restricted stock awards or upon the exercise of stock options.

(b) Amounts exclude commission costs.

(c) On May 9, 2019, the Board of Directors approved a share repurchase program of up to \$4.0 billion through June 30, 2020 (the "2019 Share Repurchase Program"). The 2019 Share Repurchase Program expired at June 30, 2020. In response to COVID-19, we have suspended our share repurchase activities until we have greater visibility as to the current economic environment.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description
31(a)*	Certification Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended
31(b)*	Certification Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended
32*	Certification Pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL (included as Exhibit 101)

* Filed electronically
herewith.

Signatures

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

Synchrony Financial
(Registrant)

July 23, 2020

/s/ Brian J. Wenzel Sr.

Date

Brian J. Wenzel Sr.
Executive Vice President and Chief Financial
Officer
(Duly Authorized Officer and Principal Financial
Officer)

**Certification Pursuant to
Rules 13a-14(a) or 15d-14(a) Under the Securities Exchange Act of 1934, as Amended**

I, Margaret M. Keane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synchrony Financial;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 23, 2020

/s/ Margaret M. Keane

Margaret M. Keane
Chief Executive Officer

**Certification Pursuant to
Rules 13a-14(a) or 15d-14(a) Under the Securities Exchange Act of 1934, as Amended**

I, Brian J. Wenzel Sr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synchrony Financial;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 23, 2020

/s/ Brian J. Wenzel Sr.

Brian J. Wenzel Sr.
Chief Financial Officer

**Certification Pursuant to
18 U.S.C. Section 1350**

In connection with the Quarterly Report of Synchrony Financial (the “registrant”) on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “report”), we, Margaret M. Keane, Chief Executive Officer, and Brian J. Wenzel Sr., Chief Financial Officer, of the registrant, certify, pursuant to 18 U.S.C. § 1350, that to our knowledge:

1. The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended;
and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: July 23, 2020

/s/ Margaret M. Keane

Margaret M. Keane
Chief Executive Officer

/s/ Brian J. Wenzel Sr.

Brian J. Wenzel Sr.
Chief Financial Officer