Synchrony Financial
Form 10-Q
October 31, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2014
OR

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

For the transition period from to
001-36560
(Commission File Number)

SYNCHRONY FINANCIAL
(Exact name of registrant as specified in its charter)

Delaware	51-0483352
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
777 Long Ridge Road Stamford, Connecticut	06902
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The number of shares of the registrant's common stock, par value $0.001 per share, outstanding as of October 30, 2014 was 833,764,589.

Synchrony Financial

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Cautionary Note Regarding Forward-Looking Statements:

Various statements in this Quarterly Report on Form 10-Q may contain “forward-looking statements” as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, 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,” “estimates,” “will,” “sh words of similar meaning, but these words are not the exclusive means of identifying forward-looking statements.

Forward-looking statements are based on management’s current expectations and assumptions, and are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. As a result, actual results could differ materially from those indicated in these forward-looking statements. Factors that could cause actual results to differ materially include global political, economic, business, competitive, market, regulatory and other factors and risks, such as: the impact of macroeconomic conditions and whether industry trends we have identified develop as anticipated; retaining existing partners and attracting new partners, concentration of our platform revenue in a small number of Retail Card partners, promotion and support of our products by our partners, and financial performance of our partners; our need for additional financing, higher borrowing costs and adverse financial market conditions impacting our funding and liquidity, and any reduction in our credit ratings; our ability to securitize our loans, occurrence of an early amortization of our securitization facilities, loss of the right to service or subservice our securitized loans, and lower payment rates on our securitized loans; our reliance on dividends, distributions and other payments from the Bank; our ability to grow our deposits in the future; changes in market interest rates and the impact of any margin compression; effectiveness of our risk management processes and procedures, reliance on models which may be inaccurate or misinterpreted, our ability to manage our credit risk, the sufficiency of our allowance for loan losses and the accuracy of the assumptions or estimates used in preparing our financial statements; our ability to offset increases in our costs in retailer share arrangements; competition in the consumer finance industry; our concentration in the U.S. consumer credit market; our ability to successfully develop and commercialize new or enhanced products and services; our ability to realize the value of strategic investments; reductions in interchange fees; fraudulent activity; cyber-attacks or other security breaches; failure of third parties to provide various services that are important to our operations; disruptions in the operations of our computer systems and data centers; international risks and compliance and regulatory risks and costs associated with international operations; catastrophic events; alleged infringement of intellectual property rights of others and our ability to protect our intellectual property; litigation and regulatory actions; damage to our reputation; our ability to attract, retain and motivate key officers and employees; tax legislation initiatives or challenges to our tax positions and state sales tax rules and regulations; significant and extensive regulation, supervision, examination and enforcement of our business by governmental authorities, the impact of the Dodd-Frank Act and the impact of the CFPB’s regulation of our business; changes to our methods of offering our CareCredit products; impact of capital adequacy rules; restrictions that limit our ability to pay dividends and repurchase our capital stock and that limit the Bank’s ability to pay dividends; regulations relating to privacy, information security and data protection as well as anti-money laundering and anti-terrorism financing laws; use of third-party vendors and ongoing third-party business relationships; effect of GECC being subject to regulation by the Federal Reserve Board both as a savings and loan holding company and as a systemically important financial institution; GE not completing the separation from us as planned or at all, GE’s inability to obtain savings and loan holding company deregistration (the “GE SLHC Deregistration”) and GE continuing to have significant control over us; completion by the Federal Reserve Board of a review (with satisfactory results) of our preparedness to operate on a standalone basis, independently of GE, and Federal Reserve Board approval required for us to continue to be a savings and loan holding company, including the timing of the approval and the imposition of any significant additional capital or liquidity requirements; our need to establish and significantly expand many aspects of our operations and infrastructure; delays in receiving or failure to receive Federal Reserve Board agreement required for us to be treated as a financial holding company after the GE SLHC Deregistration; loss of association with GE’s strong brand and reputation; limited right to use the GE brand name and logo and need to establish a new brand; GE has significant control over us; terms of our arrangements with GE may be more favorable than we will be able to obtain from unaffiliated third parties; obligations associated with being a public company; our incremental cost of operating as a standalone public company could be substantially more than anticipated; GE could engage in businesses that compete with us, and conflicts of interest may arise between us and GE; and failure caused by us of GE's distribution of our common stock to its stockholders in exchange for its common stock to qualify for tax-free treatment, which may result in significant tax liabilities to GE for which we may be required to indemnify GE.

For the reasons described above, we caution you against relying on any forward-looking statements, which should also be read in conjunction with the other cautionary statements that are included elsewhere in this report and in our public filings, including under the heading "Risk Factors" in the Registration Statement on Form S-1, as amended and filed on July 18, 2014 (File No. 333-194528) (the "Registration Statement"). You should not consider any list of such factors to be an exhaustive statement of all of the risks, uncertainties, or potentially inaccurate assumptions that could cause our current expectations or beliefs to change. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as otherwise may be required by the federal securities laws.

PART I. FINANCIAL INFORMATION

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

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

Introduction

Business Overview

We are one of the premier consumer financial services companies in the United States. We provide a range of credit products through programs we have established with a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and healthcare service providers, which we refer to as our “partners.” For the three and nine months ended September 30, 2014, we financed $26.0 billion and $73.1 billion of purchase volume, respectively, and at September 30, 2014, we had $56.8 billion of loan receivables and 60.5 million active accounts. For the three and nine months ended September 30, 2014, we had net earnings of $548 million and $1,578 million, respectively, representing a return on assets of 3.2% and 3.4%, respectively.
We offer our credit products primarily through our wholly-owned subsidiary, Synchrony Bank. Through the Bank, we offer a range of deposit products insured by the Federal Deposit Insurance Corporation (“FDIC”). We are continuing to expand our direct banking operations to increase our deposit base as a source of stable and diversified low cost funding for our credit activities. We had $32.7 billion in deposits at September 30, 2014.

The Transactions

In connection with the Company’s initial public offering of its common stock, we entered into the following series of transactions (the “Transactions”) in the third quarter of 2014 to effect the first steps in GE’s planned staged exit from our business.

The IPO

On August 5, 2014, we closed the initial public offering (the “IPO”) of 125 million shares of our common stock at a price to the public of $23.00 per share and on September 3, 2014, we issued an additional 3.5 million shares of our common stock pursuant to an option granted to the underwriters in the IPO (the “Underwriters' Option”). We received net proceeds from the IPO and the Underwriters' Option of approximately $2.8 billion. Following the closing of the IPO and the Underwriters' Option, GE owned, and currently owns, approximately 84.6% of our common stock.

Debt Financings

On August 5, 2014, we borrowed the full amount under a new term loan facility (the “New Bank Term Loan Facility”) with third party lenders that provided $8.0 billion principal amount of unsecured term loans maturing in 2019. We also repaid all of our existing related party debt owed to GECC, outstanding on the closing date of the IPO, which totaled $8.0 billion and borrowed the full amount under a new term loan facility (the "New GECC Term Loan Facility") with GECC that provided $1.5 billion principal amount of unsecured term loan maturing in 2019. On August 11, 2014, we issued a total of $3.6 billion principal amount of unsecured senior notes with various maturities ranging from 2017 through 2024, and used $0.6 billion of the net proceeds from this issuance to prepay, on a pro rata basis, $0.5 billion of the New Bank Term Loan Facility and $0.1 billion of the New GECC Term Loan Facility. Subsequent to the third quarter, on October 6, 2014, we increased our borrowings under the New Bank Term Loan Facility by $750 million, using the proceeds to prepay additional principal outstanding under the New GECC Term Loan Facility, and thereby reducing the principal amount outstanding of that facility to $655 million. See Funding, Liquidity and Capital Resources - Funding Sources - Third Party Debt for additional information on these facilities.

Agreements with GE and Affiliates

In connection with the IPO, we entered into a master agreement and a number of other agreements with GE and GECC setting forth various matters governing our relationship with GE and GECC after the completion of the IPO. See Note 15. Related Party Transactions to our condensed consolidated and combined financial statements for additional information on these agreements with GE and GECC.

Our Sales Platforms

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

The following table sets forth the platform revenue for each of our sales platforms for the periods indicated.

Sales Platform Revenue[(1)]	Three months ended September 30,						Nine months ended September 30,					
($ in millions)	2014			2013			2014			2013		
Retail Card	$1,694	67.2	%	$1,544	66.6	%	$5,057	68.3	%	$4,709	68.0	%
Payment Solutions	403	16.0	%	382	16.5	%	1,149	15.5	%	1,112	16.1	%
CareCredit	422	16.8	%	391	16.9	%	1,204	16.2	%	1,101	15.9	%
	$2,519	100.0	%	$2,317	100.0	%	$7,410	100.0	%	$6,922	100.0	%

(1) For a definition of platform revenue, which is a non-GAAP measure, and its reconciliation to interest and fees on loans, see "Results of Operations - For the Three and Nine Months Ended September 30, 2014 and 2013 - Platform Analysis - Non-GAAP Measure" below.

Retail Card. Retail Card is a leading provider of private label credit cards, and also provides Dual Cards and small and medium-sized business credit products. Our patented Dual Cards are credit cards that function as private label credit cards when used to purchase goods and services from our partners and as general purpose credit cards when used elsewhere. We offer one or more of these products primarily through 19 national and regional retailers with which we have program agreements that have an expiration date in 2016 or beyond and which accounted for greater than 95% of both our Retail Card platform revenue for the nine months ended September 30, 2014 and our Retail Card loan receivables at September 30, 2014. The average length of our relationship with these Retail Card partners is 16 years. Retail Card's platform revenue consists of interest and fees on our loan receivables, plus other income, less retailer share arrangements. Other income primarily consists of interchange fees earned on Dual Card transactions (when the card is used outside of our partners' sales channels) and fees paid to us by customers who purchase our debt cancellation products, less loyalty program payments. Substantially all of the credit extended in this platform is on standard terms.

Payment Solutions. Payment Solutions is a leading provider of promotional financing for major consumer purchases, offering primarily private label credit cards and installment loans. At September 30, 2014, Payment Solutions offered these products through approximately 62,000 participating partners consisting of national and regional retailers, local merchants, manufacturers, buying groups and industry associations. Substantially all of the credit extended in this platform is promotional financing. Payment Solutions' platform revenue primarily consists of interest and fees on our loan receivables, including "merchant discounts," which are fees paid to us by our partners in almost all cases to compensate us for all or part of foregone interest revenue associated with promotional financing.

CareCredit. CareCredit is a leading provider of promotional financing to consumers for elective healthcare procedures or services, such as dental, veterinary, cosmetic, vision and audiology. At September 30, 2014, we had a network of CareCredit providers that collectively have over 185,000 locations, 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. Substantially all of the credit extended in this platform is promotional financing. CareCredit's platform revenue primarily consists of interest and fees on our loan receivables, including merchant discounts.

Our Credit Products

Through our platforms, we offer three principal types of credit products: credit cards, commercial credit products and consumer installment loans.

The following table sets forth each credit product by type and indicates the percentage of our total loan receivables that are under standard terms only or pursuant to a promotional financing offer at September 30, 2014.

Credit Product	Standard Terms		Promotional Offer		Total	
Credit cards	66.8		28.8		95.6	
Commercial credit products	2.5		—		2.5	
Consumer installment loans	—		1.9		1.9	
Total	69.3	%	30.7	%	100.0	%

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

- Private label credit cards. Private label credit cards are partner-branded credit cards (e.g., Lowe’s or Amazon) or program-branded credit cards (e.g., CarCareONE or CareCredit) that are used primarily for the purchase of goods and services from the partner or within the program network. In Retail Card, credit under our private label credit cards typically is extended on standard terms only, and in Payment Solutions and CareCredit, credit under our private label credit cards typically is extended pursuant to a promotional financing offer.
- Dual Cards. Our patented Dual Cards are credit cards that function as private label credit cards when used to purchase goods and services from our partners and as general purpose credit cards when used elsewhere. Credit extended under our Dual Cards typically is extended under standard terms only. Currently, only Retail Card offers Dual Cards. At September 30, 2014, we offered Dual Cards through 18 of our 24 Retail Card programs.

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

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

Business Trends and Conditions

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

- Anticipated growth in loan receivables and interest income
- Changing funding mix and increased funding costs, including:
  - expected continued growth in our direct deposits
  - the significant increase in the amount of debt outstanding to fund the increase in the size of our liquidity portfolio
  - the replacement of our historical related party debt funding from GECC with higher cost funding provided by third parties
  - a rising interest rate environment
- Extended duration of program agreements and expiration of program agreements that are not extended
- Increases in retailer share arrangement payments and other expense under extended program agreements
- Stable asset quality and enhancements to allowance for loan loss methodology
- Increases in other expense to operate as a fully independent company
- Impact of regulatory developments
- Increased capital and liquidity levels following our IPO and in preparation for our separation from GE

For a discussion of these trends and conditions, see “Management's Discussion and Analysis of Financial Condition and Results of Operations - Business Trends and Conditions” in our Registration Statement. For a discussion of how these trends and conditions impacted the three and nine months ended September 30, 2014, see “Results of Operations - For the Three and Nine Months Ended September 30, 2014”.

Seasonality

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

The seasonal impact to transaction volumes and the loan receivables balance typically results in fluctuations in our results of operations, delinquency metrics and the allowance for loan losses as a percentage of total loan receivables between quarterly periods. These fluctuations are generally most evident between the fourth quarter and the first quarter of the following year.

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

Results of Operations—For the Three and Nine Months Ended September 30, 2014 and 2013

The discussion below provides an analysis of our results of operations for the three and nine months ended September 30, 2014 and 2013.

Highlights for the Three and Nine Months Ended September 30, 2014

Below are highlights of our performance for the three and nine months ended September 30, 2014 compared to the three and nine months ended September 30, 2013, as applicable, except as otherwise noted.

- Net earnings decreased 14.5% to $548 million for the three months ended September 30, 2014, driven by increases in other expenses, provision for loan losses and interest expense, partially offset by higher interest income. Net earnings increased 2.7% to $1,578 million for the nine months ended September 30, 2014, driven by higher net interest income and a reduction in our provision for loan losses, partially offset by increases in retailer share arrangements and other expenses.
- Loan receivables increased 6.6% to $56,767 million at September 30, 2014 compared to September 30, 2013, primarily driven by higher purchase volume and average active account growth.
- Net interest income increased 6.5% to $2,879 million and 8.0% to $8,342 million for the three and nine months ended September 30, 2014, respectively, primarily due to higher average loan receivables.
- Payments to our partners under our retailer share arrangements increased 1.9% to $693 million and 9.7% to $1,877 million for the three and nine months ended September 30, 2014, respectively, primarily as a result of improved performance, including lower provision for loan losses for the nine months ended September 30, 2014, and the growth of the programs in which we have retailer share arrangements, as well as from changes to the terms of the retailer share arrangements for those partners with whom we extended program agreements in late 2013 and in 2014.

- Loan delinquencies as a percentage of receivables decreased with the over-30 day delinquency rate decreasing to 4.26% at September 30, 2014 from 4.32% at September 30, 2013, driven by continued improvement in the U.S. economy and employment rates. Net charge-off rates remained relatively stable for the three and nine months ended September 30, 2014, decreasing slightly to 4.05% for the three months ended September 30, 2014 from 4.07% for the three months ended September 30 2013, and increasing slightly to 4.57% for the nine months ended September 30, 2014 from 4.52% for the nine months ended September 30, 2013.
- Provision for loan losses increased by $134 million, or 24.8%, for the three months ended September 30, 2014. This increase was primarily driven by portfolio growth and the impact from the timing of enhancements made in 2013 to our allowance for loan losses methodology. Provision for loan losses decreased by $134 million, or 5.9%, for the nine months ended September 30, 2014. This decrease was driven primarily as a result of an incremental provision of $538 million recorded in the first quarter of 2013 relating to the enhancements to our allowance for loan loss methodology, which was not repeated in the current period. This decrease was partially offset by increased provisions primarily driven by portfolio growth. Our allowance coverage ratio (allowance for loan losses as a percent of end of period loan receivables) increased to 5.46% at September 30, 2014, as compared to 5.24% at September 30, 2013.
- Other expense increased to $728 million from $575 million and to $2,135 million from $1,677 million for the three and nine months ended September 30, 2014 and 2013, respectively, driven by business growth, increased marketing investments and incremental costs associated with building a standalone infrastructure.
- We completed the initial public offering of a total of 128.5 million shares of our common stock and our new debt financings which increased our indebtedness with third parties and reduced our funding from GECC. The net proceeds from these transactions increased our liquidity portfolio by $7.3 billion. Our liquidity portfolio, including undrawn credit facilities was $19.7 billion at September 30, 2014.
- We have invested in our direct banking activities to grow our deposit base. Total deposits have increased 27.1% to $32.7 billion at September 30, 2014, compared to December 31, 2013, driven primarily by growth in our direct deposits of 66.4% to $18.3 billion at September 30, 2014.
- During the nine months ended September 30, 2014, we have extended five program agreements in Retail Card (American Eagle, Gap Inc., Lowe's, QVC and Sam's Club), representing $18.8 billion in loan receivables at September 30, 2014. In addition, we extended our program agreement with PayPal until October 2016 and do not expect it to extend beyond that date. Based on notices received to date, existing program agreements with five Retail Card partners, representing $1.9 billion in loan receivables, including loan receivables held for sale, at September 30, 2014, are not expected to be renewed, but may be temporarily extended for a short period beyond their current contractual expiration dates, which primarily occur during the fourth quarter of 2014. The program agreements that were not extended will continue to be reported in our results of operations through their contractual expiration dates.
- In our Payment Solutions sales platform, we increased the number of participating partners in our network by over 1,000 partners, compared to the number of partners at September 30, 2013. In our CareCredit network, we increased the number of provider locations by over 9,000 locations, compared to the number of locations at September 30, 2013.

Summary Earnings

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

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2014	2013	2014	2013
Interest income	$3,123	$2,886	$8,982	$8,276
Interest expense	244	183	640	554
Net interest income	2,879	2,703	8,342	7,722
Retailer share arrangements	(693)	(680)	(1,877)	(1,711)
Net interest income, after retailer share arrangements	2,186	2,023	6,465	6,011
Provision for loan losses	675	541	2,120	2,254
Net interest income, after retailer share arrangements and provision for loan losses	1,511	1,482	4,345	3,757
Other income	96	114	323	370
Other expense	728	575	2,135	1,677
Earnings before provision for income taxes	879	1,021	2,533	2,450
Provision for income taxes	331	380	955	914
Net earnings	$548	$641	$1,578	$1,536

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 September 30, 2014		At and for the three months ended September 30, 2013		At and for the nine months ended September 30, 2014		At and for the nine months ended September 30, 2013	
Financial Position Data (Average):								
Loan receivables, including held for sale	$57,391		$52,580		$56,238		$51,488	
Total assets	$68,300		$54,906		$63,332		$55,235	
Deposits	$31,665		$21,489		$29,058		$21,843	
Borrowings	$25,228		$25,271		$23,845		$25,462	
Total equity	$8,199		$5,266		$7,157		$5,193	
Selected Performance Metrics:								
Purchase volume(1)	$26,004		$23,499		$73,068		$66,856	
Retail Card	$20,991		$18,840		$58,736		$53,540	
Payment Solutions	$3,226		$2,963		$9,028		$8,249	
CareCredit	$1,787		$1,696		$5,304		$5,067	
Average active accounts (in thousands)(2)	59,907		56,171		59,394		55,523	
Net interest margin(3)	17.11	%	19.69	%	17.80	%	18.74	%
Net charge-offs	$579		$533		$1,910		$1,736	
Net charge-offs as a % of average loan receivables, including held for sale	4.05	%	4.07	%	4.57	%	4.52	%
Allowance coverage ratio(4)	5.46	%	5.24	%	5.46	%	5.24	%
Return on assets(5)	3.2	%	4.7	%	3.4	%	3.7	%
Return on equity(6)	26.8	%	48.8	%	29.7	%	39.7	%
Equity to assets(7)	13.53	%	10.06	%	13.53	%	10.06	%
Other expense as a % of average loan receivables, including held for sale	5.09	%	4.39	%	5.11	%	4.37	%
Efficiency ratio(8)	31.9	%	26.9	%	31.5	%	26.3	%
Effective income tax rate	37.7	%	37.2	%	37.7	%	37.3	%
Selected Period End Data:								
Loan receivables	$56,767		$53,265		$56,767		$53,265	
Allowance for loan losses	$3,102		$2,792		$3,102		$2,792	
30+ days past due as a % of period-end loan receivables	4.26	%	4.32	%	4.26	%	4.32	%
90+ days past due as a % of period-end loan receivables	1.85	%	1.83	%	1.85	%	1.83	%
Total active accounts (in thousands)(2)	60,489		56,703		60,489		56,703	

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

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

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

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

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

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

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

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

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.

Three months ended September 30 ($ in millions)	2014 Average Balance[1]	2014 Interest Income / Expense	2014 Average Yield / Rate[2]	2013 Average Balance[1]	2013 Interest Income/ Expense	2013 Average Yield / Rate[2]
Assets						
Interest-earning assets:						
Interest-earning cash and equivalents[3]	$9,793	$4	0.16 %	$2,266	$1	0.18 %
Securities available for sale	309	3	3.89 %	227	2	3.53 %
Loan receivables[4]:						
Credit cards, including held for sale[5]	54,891	3,054	22.32 %	49,790	2,812	22.65 %
Consumer installment loans	1,070	25	9.37 %	1,374	33	9.63 %
Commercial credit products	1,412	37	10.51 %	1,404	38	10.86 %
Other	18	—	— %	12	—	— %
Total loan receivables	57,391	3,116	21.78 %	52,580	2,883	21.99 %
Total interest-earning assets	67,493	3,123	18.56 %	55,073	2,886	21.02 %
Non-interest-earning assets:						
Cash and due from banks	1,260			535		
Allowance for loan losses	(3,058)			(2,799)		
Other assets	2,605			2,097		
Total non-interest-earning assets	807			(167)		
Total assets	$68,300			$54,906		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposit accounts	$31,459	$126	1.61 %	$21,012	$94	1.79 %
Borrowings of consolidated securitization entities	15,102	57	1.51 %	16,058	51	1.27 %
Related party debt	4,582	15	1.31 %	9,213	38	1.65 %
Third party debt	5,544	46	3.33 %	—	—	— %
Total interest-bearing liabilities	56,687	244	1.73 %	46,283	183	1.59 %
Non-interest-bearing liabilities						
Non-interest-bearing deposit accounts	206			477		
Other liabilities	3,208			2,880		
Total non-interest-bearing liabilities	3,414			3,357		
Total liabilities	60,101			49,640		
Equity						
Total equity	8,199			5,266		
Total liabilities and equity	$68,300			$54,906		
Interest rate spread[6]			16.83 %			19.43 %
Net interest income		$2,879			$2,703	
Net interest margin[7]			17.11 %			19.69 %

	2014			2013		
Nine months ended September 30 ($ in millions)	Average Balance(1)	Interest Income / Expense	Average Yield / Rate(2)	Average Balance(1)	Interest Income/ Expense	Average Yield / Rate(2)
Assets						