

FRANKLIN ELECTRIC CO INC  
Form 4  
April 29, 2009

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
**BRADY JEROME D**

2. Issuer Name and Ticker or Trading Symbol  
**FRANKLIN ELECTRIC CO INC [fele]**

5. Relationship of Reporting Person(s) to Issuer  
  
(Check all applicable)

(Last) (First) (Middle)  
**725 N. WEST TORCH LAKE DRIVE**  
  
(Street)

3. Date of Earliest Transaction (Month/Day/Year)  
**04/28/2009**

Director  10% Owner  
 Officer (give title below)  Other (specify below)

**KEWADIN, MI 49648**

(City) (State) (Zip)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				Code V Amount (A) or (D) Price			
common stock	04/28/2009		A	3,618 A \$ 22.11	11,890	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**



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Inc. common stock, issuance of such shares deferred until he retires or otherwise leaves the board of directors (e.g. Stock Units). On February 26, 2009, Mr. Brady was credited with 30.69 Stock Units for dividends that would have been paid on such deferred shares. At distribution, Mr. Brady may elect pursuant to the terms of the Plan to receive his deferred compensation either in shares of Franklin common stock or in cash.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. Internal Revenue Service ( IRS ) as to certain issues relating to, and an opinion from tax counsel confirming, the tax-free treatment of the transaction to GE and its stockholders.

*GE SLHC Deregistration.* The final step in GE's exit from our business will be complete when the Federal Reserve Board determines that GE no longer controls us for regulatory purposes and releases GE from savings and loan holding company registration (the GE SLHC Deregistration).

*Bank Regulatory Approvals Required for Separation and the GE SLHC Deregistration.* In addition to GE's application for the GE SLHC Deregistration, we will be required to file an application with, and receive approval from, the Federal Reserve Board to continue to be a savings and loan holding company and to retain ownership of the Bank following the Separation and the GE SLHC Deregistration. In reviewing and acting on our application, the Federal Reserve Board will consider a range of factors and has significant discretion. We do not expect the Federal Reserve Board to act on our application until, among other things, it has completed an in-depth review as to our preparedness to operate on a standalone basis, independently of GE, and is satisfied with the results. We anticipate that this review will not begin until after we have filed our application and will require a considerable period of time. We are taking and will continue to take significant steps in order to prepare to operate on a standalone basis, independently of GE, including the following:

*Increase capital and liquidity levels.* All of the net proceeds from the IPO were used to significantly increase our capital levels and, together with the net proceeds of the Existing Notes offering, the GECC Term Loan Facility and the Bank Term Loan Facility and after repayment of GECC related party debt (as described below), our liquidity levels. In connection with our application to the Federal Reserve Board and the Separation, we expect to continue to increase our capital and liquidity levels by, among other things, retaining net earnings and by not paying a dividend or returning capital through stock repurchases until our application to the Federal Reserve Board is approved. We will also seek to continue to increase our liquidity through growth of our direct deposits and other funding sources, including unsecured debt. At September 30, 2014, we had an estimated fully phased-in Basel III Tier 1 common ratio of 14.6%, and we had liquidity consisting of \$14.1 billion of cash and short-term liquid investments (or 19.2% of total assets). In addition, we currently have an aggregate of approximately \$5.6 billion of undrawn committed capacity under our securitization programs.

*Establish and expand standalone operations and infrastructure.* We are currently establishing or significantly expanding, and expect to continue to establish or expand, our standalone corporate governance, risk management, capital planning, treasury, information technology, compliance, regulatory, internal audit and other control operations and infrastructure. Although we will continue to receive certain services from GE on a transitional basis, we expect to reduce our reliance on these services in connection with our application to the Federal Reserve Board and the Separation, replacing such services with those provided by unaffiliated third parties or with our own capabilities. We may be required to operate without receiving any of these services from GE prior to the Separation.

*Reduce or eliminate funding provided by GECC.* In connection with the IPO, we repaid all then-outstanding related party debt owed to GECC and its affiliates (approximately \$8.0 billion), and we incurred \$1.5 billion of related party debt under the GECC Term Loan Facility, \$0.8 billion of which has been prepaid with a portion of the net proceeds from the Existing Notes offering and additional borrowings under the Bank Term Loan Facility. We expect that, in connection with our application to the Federal Reserve Board and the Separation, we will prepay part or substantially all of the outstanding related party debt owed to GECC under the GECC Term Loan Facility.

*Diversify funding sources.* In addition to reducing the amount of outstanding related party debt owed to GECC, we intend to further diversify our funding sources by growing the amount of our direct deposits, by reducing the proportion of funding provided by brokered deposits, and by accessing the unsecured debt markets.

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The Federal Reserve Board may require us to take additional actions beyond the significant infrastructure expansion and other steps we are already planning and implementing and beyond what we are now anticipating.

*Anticipated Timeframe for Separation and GE SLHC Deregistration.* GE has indicated that it currently is targeting to complete the Separation in late 2015. We may not be prepared, or able to satisfy the Federal Reserve Board that we are prepared, to operate on a standalone basis, independently of GE, by that time. More generally, the conditions to any transaction involved in the Separation may not be satisfied in late 2015 or thereafter, or GE may decide for any reason not to consummate the Separation in late 2015 or thereafter. Further, GE's willingness to proceed with the Separation may effectively be conditioned on its obtaining the necessary determination by the Federal Reserve Board that the GE SLHC Deregistration will occur upon Separation, although the Separation and the GE SLHC Deregistration need not coincide. For this reason, any delays in obtaining the GE SLHC Deregistration may delay the consummation of the Separation.

*Anticipated Costs Associated with Separation and GE SLHC Deregistration.* We currently expect to incur significant additional expenses to operate as a fully independent public company. For a discussion of these expenses, see Item 2. Financial Information Management's Discussion and Analysis of Financial Condition and Results of Operations Business Trends and Conditions, Separation from GE and Related Financial Arrangements and Item 2. Financial Information Selected Historical and Pro Forma Financial Information Unaudited Pro Forma Financial Information.

For a discussion of certain risks associated with Separation and the GE SLHC Deregistration, including risks related to anticipated timing and costs, see Item 1A. Risk Factors Risks Relating to Our Separation from GE.

*Payment of Dividends to GE.* During the years ended December 31, 2011, 2012 and 2013, we made net transfers to our parent of \$1,907 million, \$1,869 million and \$586 million, respectively. During the three months ended March 31, 2014 and June 30, 2014, we made net transfers to our parent of \$479 million and \$124 million, respectively. We did not make any net transfer to our parent subsequent to June 30, 2014 and prior to the closing of the IPO. Following the IPO, GE will receive dividends only in its capacity as a stockholder on the same basis as stockholders generally.

**Our Sales Platforms**

We offer our credit products through three sales platforms: Retail Card, Payment Solutions and CareCredit. Set forth below is a summary of certain information relating to our Retail Card, Payment Solutions and CareCredit platforms:

<i>(\$ in millions)</i>	<b>Retail Card</b>	<b>Payment Solutions</b>	<b>CareCredit</b>
Partner locations (at September 30, 2014)	33,000	117,000	185,000
Average active accounts for the nine months ended September 30, 2014	48.1	6.8	4.5
Loan receivables (at September 30, 2014)	\$ 38,466	\$ 11,514	\$ 6,787

**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. Retail Card accounted for \$6.4 billion, or 68.0%, of our total platform revenue for the year ended December 31, 2013, and \$5.1 billion, or 68.3%, of our total platform revenue for the nine months ended September 30, 2014. Substantially all of the credit extended in this platform is on standard (i.e., non-promotional) terms.



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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.

**Retail Card Partners**

We have Retail Card programs with 19 national and regional retailers with which we have program agreements that have an expiration date in 2016 or beyond. At September 30, 2014, we also had Retail Card programs with five national and regional retailers with program agreements that have expired or otherwise will not extend beyond their current contractual expiration dates in 2014 or 2015. These 24 partners include department stores, specialty retailers, mass merchandisers, multi-channel electronic retailers, online retailers and oil and gas retailers and have 33,000 retail locations. Set forth below is certain information regarding our Retail Card partners at September 30, 2014:

	<b>Category</b>	<b>Length of relationship<sup>(1)</sup></b>
Amazon	Online retailer	7
American Eagle	Specialty retailer apparel	18
Belk	Department store	8
Brooks Brothers <sup>(2)</sup>	Specialty retailer apparel	17
Chevron (Chevron USA and Chevron Canada)	Oil and gas retailer	6
Dick s Sporting Goods	Specialty retailer sporting goods	11
Dillard <sup>(3)</sup>	Department store	10
Ebates	Online retailer	1
Gap (including Old Navy and Banana Republic)	Specialty retailer apparel	16
JCPenney	Department store	14
Lord & Taylor <sup>(2)</sup>	Department store	7
Lowe s	Mass merchandiser home improvement	35
Meijer <sup>(2)</sup>	Mass merchandiser	11
Men s Wearhouse	Specialty retailer apparel	16
Modell <sup>(3)</sup>	Specialty retailer sporting goods	7
PayPal (including eBay)	Online retailer	10
Phillips 66	Oil and gas retailer	1
QVC	Multi-channel electronic retailer	9
Sam s Club	Mass merchandiser	20
ShopHQ	Multi-channel electronic retailer	8
Stein Mart	Department store	8
TJX (including T.J.Maxx, Marshalls and HomeGoods)	Specialty retailer apparel and home goods	3
Toys R Us (including Babies R Us)	Specialty retailer toys	2
Walmart	Mass merchandiser	15

(1)

In years, at September 30, 2014. See text following the table below under Term for information with respect to the future status of our relationship with three of these partners.

- (2) Our program agreements with these partners have expired or otherwise will not be extended beyond their contractual expiration dates in 2014 or, in the case of Brooks Brothers, 2015.



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Our ten largest Retail Card programs accounted in aggregate for 59.6% of our total platform revenue for the year ended December 31, 2013. Our programs with JCPenney and Walmart each accounted for more than 10% of our total platform revenue and JCPenney, Lowe's and Walmart each accounted for more than 10% of our total platform interest and fees and other income, in each case for the year ended December 31, 2013. We also have programs with Sam's Club, a subsidiary of Walmart, pursuant to separate program agreements. For purposes of the information provided in this paragraph with respect to Walmart, the platform revenue and interest and fees and other income from the Sam's Club program has not been included.

Our Retail Card programs are governed by program agreements that are each negotiated separately with our partners. Although the terms of the agreements are partner-specific, and may be amended from time to time, under a typical program agreement our partner agrees to support and promote the program to its customers, but we control credit criteria and issue credit cards to customers who qualify under those criteria. We generally own the underlying accounts and all loan receivables generated under the program from the time of origination. Other key provisions in the Retail Card program agreements include:

*Term.* Retail Card program agreements typically have contract terms ranging from approximately five to ten years. Most program agreements have renewal clauses that provide for automatic renewal for one or more years until terminated by us or our partner. We typically seek to renew the program agreements well in advance of their termination dates. Since January 1, 2012, we have extended the duration of 11 of our 24 Retail Card program agreements with a new expiration date in 2016 or beyond. These extended program agreements represented, in the aggregate, 57.9% of our total platform revenue for the year ended December 31, 2013 and 59.3% of our total loan receivables (including loan receivables held for sale) at September 30, 2014. Set forth below is certain information regarding the scheduled expiration dates of our partner programs, including the number of programs scheduled to expire during each indicated period and the platform revenue and loan receivables attributable to those programs at the dates and for the periods indicated:

(\$ in millions)	Scheduled Program Expiration at September 30, 2014					2021 and beyond
	2016 <sup>(1)</sup>	2017	2018	2019	2020	
Partner programs <sup>(2)</sup>	1	3	5	2	2	6
Platform revenue (for the year ended December 31, 2013)	\$ 362	\$ 360	\$ 474	\$ 1,436	\$ 1,101	\$ 2,372
Loan receivables (at September 30, 2014)	\$ 1,791	\$ 1,927	\$ 2,953	\$ 7,447	\$ 4,726	\$ 19,242

- (1) Program agreements with one of our partners, covering most of the financing we provide to that partner's customers, were recently extended from 2016 to beyond 2021. Program agreements covering the remaining financing provided to the partner's customers (most of which we believe will be extended) represent \$66 million of platform revenue for the year ended December 31, 2013 and \$340 million of loan receivables at September 30, 2014 and are included as part of the 2016 information.
- (2) Excludes five program agreements in effect at September 30, 2014 that have expired or otherwise will not be extended beyond their current contractual expiration dates in 2014 or 2015.

A total of 19 of our 24 Retail Card program agreements (including the 11 program agreements we have extended since January 1, 2012) now have an expiration date in 2016 or beyond. These 19 program agreements represented, in the aggregate, 64.8% of our total platform revenue for the year ended December 31, 2013 and 65.4% of our total loan

receivables (including loan receivables held for sale) at September 30, 2014.

The program agreements for five of our 24 current Retail Card partners in effect at September 30, 2014 have expired or otherwise will not be extended beyond their contractual expiration dates in 2014 or, in one case, 2015. These five program agreements represented, in the aggregate, 3.2% of our total platform revenue for the year ended December 31, 2013 and 3.2% of our total loan receivables (including loan receivables held for sale) at September 30, 2014. In addition, we recently extended our program agreement with PayPal, another of our 24 current Retail Card partners, until October 2016. The extension eliminated certain exclusivity provisions that previously existed in the program agreement which we expect will result in lower platform revenue and loan receivables from our PayPal program during the extended term of the agreement and do not expect it to extend beyond that date. The PayPal program agreement represented 3.1% of our total platform revenue for the year ended December 31, 2013 and 2.5% of our total loan receivables (including loan receivables held for sale) at September 30, 2014.

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*Exclusivity.* The program agreements typically are exclusive for the products we offer and limit our partners' ability to originate or promote other private label or co-branded credit cards during the term of the agreement.

*Retailer share arrangements.* Most of our Retail Card program agreements contain retailer share arrangements that provide for payments to our partner if the economic performance of the program exceeds a contractually-defined threshold. Economic performance for the purposes of these arrangements is typically measured based on agreed upon program revenues (including interest income and certain other income) less agreed upon program expenses (including interest expense, provision for credit losses, retailer payments and operating expenses). We may also provide additional economic benefits to our partners such as a signing bonus, royalties on purchase volume or payments for new accounts. All of these arrangements align our interests and provide an additional incentive to our partners to promote our credit products.

*Other economic terms.* In addition to the retailer share arrangements, the program agreements typically provide that the parties will develop a marketing plan to support the program, it sets the terms by which a joint marketing budget is funded, the basic terms of the rewards program linked to the use of our product (such as opportunities to receive double rewards point for purchases made on a Retail Card product), and the allocation of costs related to the rewards program.

*Termination.* The program agreements set forth the circumstances in which a party may terminate the agreement prior to expiration. Our program agreements generally permit us and our partner to terminate the agreement prior to its scheduled termination date for various reasons, including if the other party materially breaches its obligations. Some program agreements also permit our partner to terminate the program if we fail to meet certain service levels or change certain key cardholder terms or our credit criteria, we fail to achieve certain approval rate targets with respect to approvals of new customers, we elect not to increase the program size when the outstanding loan receivables under the program reach certain thresholds, or we are not adequately capitalized, or if certain force majeure events occur or certain changes in our ownership (which we do not believe were triggered by the IPO or will be triggered by the Split-off) occur. Certain of these program agreements are also subject to early termination by a party if the other party has a material adverse change in its financial condition. Historically, these rights have not typically been triggered or exercised. Some of our program agreements provide that, upon termination or expiration, our partner may purchase or designate a third party to purchase the accounts and loan receivables generated with respect to its program at fair market value or a stated price, including all related customer data.

### ***Acquiring New Retail Card Partners***

We seek to partner with medium to large, financially strong retailers who have a national or regional footprint and a desire to grow their business through effective consumer financing programs. Our business development team proactively targets and engages with potential partners that either do not have a card program or may be receptive to an opportunity for us to acquire their existing program. The team responds to competitive requests for proposals ( RFPs ) and informal inquiries initiated by retailers. From January 1, 2011 through September 30, 2014, we added four new Retail Card partners, which accounted for \$2.3 billion of loan receivables at September 30, 2014.

### ***Acquiring and Marketing to Retail Card Customers***

We work directly with our partners using their distribution network, communication channels and customer interactions to market our products to their customers and potential customers. We believe our presence at our partners' points of sale and our ability to make credit decisions instantly for a customer that is already predisposed to make a purchase enables us to acquire new customer accounts at significantly lower costs than general purpose card issuers, who typically market directly to consumers through mass mailings.



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To acquire new customers, we collaborate with our partners and leverage our marketing expertise to create marketing programs that promote our products for creditworthy customers. Frequently, our partners market the availability of credit as part of (and with little incremental cost to) the advertising for their goods and services. Our marketing programs include marketing offers (e.g., 10% off the customer's first purchase) and consumer communications that are delivered through a variety of channels, including in-store signage, online advertising, retailer website placement, associate communication, emails and text messages, direct mail campaigns, advertising circulars, and outside marketing via television, radio and print. We also employ our proprietary Quickscreen and eQuickscreen acquisition methods to make targeted pre-approved credit offers at the point-of-sale both in-store and online. Our Quickscreen and eQuickscreen technology allows us to run customer information we have obtained from our partners through our risk models in advance so that when these customers seek to make payment for goods and services at our partners in-store or online point of sale we can make a credit offer instantly, if appropriate. Based on our experience, due to the personalized and immediate nature of the offer, Quickscreen and eQuickscreen significantly outperform traditional direct-to-consumer pre-approved channels such as direct mail or email in response rate and dollar spending.

After a customer obtains one of our Retail Card products, our marketing programs encourage card utilization by continuing to communicate our products' value propositions (such as, depending on the program, promotional financing offers, cardholder events, product discounts, dollar-off certificates, accountholder sales, reward points and offers, new product announcements and previews, and free or reduced cost gift wrapping, alteration or delivery services) through our partners' distribution channels.

Through our CRM and data analytics teams, we track cardholder responsiveness to our marketing programs and use this research to target marketing messages and promotional offers to cardholders based on their individual characteristics, such as length of relationship and spending pattern. For example, if a cardholder responds positively to a coupon sent by text message, we will tailor future marketing messages so that they are delivered by text message. Our ability to target marketing messages and promotions is enhanced for Dual Card programs because we receive, collect and analyze data on in-store and all other spending.

We also manage retail loyalty programs. These programs typically provide cardholders with rewards in the form of merchandise discounts that are earned by achieving a pre-set spending level on their private label or Dual Card. The merchandise discounts can be mailed to the cardholder, accessed online, or may be immediately redeemable at the partner's store. Other programs provide cash back or reward points, which are redeemable for a variety of products or awards. These loyalty programs are designed to generate incremental purchase volume per customer, while reinforcing the value of the card to the customer and strengthening customer loyalty. In the future, we intend to offer loyalty programs to customers that utilize non-credit payment types such as cash, debit or check. These multi-tender loyalty programs will allow our partners to market to an expanded customer base, and allow us access to additional prospective cardholders.

In addition to our efforts to acquire and promote consumer cardholders, we are increasing our focus on small to mid-sized commercial customers. We offer these customers private label credit cards and Dual Cards that can be used at our Retail Card partners and are similar to our consumer offerings. We are also increasing our focus on marketing our commercial pay-in-full accounts receivable product that supports a wide range of business customers.

**Payment Solutions**

Payment Solutions is a leading provider of promotional financing for major consumer purchases, offering private label credit cards and installment loans. Payment Solutions accounted for \$1.5 billion, or 16.0%, of our total platform revenue for the year ended December 31, 2013, and \$1.1 million, or 15.5%, of our total platform revenue for the nine months ended September 30, 2014. Substantially all of the credit extended in Payment Solutions 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 the foregone interest revenue associated with promotional financing. We offer three types of promotional financing: deferred interest (interest accrues during a promotional period and becomes payable if the full purchase amount is not paid off during the promotional period), no interest (no interest on a promotional purchase) and reduced interest (interest is assessed monthly at a promotional interest rate during the promotional period). As a result, during the promotional period we do not generate interest revenue or generate it at a lower rate, although we continue to generate fee income relating to late fees on required minimum payments.

**Table of Contents*****Payment Solutions Partners***

In Payment Solutions, we create customized credit programs for national and regional retailers, manufacturers, buying groups, industry associations and our own individually-branded industry programs, which are available to participating merchants, dealers and retail outlets to provide financing offers to their customers. Our programs include:

programs with national and regional retailers and their related retail outlets;

programs with manufacturers and the merchants and dealers (including franchisees) that sell the manufacturers products;

programs with buying groups or industry associations and their participating member merchants and dealers; and

individually-branded industry programs that we create and the networks of individual, unrelated merchants and dealers who participate in these programs.

At September 30, 2014, we had 62,000 participating partners. These partners collectively have 117,000 retail locations. During 2013, 67,000 of these retail locations either processed a credit application or made a Payment Solutions credit sale.

Set forth below is certain information regarding our ten largest Payment Solutions programs by platform revenue for the year ended December 31, 2013:

	<b>Category</b>	<b>Length of Relationship<sup>(1)</sup></b>
Ashley HomeStores	Furniture retailer and manufacturer	3
Discount Tire	Tire retailer	15
Haverty's Furniture	Furniture retailer	3
h.h.gregg	Electronics and appliances retailer	15
North American Home Furnishings Association	Furniture industry association	5
P.C. Richard & Son	Electronics and appliances retailer	15
Rooms To Go	Furniture retailer	12
Select Comfort	Bedding retailer	11
Sleepy's	Bedding retailer	14
Yamaha Motor Corp. USA	Powersports manufacturer	10

(1) In years, at September 30, 2014.

The average length of our relationship for our 10 largest Payment Solutions programs is 10 years.

Payment Solutions platform revenue for the year ended December 31, 2013 is diversified across seven retail markets: home furnishings/flooring (39.3%), electronics/appliances (19.9%), home specialty (13.9%), other retail (7.9%), power (motorcycles, ATVs and lawn and garden) (8.0%), automotive (7.5%), and jewelry and other luxury items (3.5%). Payment Solutions is also diversified by program, with no one Payment Solutions program accounting for more than 1.0% of our total platform revenue for the year ended December 31, 2013.



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*National and Regional Retailers and Manufacturers.* For the Payment Solutions programs we have established with national and regional retailers and manufacturers, the terms of our program agreements typically are similar to the terms of our Retail Card program agreements in that we are the exclusive program provider of financing for the national or regional retailer or manufacturer with respect to the financing products we offer. The term of the program agreements generally run from three to five years and are subject to termination prior to the scheduled termination date by us or our partner for various reasons, including if the other party materially breaches its obligations. Some of these programs also permit our partner to terminate the program if we change certain key cardholder terms, elect not to increase the program size when the outstanding loan receivables under the program reach certain thresholds, certain force majeure events occur, certain changes in our ownership occur, or there is a material adverse change in our financial condition. A few of these programs also may be terminated at will by the partner on specified notice to us (e.g., several months). Many of these program agreements have renewal clauses which allow the program agreement to be renewed for successive one or more year terms until terminated by us or our partner. We typically negotiate with program participants to renew the program agreements well in advance of their termination dates.

We control credit criteria and issue credit cards or provide installment loans to customers who qualify under those credit criteria. We own the underlying accounts and all loan receivables generated under the program from the time of origination. Our Payment Solutions program agreements set forth the program's economic terms, including the merchant discount applicable to each promotional finance offering. We typically do not pay fees to our Payment Solutions partners pursuant to any retailer share arrangements, but in some cases we pay a sign-up fee to a partner or provide volume based rebates on the merchant discount paid by the partner. In addition to the credit programs, we also process general purpose card transactions for some merchants and dealers under programs with manufacturers as their acquiring bank within most of the credit card network associations, for which we receive an interchange fee.

*Buying Groups and Industry Associations.* For the Payment Solutions programs we have established with buying groups and industry associations, such as the North American Home Furnishings Association, Jewelers of America and MEGA Group USA, the programs are governed by program agreements under which we make our credit products available to their respective members or dealers, but these agreements generally do not require the members or dealers to offer our products to their customers. Under the terms of the program agreements, buying groups and industry associations generally agree to support and promote the respective programs. These arrangements may include sign-up fees and volume based incentives paid by us to the groups and their members. In addition to these credit programs, we also process general purpose card transactions for some merchants and dealers as their acquiring bank within most of the credit card network associations, for which we receive an interchange fee.

*Individually-branded Programs.* Our individually-branded Payment Solutions programs are focused on specific industries, where we create either company branded or company and partner branded private label credit cards that are usable across all participating locations within the industry-specific network. For example, our CarCareONE program, comprised of merchants selling automotive parts, repair services and tires, covers 17,000 locations across the United States, and cards issued may be dual branded with CarCareONE and partners such as Midas, Michelin Tires or Pep Boys. Under the terms of these programs, we establish merchant discounts applicable to each financing offer, and, in some cases, the fees we charge partners for their membership in the network.

*Dealer Agreements.* For the Payment Solutions programs we have established with manufacturers, buying groups, industry associations and individually-branded programs described above, we enter into individual agreements with the merchants and dealers that offer our credit products under these programs. These agreements generally are not exclusive and some parties who offer our financing products also offer financing from our competitors. Our agreements generally continue until terminated by either party, with termination typically available to either party at will on 15 days' written notice. Our dealer agreements set forth the economic terms associated with the program, including the fees charged to dealers to offer promotional financing, and in some cases allow us to periodically change

the fees we charge.

***Acquiring New Payment Solutions Partners***

Attracting new partners is a key element to the continued growth of our Payment Solutions platform. In Payment Solutions, we seek to partner with, and proactively target, sellers of big-ticket products or services (generally priced from \$500 to \$25,000) to consumers where our financing products provide strong incremental value to sellers and their customers. Our business development team also responds to RFPs initiated by retailers, manufacturers, industry groups and other organizations, and works within our existing programs to increase the number of partners participating in these programs. We also promote all of our programs through direct marketing activities such as industry trade publications, trade shows and sales efforts by dedicated internal and external sales teams, leveraging our existing partner network or through endorsements from manufacturers, buying groups and industry associations. Our broad array of point of sale technologies and quick enrollment process allow us to quickly and cost-effectively integrate new partners. From December 31, 2010 through September 30, 2014, we increased our total partners from 57,000 to 62,000 with new partners accounting for \$1.9 billion in receivables at September 30, 2014.

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**Table of Contents*****Acquiring and Marketing to Payment Solutions Customers***

Our Payment Solutions products are generally deeply embedded in our partners' product offerings and our financing offers are therefore a key component of our partners' marketing and growth strategies. Our breadth and scale enable us to bring substantial retailer marketing expertise to our smaller retailer and merchant partners. Similar to Retail Card, we help our partners acquire new customers by leveraging our significant marketing expertise to help them develop marketing programs that promote our products for customers through a variety of channels, including in-store signage, online advertising, retailer website placement, emails and text messages, direct mail campaigns, advertising circulars and print media/outside marketing via television, radio and print. In Payment Solutions, we also use our CRM and data analytics capabilities as described above for Retail Card.

**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. CareCredit accounted for \$1.5 billion, or 16.0%, of our total platform revenue for the year ended December 31, 2013 and \$1.2 million, or 16.2%, of our total platform revenue for the nine months ended September 30, 2014. Substantially all of the credit extended in CareCredit is promotional financing.

We offer customers a CareCredit-branded private label credit card that may be used across our network of CareCredit providers. We generate revenue in CareCredit primarily from interest and fees on our credit products and from merchant discounts provided by partners to compensate us for all or part of the cost of this promotional financing. We also process general purpose card transactions for some providers as their acquiring bank within most of the credit card network associations, for which we obtain an interchange fee.

***CareCredit Partners***

The vast majority of our partners are individual and small groups of independent healthcare providers. The remainder are national and regional healthcare providers and manufacturers such as LCA-Vision, Heartland Dental, Starkey Laboratories and the Veterinary Centers of America (VCA Antech). At September 30, 2014, we had CareCredit agreements with 155,000 healthcare providers. These partners collectively have 185,000 locations. During 2013, 132,000 of these locations either processed a CareCredit application or made a sale on a CareCredit credit card. No one CareCredit partner accounted for more than 0.4% of our total platform revenue for the year ended December 31, 2013. CareCredit's platform revenue for the year ended December 31, 2013 is diversified across five major specialties: dental (63.9%), veterinary (14.2%), cosmetic and dermatology (9.8%), vision (5.7%), audiology (2.8%) and other markets (3.6%).

We enter into provider agreements with individual healthcare providers who become part of our CareCredit network. These provider agreements are similar to the dealer agreements that govern our relationships with the merchants and dealers offering our Payment Solutions products in that the agreements are not exclusive and typically may be terminated at will on 15 days' notice. There typically are no retailer share arrangements with partners in CareCredit.

**Table of Contents*****Acquiring New CareCredit Partners***

CareCredit includes a network of healthcare practitioners that provide elective procedures that generally are not covered by insurance. We screen potential partners using a variety of criteria, including whether the potential provider specializes in one of our approved specialties, carries the appropriate licensing and certifications, and has a strong credit history. We also screen potential partners for reputational issues. We work with professional and other associations, manufacturers, buying groups, industry associations and healthcare consultants to educate their constituents about the products and services we offer. At September 30, 2014, we had relationships with 107 professional and other associations (including the American Dental Association and the American Animal Hospital Association), manufacturers and buying groups, which endorse and promote our credit products to their members. Of these relationships, 63 were paid endorsements linked to member enrollment in, and volume under, the relevant program. We believe our ability to attract new partners is aided by our customer satisfaction rate, which our research in 2014 shows is 92%. We also approach individual healthcare service providers through direct mail and advertising, and at trade shows. We have increased the number of our CareCredit partner locations from 145,000 at December 31, 2010 to 185,000 at September 30, 2014.

***Acquiring and Marketing to CareCredit Customers***

We market our products through our provider network by training our network providers on the advantages of CareCredit products and by making marketing materials available for providers to use to promote the program and educate customers. Our training helps our providers learn to discuss payment options during the pre-treatment consultation phase, including the option to apply for a CareCredit credit card and the offer of promotional credit. According to a 2014 survey of our CareCredit customers, 47% indicated that they would have postponed or reduced scope of treatment if financing was not offered by their provider. Consumers can apply for our CareCredit products in the provider's office, or on-line via the web or mobile device.

We also market our products to potential and existing customers directly through our web-based partner locator, which allows customers to search for healthcare service providers that accept the CareCredit credit card by desired geography and provider type. According to our records, our CareCredit partner locator averaged 560,000 hits per month during the year ended December 31, 2013. We believe our partners recognize the locator as an important source of new customer acquisition. Our extensive marketing activities targeted to existing customers have yielded high levels of CareCredit card re-use across the network, with 69% of the transactions across our CareCredit network during the year ended December 31, 2013 resulting from repeat use at one or more providers.

**Our Credit Products**

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 September 30, 2014.

<b>Credit Product</b>	<b>Standard Terms</b>		<b>Total</b>
	<b>Only</b>	<b>Promotional Offer</b>	
Credit cards	66.8%	28.8%	95.6%
Commercial credit products	2.5		2.5

Consumer installment loans		1.9	1.9
<b>Total</b>	69.3%	30.7%	100.0%

*Credit Cards*

Our credit card products are loans we extend through open-ended revolving credit card accounts. We offer two principal types of credit cards: private label credit cards and Dual Cards.

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### *Private Label Credit Cards*

Private label credit cards are partner-branded credit cards (e.g., Lowe's or Amazon) or program-branded credit cards (e.g., CarCareONE or CareCredit) that are used primarily for the purchase of goods and services from the partner or within the program network. In addition, in some cases, cardholders may be permitted to access their credit card accounts for cash advances.

Credit under a private label credit card typically is extended on either standard terms only, which means accounts are assessed periodic interest charges using an agreed non-promotional fixed and/or variable interest rate, or pursuant to a promotional financing offer, involving deferred interest, no interest or reduced interest during a set promotional period. Promotional periods typically range between six and 48 months, but we may agree to longer terms with the partner. In almost all cases we receive a merchant discount from our partners to compensate us for all or part of the cost of providing the promotional financing feature. The terms of these promotions vary by partner, but generally the longer the deferred interest, reduced interest or interest-free period, the greater the partner's merchant discount. Some offers permit customers to pay for a purchase in equal monthly payments with no interest or at a reduced interest rate, rather than deferring or delaying interest charges.

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. In CareCredit, standard rate financing generally applies to charges under \$200.

We typically do not charge interchange or other fees to our partners when a customer uses a private label credit card to purchase our partners' goods and services through our payment system.

Most of our private label credit card business is in the United States. For some of our partners who have locations in Canada, we also support the issuance and acceptance of private label credit cards at their locations in Canada and from customers in Canada.

### *Dual Cards*

Our proprietary Dual Cards are Visa, MasterCard, American Express or Discover general purpose credit cards that are co-branded with our partner's own brand and may be used to make purchases of goods or services from our partner (functioning as a private label credit card) or purchases from others wherever cards from those card networks are accepted (functioning as a general purpose credit card) or cash advance transactions.

We have been granted two U.S. patents relating to the process by which our Dual Cards function as a private label credit card when used to make purchases from our partners and function as a general purpose credit card when used on the systems of other credit card associations.

Credit extended under our Dual Cards typically is extended on standard terms only. Currently, only Retail Card offers Dual Cards. At September 30, 2014, we offered Dual Cards through 14 of our 19 continuing Retail Card programs. We expect to continue to increase the number of partner programs that offer Dual Cards and seek to increase the portion of our loan receivables attributable to Dual Cards.

Charges using a Dual Card generate interchange income for us in connection with purchases made by cardholders other than in store or online from the partner.

We currently do not issue Dual Cards in Canada.

*Loyalty Programs*

We operate a number of loyalty programs in our Retail Card platform that are designed to generate incremental purchase volume per customer, while reinforcing the value of the card and strengthening cardholder loyalty. These programs typically provide cardholders with rewards in the form of merchandise discounts that are earned by achieving a pre-set spending level on their private label credit card or Dual Card. Other programs provide cash back or reward points, which are redeemable for a variety of products or awards.

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### *Terms and Conditions*

As a general matter, the financial terms and conditions governing our credit card products vary by program and product type and change over time, although we seek to standardize the non-financial provisions consistently across all products. The terms and conditions of our credit card products are governed by a cardholder agreement and applicable laws and regulations.

We assign each card account a credit limit when the account is initially opened. Thereafter, we may increase or decrease individual credit limits from time to time, at our discretion, based primarily on our evaluation of the customer's creditworthiness and ability to pay. To the extent required by law or regulation, we send a monthly billing statement to each customer who has an outstanding debit or credit balance.

For the vast majority of accounts, periodic interest charges are calculated using the daily balance method, which results in daily compounding of periodic interest charges, subject to, at times, a grace period on new purchases. Cash advances are not subject to a grace period, and some credit card programs do not provide a grace period for promotional purchases. In addition to periodic interest charges, we may impose other charges and fees on credit card accounts, including, as applicable and provided in the cardholder agreement, cash advance transaction fees and late fees where a customer has not paid at least the minimum payment due by the required due date.

Typically, each customer with an outstanding debit balance on his or her credit card account must make a minimum payment each month. A customer may pay the total amount due at any time without penalty. We also may enter into arrangements with delinquent customers to extend or otherwise change payment schedules, and to waive interest charges and/or fees.

### *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 segment. Installment loans are closed-end credit accounts where the customer pays down the outstanding balance in installments. The terms of our installment loans are governed by customer agreements and applicable laws and regulations.

Installment loans are assessed periodic interest charges using fixed interest rates. In addition to periodic interest charges, we may impose other charges and fees on loan accounts, including late fees where a customer has not made the required payment by the required due date and returned payment fees.

### *Debt Cancellation Products*

We offer a debt cancellation product to our credit card customers. Customers who choose to purchase this product are charged a monthly fee based on their ending balance on each billing statement. In return, the Bank will cancel all or a portion of a customer's credit card balance in the event of certain qualifying life events. In October 2012, we ceased



telesales of debt cancellation protection products and only offer a debt cancellation product online and, on a limited basis, by direct mail.

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**Table of Contents****Direct Banking**

Through the Bank, we offer our customers a range of FDIC-insured deposit products directly through our Optimizer<sup>plus</sup> platform. The Bank also takes deposits through third-party securities brokerage firms that offer our FDIC-insured deposit products to their customers. At September 30, 2014, we had \$32.7 billion in deposits, \$18.3 billion of which were direct deposits (which includes deposits from banks and financial institutions) and \$14.4 billion of which were brokered deposits. Direct deposits were received from 142,000 customers that had a total of 234,000 accounts. 4% of our direct deposits (by volume) and 1% of these accounts (by number) were from commercial customers and all the others were from retail customers. The Bank had an 84% retention rate on certificates of deposit balances up for renewal for the nine months ended September 30, 2014. FDIC insurance is provided for our deposit products up to applicable limits.

In January 2013, we acquired the deposit business of MetLife, which is a direct banking platform that at the time had \$6.4 billion in deposits (\$6.0 billion in direct deposits). The acquisition of this direct-to-consumer retail banking platform is a key part of our strategy to increase our deposit base as a source of stable and diversified low cost funding going forward. Our online platform is highly scalable allowing us to expand without having to rely on a traditional brick and mortar branch network. We expect growth in our direct banking platform to come primarily from retail deposits.

We are growing our direct banking operations and believe we are well-positioned to benefit from the consumer driven-shift from branch banking to direct banking. According to 2012 and 2013 American Bankers Association surveys, the percentage of customers who prefer to do their banking via direct channels (internet, mail, phone and mobile) increased from 53% to 61% between 2010 and 2013, while those who prefer branch banking declined from 25% to 18% over the same period.

Our deposit products include certificates of deposit, IRAs, money market accounts and savings accounts. We market our deposit products through multiple channels including our online, print and radio advertising. Customers can apply for, fund, and service their deposit accounts online or via phone. We have a dedicated staff within our call centers to service deposit accounts. Historically, we also offered a partner-branded prepaid re-loadable card product to the customers of a few of our Retail Card partners. We had an aggregate of \$172.1 million of deposits in the Bank at December 31, 2013 attributable to this product. In the first quarter of 2014, we sold substantially all of these deposits and no longer offer this product, because the program through which we offered the product did not provide satisfactory returns.

To attract new deposits and retain existing ones, we intend to introduce new deposit and credit products and enhancements to our existing products. These new and enhanced products may include the introduction of checking accounts, overdraft protection lines of credit, a bill payment account feature and Synchrony-branded debit and general purpose credit cards, as well as enhanced small business deposit accounts and expanded affinity offers. Our focus on deposit-taking and related branding efforts will also enable us to offer other branded direct-banking products more efficiently in the future.

Fidelity National Information Services, Inc. ( FIS ) provides our platform for online retail deposits including a customer-facing servicing platform that customers can access via our marketing site. FIS also provides supplemental back office, IT production and IT development support for our direct banking operations.

We seek to differentiate our deposit product offerings from our competitors on the basis of brand, reputation, convenience, customer service and value. We have launched a subbrand for our deposit products called Optimizer<sup>plus</sup>, which emphasizes reliability, trust, security, convenience and attractive rates. Optimizer<sup>plus</sup> Perks offers rewards to

customers based on their tenure or balance amounts, including reduced fees, travel offers and concierge telephone support.

### **Credit Risk Management**

Credit risk management is a critical component of our management and growth strategy. Credit risk refers to the risk of loss arising from customer default when customers are unable or unwilling to meet their financial obligations to us. Our credit risk arising from consumer credit products is generally highly diversified across 114.2 million open accounts at September 30, 2014, without significant individual exposures. We manage credit risk primarily according to customer segments and product types.

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### *Customer Account Acquisition*

We have developed programs to promote credit with each of our partners and have developed varying credit decision guidelines for the different partners. We originate credit accounts through several different channels, including in-store, mail, internet, mobile, telephone and pre-approved solicitations. In addition, we have and may in the future acquire accounts that were originated by third parties in connection with establishing programs with new partners.

Regardless of the channel, in making the initial credit approval decision to open a credit card or other account or otherwise grant credit, we follow a series of credit risk and underwriting procedures. In most cases, when applications are made in-store or by internet or mobile, the process is fully automated and applicants are notified of our credit decision immediately. We generally obtain certain information provided by the applicant and obtain a credit bureau report from one of the major credit bureaus. The credit report information we obtain is electronically transmitted into industry scoring models and our proprietary scoring models developed to calculate a credit score. The risk management team determines in advance the qualifying credit scores and initial credit line assignments for each portfolio and product type. We periodically analyze performance trends of accounts originated at different score levels as compared to projected performance, and adjust the minimum score or the opening credit limit to manage risk. Different scoring models may be used depending upon bureau type and account source.

We also apply additional application screens based on various inputs, including credit bureau information, to help identify potential fraud and prior bankruptcies before qualifying the application for approval. We compare applicants names against the Specially Designated Nationals list maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury ( OFAC ), as well as screens that account for adherence to USA PATRIOT Act of 2001 (the Patriot Act ) and Credit Card Accountability Responsibility and Disclosure Act of 2009 (the CARD Act ) requirements, including ability to pay requirements.

We occasionally use pre-approved account solicitations for certain programs. Potential applicants are pre-screened using information provided by our partner or obtained from outside lists, and qualified individuals receive a pre-approved credit offer by mail or email.

### *Acquired Portfolio Evaluation*

Our risk management team evaluates each portfolio we acquire in connection with establishing programs with new partners to ensure the portfolio satisfies our credit risk guidelines. As part of this review, we receive data on the third-party accounts and loans, which allows us to assess the portfolio on the basis of certain core characteristics, such as historical performance of the assets and distributions of credit and loss information. In addition, we benchmark potential portfolio acquisitions against our existing programs to assess relative current and projected risks. Finally, our risk management team must approve the acquisition, taking into account the results of our risk assessment process. Once assets are migrated to our systems, our account management protocols will apply immediately as described below under Customer Account Management, Credit Authorizations of Individual Transactions and Collections.

### *Customer Account Management*

We regularly assess the credit risk exposure of our customer accounts. This ongoing assessment includes information relating to the customer s performance with respect to its account with us, as well as information from credit bureaus relating to the customer s broader credit performance. To monitor and control the quality of our loan portfolio (including the portion of the portfolio originated by third parties), we use behavioral scoring models that we have developed to score each active account on its monthly cycle date. Proprietary risk models, together with the FICO scores obtained on each active account no less than quarterly, are an integral part of our credit decision-making

process. Depending on the duration of the customer's account, risk profile and other performance metrics, the account may be subject to a range of account actions, including limits on transaction authorization and increases or decreases in purchase and cash credit limits.

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### *Credit Authorizations of Individual Transactions*

Once an account has been opened, when a credit card is used to make a purchase in-store at one of our partners locations or on-line, point-of-sale terminals or on-line sites have an on-line connection with our credit authorization system, which allows for real-time updating of accounts. Each potential sales transaction is passed through a transaction authorization system, which takes into account a variety of behavior and risk factors to determine whether the transaction should be approved or declined, and whether a credit limit adjustment is warranted.

### *Fraud Investigation*

We provide follow up and research with respect to different types of fraud such as fraud rings, new account fraud and transactional fraud. We have developed a proprietary fraud model to identify new account fraud and deployed tools that help identify transaction purchase behavior outside a customer's established pattern. Our proprietary model is also complemented by externally sourced models and tools used across the industry to better identify fraud and protect our customers. We also are continuously implementing new and improved technologies to detect and prevent fraud. Recently, we began implementing embedded security chip technology (such as the so-called EMV chips) with some of our partners.

### *Collections*

All monthly billing statements of accounts with past due amounts include a request for payment of these amounts. Collections personnel generally initiate contact with customers within 30 days after any portion of their balance becomes past due. The nature and the timing of the initial contact, typically a personal call, e-mail, text message or letter, are determined by a review of the customer's prior account activity and payment habits.

We re-evaluate our collection efforts and consider the implementation of other techniques, including internal collection activities and use of external vendors, as a customer becomes increasingly delinquent. We limit our exposure to delinquencies through controls within the transaction authorization processes, the imposition of credit limits and criteria-based account suspension and revocation processes. In certain situations, we may enter into arrangements to extend or otherwise change payment schedules, decrease interest rates and/or waive fees to aid customers experiencing financial difficulties in their efforts to become current on their obligations to us.

## **Customer Service**

Customer service is an important feature of our relationship with our partners. Our customers can contact us via phone, mail, email, eService and eChat. During the year ended December 31, 2013, we handled approximately 174 million calls.

We assign a dedicated toll-free customer service phone number to each of our Retail Card programs. Our Payment Solutions customers access customer service through one general purpose toll-free customer service phone number (except for a few large Payment Solutions programs, which have dedicated toll-free numbers). Our CareCredit platform has its own, dedicated toll-free customer service phone number. We also have dedicated toll-free customer service phone numbers for our deposit business.

We service all programs through our nine domestic and two off-shore call centers. We also provide phone-based customer service through a third party vendor. Our off-shore facilities are located in Hyderabad, India and Manila, Philippines. We blend domestic and off-shore locations and seek optimal cost as an important part of our servicing strategy. Customer service for cards issued to customers in Canada is supported through agents based in the United

States.

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Given the nature of our business and the high volume of calls, we maintain several centers of excellence to ensure the quality of our customer service across all of our sites. These centers of excellence consist of quality assurance, customer experience, training, workforce and capacity planning, surveillance and process control, tactical operations center, business solutions and technology support.

### **Production Services**

Our production services organization oversees a number of services, including:

payment processing (more than 413 million paper and electronic payments in 2013);

embossing and mailing credit cards (approximately 43 million cards in 2013);

printing and mailing and eService delivery of credit card statements (more than 598 million paper and electronic statements in 2013); and

other letters mailed or sent electronically (more than 92 million in 2013).

All United States customer payments received by mail are processed at one of two centers located in Atlanta, Georgia and Longwood, Florida, both of which are operated by the Bank. United States credit card statement printing and mailing, card embossing and mailing and letter production and mailing for customers is provided through outsourced services with First Data Corporation ( First Data ). While these services are outsourced, we monitor and maintain oversight of these other services. First Data also produces our statements and other mailings for deposit customers.

Card production embossing and mailing and statement printing and mailing services related to cards issued to customers in Canada are outsourced to Canadian suppliers.

### **Technology**

We leverage information technology and deliver products and services that meet the needs of our partners and enable us to operate our business efficiently. The integration of our technology with our partners is at the core of our value proposition, enabling, among other things, customers to apply and buy at the point of sale, and many of our partners to settle transactions directly with us without an interchange fee. A key part of our strategic focus is the continued development of innovative, efficient, flexible technology and operational platforms to support marketing, risk management, account acquisition and account management, customer service, and new product development. We believe that the continued investment in and development of these platforms is an important part of our efforts to increase our competitive capabilities, reduce costs, improve quality and provide faster, more flexible technology services. Consequently, we continuously review capabilities and develop or acquire systems, processes and competencies to meet our business needs.

As part of our continuous efforts to enhance our technologies, we may either develop these capabilities internally or rely on third-party providers. We rely on third-party providers to help us deliver systems and operational infrastructure based on strategies and, in some cases, architecture, designed by us. These relationships include: First Data for our credit card transaction processing and production, and FIS for retail banking.



To protect our systems and technologies, and the consumer information stored on our systems, we employ security, backup and recovery systems and generally require the same of our most significant third-party service providers. Our information security policy and supporting standards and procedures (including multiple layers of security controls), are designed to ensure the confidentiality, integrity and availability of consumer data and ensure that access is limited to those with a business need. We evaluate the effectiveness of the key security controls through ongoing assessment and measurement. We have implemented a security program that is designed to provide oversight of third parties who store, process or have access to material consumer data.

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In addition, we perform, or cause to be performed, a variety of vulnerability and penetration testing on the platforms, systems and applications used to provide our products and services in an effort to reduce the risk that any attacks on these platforms, systems and applications are successful. We also perform periodic test and validation of our disaster recovery plans and require certain of our third parties to do so as well. In connection with the Separation, we must migrate, and in some cases, establish with third parties, key parts of our technology infrastructure, including our data centers.

## **Competition**

Our industry is highly competitive and is becoming more competitive. We compete for relationships with partners in connection with retaining existing or establishing new consumer credit programs. Our primary competitors for partners include major financial institutions such as Alliance Data, American Express, Capital One, Chase, Citibank, TD Bank and Wells Fargo, and to a lesser extent, potential partners own in-house financing capabilities. We compete for partners on the basis of a number of factors, including program financial and other terms, underwriting standards, marketing expertise, service levels, product and service offerings (including incentive and loyalty programs), technological capabilities and integration, brand and reputation. In addition, some of our competitors for partners have a business model that allows for their partners to manage underwriting (e.g., new account approval), customer service and collections, and other core banking responsibilities that we retain.

We also compete for customer usage of our products. Consumer credit provided, and credit card payments made, using our cards constitute only a small percentage of overall consumer credit provided and credit card payments in the United States. Consumers have numerous financing and payment options available to them. As a form of payment, our products compete with cash, checks, debit cards, Visa and MasterCard credit cards, as well as American Express, Discover Card, other private-label card brands, and, to a certain extent prepaid cards. We also compete with non-traditional providers such as PayPal. In the future, we expect our products will face increased competition from new emerging payment technologies, such as Apple Pay, Google Wallet, Softcard and Square, as well as consortia of merchants that are expected to combine payment systems to reduce interchange and other costs (e.g., MCX). We may also face increased competition from current competitors or others who introduce or embrace disruptive technology that significantly changes the consumer credit and payment industry. We compete for customers and their usage of our products, and to minimize transfers to competitors of our customers outstanding balances, based on a number of factors, including pricing (interest rates and fees), product offerings, credit limits, incentives (including loyalty programs) and customer service. Some of our competitors provide a broader selection of services, including home and automobile loans, debit cards and bank branch ATM access, which may position them better among customers who prefer to use a single financial institution to meet all of their financial needs. In addition, some of our competitors are substantially larger than we are, may have substantially greater resources than we do or may offer a broader range of products and services than we do. Moreover, some of our competitors, including new and emerging competitors in the digital and mobile payments space, are not subject to the same regulatory requirements or legislative scrutiny to which we are subject, which also could place us at a competitive disadvantage.

In our retail deposits business, we have acquisition and servicing capabilities similar to other direct banking competitors. We compete for deposits with traditional banks, and in seeking to grow our direct banking business we compete with other banks that have direct banking models similar to ours, such as Ally Financial, American Express, Capital One 360 (ING), Discover, Nationwide, Sallie Mae and USAA. Competition among direct banks is intense because online banking provides customers the ability to quickly and easily deposit and withdraw funds and open and close accounts in favor of products and services offered by competitors.

## **Intellectual Property**

We use a variety of methods, such as trademarks, patents, copyrights and trade secrets, to protect our intellectual property. We also place appropriate restrictions on our proprietary information to control access and prevent unauthorized disclosures. Our brands are important assets, and we take steps to protect the value of these assets and our reputation. Following the IPO, we launched our new brand, Synchrony, and expect to spend significant amounts over the next few years promoting our new brand.

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We have two patents for proprietary methods related to our Dual Cards. The patents were issued in 2005 and 2010 and expire in 2023 and 2027, respectively.

We recently filed trademark applications to protect our new name in the United States and certain other countries, and the applications are pending.

**Employees**

At December 31, 2013, we had 9,333 full time employees including 2,856 employees in global services (which is responsible for customer service and other administrative functions), 2,665 employees in operations, 1,163 employees in collections, 691 employees in risk management (including fraud), 623 employees in client development, 363 employees in marketing, 311 employees in information technology and 661 other employees in other functions. At December 31, 2013, our workforce consisted of 6,477 full time employees in the United States, 1,558 in India and 1,298 in the Philippines. None of our employees is represented by a labor union or is covered by a collective bargaining agreement. We have not experienced any material employment-related work stoppages and consider relations with our employees to be good. We also have relationships with third-party call center providers in the United States and other countries that provided us with additional contractors for customer service, collections and other functions.

**Facilities**

The table below sets out selected information on our principal facilities.

Location	Owned/Leased <sup>(1)</sup>
<b>Corporate Headquarters:</b>	
Stamford, CT	Leased
<b>Bank Headquarters:</b>	
Draper, UT	Leased
<b>Payment Processing Centers:</b>	
Atlanta, GA	Leased
Longwood, FL	Leased
<b>Customer Service Centers:</b>	
Canton, OH	Leased
Charlotte, NC	Leased
Frisco, TX	Leased
Hyderabad, India	Leased
Kettering, OH	Leased
Manila, Philippines	Leased
Manila, Philippines (Alabang)	Leased
Merriam, KS	Owned
Phoenix, AZ	Leased
Rapid City, SD	Leased
San Juan, PR	Leased
<b>Other Support Centers:</b>	

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Alpharetta, GA	Leased
Bellevue, WA	Leased
Bentonville, AR	Leased
Chicago, IL	Leased
Costa Mesa, CA	Leased
San Francisco, CA	Leased
San Jose, CA	Leased
St. Paul, MN	Leased
Van Buren, MI	Leased
Walnut Creek, CA	Leased
<b>Bank Retail Branch Location:</b>	
Bridgewater, NJ	Leased

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(1) In connection with the IPO, certain of these leased properties were assigned to us by GECC. In some cases GECC continues to have liability for obligations under the leases, and we have agreed to indemnify GECC for any costs or expenses related to those obligations.

Our corporate headquarters are located on a site in Stamford, Connecticut that is leased by GECC from a third party. The site contains three buildings, two of which we currently occupy completely and another which we occupy partially, with the remaining space occupied by other GE businesses. In connection with the completion of the IPO, we entered into an arms-length sublease agreement with GECC for our current facilities on this site. Our physical space and the technology services in Stamford are separate from the other GE businesses that operate there. GECC's current lease agreement expires September 30, 2016, and contains two remaining five-year renewal options.

We maintain small offices at a few of our United States partner locations pursuant to servicing, lease or license agreements. We also have several locations (in addition to those set forth above) where we use space leased or owned by GE or GECC and we intend to either exit or relocate these operations to other space to be leased directly by us.

We believe our space is adequate for our current needs and that suitable additional or substitute space will be available to accommodate the foreseeable expansion of our operations.

## **Risk Management**

Strong risk management is at the core of our business strategy and we have developed processes to manage the major categories of risk we encounter, namely credit, market, liquidity, operational and strategic risk. Historically, the risk function for substantially all of our operations has been managed through the risk management function at the Bank level. We have established an overall risk management function at the Synchrony level in connection with the IPO, building on our extensive, well-established risk management experience and processes at the Bank. The Bank maintains a substantial risk management function that is coordinated with our overall risk management. The following is a description of our overall risk management function, which is now substantially in place.

As described in greater detail below under Risk Management Roles and Responsibilities, we manage our enterprise risk using an integrated framework that includes board-level oversight, administration by a group of cross-functional management committees, and day-to-day implementation by a dedicated risk management team led by the Chief Risk Officer (CRO). The Risk Committee of our board of directors has responsibility for the oversight of our risk management program, and three other board committees have other oversight roles with respect to risk management. Several management committees and subcommittees have important roles and responsibilities in administering our risk management program, including the Enterprise Risk Management Committee (the ERMC), the Asset and Liability Management Committee (the ALCO) and the Investment Committee. This committee-focused governance structure provides a forum through which risk expertise is applied cross-functionally to all major decisions, including development of processes, policies and controls used by the CRO and risk management team to execute our risk management philosophy.

Our enterprise risk management philosophy is to ensure that all relevant risks in our business activities are appropriately identified, measured, monitored and controlled. Our approach in executing this philosophy focuses on leveraging our strong credit risk culture to drive enterprise risk management using a strong governance framework, a comprehensive enterprise risk assessment program and an effective risk appetite framework.



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### ***Risk Categories***

Our risk management is organized around five major risk categories: credit risk, market risk, liquidity risk, operational risk and strategic risk. We evaluate the potential impact of a risk event on us (including the Bank and other subsidiaries) by assessing the partner and customer, financial, reputational, and legal and regulatory impacts.

#### ***Credit Risk***

Credit risk is the risk of loss that arises when an obligor fails to meet the terms of an obligation. Credit risk includes exposure to consumer credit risk from customer loans as well as institutional credit risk, principally from our partners. Consumer credit risk is one of the most significant risks we face. See [Credit Risk Management](#) for a description of our customer credit risk management procedures.

#### ***Market Risk***

Market risk is the risk of loss due to changes in external market variables such as interest rates and asset values. Our principal market risk exposures arise from volatility in interest rates and their impact on our economic value, capitalization levels and earnings. Market risk is managed through our ALCO processes, and is subject to policy and risk appetite limits for both earnings at risk and the economic value of equity sensitivity analysis. The ALCO reviews market risk scenario results on a monthly basis, and interest rate risk appetite metrics are reviewed on a quarterly basis by the ERMC and our board of directors.

#### ***Liquidity Risk***

Liquidity risk is the risk that an institution's financial condition or overall safety and soundness are adversely affected by a real or perceived inability to meet contractual obligations and support planned growth. Our primary liquidity objective is to maintain a liquidity profile that will enable us, even in times of stress or market disruption, to fund our existing assets and meet all of our liabilities in a timely manner and at an acceptable cost. Policy and risk appetite limits require us and the Bank (and other entities within our business, as applicable) to ensure that sufficient liquid assets are available to survive liquidity stresses over a specified time period. Our risk appetite policies also call for funding diversification, monitoring early warning indicators in the capital markets, and limits on the amounts of certificates of deposit maturities in any one month. Our ALCO reviews liquidity exposures continuously in the context of approved policy and risk appetite limits and reports results quarterly to the ERMC and our board of directors.

#### ***Operational Risk***

Operational risk is the risk of loss arising from inadequate or failed processes, people or systems, external events (i.e. natural disasters) or compliance, reputational or legal matters, and includes any of those risks as they relate directly to us and our subsidiaries, including the Bank, as well as to third parties with whom we contract or otherwise do business. Compliance risk arises from the failure to adhere to applicable laws, rules, regulations and internal policies and procedures. Operational risk also includes model risk relating to various financial and other models used by us and our subsidiaries, including the Bank, and is subject to a formal governance process.

#### ***Strategic Risk***

Strategic risk consists of the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. Our operational risk team will conduct a formal strategic risk assessment at least



annually, and establish risk mitigation plans for top strategic risks. The Bank's New Product Innovation Council assesses the strategic viability and consistency of each new Bank product or service. New initiatives require the approval of the ERMC and our board of directors, in the case of projects deemed more risky or critical to the mission of the business.

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### ***Risk Management Roles and Responsibilities***

Responsibility for risk management flows to individuals and entities throughout our Company, including our board of directors, various board and management committees and senior management. We believe our credit risk culture has facilitated, and will continue to facilitate, the evolution of an effective risk presence across the Company. Set forth below is a description of the roles and responsibilities related to the key elements of our risk management framework.

#### ***Board of Directors***

Our board of directors, among other things, has approved the enterprise-wide risk appetite statement and framework for the Company, as well as certain other risk management policies and oversees the Company's strategic plan and enterprise-wide risk management program. Our board of directors may assign certain risk management activities to applicable committees and management.

#### ***Board Committees***

Our board of directors has established four committees that assist the board in its oversight of our risk management. These committees and their risk-related roles are described below.

***Audit Committee.*** In coordination with the Risk Committees of the Company and the Bank, the Audit Committee's role, among other things, is to review: (i) the Company's major financial risk exposures and the steps management has taken to monitor and control these risks; (ii) the Company's risk assessment and risk management practices and the guidelines, policies and processes for risk assessment and risk management; (iii) the organization, performance and audit findings of our internal audit function; (iv) our disclosure and internal controls; and (v) the Company's risk guidelines and policies relating to financial statements, financial systems, financial reporting processes, compliance and auditing, and allowance for loan losses.

***Nominating and Corporate Governance Committee.*** The Nominating and Corporate Governance Committee's role, among other things, is to: (i) review and approve certain transactions with related persons; (ii) review and resolve any conflict of interest involving directors or executive officers; (iii) oversee the risks, if any, related to corporate governance structure and practices; and (iv) identify and discuss with management the risks, if any, related to social responsibility actions and public policy initiatives.

***Management Development and Compensation Committee.*** The Management Development and Compensation Committee's role, among other things, is to: (i) review our incentive compensation arrangements with a view to appropriately balancing risk and financial results in a manner that does not encourage employees to expose us or any of our subsidiaries to imprudent risks, and are consistent with safety and soundness; and (ii) review (with input from our CRO and the Bank's CRO) the relationship between risk management policies and practices, corporate strategies and senior executive compensation.

***Risk Committee.*** The Risk Committee's role, among other things, is to: (i) assist our board of directors in its oversight of the Company's enterprise-wide risk-management framework, including as it relates to credit, investment, market, liquidity, operational compliance and strategic risks; (ii) review and, at least annually, approve the Company's risk governance framework and risk assessment and risk management practices, guidelines and policies (including significant policies that management uses to manage credit and investment, market, liquidity, operational, compliance and strategic risks); (iii) review and, at least annually, recommend to our board of directors for approval the Company's enterprise-wide risk appetite (including the Company's liquidity risk tolerance), and review and approve the Company's strategy relating to managing key risks and other policies on the establishment of risk limits as well as the

guidelines, policies and processes for monitoring and mitigating such risks; (iv) meet separately on a regular basis with our CRO and (in coordination with the Bank's Risk Committee, as appropriate) the Bank's CRO; (v) receive periodic reports from management on metrics used to measure, monitor and manage known and emerging risks, including management's view on acceptable and appropriate levels of exposure; (vi) receive reports from our internal audit, risk management and independent liquidity review functions on the results of risk management reviews and assessments; (vii) review and approve, at least annually, the Company's enterprise-wide capital and liquidity framework (including its contingency funding plan) and, in coordination with the Bank's Risk Committee, review, at least quarterly, the Bank's allowance for loan losses, liquidity policy and risk appetite, regulatory capital policy and ratios and internal capital adequacy assessment processes and, at least annually, the Bank's annual capital plan and recovery and resolution plan; (viii) review, at least semi-annually, information from senior management regarding whether the Company is operating within its established risk appetite; (ix) review the status of financial services regulatory examinations; (x) review the independence, authority and effectiveness of the Company's risk management function and independent liquidity review function; (xi) approve the appointment of, evaluate and, when appropriate, replace, the CRO; and (xii) review disclosure regarding risk contained in the Company's annual and quarterly reports.

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### *Management Committees*

We have established two management committees with important roles and responsibilities in our risk management function: the ERM (of which ALCO is a subcommittee) and the Investment Committee. These committees and their risk-related roles are described below.

*ERM.* A management committee under the oversight of the Risk Committee, the ERM is comprised of our senior executives and chaired by the CRO. The ERM has responsibility for identifying, assessing, monitoring and mitigating risks across the Company and for reporting on material risks to our Risk Committee. The responsibilities of the ERM include the day-to-day management of risks impacting the Company and ensuring compliance across the Company with the overall risk appetite. The ERM also oversees establishment of risk management policies, the performance and functioning of the relevant overall risk management function, and the implementation of appropriate governance activities and systems that support control of risks.

*ALCO.* A subcommittee of the ERM, the ALCO is comprised of our senior executives and chaired by the Treasurer. It identifies, measures, monitors, manages and controls market, liquidity and credit (investments and bank relationships) risks to the Company's balance sheet. ALCO activities include reviewing and monitoring cash management, investments, liquidity, funding and foreign exchange risk activities and overseeing the safe, sound and efficient operation of the Company in compliance with applicable policies, laws and regulations.

*Investment Committee.* A management committee under the oversight of the board of directors and its Risk Committee, the Investment Committee is comprised of our senior executives and chaired by the CRO. The Investment Committee has responsibility for reviewing and approving critical investment activities of the Company, such as equity investments, acquisitions, dispositions, joint ventures, portfolio deals and investment issues regarding the Company. It is also responsible for overseeing the Company's approach to managing its investments. The Committee may make decisions only within the authority that is granted to it by the board of directors and must escalate any investment proposals outside of its authority to the board of directors for final decision.

### *Chief Executive Officer, Chief Risk Officer and Other Senior Officers*

Our Chief Executive Officer has ultimate responsibility for ensuring the management of the Company's risk in accordance with the Company's approved risk appetite statement. The Chief Executive Officer also provides leadership in communicating the risk appetite to internal and external stakeholders so as to help embed appropriate risk taking into the overall risk culture.

The CRO manages our risk management team and, as chairperson of the ERM, is responsible for establishing and implementing standards for the identification, management and measurement of risk on an enterprise-wide basis, as well as for monitoring and reporting such risks. In collaboration with our Chief Executive Officer and the Chief Financial Officer, the CRO has responsibility for developing an appropriate risk appetite with corresponding limits that aligns with supervisory expectations and this risk appetite statement has been approved by our board of directors. The CRO regularly reports to our board of directors and the Risk Committee on risk management matters.

Our senior executive officers are responsible for ensuring that their respective functions operate within established risk limits, in accordance with the Company's enterprise risk management policy. As members of the ERM, they are also responsible for identifying risks, considering risk when developing strategic plans, budgets and new products and implementing appropriate risk controls when pursuing business strategies and objectives. In addition, senior executive officers are responsible for deploying sufficient financial resources and qualified personnel to manage the risks inherent in the Company's business activities.



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### *Risk Management Team*

Our risk management team is led by the CRO and provide oversight of our risk profile and the risk profiles of our subsidiaries. This provides a second line of defense to the functional organizations primary role in creating an appropriate control environment for each functional process.

### *Compliance Team*

Our compliance team is responsible for establishing and maintaining a compliance program that includes compliance risk identification, assessment, policy development, and monitoring, testing, training and reporting activities.

### *Internal Audit Team*

The internal audit team is responsible for performing periodic, independent reviews and testing of compliance with Company's and the Bank's risk management policies and standards, as well as with regulatory guidance and industry best practices. The internal audit team also assesses the design and operating effectiveness of these policies and standards and validates risk management controls.

### ***Enterprise Risk Assessment Program***

Enterprise risk assessments play an important role in directing our risk management activities to prioritize and focus on appropriate risks. We will conduct assessments at least annually for each risk category and update those assessments periodically. The risk leader for each risk category will direct the assessment process, reviewing not only the current type and level of risks, but also compliance with regulatory guidance and industry best practices as well as policy and procedural compliance. Progress against any action plans that have been put into place to manage key risks will be tracked and reported to the ERM. C.

Stress testing efforts as part of the risk assessment process continue to evolve as we model scenarios exploring multi-risk impacts on profitability, liquidity and capital levels. Stress testing activities provide a forward-looking assessment of risks and losses. We seek to integrate the results of our stress testing into our strategic, capital and liquidity planning processes, and will use the results to identify portfolio vulnerabilities and develop risk mitigation strategies or contingency plans across a range of stressed conditions.

### ***Risk Appetite Framework***

Prior to the IPO, we operated in accordance with a risk appetite statement setting forth our objectives, plans and limits, and expressing our preferences with respect to risk-taking activities in the context of our overall business goals. A substantially similar risk appetite statement was approved in connection with the IPO by the ERM, the Risk Committee and our board of directors, with delegated authority to the CRO for implementation throughout the Company. The risk appetite statement serves as a tool to preclude activities that are inconsistent with our business and risk strategy. The risk appetite statement will be reviewed and approved at least annually as part of our business planning process and will be modified, as necessary, to include updated risk tolerances by risk category, enabling us to meet prescribed goals while continuing to operate within our established risk boundaries.

### **History**

Our roots in consumer finance trace back to 1932, when GE began providing financing for consumers to help meet demand for GE appliances. The predecessor of the Bank, GE Capital Consumer Card Co., was established in 1988

under a previous name, Monogram Bank, USA, a limited purpose credit card bank, and was converted to a federally chartered savings association in 2003. On February 7, 2005, Monogram Credit Card Bank of Georgia (a subsidiary of GE Capital Consumer Card Co.) merged into GE Capital Consumer Card Co. and the surviving entity changed its name to GE Money Bank. GE Money Bank changed its name to GE Capital Retail Bank on October 1, 2011. On June 2, 2014, GE Capital Retail Bank changed its name to Synchrony Bank.

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Synchrony is a holding company for the legal entities that historically conducted GE's North American retail finance business. Synchrony was incorporated in Delaware on September 12, 2003, but prior to April 1, 2013 conducted no business. During the period from April 1, 2013 to September 30, 2013, as part of a regulatory restructuring, substantially all of the assets and operations of GE's North American retail finance business, including the Bank, were transferred to Synchrony. The remaining assets and operations of that business subsequently were transferred to Synchrony.

## **Regulation**

### **General**

Our business, including our relationships with our customers, is subject to extensive 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, Synchrony is subject to extensive regulation, supervision and examination by the Federal Reserve Board. Prior to July 21, 2011, savings and loan holding companies, such as the Bank's parent before Synchrony, were subject to regulation by the OTS. As a large provider of consumer financial services, we are also subject to extensive regulation, supervision and examination by the CFPB. Until the GE SLHC Deregistration, we will be controlled by GECC, which is also a savings and loan holding company and is subject to extensive regulation, supervision and examination by the Federal Reserve Board.

The Bank is a federally chartered savings association. As such, the Bank is subject to extensive 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.

### **The Dodd-Frank Wall Street Reform and Consumer Protection Act**

The Dodd-Frank Act, which was enacted in July 2010, significantly restructured the financial regulatory regime in the United States. As discussed further throughout this section, certain aspects of the Dodd-Frank Act are subject to further rulemaking that will take effect over several years, making it difficult to anticipate the overall financial impact on us or across the industry. See also Item 1A. Risk Factors Risks Relating to Regulation The Dodd-Frank Act has had, and may continue to have, a significant impact on our business, financial condition and results of operations.

### **Savings and Loan Holding Company Regulation**

#### ***Overview***

As a savings and loan holding company, we are required to register and file periodic reports with, and are subject to extensive regulation, supervision and examination by, the Federal Reserve Board. The Federal Reserve Board has adopted guidelines establishing safety and soundness standards on such matters as liquidity risk management, securitizations, operational risk management, internal controls and audit systems, business continuity, and compensation and other employee benefits. We are regularly reviewed and examined by the Federal Reserve Board, which results in supervisory comments and directions relating to many aspects of our business that require our response and attention. Our parent, GECC, as a savings and loan holding company, is also regularly reviewed and examined by the Federal Reserve Board, which results in supervisory comments and directions relating to many



aspects of GECC's business generally and our business specifically, that require response and attention.

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The Federal Reserve Board has broad enforcement authority over us and our subsidiaries (other than the Bank and its subsidiaries). Under the Dodd-Frank Act, we are required to serve as a source of financial strength for any insured depository institution that we control, such as the Bank. In addition, until the GE SLHC Deregistration, we will be controlled by GECC, which has its own regulatory obligations as a savings and loan holding company and as a nonbank SIFI (as defined below). We may be affected by those obligations of GECC. See Item 1A. Risk Factors Risks Relating to Regulation As long as we are controlled by GECC for bank regulatory purposes, regulation and supervision of GECC could adversely affect us.

***Capital***

As a savings and loan holding company, Synchrony historically has not been required to maintain any specific amount of minimum capital. Beginning as early as 2015, however, we expect that Synchrony will be subject to capital requirements similar to those applicable to the Bank. In addition, until the GE SLHC Deregistration, we will be controlled by GECC, which itself is expected to be subject to capital requirements similar to those which apply to the Bank. These capital requirements have recently been substantially revised, including as a result of Basel III and the requirements of the Dodd-Frank Act. Although we cannot predict the effects of the newly adopted rules implementing Basel III and the Dodd-Frank Act, Synchrony and GECC expect to be subject to increasingly stringent capital adequacy standards in the future. See Item 1A. Risk Factors Risks Relating to Regulation As long as we are controlled by GECC for bank regulatory purposes, regulation and supervision of GECC could adversely affect us.

The following are the minimum capital ratios to which we and GECC expect to be subject starting as early as 2015:

under the Basel III standardized approach, a Tier 1 common equity to risk-weighted assets ratio of 7% (the minimum of 4.5% plus a fully phased-in mandatory conservation buffer of 2.5%), a Tier 1 capital to risk-weighted assets ratio of 8.5% (the minimum of 6% plus a fully phased-in mandatory conservation buffer of 2.5%), and a total capital to risk-weighted assets ratio of 10.5% (a minimum of 8% plus a fully phased-in mandatory conservation buffer of 2.5%);

stress-tested minimum capital ratios described above of 5% Tier 1 common capital to risk-weighted assets, 6% Tier 1 capital to risk-weighted assets and 8% total capital to risk-weighted assets;

a leverage ratio of Tier 1 capital to total exposures of 4%; and

in the case of GECC, a stress-tested minimum supplemental leverage ratio of 3%.

For a discussion of our capital ratios, see Item 2. Financial Information Management's Discussion and Analysis of Financial Condition and Results of Operations Capital.

When we and GECC become subject to capital requirements, we and GECC will also be required to conduct stress tests on an annual basis. Under the Federal Reserve Board's stress test regulations, we and GECC will each be required to utilize stress-testing methodologies providing for results under at least three different sets of conditions, including baseline, adverse and severely adverse conditions. In addition, as part of meeting our minimum capital requirements, we and GECC may be required to comply with the Federal Reserve Board's Comprehensive Capital Analysis and

Review ( CCAR ) process, or some modified version of the CCAR process, which would measure our minimum capital requirement levels under various stress scenarios. In connection with such a process, we and GECC may be required to develop for the Federal Reserve Board's review and approval a capital plan that will include how we and GECC will meet our minimum capital requirements under specified stress scenarios.

***Dividends and Stock Repurchases***

We are limited in our ability to pay dividends or repurchase our stock by the Federal Reserve Board, including on the basis that doing so would be an unsafe or unsound banking practice. If we intend to declare or pay a dividend, we generally will be required to inform and consult with the Federal Reserve Board in advance to ensure that such dividend does not raise supervisory concerns. It is the policy of the Federal Reserve Board that a savings and loan holding company like us should generally pay dividends on common stock only out of earnings, and only if prospective earnings retention is consistent with the company's capital needs and overall current and prospective financial condition.

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According to guidance from the Federal Reserve Board, our dividend policies will be assessed against, among other things, our ability to achieve applicable Basel III capital ratio requirements. If we do not achieve applicable Basel III capital ratio requirements when they are fully phased-in, we may not be able to pay dividends. Although we currently expect to meet the applicable final Basel III capital ratio requirements, inclusive of any applicable capital conservation buffer, when they are fully phased in by the Federal Reserve Board, we cannot be sure that we will meet those requirements or even if we do, if we will be able to pay dividends.

We also will be required to inform and consult with the Federal Reserve Board in advance of redeeming or repurchasing our stock if the result will be a net reduction in our equity compared to our equity as of the beginning of the quarter in which the redemption or repurchase occurs. In evaluating the appropriateness of a proposed redemption or repurchase of stock, the Federal Reserve Board will consider, among other things, the potential loss that we may suffer from the prospective need to increase reserves and write down assets as a result of continued asset deterioration, and our ability to raise additional common equity and other capital to replace the stock that will be redeemed or repurchased. The Federal Reserve Board also will consider the potential negative effects on our capital structure of replacing common stock with any lower-tier form of regulatory capital issued. Moreover, the approval process for any capital plan we are required to submit could result in restrictions on our ability to pay dividends or make other capital distributions.

Until the GE SLHC Deregistration, we will be controlled by GECC, which as a savings and loan holding company is subject to all of the same regulatory requirements regarding dividends and stock repurchases and redemptions to which we are subject. Accordingly, until the GE SLHC Deregistration, our ability to pay dividends and repurchase our shares may be affected by GECC's ability to meet the same requirements to which we are subject. In addition, the Financial Stability Oversight Council has designated GECC as a nonbank systemically important financial institution (a nonbank SIFI) under the Dodd-Frank Act. As a nonbank SIFI, GECC may be required to provide a capital plan for Federal Reserve Board approval that includes proposed capital distributions (including dividends and stock redemptions or repurchases) not only by GECC but also by entities controlled by GECC, such as us. As long as we are controlled by GECC for bank regulatory purposes, any such capital plan requirement imposed on GECC by the Federal Reserve Board could affect our ability to pay dividends and repurchase our shares or redeem the notes prior to maturity.

***Activities***

In general, savings and loan holding companies may only conduct, or acquire control of companies engaged in, financial activities specified in the relevant provisions of the Bank Holding Company Act and Savings and Loan Holding Company Act. We and each of our current parent companies are not subject to these activity restrictions and therefore are permitted to engage in non-financial activities, because we are grandfathered unitary savings and loan holding companies. This grandfathered status is based on the fact that our parent companies, GE and GECC, became grandfathered unitary savings and loan holding companies through the conversion of GE Capital Retail Bank from a state bank to a federal savings bank under an application pending with the OTS before May 4, 1999. We succeeded to our parent companies' grandfathered status upon becoming a savings and loan holding company on April 1, 2013.

In an effort to ensure that we preserve our status as a grandfathered unitary savings and loan holding company following the IPO, we and the IPO underwriters agreed that we and the IPO underwriters would not knowingly make a stock allocation in the IPO to any investor (including any known subsidiary and affiliate) that results in an investor owning or controlling more than 4.99% of our capital stock entitled to vote generally in the election of directors that is outstanding following the IPO. Further, our certificate of incorporation provides that until the earlier to occur of: (i) the time immediately prior to the Split-off and (ii) the GE SLHC Deregistration, no stockholder or group (other than GE or its affiliates and certain other exempt persons) shall have the right to vote more than 4.99% of our capital

stock entitled to vote generally in the election of directors.

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We are not aware of any stockholder or group (other than GE or its affiliates) that has acquired, or otherwise owns or controls more than 4.99% of our capital stock, including through the IPO. Assuming the GE SLHC Deregistration occurs, and possibly at the Separation if it occurs prior to the GE SLHC Deregistration, we expect we will then no longer qualify to be a grandfathered unitary savings and loan holding company. See Item 1A. Risk Factors Risks Relating to Our Separation from GE We need Federal Reserve Board approval to continue to be a savings and loan holding company following the GE SLHC Deregistration. We may not receive this approval in a timely manner or at all, and additional approval conditions beyond what we are anticipating may be imposed that prevent or delay the Separation or the GE SLHC Deregistration or require us to incur significant additional expense. If we were no longer to qualify to be a grandfathered unitary savings and loan holding company, we would be subject to the activity restrictions. In that event, although we are not currently engaged in non-financial activities, we will also need to submit to the Federal Reserve Board a request to become a financial holding company in order to engage in activities that are permissible only for savings and loan holding companies that are treated as financial holding companies (including to continue to obtain financing through our securitization programs).

Even as a grandfathered unitary savings and loan holding company (and, until the GE SLHC Deregistration, as a subsidiary of GECC, which is also a savings and loan holding company), we and the Bank are subject to banking laws and regulations that limit in certain respects the types of acquisitions and investments that we can make. For example, certain acquisitions of and investments in depository institutions or their holding companies that we undertake are subject to the prior review and approval of our banking regulators, including the Federal Reserve Board, the OCC and the FDIC. Our banking regulators have broad discretion on whether to approve such acquisitions and investments. In deciding whether to approve a proposed acquisition or investment, federal bank regulators may consider, among other factors: (i) the effect of the acquisition or investment on competition, (ii) our (and, until the GE SLHC Deregistration, GECC's) financial condition and future prospects, including current and projected capital ratios and levels, (iii) the competence, experience and integrity of our (and, until the GE SLHC Deregistration, GECC's) management and its (and their) record of compliance with laws and regulations, (iv) the convenience and needs of the communities to be served, including our (and, until the GE SLHC Deregistration, GECC's) record of compliance under the Community Reinvestment Act (the CRA), (v) our (and, until the GE SLHC Deregistration, GECC's) effectiveness in combating money laundering and (vi) any risks that the proposed acquisition poses to the U.S. banking or financial system. In addition, as long as we are a subsidiary of GECC, which is a nonbank SIFI as well as a savings and loan holding company, we or GECC may be required to provide notice to the Federal Reserve Board in advance of our acquiring voting shares of a company (other than an FDIC-insured depository institution) that is engaged in activities that are financial in nature and that has total consolidated assets of \$10 billion or more.

Certain acquisitions of our voting stock may be subject to regulatory approval or notice under federal law. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our stock in excess of the amount that can be acquired without regulatory approval under the Change in Bank Control Act and the Savings and Loan Holding Company Act, which prohibit any person or company from acquiring control of us without, in most cases, the prior written approval of the Federal Reserve Board.

**Savings Association Regulation***Overview*

The Bank is required to file periodic reports with the OCC and is subject to extensive regulation, supervision and examination by the OCC and the FDIC. The OCC has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. The Bank is periodically reviewed and examined by the OCC and the FDIC, which results in supervisory comments and directions relating to many aspects

of the Bank's business that require the Bank's response and attention. In addition, the OCC and the FDIC have broad enforcement authority over the Bank.

*Capital*

The Bank is required by OCC regulations to maintain specified levels of regulatory capital. The OCC may impose capital requirements on individual institutions in excess of these requirements on a case-by-case basis.

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Institutions that are not well-capitalized are subject to certain restrictions on brokered deposits and interest rates on deposits. The OCC is authorized and, under certain circumstances, required to take certain actions against an institution that fails to meet the minimum ratios for an adequately capitalized institution. At September 30, 2014, the Bank met or exceeded all applicable requirements to be deemed well-capitalized under OCC regulations.

The capital requirements to which the Bank is subject have recently been substantially revised, including as a result of Basel III and the requirements of the Dodd-Frank Act. The following are the minimum capital ratios to which the Bank expects to be subject starting as early as 2015:

under the Basel III standardized approach, a Tier 1 common equity to risk-weighted assets ratio of 7% (the minimum of 4.5% plus a fully phased-in mandatory conservation buffer of 2.5%), a Tier 1 capital to risk-weighted assets ratio of 8.5% (the minimum of 6% plus a fully phased-in mandatory conservation buffer of 2.5%), and a total capital to risk-weighted assets ratio of 10.5% (a minimum of 8% plus a fully phased-in mandatory conservation buffer of 2.5%); and

a leverage ratio of Tier 1 capital to total exposures of 5%.

For a discussion of the Bank's capital ratios, see Item 2. Financial Information Management's Discussion and Analysis of Financial Condition and Results of Operations Capital.

The Bank is also required to conduct stress tests on an annual basis. Under the OCC's stress test regulations, the Bank is required to utilize stress-testing methodologies providing for results under at least three different sets of conditions, including baseline, adverse and severely adverse conditions.

As an insured depository institution, the Bank is also subject to the Federal Deposit Insurance Act (the FDIA), which requires, among other things, the federal banking agencies to take prompt corrective action in respect of depository institutions that do not meet minimum capital requirements. The FDIA sets forth the following five capital tiers:

well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors that are established by regulation. At September 30, 2014, the Bank met or exceeded all applicable requirements to be deemed well-capitalized for purposes of the FDIA. As described above, recently-issued rules of the federal banking agencies regarding the implementation of Basel III and the Dodd-Frank Act will alter the capital adequacy framework applicable to the Bank when they are fully phased in beginning in 2015. In addition, the Bank is subject to enhanced capital and liquidity requirements under the operating agreement with the OCC described below under Activities.

***Dividends and Stock Repurchases***

OCC regulations limit the ability of savings associations to make distributions of capital, including payment of dividends, stock redemptions and repurchases, cash-out mergers and other transactions charged to the capital account. The Bank must obtain the OCC's approval or give the OCC prior notice before making a capital distribution in certain circumstances, including if the Bank proposes to make a capital distribution when it does not meet certain capital requirements (or will not do so as a result of the proposed capital distribution) or certain net income requirements. In addition, the Bank must file a prior written notice of a planned or declared dividend or other distribution with the Federal Reserve Board. The Federal Reserve Board or the OCC may object to a capital distribution if: among other things, (i) the Bank is, or as a result of such distribution would be, undercapitalized, significantly undercapitalized or



critically undercapitalized, (ii) the regulators have safety and soundness concerns or (iii) the distribution violates a prohibition in a statute, regulation, agreement between us and the OCC, or a condition imposed on us in an application or notice approved by the OCC. Additional restrictions on dividends apply if the Bank fails the QTL test (described below under **Activities** ).

The FDIA also prohibits any depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. If a depository institution is less than adequately capitalized, it must prepare and submit a capital restoration plan to its primary federal regulator for approval. For a capital restoration plan to be acceptable, among other things, the depository institution's parent holding company must guarantee that the institution will comply with the capital restoration plan. If a depository institution fails to submit an acceptable capital restoration plan, it is treated as if it is significantly undercapitalized. A significantly undercapitalized depository institution may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, elect a new board of directors, reduce total assets or cease taking deposits from correspondent banks. A critically undercapitalized institution may be subject to the appointment of a conservator or receiver which could sell or liquidate the institution.

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Under the Home Owners' Loan Act (HOLA), the OCC requires the Bank to comply with the qualified thrift lender, or QTL test. Under the QTL test, the Bank is required to maintain at least 65.00% of its portfolio assets (total assets less: (i) specified liquid assets up to 20.00% of total assets, (ii) intangibles, including goodwill and (iii) the value of property used to conduct business) in certain qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-backed securities, credit card loans, student loans and small business loans) in at least nine months of the most recent 12-month period. The Bank currently meets that test. A savings association that fails to meet the QTL test is subject to certain operating restrictions and may be required to convert to a national bank charter. Also, if the Bank fails to meet the QTL test, Synchrony, as well as GE, GECC and GECFI, would no longer qualify to be grandfathered unitary savings and loan holding companies.

Savings associations, including the Bank, are subject as well to limitations on their lending and investments. These limitations include percentage of asset limitations on various types of loans the Bank may make. In addition, there are similar limitations on the types and amounts of investments the Bank may make.

Insured depository institutions, including the Bank, are subject to restrictions under Sections 23A and 23B of the Federal Reserve Act (as implemented by Federal Reserve Board Regulation W), which govern transactions between an insured depository institution and any affiliate, including an entity that is the institution's direct or indirect holding company and a nonbank subsidiary of such a holding company. Restrictions in Sections 23A and 23B of the Federal Reserve Act apply to covered transactions such as extensions of credit, issuances of guarantees or asset purchases. In general, these restrictions require that any extensions of credit made by the insured depository institution to an affiliate must be fully secured with qualifying collateral and that the aggregate amount of covered transactions is limited, as to any one affiliate of the Bank, to 10% of the Bank's capital stock and surplus, and, as to all of the Bank's affiliates in the aggregate, to 20% of the Bank's capital stock and surplus. In addition, transactions between the Bank and its affiliates must be on terms and conditions that are, or in good faith would be, offered by the Bank to non-affiliated companies (i.e., at arm's length).

The CRA is a federal law that generally requires an insured depository institution to identify the communities it serves and to make loans and investments, offer products and provide services, in each case designed to meet the credit needs of these communities. The CRA also requires an institution to maintain comprehensive records of CRA activities to demonstrate how it is meeting the credit needs of communities. These records are subject to periodic examination by the responsible federal banking agency of the institution. Based on these examinations, the agency rates the institution's compliance with CRA as Outstanding, Satisfactory, Needs to Improve or Substantial Noncompliance. CRA requires the agency to take into account the record of an institution in meeting the credit needs of the entire communities served, including low- and moderate- income neighborhoods, in determining such rating. Failure of an institution to receive at least a Satisfactory rating could inhibit the institution or its holding company from undertaking certain activities, including acquisitions. The Bank received a CRA rating of Outstanding as of its most recent CRA examination.

The FDIA prohibits insured banks from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited) unless it is well-capitalized, or it is adequately capitalized and receives a waiver from the FDIC. A bank that is adequately capitalized and that accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. There are no such restrictions under the FDIA on a bank that is well-capitalized. Further, undercapitalized institutions are subject to growth limitations. At September 30, 2014, the Bank met or exceeded all applicable requirements to be deemed well-capitalized for purposes of the FDIA. An inability to accept brokered deposits in the future could materially

adversely impact our funding costs and liquidity.

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In connection with the OCC's December 12, 2012 approval of the Bank's assumption of certain deposits and related liabilities of MetLife and acquisition of certain assets of MetLife, the Bank entered into an Operating Agreement with the OCC (the "Operating Agreement") and also into a Capital Assurance and Liquidity Maintenance Agreement with GECC, GECFI and Synchrony (the "CALMA") on January 11, 2013. The material terms of the Operating Agreement and the CALMA are summarized below, and the Operating Agreement and the CALMA have been filed as exhibits to this report.

The Operating Agreement requires, among other things, that the Bank: (i) maintain a total risk-based capital ratio of at least 11%, a Tier 1 risk-based capital ratio of at least 7% and a leverage ratio of at least 6%, (ii) maintain liquid assets at least equal to the greater of \$500 million or 90 days' coverage of the Bank's operating expenses, (iii) not materially change or significantly deviate from a business plan for 2013 and 2014 that was submitted to the OCC without first giving the OCC notice and obtaining its supervisory non-objection, (iv) must meet certain conditions to declare or pay a dividend (including being in compliance with the Operating Agreement), (v) maintain a board with at least 40% independent directors and (vi) for three years immediately after the date of the Operating Agreement, not appoint any new director or senior executive officer or enter into a material services contract with an affiliate without providing prior notice to the OCC.

The Operating Agreement provides that, if the OCC determines there is an existing or imminent material breach of the Bank's obligation to maintain the required amounts of capital or liquidity or GECC, GECFI and Synchrony are likely to be unable to fulfill their obligations under the CALMA due to a material adverse change in the financial condition of GECC, GECFI or Synchrony, or in certain other circumstances, the Bank must submit to the OCC a plan for the sale, merger or dissolution of the Bank and must implement such plan upon obtaining the OCC's non-objection and written direction to begin implementation (subject to a right on the Bank's part to cure the basis for such direction within 15 days of its issuance). The Operating Agreement also provides that the OCC may require the Bank to immediately cease extending new or additional credit under certain circumstances, including if the OCC determines there is an existing or imminent material breach of the Bank's obligation to maintain the required amounts of capital or liquidity or GECC, GECFI and Synchrony are likely to be unable to fulfill their obligations under the CALMA due to a material adverse change in the financial condition of GECC, GECFI or Synchrony, the OCC deems that breach or change likely to pose an imminent threat to the financial condition of the Bank, and such breach or change has not been cured or remedied, as the case may be, within five days of receiving written notice from the OCC. The Operating Agreement imposes certain monitoring and reporting obligations, including, among other things, notification to the OCC regarding material changes to the financial condition of the Bank, GECC, GECFI and Synchrony. The Operating Agreement will remain in effect until it is terminated in writing by the OCC, the Bank ceases to be a federal savings association or the consummation of a merger, consolidation or other business combination in which the Bank is not the resulting entity.

The CALMA requires, among other things, that GECC, GECFI and Synchrony shall: (i) make capital infusions as requested by the Bank to ensure that the Bank remains in compliance with the capital requirements of the Operating Agreement, (ii) provide such financial support as requested by the Bank to ensure that the Bank remains in compliance with the liquidity requirements of the Operating Agreement, and (iii) provide certain information to the Bank and the OCC relevant to their financial condition and ability to fulfill their obligations under the CALMA. We currently expect that the CALMA's obligations will terminate as to GECC and GECFI once GE no longer controls the Bank as defined in the CALMA or as otherwise determined by the OCC. We expect that Synchrony will continue to be subject to the CALMA's obligations after the Bank and we are no longer controlled by GE.

***Deposit Insurance***

The FDIA requires the Bank to pay deposit insurance assessments. Deposit insurance assessments are affected by the minimum reserve ratio with respect to the federal Deposit Insurance Fund (the DIF ). The Dodd-Frank Act increased the minimum reserve ratio with respect to the DIF to 1.35% and removed the statutory cap on the reserve ratio. The FDIC subsequently set a reserve ratio of 2% and may increase that ratio in the future. Under the FDIC's current deposit insurance assessment methodology, the Bank is required to pay deposit insurance assessments based on its average consolidated total assets, less average tangible equity, and various other regulatory factors included in an FDIC assessment scorecard.

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The FDIA creates a depositor preference regime for the resolution of all insured depository institutions, including the Bank. If any such institution is placed into receivership, the FDIC will pay (out of the remaining net assets of the failed institution and only to the extent of such assets) first secured creditors (to the extent of their security), second the administrative expenses of the receivership, third all deposits liabilities (both insured and uninsured), fourth any other general or senior liabilities, fifth any obligations subordinated to depositors or general creditors, and finally any remaining net assets to shareholders in that capacity.

The Bank may be held liable by the FDIC for any loss incurred, or reasonably expected to be incurred by the DIF, due to the default of another commonly controlled FDIC-insured institution or for any assistance provided by the FDIC to another commonly controlled FDIC-insured institution that is in danger of default. As long as we are directly or indirectly controlled by GE, the Bank will be commonly controlled with another FDIC-insured institution, GE Capital Bank, an industrial bank chartered under the laws of Utah.

**Consumer Financial Services Regulation**

The relationship between us and our U.S. customers is regulated extensively under federal and state consumer protection laws. Federal laws include the Truth in Lending Act, the Equal Credit Opportunity Act, HOLA, the Fair Credit Reporting Act (the FCRA), the Gramm-Leach-Bliley Act (the GLBA), the CARD Act and the Dodd-Frank Act. These and other federal laws, among other things, require disclosures of the cost of credit, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, require safe and sound banking operations, prohibit unfair, deceptive and abusive practices, restrict our ability to raise interest rates, and subject us to substantial regulatory oversight. State and, in some cases, local laws also may regulate the relationship between us and our U.S. customers in these areas, as well as in the areas of collection practices, and may provide other additional consumer protections. Moreover, we and our U.S. subsidiaries are subject to the Servicemembers Civil Relief Act, which protects persons called to active military service and their dependents from undue hardship resulting from their military service. The Servicemembers Civil Relief Act applies to all debts incurred prior to the commencement of active duty (including credit card and other open-end debt) and limits the amount of interest, including service and renewal charges and any other fees or charges (other than bona fide insurance) that is related to the obligation or liability.

Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal banking regulators, as well as state attorneys general and other state and local consumer protection agencies, also may seek to enforce consumer protection requirements and obtain these and other remedies, including civil money penalties and fines.

The CARD Act was enacted in 2009 and most of the requirements became effective in 2010. The CARD Act made numerous amendments to the Truth in Lending Act, requiring us to make significant changes to many of our business practices, including marketing, underwriting, pricing and billing. The CARD Act's restrictions on our ability to increase interest rates on existing balances to respond to market conditions and credit risk ultimately limits our ability to extend credit to new customers and provide additional credit to current customers. Other CARD Act restrictions, such as limitations on late fees, have resulted and will continue to result in reduced interest income and loan fee income.

The FCRA regulates the Bank's and our use of credit reports and the reporting of information to credit reporting agencies, and also provides a standard for lenders to share information with affiliates and certain third parties and to provide firm offers of credit to consumers. The FCRA also places further restrictions on the use of information shared between affiliates for marketing purposes, requires the provision of disclosures to consumers when risk-based pricing is used in a credit decision, and requires safeguards to help protect consumers from identity theft.

Under HOLA, the Bank is prohibited from engaging in certain tying or reciprocity arrangements with its customers. In general, the Bank may not extend credit, lease, sell property, or furnish any services or fix or vary the consideration for these on the condition that: (i) the customer obtain or provide some additional credit, property, or services from or to the Bank or Synchrony or their subsidiaries or (ii) the customer may not obtain some other credit, property, or services from a competitor, except in each case to the extent reasonable conditions are imposed to assure the soundness of the credit extended. Certain arrangements are permissible. For example, the Bank may offer more favorable terms if a customer obtains two or more traditional bank products.

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The Durbin Amendment in the Dodd-Frank Act requires the Federal Reserve Board to promulgate certain rules related to debit transaction interchange fees. On June 29, 2011, the Federal Reserve Board adopted a final rule with respect to the Durbin Amendment effective on October 1, 2011, which, among other things, established a regulatory cap for many types of debit interchange transactions that is no more than 21 cents plus five basis points of the value of the transaction. The Federal Reserve Board's rule also allows a debit card issuer to recover 1% per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements. In addition, the rule prohibits the imposition of restrictions on a merchant's ability to direct the routing of electronic debit transactions over a network for which the issuer has enabled processing. These rules were challenged by retailers claiming that the interchange fee and network non-exclusivity provisions of the rule are arbitrary, capricious, an abuse of discretion, and otherwise not in accordance with the law. The Federal Reserve Board's regulation was upheld by the U.S. Court of Appeals for the D.C. Circuit, on March 21, 2014. The court of appeals found that the Federal Reserve Board's final rule was based on a reasonable interpretation of the Dodd-Frank Act. The court of appeals remanded the case to the lower court for further proceedings consistent with its opinion, and those lower court proceedings are currently ongoing. The retailers have sought review of the decision of the court of appeals in the U.S. Supreme Court.

The Dodd-Frank Act established the CFPB, which regulates consumer financial products and services and certain financial services providers. The CFPB is authorized to prevent unfair, deceptive or abusive acts or practices and ensure consistent enforcement of laws so that all consumers have access to markets for consumer financial products and services that are fair, transparent and competitive. The CFPB has rulemaking and interpretive authority under the Dodd-Frank Act and other federal consumer financial services laws, as well as broad supervisory, examination and enforcement authority over large providers of consumer financial products and services, such as us. In addition, the CFPB has an online complaint system that allows consumers to log complaints with respect to various consumer finance products, including the products we offer. The system could inform future agency decisions with respect to regulatory, enforcement or examination focus. There continues to be uncertainty as to how the CFPB's strategies and priorities will have an impact on our businesses and our results of operations going forward. Although we have been subject to various matters with the CFPB as described below, neither the Company nor the Bank has had its first comprehensive examination by the CFPB, and we cannot predict when such examination will occur or what the results will be. See Item 1A. Risk Factors Risks Relating to Regulation The Consumer Financial Protection Bureau is a new agency and there continues to be uncertainty as to how the agency's actions will impact our business; the agency's actions have had and may continue to have an adverse impact on our business.

In July 2012, the CFPB issued an industry bulletin regarding marketing practices with respect to credit card add-on products, including debt cancellation products. The Bank has made a number of changes, including changes in response to the CFPB bulletin, with respect to its marketing and sale of debt cancellation products to credit card customers, including ceasing all telesales of such products, and the Bank has also enhanced the disclosures associated with its website sales of such products. See Item 1A. Risk Factors Risks Relating to Our Business Litigation, regulatory actions and compliance issues could subject us to significant fines, penalties, judgments, remediation costs and/or requirements resulting in increased expenses.

In October 2013 the CFPB published its first biennial report reviewing the impact of the CARD Act on the consumer credit card market. In the report, the CFPB identified practices that may warrant further scrutiny by it, including add-on products (such as debt protection, identity theft protection, credit score monitoring, and other products that are supplementary to the extension of credit), cards that charge substantial application fees, and deferred interest offers and products (which could include our promotional financing products). The report further identified concerns regarding the adequacy of online disclosures as well as of the disclosures associated with rewards products and grace periods. Separately, the CFPB is also studying pre-dispute arbitration clauses, and our litigation exposure could increase if the CFPB exercises its authority to limit or ban pre-dispute arbitration clauses.





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On December 10, 2013, we entered into a consent order with the CFPB relating to our CareCredit platform (the 2013 CFPB Consent Order ), which requires us to pay up to \$34.1 million to customers, to provide additional training and monitoring of our CareCredit partners, to include provisions in agreements with our CareCredit partners prohibiting charges for certain services not yet rendered, to make changes to certain consumer disclosures, application procedures and procedures for resolution of customer complaints, and to terminate CareCredit partners that have chargeback rates in excess of certain thresholds. Some of the changes required by the 2013 CFPB Consent Order are similar to requirements in an assurance of discontinuation that we entered with the Attorney General for the State of New York on June 3, 2013 (the Assurance ). We believe the Bank is in substantial compliance with the material business practice changes required by the 2013 CFPB Consent Order and the Assurance, subject to ongoing reporting obligations and will complete the additional provider training by the fourth quarter of 2015. In addition to the costs of remediation, which were not material for the Assurance and will be up to \$34.1 million for the 2013 CFPB Consent Order, the Company will incur one-time costs of approximately \$3 million to implement these changes, and estimates ongoing annual costs of approximately \$3 million. Although we continue to actively monitor and assess the impact on our CareCredit program of the changes required by the 2013 CFPB Consent Order and the Assurance (some of which have only recently been implemented), including the impact on program usage as providers become acclimated to the required changes, we do not believe that the 2013 CFPB Consent Order or the Assurance will have a material impact on our results of operations going forward. See Item 1A. Risk Factors Risks Relation to Regulation Changes to our methods of offering our CareCredit products could materially impact operating results.

On June 19, 2014, we entered into a consent order with the CFPB (the 2014 CFPB Consent Order ) that requires us to refund \$56 million to cardholders who enrolled in a debt cancellation product over the telephone from January 2010 to October 2012 (\$11 million of which was refunded prior to the 2014 CFPB Consent Order), pay civil money penalties of \$3.5 million, and implement a compliance plan related to the sale of add-on products to the extent the Bank restarts telesales of such products (which were discontinued in October 2012).

In addition to resolving the CFPB's concerns regarding our debt cancellation sales practices, the 2014 CFPB Consent Order resolved an unrelated issue that arose from the Bank's self-identified omission of certain Spanish-speaking customers and customers residing in Puerto Rico from two offers that were made to certain delinquent customers. We discovered this issue through an audit of our collection operations in 2012, reported it to the CFPB and initiated a voluntary remediation program, which resulted in payments, balance credits and balance waivers of \$132 million. The CFPB conducted a review of the collection offer omissions and also referred the matter to the DOJ, which commenced an investigation in March 2014. At the same time we entered into the 2014 CFPB Consent Order, we entered into a consent order with the DOJ (the 2014 DOJ Consent Order, and together with the 2014 CFPB Consent Order, the 2014 Consent Orders ) to settle a complaint filed by the DOJ on June 19, 2014 in the United States District Court for the District of Utah alleging claims under the Equal Credit Opportunity Act related to our collections offer omissions. The 2014 DOJ Consent Order is subject to court approval, which was received on June 26, 2014. The 2014 DOJ Consent Order is similar to the 2014 CFPB Consent Order and does not impose any additional requirements on us. The 2014 Consent Orders require us to complete our remediation program by providing additional payments, balance credits and balance waivers of \$37 million and to update our credit bureau reporting relating to the affected accounts. Of the approximately \$169 million in total consumer remediation (including the \$132 million completed prior to the 2014 Consent Orders and the \$37 million that remains to be completed), \$158 million consists of balance credits and waivers to previously charged-off accounts. In addition to the consumer remediation, the 2014 Consent Orders require us to implement a fair lending compliance plan (including fair lending reviews, audits and training), which will, in part, be satisfied by our existing compliance processes. Although we do not believe that the 2014 Consent Orders themselves will have a material adverse effect on results of operations going forward, we cannot be sure whether the settlement will have an adverse impact on our reputation or whether any similar actions will be brought by state attorney generals or others, all of which could have a material adverse effect on us.

**GECC's Regulatory Status**

GECC is a regulated savings and loan holding company and therefore is subject to all of the regulatory obligations to which we are subject. Until the GE SLHC Deregistration, GECC's regulatory obligations as a savings and loan holding company may, for reasons related or unrelated to us, materially and adversely affect us, including restricting our ability to initiate, pay dividends or repurchase stock or continue various business activities or practices.

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As a nonbank SIFI, GECC is subject to enhanced prudential standards under the Dodd-Frank Act and regulation by the Federal Reserve Board. Nonbank SIFIs, such as GECC, currently are subject to some, but not all, of the enhanced prudential standards under the Dodd-Frank Act, such as resolution planning. The Federal Reserve Board has issued regulations implementing certain of the enhanced prudential standards of the Dodd-Frank Act for large bank holding companies and foreign banking organizations, but not for nonbank SIFIs. In connection with these regulations, the Federal Reserve Board has indicated that it will apply enhanced prudential standards to an individual nonbank SIFI, such as GECC, by rule or order. These standards are expected to include regulatory capital, capital planning, stress-testing, liquidity and governance requirements, as well as compliance with counterparty credit exposure limits, among others. Although the enhanced prudential standards currently applicable to GECC in its capacity as a nonbank SIFI do not have the effect of imposing direct regulatory obligations on us, we cannot be certain that standards imposed by rule or order on GECC as a nonbank SIFI by the Federal Reserve Board in the future will not have the effect of directly or indirectly imposing obligations or restrictions on us so long as we are controlled by GECC for bank regulatory purposes. See Item 1A. Risk Factors Risks Relating to Regulation As long as we are controlled by GECC for bank regulatory purposes, regulation and supervision of GECC could adversely affect us.

**Privacy**

We, along with the Bank, are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification. For example, in the United States, certain of our businesses are subject to the GLBA and implementing regulations and guidance. Among other things, the GLBA: (i) imposes certain limitations on the ability of financial institutions to share consumers' nonpublic personal information with nonaffiliated third parties, (ii) requires that financial institutions provide certain disclosures to consumers about their information collection, sharing and security practices and affords customers the right to opt out of the institution's disclosure of their personal financial information to nonaffiliated third parties (with certain exceptions) and (iii) requires financial institutions to develop, implement and maintain a written comprehensive information security program containing safeguards that are appropriate to the financial institution's size and complexity, the nature and scope of the financial institution's activities, and the sensitivity of customer information processed by the financial institution as well as plans for responding to data security breaches. Federal and state laws also require us to respond appropriately to data security breaches. We, along with the Bank have a program to comply with applicable privacy, information security, and data protection requirements imposed by federal, state, and foreign laws, including the GLBA. See also Item 1A. Risk Factors Risks Relating to Regulation Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.

**GE Transfer of Unrelated Bank**

As part of the Separation (assuming it is accomplished by the Split-off), GE intends to transfer ownership of GE Capital Bank (a bank that is and will be separate from and unrelated to Synchrony and the Bank) from one of its subsidiaries to another. GE has indicated to us that it does not believe that this transfer requires an application to, or an approval or non-objection by, any bank regulatory authorities. However, if those authorities disagree and were to require an application or other opportunity for approval or non-objection, we cannot predict what action the authorities might take on such an application or notice, or what conditions or restrictions, if any, the regulators might impose in connection with any such action. Any such action, or any conditions or restrictions in connection with such action, could have a material adverse effect on GE's ability to retain that bank and could affect GE's willingness to proceed with the Separation as currently planned.

**Money Laundering and Terrorist Financing Prevention Program**

We maintain an enterprise-wide program designed to enable us to comply with all applicable anti-money laundering and anti-terrorism financing laws and regulations, including the Bank Secrecy Act and the U.S. Patriot Act. This program includes policies, procedures, processes and other internal controls designed to identify, monitor, manage and mitigate the risk of money laundering or terrorist financing posed by our products, services, customers and geographic locale. These controls include procedures and processes to detect and report suspicious transactions, perform customer due diligence, respond to requests from law enforcement, and meet all recordkeeping and reporting requirements related to particular transactions involving currency or monetary instruments. The program is coordinated by a compliance officer, undergoes an annual independent audit to assess its effectiveness, and requires training of employees. See Item 1A. Risk Factors Risks Relating to Regulation Anti-money laundering and anti-terrorism financing laws could have significant adverse consequences for us.

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**Sanctions Programs**

We have a program designed to comply with applicable economic and trade sanctions programs, including those administered and enforced by OFAC. These sanctions are usually targeted against foreign countries, terrorists, international narcotics traffickers and those believed to be involved in the proliferation of weapons of mass destruction. These regulations generally require either the blocking of accounts or other property of specified entities or individuals, but they may also require the rejection of certain transactions involving specified entities or individuals. We maintain policies, procedures and other internal controls designed to comply with these sanctions programs.

**Environmental and Health and Safety Matters**

We are subject to various environmental, health and safety laws and regulations.

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**ITEM 1A. RISK FACTORS.**

*You should carefully consider the following risks before investing in the notes. These risks could materially affect our business, results of operations or financial condition and cause the trading price of the notes to decline. You could lose part or all of your investment.*

**Risks Relating to Our Businesses**

***Macroeconomic conditions could have a material adverse effect on our business, results of operations, financial condition and the price of the notes.***

Key macroeconomic conditions historically have affected our business, results of operations and financial condition and are likely to affect them in the future. Consumer confidence, unemployment and housing indicators are among the factors that often impact consumer spending behavior. Poor 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. We rely primarily on interest and fee income to generate our net earnings. Our interest and fee income was \$11.3 billion and \$10.3 billion for the years ended December 31, 2013 and 2012, respectively, and \$9.0 billion and \$8.3 billion for the nine months ended September 30, 2014 and 2013, respectively. Poor economic conditions also adversely affect the ability and willingness of customers to pay amounts owed to us, increasing delinquencies, bankruptcies, charge-offs and allowances for loan losses, and decreasing recoveries. For example, our over-30 day delinquency rate as a percentage of period-end loan receivables was 8.25% at December 31, 2009 during the financial crisis, compared to 4.26% at September 30, 2014, and our full-year net charge-off rate was 11.26% for the year ended December 31, 2009, compared to 4.68% for the year ended December 31, 2013. We believe the delinquency rate in our portfolio is at historically low levels and charge-off rates in our portfolio are back to pre-recession levels, and they both may increase and are likely to increase materially if economic conditions deteriorate.

While certain economic conditions in the United States have shown signs of improvement, economic growth has been slow and uneven as consumers continue to be affected by high unemployment rates, slowly recovering housing values, continuing concerns about the level of U.S. government debt and fiscal actions that may be taken to address this, as well as economic and political conditions in the global markets. A prolonged period of slow economic growth or a significant deterioration in economic conditions would likely affect consumer spending levels and the ability and willingness of customers to pay amounts owed to us, and could have a material adverse effect on our business, results of operations and financial condition.

Macroeconomic conditions may also cause net earnings to fluctuate and diverge from expectations of securities analysts and investors, who may have differing assumptions regarding the impact of these conditions on our business, and this may adversely impact the trading price of the notes.

***Our results of operations and growth depend on our ability to retain existing partners and attract new partners.***

Substantially all of our revenue is generated from the credit products we provide to customers of our partners pursuant to program agreements we enter into with our partners. As a result, our results of operations and growth depend on our ability to retain existing partners and attract new partners. Historically, there has been turnover in our partners, and we expect this will continue in the future. For example, five of our 40 largest program agreements measured by platform revenue for the year ended December 31, 2013 have expired or otherwise will not be extended beyond their contractual expiration dates in 2014 or 2015. These five program agreements represented, in the aggregate, 3.3% of our total platform revenue for the year ended December 31, 2013 and 3.5% of our total loan receivables (including

loan receivables held for sale) at September 30, 2014. In addition, we recently extended our program agreement with PayPal, one of our ten largest partners, until October 2016 and do not expect it to extend beyond that date. The extension eliminated certain exclusivity provisions that previously existed in the program agreement, and we expect this will result in lower platform revenue and loan receivables from our PayPal program during the extended term of the agreement. The PayPal program agreement represented 3.1% of our total platform revenue for the year ended December 31, 2013 and 2.5% of our total loan receivables (including loan receivables held for sale) at September 30, 2014.



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Program agreements with our Retail Card partners and national and regional retailer and manufacturer Payment Solutions partners typically are for multi-year terms. These program agreements generally permit our partner to terminate the agreement prior to its scheduled termination date for various reasons, including, in some cases, if we fail to meet certain service levels or change certain key cardholder terms or our credit criteria, we fail to achieve certain targets with respect to approvals of new customers as a result of the credit criteria we use, we elect not to increase the program size when the outstanding loan receivables under the program reach certain thresholds or we are not adequately capitalized, or certain force majeure events or changes in our ownership occur or a material adverse change in our financial condition occurs. A few Payment Solutions programs with national and regional retailer and manufacturer partners also may be terminated at will by the partner on specified notice to us (e.g., several months). In addition, programs with manufacturers, buying groups and industry associations generally are made available to Payment Solutions partners such as individual retail outlets, dealers and merchants under dealer agreements, which typically may be terminated at will by the partner on short notice to us (e.g., 15 days).

There is significant competition for our existing partners, and our failure to retain our existing larger partner relationships upon the expiration or our earlier loss of a relationship upon the exercise of a partner's early termination rights, or the expiration or termination of a substantial number of smaller partner relationships, could have a material adverse effect on our results of operations (including growth rates) and financial condition to the extent we do not acquire new partners of similar size and profitability or otherwise grow our business. The competition for new partners is also significant, and our failure to attract new partners could adversely affect our ability to grow.

***A significant percentage of our platform revenue comes from relationships with a small number of Retail Card partners, and the loss of any of these Retail Card partners could adversely affect our business and results of operations.***

Our ten largest partner relationships are with Retail Card partners and accounted for an aggregate of 59.6% of our total platform revenue for the year ended December 31, 2013. Our five largest programs (Gap, JCPenney, Lowes, Sam's Club and Walmart) accounted in aggregate for 48.4% of our total platform revenue for the year ended December 31, 2013. Sam's Club is a subsidiary of Walmart that is a separate contracting entity with its own program agreement with us. Our programs with JCPenney and Walmart each accounted for more than 10% of our total platform revenue over the same period. We expect to have significant concentration in our largest relationships for the foreseeable future. Although we have multi-year program agreements with each of our ten largest partners, their current agreements expire at various times, and the agreement with one of these partners, which represented \$1.2 billion, or 2.1%, of our total loan receivables (including loan receivables held for sale) at September 30, 2014, has expired and is one of the five partners discussed in the preceding Risk Factor, whose program agreements will not be extended beyond their contractual expiration dates in 2014 or 2015. In addition, we recently extended our program agreement with PayPal, one of our ten largest partners, until October 2016 and do not expect it to extend beyond that date.

The program agreements generally permit us or our partner to terminate the agreement prior to its scheduled termination date under various circumstances as described in the preceding risk factor. Some of our program agreements also provide that, upon expiration or termination, our partner may purchase or designate a third party to purchase the accounts and loans generated with respect to its program and all related customer data. The loss of any of our largest partners or a material reduction in the interest and fees we receive from their customers could have a material adverse effect on our results of operations and financial condition.

***Our results depend, to a significant extent, on the active and effective promotion and support of our products by our partners.***

Our partners generally accept most major credit cards and various other forms of payment, and therefore our success depends on their active and effective promotion of our products to their customers. We depend on our partners to integrate the use of our credit products into their store culture by training their sales associates about our products, having their sales associates encourage their customers to apply for, and use, our products and otherwise effectively marketing our products. In addition, although our Retail Card programs and our Payment Solutions programs with national and regional retailer partners typically are exclusive with respect to the credit products we offer at that partner, some Payment Solutions programs and most CareCredit provider relationships are not exclusive to us, and therefore a partner may choose to promote a competitor's financing over ours, depending upon cost, availability or attractiveness to consumers or other factors. Typically we do not have, or utilize, any recourse against these non-exclusive partners when they do not sufficiently promote our products. Partners may also implement changes in their systems and technologies that may disrupt the integration between their systems and technologies and ours, which could disrupt the use of our products. The failure by our partners to effectively promote and support our products or changes they make in their business models that negatively impact card usage could have a material adverse effect on our business and results of operations. In addition, if our partners engage in improper business practices, do not adhere to the terms of our program agreements or other contractual arrangements or standards, or otherwise diminish the value of our brand, we may suffer reputational damage and customers may be less likely to use our products, which could have a material adverse effect on our business and results of operations.

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**Table of Contents*****Our results are impacted, to a significant extent, by the financial performance of our partners.***

Our ability to generate new loans and the interest and fees and other income associated with them is dependent upon sales of merchandise and services by our partners. The retail and healthcare industries in which our partners operate are intensely competitive. Our partners compete with retailers and department stores in their own geographic areas, as well as catalog and internet sales businesses. Our partners in the healthcare industry compete with other healthcare providers. Our partners' sales may decrease or may not increase as we anticipate for various reasons, some of which are in the partners' control and some of which are not. For example, partner sales may be adversely affected by macroeconomic conditions having a national, regional or more local effect on consumer spending, business conditions affecting a particular partner or industry, or catastrophes affecting broad or more discrete geographic areas. If our partners' sales decline for any reason, it generally results in lower credit sales, and therefore lower loan volume and associated interest and fees and other income for us from their customers. In addition, if a partner closes some or all of its stores or becomes subject to a voluntary or involuntary bankruptcy proceeding (or if there is a perception that it may become subject to a bankruptcy proceeding), its customers who have used our financing products may have less incentive to pay their outstanding balances to us, which could result in higher charge-off rates than anticipated and our costs for servicing its customers' accounts may increase. This risk is particularly acute with respect to our largest partners that account for a significant amount of our platform revenue. See A significant percentage of our platform revenue comes from relationships with a small number of Retail Card partners, and the loss of any of these Retail Card partners could adversely affect our business and results of operations. Moreover, if the financial condition of a partner deteriorates significantly or a partner becomes subject to a bankruptcy proceeding, we may not be able to recover for customer returns, customer payments made in partner stores or other amounts due to us from the partner. A decrease in sales by our partners for any reason or a bankruptcy proceeding involving any of them could have a material adverse impact on our business and results of operations.

***We will need additional financing, and our borrowing costs are higher following the IPO; adverse financial market conditions or our inability to effectively manage our funding and liquidity risk could have a material adverse effect on our funding, liquidity and ability to meet our obligations, including on the notes.***

We need to effectively manage our funding and liquidity in order to meet our cash requirements such as day to day operating expenses, extensions of credit to our customers, payments of principal and interest on our borrowings, including the notes, and payments on our other obligations. Historically, our primary sources of funding and liquidity have been, and following the IPO continue to be, collections from our customers, deposits, funds from securitized financings and proceeds from unsecured borrowings. Prior to the IPO, our unsecured borrowings came from GECC and we believe our affiliation with GE made it easier and less expensive for us to obtain some of our funding from third parties. In the future, we do not expect to receive funding from GECC (other than transitional financing we receive from GECC under the GECC Term Loan Facility) and expect our borrowing costs from third parties will be higher than our historical costs from GECC. In addition, as a result of the IPO, it may be more difficult for us to securitize our loans because our credit rating from the rating agencies are lower than GECC's current credit rating, which may cause investors, and the credit rating agencies, to view us as a weaker sponsor. To compensate, our recent issuances of asset-backed securities have required, and future issuances likely will require, additional credit enhancements and may require higher interest rates and, even then, the credit ratings on our asset-backed securities may be lower than they have been historically. In addition, to maintain the current credit ratings of certain of our existing asset-backed securities in light of the IPO, we have amended the documentation for those securities to require us to maintain additional collateral (in the form of additional loan receivables) for those securities. These factors and actions may increase the costs of securitizing our loans relative to our historical costs or otherwise adversely affect our financial flexibility.



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If we do not have sufficient liquidity, we may not be able to meet our obligations, particularly during a liquidity stress event. If we maintain or are required to maintain too much liquidity, it could be costly and reduce our financial flexibility.

We will need additional financing in the future to refinance any existing debt (including the expected prepayment of part or substantially all of the outstanding debt under the GECC Term Loan Facility in connection with our application to the Federal Reserve Board and the Separation) and finance growth of our business. The availability of additional financing will depend on a variety of factors such as financial market conditions generally, including the availability of credit to the financial services industry, consumers' willingness to place money on deposit in the Bank, our performance and credit ratings and the performance of our securitized portfolios. Disruptions, uncertainty or volatility in the capital, credit or deposit markets, such as the uncertainty and volatility experienced in the capital and credit markets during the financial crisis and more recently arising from the sovereign debt crisis in Europe and other economic and political conditions in the global markets and concerning the level of U.S. government debt and fiscal measures that may be taken over the longer term to address these matters, may limit our ability to obtain additional financing or refinance maturing liabilities on desired terms (including funding costs) in a timely manner or at all. It may also be more difficult or costly for us to obtain funds following the Separation. As a result, we may be forced to delay obtaining funding or be forced to issue or raise funding on undesirable terms, which could significantly reduce our financial flexibility and cause us to contract or not grow our business, all of which could have a material adverse effect on our results of operations and financial conditions.

In addition, at September 30, 2014, we had an aggregate of approximately \$5.6 billion of undrawn committed capacity from private lenders under two of our existing securitization programs. Our ability to draw on such commitments is subject to the satisfaction of certain conditions, including the applicable securitization trust having sufficient collateral to support the asset-backed securities issuance and the absence of an early amortization event. Moreover, there are regulatory reforms that have recently been proposed or adopted in the United States and internationally that are intended to address certain issues that affected banks in the recent financial crisis. These reforms, generally referred to as Basel III, subject banks to more stringent capital, liquidity and leverage requirements. To the extent that the Basel III requirements result in increased costs to the banks providing undrawn committed capacity under our securitization programs, these costs are likely to be passed on to us. In addition, in response to Basel III, some banks in the market have added provisions to their credit agreements permitting them to delay disbursement of funding requests for 30 days or more. If our bank lenders require these delayed funding provisions and/or higher pricing for committing undrawn capacity to us, our cost of funding and access to liquidity could be adversely affected.

While financial market conditions have stabilized and, in many cases, improved since the financial crisis, there can be no assurance that significant disruptions, uncertainties and volatility will not occur in the future. If we are unable to continue to finance our business, access capital markets and attract deposits on favorable terms and in a timely manner, or if we experience an increase in our borrowing costs or otherwise fail to manage our liquidity effectively, our results of operations and financial condition may be materially adversely affected.

***A reduction in our credit ratings could materially increase the cost of our funding from, and restrict our access to, the capital markets.***

Our senior unsecured debt currently is rated BBB- (stable outlook) by Fitch Ratings, Inc. ( Fitch ) and BBB- (stable outlook) by Standard & Poor's ( S&P ). Although we have not requested that Moody's Investor Services, Inc. ( Moody's ) provide a rating for our senior unsecured debt, we believe that if Moody's were to issue a rating on our unsecured debt, its rating would be lower than the comparable ratings issued by Fitch and S&P. The ratings for our unsecured debt are based on a number of factors, including our financial strength, as well as factors that may not be within our control, such as macroeconomic conditions and the rating agencies' perception of the industries in which we operate and the

products we offer. As a result of the IPO, our unsecured debt credit rating from the rating agencies is lower than GECC's current unsecured debt credit rating. The ratings of our asset-backed securities are, and will continue to be, based on a number of factors, including the quality of the underlying loans and the credit enhancement structure with respect to each series of asset-backed securities, as well as the credit rating of GECC as the servicer of our publicly registered securitization trust and our credit rating as sponsor. These ratings also reflect the various methodologies and assumptions used by the rating agencies, which are subject to change and could adversely affect our ratings. The rating agencies regularly evaluate our credit ratings and those of GECC, as well as the credit ratings of our asset-backed securities. We expect GECC will resign and assign its servicing obligations for our publicly registered securitization trust to us, and we have amended the program documents for this trust to enable that assignment. We expect the GECC resignation and assignment will occur on the earlier of: (i) the date all asset-backed securities outstanding at the effective time of the amendment have been redeemed or paid in full (which is expected to occur no later than 2019) and (ii) when the holders of such securities have consented to an assignment of such servicing obligations to us (the Expected GECC Servicer Assignment Date). There can be no assurance that we will be able to maintain our unsecured debt or asset-backed securities credit ratings or that any of our credit ratings will not be lowered or withdrawn in the future, including as GE decreases its ownership in us or when GECC is no longer the servicer. We also cannot be sure that GECC's credit ratings will not be lowered or what impact any such action would have on our credit ratings as well as those of our asset-backed securities. A downgrade in our unsecured debt or asset-backed securities credit ratings (or investor concerns that a downgrade may occur) could materially increase the cost of our funding from, and restrict our access to, the capital markets.

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If the ratings on our asset-backed securities are reduced, put on negative watch or withdrawn as a result of the IPO, the Separation, the GE SLHC Deregistration or otherwise, it may have an adverse effect on the liquidity or the market price of our asset-backed securities and on the cost of or our ability to continue using securitized financings to the extent anticipated.

***Our inability to securitize our loans would have a material adverse effect on our business, liquidity, cost of funds and financial condition.***

We use the securitization of loans, which involves the transfer of loans to a trust and the issuance by the trust of asset-backed securities to third-party investors, as a significant source of funding. Our average level of securitized financings from third parties was \$16.2 billion and \$15.2 billion for the years ended December 31, 2013 and 2012, respectively. For a discussion of our securitization activities, see Item 2. Financial Information Management's Discussion and Analysis of Financial Condition and Results of Operations Funding, Liquidity and Capital Resources Funding Sources Securitized Financings, Description of Certain Indebtedness Securitized Financings and Note 6. Variable Interest Entities to our combined financial statements.

Although the securitization market for credit cards has been re-established since the financial crisis that began in 2008, there can be no assurance that the market will not experience future disruptions. The extent to which we will securitize our loans in the future will depend in part upon the conditions in the securities markets in general and the credit card asset-backed securities market in particular, the overall credit quality of our loans and the conformity of the loans and our securitization program to rating agency requirements, the costs of securitizing our loans, and the legal, regulatory, accounting and tax requirements governing securitization transactions. In the event we are unable to refinance existing asset-backed securities from our publicly registered securitization trust with new securities from the same trust, there are structural and regulatory constraints on our ability to refinance these asset-backed securities with Bank deposits or other funding at the Bank, and therefore we would be required to rely on sources outside of the Bank, which may not be available or may be available only at higher cost. A prolonged inability to securitize our loans on favorable terms, or at all, or to refinance our asset-backed securities would have a material adverse effect on our business, liquidity, cost of funds and financial condition.

***The occurrence of an early amortization of our securitization facilities would have a material adverse effect on our liquidity and cost of funds.***

Our liquidity would be materially adversely affected by the occurrence of events resulting in the early amortization of our existing securitized financings. For a description of these early amortization events, see Item 2. Financial Information Description of Certain Indebtedness Securitized Financings. During an early amortization period, principal collections from the loans in our asset-backed securitization trusts would be applied to repay principal of the asset-backed securities rather than being available on a revolving basis to fund purchases of newly originated loans. This would negatively impact our liquidity, including our ability to originate new loans under existing accounts, and require us to rely on alternative funding sources, which might increase our funding costs or might not be available when needed.

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**Table of Contents*****Our loss of the right to service or subservice our securitized loans would have a material adverse effect on our liquidity and cost of funds.***

GECC currently acts as servicer with respect to our publicly registered securitization trust and its related series of asset-backed securities, and the Bank acts as servicer with respect to our other two securitization trusts. If GECC or the Bank, as applicable, defaults in its servicing obligations, an early amortization event could occur with respect to the relevant asset-backed securities and/or GECC or the Bank, as applicable, could be replaced as servicer. Servicer defaults include, for example, the failure of the servicer to make any payment, transfer or deposit in accordance with the securitization documents, a breach of representations, warranties or agreements made by the servicer under the securitization documents, the delegation of the servicer's duties contrary to the securitization documents and the occurrence of certain insolvency events with respect to the servicer. Such an amortization event would have the adverse consequences discussed in the immediately preceding risk factor.

We expect GECC will resign and assign its servicing obligations for our publicly registered securitization trust to us on or shortly after the Expected GECC Servicer Assignment Date and until that time, our ability to service the public securitization trust's assets pursuant to the sub-servicing arrangement with GECC will be dependent on GECC not being terminated as servicer for a servicer default or resigning in accordance with the requirements specified in the trust's program documents, as well as us not being terminated for a default under our sub-servicing arrangement with GECC. If GECC defaults or resigns (or if we default under our sub-servicing arrangement), a third party could be appointed servicer with respect to our publicly registered securitization trust, particularly if neither we nor the Bank have the required ratings to serve as successor servicer. Similarly, if we default in our servicing obligations with respect to either of our other two securitization trusts, a third party could be appointed as servicer of the related trust. If a third-party servicer is appointed, there is no assurance that the third-party will engage us as sub-servicer, in which event we would no longer be able to control the manner in which the related trust's assets are serviced, and the failure of a third party to appropriately service such assets could lead to an early amortization event in the affected securitization trust, which would have the adverse consequences discussed in the immediately preceding risk factor.

***Lower payment rates on our securitized loans could materially adversely affect our liquidity and financial condition.***

Certain collections from our securitized loans come back to us through our subsidiaries, and we use these collections to fund our purchase of newly originated loans to collateralize our securitized financings. If payment rates on our securitized loans are lower than they have historically been, fewer collections will be remitted to us on an ongoing basis. Further, certain series of our asset-backed securities include a requirement that we accumulate principal collections in a restricted account for a specified number of months prior to the applicable security's maturity date. We are required under the program documents to lengthen this accumulation period to the extent we expect the payment rates to be low enough that the current length of the accumulation period is inadequate to fully fund the restricted account by the applicable security's maturity date. Lower payment rates, and in particular, payment rates that are low enough that we are required to lengthen our accumulation periods, could materially adversely affect our liquidity and financial condition.

***Our inability to grow our deposits in the future could materially adversely affect our liquidity and ability to grow our business.***

We obtain deposits directly from retail and commercial customers or through brokerage firms that offer our deposit products to their customers. At September 30, 2014, we had \$18.3 billion in direct deposits (which includes deposits from banks and financial institutions) and \$14.4 billion in deposits originated through brokerage firms (including network deposit sweeps procured through a program arranger who channels brokerage account deposits to us). A key



part of our liquidity plan and funding strategy is to significantly expand our direct deposits. Although we expect to reduce the proportion of our funding provided by brokered deposits in connection with our application to the Federal Reserve Board, we also intend to continue to rely on brokered deposits as a source of funding.

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The deposit business is highly competitive, with intense competition in attracting and retaining deposits. We compete on the basis of the rates we pay on deposits, features and benefits of our products, the quality of our customer service and the competitiveness of our digital banking capabilities. Our ability to originate and maintain retail deposits is also highly dependent on the strength of the Bank and the perceptions of consumers and others of our business practices and our financial health. Adverse perceptions regarding our reputation could lead to difficulties in attracting and retaining deposits accounts. Negative public opinion could result from actual or alleged conduct in a number of areas, including lending practices, regulatory compliance, inadequate protection of customer information or sales and marketing activities, and from actions taken by regulators or others in response to such conduct. In addition, our ability to originate and maintain deposits could be adversely affected by the loss of our association with GE's brand and reputation as a result of the IPO or the Separation.

The demand for the deposit products we offer may also be reduced due to a variety of factors, such as demographic patterns, changes in customer preferences, reductions in consumers' disposable income, regulatory actions that decrease customer access to particular products or the availability of competing products. Competition from other financial services firms and others that use deposit funding products may affect deposit renewal rates, costs or availability. Changes we make to the rates offered on our deposit products may affect our profitability and liquidity.

The FDIA prohibits an insured bank from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is well capitalized, or it is adequately capitalized and receives a waiver from the FDIC. A bank that is adequately capitalized and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. There are no such restrictions under the FDIA on a bank that is well capitalized and at September 30, 2014, the Bank met or exceeded all applicable requirements to be deemed well capitalized for purposes of the FDIA. However, there can be no assurance that the Bank will continue to meet those requirements. Limitations on the Bank's ability to accept brokered deposits for any reason (including regulatory limitations on the amount of brokered deposits in total or as a percentage of total assets) in the future could materially adversely impact our funding costs and liquidity. Any limitation on the interest rates the Bank can pay on deposits could competitively disadvantage us in attracting and retaining deposits and have a material adverse effect on our business.

***Changes in market interest rates could have a material adverse effect on our net earnings, funding and liquidity.***

Changes in market interest rates cause our net interest income and our interest expense to increase or decrease, as certain of our assets and liabilities carry interest rates that fluctuate with market benchmarks. At September 30, 2014, 55.7% of our loans bore a fixed interest rate to the customer, and we generally fund these assets with fixed rate certificates of deposit, securitized financing and unsecured debt. At September 30, 2014, 44.3% of our loans bore a floating interest rate to the customer, and we generally fund these assets with floating rate deposits, asset-backed securities and unsecured debt. The interest rate benchmark for our floating rate assets is the prime rate, and the interest rate benchmark for our floating rate liabilities is generally either the London Interbank Offered Rate (LIBOR) or the federal funds rate. The prime rate and LIBOR or the 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. To the extent we are unable to effectively match the interest rates on our assets and liabilities (including, in the future, potentially through the use of derivatives), our net earnings could be materially adversely affected.

Competitive and regulatory factors may limit our ability to raise interest rates, fixed or floating, on our loans. In addition, some of our program agreements limit the rate of interest we can charge to customers under those agreements. If interest rates were to rise materially over a sustained period of time, and we are unable to sufficiently raise our interest rates in a timely manner, or at all, our net interest margin could be adversely impacted, which could

have a material adverse effect on our net earnings.

Interest rates may also adversely impact our customers' spending levels and ability and willingness to pay amounts owed to us. Our floating rate credit products bear interest rates that fluctuate with the prime rate. Higher interest rates often lead to higher payment obligations by customers to us and other lenders under mortgage, credit card and other consumer loans, which may reduce our customers' ability to remain current on their obligations to us and therefore lead to increased delinquencies, bankruptcies, charge-offs and allowances for loan losses, and decreasing recoveries, all of which could have a material adverse effect on our net earnings.

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Changes in interest rates and competitor responses to these changes may also impact customer decisions to maintain deposits with us, and reductions in deposits could materially adversely affect our funding costs and liquidity.

We assess our interest rate risk by estimating the effect on our net earnings of various scenarios that differ based on assumptions about the direction and the magnitude of interest rate changes. We take risk mitigation actions based on those assessments. Changes in interest rates could materially reduce our net interest income and our net earnings, and could also increase our funding costs and reduce our liquidity, especially if actual conditions turn out to be materially different from those we assumed. For a discussion of interest rate risk sensitivities, see Item 2. Financial Information Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk.

***Our risk management processes and procedures may not be effective in mitigating our risks.***

Our risk management processes and procedures seek to appropriately balance risk and return and mitigate risks. We have established processes and procedures intended to identify, measure, monitor and control the types of risk to which we are subject, including credit risk, market risk, liquidity risk, strategic risk and operational risk. Credit risk is the risk of loss that arises when an obligor fails to meet the terms of an obligation. We are exposed to both consumer credit risk, from our customer loans, and institutional credit risk, principally from our partners. Market risk is the risk of loss due to changes in external market factors such as interest rates. Liquidity risk is the risk that financial condition or overall safety and soundness are adversely affected by an inability, or perceived inability, to meet obligations and support business growth. Strategic risk is the risk from changes in the business environment, improper implementation of decisions or inadequate responsiveness to changes in the business environment. Operational risk is the risk of loss arising from inadequate or failed processes, people or systems, external events (i.e., natural disasters) or compliance, reputational or legal matters and includes those risks as they relate directly to our Company as well as to third parties with whom we contract or otherwise do business. See Item 1. Business Credit Risk Management and Risk Management for additional information on the types of risks affecting our business.

We seek to monitor and control our risk exposure through a framework that includes our risk appetite statement, enterprise risk assessment process, risk policies, procedures and controls, reporting requirements, credit risk culture and governance structure. Management of our risks in some cases depends upon the use of analytical and/or forecasting models. If the models that we use to manage these risks are ineffective at predicting future losses or are otherwise inadequate, we may incur unexpected losses or otherwise be adversely affected. In addition, the information we use in managing our credit and other risk may be inaccurate or incomplete as a result of error or fraud, both of which may be difficult to detect and avoid. There may also be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated including when processes are changed or new products and services are introduced. If our risk management framework does not effectively identify and control our risks, we could suffer unexpected losses or be adversely affected, and that could have a material adverse effect on our business, results of operations and financial condition.

***We rely extensively on models in managing many aspects of our business, and if they are not accurate or are misinterpreted, it could have a material adverse effect on our business and results of operations.***

We rely extensively on models in managing many aspects of our business, including liquidity and capital planning (including stress testing), customer selection, credit and other risk management, pricing, reserving and collections management. The models may prove in practice to be less predictive than we expect for a variety of reasons, including as a result of errors in constructing, interpreting or using the models or the use of inaccurate assumptions (including failures to update assumptions appropriately or in a timely manner). Our assumptions may be inaccurate for many reasons including that they often involve matters that are inherently difficult to predict and beyond our control (e.g.,

macroeconomic conditions and their impact on partner and customer behaviors) and they often involve complex interactions between a number of dependent and independent variables, factors and other assumptions. The errors or inaccuracies in our models may be material, and could lead us to make wrong or sub-optimal decisions in managing our business, and this could have a material adverse effect on our business, results of operations and financial condition.

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***Our business depends on our ability to successfully manage our credit risk, and failing to do so may result in high charge-off rates.***

Our success depends on our ability to manage our credit risk while attracting new customers with profitable usage patterns. We select our customers, manage their accounts and establish terms and credit limits using proprietary scoring models and other analytical techniques that are designed to set terms and credit limits to appropriately compensate us for the credit risk we accept, while encouraging customers to use their available credit. The models and approaches we use to manage our credit risk may not accurately predict future charge-offs for various reasons discussed in the preceding risk factor.

Our ability to manage credit risk and avoid high charge-off rates also may be adversely affected by economic conditions that may be difficult to predict, such as the recent financial crisis. Although delinquencies and charge-offs continued to decline through 2013, they both may increase in the future and are likely to increase materially if economic conditions deteriorate. We remain subject to conditions in the consumer credit environment. There can be no assurance that our credit underwriting and risk management strategies will enable us to avoid high charge-off levels or delinquencies, or that our allowance for loan losses will be sufficient to cover actual losses.

A customer's ability to repay us can be negatively impacted by increases in their payment obligations to other lenders under mortgage, credit card and other loans (including student loans). These changes can result from increases in base lending rates or structured increases in payment obligations, and could reduce the ability of our customers to meet their payment obligations to other lenders and to us. In addition, a customer's ability to repay us can be negatively impacted by the restricted availability of credit to consumers generally, including reduced and closed lines of credit. Customers with insufficient cash flow to fund daily living expenses and lack of access to other sources of credit may be more likely to increase their card usage and ultimately default on their payment obligations to us, resulting in higher credit losses in our portfolio. Our collection operations may not compete effectively to secure more of customers' diminished cash flow than our competitors. In addition, we may not identify customers who are likely to default on their payment obligations to us and reduce our exposure by closing credit lines and restricting authorizations quickly enough, which could have a material adverse effect on our business, results of operations and financial condition. At September 30, 2014, 28.1% of our portfolio's loan receivables (including loan receivables held for sale) were from consumers with a FICO score of 660 or less, which typically have higher delinquency and credits losses than consumers with higher FICO scores.

Our ability to manage credit risk also may be adversely affected by legal or regulatory changes (such as bankruptcy laws and minimum payment regulations) and collection regulations, competitors' actions and consumer behavior, as well as inadequate collections staffing, techniques, models and performance of vendors such as collection agencies.

***Our allowance for loan losses may prove to be insufficient to cover losses on our loans.***

We maintain an allowance for loan losses (a reserve established through a provision for losses charged to expense) that we believe is appropriate to provide for incurred losses in our loan portfolio. In addition, for portfolios we may acquire when we enter into new partner program agreements, any deterioration in the performance of the purchased portfolios after acquisition results in incremental loss reserves. Growth in our loan portfolio generally would lead to an increase in the allowance for loan losses.

The process for establishing an allowance for loan losses is critical to our results of operations and financial condition, and requires complex models and judgments, including forecasts of economic conditions. Changes in economic conditions affecting borrowers, new information regarding our loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. We may underestimate our incurred losses and fail to

maintain an allowance for loan losses sufficient to account for these losses. In cases where we modify a loan, if the modified loans do not perform as anticipated, we may be required to establish additional allowances on these loans.

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We periodically review and update our methodology, models and the underlying assumptions, estimates and assessments we use to establish our allowance for loan losses to reflect our view of current conditions. Moreover, our regulators, as part of their supervisory function, periodically review the methodology, models and the underlying assumptions, estimates and assessments we use for calculating, and the adequacy of, our allowance for loan losses. Our regulators, based on their judgment, may conclude that we should modify our methodology, models or the underlying assumptions, estimates and assessments, increase our allowance for loan losses and/or recognize further losses. During 2012 and 2013, we enhanced our allowance for loan losses methodology. This enhancement resulted in a more granular portfolio segmentation analysis, by loss type, included a qualitative assessment of the adequacy of the portfolio's allowance for loan losses, which compared the allowance for losses to projected net charge-offs over the next 12 months, in a manner consistent with regulatory guidance, and was designed to provide a better estimate of the date of a probable loss event and length of time required for a probable loss event to result in a charge-off. As a result, we recognized incremental provisions of \$343 million and \$642 million in 2012 and 2013, respectively. We continue to review and evaluate our methodology, models and the underlying assumptions, estimates and assessments we use and we will implement further enhancements or changes to them, as needed. We cannot assure you that our loan loss reserves will be sufficient to cover actual losses. Future increases in the allowance for loan losses or recognized losses (as a result of any review, update, regulatory guidance or otherwise) will result in a decrease in net earnings and capital and could have a material adverse effect on our business, results of operations and financial condition.

***If assumptions or estimates we use in preparing our financial statements are incorrect or are required to change, our reported results of operations and financial condition may be adversely affected.***

We are required to make various assumptions and estimates in preparing our financial statements under GAAP, including for purposes of determining allowances for loan losses, asset impairment, reserves related to litigation and other legal matters, valuation of income and other taxes and regulatory exposures and the amounts recorded for certain contractual payments to be paid to or received from partners and others under contractual arrangements. In addition, significant assumptions and estimates are involved in determining certain disclosures required under GAAP, including those involving the fair value of our financial instruments. If the assumptions or estimates underlying our financial statements are incorrect, the actual amounts realized on transactions and balances subject to those estimates will be different, and this could have a material adverse effect on our results of operations and financial condition.

In addition, the Financial Accounting Standards Board ( FASB ) is currently reviewing or proposing changes to several financial accounting and reporting standards that govern key aspects of our financial statements, including the proposed standard on accounting for credit losses and other areas where assumptions or estimates are required. As a result of changes to financial accounting or reporting standards, whether promulgated or required by the FASB or other regulators, we could be required to change certain of the assumptions or estimates we previously used in preparing our financial statements, which could materially impact how we record and report our results of operations and financial condition generally. For additional information on the key areas for which assumptions and estimates are used in preparing our financial statements, see Item 2. Financial Information Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates and Note 2. Basis of Presentation and Summary of Significant Accounting Policies to our combined financial statements.

***We may not be able to offset increases in our costs with decreased payments under our retailer share arrangements, which could reduce our profitability.***

Most of our Retail Card program agreements and certain other program agreements contain retailer share arrangements that provide for payments to our partners if the economic performance of the relevant program exceeds a contractually defined threshold. Although the share arrangements vary by partner, these arrangements are generally structured to measure the economic performance of the program, based typically on agreed upon program revenues



(including interest income and certain other income) less agreed upon program expenses (including interest expense, provision for loan losses, retailer payments and operating expenses), and share portions of this amount above a negotiated threshold. These arrangements are typically designed to permit us to achieve an economic return before we are required to make payments to our partners based on the agreed contractually defined threshold. However, because the threshold and the economic performance of a program that are used to calculate payments to our partners may be based on, among other things, agreed upon measures of program expenses rather than our actual expenses, we may not be able to pass on increases in our actual expenses (such as funding costs or operating expenses) in the form of reduced payments under our retailer share arrangements, and our economic return on a program could be adversely affected.

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**Table of Contents*****Competition in the consumer finance industry is intense.***

The success of our business depends on our ability to retain existing partners and attract new partners. The competition for partners is intense and becoming more competitive. Our primary competitors for partners include major financial institutions, such as Alliance Data, American Express, Capital One, Chase, Citibank, TD Bank and Wells Fargo, and to a lesser extent, potential partners' own in-house financing capabilities. Some of our competitors are substantially larger, have substantially greater resources and may offer a broader range of products and services. We compete for partners on the basis of a number of factors, including program financial and other terms, underwriting standards, marketing expertise, service levels, product and service offerings (including incentive and loyalty programs), technological capabilities and integration, brand and reputation. In addition, some of our competitors for partners have a business model that allows for their partners to manage underwriting (e.g., new account approval), customer service and collections, and other core banking responsibilities that we retain but some partners may prefer to handle. As a result of competition, we may be unable to acquire new partners, lose existing relationships to competing companies or find it more costly to maintain our existing relationships.

Our success also depends on our ability to attract and retain customers and generate usage of our products by them. The consumer credit and payments industry is highly competitive and we face an increasingly dynamic industry as emerging technologies enter the marketplace. As a form of payment, our products compete with cash, checks, debit cards, general purpose credit cards (including Visa and MasterCard, American Express and Discover Card), other private-label card brands and, to a certain extent, prepaid cards. We also compete with non-traditional providers such as PayPal. In the future, we expect our products will face increased competition from new emerging payment technologies, such as Apple Pay, Google Wallet, Softcard and Square, as well as consortia of merchants that are expected to combine payment systems to reduce interchange and other costs (e.g., MCX). We may also face increased competition from current competitors or others who introduce or embrace disruptive technology that significantly changes the consumer credit and payment industry. We compete for customers and their usage of our products, and to minimize transfers to competitors of our customers' outstanding balances, based on a number of factors, including pricing (interest rates and fees), product offerings, credit limits, incentives (including loyalty programs) and customer service. Although we offer a variety of consumer credit products, some of our competitors provide a broader selection of services, including home and automobile loans, debit cards and bank branch ATM access, which may position them better among customers who prefer to use a single financial institution to meet all of their financial needs. Some of our competitors are substantially larger than we are, which may give those competitors advantages, including a more diversified product and customer base, the ability to reach out to more customers and potential customers, operational efficiencies, more versatile technology platforms, broad-based local distribution capabilities and lower-cost funding. In addition, some of our competitors, including new and emerging competitors in the digital and mobile payments space, are not subject to the same regulatory requirements or legislative scrutiny to which we are subject, which also could place us at a competitive disadvantage. Customer attrition from any or all of our credit products or any lowering of the pricing of our products by reducing interest rates or fees in order to retain customers could reduce our revenues and therefore our earnings.

In our retail deposits business, we have acquisition and servicing capabilities similar to other direct banking competitors. We compete for deposits with traditional banks and, in seeking to grow our direct banking business, we compete with other banks that have direct banking models similar to ours, such as Ally Financial, American Express, Capital One 360 (ING), Discover, Nationwide, Sallie Mae and USAA. Competition among direct banks is intense because online banking provides customers the ability to rapidly deposit and withdraw funds and open and close accounts in favor of products and services offered by competitors.

If we are unable to compete effectively for partners, customer usage or deposits, our business and results of operations could be materially adversely affected.



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***Our business is heavily concentrated in U.S. consumer credit, and therefore our results are more susceptible to fluctuations in that market than a more diversified company.***

Our business is heavily concentrated in U.S. consumer credit. As a result, we are more susceptible to fluctuations and risks particular to U.S. consumer credit than a more diversified company. For example, our business is particularly sensitive to macroeconomic conditions that affect the U.S. economy and consumer spending and consumer credit. We are also more susceptible to the risks of increased regulations and legal and other regulatory actions that are targeted at consumer credit or the specific consumer credit products that we offer (including promotional financing). Due to our CareCredit platform, we are also more susceptible to increased regulations and legal and other regulatory actions targeted at elective healthcare related procedures or services, in contrast to other industries. Our business concentration could have an adverse effect on our results of operations.

***We may be unable to successfully develop and commercialize new or enhanced products and services.***

Our industry is subject to rapid and significant changes in technologies, products and services. A key part of our financial success depends on our ability to develop and commercialize new products and services or enhancements to existing products and services, including with respect to loyalty programs, mobile and point of sale technologies, and new Synchrony-branded bank deposit and credit products. Realizing the benefits of those products and services is uncertain. We may not assign the appropriate level of resources, priority or expertise to the development and commercialization of these new products, services or enhancements. Our ability to develop, acquire or commercialize competitive technologies, products or services on acceptable terms or at all may be limited by intellectual property rights that third parties, including competitors and potential competitors, may assert. In addition, success is dependent on factors such as partner and customer acceptance, adoption and usage, competition, the effectiveness of marketing programs, the availability of appropriate technologies and business processes and regulatory approvals. Success of a new product, service or enhancement also may depend upon our ability to deliver it on a large scale, which may require a significant investment.

We also may select, utilize and invest in technologies, products and services that ultimately do not achieve widespread adoption and therefore are not as attractive or useful to our partners, customers and service partners as we anticipate, or partners may not recognize the value of our new products and services or believe they justify any potential costs or disruptions associated with implementing them. In addition, because our products and services typically are marketed through our partners, if our partners are unwilling or unable to effectively implement our new technologies, products, services or enhancements, we may be unable to grow our business. Competitors may also develop or adopt technologies or introduce innovations that change the markets we operate in and make our products less competitive and attractive to our partners and customers.

In any event, we may not realize the benefit of new technologies, products, services or enhancements for many years or competitors may introduce more compelling products, services or enhancements. Our failure to successfully develop and commercialize new or enhanced products, services or enhancements could have a material adverse effect on our business and results of operations.

***We may not realize the value of strategic investments that we pursue and such investments could divert resources or introduce unforeseen risks to our business.***

We may execute strategic acquisitions or partnerships or make other strategic investments in businesses, products, technologies or platforms to enhance or grow our business. These strategic investments may introduce new costs or liabilities which could impact our ability to grow or maintain acceptable performance.

We may be unable to integrate systems, personnel or technologies from our strategic investments. These strategic investments may also present unforeseen legal, regulatory or other challenges that we may not be able to manage effectively. The planning and integration of an acquisition, partnership or investment may shift employee time and other resources which could impair our ability to focus on our core business.

Strategic investments may not perform as expected due to lack of acceptance by partners, customers or employees, higher than forecasted costs, lengthy transition periods, synergies or savings not being realized and a variety of other factors. This may result in a delay or unrealized benefit, or in some cases, increased costs or other unforeseen risks to our business.

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**Table of Contents*****Reductions in interchange fees may reduce the competitive advantages our private label credit card products currently have by virtue of not charging interchange fees and would reduce our income from those fees.***

Interchange is a fee merchants pay to the interchange network in exchange for the use of the network's infrastructure and payment facilitation, and which are paid to credit card issuers to compensate them for the risk they bear in lending money to customers. We earn interchange fees on Dual Card transactions but we do not charge or earn interchange fees from our partners or customers on our private label credit card products.

Merchants, trying to decrease their operating expenses, have sought to, and have had some success at, lowering interchange rates. Several recent events and actions indicate a continuing increase in focus on interchange by both regulators and merchants. Beyond pursuing litigation, legislation and regulation, merchants are also pursuing alternate payment platforms as a means to lower payment processing costs. To the extent interchange fees are reduced, one of our current competitive advantages with our partners that we typically do not charge interchange fees when our private label credit card products are used to purchase our partners' goods and services may be reduced. Moreover, to the extent interchange fees are reduced, our income from those fees will be lower. We received approximately \$324 million of interchange fees for the year ended December 31, 2013 and \$269 million of interchange fees for the nine months ended September 30, 2014. As a result, a reduction in interchange fees could have a material adverse effect on our business and results of operations. In addition, for our Dual Cards, we are subject to the operating regulations and procedures set forth by the interchange network, and our failure to comply with these operating regulations, which may change from time to time, could subject us to various penalties or fees, or the termination of our license to use the interchange network, all of which could have a material adverse effect on our business and results of operations.

***Fraudulent activity associated with our products and services could negatively impact our operating results, brand and reputation and cause the use of our products and services to decrease and our fraud losses to increase.***

We are subject to the risk of fraudulent activity associated with partners, customers and third parties handling customer information. Our fraud-related losses have increased significantly from \$72 million to \$132 million to \$134 million for the years ended December 31, 2011, 2012 and 2013, respectively. For the nine months ended September 30, 2014 and 2013, fraud related losses were \$119 million and \$99 million, respectively. Our fraud-related losses are due primarily to our Dual Card product, which has grown in recent years and, like the overall market for general purpose credit cards, has experienced significant counterfeit and mail/phone fraud (including as a result of well-publicized security breaches at retailers unrelated to us). Our private label credit card product is also susceptible to application fraud, because among other things, we provide immediate access to the credit line at the time of approval. In addition, sales on the internet and through mobile channels are becoming a larger part of our business and fraudulent activity is higher as a percentage of sales in those channels than in stores. Dual Cards and private label credit cards are susceptible to different types of fraud, and, depending on our product channel mix (including as a result of the introduction, if any, of a Synchrony-branded general purpose credit card), we may continue to experience variations in, or levels of, fraud-related expense that are different from or higher than that experienced by some of our competitors or the industry generally.

The risk of fraud continues to increase for the financial services industry in general, and credit card fraud, identity theft and related crimes are likely to continue to be prevalent, and perpetrators are growing more sophisticated. Our resources, technologies and fraud prevention tools may be insufficient to accurately detect and prevent fraud. For example, credit cards with EMV chip technology (such as EMV chips) provide additional security against fraudulent activity and have been widely adopted in Europe and Asia but have not been widely accepted by merchants in the United States. As a result, although we are in the process of rolling out this technology with several of our partners, our credit cards continue to use the traditional magnetic stripes for card processing and therefore do not benefit from the embedded security chip feature, and our adoption of this technology would still require wider acceptance by

merchants to reduce our risk. The level of our fraud charge-offs and results of operations could be materially adversely affected if fraudulent activity were to significantly increase. High profile fraudulent activity also could negatively impact our brand and reputation, which could negatively impact the use of our cards and thereby have a material adverse effect on our results of operations. In addition, significant increases in fraudulent activity could lead to regulatory intervention (such as increased customer notification requirements and mandatory issuance of cards with EMV chips), which could increase our costs and also negatively impact our operating results, brand and reputation and could lead us to take steps to reduce fraud risk, which could increase our costs.

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**Table of Contents*****Cyber-attacks or other security breaches could have a material adverse effect on our business.***

In the normal course of business, we collect, process and retain sensitive and confidential information regarding our partners and our customers. We also have arrangements in place with our partners and other third parties through which we share and receive information about their customers who are or may become our customers. Although we devote significant resources and management focus to ensuring the integrity of our systems through information security and business continuity programs, our facilities and systems, and those of our partners and third-party service providers, are vulnerable to external or internal security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, or other similar events. We and our partners and third-party service providers have experienced all of these events in the past and expect to continue to experience them in the future. These events could interrupt our business or operations, result in significant legal and financial exposure, supervisory liability, damage to our reputation or a loss of confidence in the security of our systems, products and services. Although the impact to date from these events has not had a material adverse effect on us, we cannot be sure this will be the case in the future.

Information security risks for large financial institutions like us have increased recently in part because of new technologies, the use of the internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks against large financial institutions that are designed to disrupt key business services, such as consumer-facing web sites. The Separation and our emergence as a separately branded company could increase our profile and therefore risk of being targeted for cyber-attacks and other security breaches, including attacks targeting our key business services and websites. We are not able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. We employ detection and response mechanisms designed to contain and mitigate security incidents, but early detection may be thwarted by sophisticated attacks and malware designed to avoid detection.

We also face risks related to cyber-attacks and other security breaches in connection with credit card transactions that typically involve the transmission of sensitive information regarding our customers through various third-parties, including our partners, retailers that are not our partners where our Dual Cards are used, merchant acquiring banks, payment processors, card networks (e.g., Visa and MasterCard) and our processors (e.g., First Data). Some of these parties have in the past been the target of security breaches and cyber attacks, and because the transactions involve third-parties and environments such as the point of sale that we do not control or secure, future security breaches or cyber-attacks affecting any of these third-parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. We also rely on numerous other third party service providers, such as FIS, to conduct other aspects of our business operations and face similar risks relating to them. While we regularly conduct security assessments of significant third party service providers, we cannot be sure that their information security protocols are sufficient to withstand a cyber-attack or other security breach.

The access by unauthorized persons to, or the improper disclosure by us of, confidential information regarding our customers or our own proprietary information, software, methodologies and business secrets could interrupt our business or operations, result in significant legal and financial exposure, supervisory liability, damage to our reputation or a loss of confidence in the security of our systems, products and services, all of which could have a material adverse impact on our business, financial condition and results of operations. In addition, recently there have been a number of well-publicized attacks or breaches directed at others in our industry that have heightened concern by consumers generally about the security of using credit cards, which have caused some consumers, including our customers, to use our credit cards less in favor of alternative methods of payment and has led to increased regulatory



focus on, and potentially new regulations relating to, these matters. Further cyber-attacks or other breaches in the future, whether affecting us or others, could intensify consumer concern and regulatory focus and result in reduced use of our cards and increased costs, all of which could have a material adverse effect on our business.

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**Table of Contents*****The failure of third parties to provide various services that are important to our operations could have a material adverse effect on our business.***

Some services important to our business are outsourced to third-party vendors. For example, our credit card transaction processing, production and related services (including the printing and mailing of customer statements) are handled by First Data, and the technology platform for our online retail deposits is managed by FIS. First Data and FIS and, in some cases other third-party vendors, are the sole source or one of a limited number of sources of the services they provide for us. It would be difficult and disruptive for us to replace some of our third-party vendors, particularly First Data and FIS, in a timely manner if they were unwilling or unable to provide us with these services in the future (as a result of their financial or business conditions or otherwise), and our business and operations likely would be materially adversely affected. First Data has publicly disclosed that it is highly leveraged and that it has incurred net losses of \$869.1 million, \$700.9 million and \$516.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. Our principal agreements with First Data expire under their existing terms (assuming we exercise our unilateral extension rights but the agreements are not otherwise renewed or extended by mutual agreement of the parties) at various times between 2016 and 2020. Our principal agreement with FIS expires under its existing terms (assuming we exercise our unilateral extension rights but the agreements are not otherwise renewed or extended by mutual agreement of the parties) in 2020. In addition, if a third-party provider fails to provide the services we require, fails to meet contractual requirements, such as compliance with applicable laws and regulations, or suffers a cyber-attack or other security breach, our business could suffer economic and reputational harm that could have a material adverse effect on our business and results of operations.

***Disruptions in the operation of our computer systems and data centers could have a material adverse effect on our business.***

Our ability to deliver products and services to our partners and our customers, service our loans and otherwise operate our business and comply with applicable laws depends on the efficient and uninterrupted operation of our computer systems and data centers, as well as those of our partners and third-party service providers. These computer systems and data centers may encounter service interruptions at any time due to system or software failure, natural disaster or other reasons. In addition, the implementation of technology changes and upgrades to maintain current and integrate new systems may also cause service interruptions, transaction processing errors and system conversion delays and may cause our failure to comply with applicable laws, all of which could have a material adverse effect on our business.

In connection with the Separation, we must migrate, and in some cases, establish with third parties, key parts of our technology infrastructure, including our data centers. When we migrate our data centers, our partners will also need to make changes to their networks to establish connectivity with us. These infrastructure changes, both the ones that we make and the ones required of our partners, may cause disruptions, systems interruptions, transaction processing errors and system conversion delays. In addition, we have entered into transitional services arrangements with GE pursuant to which it will provide certain services to us relating to technology and business processes. Some of these transitional services arrangements may remain in effect until 2016, and during the transitional period we will rely on GE to provide these services. The complexities of these arrangements and the services provided will increase the operational risk associated with the Separation, and this increased risk could result in unanticipated expenses, disruptions to our operations or other adverse consequences, all of which could have a material adverse effect on our business.

We expect that new technologies and business processes applicable to the consumer credit industry will continue to emerge, and these new technologies and business processes may be better than those we currently use. The pace of technology change is high and our industry is intensely competitive, and we cannot assure you that we will be able to

sustain our investment in new technology as critical systems and applications become obsolete and better ones become available. A failure to maintain current technology and business processes could cause disruptions in our operations or cause our products and services to be less competitive, all of which could have a material adverse effect on our business, financial condition and results of operations.

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***We have international operations that subject us to various international risks as well as increased compliance and regulatory risks and costs.***

We have international operations, primarily in India, the Philippines and Canada, and some of our third party service providers provide services to us from other countries, all of which subject us to a number of international risks, including, among other things, sovereign volatility and socio-political instability. U.S. regulations also govern various aspects of the international activities of domestic corporations and increase our compliance and regulatory risks and costs. Any failure on our part or the part of our service providers to comply with applicable U.S. regulations, as well as the regulations in the countries and markets in which we or they operate, could result in fines, penalties, injunctions or other similar restrictions, any of which could have a material adverse effect on our business, results of operations and financial condition.

***We face risks from catastrophic events.***

We are subject to catastrophes such as natural disasters, severe weather conditions, health pandemics and terrorist attacks, any of which could have a negative effect on our business and technology infrastructure (including our computer network systems and data centers), our partners and their business and our customers. Catastrophic events could prevent or make it more difficult for our customers to travel to our partners' locations to shop, thereby negatively impacting consumer spending in the effected regions, or in severe cases, nationally, interrupt or disable local or national communications networks, including the payment systems network, which could prevent our partners and our customers from using our products to make purchases or make payments (temporarily or over an extended period). These events could also impair the ability of third parties to provide critical services to us. All of these adverse effects of catastrophic events could result in a decrease in the use of our products or payments to us, which could have a material adverse effect on our business, results of operations and financial condition.

***If we are alleged to have infringed upon the intellectual property rights owned by others or are not able to protect our intellectual property, our business and results of operations could be adversely affected.***

Competitors or other third parties may allege that we, or consultants or other third parties retained or indemnified by us, infringe on their intellectual property rights. We also may face allegations that our employees have misappropriated intellectual property of their former employers or other third parties. Given the complex, rapidly changing and competitive technological and business environment in which we operate, and the potential risks and uncertainties of intellectual property-related litigation, an assertion of an infringement claim against us may cause us to spend significant amounts to defend the claim (even if we ultimately prevail), pay significant money damages, lose significant revenues, be prohibited from using the relevant systems, processes, technologies or other intellectual property, cease offering certain products or services, or incur significant license, royalty or technology development expenses. Moreover, it has become common in recent years for individuals and groups to purchase intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from companies like ours. Even in instances where we believe that claims and allegations of intellectual property infringement against us are without merit, defending against such claims is time consuming and expensive and could result in the diversion of time and attention of our management and employees. In addition, although in some cases a third party may have agreed to indemnify us for such costs, such indemnifying party may refuse or be unable to uphold its contractual obligations.

Moreover, we rely on a variety of measures to protect our intellectual property and proprietary information, including copyrights, trademarks, patents, trade secrets and controls on access and distribution. These measures may not prevent misappropriation or infringement of our intellectual property or proprietary information and a resulting loss of competitive advantage, and in any event, we may be required to litigate to protect our intellectual property and

proprietary information from misappropriation or infringement by others, which is expensive, could cause a diversion of resources and may not be successful. Third parties may challenge, invalidate or circumvent our intellectual property, or our intellectual property may not be sufficient to provide us with competitive advantages. Our competitors or other third parties may independently design around or develop similar technology, or otherwise duplicate our services or products such that we could not assert our intellectual property rights against them. In addition, our contractual arrangements may not effectively prevent disclosure of our intellectual property or confidential and proprietary information or provide an adequate remedy in the event of an unauthorized disclosure.

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We have launched our new brand, Synchrony, and expect to spend significant amounts over the next few years promoting the new brand. We recently filed trademark applications to protect our new name in the United States and certain other countries, but the registrations of these trademarks are not complete and they may ultimately not become registered. Our use of our new name (for our existing or any new products in the United States or other countries) may be challenged by third parties, and we may become involved in legal proceedings to protect or defend our rights with respect to our new name, all of which could have a material adverse effect on our business and results of operations.

***Litigation, regulatory actions and compliance issues could subject us to significant fines, penalties, judgments, remediation costs and/or requirements resulting in increased expenses.***

Our business is subject to increased risks of litigation and regulatory actions as a result of a number of factors and from various sources, including the highly regulated nature of the financial services industry, the focus of state and federal prosecutors on banks and the financial services industry and the structure of the credit card industry.

In the normal course of business, from time to time, we have been named as a defendant in various legal actions, 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. In addition, while historically the arbitration provision in our customer agreements generally has limited our exposure to consumer class action litigation, there can be no assurance that we will be successful in enforcing our arbitration clause in the future. There may also be legislative, administrative or regulatory efforts to directly or indirectly prohibit the use of pre-dispute arbitration clauses, including by the CFPB, or we may be compelled as a result of competitive pressure or reputational concerns to voluntarily eliminate pre-dispute arbitration clauses.

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 earnings and damage to our reputation. The current environment of additional regulation, increased regulatory compliance efforts and enhanced regulatory enforcement has resulted in significant operational and compliance costs and may prevent or make it less attractive for us to continue providing certain products and services. There is no assurance that these regulatory matters or other factors will not, in the future, affect how we conduct our business and in turn have a material adverse effect on our business, results of operations and financial condition.

We contest liability and/or the amount of damages as appropriate in each pending matter. The outcome of pending and future matters could be material to our results of operations, financial condition and cash flows depending on, among other factors, the level of our earnings for that period, and could adversely affect our business and reputation. For a discussion of certain legal proceedings, see Item 1. Business Regulation Consumer Financial Services Regulation, Note 16. Legal Proceedings and Regulatory Matters to our combined financial statements, Note 16. Legal Proceedings and Regulatory Matters to our condensed consolidated and combined financial statements and Item 8. Legal Proceedings.

In addition to litigation and regulatory matters, from time to time, through our operational and compliance controls, we identify compliance issues that require us to make operational changes and, depending on the nature of the issue, result in financial remediation to impacted cardholders. These self-identified issues and voluntary remediation payments could be significant depending on the issue and the number of cardholders impacted. They also could generate litigation or regulatory investigations that subject us to additional adverse effects on our business, results of operations and financial condition.

***Damage to our reputation could negatively impact our business.***

Recently, financial services companies have been experiencing increased reputational risk as consumers take issue with certain of their practices or judgments. Maintaining a positive reputation is critical to our attracting and retaining customers, partners, investors and employees. In particular, adverse perceptions regarding our reputation could also make it more difficult for us to execute on our strategy of increasing retail deposits at the Bank and may lead to decreases in deposits. Harm to our reputation can arise from many sources, including employee misconduct, misconduct by our partners, outsourced service providers or other counterparties, litigation or regulatory actions, failure by us or our partners to meet minimum standards of service and quality, inadequate protection of customer information, and compliance failures. Negative publicity regarding us (or others engaged in a similar business or activities), whether or not accurate, may damage our reputation, which could have a material adverse effect on our business, results of operations and financial condition.

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**Table of Contents*****Our business could be adversely affected if we are unable to attract, retain and motivate key officers and employees.***

Our success depends, in large part, on our ability to retain, recruit and motivate key officers and employees. Our senior management team has significant industry experience and would be difficult to replace. Competition for senior executives in the financial services and payment industry is intense. Although we do not currently anticipate any significant changes to the management team following the completion of the IPO or the Separation, we may not be able to attract and retain qualified personnel to replace or succeed members of our senior management team or other key personnel following the completion of the IPO or the Separation (when we are no longer part of GE) or at any other time. Guidance issued by the federal banking regulators, as well as proposed rules implementing the executive compensation provisions of the Dodd-Frank Act, may limit the type and structure of compensation arrangements that we may enter into with our most senior executives. In addition, proposed rules under the Dodd-Frank Act would prohibit the payment of excessive compensation to our executives. Compensation paid to officers of the Bank would be subject to comparable limitations. These restrictions could negatively impact our ability to compete with other companies in recruiting, retaining and motivating key personnel. Failure to retain talented senior leadership could have a material adverse effect on our business, results of operations and financial condition.

***Tax legislation initiatives or challenges to our tax positions could adversely affect our results of operations and financial condition.***

We operate in multiple jurisdictions and we are subject to tax laws and regulations of the U.S. federal, state and local governments, and of various foreign jurisdictions. From time to time, legislative initiatives may be proposed, such as proposals for fundamental tax reform in the United States and lowering the corporate tax rate, which may impact our effective tax rate and could adversely affect our deferred tax assets, tax positions and/or our tax liabilities. In addition, U.S. federal, state and local, as well as foreign, tax laws and regulations are extremely complex and subject to varying interpretations. There can be no assurance that our historical tax positions will not be challenged by relevant tax authorities or that we would be successful in defending our position in connection with any such challenge.

***State sales tax rules and regulations, and their application and interpretation by the respective states, could change and adversely affect our results of operations.***

State sales tax rules and regulations, and their application and interpretation by the respective states, could adversely affect our results of operations. Retailers collect sales tax from retail customers and remit those collections to the applicable states. When customers fail to repay their loans, including the amount of sales tax advanced by us to the merchant on their behalf, we are entitled, in some cases, to seek a refund of the amount of sales tax from the applicable state. Sales tax laws and regulations enacted by the various states are subject to interpretation, and our compliance with such laws is routinely subject to audit and review by the states. Audit risk is concentrated in several states, and these states are conducting on-going audits. The outcomes of ongoing and any future audits and changes in the states' interpretation of the sales tax laws and regulations involving the recovery of tax on bad debts could materially adversely impact our results of operations.



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**Table of Contents****Risks Relating to Regulation**

*Our business is subject to extensive government regulation, supervision, examination and enforcement, which could adversely affect our business, results of operations and financial condition.*

Our business, including our relationships with our customers, is subject to extensive 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 unitary savings and loan holding company, Synchrony is subject to extensive regulation, supervision and examination by the Federal Reserve Board. As a large provider of consumer financial services, we are also subject to extensive regulation, supervision and examination by the CFPB. Until the GE SLHC Deregistration, we will be controlled by GECC, which is also subject to extensive regulation, supervision and examination by the Federal Reserve Board. The Bank is a federally chartered savings association. As such, the Bank is subject to extensive 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. We, GECC and the Bank are regularly reviewed and examined by our respective regulators, which results in supervisory comments and directions relating to many aspects of our business that require response and attention. See Item 1. Business Regulation for more information about the regulations applicable to us.

Banking laws and regulations are primarily intended to protect federally insured deposits, the DIF and the banking system as a whole, and not intended to protect our stockholders, noteholders or creditors. If we or the Bank, or until the GE SLHC Deregistration, GECC, fail to satisfy applicable laws and regulations, our respective regulators have broad discretion to enforce those laws and regulations, including with respect to the operation of our business, required capital levels, payment of dividends and other capital distributions, engaging in certain activities and making acquisitions and investments. Our regulators also have broad discretion with respect to the enforcement of applicable laws and regulations, including through enforcement actions that could subject us to civil money penalties, customer remediations, increased compliance costs, and limits or prohibitions on our ability to offer certain products and services or to engage in certain activities. In addition, to the extent we undertake actions requiring regulatory approval or non-objection, our regulators may make their approval or non-objection subject to conditions or restrictions that could have a material adverse effect on our business, results of operations and financial condition. Any other actions taken by our regulators could also have a material adverse impact on our business, reputation and brand, results of operations and financial condition. Moreover, some of our competitors are subject to different, and in some cases less restrictive, legislative and regulatory regimes, which may have the effect of providing them with a competitive advantage over us.

New laws or regulations or policy or practical changes in enforcement of existing laws or regulations applicable to our businesses, or our own reexamination of our current practices, could adversely impact our profitability, limit our ability to continue existing or pursue new business activities, require us to change certain of our business practices or alter our relationships with customers, affect retention of our key personnel, or expose us to additional costs (including increased compliance costs and/or customer remediation). These changes may also require us to invest significant management attention and resources to make any necessary changes and could adversely affect our business, results of operations and financial condition. For example, the CFPB has broad authority over the businesses in which we engage. See The Consumer Financial Protection Bureau is a new agency, and there continues to be uncertainty as to how the agency's actions will impact our business; the agency's actions have had and may continue to have an adverse impact on our business.

We are also subject to potential enforcement and other actions that may be brought by state attorneys general or other state enforcement authorities and other governmental agencies. Any such actions could subject us to civil money penalties and fines, customer remediations and increased compliance costs, as well as damage our reputation and brand and limit or prohibit our ability to offer certain products and services or engage in certain business practices. For a discussion of risks related to actions or proceedings brought by regulatory agencies, see [Risks Relating to Our Business](#). Litigation, regulatory actions and compliance issues could subject us to significant fines, penalties, judgments, remediation costs and/or requirements resulting in increased expenses.

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**Table of Contents*****The Dodd-Frank Act has had, and may continue to have, a significant impact on our business, financial condition and results of operations.***

The Dodd-Frank Act was enacted on July 21, 2010. While certain provisions in the Act were effective immediately, many of the provisions require implementing regulations to be effective. The Dodd-Frank Act and regulations promulgated thereunder have had, and may continue to have, a significant adverse impact on our business, results of operations and financial condition. For example, the Dodd-Frank Act and related regulations restrict certain business practices, impose more stringent capital, liquidity and leverage ratio requirements, as well as additional costs, on us (including increased compliance costs and increased costs of funding raised through the issuance of asset-backed securities), limit the fees we can charge for services and impact the value of our assets. In addition, the Dodd-Frank Act requires us to serve as a source of financial strength for any insured depository institution we control, such as the Bank. Such support may be required by the Federal Reserve Board at times when we might otherwise determine not to provide it or when doing so is not otherwise in the interest of Synchrony or its stockholders, noteholders or creditors. We describe certain provisions of the Dodd-Frank Act and other legislative and regulatory developments in Item 1. Business Regulation. Federal agencies continue to promulgate regulations to implement the Dodd-Frank Act, and these regulations may continue to have a significant adverse impact on our business, financial condition and results of operations.

Many provisions of the Dodd-Frank Act require the adoption of additional rules to implement. In addition, the Dodd-Frank Act mandates multiple studies, which could result in additional legislative or regulatory action. As a result, the ultimate impact of the Dodd-Frank Act and its implementing regulations remains unclear and could have a material adverse effect on our business, results of operations and financial condition.

***The Consumer Financial Protection Bureau is a new agency, and there continues to be uncertainty as to how the agency's actions will impact our business; the agency's actions have had and may continue to have an adverse impact on our business.***

The CFPB, which commenced operations in July 2011, has broad authority over the businesses in which we engage. This includes authority to write regulations under federal consumer financial protection laws and to enforce those laws against and examine large financial institutions, such as us and the Bank, for compliance. The CFPB is authorized to prevent unfair, deceptive or abusive acts or practices through its regulatory, supervisory and enforcement authority. The Federal Reserve Board and the OCC and state government agencies may also invoke their supervisory and enforcement authorities to prevent unfair and deceptive acts or practices. These federal and state agencies are authorized to remediate violations of consumer protection laws in a number of ways, including collecting civil money penalties and fines and providing for customer restitution. The CFPB also engages in consumer financial education, requests data and promotes the availability of financial services to underserved consumers and communities. In addition, the CFPB maintains an online complaint system that allows consumers to log complaints with respect to various consumer finance products, including the products we offer. This system could inform future CFPB decisions with respect to its regulatory, enforcement or examination focus.

There continues to be uncertainty as to how the CFPB's strategies and priorities, including in both its examination and enforcement processes, will impact our businesses and our results of operations going forward. Actions by the CFPB could result in requirements to alter or cease offering affected products and services, making them less attractive and restricting our ability to offer them. For example, in July 2012, the CFPB issued an industry bulletin regarding marketing practices with respect to credit card add-on products, including debt cancellation products. See Item 1. Business Regulation Consumer Financial Services Regulation. The Bank has made a number of changes, including changes in response to the CFPB bulletin, with respect to its marketing and sale of debt cancellation products to credit card customers, including ceasing all telesales of such products, and the Bank has also enhanced the disclosures

associated with its website sales of such products. In addition, in October 2013, the CFPB published its first biennial report reviewing the impact of the CARD Act on the consumer credit card market. In the report, the CFPB identified practices that may warrant further scrutiny by it, including add-on products (such as debt protection, identity theft protection, credit score monitoring and other products that are supplementary to the extension of credit), cards that charge substantial application fees, and deferred interest offers and products (which could include our promotional financing products). The report further identified concerns regarding the adequacy of online disclosures, as well as of the disclosures associated with rewards products and grace periods. Separately, the CFPB is also studying pre-dispute arbitration clauses, and our litigation exposure could increase if the CFPB exercises its authority to limit or ban pre-dispute arbitration clauses.

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Although we have committed significant resources to enhancing our compliance programs, changes by the CFPB in regulatory expectations, interpretations or practices or interpretations that are different or stricter than ours or those adopted in the past by other regulators could increase the risk of additional enforcement actions, fines and penalties. Actions by the CFPB could result in requirements, such as under the 2013 CFPB Consent Order, to alter our products and services that may make them less attractive to consumers or less profitable to us. See *Changes to our methods of offering our CareCredit products could materially impact operating results.* In addition, on June 19, 2014, we entered into a consent order with the CFPB related to our debt cancellation product and sales practices and an unrelated issue that arose from the Bank's self-identified omission of certain Spanish-speaking customers and customers residing in Puerto Rico from two offers that were made to certain delinquent customers. On June 19, 2014, we also entered into a consent order with the DOJ to resolve its coordinated investigation into issues related to such offers. For the year ended December 31, 2013, we had a \$133 million increase in our expenses related to litigation and regulatory matters (primarily an increase to our reserves related to the various matters settled with the CFPB and one settled with the DOJ). See *Item 1. Business Regulation Consumer Financial Services Regulation.*

Future actions by the CFPB (or other regulators) against us or our competitors that discourage the use of products we offer or suggest to consumers the desirability of other products or services could result in reputational harm and a loss of customers. If the CFPB changes regulations which were adopted in the past by other regulators and transferred to the CFPB by the Dodd-Frank Act, or modifies through supervision or enforcement past related regulatory guidance or interprets existing regulations in a different or stricter manner than they have been interpreted in the past by us, the industry or other regulators, our compliance costs and litigation exposure could increase materially. If future regulatory or legislative restrictions or prohibitions are imposed that affect our ability to offer promotional financing for certain of our products or require us to make significant changes to our business practices, and we are unable to develop compliant alternatives with acceptable returns, these restrictions or prohibitions could have a material adverse impact on our business, results of operations and financial condition.

The Dodd-Frank Act authorizes state officials to enforce regulations issued by the CFPB and to enforce the Act's general prohibition against unfair, deceptive or abusive practices. This could make it more difficult than in the past for federal financial regulators to declare state laws that differ from federal standards to be preempted. To the extent that states enact requirements that differ from federal standards or state officials and courts adopt interpretations of federal consumer laws that differ from those adopted by the CFPB, we may be required to alter or cease offering products or services in some jurisdictions, which would increase compliance costs and reduce our ability to offer the same products and services to consumers nationwide, and we may be subject to a higher risk of state enforcement actions.

***Changes to our methods of offering our CareCredit products could materially impact operating results.***

The 2013 CFPB Consent Order relating to our CareCredit platform requires us to pay up to \$34.1 million to qualifying customers, and among other things, to provide additional training and monitoring of our CareCredit partners, to include provisions in agreements with our CareCredit partners prohibiting charges for certain services not yet rendered, to make changes to certain consumer disclosures, application procedures and procedures for resolution of customer complaints, and to terminate CareCredit partners that have chargeback rates in excess of certain thresholds. Some of the changes required by the 2013 CFPB Consent Order are similar to requirements in the Assurance. We believe the Bank is in substantial compliance with the material business practice changes required by the 2013 CFPB Consent Order and the Assurance, subject to ongoing reporting obligations, and will complete the additional provider training by the fourth quarter of 2015. In addition to the costs of remediation, which were not material for the Assurance and will be up to \$34.1 million for the 2013 CFPB Consent Order, we will incur one-time costs of approximately \$3 million to implement these changes, and estimate ongoing annual costs of approximately \$3 million. We have only recently implemented certain of the process changes required by the 2013 CFPB Consent Order and the Assurance, and will continue to actively monitor and assess their impact on our CareCredit program. Although at this

time we do not believe that the 2013 CFPB Consent Order and the Assurance will have a material adverse impact on our results of operations going forward, we cannot be sure this will be the case (particularly as providers become acclimated to the required changes) and we cannot be sure whether the settlement will have an adverse impact on our reputation or whether the new requirements imposed by the 2013 CFPB Consent Order or the Assurance will adversely affect providers' or customers' use of our programs or our business. Moreover, we may elect or be required to make changes with respect to these and other deferred interest products in the future, and those changes may adversely affect customers' use of our credit cards or our business. In addition, our resolutions with the CFPB and the New York Attorney General do not preclude other regulators or state attorneys general from seeking additional monetary or injunctive relief with respect to CareCredit, and any such relief could have a material adverse effect on our business, results of operations or financial condition.

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**Table of Contents*****Failure by Synchrony, the Bank and, until the GE SLHC Deregistration, GECC to meet applicable capital adequacy rules could have a material adverse effect on us.***

Synchrony and the Bank must meet rules for capital adequacy as discussed in Item 1. Business Regulation. As a savings and loan holding company, Synchrony historically has not been required to maintain minimum capital. Beginning as early as 2015, however, we expect that Synchrony will be subject to capital requirements similar to those that apply to the Bank. In addition, as discussed below, until the GE SLHC Deregistration, we will be controlled by GECC, which itself is expected to be subject to capital requirements similar to those that apply to the Bank. See As long as we are controlled by GECC for bank regulatory purposes, regulation and supervision of GECC could adversely affect us. These capital requirements have recently been substantially revised, including as a result of Basel III and the requirements of the Dodd-Frank Act. Although we cannot predict the effects of these newly adopted rules implementing Basel III and the Dodd-Frank Act, Synchrony, the Bank and GECC expect to be subject to increasingly stringent capital adequacy standards in the future.

In connection with applicable capital adequacy standards, Synchrony, the Bank and GECC also will be required to conduct stress tests on an annual basis. Under the Federal Reserve Board's and the OCC's stress test regulations, Synchrony, the Bank and GECC will each be required to use stress-testing methodologies providing for results under at least three different sets of conditions, including baseline, adverse and severely adverse conditions. In addition, as part of meeting our minimum capital requirements, we and GECC may be required to comply with the Federal Reserve Board's CCAR process or some modified version of the CCAR process, which would measure our minimum capital requirement levels under various stress scenarios. In connection with this process, we and GECC may be required to develop for the Federal Reserve Board's review and approval a capital plan that will include how we and GECC will each meet our minimum capital requirements under specified stress scenarios.

If Synchrony, the Bank or, until the GE SLHC Deregistration, GECC fails to meet current or future minimum capital, leverage or other financial requirements, its operations, results of operations and financial condition could be materially adversely affected. Among other things, failure by Synchrony, the Bank or, until the GE SLHC Deregistration, GECC to maintain its status as well capitalized (or otherwise meet current or future minimum capital, leverage or other financial requirements) could compromise our competitive position and result in restrictions imposed by the Federal Reserve Board or the OCC, including, potentially, on the Bank's ability to engage in certain activities. These could include restrictions on the Bank's ability to enter into transactions with affiliates, accept brokered deposits, grow its assets, engage in material transactions and extend credit in certain highly leveraged transactions, amend or change its charter, bylaws or accounting methods, pay interest on its liabilities without regard to regulatory caps on the rates that may be paid on deposits and pay dividends or repurchase stock. In addition, failure to maintain the well capitalized status of the Bank could result in our having to invest additional capital in the Bank, which could in turn require us to raise additional capital. The market and demand for, and cost of, our asset-backed securities also could be adversely affected by failure to meet current or future capital requirements.

***We may pay dividends or repurchase our common stock, which may reduce the amount of funds available to satisfy our indebtedness; the Bank is subject to restrictions that limit its ability to pay dividends to us, which could limit our ability to make payments on our indebtedness.***

In connection with our application to the Federal Reserve Board described above and the Separation, we expect to continue to increase our capital and liquidity levels by, among other things, retaining net earnings and by not paying a dividend or returning capital through stock repurchases until our application to the Federal Reserve Board is approved. Thereafter, our board of directors intends to consider our policy regarding the payment and amount of dividends and may consider stock repurchases, in each case consistent with maintaining capital ratios well in excess of minimum regulatory requirements. The declaration and amount of any future dividends to holders of our common stock or stock

repurchases will be at the discretion of our board of directors and will depend on many factors, including the financial condition, earnings, capital and liquidity requirements of us and the Bank, applicable regulatory restrictions (including any restrictions that may be imposed in connection with the Separation), corporate law and contractual restrictions (including restrictions contained in the Bank Term Loan Facility and the GECC Term Loan Facility) and other factors that our board of directors deems relevant. However, any future payment of dividends or repurchases of our capital stock will be for the benefit of our holders of common stock, not the holders of our debt, and will reduce the amount of funds available to satisfy our indebtedness.



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We rely significantly on dividends and other distributions and payments from the Bank for liquidity, including to pay our obligations under our indebtedness and other indebtedness as they become due, and federal law limits the amount of dividends and other distributions and payments that the Bank may pay to us. For example, OCC regulations limit the ability of savings associations to make distributions of capital, including payment of dividends, stock redemptions and repurchases, cash-out mergers and other transactions charged to the capital account. The Bank must obtain the OCC's approval prior to making a capital distribution in certain circumstances, including if the Bank proposes to make a capital distribution when it does not meet certain capital requirements (or will not do so as a result of the proposed capital distribution) or certain net income requirements. In addition, the Bank must file a prior written notice of a planned or declared dividend or other distribution with the Federal Reserve Board. The Federal Reserve Board or the OCC may object to a capital distribution if, among other things, the Bank is, or as a result of such dividend or distribution would be, undercapitalized or the Federal Reserve Board or OCC has safety and soundness concerns. Additional restrictions on bank dividends may apply if the Bank fails the (QTL) test. The application of these restrictions on the Bank's ability to pay dividends involves broad discretion on the part of our regulators. The Bank must also meet certain conditions to declare or pay a dividend under the Bank's Operating Agreement with the OCC entered into in connection with its acquisition of the deposit business of MetLife. Limitations on the Bank's payments of dividends and other distributions and payments that we receive from the Bank could reduce our liquidity and limit our ability to pay our obligations under our indebtedness. See Item 1. Business Regulation Savings Association Regulation Dividends and Stock Repurchases and Activities.

***Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.***

We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively impacted by them. For example, in the United States, certain of our businesses are subject to the GLBA and implementing regulations and guidance. Among other things, the GLBA: (i) imposes certain limitations on the ability of financial institutions to share consumers' nonpublic personal information with nonaffiliated third parties, (ii) requires that financial institutions provide certain disclosures to consumers about their information collection, sharing and security practices and affords customers the right to opt out of the institution's disclosure of their personal financial information to nonaffiliated third parties (with certain exceptions) and (iii) requires financial institutions to develop, implement and maintain a written comprehensive information security program containing safeguards that are appropriate to the financial institution's size and complexity, the nature and scope of the financial institution's activities, and the sensitivity of customer information processed by the financial institution as well as plans for responding to data security breaches.

Moreover, various United States federal banking regulatory agencies, states and foreign jurisdictions have enacted data security breach notification requirements with varying levels of individual, consumer, regulatory and/or law enforcement notification in certain circumstances in the event of a security breach. Many of these requirements also apply broadly to our partners that accept our cards. In many countries that have yet to impose data security breach notification requirements, regulators have increasingly used the threat of significant sanctions and penalties by data protection authorities to encourage voluntary notification and discourage data security breaches.

Furthermore, legislators and/or regulators in the United States and other countries in which we operate are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer and/or employee information, and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. In the United States, this includes increased privacy-related enforcement activity at the Federal level, by the Federal Trade Commission, as well as at the state level, such as with

regard to mobile applications.

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Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer and/or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services (such as products or services that involve us sharing information with third parties or storing sensitive credit card information), which could materially and adversely affect our profitability. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory investigations and government actions, litigation, fines or sanctions, consumer or partner actions and damage to our reputation and our brand, all of which could have a material adverse effect on our business and results of operations.

***Our use of third-party vendors and our other ongoing third-party business relationships are subject to increasing regulatory requirements and attention.***

We regularly use third-party vendors and subcontractors as part of our business. We also have substantial ongoing business relationships with our partners and other third-parties. These types of third-party relationships are subject to increasingly demanding regulatory requirements and attention by our federal bank regulators (the Federal Reserve Board, the OCC and the FDIC) and our consumer regulator (the CFPB). Regulatory guidance requires us to enhance our due diligence, ongoing monitoring and control over our third-party vendors and subcontractors and other ongoing third-party business relationships, including with our partners. In certain cases we may be required to renegotiate our agreements with these vendors and/or their subcontractors to meet these enhanced requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third-party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third-party vendors and subcontractors or other ongoing third-party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation.

***Anti-money laundering and anti-terrorism financing laws could have significant adverse consequences for us.***

We maintain an enterprise-wide program designed to enable us to comply with all applicable anti-money laundering and anti-terrorism financing laws and regulations, including the Bank Secrecy Act and the Patriot Act. This program includes policies, procedures, processes and other internal controls designed to identify, monitor, manage and mitigate the risk of money laundering or terrorist financing posed by our products, services, customers and geographic locale. These controls include procedures and processes to detect and report suspicious transactions, perform customer due diligence, respond to requests from law enforcement, and meet all recordkeeping and reporting requirements related to particular transactions involving currency or monetary instruments. We cannot be sure our programs and controls will be effective to ensure our compliance with all applicable anti-money laundering and anti-terrorism financing laws and regulations, and our failure to comply could subject us to significant sanctions, fines, penalties and reputational harm, all of which could have a material adverse effect on our business, results of operations and financial condition.

***As long as we are controlled by GECC for bank regulatory purposes, regulation and supervision of GECC could adversely affect us.***

GECC is a regulated savings and loan holding company and therefore is subject to all of the regulation and supervision to which we are subject. Until the GE SLHC Deregistration, regulation and supervision of GECC as a savings and loan holding company may, for reasons related or unrelated to us, materially and adversely affect us, including restricting our ability to pay dividends or repurchase our stock, initiate or continue various business activities or practices, grow our assets or complete the Separation.

As a nonbank SIFI, GECC, our indirect parent company, is subject to enhanced prudential standards and regulation by the Federal Reserve Board. Nonbank SIFIs, such as GECC, currently are subject to some, but not all, of the enhanced prudential standards under the Dodd-Frank Act, such as resolution planning. The Federal Reserve Board has issued regulations implementing certain of the enhanced prudential standards of the Dodd-Frank Act for large bank holding companies and foreign banking organizations, but not for nonbank SIFIs. In connection with these regulations, the Federal Reserve Board has indicated that it will apply enhanced prudential standards to an individual nonbank SIFI, such as GECC, by rule or order. These standards are expected to include regulatory capital, capital planning, stress-testing, liquidity and governance requirements, as well as compliance with counterparty credit exposure limits, among others. Although the enhanced prudential standards currently applicable to GECC in its capacity as a nonbank SIFI do not have the effect of imposing direct regulatory obligations or restrictions on us, we cannot be certain that standards imposed by rule or order on GECC as a nonbank SIFI by the Federal Reserve Board in the future will not have the effect of directly or indirectly imposing obligations or restrictions on us so long as we are controlled by GECC for bank regulatory purposes and those could have a material adverse effect on our business, results of operations and financial condition. For example, capital plan and stress-testing requirements to which GECC may be made subject as a nonbank SIFI could affect, among other things, our ability to pay dividends or repurchase our stock, our ability to redeem our indebtedness or GECC's ability to complete the Separation.

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**Table of Contents****Risks Relating to Our Separation from GE*****GE may not complete the Separation as planned or at all.***

On November 15, 2013, GE announced that it planned a staged exit from our business, consistent with its strategy of reducing GECC's percentage of GE's total earnings and increasing GECC's focus on its commercial lending and leasing businesses. The IPO was the first step in that exit. As a result of the IPO, GE currently beneficially owns 84.6% of our outstanding common stock.

GE has indicated that it currently is targeting to complete its exit from our business in late 2015 through the Separation. The Separation would be subject to various conditions, including receipt of any necessary bank regulatory and other approvals, the existence of satisfactory market conditions, and, in the case of a tax-free transaction, a private letter ruling from the IRS as to certain issues relating to, and an opinion of counsel confirming, the tax-free treatment of the transaction to GE and its stockholders. In addition, since GE's exit from our business will not be completed until GE has obtained the GE SLHC Deregistration, GE's willingness to proceed with the Separation may be conditioned on its obtaining the necessary determination by the Federal Reserve Board that the GE SLHC Deregistration is effective (i.e., that, following the Separation, GE, along with GECC and GEFCI, no longer controls us and therefore GE, GECC and GEFCI are released from savings and loan holding company registration).

The conditions related to the Separation and the GE SLHC Deregistration may not be satisfied in late 2015 or thereafter, or GE may decide for any other reason not to consummate the Separation in late 2015 or thereafter. Also, satisfying the conditions related to the Separation and the GE SLHC Deregulation may require actions that GE has not anticipated. Any delay by GE in completing, or uncertainty about its ability or intent to complete, the Separation and the GE SLHC Deregistration on the planned timetable and the contemplated terms (including at the contemplated capital and liquidity levels), or at all, could have a material adverse effect on our business.

***If GE is unable to obtain the GE SLHC Deregistration, it will continue to have significant control over us.***

If the GE SLHC Deregistration is not obtained (and until it is obtained), GE will continue to have significant control over us. GE's degree of control will depend on, among other things, its level of ownership of our common stock, the number of persons it is entitled to designate for nomination for election to our board of directors under the master agreement that we entered into with GECC and, for limited purposes only, GE, prior to the completion of the IPO (the Master Agreement) and the requirement under the Master Agreement that we obtain GECC's prior written approval before undertaking (or permitting or authorizing the Bank or any of our other subsidiaries to undertake) various significant corporate actions. This may mean that GE, through GECC, may not always exercise control of us in a way that benefits our public stockholders or noteholders. Conflicts of interest may arise between us and GE and GECC that could be resolved in a manner unfavorable to us. We will also continue to be subject to the regulation and supervision applicable to GE, GECC and companies under their control, and such regulation and supervision may, for reasons related or unrelated to us, adversely affect us until the GE SLHC Deregistration is obtained. All of the foregoing could have a material adverse effect on us. See "GE has significant control over us and may not always exercise its control in a way that benefits our public stockholders or noteholders" and "Risks Relating to Regulation" As long as we are controlled by GECC for bank regulatory purposes, regulation and supervision of GECC could adversely affect us.

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***We need Federal Reserve Board approval to continue to be a savings and loan holding company following the GE SLHC Deregistration. We may not receive this approval in a timely manner or at all, and additional approval conditions beyond what we are anticipating may be imposed that prevent or delay the Separation or the GE SLHC Deregistration or require us to incur significant additional expense.***

The Savings and Loan Holding Company Act generally requires Federal Reserve Board approval before a company acquires a savings association and becomes a savings and loan holding company. We were exempt from this requirement when we initially acquired the Bank and became a savings and loan holding company, because we were a subsidiary of GE, GECC and GEFCI, existing savings and loan holding companies. We do not expect this exemption to continue to apply to us following the GE SLHC Deregistration. As a result, we will be required to file an application with, and receive approval from, the Federal Reserve Board to continue to be a savings and loan holding company and to retain ownership of the Bank following the GE SLHC Deregistration. See Item 1. Business Regulation Savings and Loan Holding Company Regulation.

We expect that the Federal Reserve Board will not act on our application to continue to be a savings and loan holding company and to retain ownership of the Bank following the GE SLHC Deregistration until, among other things, it has completed an in-depth review of our preparedness to operate on a standalone basis, independently of GE, and is satisfied with the results. We cannot predict when this review will begin but expect it will not begin until after we file our application. In connection with the Federal Reserve Board's review and prior to our filing an application with the Federal Reserve Board to continue to be a savings and loan holding company and to retain ownership of the Bank following the GE SLHC Deregistration, we will continue to establish and expand our operations and infrastructure and take other steps to allow us to operate as a fully standalone public company, independently of GE. See Item 1. Business GE Ownership and Our Separation from GE.

Once the Federal Reserve Board begins its review of our preparedness to operate on a standalone basis, we cannot predict how long such review will take. We expect, however, that the review will require a considerable period of time. In addition, to obtain approval of our application to continue to be a savings and loan holding company and retain ownership of the Bank following the GE SLHC Deregistration, we may have to take additional actions beyond the significant operations and infrastructure expansion and other steps we are already planning. For example, we may have to increase our capital and liquidity levels beyond what we are anticipating; restrict our payment of dividends, or not make any payment of dividends, for a longer period than what we anticipate; make further changes to, among other things, our corporate governance, risk management, capital planning, treasury, information technology, compliance, regulatory, internal audit and other control operations and infrastructure; stop receiving any transitional services from GE; repay all related party debt owed to GECC; or further diversify our funding sources, such as by reducing the amount of our brokered deposits or increasing the amount of our unsecured debt beyond what we are anticipating. Those actions may involve significant additional expenses for us and require significant time to implement beyond what we now anticipate.

Even after taking any such actions, there is no assurance that our application to continue to be a savings and loan holding company following the GE SLHC Deregistration will be approved. The Federal Reserve Board will consider a range of factors and has significant discretion in reviewing our application, and its action on our application may be affected by circumstances we do not know or cannot predict at this time, including factors identified in the Federal Reserve Board's in-depth review of us, changes in our current condition or changes in general economic and market conditions relevant to our operations. The Federal Reserve Board will also seek the views of the OCC and FDIC as regulators of the Bank, and their views may have a significant effect on the Federal Reserve Board's action on the application. If the application is not approved, GE will not be able to obtain the GE SLHC Deregistration as currently planned. GE may be unwilling to proceed with the Separation unless or until it is able to obtain the GE SLHC Deregistration.

Even if our application is approved, we cannot be certain when such approval will be granted, or what conditions or restrictions, if any, will be imposed for such approval. The Federal Reserve Board's approval could include conditions or restrictions that are more onerous than those generally applicable to savings and loan holding companies and that require additional actions or impose additional limitations beyond those we may already have taken or assumed in order to obtain approval and achieve the Separation as described above. Any such conditions or restrictions (including restrictions on our ability to pay dividends or repurchase our stock after the Separation) or additional required actions could be significant, involve significant additional expense for us and have a material adverse effect on our business, results of operations and financial condition. GE's ability or willingness to proceed with the Separation as currently planned could be affected by the nature and effect of any such conditions, restrictions or additional required actions.

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***Prior to the Separation and the GE SLHC Deregistration, we need to establish and significantly expand many aspects of our operations and infrastructure, and our failure to do so in a timely manner, within anticipated costs and without disrupting our ongoing business, could have a material adverse effect on our business and results of operations and could delay or prevent the Separation and the GE SLHC Deregistration.***

Although historically we have operated as a largely standalone business within GECC with our own sales, marketing, risk management, operations, collections, customer service and compliance functions, we need to establish and significantly expand many aspects of our operations and infrastructure prior to the Separation to enable us to operate as a standalone public company after our transitional services with GE terminate (for most services, within 24 months after August 5, 2014, the IPO completion date) and to enable GE to obtain the GE SLHC Deregistration in connection with the Separation or thereafter. The operations and infrastructure to be established or expanded relate to, among other areas, corporate governance, risk management, capital planning, treasury, information technology, compliance, regulatory, internal audit and other control operations and infrastructure.

Establishing and expanding our operations and infrastructure will involve substantial costs, the hiring and integration of a large number of new employees (including a number at senior levels), and integration of the new and expanded operations and infrastructure with our existing operations and infrastructure, and in some cases, the operations and infrastructure of our partners and other third parties. It will also require significant time and attention from our senior management and others throughout the Company, in addition to their day-to-day responsibilities running the business. We expect that our operations and infrastructure will need to be more extensive and robust in many respects than those currently in place at our Company and GECC. We cannot be sure we will be able to establish and expand the operations and infrastructure to the extent required, in the time, or at the costs, anticipated, and without disrupting our ongoing business operations in a material way, all of which could have a material adverse effect on our business and results of operations. Moreover, we do not expect that the Federal Reserve Board will act on our application to continue to be a savings and loan holding company and to retain ownership of the Bank following the GE SLHC Deregistration until, among other things, it has completed an in-depth review of our preparedness to operate on a standalone basis, which we expect to involve a review of our operations and infrastructure. As a result, delays in establishing and expanding our operations and infrastructure may delay the review of our preparedness by the Federal Reserve Board, which could delay the Separation and the GE SLHC Deregistration. Moreover, the Federal Reserve Board may require substantial additions or changes to our operations and infrastructure, including the operations and infrastructure we anticipate adding, all of which could significantly increase our costs and further delay the Separation and the GE SLHC Deregistration. See GE may not complete the Separation as planned or at all.

***Even if the GE SLHC Deregistration is obtained, we also will need Federal Reserve Board agreement that we meet the criteria for a savings and loan holding company to be treated as a financial holding company, and we cannot be certain the Federal Reserve Board will provide such agreement or what additional conditions or restrictions it may impose if it does so.***

We currently are a grandfathered unitary savings and loan holding company, but do not expect to continue to qualify as such a grandfathered unitary savings and loan holding company following the GE SLHC Deregistration. As a result, in connection with our application to continue to be a savings and loan holding company, we will need to submit to the Federal Reserve Board a request to become a financial holding company in order to engage in activities that are permissible only for savings and loan holding companies that are treated as financial holding companies (including to continue to obtain financing through our securitization programs).

We believe that we will meet the criteria for a savings and loan holding company to be treated as a financial holding company. However, we cannot assure you that the Federal Reserve Board will agree, or that the Federal Reserve Board will not, in order for us to be treated as a financial holding company, impose additional conditions or



restrictions, which may be similar to or different from those otherwise imposed in connection with the Separation. GE's ability or willingness to proceed with the Separation as currently planned could be affected by the nature of any such conditions or restrictions required by the Federal Reserve Board in order for us to be treated as a financial holding company.

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***The IPO and Separation could adversely affect our business and profitability due to GE's strong brand and reputation.***

As a subsidiary of GE, we historically have marketed many of our products using the GE brand name and logo, and we believe the association with GE has provided many benefits, including:

a world-class brand associated with trust, integrity and longevity;

perception of high-quality products and services;

strong capital base and financial strength;

preferred status among our partners, customers and employees; and

established relationships with bank and other regulators.

The IPO and the Separation could adversely affect our ability to attract and retain partners. We may be required to provide more favorable pricing and other terms to our partners and take other action to maintain our relationship with existing, and attract new, partners, all of which could have a material adverse effect on our business, financial condition and results of operations.

Although we do not expect a material loss of customers or usage following the IPO or the Separation (or more difficulty attracting new customers and increasing their usage) because our product will continue to be closely associated with our partners and their brands, we cannot be sure this will be the case. In addition, although our capital at the Bank was increased in connection with the IPO and the customer-facing aspects of our business will remain largely unchanged following the IPO and the Separation, we cannot be sure that we will not lose deposits or have more difficulty attracting new deposits following the IPO or the Separation because of depositor concerns that we will no longer be part of GE and benefitting from its brand and financial strength.

We cannot predict the effect that the IPO and the Separation will have on our partners, customers, depositors or employees. The risks relating to the IPO and the Separation could materialize at various times, including:

now that GE's beneficial ownership in our common stock has decreased to 84.6%;

when GE reduces its ownership in our common stock to a level below 50%; and

when we cease using the GE name and logo in our sales and marketing materials, particularly when we deliver notices to partners, customers and depositors that our name and the name of the Bank and some of our other subsidiaries will change.

***We will have the right to use the GE brand name and logo for only a limited period of time and if we fail to establish a new, independently recognized brand name, we could be adversely affected.***

In March 2014 we changed our corporate name to SYNCHRONY FINANCIAL and in June 2014 the Bank changed its corporate name to Synchrony Bank, although we, the Bank and our other subsidiaries may continue to use the GE brand name and logo in marketing our products and services for a limited period of time. Pursuant to a transitional trademark license agreement, GE granted us the right to use certain GE, GE Capital, GE Capital Retail Bank, GE Money and GECAF marks and related GECAF logos and the GE monogram in connection with our products and services until such time as GE ceases to beneficially own more than 50% of our outstanding common stock, subject to certain exceptions (e.g., we generally will have a right to use those marks and related logos and the monogram on our credit cards for a period of three and a half years after the completion of the IPO). Development of a new brand is an expensive, uncertain and long-term process. When our right to use the GE brand name and logo expires, we may not be able to maintain or enjoy comparable name recognition or status under our new brand. If we are unable to successfully manage the transition of our business to our new brand in a timely manner, our reputation among, and relationship with, our partners, customers, depositors and employees could be adversely affected.

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*The terms of our arrangements with GE may be more favorable than we will be able to obtain from an unaffiliated third party. We may be unable to replace the services GECC provides us in a timely manner or on comparable terms.*

We and GECC have entered into a Transitional Services Agreement (as defined under Item 7. Certain Relationships and Related Transactions, and Director Independence Relationship with GE and GECC Transitional Services Agreement ), and other agreements. Pursuant to the Transitional Services Agreement, GECC and its affiliates agreed to provide us with transitional services after the IPO, including treasury, payroll, tax and other financial services, human resources and employee benefits services, information systems and network access, application and support related services, and procurement and sourcing support.

We negotiated these arrangements with GECC in the context of a parent-subsiidiary relationship. Although GECC is contractually obligated to provide us with services during the term of the Transitional Services Agreement, we cannot assure you that these services will be sustained at the same level after the expiration of that agreement, or that we will be able to replace these services in a timely manner or on comparable terms. When GECC ceases to provide services pursuant to those arrangements, our costs of procuring those services from third parties may increase. Other agreements with GE and GECC also govern the relationship between us and GE after the IPO and provide for the allocation of employee benefits, tax and other liabilities and obligations attributable or related to periods or events prior to the IPO. They also contain terms and provisions that may be more favorable than terms and provisions we might have obtained in arm's length negotiations with unaffiliated third parties. See Item 7. Certain Relationships and Related Transactions, and Director Independence Relationship with GE and GECC.

*GE has significant control over us and may not always exercise its control in a way that benefits our public stockholders or noteholders.*

As a result of the IPO, GE currently beneficially owns 84.6% of our outstanding common stock and has indicated that it intends to divest its remaining interest in us. However, so long as GE continues to beneficially own more than 50% of our outstanding voting stock, GE generally will be able to determine the outcome of corporate actions requiring stockholder approval, GE will have the voting power to elect the board of directors and GE will have significant influence over, and in some cases, the right to approve certain compensation paid to our executive officers.

The Master Agreement gives GECC certain significant rights until such time, if any, as the GE SLHC Deregistration occurs. Some of GECC's rights under the Master Agreement will not terminate until the GE SLHC Deregistration occurs, and therefore it is possible that GE will exercise some or all of such rights at a time when it does not own any of our common stock. Under the Master Agreement, GECC has the right to designate five persons for nomination for election to our nine-member board of directors so long as GE beneficially owns more than 50% of our outstanding common stock and to designate a lesser number as GE's percentage ownership decreases until the GE SLHC Deregistration. In addition, subject to certain exceptions and ownership thresholds, until the GE SLHC Deregistration, we will be required to obtain GECC's prior written approval before undertaking (or permitting or authorizing the Bank or any of our other subsidiaries to undertake) various significant corporate actions. These include (subject to certain agreed exceptions):

consolidating or merging with or into any person or, subject to certain exceptions, permitting any subsidiary to merge with or into any person;



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acquiring control of a bank or savings association or making any other acquisition of assets or equity for a price (including assumed debt) in excess of \$500 million (other than acquisitions of receivables portfolios in the ordinary course of business that do not exceed \$1 billion); provided, that once GE's beneficial ownership of our common stock decreases below 20%, the general threshold will be increased to \$1 billion and the threshold for acquisitions of receivables portfolios in the ordinary course of business will be increased to \$2 billion;

disposing of assets or securities in a single transaction or a series of related transactions for a price (including assumed debt) in excess of \$500 million (other than dispositions among us and our affiliates, issuances of asset backed securitization debt to maintain the aggregate level of borrowing capacity we had at the time of the IPO and dispositions of receivables in the ordinary course of business that do not exceed \$1 billion); provided, that once GE's beneficial ownership of our common stock decreases below 20%, the general threshold will be increased to \$1 billion and the threshold for disposition of receivables portfolios in the ordinary course of business will be increased to \$2 billion;

incurring or guaranteeing debt that would reasonably be expected to result in a downgrade of our publicly issued debt below specified ratings at the time of the IPO;

dissolving, liquidating, or winding up our Company;

altering, amending, terminating or repealing, or adopting any provision inconsistent with, the provisions of our certificate of incorporation or our bylaws;

adopting or implementing any stockholder rights plan or similar takeover defense measure;

declaring or paying any dividend or other distribution in respect of our common stock;

repurchasing our common stock, subject to certain exceptions;

entering into a new principal line of business or entering into business outside of the United States and Canada; or

establishing an executive committee of our board of directors.

GE's interests may differ from your interests and the interests of our stockholders, and therefore actions GE takes with respect to us, as a controlling or significant stockholder or under the Master Agreement, may not be favorable to you or our stockholders.

*As long as GE owns a majority of our common stock, we will rely on certain of the exemptions from the corporate governance requirements of the NYSE available for controlled companies .*

We are a controlled company within the meaning of the corporate governance listing standards of the New York Stock Exchange ( NYSE ) because GE continues to own more than 50% of our outstanding common stock. A controlled company may elect not to comply with certain corporate governance requirements of the NYSE. Consistent with this, the Master Agreement provides that, so long as we are a controlled company, we will elect not to comply with the requirements to have a majority of independent directors or to have the Nominating and Corporate Governance and Management Development and Compensation Committees of our board of directors consist entirely of independent directors. Six of our nine directors, including one member of the board of directors Nominating and Corporate Governance Committee and one member of the board of directors Management Development and Compensation Committee, do not qualify as independent directors under the applicable listing standards of the NYSE. As a result, you will not benefit from certain of the protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE.

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***Our historical combined and pro forma financial information do not reflect the results we would have achieved as a standalone company and may not be a reliable indicator of our future results.***

The historical combined and pro forma financial information included in this report does not reflect the financial condition, results of operations or cash flows we would have achieved as a standalone company during the periods presented and may not be a reliable indicator of our future results. The pro forma financial information depends on various assumptions that may be incorrect. For example, the pro forma financial information does not give effect to or make any adjustment for various factors including anticipated increases in our operating expense as a result of the IPO and increases in payments under recently extended program agreements.

In addition, the historical combined and pro forma financial information does not reflect the impact of any conditions or restrictions that may be imposed by the Federal Reserve Board in connection with the GE SLHC Deregistration and the Separation, including requiring higher capital or liquidity levels or restricting our business activities or growth. Accordingly, our historical combined and pro forma financial information should not be relied upon as representative or indicative of what our financial condition or results of operations would have been had the Transactions (as defined in Item 2. Financial Information ) occurred on the dates indicated. This information also should not be relied upon as representative or indicative of our future financial condition, results of operations or cash flows. For additional information relating to our historical combined and pro forma financial information, see Item 2. Financial Information Selected Historical and Pro Forma Financial Information.

***The obligations associated with being a public company will require significant resources and management attention.***

As a result of the IPO, we became subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act ) and SEC rules under that act. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act and SEC rules thereunder require, among other things, that we establish and maintain effective internal controls and procedures for financial reporting. We have established all of the procedures and practices required as a subsidiary of GE but we will have additional procedures and practices to establish as a separate, standalone public company. As a result, we will incur significant legal, accounting and other expenses that we did not previously incur. Furthermore, the need to establish the corporate infrastructure necessary for a standalone public company may divert some of management s attention from operating our business and implementing our strategy. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations. However, the measures we take may not be sufficient to satisfy our obligations as a public company. In addition, we cannot predict or estimate the amount of additional costs we may incur in order to comply with these requirements.

The Sarbanes-Oxley Act and SEC rules require annual management assessments of the effectiveness of our internal control over financial reporting, starting with the second annual report that we file with the SEC, and, in the annual report for the next succeeding year, a report by our independent auditors addressing such assessments. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on our business and the trading prices of our securities.

***GE could engage in business and other activities that compete with us.***

GE has agreed that, subject to certain exceptions, for two years after the GE SLHC Deregistration, it will not engage in the business of providing credit to consumers through: (i) private label credit cards or dual cards in conjunction with programs with retailers, merchants or healthcare providers primarily for the purchase of goods and services from



the applicable retailer, merchant or healthcare provider or (ii) general purpose credit cards, in each case, in the United States and Canada. See Item 7. Certain Relationships and Related Transactions, and Director Independence Relationship with GE and GECC Master Agreement Noncompetition agreement. Our certificate of incorporation provides that, other than that non-compete agreement and any other contractual provisions to the contrary, GE will have no obligation to refrain from:

engaging in the same or similar business activities or lines of business as us; or

doing business with any of our partners, customers or vendors.

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GE has significant financial services businesses, including owning a bank that takes deposits (in addition to the Bank), providing consumer financing outside the United States and Canada (including private label credit cards) and providing commercial financing (including inventory, floorplan and other financing to small and medium-sized businesses). GE continues to engage in these businesses. To the extent that GE engages in the same or similar business activities or lines of business as us, or engages in business with any of our partners, customers or vendors, our ability to successfully operate and expand our business may be hampered.

***Conflicts of interest may arise between us and GE that could be resolved in a manner unfavorable to us.***

Questions relating to conflicts of interest may arise between us and GE in a number of areas relating to our past and ongoing relationships. Five of our directors are officers of GE and/or GECC. These directors and many of our senior executive officers also own GE stock and options to purchase GE stock, and all of them participate in GE pension plans. Ownership interests of our directors or officers in GE stock, or service as both a director of our Company and a director, officer and/or employee of GE and/or GECC, could give rise to potential conflicts of interest when a director or officer is faced with a decision that could have different implications for the two companies. These potential conflicts could arise, for example, over matters such as the desirability of changes in our business and operations, funding and capital matters, regulatory matters, matters arising with respect to the Master Agreement and other agreements with GE, employee retention or recruiting, or our dividend policy.

The corporate opportunity policy set forth in our certificate of incorporation addresses certain potential conflicts of interest between our Company, on the one hand, and GE and its officers who are directors of our Company, on the other hand. Although these provisions are designed to resolve certain conflicts between us and GE fairly, we cannot assure you that any conflicts will be so resolved.

***If GE distributes our stock to its stockholders in exchange for its common stock in a transaction that is intended to be tax-free to GE, we could have a material indemnification obligation to GE under the TSSA if we cause the distribution or certain related preliminary internal transactions to fail to qualify for tax-free treatment or in the case of certain significant transfers of our stock following such distribution.***

GE has indicated that it currently intends to complete its exit from its investment in us by making a distribution of all of its remaining shares of our stock to its stockholders in exchange for GE's common stock in a transaction that would be designed to qualify for tax-free treatment to GE and its stockholders under Section 355 of the Internal Revenue Code (the Code). Completion by GE of any such distribution is conditioned on, among other things, a private letter ruling from the IRS regarding certain issues relating to, and an opinion from tax counsel confirming, the tax-free treatment under Section 355 of the Code of the distribution and the tax-free treatment of a series of preliminary transactions that would be required prior to implementing the distribution. The IRS ruling and the opinion of tax counsel will rely on certain facts, assumptions, representations and undertakings from GE and us regarding the past and future conduct of GE's and our businesses and other matters. If any of these facts, assumptions, representations or undertakings is incorrect or not otherwise satisfied, GE may not be able to rely on the IRS ruling or the opinion of tax counsel. Accordingly, notwithstanding the IRS ruling and the opinion of tax counsel, the IRS could determine that the distribution (or any of the preliminary transactions) is taxable if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated or if it disagrees with the conclusions in the opinion that are not covered by the IRS ruling, or for other reasons, including as a result of certain significant changes in the stock ownership of GE or us after the distribution. If the distribution (or any of the preliminary transactions) is determined to be taxable, GE could incur significant tax liabilities, and under the tax sharing and separation agreement (the TSSA) we entered into with GE at the completion of the IPO, we may be required to indemnify GE for any such liabilities if the liability is caused by any action or inaction undertaken by us following the completion of the IPO or as a result of any direct or indirect transfers of our stock following the distribution.



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In order to preserve the tax-free status of the distribution and the preliminary transactions to GE, the TSSA includes a provision generally prohibiting us from taking action after the completion of the IPO that would cause the distribution (or the preliminary transactions) to become taxable. As a result, and given our indemnity obligation to GE under the TSSA for tax liabilities incurred by GE as a result of a breach of these provisions by us or as a result of any direct or indirect transfers of our stock following the distribution, we may be required to forgo certain significant transactions that would otherwise have been advantageous to us for a period of time following the distribution, such as certain dispositions of our assets or issuances of our stock. For a discussion of the TSSA, see Item 7. Certain Relationships and Related Transactions, and Director Independence Relationship with GE and GECC Tax Sharing and Separation Agreement.

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The following tables set forth selected historical consolidated, combined and unaudited pro forma financial information. The selected historical consolidated and combined financial information at and for the nine months ended September 30, 2014 and 2013 is unaudited and has been derived from our unaudited historical consolidated and combined financial statements included elsewhere in this report. The selected historical combined financial information at December 31, 2013 and 2012, and for the years ended December 31, 2013, 2012 and 2011 has been derived from our historical combined financial statements, which have been audited by KPMG LLP and are included elsewhere in this report. The selected historical combined financial information at December 31, 2011, 2010 and 2009, and for the years ended December 31, 2010 and 2009 is unaudited and has been derived from our historical combined financial information not included in this report. The selected unaudited pro forma financial information for the nine months ended September 30, 2014 and for the year ended December 31, 2013 is unaudited and has been derived from our unaudited pro forma financial statements. You should read this information in conjunction with the information under Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical condensed consolidated and/or combined financial statements and the related notes thereto, which are included elsewhere in this report.

Synchrony is a holding company for the legal entities that historically conducted GE's North American retail finance business. Synchrony was incorporated in Delaware on September 12, 2003, but prior to April 1, 2013, conducted no business. During the period from April 1, 2013 to September 30, 2013, as part of a regulatory restructuring, substantially all of the assets and operations of GE's North American retail finance business, including the Bank, were transferred to Synchrony. The remaining assets and operations of that business subsequently were transferred to Synchrony.

For all periods prior to June 30, 2014, the Company's financial statements were prepared on a combined basis. All remaining assets of our business were transferred from GECC and its subsidiaries to Synchrony by the end of the second quarter of 2014. As a result, the Company's financial statements have been prepared on a consolidated basis beginning June 30, 2014. 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. All periods subsequent to June 30, 2014 are also presented in this report on a consolidated basis.

We have prepared our historical combined financial statements as if Synchrony had conducted GE's North American retail finance business throughout all relevant periods. Our historical combined financial information and statements include the assets, liabilities and operations of GE's North American retail finance business.

The unaudited pro forma information set forth below reflects our historical consolidated and combined financial information, as adjusted to give effect to the following transactions (the Transactions) as if each had occurred at January 1, 2013:

issuance of 128.5 million shares of our common stock in the IPO at an initial public offering price of \$23.00 per share and offering expenses payable by us;

repayment of all outstanding related party debt in the amount of \$8.0 billion owed to GECC and its affiliates at the closing of the IPO ( Outstanding Related Party Debt );

entering into of, and costs associated with, the Bank Term Loan Facility and the GECC Term Loan Facility and the partial repayment of each facility with a portion of the net proceeds from the public offering of \$3.6 billion aggregate principal amount of the Existing Notes;

completion of, and offering expenses payable by us in connection with, the Existing Notes offering;

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investment in liquid assets to further increase the size of our liquidity portfolio consistent with our liquidity and funding policies; and

issuance of a founders' grant of restricted stock units ( RSUs ) and stock options to certain employees under the Synchrony 2014 Long-Term Incentive Plan.

The unaudited pro forma financial information is for illustrative and informational purposes only and is not intended to represent what our financial condition or results of operations would have been had the Transactions occurred on the dates indicated. The unaudited pro forma information also should not be considered representative of our future financial condition or results of operations.

The unaudited pro forma information below is based upon available information and assumptions that we believe are reasonable, that reflect the expected impacts of events that are directly attributable to the Transactions, that are factually supportable and, in connection with earnings information, that are expected to have a continuing impact on us.

In connection with the IPO, we entered into a number of arrangements with GE governing the Separation and a variety of transition matters. Except as described in the notes above, we have not reflected any adjustments for the estimated effects of these arrangements, which are described under Management's Discussion and Analysis of Financial Condition and Results of Operations Separation from GE and Related Financial Arrangements.

In addition to the pro forma adjustments to our historical consolidated and combined financial statements, various other factors will have an effect on our financial condition and results of operations, including those discussed under Item 1A. Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations.

For information with respect to certain items that are not reflected in the pro forma financial information, see notes (b) and (g) to the unaudited pro forma financial information below.

**Condensed Consolidated and Combined Statements of Earnings Information**

	<b>Pro Forma Nine Months Ended September 30, 2014</b>	<b>Historical Nine Months Ended September 30, 2014</b>	<b>Historical Nine Months Ended September 30, 2013</b>	<b>Pro Forma Year Ended December 31, 2013</b>	<b>Pro Forma Year Ended December 31, 2013</b>	<b>Historical<sup>(1)</sup> Years Ended December 31, 2012 2011 2010<sup>(2)</sup></b>			<b>2009</b>
<i>(\$ in millions, except per share data)</i>									
Interest income	\$ 8,982	\$ 8,982	\$ 8,276	\$ 11,313	\$ 11,313	\$ 10,309	\$ 9,141	\$ 8,760	\$ 4,636
Interest expense	750	640	554	958	742	745	932	1,094	830
<b>Net interest income</b>	<b>8,232</b>	<b>8,342</b>	<b>7,722</b>	<b>10,355</b>	<b>10,571</b>	<b>9,564</b>	<b>8,209</b>	<b>7,666</b>	<b>3,806</b>
Retailer share arrangements	(1,877)	(1,877)	(1,711)	(2,373)	(2,373)	(1,984)	(1,428)	(989)	(799)
<b>Net interest income, after retailer share arrangements</b>	<b>6,355</b>	<b>6,465</b>	<b>6,011</b>	<b>7,982</b>	<b>8,198</b>	<b>7,580</b>	<b>6,781</b>	<b>6,677</b>	<b>3,007</b>
Provision for loan losses	2,120	2,120	2,254	3,072	3,072	2,565	2,258	3,151	2,883

<b>Net interest income, after retailer share arrangements and provision for loan losses</b>	4,235	4,345	3,757	4,910	5,126	5,015	4,523	3,526	124
Other income	323	323	370	500	500	484	497	481	2,550
Other expense	2,150	2,135	1,677	2,511	2,484	2,123	2,010	1,978	1,979
<b>Earnings before provision for income taxes</b>	2,408	2,533	2,450	2,899	3,142	3,376	3,010	2,029	695
Provision for income taxes	908	955	914	1,072	1,163	1,257	1,120	760	294
<b>Net earnings</b>	\$ 1,500	\$ 1,578	\$ 1,536	\$ 1,827	\$ 1,979	\$ 2,119	\$ 1,890	\$ 1,269	\$ 401
<b>Weighted average shares outstanding (in millions)</b>									



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	<b>Pro Forma Nine Months Ended September 30, 2014</b>	<b>Historical Nine Months Ended September 30, 2014</b>	<b>Historical Nine Months Ended September 30, 2013</b>	<b>Pro Forma Year Ended December 31, 2013</b>	<b>Historical<sup>(1)</sup> Years Ended December 31, 2013</b>	<b>Historical<sup>(1)</sup> Years Ended December 31, 2012</b>	<b>Historical<sup>(1)</sup> Years Ended December 31, 2011</b>	<b>Historical<sup>(1)</sup> Years Ended December 31, 2010<sup>(2)</sup></b>	<b>Historical<sup>(1)</sup> Years Ended December 31, 2009</b>
<i>(\$ in millions, except per share data)</i>									
Basic	834	731	705	834	N/A	N/A	N/A	N/A	N/A
Diluted	835	731	705	834	N/A	N/A	N/A	N/A	N/A
<b>Earnings per share</b>									
Basic	\$ 1.80	\$ 2.16	\$ 2.18	\$ 2.19	N/A	N/A	N/A	N/A	N/A
Diluted	1.80	2.16	2.18	2.19	N/A	N/A	N/A	N/A	N/A

**Condensed Consolidated and Combined Statements of Financial Position Information**

	<b>Historical At September 30, 2014</b>		<b>Historical At December 31, 2011<sup>(1)</sup> 2010<sup>(2)</sup> 2009</b>			
<i>(\$ in millions)</i>						
<b>Assets:</b>						
Cash and equivalents	\$ 14,808	\$ 2,319	\$ 1,334	\$ 1,187	\$ 219	\$ 572
Investment securities	325	236	193	198	116	7,261
Loan receivables	56,767	57,254	52,313	47,741	45,230	22,912
Allowance for loan losses	(3,102)	(2,892)	(2,274)	(2,052)	(2,362)	(1,654)
Loan receivables held for sale	1,493					
Goodwill	949	949	936	936	938	938
Intangible assets, net	449	300	255	252	227	396
Other assets	1,780	919	705	1,853	4,438	7,163
Assets of discontinued operations					1,847	3,092
<b>Total assets</b>	<b>\$ 73,469</b>	<b>\$ 59,085</b>	<b>\$ 53,462</b>	<b>\$ 50,115</b>	<b>\$ 50,653</b>	<b>\$ 40,680</b>
<b>Liabilities and Equity:</b>						
Total deposits	\$ 32,689	\$ 25,719	\$ 18,804	\$ 17,832	\$ 13,798	\$ 11,609
Total borrowings						