



# **SYNCHRONY FINANCIAL**

## **Basel III Pillar 3 Regulatory Capital Disclosure Report**

**December 31, 2015**

## Synchrony Financial Table of Contents

	<b><u>Page</u></b>
Introduction .....	4
Capital Structure .....	6
Capital Adequacy .....	8
Credit Risk: General Disclosures .....	10
Credit Risk Mitigation .....	14
Securitizations .....	15
Equities Not Subject to Market Risk Rule .....	16
Interest Rate Risk for Non-Trading Activities .....	17
Appendix A - Disclosure Index .....	18

**Certain defined terms:**

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

- “we,” “us,” “our” and the “Company” are to SYNCHRONY FINANCIAL and its subsidiaries;
- “Synchrony” are to SYNCHRONY FINANCIAL only; and
- “Bank” are to SYNCHRONY BANK.

**Cautionary Note Regarding Forward-Looking Statements:**

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

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

For the reasons described above, we caution you against relying on any forward-looking statements in this report, and you should refer to our periodic and current reports filed with the Securities and Exchange Commission, or “SEC,” for further information or other factors, which could cause actual results to be significantly different from those expressed or implied by any forward-looking statements herein.

## **Introduction**

---

We are one of the premier consumer financial services companies in the United States. Our roots in consumer finance trace back to 1932, and today we are the largest provider of private label credit cards in the United States based on purchase volume and receivables. We provide a range of credit products through programs we have established with a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and healthcare service providers, which we refer to as our “partners.” Through our partners’ over 350,000 locations across the United States and Canada, and their websites and mobile applications, we offer their customers a variety of credit products to finance the purchase of goods and services.

### **Basis of Consolidation**

The Company’s financial statements have been prepared on a consolidated basis. Under this basis of presentation, our financial statements consolidate all of our subsidiaries – i.e., entities in which we have a controlling financial interest, most often because we hold a majority voting interest. In addition, all periods subsequent to June 30, 2014 are presented on a consolidated basis.

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

### **Basel III Overview**

In December of 2010, and revised in June of 2011, the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework, to enhance international capital standards. Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banking organizations to hold capital in excess of regulatory minimums.

In July of 2013, U.S. banking regulators approved the final enhanced regulatory capital rules, which implemented Basel III in the U.S. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries as compared to the previous U.S. risk-based capital and leverage ratio rules, and thereby implement certain provisions of the Dodd-Frank Wall Street Reform & Consumer Protection Act. These rules also apply to top-tier savings and loan holding companies, such as Synchrony, and their insured depository institution subsidiaries.

Basel III has three components (Pillars) including minimum capital requirements, a supervisory review process and market discipline:

*Pillar 1 – Minimum capital requirements:* Establishes the rules by which regulatory capital can be calculated, including defining eligible capital instruments and calculating risk-weighted assets.

*Pillar 2 – Supervisory review process:* Addresses bank-wide governance and risk management, in addition to requiring banks to have an Internal Capital Adequacy Assessment Process.

*Pillar 3 – Market discipline:* Establishes regulatory disclosure requirements, which are designed to allow market participants to assess the risk and capital profiles of banks.

Top-tier savings and loan holding companies with total assets greater than \$50 billion but less than \$250 billion were required to develop the systems, processes and controls to report capital ratios under the Basel III Standardized Approach, effective January 1, 2015. Synchrony became subject to these requirements on November 17, 2015, upon its separation from GE and thereby becoming a top-tier savings and loan holding company. Certain requirements of Basel III that are applicable to Synchrony are subject to phase-in periods extending through 2019. The amounts in this report represent Synchrony's regulatory capital and risk-weighted assets (RWA) based upon the transition capital provisions.

## **Basel III Reporting**

This Basel III Pillar 3 Regulatory Capital Disclosure Report (the "Basel III Report") provides Synchrony's disclosures regarding its capital structure, capital adequacy, risk exposures and RWA as required by the Basel III Pillar 3 provisions. The required disclosures apply to Synchrony, with the exception that capital ratios for the Bank must also be disclosed.

The Basel III Report should be read in conjunction with Synchrony's filings with the U.S. Securities and Exchange Commission (SEC) - Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Form 10-K"). The Basel III Report has not been audited by Synchrony's external auditors. The Basel III Disclosure Index (Appendix A) specifies where all required disclosures are made.

## **Restrictions on Transfer of Funds and Capital**

Synchrony is limited in its ability to pay dividends or repurchase its stock by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), including on the basis that doing so would be an unsafe or unsound banking practice. If Synchrony intends to declare or pay a dividend, Synchrony 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 Synchrony 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.

According to guidance from the Federal Reserve Board, Synchrony's dividend policies will be assessed against, among other things, its ability to achieve applicable Basel III capital ratio requirements. If Synchrony does not achieve applicable Basel III capital ratio requirements when they are fully phased-in, Synchrony may not be able to pay dividends. Although Synchrony currently expects 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, it cannot be sure that it will do so or even if it does, it will be able to pay dividends. Synchrony also will be required to inform and consult with the Federal Reserve Board in advance of redeeming or repurchasing its stock if the result will be a net reduction in Synchrony equity compared to its 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 Synchrony may suffer from the prospective need to increase reserves and write down assets as a result of continued asset deterioration, and Synchrony's 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 Synchrony's capital structure of replacing common stock with any lower-tier form of regulatory capital issued.

Further, limitations on the Bank's payments of dividends and other distributions and payments that Synchrony receives from the Bank could limit Synchrony's ability to pay dividends or repurchase its stock. The Bank must obtain the approval of the Office of the Comptroller of the Currency ("OCC") 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 the Bank and the OCC, or a condition imposed on the Bank in an application or notice approved by the OCC.

For further information on restrictions on transfers of funds and capital, refer to "Item 1. Business - Regulation - Savings and Loan Holding Company Regulation - Dividends and Stock Repurchases" in the 2015 Form 10-K.

## Capital Structure

### Capital Instruments

Synchrony's regulatory capital structure primarily consists of common stock. For additional information, refer to the Company's Consolidated Statement of Financial Position in the 2015 Form 10-K.

### Regulatory Capital, Risk-Weighted Assets and Capital Ratio Requirements

The following table summarizes the Basel III minimum and well-capitalized regulatory capital ratio requirements at December 31, 2015.

<b>Minimum and Well-Capitalized Capital Ratio Requirements</b>		
<b>Ratio</b>	<b>Minimum</b>	<b>Well-Capitalized<sup>(a)</sup></b>
CET1 capital	4.5%	6.5%
Tier 1 risk-based capital	6.0%	8.0%
Total risk-based capital	8.0%	10.0%
Tier 1 leverage <sup>(b)</sup>	4.0%	5.0%

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

(b) Tier 1 leverage ratio represents total tier 1 capital as a percentage of total average assets.

At December 31, 2015, Synchrony and the Bank were well-capitalized under applicable regulatory capital standards.

Basel III establishes two comprehensive methodologies for calculating RWA, a Standardized Approach and an Advanced Approach. Synchrony is subject to the Basel III Standardized Approach for determining risk-weighted assets.

A reconciliation of regulatory capital elements as they relate to Synchrony's Consolidated Financial Statements presented in the 2015 Form 10-K, in addition to information regarding the components of capital used in calculating CET1 capital, Tier 1 capital, Tier 2 capital and Total regulatory capital under Basel III transitional requirements for Synchrony at December 31, 2015 are presented in the table below.

**Synchrony Financial**  
**Basel III Regulatory Capital Disclosures as of December 31, 2015**

**Reconciliation of Capital Elements**

(\$ in millions)		December 31, 2015
Common stock	\$	1
Capital surplus		9,351
Retained earnings		3,293
Accumulated other comprehensive income (AOCI)		(41)
<b>Total shareholders' equity (Consolidated Financial Statements)</b>		<b>12,604</b>
Less: AOCI (opt-out election)		(21)
Less: Adjustments and deductions		992
<b>CET1 capital</b>		<b>11,633</b>
Other Tier 1 capital adjustments		—
<b>Tier 1 capital</b>		<b>11,633</b>
Qualifying subordinated debt		—
Other Tier 2 capital adjustments		900
<b>Total regulatory capital</b>	<b>\$</b>	<b>12,533</b>

## **Capital Adequacy**

---

As a savings and loan holding company, Synchrony is subject to regulation, supervision and examination by the Federal Reserve Board. The Bank is a federally chartered savings association. As such, the Bank is subject to regulation, supervision and examination by the OCC, which is its primary regulator, and by the CFPB with respect to consumer financial matters. In addition, the Bank, as an insured depository institution, is supervised by the Federal Deposit Insurance Corporation.

Following the approval from the Federal Reserve Board on October 14, 2015 to become a stand-alone savings and loan holding company and our subsequent separation from GE on November 17, 2015, Synchrony is now subject to the capital requirements as prescribed by Basel III capital rules and the requirements of the Dodd-Frank Act.

The Bank is required to conduct stress tests on an annual basis, and beginning on January 1, 2017, Synchrony will be required to conduct stress tests on annual basis. Under the OCC's and the Federal Reserve Board's stress test regulations, the Bank is, and Synchrony will 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, while as a savings and loan holding company Synchrony currently is not subject to the Federal Reserve Board's capital planning rule, Synchrony prepares and submits a capital plan to the Federal Reserve Board.

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

For Synchrony to be a well-capitalized savings and loan holding company, the Bank must be well-capitalized and Synchrony must not be subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the Federal Reserve Board to meet and maintain a specific capital level for any capital measure. At December 31, 2015, Synchrony met all applicable requirements to be deemed well-capitalized pursuant to Federal Reserve Board regulations.

At December 31, 2015, the Bank met all applicable requirements to be deemed "well-capitalized" pursuant to OCC regulations and for purposes of the Federal Deposit Insurance Act. The capital rules applicable to the Bank as of January 1, 2015, include new minimum and "well-capitalized" risk-based capital and leverage ratios, and redefine the definition of what constitutes "capital" for purposes of calculating these ratios.

Synchrony's capital management objectives are to maintain adequate levels of capital generated through earnings and other sources to ensure viability and flexibility of Synchrony and its subsidiaries. The level, composition and utilization of capital are influenced by changes in the economic environment, strategic initiatives, and legislative and regulatory developments. Within these constraints, Synchrony is focused on deploying capital in a manner that will provide attractive returns to its shareholders.

The Company's Internal Capital Adequacy Assessment Process ("ICAAP") is designed to enhance the understanding of the Company's exposure to material risks and the capital resources available to absorb those risks. The Company uses both quantitative and qualitative methods to translate risk measures including proprietary econometric forecasting models coupled with management judgment to estimate exposure to material risk.

The Capital Management Sub-Committee of Synchrony's Enterprise Risk Management Committee ("ERMC") is the primary committee overseeing capital management activities including, but not limited to, monitoring and reporting regulatory capital, executing the ICAAP, conducting supervisory and internal stress testing including Dodd-Frank Act Stress Testing ("DFAST"), recommending shareholder dividends and other capital actions, and formulating recommended Capital Contingency Plans, as applicable. The Risk Committee of the Board of Directors is responsible for reviewing risk exposures and ensuring sufficient capital capacity to cover these risk exposures. The Risk Committee is responsible for holding management accountable for providing sufficient information on Synchrony's material risks and exposures to inform decisions on capital adequacy and actions, including capital distribution.



**Synchrony Financial****Basel III Regulatory Capital Disclosures as of December 31, 2015**

The following tables present information on the RWA components included within the regulatory capital ratios under the Standardized Approach with transitional requirements for Synchrony and the capital ratios for Synchrony and the Bank at December 31, 2015.

**Risk-Weighted Assets (Transitional Requirements)**

(\$ in millions)	December 31, 2015	
<b>On-Balance Sheet</b>		
Exposures to sovereign entities	\$	—
Exposures to certain supranational entities and MDBs		—
Exposures to depository institutions, foreign banks and credit unions		230
Exposures to public sector entities		62
Corporate exposures		—
Residential mortgage exposures		—
Loan exposure <sup>(a)</sup>		63,983
High volatility commercial real estate (HVCRE) loans		—
Past due loans		1,909
Other Assets		2,831
Cleared transactions		—
Default fund contributions		—
Unsettled transactions		—
Securitization exposures		—
Equity exposures		279
<b>Off-Balance Sheet and Market Risk</b>		
Letters of credit		—
Unused commitments:		
Original maturity of one year or less, excluding asset-backed commercial paper conduits		—
Original maturity greater than one year		78
Centrally cleared derivatives		—
All other off-balance sheet items		—
Market-risk-weighted assets		—
<b>Total Risk-Weighted Assets (Transitional Requirements)</b>	<b>\$</b>	<b>69,372</b>

(a) Includes credit card and other loans that do not fall under residential mortgages.

**Regulatory Capital Ratios**

December 31, 2015	Basel III Transitional	
	Synchrony	Bank
CET1 capital	16.8%	15.3%
Tier 1 risk-based capital	16.8%	15.3%
Total risk-based capital	18.1%	16.6%
Tier 1 leverage	14.4%	13.0%

## Credit Risk: General Disclosures

---

### Enterprise 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 (including compliance) and strategic risk. Historically, the risk for substantially all of our operations has been managed through the risk management function.

We manage our enterprise risk using an integrated Risk Management 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. 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 ERM, the Management Committee (the “MC”) and the Asset and Liability Management Committee (the “ALCO”). 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 Chief Risk Officer 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 structure, a comprehensive enterprise risk assessment program and an effective risk appetite framework. We believe our credit risk culture in conjunction with the risk management accountability incorporated into our integrated Risk Management Framework has facilitated, and will continue to facilitate, the evolution of an effective risk presence across the Company.

Responsibility and accountability for risk management flows to individuals and entities throughout our Company, including our Board of Directors, various board and management committees and senior management. For example:

- 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 and for communicating the risk appetite to all stakeholders in order to help embed appropriate risk taking into the overall risk culture.
- The **Chief Risk Officer** manages our risk management team and is responsible for establishing standards for the identification, management, measurement and reporting of risk on an enterprise-wide basis. In collaboration with our Chief Executive Officer and the Chief Financial Officer, the Chief Risk Officer has responsibility for developing an appropriate risk appetite with corresponding limits that aligns with supervisory expectations.
- Our **senior executive officers** are responsible for ensuring that their respective functions operate within established risk appetite limits, in accordance with the Company’s enterprise risk management policy. As members of the ERM and the MC, 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.
- Our **risk management and compliance team** is led by the Chief Risk Officer and provides oversight of our risk profile and is responsible for maintaining a compliance program that includes compliance risk assessment, policy development, testing and reporting activities. This team effectively serves in a “second line of defense” role by overseeing the activities of the revenue generating functions in the “first line of defense”.
- The **internal audit team** is responsible for performing periodic, independent reviews and testing of compliance with the Company’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 and effectively serves as the “third line of defense” for the Company.

The Company's Enterprise Risk Management oversight tools, which are an integral component of the integrated Risk Management Framework that is used to help the Company manage risk within its approved risk appetite, are applied to the Company's strategy setting process as well as its operational delivery mechanisms in order to identify potential events that may impact the Company. To achieve its risk appetite objective, the Company must identify, manage, monitor, control and report on current and emerging risks in a consistent, timely, and understandable manner across the organization. Two examples of the oversight tools that help the Company identify its risks are the Risk Appetite Statement and the Enterprise Risk Assessment process.

The Company operates 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. The Risk Appetite Statement is approved annually by the ERM, the Board 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 Enterprise Risk Assessment process (“ERA”) is a top-down procedure that is designed to identify, assess and quantify risk across the Company's primary risk categories and serves as a basis to determine the Company's risk profile. Enterprise risk assessments play an important role in directing our risk management activities by helping us to prioritize our initiatives and to focus our resources on the most appropriate risks. We conduct assessments at least annually for each risk category and update those assessments periodically. Independent Risk Management utilizes the results of the ERA to assess the appropriateness of risk actions being taken by management to address identified risks. The ERA is the basis of the Material Risk Inventory used in the Strategic and Capital Planning Processes.

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 use the results to identify portfolio vulnerabilities and develop risk mitigation strategies or contingency plans across a range of stressed conditions. See “*Item 1. Business - Risk Management*” in the 2015 Form 10-K for more information regarding our risk management processes.

## **Credit Risk Management**

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 that we face. As a result, credit risk management is a critical component of our management and growth strategy. Our credit risk arising from consumer credit products is generally highly diversified across over 115 million open accounts at December 31, 2015, without significant individual exposures. We manage credit risk primarily according to customer segments and product types.

Our credit risk management philosophy is to establish an appropriate framework that effectively aligns with and embodies the limits contained in our Risk Appetite Statement, and this framework is approved annually by the Risk Committee and our Board of Directors. Under the auspices of the Risk Appetite Statement, we have developed credit decision guidelines for our partners' programs that address each of the critical points along the account lifecycle including new customer account acquisition, on-going customer account management, fraud prevention and delinquent account collections.

The customer account acquisition process occurs through a variety of channels (e.g., in-store, mail, internet). However, 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 regularly assess the credit risk exposure of our customer accounts through the customer account management process. This ongoing assessment includes information relating to the customer's performance with respect to their 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, we use behavioral scoring models that we have developed to score each active account on its monthly cycle date. 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. See "*Item 1. Business - Credit Risk Management*" in the 2015 Form 10-K for more information regarding credit risk.

Responsibility and accountability for credit risk management primarily resides with the Chief Credit Officer and is overseen by the Chief Credit Risk Officer, the Chief Risk Officer, and our governance committees. For example:

- The **Chief Credit Officer**, as a member of the first line of defense, manages our credit, collection and fraud strategy implementation teams. The Chief Credit Officer is responsible for delivering credit management strategies that drive portfolio performance outcomes that align with the Risk Appetite Statement as well as the Strategic Plan.
- The **Chief Credit Risk Officer**, as a member of the second line of defense, is responsible for overseeing the activities of the first line of defense team under the leadership of the Chief Credit Officer in order to confirm that they are consistently complying with the Risk Appetite Statement and all applicable credit risk related policies.

For further information related to credit risk management and practices, accounting policies and current exposures as reported under U.S. GAAP refer to the 2015 Form 10-K. See Appendix A for specific references.

The following table summarizes remaining maturities by credit exposure for loans and leases and unused commitments. The contractual amounts of commitments to extend credit represent the Company's maximum exposure to credit loss, in the event of default by the borrower if the borrower were to fully draw against the commitment. The Company manages this credit risk by using the same credit policies it applies to loans.

***Credit Exposure by Type and Contractual Maturity***

December 31, 2015 (\$ in millions)	Loans		Unused Commitments		Total
	Less than 1 Year	Greater Than 1 Year	Less than 1 Year <sup>(a)</sup>	Greater Than 1 Year	
Credit cards	\$ 65,290	\$ 483	\$ 312,940	\$ —	\$ 378,713
Consumer installment loans	16	1,138	—	—	1,154
Commercial credit products	1,319	4	9,071	—	10,394
Other	7	33	—	143	183
Total	\$ 66,632	\$ 1,658	\$ 322,011	\$ 143	\$ 390,444

(a) Includes \$322 billion of unconditionally cancelable commitments which are not subject to risk-weighting per the regulatory capital rules.

**Synchrony Financial**  
**Basel III Regulatory Capital Disclosures as of December 31, 2015**

***Credit Exposure of Loan Receivables Portfolio by Geography***

December 31, 2015 (\$ in millions)	Total Exposure	Percent of Total
Texas	\$ 6,695	10%
California	6,595	10%
Florida	5,368	8%
New York	3,840	6%
Pennsylvania	3,016	4%
Other <sup>(a)</sup>	42,776	62%
Total	\$ 68,290	100%

(a) The Company's loan portfolio has a national distribution profile, further breakdown of the other category results in a widespread distribution across a large number of additional states.

For additional quantitative information on allowance for loan losses, charge-offs, loans past due and impaired loans, see Note 4. *Loan Receivables* to our Consolidated and Combined Financial Statements in the 2015 Form 10-K.

## Credit Risk Mitigation

---

As part of its risk management activities, the Company uses various risk mitigants to manage portions of the credit risk in its portfolios. Credit risk mitigation is important to the Company in the effective management of its credit risk exposures. A majority of the Company's assets are comprised of credit card receivables, with unfunded commitments that are unconditionally cancelable. At December 31, 2015, the Company had no asset category that benefited from financial collateral as defined in the U.S. Basel III rules, and the Company did not utilize credit derivatives as a risk mitigation tool.

There are certain exposures related to our investment in residential mortgage-backed securities which are held to comply with the Community Reinvestment Act and are issued by government-sponsored entities. All of these residential mortgage-backed securities are pledged by the Bank as collateral to the Federal Reserve to secure Federal Reserve Discount Window advances. Exposures related to these residential mortgage-backed securities are covered by guarantees and are set forth below with associated risk-weighted amounts:

**Exposure Type**

December 31, 2015 (\$ in millions)	Exposure Amount	Risk-Weighted Asset Amount
GNMA mortgage-backed securities	\$ 141	\$ —
FNMA & FHLMC mortgage-backed securities	182	37
Total	\$ 323	\$ 37

## **Securitizations**

---

The Company engages in credit card securitization activities, primarily as originator and sponsor. The Company's securitizations are accounted for as secured borrowings and the trusts are treated as consolidated subsidiaries of the Company. The assets of the Company's consolidated variable interest entities ("VIEs") are restricted from being sold or pledged as collateral for other borrowings and the cash flows from these restricted assets may be used only to pay obligations of the trusts. The related debt issued by all securitization trusts is reported in long-term borrowings. The Company accesses the public term asset-backed securitization market through the Synchrony Credit Card Master Note Trust ("SYNCT") and issues asset-backed securities in private transactions through the Synchrony Sales Finance Master Trust ("SFT") and the Synchrony Receivables Trust ("SRT"). SYNCT, SFT and SRT are Delaware statutory trusts that acquire credit card receivables originated by Synchrony Bank through bankruptcy remote special purpose entities referred to as RFS Holding, L.L.C., Synchrony Sales Finance Holding, LLC, and SRT Holding, LLC, respectively.

See Note 5. *Variable Interest Entities* to our Consolidated and Combined Financial Statements in the 2015 Form 10-K for more information on the Company's credit card securitization activities.

None of the assets securitized by the Company meet the operational criteria for securitizations as defined in the U.S. Basel III rules. The underlying assets are consolidated on the balance sheet and accordingly risk weighted based on their balance sheet classification for Basel III purposes.

See Note 2. *Basis of Presentation and Summary of Significant Accounting Policies* to our Consolidated and Combined Financial Statements in the 2015 Form 10-K for information on the Company's accounting policies relevant to its securitization activities.

Additionally, the Company invests in residential mortgage-backed securities issued by government agencies and government-sponsored entities, all of which are pledged by the Bank as collateral to the Federal Reserve to secure Federal Reserve Discount Window advances. These residential mortgage-backed securities are not considered "securitizations" under regulatory guidance.

## Equities Not Subject To Market Risk Rule

Equity investments held by the Company include available-for-sale equity securities and fund exposures, and non-publicly traded equity investments classified within other assets. Available-for-sale equity securities are carried at fair value with unrealized net gains or losses reported within other comprehensive income (loss) in shareholders' equity. Other equity investments primarily include Low Income Housing Tax Credit investments, which are recorded at historical cost.

The Company uses the Simple Risk-Weight Approach ("SRWA") to measure equity exposures for regulatory purposes. Under the SRWA, the RWA for each equity exposure is calculated by multiplying the adjusted carrying value of the equity exposure by the applicable prescribed regulatory risk-weight. Under the SRWA, the aggregate carrying value of equity exposures that are less than 10% of total regulatory capital is risk-weighted at 100% as non-significant equity exposures. At December 31, 2015, the Company did not have aggregate equity exposures that exceeded the 10% threshold.

### Equity Exposure By Type

December 31, 2015 (\$ in millions)	Exposure / Carrying Value <sup>(a)</sup>	RWA	Capital Requirement
Publicly traded			
Available-for-sale equity securities	\$ 15	\$ 15	\$ 2
Available-for-sale fund exposures	173	173	17
Non-publicly traded			
Community development equity exposures	79	79	8
Other Miscellaneous Equity Investments	12	12	1
Total	\$ 279	\$ 279	\$ 28

(a) Carrying value approximates fair value for all equity exposures held at December 31, 2015.

### Capital Requirements for Equity Securities not subject to Market Risk Rule

December 31, 2015 (\$ in millions)	Exposure	RWA	Capital Requirement
0%	\$ —	\$ —	\$ —
20%	—	—	—
100%	279	279	28
Total	\$ 279	\$ 279	\$ 28

We had no net realized gains or losses arising from sales and liquidations of equity investments for the quarter ended December 31, 2015.



## Interest Rate Risk for Non-Trading Activities

---

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

Management continually reviews the Company's balance sheet composition and earnings flows and models the interest rate risk, and possible actions to reduce this risk, given numerous possible future interest rate scenarios. We assess our interest rate risk by estimating the effect of various interest rate scenarios on our net interest income.

For further information on interest rate risk, including a net interest income sensitivity analysis, refer to "*Item 7A, Quantitative and Qualitative Disclosures About Market Risk*" in the 2015 Form 10-K.

## Appendix A - Disclosure Index

Description	Page References	
	Basel III Report	Form 10-K for December 31, 2015

### Table 1 - Scope of Application

#### Qualitative Disclosures

a	The name of the top corporate entity in the group to which subpart D of this part applies.	4	
b	A brief description of the differences in the basis for consolidating entities for accounting and regulatory purposes, with a description of those entities: (1) That are fully consolidated; (2) That are deconsolidated and deducted from total capital; (3) For which the total capital requirement is deducted; and (4) That are neither consolidated nor deducted (for example, where the investment in the entity is assigned a risk weight in accordance with this subpart).	N/A: The Company has no differences in the basis for consolidating entities	
c	Any restrictions, or other major impediments, on transfer of funds or total capital within the group.	5	

#### Quantitative Disclosures

d	The aggregate amount of surplus capital of insurance subsidiaries included in the total capital of the consolidated group.	N/A: The Company has no insurance subsidiaries	
e	The aggregate amount by which actual total capital is less than the minimum total capital requirement in all subsidiaries, with total capital requirements and the name(s) of the subsidiaries with such deficiencies.	N/A	

### Table 2 - Capital Structure

#### Qualitative Disclosures

a	Summary information on the terms and conditions of the main features of all regulatory capital instruments.	6-7	117, 144
---	---	-----	----------

#### Quantitative Disclosures

b	The amount of common equity tier 1 capital, with separate disclosure of: (1) Common stock and related surplus; (2) Retained earnings; (3) Common equity minority interest; (4) AOCI and (5) Regulatory adjustments and deductions made to common equity tier 1 capital.	7	
c	The amount of tier 1 capital, with separate disclosure of: (1) Additional tier 1 capital elements, including additional tier 1 capital instruments and tier 1 minority interest not included in common equity tier 1 capital; and (2) Regulatory adjustments and deductions made to tier 1 capital.	7	
d	The amount of total capital, with separate disclosure of: (1) Tier 2 capital elements, including tier 2 capital instruments and total capital minority interest not included in tier 1 capital; and (2) Regulatory adjustments and deductions made to total capital.	7	

### Table 3 - Capital Adequacy

#### Qualitative Disclosures

a	A summary discussion of the savings and loan holding company's approach to assessing the adequacy of its capital to support current and future activities.	8	102, 142
---	--	---	----------

#### Quantitative Disclosures

b	Risk-weighted assets for credit risk from: (1) Exposures to sovereign entities; (2) Exposures to certain supranational entities and MDBs; (3) Exposures to depository institutions, foreign banks, and credit unions; (4) Exposures to PSEs; (5) Corporate exposures; (6) Residential mortgage exposures; (7) Statutory multifamily mortgages and pre-sold construction loans; (8) HVCRE loans; (9) Past due loans; (10) Other assets; (11) Cleared transactions; (12) Default fund contributions; (13) Unsettled transactions; (14) Securitization exposures; and (15) Equity exposures.	9	
c	Standardized market risk-weighted assets as calculated under subpart F of this part.	9	
d	Common equity tier 1, tier 1 and total risk-based capital ratios: (1) For the top consolidated group; and (2) For each depository institution subsidiary.	9	142-143
e	Total standardized risk-weighted assets.	9	

### Table 4 - Capital Conservation Buffer

#### Quantitative Disclosures

Capital conservation transition period commences in the first quarter of 2016.

### Table 5 - Credit Risk: General Disclosures

#### Qualitative Disclosures

a	The general qualitative disclosure requirement with respect to credit risk (excluding counterparty credit risk disclosed in accordance with Table 6), including: (1) Policy for determining past due or delinquency status; (2) Policy for placing loans on nonaccrual; (3) Policy for returning loans to accrual status; (4) Definition of and policy for identifying impaired loans (for financial accounting purposes). (5) Description of the methodology that the savings and loan holding company uses to estimate its allowance for loan and lease losses, including statistical methods used where applicable; (6) Policy for charging-off uncollectible amounts; and (7) Discussion of the savings and loan holding company's credit risk management policy	10-12	20-22; 25-29; 121-123
---	---	-------	-----------------------------

**Quantitative Disclosures**

b	Total credit risk exposures and average credit risk exposures, after accounting offsets in accordance with GAAP, without taking into account the effects of credit risk mitigation techniques (for example, collateral and netting not permitted under GAAP), over the period categorized by major types of credit exposure. For example, savings and loan holding companies could use categories similar to that used for financial statement purposes. Such categories might include, for instance: (1) Loans, off-balance sheet commitments, and other non-derivative off-balance sheet exposures; (2) Debt securities; and (3) OTC derivatives.	12	129-133
c	Geographic distribution of exposures, categorized in significant areas by major types of credit exposure.	13	93
d	Industry or counterparty type distribution of exposures, categorized by major types of credit exposure.	12	129
e	By major industry or counterparty type: (1) Amount of impaired loans for which there was a related allowance under GAAP; (2) Amount of impaired loans for which there was no related allowance under GAAP; (3) Amount of loans past due 90 days and on nonaccrual; (4) Amount of loans past due 90 days and still accruing; (5) The balance in the allowance for loan and lease losses at the end of each period, disaggregated on the basis of the entity's impairment method. To disaggregate the information required on the basis of impairment methodology, an entity shall separately disclose the amounts based on the requirements in GAAP; and (6) Charge-offs during the period.		129-133
f	Amount of impaired loans and, if available, the amount of past due loans categorized by significant geographic areas including, if practical, the amounts of allowances related to each geographical area, further categorized as required by GAAP.	Allowance by geography is not practical or meaningful to disclose as management doesn't use this information to allocate general or specific allowance components	
g	Reconciliation of changes in ALLL.		129-130
h	Remaining contractual maturity delineation (for example, one year or less) of the whole portfolio, categorized by credit exposure.	12	93

**Table 6 - General Disclosure For Counterparty Credit Risk-Related Exposures**

**Qualitative Disclosures**

a	The general qualitative disclosure requirement with respect to OTC derivatives, eligible margin loans, and repo-style transactions, including: (1) Discussion of methodology used to assign economic capital and credit limits for counterparty credit exposures; (2) Discussion of policies for securing collateral, valuing and managing collateral, and establishing credit reserves; (3) Discussion of the primary types of collateral taken; (4) Discussion of the impact of the amount of collateral the savings and loan holding company would have to provide given a deterioration in the savings and loan holding company's own creditworthiness.	N/A: The Company has no OTC derivatives, eligible margin loans, or repo-style transaction exposures	
---	---	---	--

## Quantitative Disclosures

b	Gross positive fair value of contracts, collateral held (including type, for example, cash, government securities), and net unsecured credit exposure. A savings and loan holding company also must disclose the notional value of credit derivative hedges purchased for counterparty credit risk protection and the distribution of current credit exposure by exposure type.	N/A	
c	Notional amount of purchased and sold credit derivatives, segregated between use for the savings and loan holding company's own credit portfolio and for its intermediation activities, including the distribution of the credit derivative products used, categorized further by protection bought and sold within each product group.	N/A	

## Table 7 - Credit Risk Mitigation

### Qualitative Disclosures

a	The general qualitative disclosure requirement with respect to credit risk mitigation, including: (1) Policies and processes for collateral valuation and management; (2) A description of the main types of collateral taken by the savings and loan holding company; (3) The main types of guarantors/credit derivative counterparties and their creditworthiness; and (4) Information about (market or credit) risk concentrations with respect to credit risk mitigation.	14	
---	---	----	--

### Quantitative Disclosures

b	For each separately disclosed credit risk portfolio, the total exposure that is covered by eligible financial collateral, and after the application of haircuts.	N/A	
c	For each separately disclosed credit risk portfolio, the total exposure that is covered by guarantees/credit derivatives and the risk-weighted asset amount associated with that exposure.	14	

## Table 8 - Securitization

### Qualitative Disclosures

a	The general qualitative disclosure requirement with respect to securitization (including synthetic securitizations), including a discussion of: (1) The savings and loan holding company's objectives for securitizing assets, including the extent to which these activities transfer credit risk of the underlying exposures away from the savings and loan holding company to other entities and including the type of risks assumed and retained with resecuritization activity; (2) The nature of the risks (e.g. liquidity risk) inherent in the securitized assets; (3) The roles played by the savings and loan holding company in the securitization process and an indication of the extent of the savings and loan holding company's involvement in each of them; (4) The processes in place to monitor changes in the credit and market risk of securitization exposures including how those processes differ for resecuritization exposures; (5) The savings and loan holding company's policy for mitigating the credit risk retained through securitization and resecuritization exposures; and (6) The risk-based capital approaches that the savings and loan holding company follows for its securitization exposures including the type of securitization exposure to which each approach applies.	15	133-134
---	---	----	---------

**Qualitative Disclosures**

b	A list of: (1) The type of securitization SPEs that the savings and loan holding company, as sponsor, uses to securitize third-party exposures. The savings and loan holding company must indicate whether it has exposure to these SPEs, either on- or off- balance sheet; and (2) Affiliated entities: (i) That the savings and loan holding company manages or advises; and (ii) That invest either in the securitization exposures that the savings and loan holding company has securitized or in securitization SPEs that the savings and loan holding company sponsors	15	133-134
c	Summary of the savings and loan holding company's accounting policies for securitization activities, including: (1) Whether the transactions are treated as sales or financings; (2) Recognition of gain-on-sale; (3) Methods and key assumptions and inputs applied in valuing retained or purchased interests; (4) Changes in methods and key assumptions and inputs from the previous period for valuing retained interests and impact of the changes; (5) Treatment of synthetic securitizations; (6) How exposures intended to be securitized are valued and whether they are recorded under subpart D of this part; and (7) Policies for recognizing liabilities on the balance sheet for arrangements that could require the savings and loan holding company to provide financial support for securitized assets.		133-134
d	An explanation of significant changes to any of the quantitative information set forth below since the last reporting period.	N/A	

**Quantitative Disclosures**

e	The total outstanding exposures securitized by the savings and loan holding company in securitizations that meet the operational criteria in § __.41 (categorized into traditional/synthetic), by underlying exposure type separately for securitizations of third-party exposures for which the bank acts only as sponsor.	N/A	
f	For exposures securitized by the savings and loan holding company in securitizations that meet the operational criteria in § __.41: (1) Amount of securitized assets that are impaired/past due categorized by exposure type; and (2) Losses recognized by the savings and loan holding company during the current period categorized by exposure type	N/A	
g	The total amount of outstanding exposures intended to be securitized categorized by exposure type.	N/A	
h	Aggregate amount of: (1) On-balance sheet securitization exposures retained or purchased categorized by exposure type; and (2) Off-balance sheet securitization exposures categorized by exposure type.	15	134
i	(1) Aggregate amount of securitization exposures retained or purchased and the associated capital requirements for these exposures, categorized between securitization and resecuritization exposures, further categorized into a meaningful number of risk weight bands and by risk-based capital approach (e.g. SSFA). (2) Exposures that have been deducted entirely from tier 1 capital, credit enhancing I/Os deducted from total capital (as described in § __.42(a)(1), and other exposures deducted from total capital should be disclosed separately by exposure type.	N/A	
j	Summary of current year's securitization activity, including the amount of exposures securitized (by exposure type), and recognized gain or loss on sale by asset type.	N/A	
k	Aggregate amount of resecuritization exposures retained or purchased categorized according to: (1) Exposures to which credit risk mitigation is applied and those not applied; and (2) Exposures to guarantors categorized according to guarantor creditworthiness categories or guarantor name.	N/A	

**Table 9 - Equities Not Subject To Subpart F Of This Part (Market Risk Rule)**

**Qualitative Disclosures**

a	The general qualitative disclosure requirement with respect to the equity risk of equity holdings not subject to subpart F of this part, including: (1) Differentiation between holdings on which capital gains are expected and those held for other objectives, including for relationship and strategic reasons; and (2) Discussion of important policies covering the valuation of and accounting for equity holdings not subject to subpart F of this part. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.	16	
---	---	----	--

**Quantitative Disclosures**

b	Value disclosed on the balance sheet of investments, as well as the fair value of those investments; for securities that are publicly traded, a comparison to publicly-quoted share values where the share price is materially different than fair value.	16	
c	The types and nature of investments, including the amount that is: (1) Publicly traded; and (2) Non-publicly traded.	16	
d	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	N/A	
e	(1) Total unrealized gains (losses). (2) Total latent revaluation gains (losses) (3) Any amounts of the above included in tier 1 and/or tier 2 capital.	16	
f	Capital requirements categorized by appropriate equity groupings, consistent with the savings and loan holding company's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory transition regarding total capital requirements.	16	

**Table 10 - Interest Rate Risk For Non-Trading Activities**

**Qualitative Disclosures**

a	The general qualitative disclosure requirement, including the nature of interest rate risk for non-trading activities and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of measurement of interest rate risk for non-trading activities.	17	110-111
---	---	----	---------

**Quantitative Disclosures**

b	The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring interest rate risk for non-trading activities, categorized by currency (as appropriate).	17	111
---	---	----	-----