SYNCHRONY FINANCIAL

U.S. Liquidity Coverage Ratio Disclosures

September 30, 2019

Synchrony Financial
Table of Contents

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;
- “Bank” are to Synchrony Bank (a subsidiary of Synchrony); and
- the “Board of Directors” are to Synchrony's board of directors.

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 revenue in a small number of Retail Card partners, promotion and support of our products by our partners, and financial performance of our partners; cyber-attacks or other security breaches; higher borrowing costs and adverse financial market conditions impacting our funding and liquidity, and any reduction in our credit ratings; our ability to grow our deposits in the future; our ability to securitize our loan receivables, occurrence of an early amortization of our securitization facilities, loss of the right to service or subservice our securitized loan receivables, and lower payment rates on our securitized loan receivables; changes in market interest rates and the impact of any margin compression; effectiveness of our risk management processes and procedures, reliance on models which may be inaccurate or misinterpreted, our ability to manage our credit risk, the sufficiency of our allowance for loan losses and the accuracy of the assumptions or estimates used in preparing our financial statements; our ability to offset increases in our costs in retailer share arrangements; competition in the consumer finance industry; our concentration in the U.S. consumer credit market; our ability to successfully develop and commercialize new or enhanced products and services; our ability to realize the value of acquisitions and strategic investments; reductions in interchange fees; fraudulent activity; failure of third parties to provide various services that are important to our operations; disruptions in the operations of our computer systems and data centers; international risks and compliance and regulatory risks and costs associated with international operations; alleged infringement of intellectual property rights of others and our ability to protect our intellectual property; litigation and regulatory actions; damage to our reputation; our ability to attract, retain and motivate key officers and employees; tax legislation initiatives or challenges to our tax positions and/or interpretations, and state sales tax rules and regulations; a material indemnification obligation to General Electric Company ("GE") under the Tax Sharing and Separation Agreement with GE if we cause the split-off from GE or certain preliminary transactions to fail to qualify for tax-free treatment or in the case of certain significant transfers of our stock following the split-off; regulation, supervision, examination and enforcement of our business by governmental authorities, the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and other legislative and regulatory developments and the impact of the Consumer Financial Protection Bureau’s regulation of our business; impact of capital adequacy rules and liquidity requirements; restrictions that limit our ability to pay dividends and repurchase our common stock, and restrictions that limit the Bank’s ability to pay dividends to us; regulations relating to privacy, information security and data protection; use of third-party vendors and ongoing third-party business relationships; and failure to comply with anti-money laundering and anti-terrorism financing laws.

For the reasons described above, we caution you against relying on any forward-looking statements 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

Overview

We are a premier consumer financial services company delivering customized financing programs across key industries including retail, health, auto, travel and home, along with award-winning consumer banking products. We provide a range of credit products through our financing programs which we have established with a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and healthcare service providers, which we refer to as our "partners." Through our partners' over 390,000 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.

Regulatory Framework

The Liquidity Coverage Ratio rule ("LCR Rule") was published by the Basel Committee on Banking Supervision and implemented by the Board of Governors of the Federal Reserve System ("Federal Reserve"), the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The LCR Rule is designed to ensure that a banking organization maintains an adequate level of unencumbered high-quality liquid assets ("HQLA") that can be converted into cash to meet its liquidity needs for a 30-day time horizon under an acute liquidity stress scenario specified by supervisors.

$$\frac{High\ Quality\ Liquid\ Assets}{Total\ Net\ Cash\ Outflow} \geq 100\%$$

Synchrony (on a consolidated basis) is subject to the modified Liquidity Coverage Ratio ("mLCR" or "modified LCR") implemented as an enhanced prudential standard for bank holding companies and savings and loan holding companies with $50 billion or more (and less than $250 billion) in total consolidated assets, that are not internationally active, and that do not have substantial insurance activities. Under the LCR Rule, modified LCR holding companies are required to hold a sufficient amount of unencumbered HQLA to cover outflows over a 30-day stress period; however, the modified LCR denominator applies a factor of 0.7 to total net cash outflows calculated under the unmodified LCR requirements.

$$\frac{High\ Quality\ Liquid\ Assets}{Total\ Net\ Cash\ Outflow \times 70\%} \geq 100\%$$

The LCR Rule requires quarterly public disclosure of quantitative information about a covered institution's Liquidity Coverage Ratio calculation and a qualitative discussion on major factors that affect its Liquidity Coverage Ratio. Synchrony is required to calculate its mLCR on a monthly basis and disclose the ratio, calculated as the simple average of monthly amounts over a calendar quarter, on a quarterly basis.

On October 10, 2019, the Federal Reserve Board issued final rules that, among other things, tailor the applicability of the Federal Reserve Board's enhanced prudential standards and apply certain standards for the first time to savings and loan holding companies, including Synchrony.

The final rules tailor existing regulatory requirements related to liquidity, capital, and other enhanced prudential standards to an institution's risk and complexity profile for certain mid-size and large banking organizations using categories based on size and other factors. Synchrony, like most banking organizations with total assets of $100 billion or more, but less than $250 billion, will be categorized as a Category IV organization.

Under the final rules, provided we continue to have less than $50 billion of weighted short-term wholesale funding, we are not subject to the Liquidity Coverage Ratio or, once finalized, the Net Stable Funding Ratio. As a result, Synchrony may cease publication of this disclosure in future time periods.

These disclosures include references to Synchrony's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the 3Q 2019 Quarterly Report) on file with the SEC. These disclosures should be read in conjunction with the 2018 Annual Report with respect to information regarding liquidity and risk management contained therein as well as with Synchrony's other reports on file with the SEC and the Federal Reserve.

Liquidity Risk Management

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 liabilities in a timely manner and at an acceptable cost.

Liquidity risk is one of the key areas of focus in the Company's Enterprise Risk Management framework. We manage 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. We also utilize the "Three Lines of Defense" risk management model to demonstrate and structure the roles, responsibilities and accountabilities in the organization for taking and managing risk. The Risk Committee of the Board of Directors has responsibility for the oversight of the 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 the risk management program, including the Enterprise Risk Management Committee (the "ERMC"), the Management Committee (the "MC"), the Asset and Liability Committee (the "ALCO"), and the Capital Management Committee (the "CMC"). This committee-focused governance structure provides a forum through which risk expertise is applied cross-functionally to all major decisions, including development of policies, processes and controls used by the Chief Risk Officer and risk management team to execute the risk management philosophy.

The Treasurer is responsible for the establishment of liquidity risk management policies. Policy and risk appetite limits require the Company to ensure that sufficient liquid assets are available to survive liquidity stresses over a specified time period. We employ a variety of metrics to monitor and manage liquidity. We perform regular liquidity stress testing and contingency planning as part of our liquidity management process. We evaluate a range of stress scenarios including company-specific and systemic events that could impact funding sources and our ability to meet liquidity needs.

Our Risk Appetite Statement requires funding diversification, monitoring early warning indicators in the capital markets, and other related limits. ALCO reviews liquidity exposures continuously in the context of approved policy and risk appetite limits and reports results quarterly to the Risk Committee, and the Board of Directors as required.

The Company manages liquidity risk in both maintaining a large reserve of available liquid assets as well as through proven funding capacity in a variety of markets. Most substantially, the Company built, acquired and, subsequently, has successfully grown its deposit gathering business. We also demonstrate regular access to secured and unsecured debt markets through term public issuance. We maintain a liquidity portfolio, primarily consisting of cash and equivalents and short-term obligations of the U.S. Treasury. As a general matter, investments included in our liquidity portfolio are expected to be highly liquid, giving us the ability to readily convert them to cash. As additional sources of liquidity, we have undrawn committed capacity on our securitized financings, subject to customary borrowing conditions, from private lenders under our securitization programs and an undrawn committed capacity under our unsecured revolving credit facility with private lenders.

Liquidity Coverage Ratio

The LCR Rule requires Synchrony (on a consolidated basis) to maintain an amount of HQLA in excess of its liquidity needs under prescribed stress assumptions over a prospective 30 calendar-day time horizon.

High-Quality Liquid Assets

HQLA represent assets that can be easily and quickly converted into cash. Under the LCR Rule, assets may qualify as eligible HQLA if they are unencumbered, have the operational capability to be monetized assets, and are free of any other transfer restrictions. Excess HQLA held at the Banks that are not transferable to non-bank affiliates are also excluded.

As set forth in the table below, Synchrony's average weighted eligible HQLA was approximately $8.8 billion for the quarter ended September 30, 2019. The majority of the Company's HQLA is comprised of Level 1 assets, primarily in the form of cash on deposit with central banks, and additional Level 1 assets include U.S. Treasury securities and other qualifying high quality securities. Haircuts are not applied to Level 1 assets, as prescribed under the LCR Rule.

The Company's Level 2 assets are composed exclusively of Level 2A assets. The average weighted Level 2A assets includes securities that are backed by U.S. government-sponsored enterprises and securities issued by sovereigns or central banks which are not eligible for Level 1. Per the LCR Rule, Level 2A assets are weighted in HQLA with a haircut of 15% applied to fair value. Our Level 2 assets represent approximately 2% of average weighted HQLA, well below the 40% cap specified in the LCR Rule.

Net Cash Outflows

The Net Cash Outflow ("NCO") amount is determined by calculating the prescribed outflows and inflows over a 30 calendar-day stress horizon. The NCO amount reflects outflows and inflows based on the contractual maturity of certain assets, liabilities and off-balance sheet arrangements as prescribed in the LCR Rule. Where contractual maturity is not applicable, the LCR Rule generally sets forth conservative stressed outflow assumptions.

Cash Outflows

The Company's average weighted cash outflows for the third quarter of 2019 were approximately $8.9 billion, driven primarily by approximately $7.3 billion in deposit outflows from retail customers and counterparties. A majority of these deposit outflows is attributed to retail funding, while the remaining amount relates to brokered deposit products. Other significant sources of outflows for the quarter include other contractual funding outflows, which primarily relate to contractual payments paid to merchants related to spending on credit card products; and additional outflow requirements relating to the maturity of securitized debt obligations.

Cash Inflows

For the third quarter of 2019, the Company's average weighted cash inflows totaled approximately $2.3 billion. These inflows primarily consist of minimum payments due on credit card and loan receivables after a prescribed 50% LCR haircut.

Source of Funds

Synchrony's principal funding objective is to maintain broad and well-diversified funding sources to allow it to meet maturing obligations, cost-effectively finance current and future asset growth in its businesses and maintain a strong liquidity profile. The Company's primary source of funding comes from deposits at the Bank, which provide a consistent source of lower-cost funds. The Bank also sources deposits from deposit brokers, which deposits are segmented and assigned outflows according to the type of account, whether deposit insurance is in place, and the maturity date of the deposit agreement. In addition to deposits, the Company also raises funding through the issuance of unsecured senior and subordinate notes and securitized debt obligations in the capital markets. A key objective in our use of the capital markets is to maintain access to a diversified mix of wholesale funding sources.

Refer to Synchrony's 3Q 2019 Quarterly Report for further information on funding activities.

The following table sets forth the average values for Synchrony's mLCR components, as required by the LCR Rule, for the period from July 1 to September 30, 2019.

Table 1: Liquidity Coverage Ratio

Synchrony Financial (consolidated)		**3Q 2019**	
6/30/2019 to 9/30/2019 **In millions of U.S. Dollars**		**Average Unweighted Amount [1]**	**Average Weighted Amount [2]**
HIGH-QUALITY LIQUID ASSETS			
1	Total eligible high-quality liquid assets (HQLA), of which:	12,086	12,034
2	Eligible level 1 liquid assets	11,737	11,737
3	Eligible level 2A liquid assets	349	297
4	Eligible level 2B liquid assets	-	-
CASH OUTFLOW AMOUNTS			
5	Deposit outflow from retail customers and counterparties, of which:	65,626	7,301
6	Stable retail deposit outflow	-	-
7	Other retail funding outflow	53,026	5,303
8	Brokered deposits outflow	12,600	1,998
9	Unsecured wholesale funding outflow, of which:	21	11
10	Operational deposit outflow	-	-
11	Non-operational funding outflow	21	11
12	Unsecured debt outflow	-	-
13	Secured wholesale funding and asset exchange outflow	-	-
14	Additional outflow requirements, of which:	696	696
15	Outflow related to derivative exposures and other collateral requirements	-	-
16	Outflow related to credit and liquidity facilities including unconsolidated structured transactions and mortgage commitments	696	696
17	Other contractual funding obligation outflow	1,076	914
18	Other contingent funding obligations outflow	-	-
19	**TOTAL CASH OUTFLOW**	**67,419**	**8,922**
CASH INFLOW AMOUNTS			
20	Secured lending and asset exchange cash inflow	-	-
21	Retail cash inflow	3,578	1,789
22	Unsecured wholesale cash inflow	506	506
23	Other cash inflows, of which:	-	-
24	Net derivative cash inflow	-	-
25	Securities cash inflow	-	-
26	Broker-dealer segregated account inflow	-	-
27	Other cash inflow	-	-
28	**TOTAL CASH INFLOW**	**4,084**	**2,295**
		Average Amount [3]	
29	**HQLA AMOUNT [4]**	**8,840**	
30	TOTAL NET CASH OUTFLOW AMOUNT EXCLUDING THE MATURITY MISMATCH ADD-ON [5]	N/A	
31	MATURITY MISMATCH ADD-ON [5]	N/A	
32	**TOTAL NET CASH OUTFLOW AMOUNT [6]**	**4,639**	
33	**LIQUIDITY COVERAGE RATIO (%)**	**191%**	

1 Represents the average unweighted amounts before applying regulatory prescribed haircuts or cash outflow and inflow rates.
2 Represents the average weighted amounts after applying regulatory prescribed HQLA haircuts or cash outflow and inflow rates.
3 The amounts reported in this column may not equal to the calculation of those amounts using component amounts as reported in the preceding portion of the table due to factors such as the application of the Level 2 liquid asset caps, the total inflow cap and for depository institution holding companies subject to subpart G of the LCR Rule, and the application of the modification of total NCO.
4 Excludes average excess HQLA held by the Bank
5 "N/A" refers to items that do not apply to the mLCR
6 Adjusted for 70% modified LCR factor