GreenSky®

To Our Stakeholders:

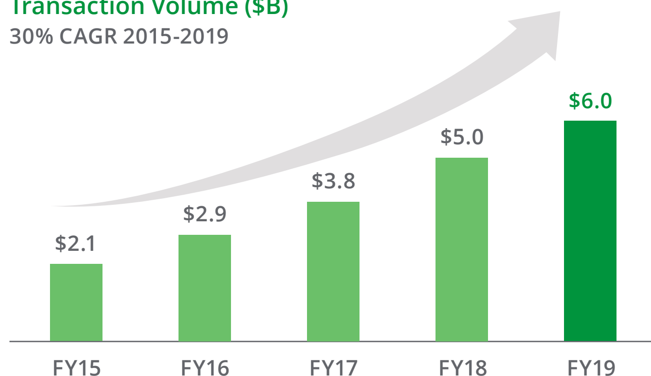
As discussed last year in our inaugural Annual Report, GreenSky's mission remains simple: *"Help businesses grow and delight their customers."* How we accomplish our mission, however, especially in light of the COVID-19 pandemic sweeping the globe today, is anything but simple.

David Zalik
Chairman and CEO, GreenSky, Inc.

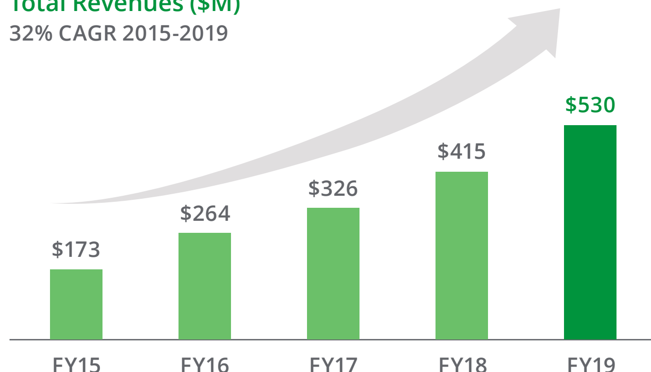
Powering Commerce at the Point of Sale®

In 2019 alone, our nearly 1,200 full-time GreenSky associates banded together to enable over 17,000 merchants and elective healthcare providers to facilitate nearly $6 billion of promotional financing for their consumer customers at the point of sale, instantaneously transacting on our GreenSky proprietary technology platform. Generating a transaction volume five year compound annual growth rate of 30%, GreenSky has enabled over $22 billion of financing for over 3 million U.S. consumers to date. Between 2015 and 2019 GreenSky tripled its annual revenues, recognizing $530 million of revenue for the fiscal year ended December 31, 2019, while maintaining a credit dollar weighted average consumer FICO score of 770 for all loans originated on the GreenSky platform in 2019. Moreover, as of December 31, 2019, 37% of all borrowers on the GreenSky platform had FICO scores over 780 and 85% of such borrowers had FICO scores over 700.

Transaction Volume ($B)
30% CAGR 2015-2019



Total Revenues ($M)
32% CAGR 2015-2019



Target Markets

GreenSky continues to focus on two key vertical markets: home improvement and elective healthcare. Moreover, when evaluating the elective healthcare market, we have made the strategic decision to focus on five subsectors therein, including (i) Dentistry, (ii) Vision Correction, (iii) Veterinary Medicine, (iv) Dermatology & Non-Invasive Cosmetics, and (v) Reproductive Health. Both the domestic home improvement and elective healthcare markets are immense, estimated at in excess of $400 billion and $300 billion per annum, respectively. Having grown loan originations on the GreenSky proprietary technology platform by nearly $1 billion in 2019 to $6 billion, we are competing in very large markets. Of note, we have achieved and continue to maintain what we believe to be the number one domestic market position in home Improvement point of sale finance, and we achieved what we believe to be the number three domestic market position in elective healthcare point of sale finance, after only four years from launch.

Widening the GreenSky Technology Moat

Our mobile-first proprietary technology platform, designed to remove friction at the point of sale, has historically allowed GreenSky to enjoy a significant technological moat relative to its competitors. Continuing to innovate, we launched the industry's first digital Universal Loan Application in 2019, allowing a consumer to obtain a second-look financing proposal without requiring completion of a second loan application. Merchant reviews to date have been uniformly positive. We followed this innovation with the launch of GreenSky's proprietary consumer direct marketing protocols, leveraging customary credit bureau data in an innovative fashion to assist our merchants in evaluating and prioritizing their own consumer leads. These direct marketing protocols are proving to be uniquely beneficial to our merchants, with merchant marketing dollar paybacks exceeding 10:1 in many instances.

Investing in our Future

In 2019, GreenSky invested heavily in risk management talent, systems, policies and procedures aimed at improving the quality of the Company's overall credit performance. Beginning mid-year and continuing into the second half of 2019, we began seeing tangible returns on these investments, culminating in a three-year fourth quarter record low 30-day delinquency rate of 1.38%. With a loan servicing portfolio exceeding $9.1 billion at year-end, these investments are likely to be even more critical as we navigate through unprecedented economic turbulence likely to extend well into the current year.

Review of Strategic Alternatives

In August 2019, the GreenSky Board of Directors, in consultation with GreenSky's legal and financial advisors, commenced a comprehensive review of strategic alternatives designed to maximize shareholder value. While the Board has not concluded its review as of the date of this writing, we anticipate that such review will be concluded prior to June 30, 2020. Should GreenSky continue as a free-standing public company, to the extent that the economic outlook allows for reasonable forecasting, we would expect to resume providing guidance.

Final Thoughts

Notwithstanding the challenges of the past year and the unknown duration, severity, and possible recurrence of the COVID-19 pandemic, I continue to have strong conviction regarding the Company's prospects for long-term success. I appreciate the patience of our stockholders, bank partners, and employees as our Board works through its review of strategic alternatives, believing that we have both the human and capital resources in place to continue to enjoy profitable growth for years to come, delivering enduring value to all members of the GreenSky ecosystem.

On a final note, I am incredibly proud of all of our GreenSky associates and am deeply grateful for how the GreenSky leadership team has responded so professionally to the many unprecedented COVID-19 related challenges, including seamlessly migrating to a work-at-home program, allowing our associates to continue safely delivering uninterrupted best-in class service to our banks, merchants and consumer borrowers.

Sincerely,

David Zalik
Chairman and Chief Executive Officer

Financial and Operational Highlights

	Year Ended December 31,		
	2019	2018	2017
Transaction volume (in millions)	$ 5,954	$ 5,030	$ 3,767
percentage increase	*18%*	*34%*	
Loan servicing portfolio (in millions, at end of period)	$ 9,150	$ 7,341	$ 5,390
percentage increase	*25%*	*36%*	
Active merchants	17,216	14,907	10,891
percentage increase	*15%*	*37%*	
Cumulative consumer accounts (in millions, at end of period)	3.03	2.24	1.57
percentage increase	*35%*	*43%*	
(Dollars in thousands, except per share data)			
Revenue	$ 529,646	$ 414,673	$ 325,887
Net income	95,973	127,980	138,668
Adjusted Pro Forma Net Income*	101,569	109,125	87,014
Adjusted EBITDA*	164,145	170,023	157,052
GAAP Diluted EPS	0.49	0.41	N/A
Free Cash Flow*	$ 42,974	$ 223,960	$ 69,906
Weighted average shares outstanding – diluted	179,448,045	188,904,941	N/A

* Adjusted Pro Forma Net Income, Adjusted EBITDA, and Free Cash Flow are non-GAAP measures. See tables below for reconciliations to GAAP. For additional information, see Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures, beginning on page 48 of the attached Form 10-K.

NON-GAAP RECONCILIATIONS

Reconciliation of Adjusted Pro Forma Net Income

	Year Ended		
(Dollars in thousands)	2019	2018	2017
Net income	$ 95,973	$ 127,980	$ 138,668
Change in financial guarantee liability(1)	16,215	—	—
Transaction expenses(2)	11,345	2,393	2,612
Non-recurring expenses(3)	2,804	—	—
Incremental pro forma tax expense(4)	(24,768)	(21,248)	(54,266)
Adjusted Pro Forma Net Income	$ 101,569	$ 109,125	$ 87,014

Reconciliation of Adjusted EBITDA

	Year Ended		
(Dollars in thousands)	2019	2018	2017
Net income	$ 95,973	$ 127,980	$ 138,668
Interest expense	23,860	23,584	7,536
Tax expense (benefit)	(7,125)	5,534	—
Depreciation and amortization	7,304	4,478	3,983
Equity-based compensation expense(5)	13,769	6,054	4,253
Change in financial guarantee liability(1)	16,215	—	—
Transaction expenses(2)	11,345	2,393	2,612
Non-recurring expenses(3)	2,804	—	—
Adjusted EBITDA	$ 164,145	$ 170,023	$ 157,052

Reconciliation of Free Cash Flow

	Year Ended		
(Dollars in thousands)	2019	2018	2017
Net cash provided by operating activities	$ 153,327	$ 256,426	$ 160,394
Purchases of property, equipment and software	(15,381)	(6,581)	(4,135)
Change in restricted cash	(94,972)	(25,885)	(86,353)
Free Cash Flow	$ 42,974	$ 223,960	$ 69,906

(1) Includes losses recorded in the fourth quarter of 2019 associated with the financial guarantee arrangement for a Bank Partner that did not renew its loan origination agreement when it expired in November 2019.

(2) For the year ended December 31, 2019, includes loss on remeasurement of our tax receivable agreement liability of $9.8 million and professional fees associated with our strategic alternatives review process of $1.5 million. For the year ended December 31, 2018, includes certain costs associated with our IPO, which were not deferrable against the proceeds of the IPO. Further, includes certain costs, such as legal and debt arrangement costs, related to our March 2018 term loan upsizing. For the year ended December 31, 2017, includes one-time fees paid to an affiliate of one of the members of the board of managers in conjunction with the August 2017 term loan transaction.

(3) For the year ended December 31, 2019, includes (i) legal fees associated with IPO related litigation of $2.0 million, (ii) one-time tax compliance fees related to filing the final tax return for the Former Corporate Investors associated with the Reorganization Transactions of $0.2 million, and (iii) lien filing expenses related to certain Bank Partner solar loans of $0.6 million.

(4) Represents the incremental tax effect on net income, adjusted for the items noted above, assuming that all consolidated net income was subject to corporate taxation for the periods presented. For the years ended December 31, 2019, 2018 and 2017, we assumed effective tax rates of 14.8%, 19.7% and 38.4%, respectively.

(5) Includes equity-based compensation to employees and directors, as well as equity-based payments to non-employees.

Board of Directors

David Zalik
Chairman and Chief Executive Officer
GreenSky, Inc.

Gerald Benjamin
Vice Chairman and
Chief Administrative Officer
GreenSky, Inc.

Joel Babbit
Chief Executive Officer
Narrative Content Group, LLC
(a marketing and communications company)

Arthur Bacci
Executive Vice President
and Chief Wealth Officer
WSFS Financial Corporation
(a financial services company)

Gregg Freishtat
Chief Commercial Officer
Solar Inventions LLC
(a solar energy company)

Robert Sheft
Chairman and Chief Executive Officer
Installation Made Easy, Inc.
(a flooring installation company)

Executive Team

Gerald Benjamin
Chief Administrative Officer, Director
and Vice Chairman

Chris Forshay
President, GreenSky Home Improvement

Steven Fox
Executive Vice President
and Chief Legal Officer

Kevin Goldstein
Chief Credit Officer

Ritesh Gupta
Executive Vice President, Operations

Tim Kaliban
President and Chief Risk Officer

Dennis Kelly
President, GreenSky Patient Solutions

Robert Partlow
Executive Vice President
and Chief Financial Officer

Lois Rickard
Chief Human Resources Officer

Minaz Vastani
Chief Technology Officer

David Zalik
Chief Executive Officer, Director
and Chairman of our Board

Principal Office

5565 Glenridge Connector
Suite 700
Atlanta, GA 30342
678-264-6105

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP

Stock Transfer Agent

Continental Stock Transfer & Trust Company
1 State Street, 30th Floor
New York, NY 10004-1561
212-509-4000
www.continentalstock.com

Other Information

The Company's press releases, annual reports, and other information can be accessed through the Company's website at www.greensky.com.

Annual Meeting

GreenSky's 2020 Annual Meeting will be virtual only and held on:
June 4, 2020 at 10:00 am EDT

Form 10-K

The Company's 2019 Annual Report on Form 10-K as filed with the Securities and Exchange Commission, is being delivered with this Letter to Our Stakeholders. Copies of the Annual Report on Form 10-K are also available without charge upon written request to:

GreenSky, Inc.
5565 Glenridge Connector
Suite 700
Atlanta, GA 30342
Attn: Investor Relations
http://investors.greensky.com

Forward-Looking Statements

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These may include statements regarding our business strategies, goals, and plans; operations and financial performance; and demand for our products.

Actual results may differ materially from those indicated by these statements as a result of various important factors, including those discussed in Part I, Item 1A. Risk Factors, beginning on page 10 of the attached Annual Report on Form 10-K and our other reports filed with the Securities and Exchange Commission.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we disclaim any obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In light of these risks and uncertainties, there is no assurance that the events or results suggested by the forward-looking statements will in fact occur, and you should not place undue reliance on these forward-looking statements.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2019

OR

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

Commission File Number: 001-38506

GreenSky, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**82-2135346**
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

5565 Glenridge Connector	**Suite 700**	**(678) 264-6105**
Atlanta, Georgia	**30342**	(Registrant's telephone number, including area code)
(Address of principal executive offices)	(Zip Code)	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A common stock, $0.01 par value	GSKY	NASDAQ Stock Market

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Non-accelerated filer	☐
Accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Aggregate market value of the voting and non-voting common equity of the Registrant held by nonaffiliates as of June 28, 2019: $724,775,418

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class of Common Stock	Par Value	February 19, 2020
Class A [(1)]	$0.01	66,550,758
Class B [(2)]	$0.001	113,345,971

(1) Includes 2,937,268 shares of unvested Class A common stock awards.
(2) Includes 1,085,825 shares of Class B common stock associated with unvested GreenSky Holdings, LLC units.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the 2020 Annual Meeting of Stockholders to be held on June 4, 2020 are incorporated by reference in Part III.

GreenSky, Inc.
FORM 10-K
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of 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”). In addition, our senior management makes forward-looking statements to analysts, investors, the media and others. These forward-looking statements reflect our current views with respect to, among other things, the outcome of our exploration of strategic alternatives, including the terms, structure and timing of any resulting transactions; our operations; our financial performance; bank partner commitments and other funding initiatives; and the launch and performance of new products. You generally can identify these statements by the use of words such as “outlook,” “potential,” “continue,” “may,” “seek,” “approximately,” “predict,” “believe,” “expect,” “plan,” “intend,” “estimate” or “anticipate” and similar expressions or the negative versions of these words or comparable words, as well as future or conditional verbs such as “will,” “should,” “would,” “likely” and “could.” These statements may be found under Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere, and are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. These risks and uncertainties include, but are not limited to, those risks described under Part I, Item 1A “Risk Factors” of this Form 10-K. The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we disclaim any obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In light of these risks and uncertainties, there is no assurance that the events or results suggested by the forward-looking statements will in fact occur, and you should not place undue reliance on these forward-looking statements.

PART I

ITEM 1. BUSINESS

Organization

GreenSky, Inc. was formed as a Delaware corporation on July 12, 2017. The Company was formed for the purpose of completing an initial public offering ("IPO") of its Class A common stock and certain Reorganization Transactions in order to carry on the business of GreenSky Holdings, LLC (“GS Holdings”) and its consolidated subsidiaries. GS Holdings, a holding company with no operating assets or operations, was organized in August 2017. On August 24, 2017, GS Holdings acquired a controlling interest in GreenSky, LLC ("GSLLC"), a Georgia limited liability company, which is an operating entity. See Note 1 to the Notes to Consolidated Financial Statements in Part II, Item 8 for a detailed discussion of the Reorganization Transactions, as defined in that footnote, and the IPO.

Unless the context requires otherwise, "we," "us," "our," "GreenSky" and "the Company" refer to GreenSky, Inc. and its subsidiaries. "Bank Partners" are defined as federally insured banks that originate loans under the consumer financing and payments program that we administer for use by merchants on behalf of such banks in connection with which we provide point-of-sale financing and payments technology and related marketing, servicing, collection and other services (the "GreenSky program" or "program").

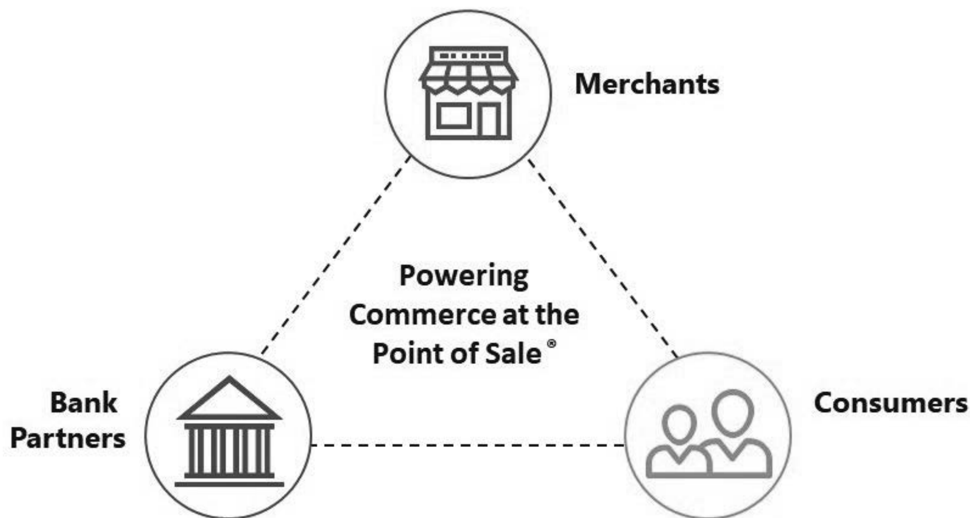
Company Overview

GreenSky is a leading U.S.-based technology company enabling frictionless promotional financing at the point of sale for a growing ecosystem of merchants, consumers and Bank Partners. Our Company was founded on the idea that payment, credit and commerce could be enhanced using technology delivered via an elegant user experience. We believe payment and credit can be an asset that empowers and enables commerce, not a distraction or impediment. Our mission is to help businesses grow and delight their customers. For specific key developments and results during the year ended December 31, 2019, see "Executive Summary–2019 Developments" and "Executive Summary–2019 Results" in Part II, Item 7.

The way in which we conduct our business is guided by our core values:

Our business model, built upon repeat and growing usage by merchants, allows us to generate recurring revenues with limited customer acquisition and marketing costs, resulting in attractive unit economics and strong margins. We derive most of our revenue and profitability from upfront transaction fees that merchants pay us every time they facilitate a transaction using our platform. Thus, our profitability is strongly correlated with merchant transaction volume. The transaction fee rate depends on the terms of financing underlying the consumer loans. In addition, we collect servicing fees on the loan portfolios we service for our Bank Partners and share, indirectly, in the excess profitability, if any, of the loan portfolios we facilitate for our Bank Partners.

We developed and have been advancing and refining our proprietary, purpose-built platform to provide significant benefits to our growing ecosystem of merchants, consumers and Bank Partners. Our platform enables each of these constituents to benefit from enhanced access to each other and to our technology, resulting in a virtuous cycle of increasing engagement and value creation. We believe our ecosystem grows stronger with scale.



Merchants. Merchants using our platform presently range from small, owner-operated home improvement contractors and healthcare providers to large national home improvement brands and retailers and healthcare service organizations. The value proposition to merchants leveraging our scalable, proprietary technology platform includes:

- *Increased sales volume.* By facilitating low or deferred interest promotional point-of-sale financing and payments solutions for their customers, merchants enhance their sales volume potential through higher conversion from bid to contract, and increased ticket size.
- *Seamless integration*. Our platform is designed to provide a seamless experience for our merchants with a mobile-native design that is intuitive, easy to use and integrates effortlessly with merchants' existing payments systems. We settle payments through a national credit card payment network or through the Automated Clearing House ("ACH") network, meaning merchants that already accept these types of payments require no systems integration to adopt our platform. This frictionless onboarding makes consumer point-of-sale financing available for merchants of all sizes.
- *Accelerated funding*. Our merchants typically receive a sizable portion of their funding faster than they would if they were paid in installments in a more traditional 30-day billing cycle.
- *Agility.* We work creatively and collaboratively to design, configure and manage promotional financing offers that fulfill the evolving and competitive needs of our merchants while continuing to improve our solutions to appeal to their customers.

Consumers. Consumers who transact on our platform typically have super-prime or prime credit scores and find financing with promotional terms to be an attractive alternative to other forms of payment, particularly in the case of larger purchases. We provide a completely paperless, mobile-enabled experience that typically permits a consumer to apply and be approved for financing in less than 60 seconds at the point of sale. The value proposition to consumers includes:

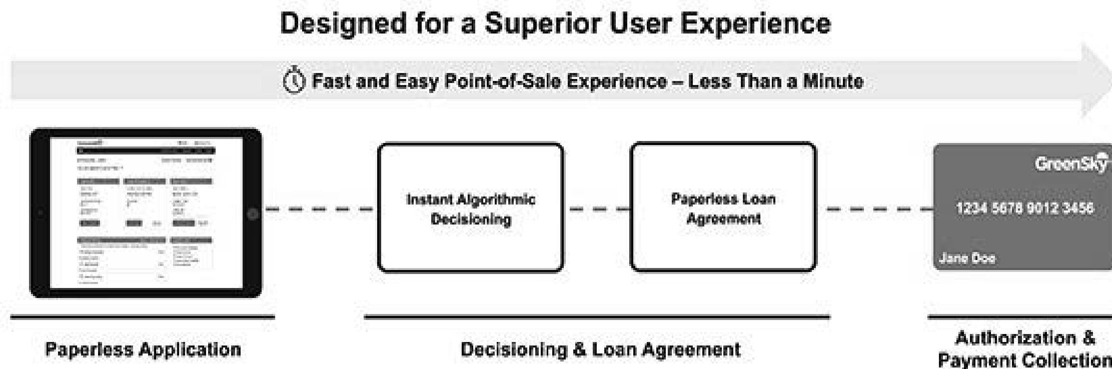
- *Superior experience.* Because we are able to process an application and approve financing at the point of sale with limited burden on the consumer, our platform enables consumers to "apply and buy" in most cases in less than 60 seconds, utilizing an intuitive mobile interface and paperless loan agreement.
- *Promotional interest rates and terms*. The majority of the loans facilitated by our platform carry promotional financing with deferred interest or reduced-rate terms, an attractive alternative relative to typical financing rates on credit card accounts.
- *Enables larger purchases.* By allowing merchants to market to their customers by focusing on the monthly cost of their purchases rather than the one-time upfront cash outlays, consumers are able to better budget for larger purchases.
- *Preserves revolving credit availability.* Rather than utilizing revolving credit for large purchases, which results in available credit lines being reduced, the loans we facilitate preserve credit card availability for everyday purchases.

Bank Partners. Bank Partners in our ecosystem have access to our proprietary technology solution and merchant network, enabling them to build a diversified nationwide portfolio of high-quality consumer loans with attractive risk-adjusted yields. Our platform delivers significant loan volume, while requiring minimal upfront investment by our Bank Partners. Furthermore, our program is designed to adhere to the regulatory and compliance standards of our Bank Partners, which has helped us to gain their confidence, allowing them to outsource both loan facilitation and servicing functions to us. The value proposition to our Bank Partners includes:

- *Consumer credit exposure at attractive risk-adjusted yields.* We believe loans originated on our platform offer strong net interest margin, credit performance and duration characteristics relative to financing institutions' other unsecured consumer lending opportunities.
- *Nationally diversified, small-balance loans.* While many of our Bank Partners may traditionally focus on lending opportunities within their geographic footprints, our platform enables them to originate loans in all 50 states, with an average loan size of approximately $9,000 during the year ended December 31, 2019, thus creating an efficient mechanism to aggregate a granular, diversified national portfolio.
- *Access to our proprietary technology and merchant network.* Over the past decade, we built and refined our technology platform to deliver significant value to merchants and consumers. We also cultivated strong relationships with "Sponsors" and merchants. "Sponsors" refers to manufacturers, their captive and franchised showroom operations, and trade associations with which we partner to onboard merchants. We believe our Bank Partners would require significant time and investment to build such a technology solution and merchant network themselves.
- *No customer acquisition cost and limited operating expenses.* Our platform alleviates the need for our Bank Partners to bear any marketing, software development or technology infrastructure costs to originate loans.
- *Robust compliance framework.* We continuously refine and upgrade our platform, risk management and servicing capabilities to meet the compliance, documentation and vendor management requirements of our Bank Partners and their regulators.

Our Platform

Our platform is powered by a proprietary, patent-pending technology infrastructure that delivers stability, speed, scalability and security. It supports the full transaction lifecycle, including credit application, underwriting, real-time loan allocation to our Bank Partners, document distribution, funding, settlement and servicing, and it can be expanded to additional industry verticals and origination channels as we scale our business.



We believe our technology platform creates meaningful barriers to entry for other providers attempting to reach the same scale with merchants, consumers and funding partners. These attributes include:

- *Intuitive user interface*. We designed our digital platform to be simple and easy to use.
- *Paperless application and documentation environment.* Our platform populates applications using a mobile device's location data and a scan of the consumer's driver license, eliminating unnecessary effort. Once the application is approved, a digital loan agreement is delivered in real time, generally back to the same mobile device. The consumer accepts the terms of the agreement through electronic signature, eliminating the need for a physical signature.
- *Capacity to support a wide range of promotional financing solutions.* Our technology enables merchants of all sizes and their sales associates to select among several promotional financing solutions based on customer preferences.
- *Significant flexibility and processing capabilities.* Our technology stack includes an "Application Tier" (multiple user-facing applications) and a dynamic "Database Tier" (real-time algorithmic underwriting and processing functionality, data archiving, lookup and reporting). Together, this results in a comprehensive technology solution that supports the full transaction lifecycle.
- *Real-time credit decisions and placement with a Bank Partner.* We developed an algorithm that underwrites potential loans against the specified credit criteria of each of our Bank Partners. Once loan applications are underwritten and matched against the Bank Partners' credit criteria, a proprietary digital "round-robin" system allocates each unique approved loan to a Bank Partner.
- *Automated regulatory compliance.* During the underwriting process, our systems instantly check applicants against national databases designed to identify potential fraud, money laundering and other "red flags."
- *Integration into payments network*. We settle and fund transactions on a national credit card network or via the ACH system, allowing merchants to adopt our digital platform without any capital expenditure or back-end payment systems integration.
- *System of record and loan servicing.* Our technology maintains the system of record for the portfolio of each of our Bank Partners, whereby details of all loans initiated, funded and serviced are maintained in a secure, online, user-accessible environment.
- *Scalable digital platform.* Because each feature of our platform is digitally-enabled, we can efficiently adapt to the changing preferences of our constituents and achieve greater scale.

Enterprise Risk Management

GreenSky operates in a highly regulated industry. In addition, our relationships with our merchants and third-party vendors subject us to a variety of regulatory, financial and reputational risks. The Company developed and implemented a comprehensive Compliance Management System to maintain compliance with statutory and regulatory requirements applicable to the GreenSky program and designed to adapt to our evolving business strategy and operations. In addition, we have developed a proprietary complaints management system to identify, document and remediate customer complaints promptly and efficiently.

- *Merchant Management.* Prior to enrollment for participation in the GreenSky program, merchants undergo rigorous vetting and underwriting. Thereafter, merchants are subject to continued review through our Merchant Risk Management, Compliance Management and Complaints Management programs. Each of these programs is designed to prevent, detect and mitigate financial and reputational risks brought to the GreenSky program by merchants.
- *Customer Satisfaction*. We routinely place outbound customer satisfaction calls and emails to sample populations of borrowers as part of our ongoing merchant reevaluation and review process. This process includes dedicated outbound call campaigns to vulnerable populations, including seniors. We have a team of GreenSky Customer Advocates who work to resolve any borrower dissatisfaction with merchants. We make use of multiple communication channels to ensure borrower awareness of account activity, including welcome emails, account alerts and outbound calls.
- *Bank Partners.* We engage with bank partners that seek attractive risk-adjusted yields and portfolio diversification through exposure to high quality consumer credit. For the GreenSky program, each of our Bank Partners has directed a proprietary credit policy, which is grounded in proven, established credit performance attributes and is designed to incorporate the credit performance of a full economic cycle. Our proprietary technology platform instantly adjudicates on each application using transparent and verifiable credit criteria and allocates each loan based on the credit guidelines of our Bank Partners.

Intellectual Property, Patents and Trademarks

We rely on a combination of trademarks, service marks, copyrights, trade secrets, domain names and agreements with employees and third parties to protect our proprietary rights. We also rely on contractual restrictions to protect our proprietary rights when offering or procuring products and services. We routinely enter into confidentiality agreements with our employees and contractors and other parties with whom we conduct business to control use and access to, and limit disclosure of, our proprietary information. In 2014, we submitted a patent application relating to our mobile application process and credit decisioning model, which application is currently pending. There is no assurance that our patent application will be granted. We have trademark and service mark registrations and pending applications for additional registrations in the United States. We also own the domain name rights for "greensky.com", as well as other words and phrases important to our business.

For additional information regarding some of the risks relating to our intellectual property, see Item 1A "Risk Factors."

Competition

The consumer credit and payments market is highly fragmented, rapidly evolving, subject to regulatory scrutiny and oversight and highly competitive. We face competition from a diverse landscape of consumer lenders, including traditional banks, credit unions and credit card issuers, as well as alternative technology-enabled lenders. Many of our credit and payment competitors are (or are affiliated with) financial institutions with the capacity to hold loans on their balance sheets, increasing the potential profitability of individual consumer relationships. Some of these competitors offer a broader suite of products and services than we do, including retail banking solutions, credit and debit cards and loyalty programs.

We compete for merchants based on a number of key product features, including price, duration, simplicity of loan terms, promotional terms, ease of applying, merchant fees, user experience and time-to-funding. Our existing core unsecured term loan products face competition primarily from home equity lines of credit and general-purpose revolving credit cards. Consumers can access these alternatives through a range of traditional and

technology-enabled sources. We expect competition to continue to increase as many traditional, large-scale consumer lenders are investing in technology to streamline loan application and funding processes. We also expect to face additional competition from current competitors or others who embrace new technologies to significantly change the consumer credit and payment industry.

Seasonality

Our business is generally subject to seasonality in consumer spending and payment patterns. Given that our home improvement vertical is a significant contributor to our overall revenue, our revenue generally is higher during the second and third quarters of the year as the weather improves, the residential real estate market becomes more active and consumers begin home improvement projects. During these periods, we tend to experience increased loan applications and, in turn, transaction volume. Conversely, our revenue generally slows during the first and fourth quarters of the year, as consumer spending on home improvement projects tends to slow leading up to the holiday season and through the winter months. As a result, the volume of loan applications and transactions also tends to slow during these periods. The elective healthcare vertical is susceptible to seasonality during the fourth quarter of the year, as the licensed healthcare providers take more vacation time around the holiday season. During this period, the volume of elective healthcare procedures and our resulting revenue tend to slow relative to other periods throughout the year. Our seasonality trends may vary in the future as we introduce our program to new industry verticals and become less concentrated in the home improvement industry.

The origination related and finance charge reversal components of our cost of revenue (further discussed in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 3 to the Consolidated Financial Statements in Part II, Item 8) also are subject to these same seasonal factors, while the servicing related component of cost of revenue, in particular customer service staffing, printing and postage costs, is not as closely correlated to seasonal volume patterns. As transaction volume increases, the transaction volume related personnel costs, as well as costs related to credit and identity verification, among other activities, increase as well. Further, finance charge reversal settlements are positively correlated with transaction volume in the same period of the prior year. As prepayments on deferred interest loans, which trigger finance charge reversals, typically are highest towards the end of the promotional period, and promotional periods are most commonly 12, 18 or 24 months, finance charge reversal settlements follow a similar seasonal pattern as transaction volumes over the course of a calendar year.

Lastly, we have observed seasonal patterns in consumer credit, driven to an extent by income tax refunds, which results in lower charge-offs during the second and third quarters of the year. Credit improvement during these periods has a positive impact on the incentive payments we receive from our Bank Partners. Conversely, during the first and fourth quarters of the year, when credit performance is comparably lower, our incentive payment receipts are negatively impacted, which in turn has a negative impact on our cost of revenue.

Significant Customers

Our top ten merchants (including certain groups of affiliated merchants) accounted for an aggregate of 22% of our total revenue during the year ended December 31, 2019. The Home Depot is our most significant single merchant and represented approximately 4% of total revenue during the year ended December 31, 2019. In addition, affiliates of Renewal by Andersen, our largest Sponsor, such affiliates including both Andersen Corporation-owned licensed dealers and approximately 80 independently owned and operated Renewal by Andersen licensed dealers, represented together approximately 16% of total revenue during the year ended December 31, 2019. We expect to have significant concentration in our largest merchant relationships for the foreseeable future. In the event that (i) The Home Depot or one or more of our other significant merchants, or groups of merchants, or (ii) Renewal by Andersen or one or more of our other significant Sponsors, and their dealers, terminate their relationships with us, or elect to utilize an alternative source for financing, the number of loans originated through the GreenSky program likely would decline, which would materially adversely affect our business and, in turn, our revenue.

Employees

As of December 31, 2019, GreenSky had 1,174 full-time employees, with substantially all employees located in metropolitan Atlanta, Georgia and Crescent Hills, Kentucky. We also engage temporary employees and consultants as needed to support our operations. None of our employees are represented by a labor union, and we consider our relationships with our employees to be good.

Available Information

Our internet website is *www.greensky.com*. We make available on the Investor Relations section of our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Proxy Statements, and Forms 3, 4 and 5, and amendments to those reports as soon as reasonably practicable after filing such documents with, or furnishing such documents to, the Securities and Exchange Commission ("SEC").

On the Investor Relations section of our website, we webcast our earnings calls and certain events we participate in or host with members of the investment community. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases. Further corporate governance information, including our board committee charters, code of business conduct and ethics and corporate governance guidelines, is also available on our Investor Relations website under the heading "Corporate Governance."

Our internet website is included herein as an inactive textual reference only. The information contained on our website is not incorporated by reference herein and should not be considered part of this report.

ITEM 1A. RISK FACTORS

Our business involves significant risks, some of which are described below. You should carefully review and consider the following risk factors and the other information included in this Annual Report on Form 10-K, including the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in Part II, Item 8. The occurrence of one or more of the events or circumstances described in these risk factors, alone or in combination with other events or circumstances, may have a material adverse effect on our business, reputation, revenue, financial condition, results of operations and future prospects, in which event the market price of our Class A common stock could decline, and you could lose part or all of your investment. In addition, our business, reputation, revenue, financial condition, results of operations and future prospects also could be harmed by risks and uncertainties not currently known to us or that we currently do not believe are material.

Risks Related to Our Business and the Consumer Financial Services Industry

Our agreements with our Bank Partners are non-exclusive, short-term in duration and subject to termination by our Bank Partners upon the occurrence of certain events, including our failure to comply with applicable regulatory requirements. If such agreements expire or are terminated, and we are unable to replace the commitments of the expiring or terminating Bank Partners, our business would be adversely affected.

We rely on our Bank Partners to originate all of the loans made through the GreenSky program. Our four largest ongoing Bank Partners – BMO Harris Bank, Fifth Third Bank, Truist Bank and Synovus Bank – provided approximately 83% of the commitments to originate loans as of December 31, 2019. We have entered into separate loan origination agreements and servicing agreements with each of our Bank Partners, each generally containing customary termination provisions and, in certain instances, entitling the Bank Partner to terminate its agreements for convenience. Bank Partners could decide to terminate or not to renew their agreements for any number of reasons, including, for example, perceived or actual erosion in the credit quality or performance of loans, the geographic or other (such as home improvement loans) concentration of loans, the type of loan products offered (such as deferred payment loans), strategic decisions to make fewer consumer loans or loans originated through channels such as ours, alternative investment opportunities that are expected to be more favorable, increases in required loan loss reserves (such as ones that might result from upcoming accounting changes) and required margins, dissatisfaction with our performance as administrator of our program or as servicer, reduced availability of funds for originating new loans, regulatory concerns regarding any of the foregoing factors or others, or general economic conditions,

including those that are expected to impact consumer spending, consumer credit or default rates. If any of our largest Bank Partners were to terminate its relationship with us, it could have a material adverse effect on our business. See Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations–Factors Affecting our Performance–Bank Partner Relationships; Other Funding" for more information regarding our Bank Partner relationships.

Our agreements with our Bank Partners generally have automatically renewable one-year terms. These agreements are non-exclusive and do not prohibit our Bank Partners from working with our competitors or from offering competing products, except that certain Bank Partners have agreed not to provide customer financing outside of the GreenSky program to our merchants and Sponsors during the term of their agreements with us and generally for one year after termination or expiration. As a result of the foregoing, any of our Bank Partners could with minimal notice decide that working with us is not in its interest, could offer us less favorable or unfavorable economic or other terms or could decide to enter into exclusive or more favorable relationships with one of our competitors. We also could have future disagreements or disputes with our Bank Partners, which could negatively affect or threaten our relationships with them.

Our Bank Partners also may terminate their agreements with us if we fail to comply with regulatory requirements applicable to them. We are a service provider to our Bank Partners, and, as a result, we are subject to audit by our Bank Partners in accordance with customary practice and applicable regulatory guidance related to management by banks of third-party vendors. We also are subject to the examination and enforcement authority of the federal banking agencies, including the Federal Reserve, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, as a bank service company, and are subject to the examination and enforcement authority of the Consumer Financial Protection Bureau ("CFPB") as a service provider to a covered person under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). It is imperative that our Bank Partners continue to have confidence in our compliance efforts. Any substantial failure, or alleged or perceived failure, by us to comply with applicable regulatory requirements could cause them to be unwilling to originate loans through our program or could cause them to terminate their agreements with us. See "-Risks Related to Our Regulatory Environment."

If we are unsuccessful in maintaining our relationships with our Bank Partners for any of the foregoing or other reasons, or if we are unable to develop relationships with new Bank Partners, it could have a material adverse effect on our business and our ability to grow.

Our results of operations and continued growth depend on our ability to retain existing, and attract new, merchants and Bank Partners.

A substantial majority of our total revenue is generated from the transaction fees that we receive from our merchants and, to a lesser extent, servicing and other fees that we receive from our Bank Partners in connection with loans made by our Bank Partners to the customers of our merchants. Approximately 77% of our total revenue for the year ended December 31, 2019 was generated from transaction fees paid to us by our merchants. To attract and retain merchants, we market our program to them on the basis of a number of factors, including financing terms, the flexibility of promotional offerings, approval rates, speed and simplicity of loan origination, service levels, products and services, technological capabilities and integration, customer service, brand and reputation.

There is significant competition for our existing merchants. If we fail to retain any of our larger merchants or a substantial number of our smaller merchants, and we do not acquire new merchants of similar size and profitability, it would have a material adverse effect on our business and future growth. We have experienced some turnover in our merchants, as well as varying activation rates and volatility in usage of the GreenSky program by our merchants, and this may continue or even increase in the future. Program agreements generally are terminable by merchants at any time. Also, we generally do not have exclusive arrangements with our merchants, and they are free to use our competitors' programs at any time and without notice to us. If a significant number of our existing merchants were to use other competing programs, thereby reducing their use of our program, it would have a material adverse effect on our business and results of operations.

Competition for new merchants also is significant, especially in industry verticals in which we do not have an established reputation, such as elective healthcare. As a result, our continued success and growth depend on our

ability to attract new merchants, including in new verticals, and our failure to do so would limit our growth and our ability to continue generating revenue at current levels.

Our failure to retain existing, and attract and retain new, Bank Partners also could materially adversely affect our business and our ability to grow. We market our program to banks on the basis of the risk-adjusted yields available to them and geographic diversity of the loans that they are able to originate through the GreenSky program, as well as the absence of significant upfront and ongoing costs and the general attractiveness of the consumers that use the GreenSky program. Bank Partners have alternative sources for attractive, if not similar, loans, including internal loan generation, and they could elect to originate loans through those alternatives rather than through the GreenSky program.

Based upon current commitment levels, our four largest ongoing Bank Partners are BMO Harris Bank, Fifth Third Bank, Truist Bank and Synovus Bank. As of December 31, 2019, they provided approximately 83% of the overall commitments to originate loans through our program. If any of our larger Bank Partners, or a substantial number of our smaller Bank Partners, were to suspend, limit or otherwise terminate their relationships with us, it could have a material adverse effect on our business. If we need to enter into arrangements with a different bank to replace one of our Bank Partners, we may not be able to negotiate a comparable alternative arrangement. See Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations–Factors Affecting our Performance–Bank Partner Relationships; Other Funding" for more information regarding our Bank Partner relationships.

A large percentage of our revenue is concentrated with our top ten merchants, and the loss of a significant merchant could have a negative impact on our operating results.

Our top ten merchants (including certain groups of affiliated merchants) accounted for an aggregate of 22% of our total revenue during the year ended December 31, 2019. The Home Depot is our most significant single merchant and represented approximately 4% of total revenue during the year ended December 31, 2019. In addition, affiliates of Renewal by Andersen, our largest Sponsor, represented together approximately 16% of total revenue during the year ended December 31, 2019. Our agreement with Renewal by Andersen provides that Renewal by Andersen will promote the GreenSky program through notifying its dealers of the availability of the GreenSky program and providing them ancillary materials. Both parties have the right to terminate the agreement generally upon 90-days notice. If Renewal by Andersen terminates the agreement, Renewal by Andersen dealers would not be obligated to terminate their participation in the GreenSky program, although they could choose to do so. We expect to have significant concentration in our largest merchant relationships for the foreseeable future. In the event that (i) The Home Depot or one or more of our other significant merchants, or groups of merchants, or (ii) Renewal by Andersen or one or more of our other significant Sponsors, and their dealers, terminate their relationships with us, or elect to utilize an alternative source for financing, the number of loans originated through the GreenSky program could decline, which would materially adversely affect our business and, in turn, our revenue.

Our results depend, to a significant extent, on the active and effective promotion and support of the GreenSky program by our Sponsors and merchants.

Our success depends on the active and effective promotion of the GreenSky program by our Sponsors to their network of merchants and by our merchants to their customers. We rely on our Sponsors, including large franchisors within different home improvement industry sub-verticals, to promote the GreenSky program within their networks of merchants. A majority of our active merchants are affiliated with Sponsors. Although our Sponsors generally are under no obligation to promote the GreenSky program, many do so through direct mail, email campaigns and trade shows. The failure by our Sponsors to effectively promote and support the GreenSky program would have a material adverse effect on the rate at which we acquire new merchants and the cost thereof.

We also depend on our merchants, which generally accept most major credit cards and other forms of payment, to promote the GreenSky program, to integrate our platform and the GreenSky program into their business, and to educate their sales associates about the benefits of the GreenSky program so that their sales associates encourage customers to apply for and use our services. Our relationship with our merchants, however, generally is non-exclusive, and we do not have, or utilize, any recourse against merchants when they do not promote

the GreenSky program. The failure by our merchants to effectively promote and support the GreenSky program would have a material adverse effect on our business.

If our merchants fail to fulfill their obligations to consumers or comply with applicable law, we may incur remediation costs.

Although our merchants are obligated to fulfill their contractual commitments to consumers and to comply with applicable law, from time to time they might not, or a consumer might allege that they did not. This, in turn, can result in claims against our Bank Partners and us or in loans being uncollectible. In those cases, we may decide that it is beneficial to remediate the situation, either through assisting the consumers to get a refund, working with our Bank Partners to modify the terms of the loan or reducing the amount due, making a payment to the consumer or otherwise. Historically, the cost of remediation has not been material to our business, but we make no assurance that it will not be in the future.

We have experienced rapid growth, which may be difficult to sustain and which may place significant demands on our operational, administrative and financial resources.

Our rapid growth has caused significant demands on our operational, marketing, compliance and accounting infrastructure, and has resulted in increased expenses, which we expect to continue as we grow. In addition, we are required to continuously develop and adapt our systems and infrastructure in response to the increasing sophistication of the consumer finance market and regulatory developments relating to our existing and projected business activities and those of our Bank Partners. Our future growth will depend, among other things, on our ability to maintain an operating platform and management system sufficient to address our growth and will require us to incur significant additional expenses and to commit additional senior management and operational resources.

As a result of our growth, we face significant challenges in:

- securing commitments from our existing and new Bank Partners to provide loans to customers of our merchants;
- maintaining existing and developing new relationships with merchants and Sponsors;
- maintaining adequate financial, business and risk controls;
- implementing new or updated information and financial and risk controls and procedures;
- training, managing and appropriately sizing our workforce and other components of our business on a timely and cost-effective basis;
- navigating complex and evolving regulatory and competitive environments;
- securing funding (including credit facilities and/or equity capital) to maintain our operations and future growth;
- increasing the number of borrowers in, and the volume of loans facilitated through, the GreenSky program;
- expanding within existing markets;
- entering into new markets and introducing new solutions;
- continuing to revise our proprietary credit decisioning and scoring models;
- continuing to develop, maintain and scale our platform;
- effectively using limited personnel and technology resources;
- maintaining the security of our platform and the confidentiality of the information (including personally identifiable information) provided and utilized across our platform; and
- attracting, integrating and retaining an appropriate number of qualified employees.

We may not be able to manage our expanding operations effectively, and any failure to do so could adversely affect our ability to generate revenue and control our expenses.

If we experience negative publicity, we may lose the confidence of our Bank Partners, merchants and consumers who use the GreenSky program and our business may suffer.

Reputational risk, or the risk to us from negative publicity or public opinion, is inherent to our business. Recently, consumer financial services companies have been experiencing increased reputational harm as consumers and regulators take issue with certain of their practices and judgments, including, for example, fair lending, credit reporting accuracy, lending to members of the military, state licensing (for lenders, servicers and money transmitters) and debt collection. Maintaining a positive reputation is critical to our ability to attract and retain Bank Partners, merchants, consumers, investors and employees. Negative public opinion can arise from many sources, including actual or alleged misconduct, errors or improper business practices by employees, Bank Partners, merchants, outsourced service providers or other counterparties; litigation or regulatory actions; failure by us, our Bank Partners, or merchants to meet minimum standards of service and quality; inadequate protection of consumer information; failure of merchants to adhere to the terms of their GreenSky program agreements or other contractual arrangements or standards; compliance failures; and media coverage, whether accurate or not. Negative public opinion can diminish the value of our brand and adversely affect our ability to attract and retain Bank Partners, merchants and consumers, as a result of which our results of operations may be materially harmed and we could be exposed to litigation and regulatory action.

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

The consumer financial services industry is subject to rapid and significant changes in technologies, products and services. Our business is dependent upon technological advancement, such as our ability to process applications instantly, accept electronic signatures and provide other conveniences expected by borrowers and counterparties. We must ensure that our technology facilitates a consumer experience that is quick and easy and equals or exceeds the consumer experience provided by our competitors. Therefore, a key part of our financial success depends on our ability to develop and commercialize new products and services and enhancements to existing products and services, including with respect to mobile and point-of-sale technologies.

Realizing the benefit of such products and services is uncertain, and 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 and commercialize competitive technologies, products and 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, our success is dependent on factors such as merchant 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 could 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 merchants and their customers as we anticipate. Our merchants also may not recognize the value of new products and services or believe they justify any potential costs or disruptions associated with implementing them. Because our solution is typically marketed through our merchants, if our merchants are unwilling or unable to effectively implement or market new technologies, products, services or enhancements, we may be unable to grow our business. Competitors also may develop or adopt technologies or introduce innovations that change the markets they operate in and make our solution less competitive and attractive to our merchants and their customers. Moreover, we may not realize the benefit of new technologies, products, services or enhancements for many years, and competitors may introduce more compelling products, services or enhancements in the meantime.

Changes in market interest rates could have an adverse effect on our business.

The fixed interest rates charged on the loans that our Bank Partners originate are calculated based upon a margin above a market benchmark at the time of origination. Increases in the market benchmark would result in

increases in the interest rates on new loans. Increased interest rates may adversely impact the spending levels of consumers and their ability and willingness to borrow money. Higher interest rates often lead to higher payment obligations, which may reduce the ability of customers to remain current on their obligations to our Bank Partners and, therefore, lead to increased delinquencies, defaults, customer bankruptcies and charge-offs, and decreasing recoveries, all of which could have an adverse effect on our business. See Part II, Item 7A "Quantitative and Qualitative Disclosures about Market Risk."

Increases in loan delinquencies and default rates in the GreenSky program could cause us to lose amounts we place in escrow and may require us to deploy resources to enhance our collections and default servicing capabilities, which could adversely affect our ability to maintain loan volumes.

Loans funded by our Bank Partners generally are not secured by collateral, are not guaranteed or insured by any third party and are not backed by any governmental authority in any way, which limits the ability of our Bank Partners to collect on loans if a borrower is unwilling or unable to repay. A borrower's ability to repay can be negatively impacted by increases in the borrower's payment obligations to other lenders under home, credit card and other loans; loss of employment or other sources of income; adverse health conditions; or for other reasons. Changes in a borrower's ability to repay loans made by our Bank Partners also could result from increases in base lending rates or structured increases in payment obligations. While consumers using our platform to date have had high average credit scores, we may enter into new industry verticals in which consumers have lower average credit scores, leading to potentially higher rates of defaults.

Should delinquencies and default rates increase, we will need to expand our collections and default servicing capabilities, which will require skills and resources that we currently may not have. This will result in higher costs due to the time and effort required to collect payments from delinquent borrowers.

While we are not generally responsible for defaults by customers, we have agreed with each of our Bank Partners to fund an escrow in order to provide the Bank Partners limited protection against credit losses. If credit losses increase, we could lose a portion, or all, of these escrowed funds, which would have an adverse effect on our business.

Because the agreements we have with our Bank Partners are of short duration and because our Bank Partners generally may terminate their agreements or reduce their commitments to provide loans if credit losses increase, the overall volume of GreenSky program loans may decrease in the event of higher default rates. In addition, in certain limited circumstances, our Bank Partners may terminate the agreements under which we service their loan portfolios, in which case we will suffer a decrease in our revenues from loan servicing.

We own receivables for certain loans, and the non-performance, or even significant underperformance, of those receivables would adversely affect our business.

We hold some of the receivables underlying the loans originated by our Bank Partners, which we refer to as "R&D Receivables" and which are designated as loan receivables held for sale on our Consolidated Balance Sheets. As of December 31, 2019, we had $51.9 million in loan receivables held for sale, net. Generally, we hold R&D Receivables that we purchase from an originating Bank Partner with the intent to hold the loan receivables only for a short period of time before we can transfer the loan receivables to a Bank Partner following its determination to purchase the loan receivables, which a Bank Partner might do in connection with an expansion of its credit policy. Our objective is to hold these receivables only until we have enough experience with the particular products or industry verticals for our Bank Partners to purchase the receivables. However, there is no assurance that our Bank Partners will purchase the receivables underlying these loans and, during the period that we own the receivables, we bear the entire credit risk in the event that the borrowers default. In addition, we are obligated to purchase from our Bank Partners the receivables underlying any loans that were approved in error or otherwise involved customer or merchant fraud. Our ownership of receivables also requires us to commit or obtain corresponding funding. In addition, non-performance, or even significant underperformance, of the loan receivables held for sale that we own could have a materially adverse effect on our business.

We are subject to certain additional risks in connection with promotional financing offered through the GreenSky program.

Many of the loans originated by our Bank Partners provide promotional financing in the form of low or deferred interest. When a deferred interest loan is paid in full prior to the end of the promotional period (typically six to 24 months), any interest that has been billed on the loan by our Bank Partner to the consumer is reversed, which triggers an obligation on our part to make a payment to the Bank Partner that made the loan in order to fully offset the reversal (each event, a finance charge reversal or "FCR"). We record a FCR liability on our balance sheet for interest billed during the promotional period that is expected to be reversed prior to the end of such period. As of December 31, 2019, this liability was $206.0 million. See Note 3 to the Notes to Consolidated Financial Statements in Part II, Item 8 for further information. If the rate at which deferred interest loans are paid in full prior to the end of the promotional period increases, resulting in increased payments by us to our Bank Partners, it would adversely affect our business.

Further, deferred interest loans are subject to enhanced regulatory scrutiny as a result of abusive marketing practices by some lenders, and the CFPB has initiated enforcement actions against both lenders and servicers alleging that they have engaged in unfair, deceptive or abusive acts or practices because of lack of clarity in disclosures with respect to such loans. Such scrutiny could reduce the attractiveness to consumers of deferred interest loans or result in a general unwillingness on the part of our Bank Partners to make deferred interest loans. A reduction in the dollar volume of deferred interest loans offered through the GreenSky program would adversely affect our business.

The loss of the services of our senior management could adversely affect our business.

The experience of our senior management, including, in particular, David Zalik, our Chief Executive Officer, is a valuable asset to us. Our management team has significant experience in the consumer loan business and would be difficult to replace. Competition for senior executives in our industry is intense, and 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. Failure to retain talented senior leadership could have a material adverse effect on our business. We do not maintain key life insurance policies relating to our senior management.

Our vendor relationships subject us to a variety of risks, and the failure of third parties to comply with legal or regulatory requirements or to provide various services that are important to our operations could have an adverse effect on our business.

We have significant vendors that, among other things, provide us with financial, technology and other services to support our loan servicing and other activities, including, for example, credit ratings and reporting, cloud-based data storage and other IT solutions, and payment processing. The CFPB has issued guidance stating that institutions under its supervision may be held responsible for the actions of the companies with which they contract. Accordingly, we could be adversely impacted to the extent our vendors fail to comply with the legal requirements applicable to the particular products or services being offered.

In some cases, third-party vendors are the sole source, or one of a limited number of sources, of the services they provide to us. Most of our vendor agreements are terminable on little or no notice, and if our current vendors were to stop providing services to us on acceptable terms, we may be unable to procure alternatives from other vendors in a timely and efficient manner and on acceptable terms (or at all). If any third-party vendor fails to provide the services we require, fails to meet contractual requirements (including compliance with applicable laws and regulations), fails to maintain adequate data privacy and electronic security systems, or suffers a cyber-attack or other security breach, we could be subject to CFPB, FTC and other regulatory enforcement actions and suffer economic and reputational harm that could have a material adverse effect on our business. Further, we may incur significant costs to resolve any such disruptions in service, which could adversely affect 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.

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 as a result of the highly regulated nature of the financial services industry and the focus of state and federal enforcement agencies on the financial services industry.

In the ordinary course of business, we have been named as a defendant in various legal actions, including arbitrations, class actions and other litigation. Generally, this litigation arises from the dissatisfaction of a consumer with the products or services of a merchant; some of this litigation, however, has arisen from other matters, including claims of discrimination, credit reporting and collection practices. Certain of those actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. From time to time, we also are involved in, or the subject of, reviews, requests for information, investigations and proceedings (both formal and informal) by state and federal governmental agencies, including banking regulators and the CFPB, regarding our business activities and our qualifications to conduct our business in certain jurisdictions, which could subject us to significant fines, penalties, obligations to change our business practices and other requirements resulting in increased expenses and diminished earnings. Our involvement in any such matter also could cause significant harm to our reputation and divert management attention from the operation of our business, even if the matters are ultimately determined in our favor. We have in the past chosen to settle (and may in the future choose to settle) certain matters in order to avoid the time and expense of contesting them. Although none of the settlements has been material to our business, there is no assurance that, in the future, such settlements will not have a material adverse effect on our business. Moreover, any settlement, or any consent order or adverse judgment in connection with any formal or informal proceeding or investigation by a government agency, may prompt litigation or additional investigations or proceedings as other litigants or other government agencies begin independent reviews of the same activities.

In addition, a number of participants in the consumer finance industry have been the subject of putative class action lawsuits; state attorney general actions and other state regulatory actions; federal regulatory enforcement actions, including actions relating to alleged unfair, deceptive or abusive acts or practices; violations of state licensing and lending laws, including state usury laws; actions alleging discrimination on the basis of race, ethnicity, gender or other prohibited bases; and allegations of noncompliance with various state and federal laws and regulations relating to originating and servicing consumer finance loans. The current regulatory environment, increased regulatory compliance efforts and enhanced regulatory enforcement have resulted in significant operational and compliance costs and may prevent us from 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. In particular, legal proceedings brought under state consumer protection statutes or under several of the various federal consumer financial services statutes subject to the jurisdiction of the CFPB may result in a separate fine for each violation of the statute, which, particularly in the case of class action lawsuits, could result in damages substantially in excess of the amounts we earned from the underlying activities.

We contest our liability and 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, and could materially adversely affect our business.

In addition, 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 customers. These self-identified issues and voluntary remediation payments could be significant, depending on the issue and the number of customers impacted, and also could generate litigation or regulatory investigations that subject us to additional risk. See "-Risks Related to Our Regulatory Environment."

Regulatory agencies and consumer advocacy groups are becoming more aggressive in asserting "disparate impact" claims.

Antidiscrimination statutes, such as the Equal Credit Opportunity Act (the "ECOA"), prohibit creditors from discriminating against loan applicants and borrowers based on certain characteristics, such as race, religion

and national origin. Various federal regulatory agencies and departments, including the U.S. Department of Justice ("DOJ") and CFPB, take the position that these laws prohibit not only intentional discrimination, but also neutral practices that have a "disparate impact" on a group and that are not justified by a business necessity.

These regulatory agencies, as well as consumer advocacy groups and plaintiffs' attorneys, are focusing greater attention on "disparate impact" claims. To the extent that the "disparate impact" theory continues to apply, we may face significant administrative burdens in attempting to identify and eliminate neutral practices that do have "disparate impact." The ability to identify and eliminate neutral practices that have "disparate impact" is complicated by the fact that often it is our merchants, over which we have limited control, that implement our practices. In addition, we face the risk that one or more of the variables included in the GreenSky program's loan decisioning model may be invalidated under the disparate impact test, which would require us to revise the loan decisioning model in a manner that might generate lower approval rates or higher credit losses.

In addition to reputational harm, violations of the ECOA can result in actual damages, punitive damages, injunctive or equitable relief, attorneys' fees and civil money penalties.

Fraudulent activity could negatively impact our business and could cause our Bank Partners to be less willing to originate loans as part of the GreenSky program.

Fraud is prevalent in the financial services industry and is likely to increase as perpetrators become more sophisticated. We are subject to the risk of fraudulent activity associated with our merchants, their customers and third parties handling customer information. Our resources, technologies and fraud prevention tools may be insufficient to accurately detect and prevent fraud. The level of our fraud charge-offs could increase and our 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 services and products. In addition, significant increases in fraudulent activity could lead to regulatory intervention, which could increase our costs and also negatively impact our business.

Misconduct and errors by our employees and third-party service providers could harm our business and reputation.

We are exposed to many types of operational risks, including the risk of misconduct and errors by our employees and other third-party service providers. Our business depends on our employees and third-party service providers to facilitate the operation of our business, and if any of our employees or third-party service providers provide unsatisfactory service or take, convert or misuse funds, documents or data or fail to follow protocol when interacting with Bank Partners, Sponsors and merchants, the number of loans originated through the GreenSky program could decline, we could be liable for damages and we could be subject to complaints, regulatory actions and penalties.

While we have internal procedures and oversight functions to protect us against this risk, we also could be perceived to have facilitated or participated in the illegal misappropriation of funds, documents or data, or the failure to follow protocol, and therefore be subject to civil or criminal liability.

Any of these occurrences could result in our diminished ability to operate our business, potential liability, inability to attract future Bank Partners, Sponsors, merchants and consumers, reputational damage, regulatory intervention and financial harm, which could negatively impact our business, financial condition and results of operations.

Cyber-attacks and other security breaches could have an adverse effect on our business.

In the normal course of our business, we collect, process and retain sensitive and confidential information regarding our Bank Partners, our merchants and consumers. We also have arrangements in place with certain of our third-party service providers that require us to share consumer information. 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 Bank Partners, merchants 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, and other similar events. We, our Bank Partners, our merchants and our

third-party service providers have experienced all of these events in the past and expect to continue to experience them in the future. We also face security threats from malicious third parties that could obtain unauthorized access to our systems and networks, which threats we anticipate will continue to grow in scope and complexity over time. These events could interrupt our business or operations, result in significant legal and financial exposure, supervisory liability, damage to our reputation and 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, no assurance is given that this will be the case in the future.

Information security risks in the financial services industry 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 criminals, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks and other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks that are designed to disrupt key business services, such as consumer-facing websites. We may not be 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. Nonetheless, early detection efforts may be thwarted by sophisticated attacks and malware designed to avoid detection. We also may fail to detect the existence of a security breach related to the information of our Bank Partners, merchants and consumers that we retain as part of our business and may be unable to prevent unauthorized access to that information.

We also face risks related to cyber-attacks and other security breaches that typically involve the transmission of sensitive information regarding borrowers through various third parties, including our Bank Partners, our merchants and data processors. Some of these parties have in the past been the target of security breaches and cyber-attacks. Because we do not control these third parties or oversee the security of their systems, 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. While we regularly conduct security assessments of significant third-party service providers, no assurance is given that our third-party 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 GreenSky program 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. In addition, there recently have been a number of well-publicized attacks or breaches affecting companies in the financial services industry that have heightened concern by consumers, which could also intensify regulatory focus, cause users to lose trust in the security of the industry in general and result in reduced use of our services and increased costs, all of which could also have a material adverse effect on our business.

Disruptions in the operation of our computer systems and third-party data centers could have an adverse effect on our business.

Our ability to deliver products and services to our Bank Partners and merchants, service loans made by our Bank Partners and otherwise operate our business and comply with applicable laws depends on the efficient and uninterrupted operation of our computer systems and third-party data centers, as well as those of our Bank Partners, merchants and third-party service providers.

These computer systems and third-party data centers may encounter service interruptions at any time due to system or software failure, natural disasters, severe weather conditions, health pandemics, terrorist attacks, cyber-attacks or other events. Any of such catastrophes could have a negative effect on our business and technology infrastructure (including our computer network systems), on our Bank Partners and merchants and on consumers. Catastrophic events also could prevent or make it more difficult for customers to travel to our merchants' locations to shop, thereby negatively impacting consumer spending in the affected regions (or in severe cases, nationally), and could interrupt or disable local or national communications networks, including the payment systems network,

which could prevent customers from making purchases or payments (temporarily or over an extended period). These events also could 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 solution and payments to us, which could have a material adverse effect on our business.

In addition, the implementation of technology changes and upgrades to maintain current and integrate new systems may cause service interruptions, transaction processing errors or system conversion delays and may cause us to fail to comply with applicable laws, all of which could have a material adverse effect on our business. We expect that new technologies and business processes applicable to the consumer financial services industry will continue to emerge and that these new technologies and business processes may be better than those we currently use. There is no assurance that we will be able to successfully adopt new technology as critical systems and applications become obsolete and better ones become available. A failure to maintain and/or improve current technology and business processes could cause disruptions in our operations or cause our solution to be less competitive, all of which could have a material adverse effect on our business.

If the credit decisioning, pricing, loss forecasting and credit scoring models we use contain errors do not adequately assess risk or are otherwise ineffective, our reputation and relationships with our Bank Partners, our merchants and consumers could be harmed.

Our ability to attract consumers to the GreenSky program, and to build trust in the consumer loan products offered through the GreenSky program, is significantly dependent on our ability to effectively evaluate a consumer's credit profile and likelihood of default in accordance with our Bank Partners' underwriting policies. To conduct this evaluation, we use proprietary credit decisioning, pricing, loss forecasting and credit scoring models. If any of the credit decisioning, pricing, loss forecasting and credit scoring models we use contains programming or other errors, is ineffective or the data provided by consumers or third parties is incorrect or stale, or if we are unable to obtain accurate data from consumers or third parties (such as credit reporting agencies), our loan pricing and approval process could be negatively affected, resulting in mispriced or misclassified loans or incorrect approvals or denials of loans and possibly our having to repurchase the loan. This could damage our reputation and relationships with consumers, our Bank Partners and our merchants, which could have a material adverse effect on our business.

We depend on the accuracy and completeness of information about customers of our merchants, and any misrepresented information could adversely affect our business.

In evaluating loan applicants, we rely on information furnished to us by or on behalf of customers of our merchants, including credit, identification, employment and other relevant information. Some of the information regarding customers provided to us is used in our proprietary credit decisioning and scoring models, which we use to determine whether an application meets the applicable underwriting criteria. We rely on the accuracy and completeness of that information.

Not all customer information is independently verified. As a result, we rely on the accuracy and completeness of the information we are provided by consumers. If any of the information that is considered in the loan review process is inaccurate, whether intentional or not, and such inaccuracy is not detected prior to loan funding, the loan may have a greater risk of default than expected. Additionally, there is a risk that, following the date of the credit report that we obtain and review, a customer may have defaulted on, or become delinquent in the payment of, a pre-existing debt obligation, taken on additional debt, lost his or her job or other sources of income, or experienced other adverse financial events. Where an inaccuracy constitutes fraud or otherwise causes us to incorrectly conclude that a loan meets the applicable underwriting criteria, we generally bear the risk of loss associated with the inaccuracy. Any significant increase in inaccuracies or resulting increases in losses would adversely affect our business.

We rely extensively on models in managing many aspects of our business. Any inaccuracies or errors in our models could have an adverse effect on our business.

In assisting our Bank Partners and merchants with the design of the products that are offered on our platform, we make assumptions about various matters, including repayment timing and default rates, and then utilize our proprietary modeling to analyze and forecast the performance and profitability of the products. Our

assumptions may be inaccurate and our models may not be as predictive as expected for many reasons, including that they often involve matters that are inherently difficult to predict and beyond our control (e.g., macroeconomic conditions) and that they often involve complex interactions between a number of dependent and independent variables and factors. Any significant inaccuracies or errors in our assumptions could negatively impact the profitability of the products that are offered on our platform, as well as the profitability of our business, and could result in our underestimating potential FCRs.

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 share-based compensation, asset impairment, reserves related to litigation and other legal matters and contingencies, and other regulatory exposures and the amounts recorded for certain contractual payments to be paid to, or received from, our merchants and others under contractual arrangements. In addition, significant assumptions and estimates are involved in determining certain disclosures required under GAAP, including those involving fair value measurements of derivative instruments and servicing assets and liabilities. 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, which could have a material adverse effect on our business.

The consumer finance and payments industry is highly competitive and is likely to become more competitive, and our inability to compete successfully or maintain or improve our market share and margins could adversely affect our business.

Our success depends on our ability to generate usage of the GreenSky program. The consumer financial services industry is highly competitive and increasingly dynamic as emerging technologies continue to enter the marketplace. Technological advances and heightened e-commerce activities have increased consumers' accessibility to products and services, which has intensified the desirability of offering loans to consumers through digital-based solutions. In addition, because many of our competitors are large financial institutions that own the loans that they originate, they have certain revenue opportunities not available to us. We face competition in areas such as compliance capabilities, financing terms, promotional offerings, fees, approval rates, speed and simplicity of loan origination, ease-of-use, marketing expertise, service levels, products and services, technological capabilities and integration, customer service, brand and reputation. Many of our competitors are substantially larger than we are, which may give those competitors advantages we do not have, such as a more diversified product and customer base, the ability to reach more customers and potential customers, operational efficiencies, more versatile technology platforms, broad-based local distribution capabilities, and lower-cost funding. Commercial banks and savings institutions also may have significantly greater access to consumers given their deposit-taking and other services. In addition, because many of our competitors are large financial institutions that own the loans that they originate, they also have certain revenue opportunities not available to us.

Our existing and potential competitors may decide to modify their pricing and business models to compete more directly with our model. Any reduction in usage of the GreenSky program, or a reduction in the lifetime profitability of loans under the GreenSky program in an effort to attract or retain business, could reduce our revenues and earnings. If we are unable to compete effectively for merchants and customer usage, our business could be materially adversely affected.

Our revenue is impacted, to a significant extent, by the general economy and the financial performance of our merchants.

Our business, the consumer financial services industry and our merchants' businesses are sensitive to macroeconomic conditions. Economic factors such as interest rates, changes in monetary and related policies, market volatility, consumer confidence and unemployment rates are among the most significant factors that impact consumer spending behavior. Weak economic conditions or a significant deterioration in economic conditions reduce the amount of disposable income consumers have, which in turn reduces consumer spending and the willingness of qualified borrowers to take out loans. Such conditions are also likely to affect the ability and

willingness of borrowers to pay amounts owed to our Bank Partners, each of which would have a material adverse effect on our business.

The generation of new loans through the GreenSky program, and the transaction fees and other fee income to us associated with such loans, is dependent upon sales of products and services by our merchants. Our merchants' sales may decrease or fail to increase as a result of factors outside of their control, such as the macroeconomic conditions referenced above, or business conditions affecting a particular merchant, industry vertical or region. Weak economic conditions also could extend the length of our merchants' sales cycle and cause customers to delay making (or not make) purchases of our merchants' products and services. The decline of sales by our merchants for any reason will generally result in lower credit sales and, therefore, lower loan volume and associated fee income for us. This risk is particularly acute with respect to our largest merchants that account for a significant amount of our platform revenue.

In addition, if a merchant closes some or all of its locations 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), GreenSky program borrowers may have less incentive to pay their outstanding balances to our Bank Partners, which could result in higher charge-off rates than anticipated. Moreover, if the financial condition of a merchant deteriorates significantly or a merchant becomes subject to a bankruptcy proceeding, we may not be able to recover amounts due to us from the merchant.

Because our business is heavily concentrated on consumer lending and payments in the U.S. home improvement industry, our results are more susceptible to fluctuations in that market than the results of a more diversified company would be.

Even though we recently expanded into the elective healthcare industry vertical and may continue expanding our services into other industry verticals, our business currently is heavily concentrated on consumer lending in the home improvement industry. As a result, we are more susceptible to fluctuations and risks particular to U.S. consumer credit, real estate and home improvements than a more diversified company would be as well as to factors that may drive the demand for home improvements, such as sales levels of existing homes and the aging of housing stock. We also are more susceptible to the risks of increased regulations and legal and other regulatory actions that are targeted at consumer credit, the specific consumer credit products that our Bank Partners offer (including promotional financing), real estate and home improvements. Our business concentration could have an adverse effect on our business.

Epidemics, including the recent outbreak of coronavirus, and other crises could negatively impact our business.

Our results of operations could be harmed if the fear of a communicable and rapidly spreading disease, such as the novel strain of coronavirus, or other crises such as natural disasters cause people to avoid gatherings or interaction with other people. Since our platform facilitates merchant sales, a decline in such sales as a result of the coronavirus could have a material adverse effect on our business.

We are, and intend in the future to continue, expanding into new industry verticals, including elective healthcare, and our failure to comply with applicable regulations, or accurately predict demand or growth, in those new industries could have an adverse effect on our business.

Within the last several years, we expanded into the elective healthcare industry vertical, which involves consumer financing for elective medical procedures and products. Elective healthcare providers include doctors' and dentists' offices, outpatient surgery centers and clinics providing orthodontics, cosmetic and aesthetic dentistry, vision correction, bariatric surgery, cosmetic surgery, hair replacement, reproductive medicine, veterinary medicine and hearing aid devices. We make no assurance that we will achieve similar levels of success, if any, in this industry vertical, or that we will not face unanticipated challenges in our ability to offer our program in this industry vertical. In addition, the elective healthcare industry vertical is highly regulated and we, our merchants and our Bank Partners, as applicable, will be subject to significant additional regulatory requirements, including various healthcare and privacy laws. We have limited experience in managing these risks and the compliance requirements attendant to these additional regulatory requirements. See "-Risks Related to Our Regulatory Environment-The increased scrutiny of third-party medical financing by governmental agencies may lead to increased regulatory

burdens and adversely affect our consolidated revenue or results of operations." The costs of compliance and any failure by us, our merchants or our Bank Partners, as applicable, to comply with such regulatory requirements could have a material adverse effect on our business.

We may in the future further expand into other industry verticals. There is no assurance that we will be able to successfully develop consumer financing products and services for these new industries. Our investment of resources to develop consumer financing products and services for the new industries we enter may either be insufficient or result in expenses that are excessive in light of loans actually originated by our Bank Partners in those industries. Additionally, industry participants, including our merchants, their customers and our Bank Partners, may not be receptive to our solution in these new industries. The borrower profile of consumers in new verticals may not be as attractive, in terms of average FICO scores or other attributes, as in our current verticals, which may lead to higher levels of delinquencies or defaults than we have historically experienced. Industries change rapidly, and we make no assurance that we will be able to accurately forecast demand (or the lack thereof) for our solution or that those industries will grow. Failure to predict demand or growth accurately in new industries could have a material adverse impact on our business.

Our business would suffer if we fail to attract and retain highly skilled employees.

Our future success will depend on our ability to identify, hire, develop, motivate and retain highly qualified personnel for all areas of our organization, particularly information technology and sales. Trained and experienced personnel are in high demand and may be in short supply. Many of the companies with which we compete for experienced employees have greater resources than we do and may be able to offer more attractive terms of employment. In addition, we invest significant time and expense in training our employees, which increases their value to competitors that may seek to recruit them. We may not be able to attract, develop and maintain the skilled workforce necessary to operate our business, and labor expenses may increase as a result of a shortage in the supply of qualified personnel.

The Amended Credit Agreement that governs our term loan and revolving loan facility contains various covenants that could limit our ability to engage in activities that may be in our best long-term interests.

We have a term loan and revolving loan facility that we may draw on to finance our operations and for other corporate purposes. The Amended Credit Agreement contains operating covenants, including customary limitations on the incurrence of certain indebtedness and liens, restrictions on certain intercompany transactions and limitations on dividends and stock repurchases. Our ability to comply with these covenants may be affected by events beyond our control, and breaches of these covenants could result in a default under the Amended Credit Agreement and any future financial agreements into which we may enter. If we default on our credit obligations, our lenders may require repayment of any outstanding debt and terminate the Amended Credit Agreement.

If any of these events occurs, our ability to fund our operations could be seriously harmed. If not waived, defaults could cause any outstanding indebtedness under our Amended Credit Agreement and any future financing agreements that we may enter into to become immediately due and payable.

For more information on our term loan and revolving loan facility, see Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources–Borrowings" and Note 7 to the Notes to Consolidated Financial Statements included in Part II, Item 8.

We may incur losses on interest rate swap and hedging arrangements.

We may periodically enter into agreements to reduce the risks associated with increases in interest rates, such as our June 2019 interest rate swap agreement. Although these agreements may partially protect against rising interest rates, they also may reduce the benefits to us if interest rates decline. Also, nonperformance by the other party to the arrangement may subject us to increased credit risks. For additional information regarding our June 2019 interest rate swap agreement, see Note 3 to the Notes to Consolidated Financial Statements included in Part II, Item 8.

We may be unable to sufficiently protect our proprietary rights and may encounter disputes from time to time relating to our use of the intellectual property of third parties.

We rely on a combination of trademarks, service marks, copyrights, trade secrets, domain names and agreements with employees and third parties to protect our proprietary rights. In 2014, we submitted a patent application relating to our mobile application process and credit decisioning model, which application is currently pending. There is no assurance that our patent application will be granted. We have trademark and service mark registrations and pending applications for additional registrations in the United States. We also own the domain name rights for greensky.com, as well as other words and phrases important to our business. Nonetheless, third parties may challenge, invalidate or circumvent our intellectual property, and our intellectual property may not be sufficient to provide us with a competitive advantage.

Despite our efforts to protect these rights, unauthorized third parties may attempt to duplicate or copy the proprietary aspects of our technology and processes. Our competitors and other third parties independently may 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 and confidential and proprietary information or provide an adequate remedy in the event of an unauthorized disclosure. Measures in place may not prevent misappropriation or infringement of our intellectual property or proprietary information and the resulting loss of competitive advantage, and 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.

We also may encounter disputes from time to time concerning intellectual property rights of others, and we may not prevail in these disputes. Third parties may raise claims against us alleging that we, or consultants or other third parties retained or indemnified by us, infringe on their intellectual property rights. Some third-party intellectual property rights may be extremely broad, and it may not be possible for us to conduct our operations in such a way as to avoid all alleged violations of such intellectual property rights. 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 (temporarily or permanently), 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 such as 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. In other cases, our insurance may not cover potential claims of this type adequately or at all, and we may be required to pay monetary damages, which may be significant.

Our risk management processes and procedures may not be effective.

Our risk management processes and procedures seek to appropriately balance risk and return and mitigate our risks. We have established processes and procedures intended to identify, measure, monitor and control the types of risk to which we and our Bank Partners 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. While our exposure to the direct economic cost of consumer credit risk is limited because, with the exception of R&D Receivables and other loans for which we purchase the receivables, we do not hold the loans or the receivables underlying the loans that our Bank Partners originate, we are exposed to consumer credit risk in the form of both our FCR liability and our limited escrow requirement, as well as our ability to maintain relationships with our existing Bank Partners and recruit new bank 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 (e.g., natural disasters), compliance, reputational or legal matters and includes those risks as they relate directly to us as well as to third parties with whom we contract or otherwise do business.

Management of our risks depends, in part, upon the use of analytical and forecasting models. If these models 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 risks may be inaccurate or incomplete as a result of error or fraud, both of which may be difficult to detect and avoid. There also may 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, which could have a material adverse effect on our business.

Some aspects of our platform include open source software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect our business.

Aspects of our platform include software covered by open source licenses. The terms of various open source licenses have not been interpreted by United States courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our platform. If portions of our proprietary software are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our technologies and loan products. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software because open source licensors generally do not provide warranties or controls on the origin of the software. Many of the risks associated with the use of open source software cannot be eliminated and could adversely affect our business.

To the extent that we seek to grow through future acquisitions, or other strategic investments or alliances, we may not be able to do so effectively.

We may in the future seek to grow our business by exploring potential acquisitions or other strategic investments or alliances. We may not be successful in identifying businesses or opportunities that meet our acquisition or expansion criteria. In addition, even if a potential acquisition target or other strategic investment is identified, we may not be successful in completing such acquisition or integrating such new business or other investment. We may face significant competition for acquisition and other strategic investment opportunities from other well-capitalized companies, many of which have greater financial resources and greater access to debt and equity capital to secure and complete acquisitions or other strategic investments, than we do. As a result of such competition, we may be unable to acquire certain assets or businesses, or take advantage of other strategic investment opportunities that we deem attractive; the purchase price for a given strategic opportunity may be significantly elevated; or certain other terms or circumstances may be substantially more onerous. Any delay or failure on our part to identify, negotiate, finance on favorable terms, consummate and integrate any such acquisition, or other strategic investment, opportunity could impede our growth.

We may not be able to manage our expanding operations effectively or continue to grow, and any failure to do so could adversely affect our ability to generate revenue and control our expenses. Furthermore, we may be responsible for any legacy liabilities of businesses we acquire or be subject to additional liability in connection with other strategic investments. The existence or amount of these liabilities may not be known at the time of acquisition, or other strategic investment, and may have a material adverse effect on our business.

Future changes in financial accounting standards may significantly change our reported results of operations.

GAAP is subject to standard setting or interpretation by the FASB, the Public Company Accounting Oversight Board (the "PCAOB"), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change.

Additionally, our assumptions, estimates and judgments related to complex accounting matters could significantly affect our financial results. GAAP and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including revenue recognition, FCRs, and share-based compensation are highly complex and involve subjective assumptions, estimates and judgments by us. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by us (i) could require us to make changes to our accounting systems that could increase our operating costs and (ii) could significantly change our reported or expected financial performance.

Risks Related to Our Regulatory Environment

We are subject to federal and state consumer protection laws.

In connection with our administration of the GreenSky program, we must comply with various regulatory regimes, including those applicable to consumer credit transactions, various aspects of which are untested as applied to our business model. The laws to which we are or may be subject include:

- state laws and regulations that impose requirements related to loan disclosures and terms, credit discrimination, credit reporting, money transmission, debt servicing and collection and unfair or deceptive business practices;
- the Truth-in-Lending Act and Regulation Z promulgated thereunder, and similar state laws, which require certain disclosures to borrowers regarding the terms and conditions of their loans and credit transactions;
- Section 5 of the Federal Trade Commission Act, which prohibits unfair and deceptive acts or practices in or affecting commerce, and Section 1031 of the Dodd-Frank Act, which prohibits unfair, deceptive or abusive acts or practices (“UDAAP”) in connection with any consumer financial product or service;
- the ECOA and Regulation B promulgated thereunder, which prohibit creditors from discriminating against credit applicants on the basis of race, color, sex, age, religion, national origin, marital status, the fact that all or part of the applicant’s income derives from any public assistance program or the fact that the applicant has in good faith exercised any right under the Federal Consumer Credit Protection Act or any applicable state law;
- the Fair Credit Reporting Act (the “FCRA”), as amended by the Fair and Accurate Credit Transactions Act, which promotes the accuracy, fairness and privacy of information in the files of consumer reporting agencies;
- the Fair Debt Collection Practices Act, the Telephone Consumer Protection Act, as well as state debt collection laws, all of which provide guidelines and limitations concerning the conduct of third-party debt collectors in connection with the collection of consumer debts;
- the Gramm-Leach-Bliley Act (the “GLBA”), which includes limitations on disclosure of nonpublic personal information by financial institutions about a consumer to nonaffiliated third parties, in certain circumstances requires financial institutions to limit the use and further disclosure of nonpublic personal information by nonaffiliated third parties to whom they disclose such information and requires financial institutions to disclose certain privacy policies and practices with respect to information sharing with affiliated and nonaffiliated entities as well as to safeguard personal customer information, and other privacy laws and regulations;

- the Bankruptcy Code, which limits the extent to which creditors may seek to enforce debts against parties who have filed for bankruptcy protection;
- the Servicemembers Civil Relief Act (the "SCRA"), which allows active duty military members to suspend or postpone certain civil obligations so that the military member can devote his or her full attention to military duties;
- the Electronic Fund Transfer Act and Regulation E promulgated thereunder, which provide disclosure requirements, guidelines and restrictions on the electronic transfer of funds from consumers' bank accounts;
- the Electronic Signatures in Global and National Commerce Act and similar state laws, particularly the Uniform Electronic Transactions Act, which authorize the creation of legally binding and enforceable agreements utilizing electronic records and signatures; and
- the Bank Secrecy Act, which relates to compliance with anti-money laundering, customer due diligence and record-keeping policies and procedures.

While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance is given that our compliance policies and procedures will be effective. Failure to comply with these laws and with regulatory requirements applicable to our business could subject us to damages, revocation of licenses, class action lawsuits, administrative enforcement actions, and civil and criminal liability, which may harm our business.

Our industry is highly regulated and is undergoing regulatory transformation, which has created inherent uncertainty. Changing federal, state and local laws, as well as changing regulatory enforcement policies and priorities, may negatively impact our business.

In connection with our administration of the GreenSky program, we are subject to extensive regulation, supervision and examination under United States federal and state laws and regulations. We are required to comply with numerous federal, state and local laws and regulations that regulate, among other things, the manner in which we administer the GreenSky program, the terms of the loans that our Bank Partners originate and the fees that we may charge. A material or continued failure to comply with any of these laws or regulations could subject us to lawsuits or governmental actions and/or damage our reputation, which could materially adversely affect our business. Regulators, including the CFPB, have broad discretion with respect to the interpretation, implementation and enforcement of these 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 that we undertake actions requiring regulatory approval or non-objection, regulators may make their approval or non-objection subject to conditions or restrictions that could have a material adverse effect on our business. 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.

Additionally, federal, state and local governments and regulatory agencies have proposed or enacted numerous new laws, regulations and rules related to personal loans. Federal and state regulators also are enforcing existing laws, regulations and rules more aggressively and enhancing their supervisory expectations regarding the management of legal and regulatory compliance risks. Consumer finance regulation is constantly changing, and new laws or regulations, or new interpretations of existing laws or regulations, could have a materially adverse impact on our ability to operate as we currently intend.

These regulatory changes and uncertainties make our business planning more difficult and could result in changes to our business model and potentially adversely impact our results of operations. New laws or regulations also require us to incur significant expenses to ensure compliance. As compared to our competitors, we could be subject to more stringent state or local regulations or could incur marginally greater compliance costs as a result of regulatory changes. In addition, our failure to comply (or to ensure that our agents and third-party service providers comply) with these laws or regulations may result in costly litigation or enforcement actions, the penalties for which could include: revocation of licenses; fines and other monetary penalties; civil and criminal liability; substantially

reduced payments by borrowers; modification of the original terms of loans, permanent forgiveness of debt, or inability to, directly or indirectly, collect all or a part of the principal of or interest on loans; and increased purchases of receivables underlying loans originated by our Bank Partners and indemnification claims.

Proposals to change the statutes affecting financial services companies are frequently introduced in Congress and state legislatures that, if enacted, may affect our operating environment in substantial and unpredictable ways. In addition, numerous federal and state regulators have the authority to promulgate or change regulations that could have a similar effect on our operating environment. We cannot determine with any degree of certainty whether any such legislative or regulatory proposals will be enacted and, if enacted, the ultimate impact that any such potential legislation or implementing regulations, or any such potential regulatory actions by federal or state regulators, would have upon our business.

With respect to state regulation, although we seek to comply with applicable state loan, loan broker, loan originator, servicing, debt collection, money transmitter and similar statutes in all U.S. jurisdictions, and with licensing and other requirements that we believe may be applicable to us, if we are found to not have complied with applicable laws, we could lose one or more of our licenses or authorizations or face other sanctions or penalties or be required to obtain a license in one or more such jurisdictions, which may have an adverse effect on our ability to make the GreenSky program available to borrowers in particular states and, thus, adversely impact our business.

We also are 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.

New laws, regulations, policy or changes in enforcement of existing laws or regulations applicable to our business, or our 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 GreenSky program customers, affect retention of our key personnel, or expose us to additional costs (including increased compliance costs and/or customer remediation). These changes also may require us to invest significant resources, and devote significant management attention, to make any necessary changes and could adversely affect our business.

The highly regulated environment in which our Bank Partners operate could have an adverse effect on our business.

Our Bank Partners are subject to federal and state supervision and regulation. Federal regulation of the banking industry, along with tax and accounting laws, regulations, rules and standards, may limit their operations significantly and control the methods by which they conduct business. In addition, compliance with laws and regulations can be difficult and costly, and changes to laws and regulations can impose additional compliance requirements. For example, the Dodd-Frank Act imposes significant regulatory and compliance changes on financial institutions. Regulatory requirements affect our Bank Partners' lending practices and investment practices, among other aspects of their businesses, and restrict transactions between us and our Bank Partners. These requirements may constrain the operations of our Bank Partners, and the adoption of new laws and changes to, or repeal of, existing laws may have a further impact on our business.

In choosing whether and how to conduct business with us, current and prospective Bank Partners can be expected to take into account the legal, regulatory and supervisory regime that applies to them, including potential changes in the application or interpretation of regulatory standards, licensing requirements or supervisory expectations. Regulators may elect to alter standards or the interpretation of the standards used to measure regulatory compliance or to determine the adequacy of liquidity, certain risk management or other operational practices for financial services companies in a manner that impacts our Bank Partners. Furthermore, the regulatory agencies have extremely broad discretion in their interpretation of the regulations and laws and their interpretation of the quality of our Bank Partners' loan portfolios and other assets. If any regulatory agency's assessment of the quality of our Bank Partners' assets, operations, lending practices, investment practices or other aspects of their

business changes, it may materially reduce our Bank Partners' earnings, capital ratios and share price in such a way that affects our business.

Bank holding companies and financial institutions are extensively regulated and currently face an uncertain regulatory environment. Applicable state and federal laws, regulations, interpretations, including licensing laws and regulations, enforcement policies and accounting principles have been subject to significant changes in recent years, and may be subject to significant future changes. We cannot predict with any degree of certainty the substance or effect of pending or future legislation or regulation or the application of laws and regulations to our Bank Partners. Future changes may have a material adverse effect on our Bank Partners and, therefore, on us.

In 2020, our Bank Partners became subject to a new reporting requirement, Accounting Standards Update 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments)," which may affect how they reserve for losses on loans. It is not clear at this time what effect, if any, this new reporting requirement will have on participation in our program.

We are subject to regulatory examinations and investigations and may incur fines, penalties and increased costs that could negatively impact our business.

Federal and state agencies have broad enforcement powers over us, including powers to investigate our business practices and broad discretion to deem particular practices unfair, deceptive, abusive or otherwise not in accordance with the law. The continued focus of regulators on the consumer financial services industry has resulted, and could continue to result, in new enforcement actions that could, directly or indirectly, affect the manner in which we conduct our business and increase the costs of defending and settling any such matters, which could negatively impact our business. In some cases, regardless of fault, it may be less time-consuming or costly to settle these matters, which may require us to implement certain changes to our business practices, provide remediation to certain individuals or make a settlement payment to a given party or regulatory body. We have in the past chosen to settle certain matters in order to avoid the time and expense of contesting them. There is no assurance that any future settlements will not have a material adverse effect on our business.

In addition, the laws and regulations applicable to us are subject to administrative or judicial interpretation. Some of these laws and regulations have been enacted only recently and may not yet have been interpreted or may be interpreted infrequently. As a result of infrequent or sparse interpretations, ambiguities in these laws and regulations may create uncertainty with respect to what type of conduct is permitted or restricted under such laws and regulations. Any ambiguity under a law or regulation to which we are subject may lead to regulatory investigations, governmental enforcement actions and private causes of action, such as class action lawsuits, with respect to our compliance with such laws or regulations.

The CFPB is a relatively new agency, and there continues to be uncertainty as to how its actions will impact our business; the agency's actions have had, and may continue to have, an adverse impact on our business.

The CFPB has broad authority over the businesses in which we engage. The CFPB is authorized to prevent "unfair, deceptive or abusive acts or practices" through its regulatory, supervisory and enforcement authority and to remediate violations of numerous consumer protection laws in a variety of ways, including collecting civil money penalties and fines and providing for customer restitution. The CFPB is charged, in part, with enforcing certain federal laws involving consumer financial products and services and is empowered with examination, enforcement and rulemaking authority. The CFPB has taken an active role in regulating lending markets. For example, the CFPB sends examiners to banks and other financial institutions that service and/or originate consumer loans to determine compliance with applicable federal consumer financial laws and to assess whether consumers' interests are protected. In addition, the CFPB maintains an online complaint system that allows consumers to log complaints with respect to various consumer finance products, including those included in the GreenSky program.

There continues to be uncertainty as to how the CFPB's strategies and priorities will impact our business 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 or restricting our ability to offer them. Although we have committed significant resources to enhancing our compliance programs, changes by the CFPB in

regulatory expectations, interpretations or practices could increase the risk of additional enforcement actions, fines and penalties.

In March 2015, the CFPB issued a report scrutinizing pre-dispute arbitration clauses and, in May 2016, it published a proposed rule that would substantially curtail our ability to enter into voluntary pre-dispute arbitration clauses with consumers. In July 2017, the CFPB issued a final rule banning bars on class action arbitration (but not arbitration generally). Pre-dispute arbitration clauses currently are contained in all of the loan agreements processed through the GreenSky program. The new rule was subsequently challenged in Congress and, on November 1, 2017, President Trump approved a resolution repealing the rule. In the future, if a similar rule were to become effective, we expect that our exposure to class action arbitration would increase significantly, which could have a material adverse effect on our business.

On October 5, 2017, the CFPB released its final "Payday, Vehicle Title, and Certain High-Cost Lending Rule," commonly referred to as the "Payday Loan Rule." On February 6, 2019, the CFPB issued proposed revisions to the Payday Loan Rule. On June 7, 2019, the CFPB announced a 15-month delay in the Payday Loan Rule's August 19, 2019 compliance date to November 19, 2020 that applies only to the proposed rescinded ability-to-pay provisions. The mandatory compliance deadline for certain other provisions of the Payday Loan Rule still stands at August 19, 2019. Relatedly, the Community Financial Services Association of America sued the CFPB in April 2018 over the Payday Loan Rule. As a result, the court suspended the CFPB's August 19, 2019 implementation of the 2019 proposed revisions pending further order of the court. On August 6, 2019, the court issued an order that leaves the compliance date stay in effect. On December 6, 2019, the court continued the stay on the August 19, 2019 compliance date for the Payday Loan Rule and requested the parties to file another joint status report by April 24, 2020. While the Payday Loan Rule does not appear to be targeted at businesses like ours, some of its provisions are broad and potentially could be triggered by the promotional loans that our Bank Partners extend that require increases in payments at specified points in time. We are continuing to monitor developments associated with the Payday Loan Rule and are working toward compliance with the Payday Loan Rule requirements ahead of the ultimate compliance date.

Future actions by the CFPB (or other regulators) against us or our competitors that discourage the use of our or their services could result in reputational harm and adversely affect our business. If the CFPB changes regulations that 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 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 that require us to make significant changes to our business practices, and if we are unable to develop compliant alternatives with acceptable returns, these restrictions or prohibitions could have a material adverse effect on our business.

The Dodd-Frank Act generally permits state officials to enforce regulations issued by the CFPB and to enforce its 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.

The contours of the Dodd-Frank UDAAP standard are still uncertain and there is a risk that certain features of the GreenSky program loans could be deemed to violate the UDAAP standard.

The Dodd-Frank Act prohibits unfair, deceptive or abusive acts or practices and authorizes the CFPB to enforce that prohibition. The CFPB has filed a large number of UDAAP enforcement actions against consumer lenders for practices that do not appear to violate other consumer finance statutes. There is a risk that the CFPB could determine that certain features of the GreenSky program loans are unfair, deceptive or abusive. The CFPB has filed actions alleging that deferred interest programs can be unfair, deceptive or abusive if lenders do not adequately disclose the terms of the deferred interest loans.

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 depend on our substantial ongoing business relationships with our Bank Partners, merchants and other third parties. These types of third-party relationships, particularly with our Bank Partners, are subject to increasingly demanding regulatory requirements and oversight by federal bank regulators (such as the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation) and the CFPB. The CFPB has enforcement authority with respect to the conduct of third parties that provide services to financial institutions. The CFPB has made it clear that it expects non-bank entities to maintain an effective process for managing risks associated with third-party vendor relationships, including compliance-related risks. In connection with this vendor risk management process, we are expected to perform due diligence reviews of potential vendors, review their policies and procedures and internal training materials to confirm compliance-related focus, include enforceable consequences in contracts with vendors regarding failure to comply with consumer protection requirements, and take prompt action, including terminating the relationship, in the event that vendors fail to meet our expectations.

In certain cases, we may be required to renegotiate our agreements with our vendors and/or our subcontractors to meet these enhanced requirements, which could increase the costs of operating our business. It is expected that regulators will hold us responsible for deficiencies in our oversight and control of 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 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.

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 connection with our administration of the GreenSky program, we are subject to the GLBA and implementing regulations and guidance. Among other things, the GLBA (i) imposes certain limitations on the ability to share consumers' nonpublic personal information with nonaffiliated third parties and (ii) requires certain disclosures to consumers about their information collection, sharing and security practices and their right to "opt out" of the institution's disclosure of their personal financial information to nonaffiliated third parties (with certain exceptions).

Furthermore, legislators and/or regulators 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 also could increase our costs of compliance and business operations and could reduce income from certain business initiatives.

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. Privacy requirements, including notice and opt out requirements, under the GLBA and FCRA are enforced by the FTC and by the CFPB through UDAAP and are a standard component of CFPB examinations. State entities also may initiate actions for alleged violations of privacy or security requirements under state law. 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, Bank Partner or merchant actions and damage to our reputation and brand, all of which could have a material adverse effect on our business.

Non-compliance with Payment Card Industry Data Security Standards ("PCI DSS") may subject us to fines, penalties and civil liability and may result in the loss of our ability to accept credit and debit card payments.

We settle and fund transactions on a national credit card network and, thus, are subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, including PCI DSS, a security standard applicable to companies that collect, store or transmit certain data regarding credit and debit cards, holders and transactions. We currently are not, and in the future may not be, compliant with PCI DSS and are taking steps to achieve such compliance. No assurance is given that we will be successful in that regard.

Any failure to comply fully or materially with PCI DSS now or at any point in the future (i) may violate payment card association operating rules, federal and state laws and regulations, and the terms of certain of our contracts with third parties, (ii) may subject us to fines, penalties, damages and civil liability, and (iii) may result in the loss of our ability to accept credit card payments. Even if we achieve compliance with PCI DSS, we still may not be able to prevent security breaches involving customer transaction data. In addition, there is no assurance that advances in computer capabilities, new discoveries in the field of cryptography or other events or developments will not result in a compromise or breach of the processes that we use to protect customer data. If any such compromise or breach were to occur, it could have a material adverse effect on our business.

The increased scrutiny of third-party medical financing by governmental agencies may lead to increased regulatory burdens and may adversely affect our business.

We operate in the elective healthcare industry vertical, which includes consumer financing for elective medical procedures. Recently, regulators have increased scrutiny of third-party providers of financing for medical procedures that are generally not covered by health insurance. In addition, the CFPB and attorneys general in New York and Minnesota have conducted investigations of alleged abusive lending practices or exploitation regarding third-party medical financing services.

If, in the future, any of our practices in this space were found to be deficient, it could result in fines, penalties or increased regulatory burdens. Additionally, any regulatory inquiry could damage our reputation and limit our ability to conduct operations, which could adversely affect our business. Moreover, the adoption of any law, rule or regulation affecting the industry may also increase our administrative costs, require us to modify our practices to comply with applicable regulations or reduce our ability to participate competitively, which could have a material adverse effect on our business.

In recent years, federal regulators and the United States DOJ have increased their focus on enforcing the SCRA against servicers. Similarly, state legislatures have taken steps to strengthen their own state-specific versions of the SCRA.

The DOJ and federal regulators have entered into significant settlements with a number of loan servicers alleging violations of the SCRA. Some of the settlements have alleged that the servicers did not correctly apply the SCRA's 6% interest rate cap, while other settlements have alleged, without limitation, that servicers did not comply with the SCRA's default judgment protections when seeking to collect payment of a debt. Recent settlements indicate that the DOJ and federal regulators broadly interpret the scope of the substantive protections under the SCRA and are moving aggressively to identify instances in which loan servicers have not complied with the SCRA.

Recent SCRA-related settlements continue to make this a significant area of scrutiny for both regulatory examinations and public enforcement actions.

In addition, most state legislatures have their own versions of the SCRA. In most instances, these laws extend some or all of the substantive benefits of the federal SCRA to members of the state National Guard who are in state service, but certain states also provide greater substantive protections to National Guard members or individuals who are in federal military service. In recent years, certain states have revised their laws to increase the potential benefits to individuals, and these changes pose additional compliance burdens on our Bank Partners and us as we seek to comply with both the federal and relevant state versions of the SCRA.

No assurance is given that our efforts and those of our Bank Partners to comply with the SCRA will be effective, and our failure to comply could subject us to liability, damages and reputational harm, all of which could have an adverse effect on our business.

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 and terrorist financing. 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. No assurance is given that our programs and controls will be effective to ensure compliance with all applicable anti-money laundering and anti-terrorism financing laws and regulations, and our failure to comply with these laws and regulations could subject us to significant sanctions, fines, penalties and reputational harm, all of which could have a material adverse effect on our business.

If we were found to be operating without having obtained necessary state or local licenses, it could adversely affect our business.

Certain states have adopted laws regulating and requiring licensing by parties that engage in certain activity regarding consumer finance transactions, including facilitating and assisting such transactions in certain circumstances. Furthermore, certain states and localities have also adopted laws requiring licensing for consumer debt collection or servicing. While we believe we have obtained all necessary licenses, the application of some consumer finance licensing laws to the GreenSky program is unclear. If we were found to be in violation of applicable state licensing requirements by a court or a state, federal, or local enforcement agency, we could be subject to fines, damages, injunctive relief (including required modification or discontinuation of our business in certain areas), criminal penalties and other penalties or consequences, and the loans originated through the GreenSky program could be rendered void or unenforceable in whole or in part, any of which could have a material adverse effect on our business.

If loans originated through the GreenSky program are found to violate applicable state usury laws or other lending laws, it could adversely affect our business.

Because the loans originated through the GreenSky program are originated by and held by our Bank Partners, under principles of federal preemption the terms and conditions of the loans are not subject to most state consumer finance laws, including state licensing and usury restrictions. If a court, or a state or federal enforcement agency, were to deem GreenSky-rather than our Bank Partners-the “true lender” for loans originated through the GreenSky program, and if for this reason (or any other reason) the loans were deemed subject to and in violation of certain state consumer finance laws, we could be subject to fines, damages, injunctive relief (including required modification or discontinuation of our business in certain areas), and other penalties or consequences, and the loans could be rendered void or unenforceable in whole or in part, any of which could have a material adverse effect on our business.

We have been in the past and may in the future be subject to federal and state regulatory inquiries regarding our business.

We have, from time to time in the normal course of our business, received, and may in the future receive or be subject to, inquiries or investigations by state and federal regulatory agencies and bodies such as the CFPB, state attorneys general, state financial regulatory agencies, and other state or federal agencies or bodies regarding the GreenSky program, including the origination and servicing of consumer loans, practices by merchants or other third parties, and licensing and registration requirements. For example, we have entered into regulatory agreements with state agencies regarding issues including merchant conduct and oversight and loan pricing and may enter into similar agreements in the future. We have also received inquiries from state regulatory agencies regarding requirements to obtain licenses from or register with those states, including in states where we have determined that we are not required to obtain such a license or be registered with the state, and we expect to continue to receive such inquiries. Any such inquiries or investigations could involve substantial time and expense to analyze and respond to, could divert management's attention and other resources from running our business, and could lead to public enforcement actions or lawsuits and fines, penalties, injunctive relief, and the need to obtain additional licenses that we do not currently possess. Our involvement in any such matters, whether tangential or otherwise and even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation, lead to additional investigations and enforcement actions from other agencies or litigants, and further divert management attention and resources from the operation of our business. As a result, the outcome of legal and regulatory actions arising out of any state or federal inquiries we receive could be material to our business, results of operations, financial condition and cash flows and could have a material adverse effect on our business, financial condition or results of operations.

Risks Related to Our Organizational Structure

We are a holding company with no operations of our own and, as such, depend on our subsidiaries for cash to fund all of our operations and expenses, including future dividend payments, if any.

We are a holding company and have no material assets other than our deferred tax assets and our equity interest in GS Holdings, which has the sole equity interest in GSLLC. We have no independent means of generating revenue or cash flow. We determined that GS Holdings is a variable interest entity ("VIE") and that we are the primary beneficiary of GS Holdings. Accordingly, pursuant to the VIE accounting model, we began consolidating GS Holdings in our consolidated financial statements following the IPO closing. In the event of a change in accounting guidance or amendments to the operating agreement of GS Holdings resulting in us no longer having a controlling interest in GS Holdings, we may not be able to continue consolidating its results of operations with our own, which would have a material adverse effect on our results of operations.

GS Holdings is treated as a partnership for United States federal income tax purposes, and GSLLC is treated as an entity disregarded as separate from GS Holdings for United States federal income tax purposes. As a result, neither GS Holdings nor GSLLC is subject to United States federal income tax. Instead, taxable income is allocated to the members of GS Holdings, including us. Accordingly, we incur income taxes on our proportionate share of any net taxable income of consolidated GS Holdings. We intend to cause GSLLC to make distributions to GS Holdings and to cause GS Holdings to make distributions to its unit holders in an amount sufficient to cover all applicable taxes payable by such unit holders determined according to assumed rates, payments owing under the tax receivable agreement ("TRA") and dividends, if any, declared by us. The ability of GSLLC to make distributions to GS Holdings, and of GS Holdings to make distributions to us, is limited by their obligations to satisfy their own obligations to their creditors. Further, future and current financing arrangements of GSLLC and GS Holdings contain, and future obligations could contain, negative covenants limiting such distributions. Additionally, our right to receive assets upon the liquidation or reorganization of GS Holdings, or indirectly from GSLLC, will be effectively subordinated to the claims of each entity's creditors. To the extent that we are recognized as a creditor of GS Holdings or GSLLC, our claims may still be subordinate to any security interest in, or other lien on, its assets and to any of its debt or other obligations that are senior to our claims.

To the extent that we need funds and GSLLC or GS Holdings are restricted from making such distributions under applicable law or regulation, or are otherwise unable to provide such funds, it could materially and adversely affect our liquidity and financial condition. In addition, because tax distributions are based on an assumed tax rate, GS Holdings may be required to make tax distributions that, in the aggregate, may exceed the amount of taxes that GS Holdings would have paid if it were itself taxed on its net income at the assumed rate.

Funds used by GS Holdings to satisfy its tax distribution obligations will not be available for reinvestment in our business. Moreover, the tax distributions that GS Holdings will be required to make may be substantial and may exceed (as a percentage of GS Holdings' income) the overall effective tax rate applicable to a similarly situated corporate taxpayer.

We may be required to pay additional taxes as a result of the new partnership audit rules.

The Bipartisan Budget Act of 2015 changed the rules applicable to U.S. federal income tax audits of partnerships, including entities such as GS Holdings that are taxed as a partnership. Under these rules (which generally are effective for taxable years beginning after December 31, 2017), subject to certain exceptions, audit adjustments to items of income, gain, loss, deduction, or credit of an entity (and any member's share thereof) is determined, and taxes, interest, and penalties attributable thereto, are assessed and collected, at the entity level. Although it is uncertain how these rules will be implemented, it is possible that they could result in GS Holdings being required to pay additional taxes, interest and penalties as a result of an audit adjustment, and we, as a member of GS Holdings, could be required to indirectly bear the economic burden of those taxes, interest, and penalties even though we may not otherwise have been required to pay additional corporate-level taxes as a result of the related audit adjustment.

Under certain circumstances, GS Holdings may be eligible to make an election to cause members (including us) to take into account the amount of any understatement, including any interest and penalties, in accordance with their interests in GS Holdings in the year under audit. We cannot provide any assurance that GS Holdings will be able to make this election, in which case current members (including us) would economically bear the burden of the understatement even if they had a different percentage interest in GS Holdings during the year under audit, unless, and only to the extent, GS Holdings is able to recover such amounts from current or former impacted members. If the election is made, members would be required to take the adjustment into account in the taxable year in which the adjusted Schedule K-1s are issued.

The changes created by these new rules are sweeping and in many respects dependent on the promulgation of future regulations or other guidance by the U.S. Department of the Treasury.

The owners of the Class B common stock, who also are the Continuing LLC Members, control us and their interests may conflict with yours in the future.

The owners of the Class B common stock, who also are the Continuing LLC Members, control us. Each share of our Class B common stock initially entitles its holders to ten votes on all matters presented to our stockholders generally. Once the collective holdings of those owners in the aggregate are less than 15% of the combined economic interest in us, each share of Class B common stock will entitle its holder to one vote per share on all matters to be voted upon by our stockholders.

The owners of the Class B common stock owned the vast majority of the combined voting power of our Class A and Class B common stock as of December 31, 2019. Accordingly, those owners, if voting in the same manner, will be able to control the election and removal of our directors and thereby determine our corporate and management policies, including potential mergers or acquisitions, payment of dividends, asset sales, amendment of our certificate of incorporation and bylaws and other significant corporate transactions for so long as they retain significant ownership of us. This concentration of ownership may delay or deter possible changes in control of our Company, which may reduce the value of an investment in our Class A common stock. So long as they continue to own a significant amount of our combined voting power, even if such amount is less than 50%, they will continue to be able to strongly influence or effectively control our decisions.

In addition, the owners of the Class B common stock, as Continuing LLC Members, had a weighted average ownership of Holdco Units of approximately 65% for the year ended December 31, 2019. Because they hold the majority of their economic ownership interest in our business through GS Holdings, rather than GreenSky, Inc., these existing unit holders may have conflicting interests with holders of our Class A common stock. For example, the Continuing LLC Members may have different tax positions from us, which could influence their decisions regarding whether and when to dispose of assets and whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the TRA. In addition, the structuring of future transactions may

take into account the tax considerations of the Continuing LLC Members even where no similar benefit would accrue to us. It is through their ownership of Class B common stock that they may be able to influence, if not control, decisions such as these.

We will be required to pay for certain tax benefits we may claim arising in connection with the merger of the Former Corporate Investors, our purchase of Holdco Units and future exchanges of Holdco Units under the Exchange Agreement, which payments could be substantial.

On the date of our IPO, we were treated for United States federal income tax purposes as having directly purchased Holdco Units from the Exchanging Members. In the future, the Continuing LLC Members will be able to exchange their Holdco Units (with automatic cancellation of an equal number of shares of Class B common stock) for shares of Class A common stock on a one-for-one basis, subject to adjustments for certain subdivisions (stock splits), combinations, or purchases of Class A common stock or Holdco Units, or for cash (based on the market price of the shares of Class A common stock), at our option (such determination to be made by the disinterested members of our board of directors). As a result of these transactions, and our acquisition of the equity of certain of the Former Corporate Investors, we are and will become entitled to certain tax basis adjustments with respect to GS Holdings' tax basis in its assets. As a result, the amount of income tax that we would otherwise be required to pay in the future may be reduced by the increase (for income tax purposes) in depreciation and amortization deductions attributable to our interests in GS Holdings. An increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain assets to the extent tax basis is allocated to those assets. The IRS, however, may challenge all or part of that tax basis adjustment, and a court could sustain such a challenge.

We entered into the TRA with the TRA Parties that will provide for the payment by us of 85% of the amount of cash savings, if any, in United States federal, state and local income tax that we realize or are deemed to realize, as a result of (i) the tax basis adjustments referred to above, (ii) any incremental tax basis adjustments attributable to payments made pursuant to the TRA, and (iii) any deemed interest deductions arising from payments made by us pursuant to the TRA. While the actual amount of the adjusted tax basis, as well as the amount and timing of any payments under the TRA, will vary depending upon a number of factors, including the basis of our proportionate share of GS Holdings' assets on the dates of exchanges, the timing of exchanges, the price of shares of our Class A common stock at the time of each exchange, the extent to which such exchanges are taxable, the deductions and other adjustments to taxable income to which GS Holdings is entitled, and the amount and timing of our income, we expect that during the anticipated term of the TRA, the payments that we may make could be substantial. Payments under the TRA may give rise to additional tax benefits and, therefore, to additional potential payments under the TRA. In addition, the TRA provides for interest accrued from the due date (without extensions) of the corresponding tax return for the taxable year with respect to which the payment obligation arises to the date of payment under the TRA.

Assuming no material changes in the relevant tax law and that we earn sufficient taxable income to realize all tax benefits that are subject to the TRA, we expect that the tax savings associated with the purchase of Holdco Units in connection with the IPO and future exchanges of Holdco Units (assuming such future exchanges occurred at December 31, 2019 and assuming automatic cancellation of an equal number of shares of Class B common stock) would aggregate to approximately $669.9 million based on the closing price on December 31, 2019 of $8.90 per share of our Class A common stock. Under such scenario, assuming future payments are made on the date each relevant tax return is due, without extensions, we would be required to pay approximately 85% of such amount, or $569.4 million.

There may be a material negative effect on our liquidity if, as a result of timing discrepancies or otherwise, (i) the payments under the TRA exceed the actual benefits we realize in respect of the tax attributes subject to the TRA and/or (ii) distributions to us by GS Holdings are not sufficient to permit us to make payments under the TRA after paying our other obligations. For example, were the IRS to challenge a tax basis adjustment or other deductions or adjustments to taxable income of GS Holdings, we will not be reimbursed for any payments that may previously have been made under the TRA, except that excess payments will be netted against payments otherwise to be made, if any, after our determination of such excess. As a result, in certain circumstances we could make payments under the TRA in excess of our ultimate cash tax savings. In addition, the payments under the TRA are

not conditioned upon any recipient's continued ownership of interests in us or GS Holdings, and the right to receive payments can be assigned.

In certain circumstances, including certain changes of control of our Company, payments by us under the TRA may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the TRA.

The TRA provides that (i) in the event that we materially breach any of our material obligations under the TRA, whether as a result of failure to make any payment, failure to honor any other material obligation required thereunder or by operation of law as a result of the rejection of the TRA in a bankruptcy or otherwise, (ii) if, at any time, we elect an early termination of the TRA, or (iii) upon certain changes of control of our Company, our (or our successor's) obligations under the TRA (with respect to all Holdco Units, whether or not such units have been exchanged or acquired before or after such transaction) would accelerate and become payable in a lump sum amount equal to the present value of the anticipated future tax benefits calculated based on certain assumptions, including that we would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions, tax basis and other benefits subject to the TRA.

As a result of the foregoing, if we breach a material obligation under the TRA, if we elect to terminate the TRA early or if we undergo a change of control, we would be required to make an immediate lump-sum payment equal to the present value of the anticipated future tax savings, which payment may be required to be made significantly in advance of the actual realization of such future tax savings, and the actual cash tax savings ultimately realized may be significantly less than the corresponding TRA payments. In these situations, our obligations under the TRA could have a substantial negative impact on our liquidity. There is no assurance that we will be able to fund or finance our obligations under the TRA. Additionally, the obligation to make a lump sum payment on a change of control may deter potential acquirers, which could negatively affect our stockholders' potential returns. If we had elected to terminate the TRA as of December 31, 2019, based on the closing price on December 31, 2019 of $8.90 per share of our Class A common stock, and a discount rate equal to 5.31% per annum, compounded annually, we estimate that we would have been required to pay $372.5 million in the aggregate under the TRA.

If we were deemed to be an investment company under the Investment Company Act of 1940, as amended (the "1940 Act"), as a result of our ownership of GS Holdings and GSLLC, applicable restrictions could make it impractical for us to continue our business as currently contemplated and could have an adverse effect on our business.

Under Sections 3(a)(1)(A) and (C) of the 1940 Act, a company generally will be deemed to be an "investment company" for purposes of the 1940 Act if (i) it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities or (ii) it engages, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We do not believe that we are an "investment company," as such term is defined in either of those sections of the 1940 Act.

Because GreenSky, Inc. is the managing member of GS Holdings, and GS Holdings is the managing member of GSLLC, we indirectly operate and control all of the business and affairs of GS Holdings and its subsidiaries, including GSLLC. On that basis, we believe that our interest in GS Holdings and GSLLC is not an "investment security," as that term is used in the 1940 Act. However, if we were to cease participation in the management of GS Holdings and GSLLC, our interest in such entities could be deemed an "investment security" for purposes of the 1940 Act.

We, GS Holdings and GSLLC intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the 1940 Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

Our certificate of incorporation provides, subject to certain exceptions, that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for certain stockholder litigation matters, which could limit our stockholders' ability to bring a claim in a judicial forum that they find more favorable for disputes with us or our directors, officers, employees or stockholders.

Pursuant to our certificate of incorporation, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (3) any action asserting a claim against us arising pursuant to any provision of the DGCL, our certificate of incorporation or our bylaws or (4) any other action asserting a claim against us that is governed by the internal affairs doctrine. The forum selection clause in our certificate of incorporation may have the effect of discouraging lawsuits against us or our directors and officers and may limit our stockholders' ability to bring a claim in a judicial forum that they find more favorable for disputes with us or any of our directors, officers, other employees or stockholders. The exclusive forum provision does not apply to any actions under United States federal securities laws.

By purchasing shares of our Class A common stock, you will have agreed and consented to the provisions set forth in our certificate of incorporation related to choice of forum. Alternatively, if a court were to find the choice of forum provision contained in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business and financial condition.

Risks Related to our Class A Common Stock

We are subject to risks and uncertainties related to our review of strategic alternatives.

In August 2019, we announced that GreenSky's Board of Directors, working together with its senior management team and legal and financial advisors, commenced a process to explore, review and evaluate a range of potential strategic alternatives focused on maximizing stockholder value. We will incur expenses in connection with the review and our future results may be affected by the pursuit or consummation of any specific transaction or other strategic alternative resulting from the review. This review may not result in a specific transaction or other strategic alternative. In addition, the pendency of this review exposes us to certain risks and uncertainties, including potential risks and uncertainties in retaining and attracting employees during the review process; the diversion of management's time during the review process; exposure to potential litigation in connection with the review process or any specific transaction or other strategic alternative resulting therefrom; and risks and uncertainties with respect to suppliers, clients and other business relationships, all of which could disrupt and negatively affect our business. Speculation regarding any developments related to the review of strategic alternatives and perceived uncertainties related to the future of the Company could cause our stock price to fluctuate significantly. There is no finite timetable for completion of the review of strategic alternatives, and any resulting transaction or other strategic alternative may not have a positive impact on our results of operations or financial condition.

An active trading market for our Class A common stock may not be sustained, which may make it difficult to sell shares of Class A common stock.

Our Class A common stock is listed on the Nasdaq Global Select Market under the symbol "GSKY." An active trading market for our Class A common stock may not be sustained, which would make it difficult for you to sell your shares of Class A common stock at an attractive price (or at all).

The market price of our Class A common stock has been and will likely continue to be volatile.

Our stock price has declined significantly since our May 2018 IPO and has exhibited substantial volatility. Our stock price may continue to fluctuate in response to a number of events and factors, including variations in our quarterly or annual results of operations, additions or departures of key management personnel, the loss of key Bank Partners, merchants or Sponsors, changes in our earnings estimates (if provided) or failure to meet analysts' earnings estimates, publication of research reports about our industry, litigation and government investigations, changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, changes in market valuations of similar companies or speculation in the press or the investment community with respect to us or our industry, adverse announcements by us or others and developments affecting us, announcements by our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments, actions by institutional stockholders, and increases in market interest rates that may lead investors in our shares to demand a higher yield, and in response the market price of shares of our Class A common stock could decrease significantly. You may be unable to resell your shares of Class A common stock at or above the price you paid for them (or at all).

We are currently subject to putative securities class action litigation in connection with our IPO and may be subject to similar litigation in the future. If the outcome of this litigation is unfavorable, it could have a material adverse effect on our financial condition, results of operations and cash flows.

The Company and certain of its officers and directors have been named as defendants in two consolidated putative securities class actions in connection with our IPO ("the Securities Litigation"). See Note 14 to the Notes to Consolidated Financial Statements in Part II, Item 8 for a description of the Securities Litigation. In the future, especially following periods of volatility in the market price of our shares of Class A common stock, other purported class action or derivative complaints may be filed against us. In addition to diverting financial and management resources, this type of litigation can result in adverse publicity that could harm our brand or reputation, regardless of its merits or whether we are ultimately held liable, and a judgment or settlement in connection with any such litigation that is not covered by, or is significantly in excess of, our insurance coverage could materially and adversely affect our financial condition, results of operations and cash flows.

As a newly public company, we are incurring, and will continue to incur, increased costs and are subject to additional regulations and requirements, and our management is required to devote substantial time to new compliance matters, which could lower profits and make it more difficult to run our business.

As a newly public company, we are incurring, and will continue to incur, significant legal, accounting, reporting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements and costs of recruiting and retaining non-executive directors. We also are incurring costs associated with compliance with the rules and regulations of the SEC and various other costs of a public company. The expenses generally incurred by public companies for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. Our management is devoting a substantial amount of time to ensure that we comply with all of these requirements. These laws and regulations also could make it more difficult and costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations also could make it more difficult to attract and retain qualified persons to serve on our board of directors and board committees and serve as executive officers.

Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our Class A common stock, fines, sanctions and other regulatory action and potentially civil litigation.

We no longer qualify as an "emerging growth company", and as a result, we are required to comply with increased disclosure and compliance requirements.

Prior to December 31, 2019, we were an "emerging growth company" as defined in the JOBS Act. Now, as a large accelerated filer, we are subject to certain disclosure and compliance requirements that apply to other public companies but did not previously apply to us due to our prior status as an emerging growth company. These requirements include, but are not limited to:

- the requirement that our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act of 2002;
- the requirement that we provide full and more detailed disclosures regarding executive compensation; and
- the requirement that we hold a non-binding advisory vote on executive compensation and obtain stockholder approval of any golden parachute payments not previously approved.

We expect that the loss of emerging growth company status and compliance with the additional requirements of being a large accelerated filer will increase our legal and financial compliance costs and cause management and other personnel to divert attention from operational and other business matters to devote substantial time to public company reporting requirements. In addition, if we are not able to comply with changing requirements in a timely manner, the market price of our stock could decline and we could be subject to sanctions or investigations by the stock exchange on which our common stock is listed, the SEC or other regulatory authorities, which would require additional financial and management resources.

Failure to comply with the requirements to design, implement and maintain effective internal controls could have an adverse effect on our business and stock price.

As a public company, we are subject to significant requirements for enhanced financial reporting and internal controls. The process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environment and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. If we are unable to establish and maintain appropriate internal financial reporting controls and procedures, it could cause us to fail to meet our reporting obligations on a timely basis, result in material misstatements in our consolidated financial statements and harm our operating results.

We concluded that our internal control was effective as of December 31, 2019. See Part II, Item 9A "Management's Report on Internal Control over Financial Reporting." We may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with the SEC rules or our independent registered public accounting firm may not issue an unqualified opinion. If, in a future period, either we are unable to conclude that we have effective internal control over financial reporting or our independent registered public accounting firm is unable to provide us with an unqualified report, investors could lose confidence in our reported financial information, which could cause the price of our Class A common stock to decline and could subject us to investigation or sanctions by the SEC.

You may be diluted by the future issuance of additional Class A common stock in connection with our incentive plans, acquisitions or otherwise.

Our certificate of incorporation authorizes us to issue authorized but unissued shares of Class A common stock and rights relating to Class A common stock for the consideration and on the terms and conditions established by our board of directors in its sole discretion, whether in connection with acquisitions or otherwise. We have reserved 24,000,000 shares for issuance under our 2018 Omnibus Incentive Compensation Plan, subject to adjustment in certain events. Any Class A common stock that we issue, including under our 2018 Omnibus Incentive Compensation Plan or other equity incentive plans that we may adopt in the future, would dilute the percentage ownership held by existing investors.

Because we have no current plans to pay cash dividends on our Class A common stock, you may not receive any return on investment unless you sell your Class A common stock for a price greater than that which you paid for it.

We have no current plans to pay cash dividends on our Class A common stock. The declaration, amount and payment of any future dividends will be at the sole discretion of our board of directors. Our board of directors may take into account general and economic conditions, our financial condition and operating results, our available cash, current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions, implications on the payment of dividends by us to our stockholders or by GS Holdings to us and such other factors as our board of directors may deem relevant. In addition, the terms of our existing financing arrangements restrict or limit our ability to pay cash dividends. Accordingly, we may not pay any dividends on our Class A common stock in the foreseeable future.

Future offerings of debt or equity securities by us may adversely affect the market price of our Class A common stock.

In the future, we may attempt to obtain financing or to further increase our capital resources by issuing additional shares of our Class A common stock or offering debt or other equity securities, including commercial paper, medium-term notes, senior or subordinated notes, debt securities convertible into equity or shares of preferred stock. Future acquisitions could require substantial additional capital in excess of cash from operations. We would expect to obtain the capital required for acquisitions through a combination of additional issuances of equity, corporate indebtedness and/or cash from operations.

Issuing additional shares of our Class A common stock or other equity securities or securities convertible into equity may dilute the economic and voting rights of our existing stockholders or reduce the market price of our Class A common stock or both. Upon liquidation, holders of such debt securities and preferred shares, if issued, and lenders with respect to other borrowings would receive a distribution of our available assets prior to the holders of our Class A common stock. Debt securities convertible into equity could be subject to adjustments in the conversion ratio pursuant to which certain events may increase the number of equity securities issuable upon conversion. Preferred shares, if issued, could have a preference with respect to liquidating distributions or a preference with respect to dividend payments that could limit our ability to pay dividends to the holders of our Class A common stock. Our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, which may adversely affect the amount, timing and nature of our future offerings.

Future sales, or the expectation of future sales, of shares of our Class A common stock, including sales by Continuing LLC Members, could cause the market price of our Class A common stock to decline.

The sale of a substantial number of shares of our Class A common stock in the public market, or the perception that such sales could occur, including sales by the Continuing LLC Members, could adversely affect the prevailing market price of shares of our Class A common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price we deem appropriate. In addition, subject to certain limitations and exceptions, pursuant to certain provisions of the Exchange Agreement, the Continuing LLC Members may exchange Holdco Units (with automatic cancellation of an equal number of shares of Class B common stock) for shares of our Class A common stock on a one-for-one basis, subject to customary adjustments for certain subdivisions (stock splits), combinations, or purchases of Class A common stock or Holdco Units, or for cash (based on the market price of the shares of Class A common stock), at our option (such determination to be made by the disinterested members of our board of directors). All of the Holdco Units and shares of Class B common stock are exchangeable for shares of our Class A common stock or cash, at our option (such determination to be made by the disinterested members of our board of directors), subject to the terms of the Exchange Agreement.

Our certificate of incorporation authorizes us to issue additional shares of Class A common stock and rights relating to Class A common stock for the consideration and on the terms and conditions established by our board of directors in its sole discretion. In accordance with the DGCL and the provisions of our certificate of incorporation, we also may issue preferred stock that has designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to shares of Class A common stock. Similarly, GS Holdings

Agreement permits GS Holdings to issue an unlimited number of additional limited liability company interests of GS Holdings with designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Holdco Units, and which may be exchangeable for shares of our Class A common stock.

Assuming the Continuing LLC Members exchange all of their Holdco Units for shares of our Class A common stock, up to an additional 113,517,198 shares of Class A common stock will be eligible for sale in the public market, the majority of which are held by our executive officers, directors and their affiliated entities, and will be subject to volume limitations under Rule 144 and various vesting agreements. Additionally, certain of our executive officers and directors own options exercisable for shares of Class A common stock.

As unvested Class A common stock awards issued pursuant to our 2018 Omnibus Incentive Compensation Plan vest, the market price of our shares of Class A common stock could drop significantly if the holders of these shares sell them or are perceived by the market as intending to sell them.

These factors also could make it more difficult for us to raise additional funds through future offerings of our shares of Class A common stock or other securities.

Our capital structure may have a negative impact on our stock price.

In July 2017, S&P Dow Jones, a provider of widely-followed stock indices, announced that companies with multiple share classes, such as ours, will not be eligible for inclusion in certain of their indices. As a result, our Class A common stock is not eligible for these stock indices. Many investment funds are precluded from investing in companies that are not included in such indices, and these funds would be unable to purchase our Class A common stock. There is no assurance that other stock indices will not take a similar approach to S&P Dow Jones in the future. Exclusion from indices could make our Class A common stock less attractive to investors and, as a result, the market price of our Class A common stock could be adversely affected.

Certain provisions of our certificate of incorporation and bylaws could hinder, delay or prevent a change in control of us, which could adversely affect the price of our Class A common stock.

Certain provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us without the consent of our board of directors. These provisions:

- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of common stock;
- prohibit stockholder action by written consent, requiring all stockholder actions be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws;
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- establish a classified board of directors, as a result of which our board of directors is divided into three classes, with each class serving for staggered three-year terms, which prevents stockholders from electing an entirely new board of directors at an annual meeting.

In addition, these provisions may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management or our board of directors. Stockholders who might desire to participate in these types of transactions may not have an opportunity to do so, even if the transaction is favorable to them. These anti-takeover provisions could substantially impede your ability to benefit from a change in control or change our management and board of directors and, as a result, may adversely affect the market price of our Class A common stock and your ability to realize any potential change of control premium.

If securities and industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our Class A common stock depends, in part, on the research and reports that securities and industry analysts publish about us and our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our Company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth selected information concerning our principal facilities as of December 31, 2019.

Location	Owned/Leased	Approximate Square Footage
Corporate Headquarters:		
Atlanta, Georgia	Leased	51,300
Primary Call Centers:		
Atlanta, Georgia	Leased	82,400
Crescent Hills, Kentucky	Leased	39,700
Additional Facilities:		
Alpharetta, Georgia	Leased	22,300

We believe our current facilities are adequate and that we will be able to find suitable space to accommodate any potential future expansion.

ITEM 3. LEGAL PROCEEDINGS

We are party to legal proceedings incidental to our business. See Note 14 to the Notes to Consolidated Financial Statements included in Part II, Item 8 for information regarding legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders of Record

On May 24, 2018, our Class A common stock began trading on the NASDAQ Stock Market under the symbol "GSKY." Prior to that time, there was no public market for our stock. As of February 19, 2020, there were two holders of record of our Class A common stock, which does not include persons whose stock is held in nominee or "street name" accounts through brokers, banks and intermediaries. Our Class B common stock is neither listed nor traded on any stock exchange, nor is there an established public trading market for this class of common stock.

Securities Authorized for Issuance under Equity Compensation Plans

The equity compensation plan information required by Item 201(d) of Regulation S-K will be set forth in the definitive Proxy Statement for the Company's annual meeting of stockholders, which we intend to file with the SEC no later than April 29, 2020, and is incorporated by reference in this annual report on Form 10-K. Additionally, refer to Note 12 to the Notes to Consolidated Financial Statements included in Part II, Item 8 for additional information on our equity compensation plans.

Purchases of Equity Securities by the Issuer

The following table presents information with respect to our purchases of our Class A common stock during the fourth quarter in the year ended December 31, 2019. See Note 11 to the Notes to Consolidated Financial Statements included in Part II, Item 8 for additional discussion of our Class A common stock repurchases.

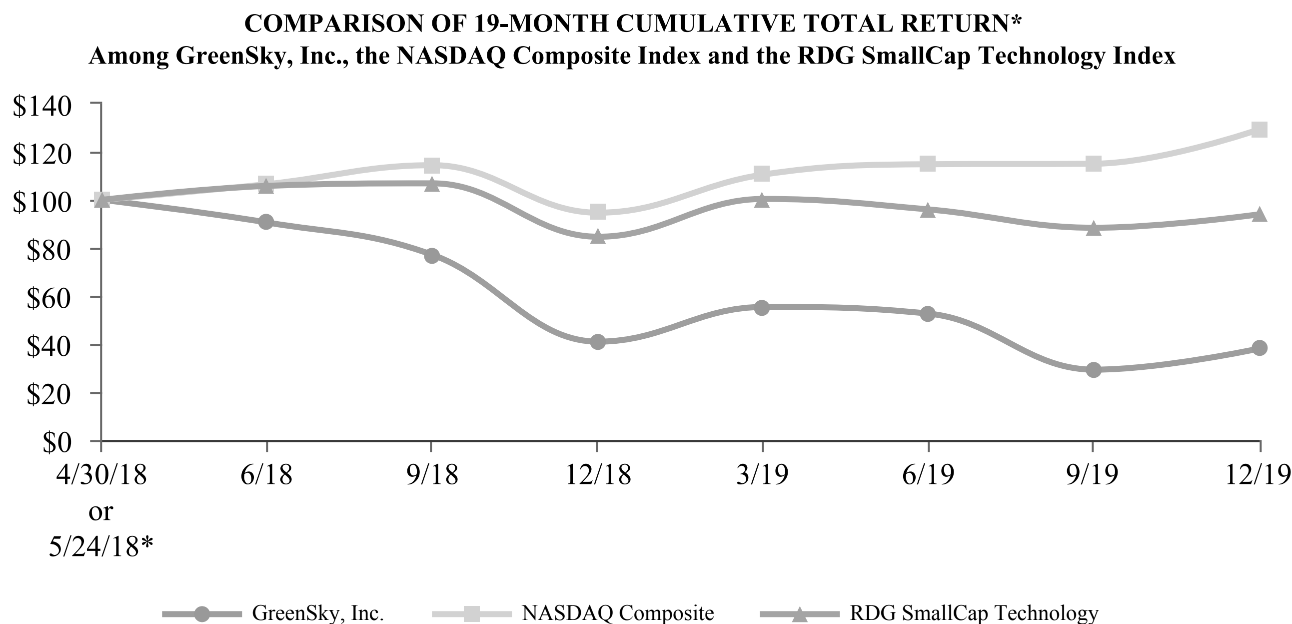
Period	Total Number of Shares Purchased[1]	Average Price Paid per Share[1]	Total Number of Shares Purchased as Part of Publicly Announced Programs[2]	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Programs[2]
October 1, 2019 through October 31, 2019	—	$ —	—	$ —
November 1, 2019 through November 30, 2019	2,910	$ 7.74	—	$ —
December 1, 2019 through December 31, 2019	4,085	$ 6.97	—	$ —
Total	6,995		—	

(1) For the periods presented, represents shares surrendered to us to satisfy tax withholding obligations in connection with the vesting of equity awards.

(2) On November 6, 2018, we announced our authorization to repurchase up to $150 million of our Class A common stock at management's discretion from time to time on the open market or through privately negotiated transactions. The repurchase program was terminated in 2019.

Performance Graph

The following graph matches GreenSky, Inc.'s cumulative 19-month total stockholder return on its Class A common stock with the cumulative total returns of the NASDAQ Composite Index and the RDG SmallCap Technology Index. The graph tracks the performance of a $100 investment in our Class A common stock and in each index (with the reinvestment of all dividends) from May 24, 2018 (the date our Class A common stock commenced trading on the NASDAQ Stock Market) to December 31, 2019.



*$100 invested on 5/24/18 in GreenSky, Inc. Class A common stock and on 4/30/18 in the indices, including reinvestment of dividends.

	4/30/18 or 5/24/18*	6/30/18	9/30/18	12/31/18	3/31/19	6/30/19	9/30/19	12/31/19
GreenSky, Inc.	$ 100.00	90.54	77.05	40.97	55.39	52.61	29.30	$ 38.10
NASDAQ Composite	$ 100.00	106.53	114.42	94.64	110.54	114.82	115.02	$ 129.36
RDG SmallCap Technology	$ 100.00	105.81	106.86	84.63	100.37	95.99	88.37	$ 93.98

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Dividends

We have never declared nor paid cash dividends on our Class A common stock. We currently do not intend to pay cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA (Dollars in thousands, except per share data and unless otherwise indicated)

The Selected Consolidated Statements of Operations Data for the years ended December 31, 2019, 2018 and 2017 and the Selected Consolidated Balance Sheet Data as of December 31, 2019 and 2018 were derived from our Consolidated Financial Statements included in Item 8 of this Form 10-K. The Selected Consolidated Statements of Operations Data for the years ended December 31, 2016 and 2015 and the Selected Consolidated Balance Sheet Data as of December 31, 2017 and 2016 were derived from our audited Consolidated Financial Statements not included in this Form 10-K. Our historical results are not necessarily indicative of the results to be expected in the future. You should read the following financial information together with the information under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes included in Item 8.

GS Holdings and GSLLC are our predecessors for accounting purposes and, accordingly, amounts prior to the Reorganization Transactions and IPO represent the historical consolidated operations of either GS Holdings or GSLLC and its subsidiaries. The amounts as of December 31, 2019 and 2018 and during the period from May 24, 2018 through December 31, 2019 represent those of consolidated GreenSky, Inc. and its subsidiaries. Prior to the Reorganization Transactions and IPO, GreenSky, Inc. did not engage in any business or other activities except in connection with its formation and initial capitalization. See Note 1 to the Notes to Consolidated Financial Statements in Item 8 for further information on our organization.

	Year Ended December 31,				
Selected Consolidated Statements of Operations Data:	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenue	$ 529,646	$ 414,673	$ 325,887	$ 263,865	$ 173,457
Cost of revenue (exclusive of depreciation and amortization)	248,580	160,439	89,708	79,145	36,506
Total costs and expenses	408,693	261,883	180,288	144,054	80,351
Operating profit	120,953	152,790	145,599	119,811	93,106
Total other income (expense), net	(32,105)	(19,276)	(6,931)	4,653	713
Income before income tax expense	88,848	133,514	138,668	124,464	93,819
Income tax expense (benefit)	(7,125)	5,534	—	—	—
Net income	95,973	127,980	138,668	124,464	93,819
Net income attributable to noncontrolling interests	63,993	103,724	N/A	N/A	N/A
Net income attributable to GreenSky, Inc.	31,980	24,256	N/A	N/A	N/A
Earnings per share of Class A common stock[(1)]:					
Basic	$ 0.52	$ 0.43	N/A	N/A	N/A
Diluted	$ 0.49	$ 0.41	N/A	N/A	N/A

(1) Basic and diluted earnings per share of Class A common stock are applicable only for the period from May 24, 2018 through December 31, 2019, which is the period following the Reorganization Transactions and IPO. See Note 2 to the Notes to Consolidated Financial Statements in Item 8 for further information.

	December 31,			
Selected Consolidated Balance Sheet Data:	**2019**	**2018**	**2017**	**2016**
Cash and cash equivalents	$ 195,760	$ 303,390	$ 224,614	$ 185,243
Restricted cash	250,081	155,109	129,224	42,871
Loan receivables held for sale, net	51,926	2,876	73,606	41,268
Deferred tax assets, net	364,841	306,979	—	—
Total assets	951,048	802,905	462,889	302,205
Finance charge reversal liability	206,035	138,589	94,148	68,064
Term loan	384,497	386,822	338,263	—
Tax receivable agreement liability	311,670	260,901	—	—
Total liabilities	1,005,991	837,670	488,928	89,995
Total temporary equity	—	—	430,348	335,720
Noncontrolling interest	(80,758)	(60,349)	—	—
Total permanent equity (deficit)	(54,943)	(34,765)	(456,387)	(123,510)
Total liabilities, temporary equity and permanent equity (deficit)	951,048	802,905	462,889	302,205

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (United States Dollars in thousands, except per share data and unless otherwise indicated)

You should read the following discussion and analysis of our financial condition and results of operations together with our Consolidated Financial Statements and related notes included in Item 8 of this Form 10-K. This

discussion and analysis contains forward-looking statements based upon current plans, expectations and beliefs involving risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various important factors, including those set forth under Part I, Item 1A"Risk Factors" in this Form 10-K.

Unless the context requires otherwise, "we," "us," "our," "GreenSky" and "the Company" refer to GreenSky, Inc. and its subsidiaries.

Organization

GreenSky, Inc. was formed as a Delaware corporation on July 12, 2017. The Company was formed for the purpose of completing an IPO of its Class A common stock and certain Reorganization Transactions in order to carry on the business of GS Holdings and its consolidated subsidiaries. GS Holdings, a holding company with no operating assets or operations, was organized in August 2017. On August 24, 2017, GS Holdings acquired a 100% interest in GSLLC, a Georgia limited liability company, which is an operating entity. Common membership interests of GS Holdings are referred to as "Holdco Units." See Note 1 to the Notes to Consolidated Financial Statements in Item 8 for a detailed discussion of the Reorganization Transactions (as defined in that note) and the IPO.

Executive Summary

For a Company overview, see Part I, Item 1 "Business."

2019 Developments

Specific key developments during the year ended December 31, 2019 include:

- As announced in August 2019, the Company's Board of Directors (the "Board"), working together with its senior management team and legal and financial advisors, has commenced a process to explore, review and evaluate a range of potential strategic alternatives focused on maximizing stockholder value.
    - The Board has not made any decisions related to strategic alternatives at this time, and there is no assurance that the Board's exploration of strategic alternatives will result in any change of strategy or transaction being entered into or consummated or, if a transaction is undertaken, as to its terms, structure or timing.
    - The Board's review is ongoing, and the Company does not intend to make further public comment regarding these matters unless and until the Board has approved a specific transaction or alternative or otherwise concludes its review.
- In December 2019, we reached an agreement in principle for a three-year, $6 billion forward flow arrangement with a leading institutional asset manager, which would complement our current Bank Partner commitments. See "–Factors Affecting our Performance–Bank Partner Relationships; Other Funding" for additional discussion of this proposed forward flow arrangement.
- We entered into a $350.0 million notional, four-year interest rate swap agreement to hedge changes in cash flows attributable to interest rate risk on $350.0 million of our variable-rate term loan.
- We purchased 8.7 million shares of our Class A common stock at an incremental cost of $102.2 million under our share repurchase program and placed such shares in treasury.

2019 Results

As of and for the year ended December 31, 2019, we achieved growth in many of our key business metrics and financial measures:

- Transaction volume (as defined below) was $5.95 billion during the year ended December 31, 2019 compared to $5.03 billion during the year ended December 31, 2018 (increase of 18%) and $3.77 billion during the year ended December 31, 2017 (increase of 34%);

- The outstanding balance of loans serviced by our platform totaled $9.15 billion as of December 31, 2019 compared to $7.34 billion as of December 31, 2018 (increase of 25%) and $5.39 billion as of December 31, 2017 (increase of 36%);
- Active merchants totaled 17,216 as of December 31, 2019 compared to 14,907 as of December 31, 2018 (increase of 15%) and 10,891 as of December 31, 2017 (increase of 37%);
- We maintained an attractive consumer profile. For all loans originated on our platform during 2019, the credit-line weighted average consumer credit score was 770. Furthermore, consumers with credit scores over 780 comprised 37% of the loan servicing portfolio as of December 31, 2019, and over 85% of the loan servicing portfolio as of December 31, 2019 consisted of consumers with credit scores over 700; and
- Total revenue of $529.6 million during the year ended December 31, 2019 increased by 28% from $414.7 million during the year ended December 31, 2018, which in turn increased by 27% from $325.9 million during the year ended December 31, 2017. We recognized a fair value change in our servicing asset of $30.5 million primarily associated with increases to the contractual fixed servicing fees for certain Bank Partners, which positively impacted servicing and other revenue.

Net income of $96.0 million during the year ended December 31, 2019 decreased from $128.0 million during the year ended December 31, 2018, which in turn decreased from $138.7 million during the year ended December 31, 2017. Adjusted EBITDA (as defined below) of $164.1 million during the year ended December 31, 2019 decreased from $170.0 million during the year ended December 31, 2018, which in turn increased from $157.1 million during the year ended December 31, 2017.

The decreases in net income and Adjusted EBITDA in 2019 were primarily due to:

- (i) the increase in the fair value change in finance charge reversal liability resulting from
  - (a) growth in our loan servicing portfolio, particularly deferred interest loans in the promotional period,
  - (b) an increase in credit losses, net of recoveries, and
  - (c) an increase in contracted Bank Partner portfolio yields; and
- (ii) higher servicing, origination and operating expenses to support our growth and increased requirements as a public company.

Net income for the year ended December 31, 2019 was also impacted by a non-cash contingent expense associated with our financial guarantee arrangement with a Bank Partner upon expiration of its loan origination agreement in the fourth quarter of 2019. See Note 14 to the Notes to Consolidated Financial Statements included in Item 8 for additional information regarding our financial guarantee.

Information regarding our use of Adjusted EBITDA, a non-GAAP measure, and a reconciliation of Adjusted EBITDA to net income, the most comparable GAAP (as defined below) measure, is included in "Non-GAAP Financial Measures."

Non-GAAP Financial Measures

In addition to financial measures presented in accordance with United States generally accepted accounting principles (“GAAP”), we monitor Adjusted EBITDA to manage our business, make planning decisions, evaluate our performance and allocate resources. We define “Adjusted EBITDA” as net income before interest expense, taxes, depreciation and amortization, adjusted to eliminate equity-based compensation and payments and certain non-cash and non-recurring expenses.

We believe that Adjusted EBITDA is one of the key financial indicators of our business performance over the long term and provides useful information regarding whether cash provided by operating activities is sufficient to maintain and grow our business. We believe that this methodology for determining Adjusted EBITDA can provide useful supplemental information to help investors better understand the economics of our business.

During the year ended December 31, 2019, management removed the EBITDA adjustment for the non-cash impact of the initial recognition and subsequent fair value changes in our servicing liabilities, as the fair value measurements of our servicing rights are becoming a more significant component of our core business model. The Adjusted EBITDA measures for the years ended December 31, 2018 and 2017 were adjusted accordingly, which resulted in decreases of those measures by $945 and $2,071, respectively.

During the year ended December 31, 2019, management removed the EBITDA adjustment for non-corporate tax expenses, which are recorded within general and administrative expenses in our Consolidated Statements of Operations, to align the adjustment with our corporate tax expense. The Adjusted EBITDA measures for the years ended December 31, 2018 and 2017 were adjusted accordingly, which resulted in decreases of those measures by $572 and $309, respectively.

During the year ended December 31, 2019, management added an EBITDA adjustment for losses recorded in the fourth quarter of 2019 associated with the financial guarantee arrangement for a Bank Partner that did not renew its loan origination agreement when it expired in November 2019. The Adjusted EBITDA measures for the years ended December 31, 2018 and 2017 were not impacted by this item.

Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation from, or as a substitute for, the analysis of other GAAP financial measures, such as net income. Some of the limitations of Adjusted EBITDA include:

- It does not reflect our current contractual commitments that will have an impact on future cash flows;
- It does not reflect the impact of working capital requirements or capital expenditures; and
- It is not a universally consistent calculation, which limits its usefulness as a comparative measure.

Management compensates for the inherent limitations associated with using the measure of Adjusted EBITDA through disclosure of such limitations, presentation of our financial statements in accordance with GAAP and reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, net income, as presented below.

	Year Ended December 31,		
	2019	2018	2017
Net income	$ 95,973	$ 127,980	$ 138,668
Interest expense	23,860	23,584	7,536
Tax expense (benefit)	(7,125)	5,534	—
Depreciation and amortization	7,304	4,478	3,983
Equity-based compensation expense[1]	13,769	6,054	4,253
Change in financial guarantee liability[2]	16,215	—	—
Transaction expenses[3]	11,345	2,393	2,612
Non-recurring expenses[4]	2,804	—	—
Adjusted EBITDA	$ 164,145	$ 170,023	$ 157,052

(1) Includes equity-based compensation to employees and directors, as well as equity-based payments to non-employees.

(2) Includes losses recorded in the fourth quarter of 2019 associated with the financial guarantee arrangement for a Bank Partner that did not renew its loan origination agreement when it expired in November 2019. See Note 14 to the Notes to Consolidated Financial Statements included in Item 8 for additional discussion of our financial guarantee arrangements.

(3) For the year ended December 31, 2019, includes loss on remeasurement of our tax receivable agreement liability of $9.8 million and professional fees associated with our strategic alternatives review process of $1.5 million. For the year ended December 31, 2018, includes certain costs associated with our IPO, which were not deferrable against the proceeds of the IPO. Further, includes certain costs, such as legal and debt arrangement costs, related to our March 2018 term loan upsizing. For the year ended December 31, 2017, includes one-time fees paid to an affiliate of one of the members of the board of managers in conjunction with the August 2017 term loan transaction.

(4) For the year ended December 31, 2019, includes (i) legal fees associated with IPO related litigation of $2.0 million, (ii) one-time tax compliance fees related to filing the final tax return for the Former Corporate Investors associated with the Reorganization Transactions of $0.2 million, and (iii) lien filing expenses related to certain Bank Partner solar loans of $0.6 million.

In light of the anticipated material non-cash charges to be recorded in connection with our financial guarantee arrangements as required subsequent to the adoption and implementation of ASU 2016-13 (as discussed in Note 1 to the Notes to Consolidated Financial Statements in Item 8 within "Accounting Standards Issued, But Not Yet Adopted – Measurement of credit losses on financial instruments"), management is evaluating both the disclosure of additional non-GAAP financial measures and the modification of its historical computation of adjusted EBITDA commencing in 2020 to enhance the disclosure of indicators of our business performance over the long term and to provide additional useful information to users of our financial statements.

Further, we utilize Adjusted Pro Forma Net Income, which we define as consolidated net income, adjusted for (i) transaction and non-recurring expenses; (ii) for 2019, losses associated with the financial guarantee arrangement for a Bank Partner that did not renew its loan origination agreement; and (iii) incremental pro forma tax expense assuming all of our noncontrolling interests were subject to income taxation. Adjusted Pro Forma Net Income is a useful measure because it makes our results more directly comparable to public companies that have the vast majority of their earnings subject to corporate income taxation. Adjusted Pro Forma Net Income has limitations as an analytical tool and should not be considered in isolation from, or as a substitute for, the analysis of other GAAP financial measures, such as net income. Some of the limitations of Adjusted Pro Forma Net Income include:

- It makes assumptions about tax expense, which may differ from actual results; and
- It is not a universally consistent calculation, which limits its usefulness as a comparative measure.

Management compensates for the inherent limitations associated with using the measure of Adjusted Pro Forma Net Income through disclosure of such limitations, presentation of our financial statements in accordance with GAAP and reconciliation of Adjusted Pro Forma Net Income to the most directly comparable GAAP measure, net income, as presented below.

	Year Ended December 31,		
	2019	2018	2017
Net income	$ 95,973	$ 127,980	$ 138,668
Change in financial guarantee liability[1]	16,215	—	—
Transaction expenses[2]	11,345	2,393	2,612
Non-recurring expenses[3]	2,804	—	—
Incremental pro forma tax expense[4]	(24,768)	(21,248)	(54,266)
Adjusted Pro Forma Net Income	$ 101,569	$ 109,125	$ 87,014

(1) Includes losses recorded in the fourth quarter of 2019 associated with the financial guarantee arrangement for a Bank Partner that did not renew its loan origination agreement when it expired in November 2019. See Note 14 to the Notes to Consolidated Financial Statements included in Item 8 for additional discussion of our financial guarantee arrangements.

(2) For the year ended December 31, 2019, includes loss on remeasurement of our tax receivable agreement liability of $9.8 million and professional fees associated with our strategic alternatives review process of $1.5 million. For the year ended December 31, 2018, includes certain costs associated with our IPO, which were not deferrable against the proceeds of the IPO. Further, includes certain costs, such as legal and debt arrangement costs, related to our March 2018 term loan upsizing. For the year ended December 31, 2017, includes one-time fees paid to an affiliate of one of the members of the board of managers in conjunction with the August 2017 term loan transaction.

(3) For the year ended December 31, 2019, includes (i) legal fees associated with IPO related litigation of $2.0 million, (ii) one-time tax compliance fees related to filing the final tax return for the Former Corporate Investors associated with the Reorganization Transactions of $0.2 million, and (iii) lien filing expenses related to certain Bank Partner solar loans of $0.6 million.

(4) Represents the incremental tax effect on net income, adjusted for the items noted above, assuming that all consolidated net income was subject to corporate taxation for the periods presented. For the years ended December 31, 2019, 2018 and 2017, we assumed effective tax rates of 14.8%, 19.7% and 38.4%, respectively.

Business Metrics

We review a number of operating and financial metrics to evaluate our business, measure our performance, identify trends, formulate plans and make strategic decisions, including the following.

	Year Ended December 31,		
	2019	2018	2017
Transaction Volume			
Dollars (in millions)	$ 5,954	$ 5,030	$ 3,767
Percentage increase	18 %	34 %	
Loan Servicing Portfolio			
Dollars (in millions, at end of period)	$ 9,150	$ 7,341	$ 5,390
Percentage increase	25 %	36 %	
Active Merchants			
Number (at end of period)	17,216	14,907	10,891
Percentage increase	15 %	37 %	
Cumulative Consumer Accounts			
Number (in millions, at end of period)	3.03	2.24	1.57
Percentage increase	35 %	43 %	

Transaction Volume. We define transaction volume as the dollar value of loans facilitated on our platform during a given period. Transaction volume is an indicator of revenue and overall platform profitability and has grown substantially in the past several years.

Loan Servicing Portfolio. We define our loan servicing portfolio as the aggregate outstanding consumer loan balance (principal plus accrued interest and fees) serviced by our platform at the date of measurement. Our loan servicing portfolio is an indicator of our servicing activities. The average loan servicing portfolio for the years ended December 31, 2019, 2018 and 2017 was $8,213 million, $6,303 million and $4,501 million, respectively.

Active Merchants. We define active merchants as home improvement merchants and healthcare providers that have submitted at least one consumer application during the twelve months ended at the date of measurement. Because our transaction volume is a function of the size, engagement and growth of our merchant network, active merchants, in aggregate, are an indicator of future revenue and profitability, although they are not directly correlated. The comparative measures can also be impacted by disciplined corrective action taken by the Company to remove merchants from our program who do not meet our customer satisfaction standards.

Cumulative Consumer Accounts. We define cumulative consumer accounts as the aggregate number of consumer accounts approved on our platform since our inception, including accounts with both outstanding and zero balances. Although not directly correlated to revenue, cumulative consumer accounts is a measure of our brand awareness among consumers, as well as the value of the data we have been collecting from such consumers since our inception. We may use this data to support future growth by cross-marketing products and delivering potential additional customers to merchants that may not have been able to source those customers themselves.

Factors Affecting our Performance

Network of Active Merchants and Transaction Volume. We have a robust network of active merchants, upon which our transaction volumes rely. Our revenues and financial results are heavily dependent on our transaction volume, which represents the dollar amount of loans funded on our platform and, therefore, influences the fees that we earn and the per-unit cost of the services that we provide. Our transaction volume depends on our ability to retain our existing platform participants, add new participants and expand to new industry verticals. We engage new merchants through both direct sales channels, as well as affiliate channel partners, such as manufacturers, software companies and other entities that have a network of merchants that would benefit from consumer financing. Once onboarded, merchant relationships are maintained and grown by direct account management, as well as regular product enhancements that facilitate merchant growth.

Bank Partner Relationships; Other Funding. "Bank Partners" are defined as federally insured banks that originate loans under the consumer financing and payments program that we administer for use by merchants on behalf of such banks in connection with which we provide point-of-sale financing and payments technology and related marketing, servicing, collection and other services (the "GreenSky program" or "program"). Our ability to generate and increase transaction volume and expand our loan servicing portfolio is, in part, dependent on (a) retaining our existing Bank Partners and having them renew and expand their commitments, (b) adding new Bank Partners and/or (c) adding complementary funding arrangements to increase funding capacity. Our failure to do so could materially and adversely affect our business and our ability to grow. A Bank Partner's funding commitment typically has an initial multi-year term, after which the commitment is either renewed (typically on an annual basis) or expires. No assurance is given that any of the current funding commitments of our Bank Partners will be renewed.

In that regard, Regions Bank, one of our Bank Partners, made a strategic decision to reduce its use of indirect lending programs and elected not to renew its origination commitment when it expired on November 25, 2019. This prompted management to conclude at the end of 2019 that the likelihood of making escrow payments in future periods with respect to the Regions escrow account was probable of occurring, as a result of which we recorded a non-cash contingent expense of $16.2 million and a corresponding liability as of December 31, 2019. See Note 14 to the Notes to Consolidated Financial Statements included in Item 8 for further discussion of this item.

As of December 31, 2019, we had aggregate funding commitments from our ongoing Bank Partners of approximately $9.0 billion, of which approximately $2.2 billion was unused. These funding commitments are "revolving" and replenish as outstanding loans are paid down. As a result of loan pay-downs, we anticipate approximately $2.7 billion of additional funding capacity will become available during 2020. As we add new Bank Partners, their full commitments are typically subject to a mutually agreed upon onboarding schedule. Two of our ongoing Bank Partners are in their initial three-year terms. The remaining six ongoing Bank Partners extended their commitment terms in the normal course during 2019, one of which adjusted its commitment from $4 billion to $3 billion in the fourth quarter of 2019.

In addition to customary expansion of commitments from existing Bank Partners and the periodic addition of new Bank Partners to our funding group, over time we expect to diversify our funding to include a combination of commitments from Bank Partners and alternative structures with one or more institutional investors, financial institutions or other financing sources. As noted in Item 7 "Executive Summary–2019 Developments," in December 2019, we reached an agreement in principle relating to a three-year, $6 billion forward flow arrangement with a leading institutional asset manager, which would complement our current Bank Partner commitments. Under this arrangement, the asset manager would have a commitment of up to $2 billion per year for a three-year period. Unlike our Bank Partner commitments, this forward flow arrangement would not be "revolving" and would not replenish as outstanding loans are paid down. We expect funding commitments to first be available under this arrangement during the second quarter of 2020.

If we do not timely consummate the forward flow arrangement or alternative structures, or if the funding commitments from our Bank Partners and the forward flow arrangement or alternative structures (should they be consummated) are not sufficient to support expected originations, it would limit our ability to generate revenue at or above current levels.

Performance of the Loans our Bank Partners Originate. While our Bank Partners bear substantially all of the credit risk on their wholly-owned loan portfolios, Bank Partner credit losses and prepayments impact our profitability as follows:

- Our contracts with our Bank Partners entitle us to incentive payments when the finance charges billed to borrowers exceed the sum of an agreed-upon portfolio yield, a fixed servicing fee and realized credit losses. This incentive payment varies from month to month, primarily due to the amount of realized credit losses.
- With respect to deferred interest loans, we bill the consumer for interest throughout the deferred interest promotional period, but the consumer is not obligated to pay any interest if the loan is repaid in full before the end of the promotional period. We are obligated to remit this accumulated billed interest to our Bank Partners to the extent the loan principal balances are paid off within the promotional period (each event, a

finance charge reversal or "FCR") even though the interest billed to the consumer is reversed. Our maximum FCR liability is limited to the gross amount of finance charges billed during the promotional period, offset by the collection of incentive payments from our Bank Partners during such period, proceeds received from transfers of previously charged-off loan receivables ("Charged-Off Receivables") and recoveries on unsold charged-off receivables. Our profitability is impacted by the difference between the cash collected from these items and the cash to be remitted on a future date to settle our FCR liability. Our FCR liability quantifies our expected future obligation to remit previously billed interest with respect to deferred interest loans.

- If credit losses exceed an agreed-upon threshold, we make limited payments to our Bank Partners. Our maximum financial exposure is contractually limited to the escrow that we establish with each Bank Partner, which represented a weighted average target rate of 2.1% of the total outstanding loan balance as of December 31, 2019. Cash set aside to meet this requirement is classified as restricted cash in our Consolidated Balance Sheets.

For further discussion of our sensitivity to the credit risk exposure of our Bank Partners, see Item 7A “Quantitative and Qualitative Disclosure About Market Risk—Credit risk.”

In January 2020, our Bank Partners became subject to a new reporting requirement, Accounting Standards Update 2016-13, “Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which may affect how they reserve for losses on loans. It is not clear at this time what effect, if any, this new reporting requirement will have on Bank Partner participation in our program.

General Economic Conditions and Industry Trends. Our results of operations are impacted by the relative strength of the overall economy and its effect on unemployment, consumer spending behavior and consumer demand for our merchants’ products and services. As general economic conditions improve or deteriorate, the amount of consumer disposable income tends to fluctuate, which, in turn, impacts consumer spending levels and the willingness of consumers to take out loans to finance purchases. Specific economic factors, such as interest rate levels, changes in monetary and related policies, market volatility, consumer confidence and, particularly, unemployment rates, also influence consumer spending and borrowing patterns. In addition, trends within the industry verticals in which we operate affect consumer spending on the products and services our merchants offer in those industry verticals. For example, the strength of the national and regional real estate markets and trends in new and existing home sales impact demand for home improvement goods and services and, as a result, the volume of loans originated to finance these purchases. In addition, trends in healthcare costs, advances in medical technology and increasing life expectancy are likely to impact demand for elective medical procedures and services.

Seasonality. See Part I, Item 1 "Business", for a seasonality discussion.

Components of Results of Operations

Revenue

We generate a substantial majority of our total revenue from transaction fees paid by merchants each time a consumer utilizes our platform to finance a purchase and, to a lesser extent, from fixed servicing fees on our loan servicing portfolio.

Transaction fees. We earn a specified transaction fee in connection with each purchase made by a consumer based on a loan’s terms and promotional features. Transaction fees are billed to, and collected directly from, the merchant and are considered to be earned at the time of the merchant’s transaction with the consumer. We also may earn a specified interchange fee in connection with purchases in which payments are processed through a credit card payment network.

Servicing and other. We earn a specified servicing fee from providing professional services to manage loan portfolios on behalf of our Bank Partners. We are entitled to collect servicing fees as part of the servicing agreements with our Bank Partners, which are paid monthly based upon an annual fixed percentage of the outstanding Bank Partner loan portfolio balance. Servicing and other revenue is also impacted by the fair value change in our servicing assets or liabilities associated with the servicing arrangements with our Bank Partners. See

Note 3 to the Notes to Consolidated Financial Statements included in Item 8 for additional information on our servicing assets and liabilities.

Cost of Revenue (exclusive of depreciation and amortization expense)

Origination and servicing costs. Origination and servicing costs consist primarily of compensation and benefits related to activities such as customer service and merchant underwriting. In addition, we incur processing fees on each transaction processed by our third-party transaction processor, costs for printing and postage related to consumer statement production, customer protection expenses when we compensate a Bank Partner if a merchant does not fulfill its obligation to the end consumer, and other costs related to consumer application review.

Fair value change in FCR liability. Deferred interest loan products, which historically have represented a substantial portion of our transaction volume, have a feature whereby the consumer borrower is provided a promotional period to repay the loan principal balance in full without incurring finance charges. We bill interest each month to the consumer throughout the promotional period and, if the loan is repaid in full before the end of the promotional period, the interest billed to the consumer is reversed. Under the terms of our contracts with our Bank Partners, we are obligated to remit this reversed billed interest to the Bank Partners.

The monthly billing of interest on deferred interest loan products triggers a potential future FCR liability for us, which qualifies as an embedded derivative. Fair value changes reflect the increase or decrease in our expected obligation to return billed interest to our Bank Partners in the future. Fair value changes in the FCR liability are partially offset by the receipt of monthly incentive payments from Bank Partners during the promotional period, which vary from month to month.

Our total FCR liability is recorded in our Consolidated Balance Sheets and is calculated at the end of each period as the following:

- FCR liability beginning balance, plus
- Receipts, which are comprised of: (i) incentive payments from Bank Partners, (ii) cash proceeds from transfers of rights to Charged-Off Receivables, and (iii) recoveries on previously charged-off loans not transferred. Incentive payments from Bank Partners are the surplus of finance charges billed to borrowers over an agreed-upon portfolio yield, a fixed servicing fee and realized net credit losses. Transfers of Charged-Off Receivables are cash payments we receive from third parties and Bank Partners for recovery interests in previously charged-off Bank Partner loans; minus
- Settlements, which represent the remittance of previously billed, but uncollected finance charges for loans that were paid off within the promotional period, plus
- Fair value change in FCR liability, which is indicative of future expected settlements not collected in receipts, equals
- FCR liability ending balance.

See Note 3 to the Notes to Consolidated Financial Statements included in Item 8 for additional information on our FCR liability, including a qualitative discussion of the impact to the fair value of our FCR liability resulting from changes in the finance charge reversal rate and discount rate. See Item 7A "Quantitative and Qualitative Disclosures About Market Risk—Credit risk" for additional information on the sensitivity of the fair value of our FCR liability to portfolio net credit losses.

Operating Expenses

Compensation and benefits. Compensation and benefits expenses primarily consist of salaries, benefits and share-based compensation for all cost centers not already included in cost of revenue, such as information technology, sales and marketing, product management and all overhead related activities.

Sales and marketing. Sales and marketing expenses, which exclude compensation and benefits, primarily relate to promotional activities and travel related expenses. The majority of our sales and marketing spend is

“business-to-business” related, as we primarily attract new merchants to our program through trade shows, on-site visits with prospective merchants and other means.

Property, office and technology. Property, office and technology expenses primarily relate to technology, telecommunications and third party rent expense. These costs also include maintenance and security expenses associated with our facilities.

Depreciation and amortization. Depreciation and amortization expense is related to capitalizable computer hardware, furniture and leasehold improvements, as well as software, which is primarily internally developed. Computer hardware and software are typically expensed over three years, furniture is typically expensed over five years, and leasehold improvements are expensed over the shorter of the expected life of the asset or the remaining lease term.

General and administrative. General and administrative expenses primarily consist of legal, accounting, consulting and other professional services, recruiting and non-sales and marketing travel costs.

Financial guarantee: Financial guarantee expenses consist of contingent losses associated with payments under our financial guarantee arrangements with our Bank Partners that are estimated to be probable of occurring.

Related party. Related party expenses, on a recurring basis, primarily consist of rent expense, as we lease one office space from a related party. In addition, we made equity and transaction-based payments to certain related parties and have professional services agreements with related parties.

Results of Operations Summary

	Year Ended December 31,			Variance			
				2019 vs. 2018		2018 vs. 2017	
	2019	2018	2017	$ Change	% Change	$ Change	% Change
Revenue							
Transaction fees	$ 405,905	$ 348,904	$ 278,958	$ 57,001	16 %	$ 69,946	25 %
Servicing and other	123,741	65,769	46,929	57,972	88 %	18,840	40 %
Total revenue	529,646	414,673	325,887	114,973	28 %	88,786	27 %
Costs and expenses							
Cost of revenue (exclusive of depreciation and amortization shown separately below)	248,580	160,439	89,708	88,141	55 %	70,731	79 %
Compensation and benefits	84,052	62,360	54,650	21,692	35 %	7,710	14 %
Sales and marketing	4,089	3,781	2,198	308	8 %	1,583	72 %
Property, office and technology	17,099	13,199	10,062	3,900	30 %	3,137	31 %
Depreciation and amortization	7,304	4,478	3,983	2,826	63 %	495	12 %
General and administrative	24,458	13,807	12,095	10,651	77 %	1,712	14 %
Financial guarantee	20,699	1,607	2,781	19,092	1,188 %	(1,174)	(42)%
Related party	2,412	2,212	4,811	200	9 %	(2,599)	(54)%
Total costs and expenses	408,693	261,883	180,288	146,810	56 %	81,595	45 %
Operating profit	120,953	152,790	145,599	(31,837)	(21)%	7,191	5 %
Other income (expense), net	(32,105)	(19,276)	(6,931)	(12,829)	67 %	(12,345)	178 %
Income before income tax expense (benefit)	88,848	133,514	138,668	(44,666)	(33)%	(5,154)	(4)%
Income tax expense (benefit)	(7,125)	5,534	—	(12,659)	N/M	—	— %
Net income	$ 95,973	$ 127,980	$ 138,668	$ (32,007)	(25)%	$ (5,154)	(4)%
Less: Net income attributable to noncontrolling interests	63,993	103,724	N/A	N/A	N/A	N/A	N/A
Net income attributable to GreenSky, Inc.	$ 31,980	$ 24,256	N/A	N/A	N/A	N/A	N/A
Earnings per share of Class A common stock[(1)]							
Basic	$ 0.52	$ 0.43	N/A				
Diluted	$ 0.49	$ 0.41	N/A				

(1) For the year ended December 31, 2018, basic and diluted earnings per share of Class A common stock are applicable only for the period from May 24, 2018 through December 31, 2018, which is the period following the IPO and related Reorganization Transactions. See Note 2 to the Notes to Consolidated Financial Statements in Item 8 for further information.

Years Ended December 31, 2019, 2018 and 2017

In the following results of operations discussion, unless otherwise indicated, references to 2019, 2018 and 2017 mean the years ended December 31, 2019, December 31, 2018 and December 31, 2017, respectively.

Total Revenue

2019 vs. 2018. During 2019, total revenue increased $115.0 million, or 28%, compared to 2018. Transaction fees increased 16% during 2019 compared to 2018, which was largely commensurate with an increase in transaction volume of 18% year over year. The impact of higher transaction volume was slightly offset by price concessions for a significant merchant group, which reduced transaction fees by $3.7 million during 2019 compared to $2.4 million offered to the same merchant group during 2018.

Transaction fees earned per dollar originated were 6.82% during 2019 compared to 6.94% during 2018. The year over year transaction fee rate decline is related to the types of loans originated on our platform. Loans with lower interest rates generally carry relatively higher transaction fee rates. Conversely, loans with higher interest

rates generally carry relatively lower transaction fee rates. The mix of loans offered by merchants generally varies by merchant category, and is dependent on merchant and consumer behavior. Therefore, shifts in merchant mix have a direct impact on our transaction fee rates. During 2019 relative to 2018, there was a shift in loan originations from lower to higher annual percentage yields and shifts in merchant mix, which resulted in the decrease in transaction fees earned per dollar originated.

We earn fixed servicing fees from our Bank Partners on our loan servicing portfolio. During 2019, we renegotiated certain Bank Partner agreements where the Company agreed to post additional escrow and increase the agreed-upon Bank Partner portfolio yield. In exchange for these considerations, we received an increase in our loan servicing fees from the Bank Partners. We determined that the increase in servicing fees resulted in an increase to the fair value of our servicing assets for these Bank Partners. We also anticipate that, all other factors remaining constant, these increased servicing fees will contribute to lower incentive payments received in future periods from the Bank Partners. Servicing and other revenue was favorably impacted during 2019 by the fair value change in our servicing asset of $30.5 million, primarily associated with increases to the contractual fixed servicing fees for certain Bank Partners. Excluding this item, servicing and other revenue increased 42% during 2019 compared to 2018, which was attributable to the increase in our average loan servicing portfolio of 30%, combined with the receipt of higher fixed servicing fees associated with the aforementioned increases in contractual fees.

2018 vs. 2017. During 2018, total revenue increased $88.8 million, or 27%, compared to 2017, primarily due to an increase in transaction fees. During 2018, transaction volume increased by 34% compared to 2017. The impact of higher transaction volume was offset by a decrease in transaction fees earned per dollar originated to 6.94% during 2018 from 7.40% during 2017, which was attributable to a shift in loan originations from lower to higher annual percentage yields and shifts in merchant mix. The 40% increase in servicing and other revenue during 2018 compared to 2017 was commensurate with the 40% increase in our average loan servicing portfolio.

Cost of Revenue (exclusive of depreciation and amortization expense)

	Year Ended December 31,		
	2019	**2018**	**2017**
Origination related	$ 33,637	$ 28,080	$ 21,292
Servicing related	44,575	35,481	25,121
Fair value change in FCR liability	170,368	96,878	43,295
Total cost of revenue (exclusive of depreciation and amortization expense)	$ 248,580	$ 160,439	$ 89,708

<u>Origination related</u>

2019 vs. 2018. Origination related expenses typically include costs associated with our customer service staff that supports Bank Partner loan originations, credit and identity verification, loan document delivery, transaction processing and customer protection expenses.

During 2019, origination related expenses increased 20% compared to 2018, which supported our 18% year over year transaction volume growth. While we achieved operational efficiencies associated with staffing and loan processing expenses, we had increases in customer protection expenses of $5.0 million during 2019 compared to 2018. Customer protection expenses are incurred when the Company determines that a merchant did not fulfill its obligation to the end consumer and compensates a Bank Partner for the applicable portion of the loan principal balance.

2018 vs. 2017. During 2018, origination related expenses increased 32% compared to 2017, which supported our 34% year over year transaction volume growth. The drivers of the increase in origination related expenses primarily related to customer protection expenses, underwriting expenses, transaction processing expenses and customer service staff expenses.

<u>Servicing related</u>

Servicing related expenses are primarily reflective of the cost of our personnel (including dedicated call center personnel), printing and postage.

2019 vs. 2018. During 2019, servicing related expenses increased 26% compared to 2018, which resulted from our 30% year over year average loan servicing portfolio growth. The increase in servicing related expenses associated with the increase in loans serviced were primarily for customer service and collections personnel, operations support personnel, as well as printing and postage costs.

2018 vs. 2017. During 2018, servicing related expenses increased 41% compared to 2017, which supported our 40% year over year average loan servicing portfolio growth.

Fair value change in FCR liability

The following table reconciles the beginning and ending measurements of our FCR liability and highlights the activity that drove the fair value change in FCR liability included in our cost of revenue.

	Year Ended December 31,		
	2019	2018	2017
Beginning balance	$ 138,589	$ 94,148	$ 68,064
Receipts[(1)]	159,527	129,153	109,818
Settlements[(2)]	(262,449)	(181,590)	(127,029)
Fair value changes recognized in cost of revenue[(3)]	170,368	96,878	43,295
Ending balance	$ 206,035	$ 138,589	$ 94,148

(1) Includes: (i) incentive payments from Bank Partners, which is the surplus of finance charges billed to borrowers over an agreed-upon portfolio yield, a fixed servicing fee and realized net credit losses, (ii) cash received from recoveries on previously charged-off Bank Partner loans, and (iii) the proceeds received from transferring our rights to Charged-Off Receivables (as defined below) attributable to previously charged-off Bank Partner loans. We consider all monthly incentive payments from Bank Partners during the period to be related to billed finance charges on deferred interest products until monthly incentive payments exceed total billed finance charges on deferred products, which did not occur during any of the periods presented.

(2) Represents the reversal of previously billed finance charges associated with deferred payment loan principal balances that were repaid within the promotional period.

(3) A fair value adjustment is made based on the expected reversal percentage of billed finance charges (expected settlements), which is estimated at each reporting date. The fair value adjustment is recognized in cost of revenue in the Consolidated Statements of Operations.

Further detail regarding our receipts is provided below for the years indicated:

	Year Ended December 31,		
	2019	2018	2017
Incentive payments	$ 125,771	$ 99,368	$ 83,189
Proceeds from Charged-Off Receivables transfers[(1)]	29,190	26,692	18,968
Recoveries on unsold charged-off receivables[(2)]	4,566	3,093	7,661
Total receipts	$ 159,527	$ 129,153	$ 109,818

(1) We collected recoveries on previously charged-off and transferred Bank Partner loans on behalf of our Charged-Off Receivables investors of $21,975, $14,802, and $2,966 during 2019, 2018, and 2017, respectively. These collected recoveries are excluded from receipts, as they do not impact our fair value change in FCR liability.

(2) Represents recoveries on previously charged-off Bank Partner loans.

2019 vs. 2018. The increase of $73.5 million, or 76%, in the fair value change in FCR liability recognized in cost of revenue during 2019 compared to 2018 was primarily a function of deferred interest product finance charges outpacing receipts. Billed finance charges on loans in promotional status totaled $265.8 million as of December 31, 2019 compared to $173.3 million as of December 31, 2018, an increase of 53%. Comparatively, receipts of $159.5 million during 2019 increased only 24% compared to 2018. The higher growth rate in deferred interest product finance charges has led to material changes in expense for the period. Receipts did not rise proportionally with deferred interest billed finance charges primarily because of increases in Bank Partner portfolio credit losses and increases in the agreed upon Bank Partner portfolio yield during 2019 associated with loans originated during 2018 and early 2019.

2018 vs. 2017. The $53.6 million, or 124%, increase in the fair value change in FCR liability recognized in cost of revenue during 2018 compared to 2017 was primarily a function of deferred interest product finance charges outpacing receipts. Billed finance charges on loans in promotional status totaled $173.3 million as of December 31, 2018 compared to $115.5 million as of December 31, 2017, an increase of 50%. Comparatively, receipts of $129.2 million during 2018 increased only 18% from $109.8 million during 2017. The higher growth rate in deferred interest product finance charges has led to a material change in expense period over period. Receipts did not rise proportionally with deferred interest billed finance charges primarily because of an increase in Bank Partner portfolio credit losses and an increase in the agreed upon Bank Partner portfolio yield in 2018 relative to 2017 associated with rising interest rates.

Compensation and benefits

2019 vs. 2018. During 2019, compensation and benefits expense increased $21.7 million, or 35%, compared to 2018 due to increased share-based compensation expense of $7.8 million and continued investment in our information technology, credit and sales infrastructure.

2018 vs. 2017. During 2018, compensation and benefits expense increased $7.7 million, or 14%, compared to 2017 primarily due to increased headcount. Headcount for employees not included in cost of revenue averaged 420 in 2018 compared to 346 in 2017, an increase of 21%. The headcount effect was partially offset by an incremental expense benefit of $2.5 million in 2018 compared to 2017 due to an increase in capitalized internally-developed software.

Sales and marketing

2019 vs. 2018. During 2019, sales and marketing expense, which excludes compensation and benefits, increased $0.3 million, or 8%, compared to 2018 primarily due to increases in marketing related travel expenses.

2018 vs. 2017. Sales and marketing expense increased $1.6 million, or 72%, during 2018 compared to 2017 primarily due to an increase in trade show attendance and advertising fees, as well as sales and marketing related travel expenses.

Property, office and technology

2019 vs. 2018. During 2019, property, office and technology expense increased $3.9 million, or 30%, compared to 2018 primarily due to increases in software, hardware and hosting costs of $3.1 million and operating lease costs of $0.7 million.

2018 vs. 2017. During 2018, property, office and technology expense increased $3.1 million, or 31%, compared to 2017 primarily driven by increases of $1.7 million in hosting and software subscriptions, licensing, maintenance and support costs and $1.2 million associated with technology contractor and consulting expense.

Depreciation and amortization

2019 vs. 2018. During 2019, depreciation and amortization expense increased $2.8 million, or 63%, compared to 2018 primarily driven by increases over time in capitalized internally-developed software.

2018 vs. 2017. During 2018, depreciation and amortization expense increased $0.5 million, or 12%, compared to 2017 primarily driven by increases over time in capitalized internally-developed software and increases over time in depreciation expense from our growing infrastructure needs.

General and administrative

2019 vs. 2018. During 2019, general and administrative expense increased $10.7 million, or 77%, compared to 2018 primarily related to: (i) professional fees related to litigation and compliance matters of $6.3 million; (ii) increases in advisory and insurance costs of $3.1 million; and (iii) additional increases primarily related to hiring and other activities to support the growth of our business, including recruiting expenses associated with our 8% increase in number of employees. During 2019, these increases were offset by $1.2 million in lower third party costs, including legal and debt arrangement costs, incurred in 2018, as further discussed below.

2018 vs. 2017. During 2018, general and administrative expense increased $1.7 million, or 14%, compared to 2017 primarily related to $1.2 million in third party costs, including legal and debt arrangement costs, associated with our Amended Credit Agreement (as defined under "Liquidity and Capital Resources–Borrowings" later in this Item 7) incurred during 2018 and increased bad debt expense associated with our transaction fees of $0.5 million. In addition, we had increases in accounting, advisory, legal and insurance costs of $2.1 million attributable to the costs of the Reorganization Transactions and being a public company. These 2018 increases were offset by $2.0 million in financial advisory fees unique to 2017 in connection with increasing one of our Bank Partner funding commitments.

Financial guarantee

2019 vs. 2018. During 2019, financial guarantee expenses associated with Bank Partner loan credit performance increased $19.1 million compared to 2018, primarily due to expected escrow usage associated with the loan portfolio of a Bank Partner that did not renew its loan origination agreement when it expired in the fourth quarter of 2019. As such, we determined that the likelihood of making escrow payments in future periods with respect to this escrow account was probable of occurring and recorded a non-cash contingent expense and a corresponding liability. See Note 14 to the Notes to Consolidated Financial Statements included in Item 8 for additional information regarding our financial guarantee.

2018 vs. 2017. During 2018, financial guarantee expenses associated with expected escrow usage decreased $1.2 million compared to 2017.

Related party

2019 vs. 2018. During 2019, related party expenses increased $0.2 million, or 9%, compared to 2018, which was primarily due to fees incurred in 2019 to a placement agent in connection with certain Charged-Off Receivables transfers, offset by fees incurred in 2018 related to executive search and recruiting services.

2018 vs. 2017. During 2018, related party expenses decreased $2.6 million, or 54%, compared to 2017 driven by $2.6 million in fees incurred during 2017 to pay an affiliate of one of the members of the GS Holdings board of managers in connection with finalizing our August 2017 term loan transaction. These costs were not directly attributable to the term loan and, therefore, were expensed as incurred, rather than deferred against the term loan balance.

Other income (expense), net

2019 vs. 2018. The $12.8 million, or 67%, increase in other expense, net during 2019 compared to 2018 was primarily due to the following:

Interest expense increased $0.3 million, or 1%, during 2019, primarily due to a moderately higher average balance of our term loan in 2019, as it was amended and upsized in March 2018. See Note 7 to the Notes to Consolidated Financial Statements included in Item 8 for additional information regarding our borrowings.

Interest and dividend income decreased slightly during 2019, which was reflective of lower income from loan receivables held for sale of $1.0 million attributable to a decline in the average balance, partially offset by higher income generated from cash and cash equivalents of $1.0 million.

Other losses increased $12.5 million during 2019, which was primarily attributable to remeasurement of our tax receivable agreement liability in the second and fourth quarters of 2019, the benefit of which was recorded in income tax expense (benefit), as further detailed below. An additional increase was related to the establishment of loan loss reserves associated with purchases of loan receivables held for sale in the second half of 2019.

2018 vs. 2017. The $12.3 million increase in total other expense, net during 2018 compared to 2017 was primarily due to the following:

Interest expense increased $16.0 million during 2018 primarily due to a full year of interest expense incurred in 2018 on our term loan compared to approximately four months of interest in 2017, as our term loan was originally established in August 2017 and was amended in March 2018.

Interest and dividend income increased $0.9 million during 2018 due to higher average interest and dividend earning cash and cash equivalents balances, which resulted in higher income of $1.6 million year over year. This increase was partially offset by lower loan receivables held for sale interest income of $0.7 million, which primarily resulted from a lower average balance of loan receivables held for sale, as we had higher sales of loan receivables held for sale during 2018.

Other losses declined $2.8 million during 2018 primarily due to $0.9 million lower loan receivables held for sale charge-off expense and $0.5 million lower losses on the sale of loan receivables held for sale. Further, we had $1.1 million less fair value adjustments on our servicing liabilities in 2018.

Income tax expense (benefit)

Prior to the Reorganization Transactions and IPO, the Company was not subject to corporate income taxation. As such, income tax expense recorded during 2018 reflected the expected tax expense on the net earnings subsequent to the Reorganization Transactions and IPO related to GreenSky, Inc.'s economic interest in GS Holdings.

Income tax benefit recorded during 2019 reflected the expected income tax expense of $8.2 million on the net earnings for the entire year related to GreenSky, Inc.'s economic interest in GS Holdings. The expected income tax expense for 2019 was offset by $15.3 million of tax benefits, which primarily included remeasurement of our net deferred tax assets of $11.6 million and warrant and stock-based compensation deductions of $3.3 million. Income tax expense recorded during 2018 was $5.5 million. The increase in the expected income tax expense was primarily related to the increase in net earnings attributable to GreenSky, Inc.'s economic interest in GS Holdings, which earnings are subject to U.S. federal and state corporate taxation, and to an increase in the statutory tax rate from 23.5% to 24.3%.

Net income attributable to noncontrolling interests

Prior to the Reorganization Transactions and IPO, we did not account for noncontrolling interests. As such, there was no noncontrolling interest in 2017 and net income attributable to noncontrolling interests for 2018 consists of all net income prior to the Reorganization Transactions and IPO and, for the period following the IPO, the income attributable to the Continuing LLC Members based on their weighted average ownership interest in GS Holdings, which after adjusting for unvested units was 68.8% during 2018. See Note 1 to the Notes to Consolidated Financial Statements in Item 8 for additional information.

Net income attributable to noncontrolling interests for 2019 reflects income attributable to the Continuing LLC Members for the entire year based on their weighted average ownership interest in GS Holdings, which was 65.4% during 2019.

Financial Condition Summary

Changes in the composition and balance of our assets and liabilities as of December 31, 2019 compared to December 31, 2018 were principally attributable to the following:

- a $12.7 million decrease in cash and cash equivalents and restricted cash. See "Liquidity and Capital Resources" in this Item 7 for further discussion of our cash flow activity;
- a $49.1 million increase in loan receivables held for sale, net, primarily due to additions of $157.9 million compared to proceeds from sales and customer payments of $104.9 million during the year ended December 31, 2019;
- a $57.9 million increase in deferred tax assets, net, as a result of exchanges of Holdco Units by Continuing LLC Members. Further, there was an associated increase in the tax receivable agreement liability for 85% of the expected tax benefit realized from these Holdco Unit exchanges;
- the impact of the TRA, which is discussed further in Note 13 to the Notes to Consolidated Financial Statements in Item 8;

- the impact of our January 1, 2019 adoption of ASU 2016-02, Leases, which resulted in our recognition of operating lease right-of-use assets and operating lease liabilities. See Note 1 and Note 14 to the Notes to Consolidated Financial Statements in Item 8 for further discussion of our lease accounting;
- the fair value measurement of a $30.5 million servicing asset recorded as of December 31, 2019, which is discussed further in Note 1 and Note 3 to the Notes to Consolidated Financial Statements in Item 8;
- an increase in the FCR liability, which was indicative of a larger balance of deferred interest loans. This activity is analyzed in further detail throughout this Item 7;
- an increase in accounts payable primarily due to monthly settlements with Bank Partners related to their portfolio activity;
- a $16.1 million increase in financial guarantee liability primarily associated with the escrow account for a Bank Partner, which is discussed further in Note 14 to the Notes to Consolidated Financial Statements in Item 8.
- a $19.5 million increase in transaction processing liabilities, which is reflective of the growth in custodial in-transit loan funding requirements and consumer borrower payments; and
- a decrease in total equity of $20.2 million primarily due to: (i) our Class A common stock purchases of $102.2 million, which are held in treasury, (ii) distributions of $18.7 million, and (iii) Class A common stock option exercises of $12.0 million. These decreases were partially offset by: (i) the impact of deferred tax adjustments of $8.2 million, which were related to additional exchanges of Holdco Units, (ii) share-based compensation of $13.8 million, and (iii) net income of $96.0 million during the year ended December 31, 2019.

Liquidity and Capital Resources

We are a holding company with no operations and depend on our subsidiaries for cash to fund all of our consolidated operations, including future dividend payments, if any. We depend on the payment of distributions by our current subsidiaries, including GS Holdings and GSLLC, which distributions may be restricted as a result of regulatory restrictions, state law regarding distributions by a limited liability company to its members, or contractual agreements, including agreements governing their indebtedness. For a discussion of those restrictions, refer to Part I, Item 1A "Risk Factors–Risks Related to Our Organizational Structure."

In particular, the Credit Facility (as defined below) contains certain negative covenants prohibiting GS Holdings and GSLLC from making cash dividends or distributions unless certain financial tests are met. In addition, while there are exceptions to these prohibitions, such as an exception that permits GS Holdings to pay our operating expenses, these exceptions apply only when there is not a default under the Credit Facility. We currently anticipate that such restrictions will not impact our ability to meet our cash obligations.

Our principal source of liquidity is cash generated from operations. Our results indicate some variability in our operating cash flows, primarily due to the timing of purchases and subsequent sales of loan receivables held for sale. Our transaction fees are the most substantial source of our cash flows and follow a relatively predictable, short cash collection cycle. Our short-term liquidity needs primarily include setting aside restricted cash for Bank Partner escrow balances and interest payments on GS Holdings' Credit Facility, which consists of the term loan and revolving loan facility under the Amended Credit Agreement, as defined and discussed in "Term loan and revolving loan facility" within this Item 7. Further, in the near term, we expect our capital expenditures to be small relative to our unrestricted cash and cash equivalents balance. We do not anticipate any major capital expenditures, nor are there any material trends (other than our FCR liability settlements discussed below) that would have an unfavorable impact on our capital resources. We currently generate sufficient cash from our operations to meet these short-term needs. In addition, we could use cash from our operations to purchase additional loan receivables held for sale. Finally, we expect to use cash for FCR liability settlements, which are not fully funded by the incentive payments we receive from our Bank Partners, but for which $75.0 million is held for certain Bank Partners in restricted cash as of December 31, 2019 and for payments under our financial guarantee, particularly as it relates to our portfolio

with a Bank Partner that did not renew its loan origination agreement (see Note 14 to the Notes to Consolidated Financial Statements in Item 8 for further discussion). Our $100 million revolving loan facility is also available to supplement our cash flows from operating activities in satisfying our short-term liquidity needs, under which we have had no borrowings to date.

Our most significant long-term liquidity need involves the repayment of our term loan upon maturity in March 2025, which assuming no prepayments, will have an expected remaining unpaid principal balance of $373 million at that time. We anticipate that our significant cash generated from operations will allow us to service this debt both for quarterly principal repayments and the balloon payment at maturity. Should operating cash flows be insufficient for this purpose, we will pursue other financing options. We have not made any material commitments for capital expenditures other than those disclosed in the "Contractual Obligations" table later in this Item 7.

Significant Changes in Capital Structure

2019

During the year ended December 31, 2019, we purchased 8.7 million shares of Class A common stock at a cost of $102.2 million under our share repurchase program, which are held in treasury. Our aggregate purchases under our share repurchase program through December 31, 2019 totaled 13.4 million shares of Class A common stock at a cost of $146.1 million. The repurchase program was terminated in 2019. See Note 11 to the Notes to Consolidated Financial Statements in Item 8 for additional information on our treasury stock.

2018

In March 2018, we amended certain terms of our 2017 Credit Agreement, replacing the original $350.0 million term loan with a $400.0 million term loan, as well as extending the maturity date of the term loan to March 29, 2025, reducing the interest margin above adjusted LIBOR to 3.25% per annum and extending the maturity date of the revolving loan facility to March 29, 2023. We contemporaneously settled the outstanding principal balance on the original term loan with the issuance of the modified term loan. See Note 7 to the Notes to Consolidated Financial Statements in Item 8 for additional information on our borrowings.

In May 2018, the Company's Class A common stock commenced trading on the NASDAQ Stock Market in connection with its IPO of 43,700,000 shares of its Class A common stock at a public offering price of $23.00 per share, receiving approximately $954.8 million in net proceeds, after deducting underwriting discounts and commissions (but not including other offering costs). See Note 1 to the Notes to Consolidated Financial Statements in Item 8 for a detailed discussion of the Reorganization Transactions that immediately preceded the IPO.

In November 2018, we commenced our board-approved $150 million share repurchase program. Through December 31, 2018, we repurchased 4.7 million shares of Class A common stock in open market transactions at a cost of $43.9 million.

2017

In July 2017, GreenSky, Inc. was formed as a Delaware corporation for the purpose of completing an IPO of its Class A common stock and certain Reorganization Transactions in order to carry on the business of GS Holdings and its consolidated subsidiaries.

In August 2017, GS Holdings acquired a controlling interest in GSLLC, a Georgia limited liability company, which is an operating entity.

In August 2017, we entered into a $450.0 million Credit Agreement, which provided for a $350.0 million term loan maturing on August 25, 2024 and a $100.0 million revolving loan facility maturing on August 25, 2022. The term loan incurred interest at an adjusted LIBOR rate, plus a margin of 4.00% per annum. As discussed above, this Credit Agreement was amended in 2018. See Note 7 to the Notes to Consolidated Financial Statements in Item 8 for additional information on our borrowings.

See Item 7A for a discussion of our exposure to market risk, including changes to interest rates, and credit risk.

Cash flows

We prepare our Consolidated Statements of Cash Flows using the indirect method, under which we reconcile net income to cash flows provided by operating activities by adjusting net income for those items that impact net income, but may not result in actual cash receipts or payments during the period. The following table provides a summary of our operating, investing and financing cash flows for the periods indicated.

	Year Ended December 31,		
	2019	2018	2017
Net cash provided by operating activities	$ 153,327	$ 256,426	$ 160,394
Net cash used in investing activities	$ (15,381)	$ (6,581)	$ (4,135)
Net cash used in financing activities	$ (150,604)	$ (145,184)	$ (30,535)

Cash and cash equivalents and restricted cash totaled $445.8 million as of December 31, 2019, a decrease of $12.7 million from December 31, 2018. Restricted cash, which had a balance of $250.1 million as of December 31, 2019 compared to a balance of $155.1 million as of December 31, 2018, is not available to us to fund operations or for general corporate purposes. Cash flow activities for the year ended December 31, 2019 consisted of $153.3 million of cash generated from operations, partially offset by $15.4 million of cash used for investing activities and $150.6 million of cash used for financing activities. Financing activity outflows were highlighted by purchases of our Class A common stock, distributions to GS Holdings' members (including GreenSky, Inc.), payment of withholding taxes associated with stock option exercises, and payments under our tax receivable agreement.

Our restricted cash balances as of December 31, 2019 and 2018 were comprised of three components: (i) $150.4 million and $98.3 million, respectively, which represented the amounts that we have escrowed with Bank Partners as limited protection to the Bank Partners in the event of excess Bank Partner portfolio credit losses; (ii) $75.0 million and $49.8 million, respectively, which represented an additional restricted cash balance that we maintained for certain Bank Partners related to our FCR liability; and (iii) $24.7 million and $7.0 million, respectively, which represented certain custodial in-transit loan funding and consumer borrower payments that we were restricted from using for our operations. The restricted cash balances related to our FCR liability and our custodial balances are not included in our evaluation of restricted cash usage, as these balances are not held as part of a financial guarantee arrangement. See Note 14 to the Notes to Consolidated Financial Statements in Item 8 for additional information on our restricted cash held as escrow with Bank Partners.

Cash provided by operating activities

Year Ended December 31, 2019. Cash flows provided by operating activities were $153.3 million during 2019. Net income of $96.0 million was adjusted favorably for certain non-cash items of $11.4 million, which were predominantly related to depreciation and amortization, equity-based expense and financial guarantee losses, partially offset by the fair value changes in servicing assets and liabilities.

Primary sources of operating cash during 2019 were: (i) earnings; (ii) an increase in billed finance charges on deferred interest loans that are expected to reverse in future periods; (iii) an increase in accounts payable largely driven by Bank Partner settlements related to their portfolio activity and payables for price concessions to a significant merchant group; and (iv) an increase in transaction processing liabilities, which is reflective of the growth in custodial in-transit loan funding requirements and consumer borrower payments primarily driven by a Bank Partner addition at the end of 2018 and origination volume growth. These increases were offset by uses of cash associated with: (i) an excess of $53.1 million of loan receivables held for sale purchases compared to proceeds from such sales; and (ii) accounts receivable, which was largely commensurate with the increase in transaction volume. Subsequent to December 31, 2019, we executed for cash a sale of loan receivables held for sale of $24.1 million within the Company's Bank Partner network. See Note 19 to the Notes to Consolidated Financial Statements in Item 8 for additional information.

Year Ended December 31, 2018. Cash flows provided by operating activities were $256.4 million during 2018. Net income of $128.0 million for 2018 was adjusted favorably for certain non-cash items of $18.2 million, which were predominantly related to depreciation and amortization, equity-based expense and deferred tax expense.

Primary sources of operating cash during 2018 were: (i) earnings; (ii) an increase in our FCR liability of $44.4 million largely related to growth in deferred interest loan originations; and (iii) a decrease in loan receivables held for sale of $70.7 million due to the excess of our proceeds from sales and borrower payments over our loan receivables held for sale purchases during the year. These increases were offset by an $11.5 million use of cash related to transaction processing liabilities.

Year Ended December 31, 2017. Cash flows provided by operating activities were $160.4 million during 2017. Net income of $138.7 million was adjusted favorably for certain non-cash items of $11.1 million, which were predominantly related to depreciation and amortization, equity-based expense, fair value changes in servicing liabilities and deferred tax expense.

Primary sources of operating cash during 2017 were: (i) earnings; (ii) increases in our FCR liability of $26.1 million, largely related to growth in deferred interest loan originations; and (iii) an increase in transaction processing liabilities of $13.6 million. These increases were offset by a use of cash of $32.3 million related to loan receivables held for sale.

Cash used in investing activities

Detail of the cash used in investing activities is included below for each year (dollars in millions).

	Year Ended December 31,		
	2019	2018	2017
Software	$ 12.7	$ 5.4	$ 2.3
Computer hardware	1.2	0.8	0.8
Leasehold improvements	0.9	0.2	0.5
Furniture	0.6	0.2	0.5
Purchases of property, equipment and software	$ 15.4	$ 6.6	$ 4.1

2019 vs. 2018. The $8.8 million higher spend on investing activities during 2019 compared to 2018 was primarily related to an increase in capitalized costs associated with various internally-developed software projects, such as mobile application development and transaction processing, an increase in hardware costs primarily associated with our growing infrastructure needs and an increase in leasehold improvements associated with security build outs of expanded office space.

2018 vs. 2017. We had net cash used in investing activities of $6.6 million during 2018 compared to $4.1 million during 2017. The higher spend in 2018 was primarily related to an increase in software expenditures, most of which were capitalized costs related to internally-developed software, which consisted primarily of merchant experience enhancements and mobile application development. This activity was partially offset by lower infrastructure expenditures in 2018 compared to 2017, as we did not have any material changes to our leased premises during 2018.

Cash used in financing activities

Our financing activities in the years presented consisted of equity and debt related transactions and distributions, including the impact of our IPO during 2018. GS Holdings makes tax distributions based on the estimated tax payments that its members are expected to have to make during any given period (based upon various tax rate assumptions), which are typically paid in January, April, June and September of each year.

2019 vs. 2018. We had net cash used in financing activities of $150.6 million during 2019 compared to $145.2 million during 2018. In 2019, our uses of cash were primarily related to: (i) our Class A common stock purchases of $104.3 million; (ii) tax and non-tax distributions to members of $23.5 million; (iii) payments under our TRA of $4.7 million; and (iv) equity activity of $14.2 million consisting of Holdco Unit exchanges and option exercises. Subsequent to December 31, 2019, GS Holdings finalized and paid tax and non-tax distributions to its members (including GreenSky, Inc.) of $47.2 million. See Note 19 to the Notes to Consolidated Financial Statements in Item 8 for additional information.

In 2018, we contemporaneously settled the $349.1 million outstanding principal balance on our original term loan with the issuance of a $400.0 million modified term loan, net of an original issuance discount of $1.0 million.

2018 vs. 2017. We had net cash used in financing activities of $145.2 million during 2018 compared to $30.5 million during 2017. In 2018, we contemporaneously settled the $349.1 million outstanding principal balance on our original term loan with the issuance of a $400.0 million modified term loan, net of an original issuance discount of $1.0 million. These net proceeds were offset by distributions of $141.5 million and equity transaction costs of $3.9 million during 2018. An additional significant use of cash in 2018 of $41.8 million was related to our purchase of treasury stock.

The cash used in financing activities during 2017 was primarily related to aggregate special and tax distributions of $561.9 million and $7.9 million of debt issuance costs associated with the original term loan. The significantly higher distributions paid in 2017 compared to 2018 were mostly attributable to a special distribution made from the proceeds from our original term loan in 2017.

See Note 7 to the Notes to Consolidated Financial Statements in Item 8 for additional information on our borrowings.

Borrowings

See Note 7 to the Notes to Consolidated Financial Statements in Item 8 for further information about our borrowings, including the use of term loan proceeds, as well as our interest rate swap.

On March 29, 2018, GS Holdings amended its August 25, 2017 Credit Agreement ("Amended Credit Agreement”). The Amended Credit Agreement provides for a $400.0 million term loan, the proceeds of which were used, in large part, to settle the outstanding principal balance on the $350.0 million term loan previously executed under the Credit Agreement in August 2017, and includes a $100.0 million revolving loan facility. The revolving loan facility also includes a $10.0 million letter of credit. The Credit Facility is guaranteed by GS Holdings' significant subsidiaries, including GSLLC, and is secured by liens on substantially all of the assets of GS Holdings and the guarantors. Interest on the loans can be based either on a “Eurodollar rate” or a “base rate” and fluctuates depending upon a “first lien net leverage ratio.” The Amended Credit Agreement contains a variety of covenants, certain of which are designed to limit the ability of GS Holdings to make distributions on, or redeem, its equity interests unless, in general, either (a) its “first lien net leverage ratio” is no greater than 2.00 to 1.00, or (b) the funds used for the payments come from certain sources (such as retained excess cash flow and the issuance of new equity) and its “total net leverage ratio” is no greater than 3.00 to 1.00. In addition, during any period when 25% or more of our revolving facility is utilized, GS Holdings is required to maintain a “first lien net leverage ratio” no greater than 3.50 to 1.00. There are various exceptions to these restrictions, including, for example, exceptions that enable us to pay our operating expenses and to make certain GS Holdings tax distributions. The $400.0 million term loan matures on March 29, 2025, and the revolving loan facility matures on March 29, 2023.

There was no amount outstanding under our revolving loan facility as of December 31, 2019, which is available to fund future needs of GS Holdings' business.

The use of the London Interbank Offered Rate (“LIBOR”) is expected to be phased out by the end of 2021. LIBOR is currently used as a reference rate for certain of our financial instruments, including our $400.0 million term loan under the Amended Credit Agreement and the related interest rate swap agreement, both of which are set to mature after the expected phase out of LIBOR. At this time, there is no definitive information regarding the future utilization of LIBOR or of any particular replacement rate; however, we continue to monitor the efforts of various parties, including government agencies, seeking to identify an alternative rate to replace LIBOR. We will work with our lenders and counterparties to accommodate any suitable replacement rate where it is not already provided under the terms of the financial instruments and, going forward, we will use suitable alternative reference rates for our financial instruments. We will continue to assess and plan for how the phase out of LIBOR will affect the Company; however, while the LIBOR transition could adversely affect the Company, we do not currently perceive any material risks and do not expect the impact to be material to the Company.

Tax Receivable Agreement

Our purchase of Holdco Units from the Exchanging Members using a portion of the net proceeds from the IPO, our acquisition of the equity of certain of the Former Corporate Investors, and any future exchanges of Holdco Units for our Class A common stock pursuant to the Exchange Agreement (as such terms are defined in Note 1 to the Notes to Consolidated Financial Statements in Item 8) are expected to result in increases in our allocable tax basis in the assets of GS Holdings. These increases in tax basis are expected to increase (for tax purposes) depreciation and amortization deductions allocable to us and, therefore, reduce the amount of tax that we otherwise would be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain assets to the extent tax basis is allocated to those assets.

We and GS Holdings entered into a Tax Receivable Agreement ("TRA") with the "TRA Parties" (the equity holders of the Former Corporate Investors, the Exchanging Members, the Continuing LLC Members and any other parties receiving benefits under the TRA, as those parties are defined in Note 1 to the Notes to Consolidated Financial Statements included in Item 8), whereby we agreed to pay to those parties 85% of the amount of cash tax savings, if any, in United States federal, state and local taxes that we realize or are deemed to realize as a result of these increases in tax basis, increases in basis from such payments, and deemed interest deductions arising from such payments.

Due to the uncertainty of various factors, the likely tax benefits we will realize as a result of our purchase of Holdco Units from the Exchanging Members, our acquisition of the equity of certain of the Former Corporate Investors or any future exchanges of Holdco Units for our Class A common stock pursuant to the Exchange Agreement, or the resulting amounts we are likely to pay out to the TRA Parties pursuant to the TRA are also uncertain. However, we expect that such payments will be substantial and may substantially exceed the tax receivable liability of $311.7 million as of December 31, 2019.

Because we are the managing member of GS Holdings, which is the managing member of GSLLC, we have the ability to determine when distributions (other than tax distributions) will be made by GSLLC to GS Holdings and the amount of any such distributions, subject to limitations imposed by applicable law and contractual restrictions (including pursuant to our Amended Credit Agreement or other debt instruments). Any such distributions will be made to all holders of Holdco Units, including us, pro rata based on the number of Holdco Units. The cash received from such distributions will first be used by us to satisfy any tax liability and then to make any payments required under the TRA. We expect that such distributions will be sufficient to fund both our tax liability and the required payments under the TRA. In the event that we do not make timely payment of all or any portion of a tax benefit payment due under the TRA on or before a final payment date, LIBOR is the base for the default rate used to calculate the required interest. The TRA is anticipated to remain in effect after the expected phase out of LIBOR in 2021. See Item 7 "Liquidity and Capital Resources–Borrowings" for further discussion of the LIBOR phase out.

Contractual Obligations

Our principal commitments consisted of obligations under our outstanding term loan and operating leases for office facilities. The following table summarizes our commitments to settle contractual obligations in cash as of December 31, 2019.

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Term loan[1]	$ 393,000	$ 4,000	$ 8,000	$ 8,000	$ 373,000
Interest payments on term loan[2]	100,382	19,575	38,550	37,750	4,507
Revolving loan facility fees[3]	1,310	375	750	185	—
Operating leases[4]	15,398	4,491	8,596	2,311	—
Total contractual obligations	$ 510,090	$ 28,441	$ 55,896	$ 48,246	$ 377,507

(1) The principal balance of the term loan is repaid on a quarterly basis at an amortization rate of 0.25% per quarter, with the balance due at maturity.

(2) Variable interest payments on our term loan are calculated based on the interest rate as of December 31, 2019 and the scheduled maturity of the underlying term loan.

(3) Amounts presented reflect a quarterly commitment fee rate of 0.375% per annum, and assume that the entire $100 million revolving loan facility is unused (the conditions that existed as of period end) for the duration of the agreement, which matures on March 29, 2023.

(4) Our operating leases are for office space. Certain of these leases contain provisions for rent escalations and/or lease concessions. Rental payments, as well as any step rent provisions specified in the lease agreements, are aggregated and charged evenly to expense over the lease term. However, amounts included herein do not reflect this accounting treatment, as they represent the future contractual lease cash obligations.

The payments that we may be required to make under the TRA to the TRA Parties may be significant and are not reflected in the contractual obligations table set forth above. Refer to Part I, Item 1A "Risk Factors–Risks Related to Our Organizational Structure" and to Note 13 to the Notes to Consolidated Financial Statements in Item 8 for additional detail.

Off-Balance Sheet Arrangements

See Note 14 to the Notes to Consolidated Financial Statements in Item 8 for discussion of our off-balance sheet credit exposure as it relates to our financial guarantee as of December 31, 2019.

Contingencies

From time to time, we may become a party to civil claims and lawsuits in the ordinary course of business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred and the amount can be reasonably estimated, which requires management judgment. As of December 31, 2019 and 2018, we did not record any provision for liability. Should any of our estimates or assumptions change or prove to be incorrect, it could have a material adverse impact on our consolidated financial condition, results of operations or cash flows. See Note 14 to the Notes to Consolidated Financial Statements in Item 8 for discussion of certain legal proceedings and other contingent matters.

Recently Adopted or Issued Accounting Standards

See "Recently Adopted Accounting Standard" and "Accounting Standards Issued, But Not Yet Adopted" in Note 1 to the Notes to Consolidated Financial Statements in Item 8 for additional information.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements were prepared in conformity with GAAP. The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. Such estimates and assumptions include, but are not limited to, those that relate to fair value measurements around our FCR liability and servicing assets and liabilities, the measurement of our financial guarantees, and income taxes. In

developing estimates and assumptions, management uses all available information; however, actual results could materially differ because of uncertainties associated with estimating the amounts, timing and likelihood of possible outcomes. On an ongoing basis, we evaluate our judgments and estimates that are based upon historical experience and various other assumptions that we believe to be reasonable under the circumstances.

Our significant accounting policies are described in Note 1 to the Notes to Consolidated Financial Statements in Item 8. The following is a summary of our most critical accounting estimates, which represent those that involve a higher degree of uncertainty, judgment or complexity. Accordingly, these are the policies we believe to be most critical in fully understanding and evaluating our financial condition, results of operations and cash flows.

Finance charge reversals

Our Bank Partners offer certain loan products that have a feature whereby the account holder is provided a promotional period to repay the loan principal balance in full without incurring a finance charge. For these loan products, we bill interest each month throughout the promotional period and, under the terms of the contracts with our Bank Partners, are obligated to remit this billed interest to the Bank Partners if an account holder pays off the loan balance in full within the promotional period. This obligation is partially offset by the receipt of monthly incentive payments from Bank Partners during the promotional period, which vary from month to month. Therefore, the monthly process of billing interest on deferred loan products triggers a potential future FCR liability for us. The FCR component of our Bank Partner contracts qualifies as an embedded derivative accounted for under Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging*.

The FCR liability is carried at fair value on a recurring basis in our Consolidated Balance Sheets and is estimated based on historical experience and management's expectation of future FCR. The FCR liability is classified within Level 3 of the fair value hierarchy, as the primary component of the price is obtained from unobservable inputs based on our data, reasonably adjusted for assumptions that would be used by market participants. The FCR liability is not designated as a hedge for accounting purposes and, as such, changes in its fair value are recorded within cost of revenue in the Consolidated Statements of Operations.

See Item 7A for a discussion of our exposure to interest rate risk and credit risk as it relates to our FCR. Our discussion in Item 7A provides a useful sensitivity analysis to help facilitate a further understanding of the impact of our FCR liability on our net income.

Servicing assets and liabilities

The Company assumes a right, obligation, or neither a right nor obligation to service consumer loans each time a loan is originated by a Bank Partner. Additionally, the Company services Charged-Off Receivables to which we transferred our rights to third parties and Bank Partners, but for which we do not charge a servicing fee. The Company identified Bank Partner loans as one class of servicing rights and Charged-Off Receivables as a separate class of servicing rights. In accordance with ASC 860, *Transfers and Servicing*, when we determine that the compensation we receive to service loans is more or less than adequate, we assess the fair value of a servicing asset or liability, respectively, using a discounted cash flow model.

We previously elected the fair value method to measure each class of servicing rights subsequent to initial recognition, as we believe that fair value is a more meaningful measure of our expected right or obligation with respect to these classes of servicing assets or liabilities, respectively. This election is irrevocable for these classes of servicing assets or liabilities. The fair value of our servicing assets associated with Bank Partner loans was $30.5 million as of December 31, 2019, which is recorded within other assets in the Consolidated Balance Sheets. The fair value of this class of servicing rights was immaterial as of December 31, 2018. The fair value of our servicing liabilities associated with Charged-Off Receivables was $3.8 million and $3.0 million as of December 31, 2019 and 2018, respectively, which is recorded within other liabilities in the Consolidated Balance Sheets. Changes in the fair value of our servicing assets are recorded within servicing and other revenue and changes in the fair value of our servicing liabilities are recorded within other gains (losses), net in the Consolidated Statements of Operations.

The determination of the fair values of our servicing assets and liabilities requires management judgment due to the number of assumptions that underlie the valuation, including: market cost of servicing, discount rate,

weighted average remaining life and recovery period. See Note 3 to the Notes to Consolidated Financial Statements in Item 8 for a qualitative discussion of how changes in each of these assumptions are generally expected to affect our fair value measures. Our servicing assets and liabilities are classified within Level 3 of the fair value hierarchy, as the primary components of the fair values are obtained from unobservable inputs based on peer market data, reasonably adjusted for assumptions that would be used by market participants to service our Bank Partner loans and transferred Charged-Off Receivables portfolios, for which market data is not available.

During the year ended December 31, 2019, we renegotiated certain Bank Partner agreements pursuant to which we agreed to post additional escrow and increase the agreed-upon Bank Partner portfolio yield. In exchange for these considerations, we received an increase in our loan servicing fees from the Bank Partners. We determined that the increase in servicing fees resulted in an increase to the fair value of our servicing assets for these Bank Partners. We also anticipate that, all other factors remaining constant, these increased servicing fees will contribute to lower incentive payments received in future periods from the Bank Partners. Further, the fair value of our servicing assets is determined based on the Bank Partner loan portfolios at the date of measurement and does not take into account potential future loan sales between Bank Partners within our network or between GreenSky and our Bank Partners. When such transactions occur, they could materially impact the fair value measure of our servicing assets if the contractually specified fixed servicing fees vary between the seller and purchaser Bank Partners.

Financial Guarantees

Under the terms of the contracts with our Bank Partners, we provide limited protection to the Bank Partners in the event of excess Bank Partner portfolio credit losses by holding cash in restricted, interest-bearing escrow accounts in an amount equal to a contractual percentage of the Bank Partners' monthly originations and month-end outstanding portfolio balance, which represented a weighted average target rate of 2.1% of the total outstanding loan balance as of December 31, 2019. The Company's maximum exposure to Bank Partner portfolio credit losses is limited to the contractual restricted cash balance, which was $150.4 million as of December 31, 2019.

We determined that our obligation to make limited payments to our Bank Partners if credit losses exceed an agreed-upon threshold represents a financial guarantee in accordance with ASC 460, *Guarantees*. Under ASC 460, the guarantor undertakes a noncontingent obligation to stand ready to perform over the term of the guarantee and a contingent obligation to make future payments if the triggering events or conditions under the guarantee arrangement occur. In our escrow arrangement, the contingent aspect of the financial guarantee represents the amount of payments to Bank Partners from the escrow accounts that we expect to be probable of occurring based on current Bank Partner portfolio composition and our expectation of credit losses. In estimating the obligation, we consider a variety of factors, including historical experience, management's expectations of current customer delinquencies converting into Bank Partner portfolio credit losses and recent events and circumstances. Recorded financial guarantees are typically settled within one year of the initial measurement of the liabilities. We do not expect to directly recover any losses associated with this financial guarantee. As of December 31, 2019, the estimated undiscounted value of the financial guarantee was $16.7 million, which was primarily attributable to the portfolio for a Bank Partner that did not renew its origination commitment when it expired in the fourth quarter of 2019. Refer to Note 14 to the Notes to Consolidated Financial Statements in Item 8 for additional information.

Income taxes

Our income tax expense, deferred tax assets and tax receivable agreement liability reflect management's best assessment of estimated current and future taxes. Significant judgments and estimates are required in determining the consolidated income tax expense, deferred tax assets and tax receivable agreement liability. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence, including projected future taxable income and results of recent operations. In projecting future taxable income, we begin with historical results and incorporate assumptions about the amount of future state and federal pre-tax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable

income require significant judgment and are consistent with the plans and estimates we are using to manage our business.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Dollars in thousands unless otherwise indicated)

We are exposed to market risk, including changes to interest rates, and credit risk. However, regarding interest rate risk, we do not expect changes in interest rates to have a material impact on our ability to finance our cost of capital, given our relatively capital light operating model.

We have established processes and procedures intended to identify, measure, monitor and control the types of risk to which we are subject. The Audit Committee of our Board of Directors is responsible for overseeing the Company's major financial risk exposures and reviewing the steps management has taken to monitor and control such exposures.

Interest rate risk

Loans originated by Bank Partners. The agreed upon Bank Partner portfolio yield on the loans that our Bank Partners originate is calculated based upon a margin above a market benchmark at the time of origination. An increase in the market benchmark would result in an increase in the agreed upon Bank Partner portfolio yield, which impacts future incentive payments and, therefore, can negatively impact the future fair value change in our FCR liability. We are able to manage some of the interest rate risk impact on our FCR liability through the types of loan products that we design and make available through our program (e.g. higher interest rate products, all else equal, result in higher incentive payments). However, increased interest rates may adversely impact the spending levels of our merchants' customers and their ability and willingness to borrow money. Higher interest rates often lead to higher payment obligations, which may reduce the ability of customers to remain current on their obligations to our Bank Partners and, therefore, lead to increased delinquencies, defaults, customer bankruptcies and charge-offs, and decreasing recoveries, all of which could have a material adverse effect on our business and also negatively impact the fair value change in FCR liability, which is recorded within cost of revenue in the Consolidated Statements of Operations. Further, even though we generally intend to increase our transaction fee rates in response to rising interest rates, we might not be able to do so rapidly enough (or at all).

Loan receivables held for sale. Changes in United States interest rates affect the interest earned on our cash and cash equivalents and could impact the market value of loan receivables held for sale. Since we typically sell loan receivables held for sale at par to our Bank Partners, which is indicative of our short-term holding period, we do not expect interest rate risk related to loan receivables held for sale to be a material risk to us. A hypothetical 100 basis points increase in interest rates may have resulted in a decrease of $0.5 million in the carrying value of our loan receivables as of December 31, 2019. As the carrying value of our loan receivables held for sale was $2.9 million as of December 31, 2018, a hypothetical increase in interest rates would not have had a material impact on this balance. Alternatively, a 100 basis points decrease in interest rates would not have impacted the reported value of our loan receivables held for sale, as they are carried at the lower of cost or fair value.

Term loan. Interest rate fluctuations expose our variable-rate term loan, which consisted of our $400.0 million term loan under our Amended Credit Agreement to changes in interest expense and cash flows. In June 2019, we entered into a four-year interest rate swap agreement that effectively converted interest payments on $350.0 million of our variable-rate term loan to a fixed-rate basis, thus mitigating the impact of interest rate changes on future interest expense. The term loan has a maturity date of March 29, 2025. Based on an outstanding principal balance of $393.0 million as of December 31, 2019, and accounting for our scheduled quarterly principal balance repayments, a hypothetical 100 basis point increase in the one-month LIBOR rate would result in an increase in annualized interest expense, net of the effects of our interest rate swap, of $0.4 million.

LIBOR is used as the reference rate for our interest rate swap agreement that we use to hedge interest rate exposure under our $400.0 million term loan. Our interest rate swap agreement is set to mature after the expected phase out of LIBOR in 2021. See Item 7 "–Liquidity and Capital Resources–Borrowings" for further discussion regarding the LIBOR transition and its perceived impact on the Company.

Credit risk

Credit risk management is a critical component of our management and growth strategy. Credit risk refers to the risk of loss arising from consumer default when consumers are unable or unwilling to meet their financial obligations. We expect our credit loss rate to stay relatively constant over time; however, our portfolio may change as we look for additional opportunities to generate attractive risk-adjusted returns for our Bank Partners. Additionally, we manage our exposure to counterparty credit risk through requirement of minimum credit standards, diversification of counterparties and procedures to monitor concentrations of credit risk.

Loans originated by Bank Partners. Our Bank Partners own and bear substantially all of the credit risk on their wholly-owned loan portfolios. We regularly assess and monitor the credit risk exposure of our Bank Partners. This commences with the credit application process on our platform, during which a credit decision is rendered to a customer immediately based on preset underwriting standards provided by our Bank Partners. In rendering this decision, we generally obtain certain information provided by the applicant and a credit report from one of the major credit bureaus. Further, on behalf of our Bank Partners as part of our obligation as the loan servicer, we try to mitigate portfolio credit losses through our collection efforts on past due amounts. For loans wholly owned by our Bank Partners, our credit risk exposure impacts the amount of incentive payments and, therefore, the amount of fair value change in FCR liability, as well as any potential financial guarantee payments. Restricted cash was set aside in escrow with our Bank Partners at a weighted average target rate of 2.1% of the total outstanding loan balance as of December 31, 2019.

Based on our incentive payments during the years ended December 31, 2019 and 2018, and holding all other inputs constant (namely, the size of our loan servicing portfolio and settlement activity), a hypothetical 100 basis point increase in loan servicing portfolio credit losses would result in increases of $72.2 million and $55.0 million, respectively, in the fair value of our FCR liability. Further, such an increase in credit losses would cause us to incur additional financial guarantee expense of $7.3 million and $5.5 million during the years ended December 31, 2019 and 2018, respectively.

Loan receivables held for sale. We bear all of the credit risk associated with the receivables that we hold for sale. This portfolio was highly diversified across 9,272 and 1,193 consumer loan receivables as of December 31, 2019 and 2018, respectively, without significant individual exposures. Based on our $51.9 million and $2.9 million loan receivables held for sale balance as of December 31, 2019 and 2018, respectively, a hypothetical 100 basis point increase in portfolio credit losses would result in lower annualized earnings of $0.5 million and $0.0 million, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of GreenSky, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of GreenSky, Inc. and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, of comprehensive income, of changes in equity (deficit) and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2019 appearing after Item 16 and the signatures page (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting

includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Fair Value of Finance Charge Reversal Liability

As described in Note 3 to the consolidated financial statements, the Company has recorded a finance charge reversal liability of $206 million as of December 31, 2019. The Company's Bank Partners offer certain loan products that have a feature whereby the account holder is provided a promotional period to repay the loan principal balance in full without incurring a finance charge. For these loan products, the Company bills interest each month throughout the promotional period and, under the terms of the contracts with Bank Partners, is obligated to pay this billed interest to the Bank Partners if an account holder pays off the loan balance in full within the promotional period. The finance charge reversal liability is carried at fair value on a recurring basis in the Consolidated Balance Sheets and is estimated based on historical experience and management's expectation of future finance charge reversals. The discount rate and estimated reversal rates for billed interest on deferred loan products are the significant unobservable inputs used to value the finance charge reversal liability. The finance charge reversal liability is classified within Level 3 of the fair value hierarchy, as the primary component of the fair value is obtained from unobservable inputs based on the Company's data, reasonably adjusted for assumptions that would be used by market participants.

The principal considerations for our determination that performing procedures relating to the fair value of the finance charge reversal liability is a critical audit matter are that there was significant judgment applied by management when developing the estimated reversal rates for billed interest on deferred loan products, which is used to estimate the finance charge reversal liability. This in turn led to a high degree of auditor judgment and effort in performing procedures to evaluate the reversal rates used to estimate the finance charge reversal liability and the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's process for determining the estimate of future finance charge reversals, including controls over determining the estimated reversal rates. These procedures also included, among others, evaluating and testing management's process for determining the fair value of the finance charge reversal liability by (i) evaluating the appropriateness of management's method for estimating future finance charge reversals; (ii) testing

the completeness, accuracy and relevance of historical reversal rates for billed interest on deferred loan products data used by management; (iii) evaluating the reasonableness of the estimated reversal rates used; and (iv) for a sample of loans, confirming that each loan was either paid off or not paid off in the promotional period consistent with the company's analysis. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's estimated reversal rates.

Fair Value of Servicing Assets

As described in Notes 1 and 3 to the consolidated financial statements, the Company has recorded a servicing asset of $30.5 million as of December 31, 2019. The Company assumes a right, obligation, or neither a right nor obligation to service consumer loans each time a loan is originated by a Bank Partner. When the Company determines that the compensation it receives to service loans is more or less than adequate, the Company assesses the fair value of a servicing asset or liability, respectively, using a discounted cash flow model and subsequently measures the servicing asset or liability at fair value. The cost of servicing, discount rate, and weighted average remaining life are the significant unobservable inputs used to value the servicing assets. Servicing assets are classified within Level 3 of the fair value hierarchy, as the primary components of the fair values are obtained from unobservable inputs based on peer market data, reasonably adjusted for assumptions that would be used by market participants to service the Company's Bank Partner loans for which market data is not available.

The principal considerations for our determination that performing procedures relating to the fair value of servicing assets is a critical audit matter are that there was significant judgment by management in determining the fair value of the servicing assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and in evaluating the audit evidence obtained related to the cost of servicing, discount rate, and weighted average remaining life inputs used to estimate the fair value of the servicing asset. Professionals with specialized skill and knowledge were used to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's process for determining the fair value of the servicing assets, including controls over the Company's model, inputs, and data. These procedures also included, among others, testing the completeness, accuracy and relevance of historical data used by management and the involvement of professionals with specialized skill and knowledge to assist in testing management's process by evaluating the appropriateness of management's valuation model and the reasonableness of the significant inputs, including the cost of servicing, discount rate, and weighted average remaining life.

/s/ PricewaterhouseCoopers LLP
Atlanta, Georgia
March 2, 2020

We have served as the Company's auditor since 2014.

GreenSky, Inc.

CONSOLIDATED BALANCE SHEETS

(United States Dollars in thousands, except share data)

	December 31,	
	2019	**2018**
Assets		
Cash and cash equivalents	$ 195,760	$ 303,390
Restricted cash	250,081	155,109
Loan receivables held for sale, net	51,926	2,876
Accounts receivable, net	19,493	15,400
Related party receivables	156	142
Property, equipment and software, net	18,309	10,232
Operating lease right-of-use assets	11,268	—
Deferred tax assets, net	364,841	306,979
Other assets	39,214	8,777
Total assets	$ 951,048	$ 802,905
Liabilities and Equity (Deficit)		
Liabilities		
Accounts payable	$ 11,912	$ 5,357
Accrued compensation and benefits	10,734	8,484
Other accrued expenses	3,244	1,015
Finance charge reversal liability	206,035	138,589
Term loan	384,497	386,822
Tax receivable agreement liability	311,670	260,901
Related party liabilities	—	825
Operating lease liabilities	13,884	—
Financial guarantee liability	16,698	626
Other liabilities	47,317	35,051
Total liabilities	1,005,991	837,670
Commitments, Contingencies and Guarantees (Note 14)		
Equity (Deficit)		
Class A common stock, par value $0.01 and 80,089,739 shares issued and 66,424,838 shares outstanding at December 31, 2019 and 59,197,863 shares issued and 54,504,902 shares outstanding at December 31, 2018	$ 800	$ 591
Class B common stock, par value $0.001 and 113,517,198 and 128,549,555 shares issued and outstanding at December 31, 2019 and 2018, respectively	114	129
Additional paid-in capital	115,782	44,524
Retained earnings	56,109	24,218
Treasury stock	(146,234)	(43,878)
Accumulated other comprehensive income (loss)	(756)	—
Noncontrolling interest	(80,758)	(60,349)
Total equity (deficit)	(54,943)	(34,765)
Total liabilities and equity (deficit)	$ 951,048	$ 802,905

The accompanying notes are an integral part of these Consolidated Financial Statements.

GreenSky, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(United States Dollars in thousands, except per share data)

	Year Ended December 31,		
	2019	**2018**	**2017**
Revenue			
Transaction fees	$ 405,905	$ 348,904	$ 278,958
Servicing and other	123,741	65,769	46,929
Total revenue	529,646	414,673	325,887
Costs and expenses			
Cost of revenue (exclusive of depreciation and amortization shown separately below)	248,580	160,439	89,708
Compensation and benefits	84,052	62,360	54,650
Sales and marketing	4,089	3,781	2,198
Property, office and technology	17,099	13,199	10,062
Depreciation and amortization	7,304	4,478	3,983
General and administrative	24,458	13,807	12,095
Financial guarantee	20,699	1,607	2,781
Related party	2,412	2,212	4,811
Total costs and expenses	408,693	261,883	180,288
Operating profit	120,953	152,790	145,599
Other income (expense), net			
Interest and dividend income	6,057	6,111	5,180
Interest expense	(23,860)	(23,584)	(7,536)
Other gains (losses), net	(14,302)	(1,803)	(4,575)
Total other income (expense), net	(32,105)	(19,276)	(6,931)
Income before income tax expense (benefit)	88,848	133,514	138,668
Income tax expense (benefit)	(7,125)	5,534	—
Net income	$ 95,973	$ 127,980	$ 138,668
Less: Net income attributable to noncontrolling interests	63,993	103,724	N/A
Net income attributable to GreenSky, Inc.	$ 31,980	$ 24,256	N/A
Earnings per share of Class A common stock[(1)]:			
Basic	$ 0.52	$ 0.43	N/A
Diluted	$ 0.49	$ 0.41	N/A

(1) For the year ended December 31, 2018, basic and diluted earnings per share of Class A common stock are applicable only for the period from May 24, 2018 through December 31, 2018, which is the period following the initial public offering ("IPO") and related Reorganization Transactions (as defined in Note 1 to the Notes to Consolidated Financial Statements). See Note 2, Earnings per Share, to the Notes to Consolidated Financial Statements for the number of shares used in the computation of earnings per share of Class A common stock and the basis for the computation of earnings per share.

The accompanying notes are an integral part of these Consolidated Financial Statements.

GreenSky, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(United States Dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
Net income	$ 95,973	$ 127,980	$ 138,668
Other comprehensive income (loss), net of tax			
Net unrealized gains (losses) on interest rate swap arising during the period	(2,043)	—	—
Reclassification of interest rate swap settlements into interest expense (income) during the period	(479)	—	—
Other comprehensive income (loss), net of tax	(2,522)	—	—
Comprehensive income	$ 93,451	$ 127,980	$ 138,668
Less: Comprehensive income attributable to noncontrolling interests	62,227	103,724	N/A
Comprehensive income attributable to GreenSky, Inc.	$ 31,224	$ 24,256	N/A

The accompanying notes are an integral part of these Consolidated Financial Statements.

GreenSky, Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
(United States Dollars in thousands, except share data)

	GreenSky Holdings, LLC (Prior to Reorganization Transactions)				GreenSky, Inc. Stockholders Equity								
	Additional Paid-in Capital	Retained Earnings	Total Permanent Equity (Deficit)	Temporary Equity	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Non-controlling Interest	Total
Balance at January 1, 2017	$(283,529)	$160,019	$ (123,510)	$ 335,720	—	—	$ —	$ —	$ —	$ —	$ —	$ —	$ 212,210
Net income	—	138,668	138,668	—	—	—	—	—	—	—	—	—	138,668
Issuances	—	—	—	194,387	—	—	—	—	—	—	—	—	194,387
Redemptions	(447)	—	(447)	—	—	—	—	—	—	—	—	—	(447)
Distributions	(275,197)	(200,168)	(475,365)	(99,759)	—	—	—	—	—	—	—	—	(575,124)
Unit option exercises	15	—	15	—									15
Share-based compensation	3,951	—	3,951	—	—	—	—	—	—	—	—	—	3,951
Equity-based payments to non-employees	301	—	301	—	—	—	—	—	—	—	—	—	301
Balance at December 31, 2017	$(554,906)	$ 98,519	$ (456,387)	$ 430,348	—	—	$ —	$ —	$ —	$ —	$ —	$ —	$ (26,039)
Activity prior to and including Reorganization Transactions													
Net income	—	38,213	38,213	—	—	—	—	—	—	—	—	—	38,213
Issuances	339	—	339	—	—	—	—	—	—	—	—	—	339
Redemptions	(496)		(496)	—	—	—	—	—	—	—	—	—	(496)
Distributions	(37,980)	(57,003)	(94,983)	(16,358)	—	—	—	—	—	—	—	—	(111,341)
Share-based compensation	2,132	—	2,132	—	—	—	—	—	—	—	—	—	2,132
Equity-based payments to non-employees	6	—	6	—	—	—	—	—	—	—	—	—	6
Effect of Reorganization Transactions	590,905	(79,729)	511,176	(413,990)	15,816,268	—	158	—	(97,344)	—	—	—	—
Activity in connection with IPO													
Issuances of Class A common stock, net of costs	—	—	—	—	43,700,000	—	437	—	950,553	—	—	—	950,990
Issuances of Class A common stock effective on date of IPO	—	—	—	—	434,783	—	4	—	(4)	—	—	—	—
Issuances of Class B common stock	—	—	—	—	—	128,983,353	—	129	—	—	—	—	129
Purchases of GreenSky Holdings, LLC units	—	—	—	—	—	—	—	—	(901,833)	—	—	—	(901,833)
Class A common stock repurchases	—	—	—	—	(2,426,198)	—	(24)	—	(52,988)	—	—	—	(53,012)
Class A common stock option exercises	—	—	—	—	125,398	—	1	—	(1)	—	—	—	—
Initial effect of the Reorganization Transactions and IPO on noncontrolling interest	—	—	—	—	—	—	—	—	69,299	—	—	(69,299)	—
Deferred tax adjustments	—	—	—	—	—	—	—	—	47,129	—	—	—	47,129
Activity subsequent to Reorganization Transactions and IPO													
Net income	—	—	—	—	—	—	—	—	—	24,256	—	65,511	89,767
Issuance of unvested Class A common stock awards	—	—	—	—	234,829	—	2	—	(2)	—	—	—	—
Class A common stock option exercises	—	—	—	—	1,035,724	—	10	—	(4,820)	—	—	—	(4,810)
Class B common stock exchanges	—	—	—	—	277,059	(277,059)	3	—	(3)	—	—	—	—
Forfeited share-based compensation awards	—	—	—	—	(11,750)	(156,739)	—	—	—	—	—	—	—
Treasury stock purchases	—	—	—	—	(4,681,211)	—	—	—	—	—	(43,878)	—	(43,878)
Distributions	—	—	—	—	—	—	—	—	—	(38)	—	(27,036)	(27,074)
Share-based compensation	—	—	—	—	—	—	—	—	3,906	—	—	—	3,906
Equity-based payments to non-employees	—	—	—	—	—	—	—	—	10	—	—	—	10
Deferred tax adjustments	—	—	—	—	—	—	—	—	1,097	—	—	—	1,097
Impact on noncontrolling interest of change in ownership during period	—	—	—	—	—	—	—	—	29,525	—	—	(29,525)	—
Balance at December 31, 2018	$ —	$ —	$ —	$ —	54,504,902	128,549,555	$ 591	$ 129	$ 44,524	$ 24,218	$(43,878)	$ (60,349)	$ (34,765)

The accompanying notes are an integral part of these Consolidated Financial Statements.

GreenSky, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT) (Continued)

(United States Dollars in thousands, except share data)

	GreenSky, Inc. Stockholders Equity									
	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Balance at December 31, 2018	54,504,902	128,549,555	$ 591	$ 129	$ 44,524	$ 24,218	$ (43,878)	$ —	$ (60,349)	$ (34,765)
Net income	—	—	—	—	—	31,980	—	—	63,993	95,973
Cumulative effect of accounting change[(1)]	—	—	—	—	—	(87)	—	—	(203)	(290)
Issuance of unvested Class A common stock awards	2,887,905	—	29	—	(29)	—	—	—	—	—
Class A common stock option exercises	2,273,592	—	23	—	(12,067)	—	—	—	—	(12,044)
Class B common stock exchanges	15,730,379	(15,910,785)	157	(16)	(2,339)	—	—	—	—	(2,198)
Class B warrant exercises	—	1,180,163	—	1	(1)	—	—	—	—	—
Forfeited share-based compensation awards	(210,845)	(301,735)	—	—	—	—	—	—	—	—
Class A common stock repurchases	(8,744,477)	—	—	—	—	—	(102,241)	—	—	(102,241)
Shares withheld related to net share settlement and other	(16,618)	—	—	—	—	—	(115)	—	—	(115)
Distributions	—	—	—	—	—	(2)	—	—	(18,666)	(18,668)
Share-based compensation	—	—	—	—	13,754	—	—	—	—	13,754
Equity-based payments to non-employees	—	—	—	—	15	—	—	—	—	15
Tax adjustments	—	—	—	—	8,158	—	—	—	—	8,158
Impact on noncontrolling interest of change in ownership during period	—	—	—	—	63,767	—	—	—	(63,767)	—
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	(756)	(1,766)	(2,522)
Balance at December 31, 2019	66,424,838	113,517,198	$ 800	$ 114	$ 115,782	$ 56,109	$ (146,234)	$ (756)	$ (80,758)	$ (54,943)

(1) Represents the cumulative effect resulting from our adoption of the Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases*. See Note 1 to the Notes to Consolidated Financial Statements for additional information on our lease guidance implementation.

The accompanying notes are an integral part of these Consolidated Financial Statements.

GreenSky, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(United States Dollars in thousands)

	Year Ended December 31,		
	2019	**2018**	**2017**
Cash flows from operating activities			
Net income	$ 95,973	$ 127,980	$ 138,668
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,304	4,478	3,983
Share-based compensation expense	13,754	6,038	3,951
Equity-based payments to non-employees	15	16	301
Fair value change in servicing assets and liabilities	(29,679)	945	2,071
Operating lease liability payments	(394)	(392)	(308)
Financial guarantee losses (gains)	16,072	(94)	47
Amortization of debt related costs	1,675	1,684	687
Original issuance discount on term loan payment	(42)	(31)	(9)
Loss on extinguishment of debt	—	—	254
Impairment losses	—	19	78
Deferred tax expense (benefit)	(7,125)	5,525	—
Loss on remeasurement of tax receivable agreement liability	9,790	—	—
Changes in assets and liabilities:			
(Increase) decrease in loan receivables held for sale	(49,050)	70,730	(32,338)
(Increase) decrease in accounts receivable	(4,049)	2,958	(1,595)
(Increase) decrease in related party receivables	(14)	76	1,217
(Increase) decrease in other assets	(434)	1,574	(823)
Increase (decrease) in accounts payable	6,860	(1,488)	3,222
Increase (decrease) in finance charge reversal liability	67,446	44,441	26,084
Increase (decrease) in related party liabilities	—	(722)	494
Increase (decrease) in other liabilities	25,225	(7,311)	14,410
Net cash provided by operating activities	153,327	256,426	160,394
Cash flows from investing activities			
Purchases of property, equipment and software	(15,381)	(6,581)	(4,135)
Net cash used in investing activities	(15,381)	(6,581)	(4,135)
Cash flows from financing activities			
Proceeds from term loan	—	399,000	346,500
Repayments of term loan	(3,958)	(352,094)	(866)
Payment of debt issuance costs	—	—	(8,302)
Class A common stock repurchases	(104,272)	(41,847)	—
Member distributions	(23,468)	(141,518)	(561,935)
Proceeds from option exercises after Reorganization Transactions	307	59	—
Payment of option exercise taxes after Reorganization Transactions	(12,351)	(4,869)	—
Payment of taxes on Class B common stock exchanges	(2,198)	—	—
Payments under tax receivable agreement	(4,664)	—	—
Proceeds from IPO, net of underwriters discount and commissions	—	954,845	—
Purchases of GreenSky Holdings, LLC units	—	(901,833)	—
Purchases of Class A common stock	—	(53,012)	—
Issuances of Class B common stock	—	129	—
Redemptions of GreenSky Holdings, LLC units prior to Reorganization Transactions	—	(496)	(447)
Payment of IPO related expenses	—	(3,855)	—
Member contributions	—	—	200,000
Equity option and warrant exercises prior to Reorganization Transactions	—	339	15
Payment of equity transaction expenses prior to Reorganization Transactions	—	(32)	(5,500)
Net cash provided by (used in) financing activities	(150,604)	(145,184)	(30,535)
Net increase (decrease) in cash and cash equivalents and restricted cash	(12,658)	104,661	125,724
Cash and cash equivalents and restricted cash at beginning of period	458,499	353,838	228,114
Cash and cash equivalents and restricted cash at end of period	$ 445,841	$ 458,499	$ 353,838

The accompanying notes are an integral part of these Consolidated Financial Statements.

GreenSky, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(United States Dollars in thousands)

	Year Ended December 31,		
	2019	**2018**	**2017**
Supplemental cash flow information			
Interest paid	$ 22,429	$ 21,892	$ 6,475
Income taxes paid	11	—	254
Supplemental non-cash investing and financing activities			
Equity transaction costs accrued but not paid	$ —	$ 82	$ 114
Leasehold improvements acquired but not paid	—	300	756
Distributions accrued but not paid	5,978	10,086	13,189
Treasury stock traded but not settled	—	2,031	—

The accompanying notes are an integral part of these Consolidated Financial Statements.

Note 1. Organization, Summary of Significant Accounting Policies and New Accounting Standards

Organization

Unless the context requires otherwise, "we," "us," "our," "GreenSky" and "the Company" refer to GreenSky, Inc. and its subsidiaries. "Bank Partners" are defined as federally insured banks that originate loans under the consumer financing and payments program that we administer for use by merchants on behalf of such banks in connection with which we provide point-of-sale financing and payments technology and related marketing, servicing, collection and other services (the "GreenSky program" or "program").

We are a leading technology company Powering Commerce at the Point of Sale®. Our platform is powered by a proprietary technology infrastructure that facilitates merchant sales, while reducing the friction and improving the economics associated with a consumer making a purchase and a lender or financial institution extending financing for that purchase. It supports the full transaction lifecycle, including credit application, underwriting, real-time allocation to our Bank Partners, document distribution, funding, settlement and servicing. Merchants using our platform, which presently range from small, owner-operated home improvement contractors and healthcare providers to large national home improvement brands and retailers and healthcare service organizations, rely on us to facilitate low or deferred interest promotional point-of-sale financing and payments solutions that enable higher sales volume. Consumers on our platform, who to date primarily have super-prime or prime credit scores, find financing with promotional terms to be an attractive alternative to other forms of payment. Our Bank Partners' access to our proprietary technology solution and merchant network enables them to build a diversified portfolio of high quality consumer loans with attractive risk-adjusted yields with minimal upfront investment.

GreenSky, Inc. was formed as a Delaware corporation on July 12, 2017. The Company was formed for the purpose of completing an initial public offering ("IPO") of its Class A common stock and certain Reorganization Transactions, as further described below, in order to carry on the business of GreenSky Holdings, LLC (“GS Holdings”) and its consolidated subsidiaries. GS Holdings, a holding company with no operating assets or operations, was organized in August 2017. On August 24, 2017, GS Holdings acquired a 100% interest in GreenSky, LLC ("GSLLC"), a Georgia limited liability company, which is an operating entity. Common membership interests of GS Holdings are referred to as "Holdco Units."

Immediately prior to our IPO, (i) the operating agreement of GS Holdings (the "GS Holdings Agreement") was amended and restated to, among other things, modify its capital structure by replacing the different classes of membership interests and profits interests with Holdco Units; (ii) we issued to each of the Continuing LLC Members (as defined below) a number of shares of GreenSky, Inc. Class B common stock equal to the number of Holdco Units held by it (other than the Holdco Units that were exchanged in connection with the IPO), for consideration in the amount of $0.001 per share of Class B common stock; (iii) certain Holdco Units were contributed to GreenSky, Inc. in exchange for shares of our Class A common stock; (iv) equity holders of the Former Corporate Investors (as defined below) contributed their equity in the Former Corporate Investors to GreenSky, Inc. in exchange for shares of our Class A common stock and the right to certain payments under the Tax Receivable Agreement ("TRA"), and Former Corporate Investors merged with and into subsidiaries of GreenSky, Inc.; (v) outstanding options to acquire Class A units of GS Holdings were equitably adjusted so that they are exercisable for shares of Class A common stock; and (vi) outstanding warrants to acquire Class A units of GS Holdings were equitably adjusted pursuant to their terms so that they are exercisable for Holdco Units (and an equal number of shares of Class B common stock). We refer to these transactions collectively as the "Reorganization Transactions."

Following the Reorganization Transactions, the "Original GS Equity Owners" (other than the Former Corporate Investors) and certain "Original Profits Interests Holders," which we collectively refer to as the "Continuing LLC Members," continue to own Holdco Units. "Original GS Equity Owners" refers to the owners of units of GS Holdings prior to the Reorganization Transactions. "Former Corporate Investors" refers to certain of the Original GS Equity Owners that merged with and into one or more subsidiaries of GreenSky, Inc. in connection

with the Reorganization Transactions, which was accounted for as a common control transaction and had no material impact on the net assets of the Company. "Original Profits Interests Holders" refers to the owners of profits interests in GS Holdings prior to the Reorganization Transactions.

On May 24, 2018, the Company's Class A common stock commenced trading on the Nasdaq Global Select Market in connection with its IPO of 43,700,000 shares of its Class A common stock at a public offering price of $23.00 per share, receiving approximately $954.8 million in net proceeds, after deducting underwriting discounts and commissions (but not including other offering costs), which were used to purchase 2,426,198 shares of Class A common stock and 41,273,802 newly-issued Holdco Units at a price per unit equal to the price per share of Class A common stock sold in the IPO, less underwriting discounts and commissions. The newly-issued Holdco Units were sold by Continuing LLC Members, which we also refer to as "Exchanging Members." Pursuant to an "Exchange Agreement," the Continuing LLC Members can exchange their Holdco Units (with automatic cancellation of an equal number of shares of Class B common stock) for shares of our Class A common stock on a one-for-one basis, subject to customary adjustments, or for cash (based on the market price of the shares of Class A common stock), at our option (such determination to be made by the disinterested members of our board of directors).

The IPO and Reorganization Transactions resulted in the Company becoming the sole managing member of GS Holdings. As the sole managing member of GS Holdings, we operate and control all of GS Holdings' operations and, through GS Holdings and its subsidiaries, conduct GS Holdings' business.

The Company consolidates the financial results of GS Holdings and reports a noncontrolling interest in its Consolidated Financial Statements representing the GS Holdings interests held by the Continuing LLC Members. The weighted average ownership percentages for the applicable reporting periods are used to attribute net income and other comprehensive income (loss) to the Company and the noncontrolling interest. As of December 31, 2019 and 2018, the Company had an economic interest in GS Holdings of 36.9% and 30.0%, respectively. During the year ended December 31, 2019 and 2018, the Company had a weighted average ownership interest in GS Holdings of 34.6% and 31.2%, respectively.

Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements were prepared in conformity with United States generally accepted accounting principles ("GAAP"). In the opinion of management, the Consolidated Financial Statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair statement of our financial condition and results of operations for the periods presented. All intercompany balances and transactions are eliminated upon consolidation.

As the Reorganization Transactions were considered to be among entities under common control resulting in a change in the reporting entity, we retrospectively adjusted the historical Consolidated Financial Statements of GS Holdings as if the common control transaction had occurred as of the earliest period presented.

As of and for the year ended December 31, 2019, we created distinct financial statement line items in our Consolidated Financial Statements associated with the contingent component of our financial guarantee as follows: (i) Financial guarantee liability in the Consolidated Balance Sheets (previously presented within other liabilities); (ii) Financial guarantee expense in the Consolidated Statements of Operations (previously presented within general and administrative expense); and (iii) Financial guarantee losses (gains) as an adjustment to reconcile net income to net cash provided by operating activities in the Consolidated Statements of Cash Flows (previously presented within the increase (decrease) in other liabilities). The classification of the financial guarantee liability of $626 as of December 31, 2018, the classification of the financial guarantee expense for the years ended December 31, 2018 and 2017 of $1,607 and $2,781, respectively, and the classification of the financial guarantee losses (gains) for the years ended December 31, 2018 and 2017 of $(94) and $47, respectively, were changed to conform to the current year presentation.

Use of Estimates

The preparation of our financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates and assumptions include, but are not limited to, those that relate to fair value measurements, financial guarantees, share-based compensation and income taxes. In developing estimates and assumptions, management uses all available information; however, actual results could materially differ from those estimates and assumptions.

Cash and Cash Equivalents

Cash includes non-interest and interest-bearing demand deposit accounts with various financial institutions. Cash equivalents include money market mutual fund accounts, which are invested in government securities. We consider all highly liquid investments that mature three months or less from the date of purchase to be cash equivalents. The carrying amounts of our cash equivalents approximate their fair values due to their short maturities and highly liquid nature. Refer to Note 3 for additional information.

At times, our cash balances may exceed federally insured amounts and potentially subject the Company to a concentration of credit risk. The Company believes that no significant concentration of credit risk exists with respect to these balances based on its assessment of the creditworthiness and financial viability of these financial institutions. Further, our cash equivalents may expose us to credit risk; however, we believe this risk is limited, as the investments are backed by the full faith and credit of the United States government.

Restricted Cash

Restricted cash primarily consists of interest-bearing escrow accounts that are required under the terms of the contracts with our Bank Partners. Restricted cash is typically comprised of three components: (i) amounts we have escrowed with Bank Partners as limited protection to the Bank Partners in the event of excess Bank Partner portfolio credit losses; (ii) additional amounts we maintain for certain Bank Partners based on a contractual percentage of the total interest billed on outstanding deferred interest loans that are within the promotional period less previous finance charge reversal ("FCR") settlements on such outstanding loans; and (iii) certain custodial in-transit loan funding and consumer borrower payments that we are restricted from using for our operations. These custodial balances are not considered in our evaluation of restricted cash usage. As it relates to our restricted cash escrowed with Bank Partners, we record a liability for the amount of restricted cash we expect to be payable to our Bank Partners, which is accounted for as a financial guarantee. Refer to Note 14 for additional information.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the Consolidated Balance Sheets to the total included within the Consolidated Statements of Cash Flows as of the dates indicated.

	December 31,		
	2019	2018	2017
Cash and cash equivalents	$ 195,760	$ 303,390	$ 224,614
Restricted cash	250,081	155,109	129,224
Cash and cash equivalents and restricted cash in Consolidated Statements of Cash Flows	$ 445,841	$ 458,499	$ 353,838

Loan Receivables Held for Sale

Loan receivables held for sale represent a 100% participating interest in the loan products that our Bank Partners originate and the Company subsequently purchases the receivable with the intent to sell to a third party at carrying value. Loan receivables held for sale are recorded at fair value at the time a loan receivable is purchased and are subsequently measured at the lower of cost or fair value on an aggregate homogeneous portfolio basis, which is further discussed in “Fair Value of Assets and Liabilities” below. We earn interest income on such loan

receivables. Interest, calculated as a percentage of average outstanding principal balance in accordance with the contractual provisions of the loan arrangements, is accrued on a daily basis and collected from the account holder on a monthly basis. Accrued interest receivable and origination costs are deferred in the basis of the loan receivables. When the loan receivables are sold, any previously unrecognized deferred costs are recognized as part of realized gains and losses on sale. Gains and losses from the sale of loan receivables held for sale are included within other income (expense), net in the Consolidated Statements of Operations. We typically retain an economic interest in the sold loan receivables in the form of servicing rights and obligations.

The entire balance of a loan receivable held for sale is considered contractually delinquent if the minimum required payment is not received by the first statement cycle date equal to or following the due date specified on the customer's billing statement. Loan receivables held for sale and accrued interest are marked down to zero and written off when the principal or interest is delinquent for greater than 90 days, with the related expenses recorded as reductions of other gains (losses) and interest income, respectively, which are included within other income (expense), net in the Consolidated Statements of Operations. Valuation adjustments are also taken if loans delinquent less than 90 days are expected to charge off in the future and are recorded to other gains (losses) in the Consolidated Statements of Operations. Recoveries of principal and interest and fees on previously written off loan receivables held for sale are recognized on a collected basis as other gains (losses) and interest income, respectively.

At times, we transfer our rights to previously charged-off loan receivables ("Charged-Off Receivables") and receive commensurate proceeds based on the expected recovery rate of such loan receivables. We have no continuing involvement with these Charged-Off Receivables other than performing reasonable servicing and collection efforts on behalf of the third parties and Bank Partners that paid for the rights to the Charged-Off Receivables. The proceeds from the transfers of Charged-Off Receivables attributable to loan receivables held for sale are recognized on a collected basis as other gains (losses) in the Consolidated Statements of Operations. Refer to "Servicing Assets and Liabilities" and "Fair Value of Assets and Liabilities" below for additional information on our Charged-Off Receivables transactions.

Accounts Receivable

Accounts receivable are recorded at their original invoice amounts, which are reduced by any allowance for uncollectible amounts. We establish an allowance for uncollectible amounts when management determines that collectability is uncertain. Accounts receivable are written off once delinquency exceeds 90 days. Recoveries of previously written off accounts receivable are recognized on a collected basis as a reduction to the provision for bad debt expense, which is included within general and administrative expense in the Consolidated Statements of Operations.

Property, Equipment, Software, Depreciation and Amortization

Property, equipment and software includes furniture, leasehold improvements, computer hardware and software and is stated at cost less accumulated depreciation or amortization and any previously recorded impairment. We capitalize qualified costs incurred to develop internal-use software, which primarily include internal and external labor expenses. We also capitalize costs for replacements and major enhancements when it is probable that the expenditures will result in additional functionality or will extend the useful life of existing functionality. Costs for minor replacements, enhancements, maintenance and repairs of internal-use software are expensed as incurred. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets, as follows:

Asset Category	Estimated Useful Lives
Computer hardware and software	3 years
Furniture	5 years
Leasehold improvements	Shorter of life of asset or remaining lease term

Upon a sale or retirement, the asset cost and related accumulated depreciation or amortization are removed from the Consolidated Balance Sheets and any related gain or loss is included within general and administrative expense in the Consolidated Statements of Operations.

We evaluate the carrying amounts of property, equipment and software for impairment on a quarterly basis or whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Impairment losses are included within general and administrative expense in the Consolidated Statements of Operations.

Servicing Assets and Liabilities

The Company assumes a right, obligation, or neither a right nor obligation to service consumer loans each time a loan is originated by a Bank Partner. Additionally, the Company services Charged-Off Receivables for which we do not charge a servicing fee. The Company identified Bank Partner loans as one class of servicing rights and Charged-Off Receivables as a separate class of servicing rights. In accordance with Accounting Standards Codification ("ASC") 860, *Transfers and Servicing*, when we determine that the compensation we receive to service loans is more or less than adequate, we assess the fair value of a servicing asset or liability, respectively, using a discounted cash flow model.

We elected the fair value method to measure each class of servicing rights subsequent to initial recognition, as we believe that fair value is a more meaningful measure of our expected right or obligation with respect to these classes of servicing assets or liabilities, respectively. This election is irrevocable for these classes of servicing assets or liabilities. As of December 31, 2019, the servicing asset associated with Bank Partner loans is recorded within other assets in the Consolidated Balance Sheets. The fair value of this class of servicing rights was immaterial as of December 31, 2018. As of December 31, 2019 and 2018, the servicing liability associated with Charged-Off Receivables is recorded within other liabilities in the Consolidated Balance Sheets.

Refer to "Fair Value of Assets and Liabilities" below and Note 3 for additional information on the measurement of these assets and liabilities.

Fair Value of Assets and Liabilities

We have financial assets and liabilities subject to fair value measurement or disclosure on either a recurring or nonrecurring basis. Such measurements or disclosures relate to our cash and cash equivalents, loan receivables held for sale, derivative instruments, servicing assets and liabilities, and term loan.

ASC 820, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In valuing this asset or liability, we utilize market data or reasonable assumptions that market participants would use, including assumptions about risk and the risks inherent in the inputs to the valuation technique. The guidance provides a three-level valuation hierarchy for disclosure of fair value measurements based on the transparency of inputs to the valuation of an asset or a liability as of the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

An asset's or a liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

We apply the market approach, which uses observable prices and other relevant information that is generated by market transactions involving identical or comparable assets or liabilities, to value our cash and cash

equivalents and loan receivables held for sale. We apply the income approach, which uses valuation techniques to convert future amounts to a single, discounted present value amount, to value our finance charge reversal liability and servicing assets and liabilities. We determine the fair values of our interest rate swap and term loan by applying a discounted cash flow model based on observable market factors and credit factors specific to us.

Refer to Note 3 for additional fair value disclosures.

Derivative Instruments

We are exposed to interest rate risk on our variable-rate term loan, which we manage by entering into an interest rate swap that is determined to be a derivative in accordance with ASC 815, *Derivatives and Hedging*. Derivatives are recorded on the balance sheet at fair value and are marked-to-market on a quarterly basis. The accounting for the change in fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate the derivative as a hedge and apply hedge accounting, and whether the hedging relationship continues to satisfy the criteria required to apply hedge accounting.

Derivatives designated and qualifying as a hedge of the exposure to variability in cash flows of a recognized asset or liability that is attributable to a particular risk are considered cash flow hedges. The primary purpose of cash flow hedge accounting is to link the income statement recognition of a hedging instrument and a hedged item whose changes in cash flows are expected to offset each other. The change in the fair value of the derivative instrument designated as a cash flow hedge is initially reported as a component of other comprehensive income (loss) and subsequently reclassified into earnings in the same period when the hedged item affects earnings. The reclassification into earnings is reported in the same income statement line item in which the hedged item is reported.

The FCR component of our Bank Partner contracts qualifies as an embedded derivative. The FCR liability is not designated as a hedge for accounting purposes and, as such, changes in its fair value are recorded within cost of revenue in the Consolidated Statements of Operations. Refer to Note 3 and Note 8 for additional derivative disclosures.

Revenue Recognition

In accordance with ASC 606, *Revenue from Contracts with Customers*, in each of our revenue arrangements outlined below, revenue is recognized when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

Transaction revenue

Transaction fees

We earn a specified transaction fee in connection with purchases made by borrowers that are financed by our Bank Partners. The transaction fee is a one-time fee payable by the merchant that includes a merchant fee component and an interchange fee component. In our merchant arrangements, our single performance obligation is to facilitate financing to the merchant's qualified customers who comply with our Bank Partners' mandatory underwriting criteria and credit policies. As it relates to our merchant arrangements, we act in the capacity of an agent, as our platform facilitates the arrangement between the merchant and customer (for contracted services) and the arrangement between the Bank Partner and customer (for loan financing) and we do not control either the merchant services or the financing prior to them being transferred to the customer.

The merchant fee is calculated by multiplying a set fee percentage (as outlined in a schedule provided to the merchants) by the dollar amount of a loan at the point of origination. As merchant fees are billed to, and collected directly from, the merchant at least monthly, the transaction volume is known and there is no unresolved variable consideration as of the end of a reporting period. We recognize revenue at the point of sale by applying the expected value method, wherein we assign 100% probability to the transaction price as calculated using actual transaction

volume. While merchant fee reversals are contractually possible, and would constrain our estimate of variable consideration, they have been historically immaterial. Therefore, we have not recognized a refund liability for these reversals. Our expected value is further adjusted during the month for rebates or price concessions (collectively, "price concessions"), as discussed below.

Gross contractual merchant fees may be reduced by volume-based or non-volume-based price concessions to certain merchants and channel partners (which we refer to as "Sponsors"), which are offered to generate transaction volume on the GreenSky platform. As an agent, we recognize merchant fees net of consideration paid to merchants or Sponsors in the form of price concessions, which represents our expected consideration. The price concessions give rise to additional variable consideration at contract inception, which we estimate at the individual merchant level using the expected value method. For merchants and Sponsors receiving monthly or quarterly price concessions, which constitutes the vast majority of our arrangements, it is not probable that a significant reversal in the cumulative amount of revenue recognized would occur, as the uncertainty is resolved by the end of a reporting period. Therefore, the transaction price is not significantly constrained and we assign 100% probability to the transaction price as calculated using actual transaction volume net of actual merchant and Sponsor price concessions. In the limited instances in which we issue annual price concessions, which are based on an annual volume target, we determine the expected value based on quarterly progress and expected future progress (using historical experience) toward achieving the annual volume target. Volume-based price concessions to merchants and Sponsors that were netted against the gross transaction price were $14,805, $9,965, and $6,930 for the years ended December 31, 2019, 2018 and 2017, respectively.

Interchange fees are calculated by multiplying a set fee percentage (as stipulated by the credit card payment network) by the transaction volume processed through such network. Transaction volume and related fees payable to the Company are reported to us on a daily basis. Therefore, there is no unresolved variable consideration within a reporting period. Using the expected value method, we assign 100% probability to the transaction price as calculated using actual transaction volume.

We satisfy our performance obligation to facilitate financing to our merchants' qualified customers continuously throughout our contractual terms with our Bank Partners. Our merchants receive and consume the benefits of such performance simultaneously as we perform, which is reflected through the consummation of a purchase by the end customer who obtained financing through the GreenSky platform. Therefore, this performance obligation is satisfied over time and no significant financing component is present, as payment occurs within twelve months of the transfer of control of the related service. Our performance obligation is completely satisfied once a customer's application has been approved, a credit decision has been reached and a loan has been funded and processed, indicating that a sale has been completed by a merchant on our platform. We measure our progress toward complete satisfaction of this performance obligation using the output method and applying the "right-to-invoice" practical expedient, with transaction volume representing the direct measure that faithfully depicts a completed sale by a merchant on our platform. The value of our service transferred to the merchants is represented by the merchant fee rate, as agreed upon at contract inception, and the interchange fee rate, as stipulated by the credit card payment network. Therefore, we recognize revenue on at least a monthly basis for merchant fees and on a daily basis for interchange fees.

We apply the practical expedient related to incremental costs of obtaining a contract. Although certain of our commission costs qualify for capitalization under ASC 340-40, *Contracts with customers*, their amortization period is less than one year. Therefore, utilizing the practical expedient, we expense these costs as incurred.

Servicing and other

Servicing fees

Servicing fees are contractual fees specified in our servicing agreements with our Bank Partners that are earned from providing professional services to manage loan portfolios on behalf of our Bank Partners, which represents the single performance obligation in this contractual arrangement. The servicing fee is calculated on a monthly basis by multiplying a set fee percentage (as outlined in the contracts with our Bank Partners) by the

average outstanding Bank Partner loan portfolio balance. As the average outstanding loan portfolio balance is not known at contract inception, this arrangement contains variable consideration. However, as servicing fees are settled monthly with our Bank Partners, the average outstanding loan portfolio balance is known at each month end. Therefore, the variable consideration within a reporting period is not significantly constrained. Using the expected value method, we assign 100% probability to the transaction price as calculated using the actual average outstanding loan portfolio balance.

We satisfy our performance obligation to service the Bank Partners' loans on a recurring, monthly basis for as long as a loan balance is outstanding. The benefits of our servicing are simultaneously received and consumed by the Bank Partners. Therefore, this performance obligation is satisfied over time and no significant financing component is present, as payment occurs within twelve months of the transfer of control of the related service. We measure our progress toward complete satisfaction of this performance obligation using the output method and applying the "right-to-invoice" practical expedient, with loans outstanding representing the direct measure that faithfully depicts the loans for which control of servicing has transferred to the Bank Partners. The value of our service transferred to the Bank Partners is represented by the servicing fee rate, as agreed upon at contract inception. Therefore, we recognize revenue on a monthly basis upon settling with the Bank Partner.

Disaggregated revenue

Revenue disaggregated by type of service was as follows for the periods presented:

	Year Ended December 31,		
	2019	2018	2017
Merchant fees	$ 361,755	$ 297,776	$ 234,548
Interchange fees	44,150	51,128	44,410
Transaction fees	405,905	348,904	278,958
Servicing fees[1]	123,697	65,597	46,575
Other[2]	44	172	354
Servicing and other	123,741	65,769	46,929
Total revenue	$ 529,646	$ 414,673	$ 325,887

(1) For the year ended December 31, 2019, includes a $30,459 change in fair value of our servicing asset primarily associated with increases to the contractually specified fixed servicing fees for certain Bank Partners. Refer to Note 3 for additional information.

(2) Other revenue includes miscellaneous revenue items that are individually immaterial. Other revenue is presented separately herein in order to clearly present merchant, interchange and servicing fees, which are more integral to our primary operations and better enable financial statement users to calculate metrics such as servicing and merchant fee yields.

No assets were recognized from the costs to obtain or fulfill a contract with a customer as of December 31, 2019 and 2018. We recognized bad debt expense arising from our contracts with customers of $950, $1,294 and $817 during the years ended December 31, 2019, 2018 and 2017, respectively, which is recorded within general and administrative expense in our Consolidated Statements of Operations.

Share-Based Compensation

The Company issues share-based awards to certain employees and non-employees, which are measured at fair value at the date of grant. The fair value determined at the date of grant is expensed, based on our estimate of awards that will eventually vest, on a straight-line basis over the vesting period. We estimate expected forfeitures based on historical forfeiture behavior. Share-based compensation expense is included within compensation and benefits expense in the Consolidated Statements of Operations. Refer to Note 12 for additional information.

Income Taxes

Income taxes are provided for in accordance with ASC 740, *Income Taxes*. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and the reported amounts in the Consolidated Financial Statements, using the statutory tax rates in effect for the year in which the

differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets to the amount that is more likely than not to be realized. The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. Refer to Note 13 for additional information.

Related Party Transactions

In the normal course of business, we enter into certain transactions with entities or individuals that are deemed to be affiliated companies or persons under the related party definition in ASC 850, *Related Party Disclosures*. Refer to Note 15 for additional information.

Recently Adopted Accounting Standards

Leases

In February 2016, the FASB issued ASU 2016-02, which required the recognition of right-of-use ("ROU") assets and lease liabilities for operating leases with terms greater than 12 months on our Consolidated Balance Sheets. Presentation of leases within our Consolidated Statements of Operations and Consolidated Statements of Cash Flows was generally consistent with the prior lease accounting guidance codified in ASC 840, *Leases*. In July 2018, the FASB issued ASU 2018-11, which provided an additional (and optional) transition method to adopt ASU 2016-02 by applying its provisions at the adoption date and recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, rather than applying the provisions at the beginning of the earliest period presented in the financial statements.

We adopted the standard as of January 1, 2019 with the transition method outlined in ASU 2018-11, recognizing a cumulative-effect adjustment to retained earnings as of that date. Comparative periods continue to be presented and disclosed in accordance with legacy guidance in ASC 840. We applied the practical expedients permitted under the transition guidance outlined in ASU 2018-11, which permitted us to not reassess the following: (i) whether any expired or existing contracts are or contain a lease, (ii) the lease classification for any expired or existing leases, and (iii) initial direct costs for any existing leases.

As a result of adopting this standard, we recorded a ROU asset of $11.3 million, a lease liability of $14.1 million and an immaterial cumulative-effect adjustment to equity as of January 1, 2019. Our adoption of this standard did not have any impact on our Consolidated Statements of Operations.

See Note 14 for additional lease disclosures.

Improvements to non-employee share-based payment accounting

In June 2018, the FASB issued ASU 2018-07 to simplify certain aspects of the accounting for non-employee share-based payment transactions. Under the new standard, all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards are within the scope of ASC 718. Consistent with the accounting requirement for employee share-based payment awards, non-employee share-based payment awards within the scope of ASC 718 are measured at grant date fair value of the equity instruments, and the requirement to reassess classification of non-employee share-based payment awards upon vesting is eliminated. Our adoption of this standard on January 1, 2019 did not have any impact on our Consolidated Financial Statements.

Accounting Standards Issued, But Not Yet Adopted

Measurement of credit losses on financial instruments

In June 2016, the FASB issued ASU 2016-13, which requires upfront recognition of lifetime expected credit losses on certain financial instruments (or groups of financial instruments) using a current expected credit loss

("CECL") model. The standard is intended to better align the recognition of credit losses on financial instruments with management's expectations of the net amount of principal balance expected to be collected on such financial instruments. In May 2019, the FASB issued ASU 2019-05, which allowed for a one-time irrevocable fair value option election on the date of adoption for certain financial instruments that would otherwise be in the scope of CECL. We do not intend to elect the fair value option for any of our in-scope financial instruments. Under CECL, management must determine expected credit losses for certain financial instruments held at the reporting date based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts, the latter of which broadens current guidance. The standard also requires enhanced financial statement presentation and disclosures to help investors and other financial statement users to better understand the key assumptions and judgments used in estimating credit losses. The standard is effective for us on January 1, 2020.

Our primary financial instruments in the scope of CECL include trade receivables and off-balance sheet credit exposures under our financial guarantee arrangements with our Bank Partners. We continue to refine and validate our estimation models and methodology and to develop our related internal processes, policies and controls as we complete our implementation. Upon adoption, we will make a one-time cumulative-effect adjustment to retained earnings as of the effective date. We do not anticipate the impact of the new standard on our measurement of credit losses for trade receivables to be material to our Consolidated Financial Statements. However, we anticipate a material increase to our measurement of the contingent obligation under our financial guarantee arrangements, as the standard does not allow for the measurement to assume future program loan originations to consumers. Historically, our actual cash payments required under the financial guarantee arrangements have been immaterial for our ongoing Bank Partners and we anticipate this to continue to be the case. However, as the CECL model does not allow the inclusion of future loan originations by our Bank Partners, consistent with the modeling of loan losses for any consumer loan portfolio assumed to go into "run-off," we expect to recognize a financial guarantee liability for a significant portion of our $150.4 million escrow (established to provide additional Bank Partner loan loss protection on our $9.2 billion loan servicing portfolio) that is included in our restricted cash balance as of December 31, 2019. Subsequent to our implementation of the standard, additional financial guarantee liabilities will be recorded as new Bank Partner loans are facilitated, along with a corresponding non-cash charge to the Consolidated Statements of Operations. The actual impact of the standard upon adoption will largely depend on the outstanding loan attributes of our loan servicing portfolio and expectations of forecasted information, including certain macroeconomic conditions, at the effective date.

Customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract

In August 2018, the FASB issued ASU 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post-implementation stages are expensed as the activities are performed. This standard also requires entities to amortize the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement and to apply the existing impairment guidance in ASC 350-40 to the capitalized implementation costs as if the costs were long-lived assets. The standard clarifies that such capitalized implementation costs are also subject to the guidance on abandonment in ASC 360, *Property, Plant, and Equipment*.

In addition, this standard requires alignment in presentation between: (i) the expense related to the capitalized implementation costs and the fees associated with the hosting element (service) of the arrangement on the statement of operations, (ii) the capitalized implementation costs and any prepayment for the fees of the associated hosting arrangement on the balance sheet, and (iii) the payments for capitalized implementation costs and the payments made for fees associated with the hosting element in the statement of cash flows. The standard is effective for us on January 1, 2020, and we intend to adopt this standard on a prospective basis at the effective date. As such, the impact of our adoption of this standard on our Consolidated Financial Statements will largely depend

on the magnitude of future implementation costs incurred in our cloud computing arrangements. We continue to refine and validate our inventory of existing cloud computing arrangements and our related internal processes, policies and controls to identify new hosting arrangements that are service contracts for which implementation costs would be accounted for under this standard.

Note 2. Earnings per Share

Basic earnings per share of Class A common stock is computed by dividing net income attributable to GreenSky, Inc. by the weighted average number of shares of Class A common stock outstanding during the period. Diluted earnings per share of Class A common stock is computed by dividing net income attributable to GreenSky, Inc., adjusted for the assumed exchange of all potentially dilutive Holdco Units for Class A common stock, by the weighted average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive elements.

Prior to the IPO, the GS Holdings membership structure included Class A, B and C Units and profits interests. The Company analyzed the calculation of earnings per unit for periods prior to the IPO and determined that it resulted in values that would not be meaningful to the users of these Consolidated Financial Statements. Therefore, earnings per share information for the year ended December 31, 2018 represents only the period from May 24, 2018 to December 31, 2018, the period wherein we had outstanding Class A common stock. Earnings per share information has not been presented for the year ended December 31, 2017.

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per share of Class A common stock for the periods indicated.

	Year Ended December 31,	
	2019	2018
Numerator:		
Income before income tax expense (benefit)	$ 88,848	$ 133,514
Less: Net income attributable to GS Holdings prior to Reorganization Transactions	—	38,213
Less: Net income attributable to noncontrolling interests after Reorganization Transactions	63,993	65,511
Less: Income tax expense (benefit)	(7,125)	5,534
Net income attributable to GreenSky, Inc. – basic	$ 31,980	$ 24,256
Add: Reallocation of net income attributable to noncontrolling interests from the assumed exchange of Holdco Units for Class A common stock	63,993	65,511
Less: Income tax expense (benefit) on reallocation of net income attributable to noncontrolling interests[1]	8,189	12,784
Net income attributable to GreenSky, Inc. – diluted	$ 87,784	$ 76,983
Denominator:		
Weighted average shares of Class A common stock outstanding – basic	61,091,514	57,008,324
Add: Dilutive effects, as shown separately below		
Holdco Units exchangeable for Class A common stock	116,223,055	127,939,939
Class A common stock options	1,876,876	2,984,196
Holdco warrants exchangeable for Class A common stock	82,008	808,961
Unvested Class A common stock[2]	174,592	163,521
Weighted average shares of Class A common stock outstanding – diluted	179,448,045	188,904,941
Earnings per share of Class A common stock outstanding – basic	$ 0.52	$ 0.43
Earnings per share of Class A common stock outstanding – diluted	$ 0.49	$ 0.41
Excluded from diluted earnings per share, as their inclusion would have been anti-dilutive[3]		
Unvested Holdco Units	510,878	—
Class A common stock options	3,289,299	1,533,029
Unvested Class A common stock	2,040,965	134,170

(1) We assumed effective tax rates of 1.2% and 19.2% for the years ended December 31, 2019 and 2018, respectively, which represent the effective tax rates on the consolidated GreenSky, Inc. entity inclusive of the income taxes on the portion of GS Holdings' earnings that are attributable to noncontrolling interests. The rate for the year ended December 31, 2019 is reflective of the tax benefits from remeasurement of net deferred tax assets, warrant exercises and stock-based compensation deductions.

(2) Includes both unvested Class A common stock issued as part of the Reorganization Transactions and unvested Class A common stock awards issued subsequent to the Reorganization Transactions.

(3) These amounts represent the number of instruments outstanding at the end of the period. Application of the treasury stock method would reduce these amounts if they had a dilutive effect and were included in the computation of diluted earnings per share.

Shares of the Company's Class B common stock do not participate in the earnings or losses of the Company and, therefore, are not participating securities. As such, separate presentation of basic and diluted earnings per share of Class B common stock under the two-class method has not been included.

Note 3. Fair Value of Assets and Liabilities

The following table summarizes, by level within the fair value hierarchy, the carrying amounts and estimated fair values of our assets and liabilities measured at fair value on a recurring or nonrecurring basis or disclosed, but not carried, at fair value in the Consolidated Balance Sheets as of the dates presented. There were no transfers into, out of, or between levels within the fair value hierarchy during any of the periods presented. Refer to Note 4, Note 7, Note 8, and Note 9 for additional information on these assets and liabilities.

		December 31, 2019		December 31, 2018	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:					
Cash and cash equivalents[1]	1	$ 195,760	$ 195,760	$ 303,390	$ 303,390
Loan receivables held for sale, net[2]	2	51,926	55,958	2,876	3,552
Servicing assets[3]	3	30,459	30,459	—	—
Liabilities:					
Finance charge reversal liability[3]	3	$ 206,035	$ 206,035	$ 138,589	$ 138,589
Term loan[1]	2	384,497	392,201	386,822	386,234
Interest rate swap[3]	2	2,763	2,763	—	—
Servicing liabilities[3]	3	3,796	3,796	3,016	3,016

(1) Disclosed, but not carried, at fair value.

(2) Measured at fair value on a nonrecurring basis.

(3) Measured and carried at fair value on a recurring basis.

Cash and cash equivalents

Cash and cash equivalents are classified within Level 1 of the fair value hierarchy, as the primary component of the price is obtained from quoted market prices in an active market. The carrying amounts of our cash and cash equivalents approximate their fair values due to the short maturities and highly liquid nature of these accounts.

Loan receivables held for sale, net

Loan receivables held for sale are recorded in the Consolidated Balance Sheets at the lower of cost or fair value and, therefore, are measured at fair value on a nonrecurring basis. For our loan receivables held for sale, fair value approximates par value, as we have consistently sold loans for the full current balance in historical and current period transactions with our Bank Partners.

Loan receivables held for sale are classified within Level 2 of the fair value hierarchy, as the primary component of the price is obtained from observable values of loan receivables with similar terms and characteristics as the loan receivables sold to our Bank Partners. We have the ability to access this market, and it is the market into which these loan receivables are typically sold.

Interest rate swap

In June 2019, we entered into a $350.0 million notional, four-year interest rate swap agreement to hedge changes in our cash flows attributable to interest rate risk on $350.0 million of our variable-rate term loan to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expense. This swap involves the receipt of variable-rate amounts in exchange for fixed interest rate payments over the life of the agreement without an exchange of the underlying notional amount and was designated for accounting purposes as a cash flow hedge. The interest rate swap is carried at fair value on a recurring basis in the Consolidated Balance Sheets and is classified within Level 2 of the fair value hierarchy, as the inputs to the derivative pricing model are generally

observable and do not contain a high level of subjectivity. The fair value was determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date.

Finance charge reversal liability

Our Bank Partners offer certain loan products that have a feature whereby the account holder is provided a promotional period to repay the loan principal balance in full without incurring a finance charge. For these loan products, we bill interest each month throughout the promotional period and, under the terms of the contracts with our Bank Partners, we are obligated to pay this billed interest to the Bank Partners if an account holder repays the loan balance in full within the promotional period. Therefore, the monthly process of billing interest on deferred loan products triggers a potential future finance charge reversal ("FCR") liability for the Company. The FCR component of our Bank Partner contracts qualifies as an embedded derivative. The FCR liability is not designated as a hedge for accounting purposes and, as such, changes in its fair value are recorded within cost of revenue in the Consolidated Statements of Operations.

The FCR liability is carried at fair value on a recurring basis in the Consolidated Balance Sheets and is estimated based on historical experience and management's expectation of future FCR. The FCR liability is classified within Level 3 of the fair value hierarchy, as the primary component of the fair value is obtained from unobservable inputs based on the Company's data, reasonably adjusted for assumptions that would be used by market participants. The following table reconciles the beginning and ending fair value measurements of our FCR liability during the periods indicated.

	Year Ended December 31,		
	2019	2018	2017
Beginning balance	$ 138,589	$ 94,148	$ 68,064
Receipts[(1)]	159,527	129,153	109,818
Settlements[(2)]	(262,449)	(181,590)	(127,029)
Fair value changes recognized in cost of revenue[(3)]	170,368	96,878	43,295
Ending balance	$ 206,035	$ 138,589	$ 94,148

(1) Includes: (i) incentive payments from Bank Partners, which is the surplus of finance charges billed to borrowers over an agreed-upon portfolio yield, a fixed servicing fee and realized net credit losses, (ii) cash received from recoveries on previously charged-off Bank Partner loans, and (iii) the proceeds received from transferring our rights to Charged-Off Receivables attributable to previously charged-off Bank Partner loans. We consider all monthly incentive payments from Bank Partners during the period to be related to billed finance charges on deferred interest products until monthly incentive payments exceed total billed finance charges on deferred products, which did not occur during any of the periods presented.

(2) Represents the reversal of previously billed finance charges associated with deferred payment loan principal balances that were repaid within the promotional period.

(3) A fair value adjustment is made based on the expected reversal percentage of billed finance charges (expected settlements), which is estimated at each reporting date. The fair value adjustment is recognized in cost of revenue in the Consolidated Statements of Operations.

Significant assumptions used in valuing our FCR liability include the following:

Reversal rate: The reversal rate represents our estimate of the percentage of previously billed interest on deferred loan products that we expect we will be obligated to remit to the Bank Partners due to the account holder paying off the loan balance in full within the promotional period. As we have expanded our deferred loan products and as our historical experience with these products has progressed, management has developed more specific reversal rates for categories of deferred loan products based on the length of the interest-free promotional period (ranging from 6 to 24 months), whether or not loan principal payments were required to be paid during the interest-free promotional period, and the industry vertical (home improvement or elective healthcare). This has resulted in incremental increases in the number of reversal rate assumptions used to value the FCR liability. The historical period over which we evaluate reversal rates may also vary among the categories of deferred loan products based on the length and relevance of our historical experience with such products at the measurement date. The overall decrease in reversal rates is primarily attributable to lower reversal rate experience on loans within the elective healthcare industry vertical.

Discount rate: The discount rate reflects the time value of money adjusted for a risk premium.

The following table presents quantitative information about the significant unobservable inputs used to value the Level 3 FCR liability as of the dates presented.

	December 31, 2019		December 31, 2018	
	Range	Weighted Average	Range	Weighted Average
Reversal rate	60.0 – 96.8%	87.5 %	70.0 – 97.3%	88.2 %
Discount rate	5.2 %	5.2 %	6.1 %	6.1 %

The reversal rate weighted averages were calculated by first determining the percentage of the reporting date FCR liability attributable to each category of deferred loan products for which a reversal rate assumption was determined. We then multiplied these weights by the unique reversal rate for each category and summed the resulting products.

A significant increase or decrease in the estimated reversal rates could result in a significantly higher or lower, respectively, calculation of our expected future payments to our Bank Partners, resulting in a higher or lower, respectively, fair value measurement of our FCR liability.

A significant increase or decrease in the discount rate could result in a lower or higher, respectively, fair value measurement of our FCR liability.

Charged-Off Receivables

Periodically, we transfer our rights to Charged-Off Receivables in exchange for a cash payment based on the expected recovery rate of such loan receivables, which consist primarily of previously charged-off Bank Partner loans. We have no continuing involvement with these Charged-Off Receivables other than performing reasonable servicing and collection efforts on behalf of the third parties and Bank Partners that purchased the Charged-Off Receivables. The proceeds from transfers of Charged-Off Receivables attributable to Bank Partner loans are recognized on a collected basis as reductions to cost of revenue, which reduces the fair value adjustment to the FCR liability in the period of transfer. The following table presents details of Charged-Off Receivables transfers during the periods indicated.

	Aggregate Unpaid Balance			Proceeds		
	Bank Partner loans	Loan receivables held for sale	Total[1]	Bank Partner loans	Loan receivables held for sale	Total
Year Ended December 31, 2019	$ 223,024	$ 2,518	$ 225,542	$ 29,190	$ 312	$ 29,502
Year Ended December 31, 2018	201,517	3,263	204,780	26,692	431	27,123
Year Ended December 31, 2017	197,114	4,165	201,279	18,968	406	19,374

(1) During the years ended December 31, 2019, 2018 and 2017, $22,245, $14,940 and $2,966, respectively, of the aggregate unpaid balance on cumulative transferred Charged-Off Receivables were recovered through our servicing efforts on behalf of our Charged-Off Receivables investors.

Term loan

The carrying value of our term loan is net of unamortized debt discount and debt issuance costs. The fair value of our term loan was determined using a discounted cash flow model based on observable market factors (such as changes in credit spreads for comparable benchmark companies) and credit factors specific to us. The fair value of our term loan is classified within Level 2 of the fair value hierarchy, as the inputs to the discounted cash flow model are generally observable and do not contain a high level of subjectivity.

Servicing assets and liabilities

We previously elected the fair value method to account for our servicing assets and liabilities to more appropriately reflect the value of the servicing rights in our Consolidated Financial Statements. As a result of this election, our servicing assets and liabilities are carried at fair value on a recurring basis within other assets and other liabilities, respectively, in the Consolidated Balance Sheets and are estimated using a discounted cash flow model. Servicing assets and liabilities are classified within Level 3 of the fair value hierarchy, as the primary components of the fair value are obtained from unobservable inputs based on peer market data, reasonably adjusted for assumptions that would be used by market participants to service our Bank Partner loans and transferred Charged-Off Receivables portfolios, for which market data is not available. Changes in the fair value of our servicing assets are recorded within servicing and other revenue and changes in the fair value of our servicing liabilities are recorded within other gains (losses), net in the Consolidated Statements of Operations.

Contractually specified servicing fees recorded within servicing and other revenue in the Consolidated Statements of Operations totaled $93,238, $65,597 and $46,575 for the years ended December 31, 2019, 2018 and 2017, respectively. The cash flow impacts of our assets and liabilities that are measured at fair value on a recurring basis are included within net cash provided by operating activities in the Consolidated Statements of Cash Flows. During the year ended December 31, 2019, we renegotiated certain Bank Partner agreements where the Company agreed to post additional escrow and increase the agreed-upon Bank Partner portfolio yield. In exchange for these considerations, we received an increase in our loan servicing fees from the Bank Partners. We determined that the increase in servicing fees resulted in an increase to the fair value of our servicing assets for these Bank Partners. We also anticipate that, all other factors remaining constant, these increased servicing fees will contribute to lower incentive payments received in future periods from the Bank Partners.

The following table reconciles the beginning and ending fair value measurements of our servicing assets associated with Bank Partner loans during the period presented. We did not have any servicing assets for the years ended December 31, 2018 and 2017.

	Year Ended December 31, 2019
Beginning balance	$ —
Additions, net[(1)]	5,975
Fair value changes recognized in servicing and other revenue[(2)]	24,484
Ending balance	$ 30,459

(1) Includes additions through assumptions of servicing obligations each time a loan is originated on our platform by a Bank Partner, as well as through transfers of loans between Bank Partners or of loan receivables between GreenSky and Bank Partners. Additions are recognized in servicing and other revenue in the Consolidated Statements of Operations.

(2) Primarily reflective of increases to the contractually specified fixed servicing fees for certain Bank Partners, which may also contribute to lower incentive payments received in future periods.

The following table reconciles the beginning and ending fair value measurements of our servicing liabilities associated with transferring our rights to Charged-Off Receivables during the periods presented.

	Year Ended December 31,		
	2019	2018	2017
Beginning balance	$ 3,016	$ 2,071	$ —
Initial obligation from transfer of Charged-Off Receivables[(1)]	2,705	2,461	2,379
Fair value changes recognized in other gains (losses), net[(2)]	(1,925)	(1,516)	(308)
Ending balance	$ 3,796	$ 3,016	$ 2,071

(1) Recognized in other gains (losses), net in the Consolidated Statements of Operations.

(2) Represents the reduction of our servicing liabilities due to the passage of time and collection of loan payments.

Significant assumptions used in valuing our servicing assets and liabilities include the following:

Cost of servicing: The cost of servicing represents the servicing rate a willing market participant would require to service loans with similar characteristics as the Bank Partner loans or Charged-Off Receivables. The cost of servicing is weighted based on the outstanding balance of the loans.

Discount rate: The discount rate reflects the time value of money adjusted for a risk premium and is within an observable range based on peer market data.

Weighted average remaining life: For Bank Partner loans, the weighted average remaining life is determined using the aggregate curves for each loan product type based on expected cumulative annualized rates of prepayments and defaults.

Recovery period: For Charged-Off Receivables, our recovery period was determined based on a reasonable recovery period for loans of these sizes and characteristics based on historical experience. We assumed that collection efforts for these loans will cease after five years, and the run-off of the portfolio will follow a straight-line methodology, adjusted for actual cash recoveries over time.

The following table presents quantitative information about the significant unobservable inputs used to value the Level 3 servicing assets and liabilities as of the dates presented.

	December 31, 2019		December 31, 2018	
Input	**Range**	**Weighted Average**	**Range**	**Weighted Average**
Cost of servicing (basis points)[(1)]	57.5 – 108.0	106.2	62.5	62.5
Discount rate	18.0 %	18.0 %	18.0 %	18.0 %
Weighted average remaining life (years)	2.3 – 5.9	2.4	N/A	N/A
Recovery period (years)	2.6 – 4.9	4.1	3.6 – 4.9	4.3

(1) The cost of servicing assumption as of December 31, 2018 relates only to Charged-Off Receivables, as the fair value measurement of servicing rights associated with Bank Partner loans was immaterial.

A significant increase or decrease in the market cost of servicing could have resulted in significantly lower or higher, respectively, servicing assets and higher or lower, respectively, servicing liabilities as of the measurement date.

A significant increase or decrease in the discount rate could have resulted in lower or higher, respectively, servicing assets and liabilities as of the measurement date. However, as our weighted average remaining life of loans is relatively short, we would not expect significant changes in the discount rate to materially impact the fair value measure.

The average remaining life is weighted by the unpaid balance of the Bank Partner loans as of the measurement date. The weighted average remaining life represents the period over which we expect to collect servicing fees on the Bank Partner loans and primarily changes based on expectations of loan prepayments and defaults. The change in expected prepayments and defaults has an inverse correlation with the weighted average remaining life. A significant increase or decrease in the expected weighted average remaining life could have resulted in significantly higher or lower servicing assets as of the measurement date.

The recovery period is weighted by the unpaid balance of previously transferred Charged-Off Receivables as of the measurement date. The recovery period reflects the length of time over which we expect to perform servicing activities and has an inverse correlation with the amount by which the servicing liability is reduced each reporting period. As such, a significant increase or decrease in the expected recovery period could have resulted in higher or lower, respectively, servicing liabilities.

Note 4. Loan Receivables Held for Sale

The following table summarizes the activity in the balance of loan receivables held for sale, net at lower of cost or fair value during the periods indicated.

	Year Ended December 31,		
	2019	**2018**	**2017**
Beginning balance	$ 2,876	$ 73,606	$ 41,268
Additions	157,928	93,240	134,659
Proceeds from sales and borrower payments[(1)]	(104,858)	(161,009)	(93,044)
Loss on sale	—	—	(500)
Increase in valuation allowance	(1,289)	(92)	(584)
Transfers[(2)]	251	22	(5,017)
Write offs and other[(3)]	(2,982)	(2,891)	(3,176)
Ending balance	$ 51,926	$ 2,876	$ 73,606

(1) Includes accrued interest and fees, recoveries of previously charged-off loan receivables held for sale, as well as proceeds from transferring our rights to Charged-Off Receivables attributable to loan receivables held for sale. We retain servicing arrangements on sold loan receivables with the same terms and conditions as loans that are originated by our Bank Partners. Income from loan

receivables held for sale activities is recorded within interest income and other gains (losses), net in the Consolidated Statements of Operations. We sold loan receivables held for sale to certain Bank Partners on the following dates during the years ended December 31:

2019		2018		2017	
Date	Amount	Date	Amount	Date	Amount
March 27	$ 63,673	May 21	$ 9,552	June 29	$ 17,900
November 1	13,752	June 27	50,614	December 21	54,171
December 27	14,521	September 27	48,176		
		December 20	30,684		
Total	$ 91,946		$ 139,026		$ 72,071

(2) We temporarily hold certain loan receivables, which are originated by a Bank Partner, while non-originating Bank Partner eligibility is being determined. Once we determine that a loan receivable meets the investment requirements of an eligible Bank Partner, we transfer the loan receivable to the Bank Partner at cost plus any accrued interest. The reported amount also includes loan receivables that have been placed on non-accrual and non-payment status while we investigate consumer inquiries.

(3) We received recovery payments of $50, $57 and $238 during the years ended December 31, 2019, 2018 and 2017, respectively. Recoveries of principal and finance charges and fees on previously written off loan receivables held for sale are recognized on a collected basis as other gains and interest income, respectively, in the Consolidated Statements of Operations. Separately, during the years ended December 31, 2019, 2018, and 2017, write offs and other were reduced by $312, $431, and $406, respectively, related to cash proceeds received from transferring our rights to Charged-Off Receivables attributable to loan receivables held for sale. The cash proceeds received were recorded within other gains (losses), net in the Consolidated Statements of Operations.

The following table presents activities associated with our loan receivable sales and servicing activities during the periods indicated.

	Year Ended December 31,		
	2019	2018	2017
Gain (loss) on sold loan receivables held for sale	$ —	$ —	$ (500)
Cash Flows			
Sales of loans	$ 91,946	$ 139,026	$ 72,071
Servicing fees	3,901	2,321	2,821

The following tables present information about sold loan receivables held for sale that are not recorded in our Consolidated Balance Sheets, but with which we have a continuing involvement through our servicing arrangements with our Bank Partners. The sold loan receivables held for sale are pooled with other loans originated by the Bank Partners for purposes of determining escrow balances and incentive payments. The escrow balances represent our only direct exposure to potential losses associated with these sold loan receivables.

	December 31,	
	2019	2018
Total principal balance	$ 326,556	$ 357,060
Delinquent loans (unpaid principal balance)	18,033	23,385

	Year Ended December 31,		
	2019	2018	2017
Net charge-offs (unpaid principal balance)	$ 16,333	$ 11,355	$ 8,574

Note 5. Accounts Receivable

Accounts receivable consisted of the following as of the dates indicated.

	Accounts Receivable, Gross	Allowance for Losses	Accounts Receivable, Net
December 31, 2019			
Transaction related	$ 12,863	$ (238)	$ 12,625
Servicing related	6,868	—	6,868
Total	$ 19,731	$ (238)	$ 19,493
December 31, 2018			
Transaction related	$ 14,704	$ (168)	$ 14,536
Servicing related	864	—	864
Total	$ 15,568	$ (168)	$ 15,400

Note 6. Property, Equipment and Software

Property, equipment and software were as follows as of the dates indicated.

	December 31,	
	2019	2018
Furniture	$ 2,907	$ 2,813
Leasehold improvements	4,902	4,171
Computer hardware	2,494	2,923
Software	20,126	8,344
Total property, equipment and software, at cost	30,429	18,251
Less: accumulated depreciation	(5,701)	(5,462)
Less: accumulated amortization	(6,419)	(2,557)
Total property, equipment and software, net	$ 18,309	$ 10,232

The following table shows depreciation and amortization expense, as well as recorded impairment losses related to abandoned capitalized software projects that are recorded within general and administrative expense in the Consolidated Statements of Operations. We determined that these software projects would not generate future cash flows through use or disposal to a third party and, as such, the fair value as of the respective reporting dates was $0.

	Year Ended December 31,		
	2019	2018	2017
Depreciation expense	$ 2,540	$ 2,320	$ 2,149
Amortization expense	4,764	2,158	1,834
Impairment losses	—	19	78

The estimated future amortization of software is as follows as of the date indicated.

	December 31, 2019
2020	$ 6,196
2021	5,051
2022	2,460
Total	$ 13,707

Note 7. Borrowings

Credit Agreement

In August 2017, we entered into a $450.0 million credit agreement ("Credit Agreement"), which provided for a $350.0 million term loan ("original term loan") maturing on August 25, 2024 and a $100.0 million revolving loan facility maturing on August 25, 2022. The net proceeds from the term loan of $338.6 million, along with $7.9 million of cash, were set aside for a subsequent $346.5 million payment (which is occurring in stages) to certain equity holders and a related party. With the exception of the payments to the related party, which were related party expenses, the payments were accounted for as distributions.

The distribution to GS Holdings unit holders and GS Holdings holders of profits interests was made on a basis generally proportionate to their equity interests in GS Holdings. GS Holdings' members approved the Credit Agreement and the distribution of the proceeds of the original term loan to the GS Holdings unit holders, holders of profits interests and a related party. The purpose of the distribution was to provide a cash return on investment to the GS Holdings members and holders of profits interests. See Note 11 for distribution and payment details.

Amended Credit Agreement

In March 2018, we amended certain terms of our Credit Agreement ("Amended Credit Agreement"). The term loan and revolving loan facility under the Amended Credit Agreement are collectively referred to as the "Credit Facility."

The Amended Credit Agreement replaced the original term loan with a $400.0 million term loan (“modified term loan”) and extended the maturity date to March 29, 2025. The modified term loan incurs interest, due monthly in arrears, at an adjusted LIBOR rate, which represents the one-month LIBOR rate multiplied by the statutory reserve rate, as defined in the Credit Agreement, plus a margin of 3.25% per annum. If not otherwise indicated, references to "term loan" prior to the date of the Amended Credit Agreement indicate the original term loan and references subsequent to the date of the Amended Credit Agreement indicate the modified term loan.

We contemporaneously settled the outstanding principal balance on the original term loan of $349.1 million with the issuance of the $400.0 million modified term loan. An original issuance discount of $1.0 million was reported in the Consolidated Balance Sheets as a direct deduction from the face amount of the modified term loan. Therefore, the gross proceeds of the modified term loan were $399.0 million. The proceeds from the modified term loan were primarily used to repay the outstanding principal balance on the original term loan and to pay $1.2 million of third party costs, including legal and debt arrangement costs, which were immediately expensed and recorded within general and administrative expense in the Consolidated Statements of Operations on the modification date. The remaining $48.8 million of proceeds were used to provide for distributions to certain equity holders and a related party prior to the Company's IPO. With the exception of the payments to the related party, which are related party expenses, the payments were accounted for as distributions. See Note 11 for distribution and payment details. As of December 31, 2019 and 2018, we had no borrowings under the revolving loan facility.

Key details of the term loan are as follows:

	December 31,	
	2019	2018
Term loan, face value[(1)]	$ 393,000	$ 397,000
Unamortized debt discount[(2)]	(3,115)	(3,728)
Unamortized debt issuance costs[(2)]	(5,388)	(6,450)
Term loan	$ 384,497	$ 386,822

(1) The principal balance of the term loan is scheduled to be repaid on a quarterly basis at an amortization rate of 0.25% per quarter through December 31, 2024, with the balance due at maturity. For each of the next five years, principal repayments on the term loan are expected to be $4,000.

(2) For the years ended December 31, 2019 and 2018, debt discount of $613 and $593, respectively, and debt issuance costs of $1,062 and $1,091, respectively, were amortized into interest expense in the Consolidated Statements of Operations. Giving effect to the amortization of debt discount and debt issuance costs on the term loan, the effective interest rates were 5.95% and 5.99% during the years ended December 31, 2019 and 2018, respectively.

Revolving loan facility. Under the Amended Credit Agreement, the maturity date of the $100.0 million revolving loan facility was extended to March 29, 2023. Further, the interest margin applied to revolving loans that incur interest at a base rate was modified to 2.00% per annum and the margin applied to revolving loans that incur interest at an adjusted LIBOR rate was modified to 3.00% per annum. However, if our first lien net leverage ratio is equal to or above 1.50 to 1.00, these interest margins are raised to 2.25% and 3.25%, respectively. As of December 31, 2019, we had no borrowings under the revolving loan facility. Lastly, the Amended Credit Agreement provided for a $10.0 million letter of credit, which, to the extent drawn upon, would reduce the amount of availability under the revolving loan facility by the same amount. We did not draw on our available letter of credit as of December 31, 2019.

We are subject to a quarterly commitment fee based on the daily unused amount of the revolving loan facility, inclusive of the aggregate amount available to be drawn under letters of credit, of which $10.0 million was available, but unused, as of December 31, 2019. The quarterly commitment fee rate is 0.50% per annum when our first lien net leverage ratio is above 1.50 to 1.00, but is reduced to 0.375% for any quarterly period in which our first lien net leverage ratio is equal to or below 1.50 to 1.00. For the years ended December 31, 2019, 2018 and 2017, we recognized $348, $411 and $175, respectively, of commitment fees within interest expense in the Consolidated Statements of Operations.

Interest Rate Swap

In June 2019, we entered into an interest rate swap agreement to hedge changes in cash flows attributable to interest rate risk on $350.0 million of our variable-rate term loan. This interest rate swap was designated for accounting purposes as a cash flow hedge. See Note 8 for additional derivative disclosures.

Covenants

The Amended Credit Agreement contains certain financial and non-financial covenants with which we must comply. The financial covenant requires a first lien net leverage ratio equal to or below 3.50 to 1.00 for any measurement date at which the principal amounts of outstanding revolving loans and letters of credit exceed 25% of the aggregate principal amount of the revolving loan facility. The first lien net leverage ratio is calculated as the ratio of (i) the aggregate principal amount of indebtedness, minus the aggregate amount of consolidated cash (exclusive of restricted cash), as of the measurement date to (ii) consolidated EBITDA, as defined in the Amended Credit Agreement, for the four prior quarters.

The non-financial covenants include, among other things, restrictions on indebtedness, liens, fundamental changes to the business (such as acquisitions, mergers, liquidations or changes in the nature of the business, asset dispositions, restricted payments, transactions with affiliates and other customary matters).

The Amended Credit Agreement also includes various negative covenants, including one that restricts GS Holdings from making non-tax distributions unless certain financial tests are met. In general, GS Holdings is restricted from making distributions unless (a) after giving effect to the distribution it would have, as of a measurement date, a total net leverage ratio of no more than 3.00 to 1.00, and (b) the source of such distributions is retained excess cash flow, certain equity issuance proceeds and certain other sources.

We were in compliance with all covenants, both financial and non-financial, as of December 31, 2019 and 2018.

The Amended Credit Agreement defines events of default, the breach of which could require early payment of all borrowings under, and termination of, the Amended Credit Agreement or similar actions.

Any borrowings under the Amended Credit Agreement are unconditionally guaranteed by our subsidiaries. Further, the lenders have a security interest in substantially all of the assets of GS Holdings and the other guarantors thereunder.

Note 8. Derivative Instruments

The Company does not hold or use derivative instruments for trading purposes.

Derivative Instruments Designated as Hedges

Interest rate fluctuations expose our variable-rate term loan to changes in interest expense and cash flows. As part of our risk management strategy, we may use interest rate derivatives, such as interest rate swaps, to manage our exposure to interest rate movements.

In June 2019, we entered into a $350.0 million notional, four-year interest rate swap agreement to hedge changes in cash flows attributable to interest rate risk on $350.0 million of our variable-rate term loan, which matures on March 29, 2025. This agreement involves the receipt of variable-rate amounts in exchange for fixed interest rate payments over the life of the agreement without an exchange of the underlying notional amount. This interest rate swap was designated for accounting purposes as a cash flow hedge. As such, changes in the interest rate swap's fair value are deferred in accumulated other comprehensive income (loss) in the Consolidated Balance Sheets and are subsequently reclassified into interest expense in each period that a hedged interest payment is made on our variable-rate term loan.

As of December 31, 2019, we had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk.

	Notional Amount	Fixed Interest Rate	Termination Date
Interest rate swap	$ 350,000	1.80 %	June 30, 2023

Derivative Instruments Not Designated as Hedges

The FCR component of our Bank Partner contracts qualifies as an embedded derivative. The FCR liability is not designated as a hedge for accounting purposes and, as such, changes in its fair value are recorded within cost of revenue in the Consolidated Statements of Operations. See Note 3 for additional information on finance charge reversals.

Derivative Instruments on our Consolidated Financial Statements

The following table presents the fair values and Consolidated Balance Sheets locations of our derivative instruments as of the dates indicated.

	Balance Sheet Location	December 31, 2019	December 31, 2018
Designated as cash flow hedges			
Interest rate swap	Other liabilities	$ 2,763	$ —
Not designated as hedges			
FCR liability	Finance charge reversal liability	$ 206,035	$ 138,589

The following table presents the impacts of our derivative instruments on our Consolidated Statements of Operations for the periods indicated.

	Year Ended December 31, 2019	2018	2017
Designated as cash flow hedges			
Interest rate swap – gain (loss) reclassified into interest expense	$ 441	$ —	$ —
Interest rate swap – gain (loss) reclassified into income tax expense	38	—	—
Not designated as hedges			
FCR liability – change in fair value recorded in cost of revenue	$ 170,368	$ 96,878	$ 43,295

Our derivative instrument activities are included within operating cash flows in our Consolidated Statements of Cash Flows.

Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in the components of accumulated other comprehensive income (loss) associated with our cash flow hedge, which exclude amounts pertaining to noncontrolling interests. There was no accumulated other comprehensive income (loss) activity during the year ended December 31, 2018.

Cash Flow Hedge	**December 31, 2019**
Accumulated other comprehensive income (loss), beginning balance	$ —
Other comprehensive income (loss) before reclassifications and tax	(841)
Tax (expense) benefit	279
Other comprehensive income (loss) before reclassifications, net of tax	(562)
Reclassifications out of accumulated other comprehensive income (loss), net of tax expense of $38	(194)
Net (increase) decrease in other comprehensive loss	(756)
Accumulated other comprehensive income (loss), ending balance	$ (756)

Based on the current interest rate environment, the Company estimates that approximately $(0.7) million of net unrealized gains (losses) reported in accumulated other comprehensive income (loss) will be reclassified into earnings within the next twelve months.

Note 9. Other Liabilities

The following table details the components of other liabilities in the Consolidated Balance Sheets as of the dates indicated.

	December 31,	
	2019	2018
Transaction processing liabilities	$ 24,465	$ 4,958
Servicing liabilities[1]	3,796	3,016
Distributions payable[2]	5,978	10,066
Interest rate swap[3]	2,763	—
Tax related liabilities[4]	873	4,412
Deferred lease liabilities[5]	—	2,489
Accruals and other liabilities[6]	9,442	10,110
Other liabilities	$ 47,317	$ 35,051

(1) We elected the fair value method to account for our servicing liabilities. Refer to Note 3 for additional information.

(2) Related party distributions payable are not included in this balance, but rather are included within related party liabilities.

(3) Refer to Note 3 and Note 8 for additional information on our interest rate swap, which was in a liability position as of December 31, 2019.

(4) Tax related liabilities primarily include certain taxes payable related to the Reorganization Transactions.

(5) Deferred lease liabilities were calculated in accordance with legacy lease guidance in ASC 840, *Leases,* for the amount presented as of December 31, 2018. Under the new lease guidance codified in ASC 842, *Leases*, which we adopted on January 1, 2019, we presented operating lease liabilities separately on the Consolidated Balance Sheets as of December 31, 2019. See Note 1 and Note 14 for additional information on our lease accounting.

(6) Accruals and other liabilities as of December 31, 2018 was adjusted to exclude the financial guarantee liability to conform to the current period presentation in the Consolidated Balance Sheets. Refer to Note 1 for additional discussion of our basis of presentation.

Note 10. Noncontrolling Interests

GreenSky, Inc. is the sole managing member of GS Holdings and consolidates the financial results of GS Holdings. Therefore, the Company reports a noncontrolling interest based on the common units of GS Holdings held by the Continuing LLC Members. Changes in GreenSky, Inc.'s ownership interest in GS Holdings, while GreenSky, Inc. retains its controlling interest in GS Holdings, are accounted for as equity transactions. As such, future redemptions or direct exchanges of Holdco Units by the Continuing LLC Members (with automatic cancellation of an equal number of shares of Class B common stock) for shares of our Class A common stock on a one-for-one basis will result in a change in ownership and reduce or increase the amount recorded as noncontrolling interest and increase or decrease additional paid-in capital. The Company consolidates the financial results of GS Holdings and reports a noncontrolling interest in its Consolidated Financial Statements representing the GS Holdings interests held by Continuing LLC Members. During the years ended December 31, 2019 and 2018, GreenSky, Inc. had a weighted average ownership interest in GS Holdings of 34.6% and 31.2%, respectively.

In connection with the Reorganization Transactions and IPO, GreenSky, Inc. issued 129.0 million shares of Class B common stock to the Continuing LLC Members. Subsequent to the Reorganization Transactions and IPO during the year ended December 31, 2018, an aggregate of 0.3 million Holdco Units were exchanged by the Continuing LLC Members (with automatic cancellation of Class B common stock) for 0.3 million newly-issued shares of Class A common stock, increasing our total ownership interest in GS Holdings to 30.0% as of December 31, 2018.

As of December 31, 2019 and 2018, GreenSky, Inc. had 66,424,838 and 54,504,902 shares, respectively, of Class A common stock outstanding, which resulted in an equivalent amount of ownership of Holdco Units. During the year ended December 31, 2019, an aggregate of 15.9 million Holdco Units were exchanged by the Continuing

LLC Members (with automatic cancellation of Class B common stock) for 15.7 million newly-issued shares of Class A common stock, increasing our total ownership interest in GS Holdings to 36.9% as of December 31, 2019.

Note 11. Stockholders Equity (Deficit)

Historical information prior to the Reorganization Transactions has been restated below to account for a 10 to 1 stock split that occurred immediately prior to the IPO in connection with the Reorganization Transactions.

Treasury Stock

During 2018, our Board of Directors authorized the repurchase of up to $150 million of the Company's Class A common stock. Under the repurchase program, repurchases were made at management's discretion from time to time on the open market or through privately negotiated transactions. The repurchased shares are held in a treasury account using the cost method. As of December 31, 2019, the repurchase program was terminated.

Our treasury account also includes Class A common stock related to restricted stock awards that were forfeited by the award recipient. The Company does not pay any consideration to reacquire these shares. See Note 12 for further discussion of our restricted stock awards.

As of December 31, 2019, there were 13,664,901 shares of Class A common stock held in treasury, including: (i) purchases of 13,425,688 shares of Class A common stock at a cost of $146.1 million, (ii) 222,595 shares associated with forfeited restricted stock awards, and (iii) 16,618 shares associated with tax withholdings upon vesting of restricted stock awards. Upon reissuance of any treasury shares, the Company uses a first-in, first-out approach. There were no reissuances of treasury shares during the years ended December 31, 2019 and 2018.

Warrants

As part of the Reorganization Transactions, outstanding warrants to acquire Class A units of GS Holdings were equitably adjusted pursuant to their terms so that they are exercisable for Holdco Units (and an equal number of shares of Class B common stock). Refer to Note 1 for a discussion of the Reorganization Transactions.

In January 2019, a warrant issued in January 2014 to an affiliate of one of the members of the former GSLLC board of managers was fully exercised on a cashless basis, which resulted in the issuance of 1,180,163 Holdco Units and an equal number of shares of Class B common stock.

During 2017, 100,000 warrants issued in October 2015 to a GSLLC (and subsequently GS Holdings) Class A member, which was also an affiliate of one of the members of the former GSLLC board of managers, was fully exercised for GS Holdings Class A units.

Distributions

The following table summarizes activity associated with our non-tax distributions and payments, as well as our tax distributions during the periods indicated.

	Year Ended December 31,			Remaining Reserved Payment[1]
(in millions)	2019	2018	2017	
Non-tax distributions previously declared and paid upon vesting				
Credit Agreement Distributions[2]				
Distributions	$ 2.8	$ 50.7	$ —	$ 4.0
Related party payments	0.6	1.1	—	—
Special Operating Distributions[3]				
Distributions	1.4	25.5	—	2.0
Related party payments	0.2	1.0	—	—
Tax distributions	18.5	63.7	71.3	N/A
Total	$ 23.5	$ 142.0	$ 71.3	$ 6.0

(1) As of December 31, 2019, all remaining portions of the non-tax distributions were recorded within other liabilities in the Consolidated Balance Sheets.

(2) See Note 7 for discussion of distributions using the proceeds from our borrowings.

(3) In May 2018, we declared a special operating distribution of $26.2 million, a portion of which was declared to a related party. In December 2017, we declared a $160.0 million special cash distribution to GS Holdings unit holders and holders of profits interests.

Note 12. Share-Based Compensation

We maintain the 2018 Omnibus Incentive Compensation Plan (the "2018 Plan"), which was adopted in April 2018. The Company reserved a total of 24.0 million shares of Class A common stock for issuance pursuant to the 2018 Plan. As of December 31, 2019, 18.6 million shares of the Company's common stock remained available for future issuance under the 2018 Plan. The Company has the following types of share-based compensation awards outstanding as of December 31, 2019: Class A common stock options, unvested Holdco Units and unvested Class A common stock awards.

Historical information prior to the Reorganization Transactions has been restated below to account for a 10 to 1 stock split that occurred immediately prior to the IPO in connection with the Reorganization Transactions.

We recorded share-based compensation expense for the years ended December 31, 2019, 2018 and 2017 of $13.8 million, $6.0 million and $4.0 million, respectively, which is included within compensation and benefits expense in the Consolidated Statements of Operations.

Class A Common Stock Options

Class A common stock options ("Options") granted by the Company are time-vested awards that vest ratably over a period of three years to five years of continued employee or non-employee service, or cliff vest at the end of a period of five years of continued employee service. The contractual term of Options is ten years from the grant date. Options are not subject to post-vesting restrictions. Upon the exercise of Options, the Company issues Class A common stock.

On October 1, 2015, and as discussed in more detail under "Profits Interests," certain GS Holdings Class A unit options were capped ("Capped Options") and an equivalent number of profits interests were issued with a threshold value of $7.60 per unit, which represented the fair value of the GS Holdings Class A units as of that date. Capped Options and their related profits interest awards were aggregated to count as one unit against the legacy GS Holdings equity incentive plan authorization limit. See "Profits Interests" below for discussion of the effects of this modification.

As part of the Reorganization Transactions, outstanding options to acquire Class A units of GS Holdings (including Capped Options) were equitably adjusted to become exercisable for shares of Class A common stock, which remain subject to the same vesting requirements of the original GS Holdings Class A unit options ("Class A Unit Options"). We evaluated this modification in accordance with ASC 718, *Compensation – Stock compensation* and determined that it did not require modification accounting. This modification affected 145 employees and former employees and four non-employees. Refer to Note 1 for a discussion of the Reorganization Transactions.

Option activity was as follows during the periods indicated:

	Year Ended December 31,			
	2019		2018	2017
	Number of Options	Weighted Average Exercise Price	Number of Options	Number of Options
Outstanding at beginning of period	8,053,292	$ 5.25	9,821,890	10,006,890
Granted prior to Reorganization Transactions and IPO[1]	N/A	N/A	340,000	500,000
Exercised prior to Reorganization Transactions and IPO[2][3]	N/A	N/A	(270,000)	(202,000)
Forfeited prior to Reorganization Transactions and IPO	N/A	N/A	(260,000)	(483,000)
Effect of Reorganization Transactions and IPO	N/A	N/A	(186,772)	N/A
Granted after Reorganization Transactions and IPO[1]	1,610,407	11.41	1,114,029	N/A
Exercised after Reorganization Transactions and IPO[2][3]	(5,192,471)	1.76	(2,171,284)	N/A
Forfeited after Reorganization Transactions and IPO	(258,819)	13.32	(321,506)	N/A
Expired after Reorganization Transactions and IPO[4]	(30,500)	17.25	(13,065)	N/A
Outstanding at end of period[5]	4,181,909	$ 11.36	8,053,292	9,821,890
Exercisable at end of period[5][6]	1,262,998	$ 7.24	5,364,233	7,015,000

(1) Weighted average grant date fair value of Options granted during the years ended December 31, 2019, 2018 and 2017 was $3.38, $6.06 and $3.52, respectively.

(2) The total intrinsic value of Options exercised, which is defined as the amount by which the market value of the stock on the date of exercise exceeds the exercise price, during the years ended December 31, 2019, 2018 and 2017 was $27.7 million, $15.4 million and $0.4 million, respectively.

(3) Employees paid $0.3 million to the Company during the year ended December 31, 2019 to exercise Options, which resulted in the issuance of 37,497 shares of Class A common stock. Additionally, during the year ended December 31, 2019, 5,154,964 Options were exercised by means of a cashless net exercise procedure, which resulted in the issuance of 2,236,095 shares of Class A common stock. The Company paid withholding taxes of $12.4 million during the year ended December 31, 2019 related to cashless Option exercises. Employees paid $0.4 million to the Company during the year ended December 31, 2018 to exercise GS Holdings options, which resulted in the issuance of 30,516 Holdco Units. Additionally, during the year ended December 31, 2018, 2,372,936 GS Holdings options were exercised by means of a cashless net exercise procedure, which resulted in the issuance of 38,637 Holdco Units prior to the Reorganization Transactions and IPO and the issuance of 1,027,377 shares of Class A common stock subsequent to the Reorganization Transactions and IPO. The Company paid withholding taxes of $5.4 million during the year ended December 31, 2018 related to cashless Option exercises, inclusive of exercises both prior and subsequent to the Reorganization Transactions and IPO. The Company recognized a tax benefit of $2.9 million and $0.9 million during the years ended December 31, 2019 and 2018, respectively, related to Options exercised.

(4) Expired Options represent vested underwater Options that were not exercised by terminated employees within 30 days from the employment termination date, as stipulated in the Option award agreements.

(5) The aggregate intrinsic value and weighted average remaining contractual terms of Options outstanding and Options exercisable were as follows as of the date indicated:

	December 31, 2019
Aggregate intrinsic value (in millions)	
Options outstanding	$ 4.8
Options exercisable	$ 3.7
Weighted average remaining term (in years)	
Options outstanding	7.6
Options exercisable	5.6

(6) The total fair value, based on grant date fair value, of Options that vested during the years ended December 31, 2019, 2018 and 2017 was $2.6 million, $1.2 million and $1.4 million, respectively.

Compensation expense related to Options is measured based on their grant date fair values. We use a Black-Scholes options pricing model to determine the grant date fair value of Options.

The following inputs and assumptions were used to value the Options as of the grant dates:

	Year Ended December 31,		
	2019	2018	2017
Risk-free interest rate	1.50 – 2.50%	2.77 – 3.06%	2.03 – 2.23%
Expected volatility[1]	22.45 – 24.40%	23.10 – 25.70%	23.90 – 44.40%
Expected dividend yield[2]	—%	—%	—%
Expected term (in months)[3]	75	75 – 78	78
Fair value of Options	$1.77 – $3.78	$2.95 – $7.14	$2.69 – $4.99

(1) We estimated volatility based on historical volatility rates of a peer group of public payment processing companies over a period that approximates the expected term.

(2) We assumed a dividend yield of zero as we have no plans to declare dividends for the foreseeable future.

(3) We determined the expected term as the midpoint between the scheduled vesting and expiration dates of the awards. We used the simplified method primarily due to having insufficient historical Option exercise experience upon which to reasonably estimate an expected term.

At December 31, 2019, unrecognized compensation costs related to unvested Options totaled $9.8 million, which will be recognized over a weighted average remaining requisite service period of 2.3 years.

Profits Interests

On October 1, 2015, we began to award profits interests to certain employees and non-employee directors. Profits interests were assigned a threshold value on the date of grant, which was generally equivalent to the fair value of our GSLLC (and subsequently GS Holdings) Class A units at the time of grant. The profits interests issued on October 1, 2015 were modifications of previously issued Class A Unit Options. The Class A Unit Options remained outstanding, but were capped at a liquidation value of $7.60 per unit, meaning that the maximum proceeds received by Class A Unit Option holders at liquidation was limited to the difference between $7.60 per unit and the Class A Unit Option strike price. We evaluated this modification in accordance with ASC 718, *Compensation – Stock compensation*, and determined that there was no incremental share-based compensation expense to recognize as a result of this modification. There were 41 employees and two non-employees affected by the modification. Profits interests granted by the Company were time-vested awards that either vested ratably over a period of four and a half to five years of continued employee service or cliff vested at the end of a period of five years of continued employee service. Profits interests were not subject to post-vesting restrictions.

As part of the Reorganization Transactions, profits interests were converted into Holdco Units, which remain subject to the same service vesting requirements as the original profits interests. There were 65 employees and former employees and three non-employees affected by the modification. Given the conversion of all

outstanding profits interests in connection with the Reorganization Transactions, there was no profits interests activity during the year ended December 31, 2019. Refer to Note 1 for a detailed discussion of the Reorganization Transactions.

Profits interests activity was as follows during the years indicated:

	Year Ended December 31,	
	2018	2017
	Number of Profits Interests	Number of Profits Interests
Outstanding at beginning of period	14,061,530	12,616,890
Granted prior to Reorganization Transactions and IPO[1]	2,920,000	2,374,640
Forfeited prior to Reorganization Transactions and IPO	(800,000)	(930,000)
Redeemed prior to Reorganization Transactions and IPO	—	—
Effect of Reorganization Transactions and IPO	(16,181,530)	N/A
Outstanding at end of period[2]	—	14,061,530

(1) Weighted average grant date fair value of profits interests granted during the years ended December 31, 2018 and 2017 was $4.47 and $3.49, respectively.

(2) The total fair value based on grant date fair value of profits interests that vested was $0.4 million and $2.4 million during the years ended December 31, 2018 and 2017, respectively.

Compensation expense related to profits interests was measured based on the grant date fair value of the profits interests. We used a Black-Scholes options pricing model to determine the grant date fair value of profits interests.

The following inputs and assumptions were used to value the profits interests (limited to profits interests without an associated Capped Option) as of the grant dates.

	Year Ended December 31,	
	2018	2017
Risk-free interest rate	2.60 – 2.63%	1.80 – 2.18%
Expected volatility[1]	25.70%	23.90 – 24.80%
Expected dividend yield[2]	—%	—%
Expected term (in months)[3]	54 – 60	60
Fair value of profits interests	$3.92 – $5.91	$2.28 – $4.01

(1) We estimated volatility based on historical volatility rates of a peer group of public payment processing companies over a period that approximates the expected term.

(2) We assumed a dividend yield of zero as we have no plans to declare dividends for the foreseeable future.

(3) We determined the expected term to be equivalent to the vesting period.

Unvested Holdco Units

As part of the Reorganization Transactions and IPO, 15,241,530 profits interests in GS Holdings were converted into 2,941,139 and 3,172,843 vested and unvested Holdco Units, respectively, based on the prevailing profits interests thresholds and the IPO price of $23.00 per share. The converted Holdco Units remain subject to the same service vesting requirements as the original profits interests and are not subject to post-vesting restrictions. We evaluated this modification in accordance with ASC 718, *Compensation – Stock compensation*, and determined that there was no incremental share-based compensation expense to recognize as a result of this modification. Therefore, unrecognized compensation expense was unaffected by the modification. There were 36 employees and former employees and three non-employees affected by this modification.

Unvested Holdco Units activity was as follows during the years indicated:

	Year Ended December 31, 2019		Year Ended December 31, 2018
	Number of Holdco Units	Weighted Average Grant Date Fair Value	Number of Holdco Units
Unvested at beginning of period	2,514,856	$ 23.00	—
Effect of Reorganization Transactions and IPO	N/A	N/A	3,172,843
Forfeited	(301,735)	23.00	(156,739)
Vested[1]	(1,100,514)	23.00	(501,248)
Unvested at end of period	1,112,607	$ 23.00	2,514,856

(1) The total fair value, based on grant date fair value, of previously unvested Holdco Units that vested during the years ended December 31, 2019 and 2018 was $25.3 million and $11.5 million, respectively.

During the years ended December 31, 2019 and 2018, 655,334 and 277,059, respectively, vested Holdco Units were exchanged (with automatic cancellation of an equal number of shares of Class B common stock) for shares of our Class A common stock on a one-for-one basis. At December 31, 2019, 3,610,507 vested Holdco Units were eligible for exchange for shares of our Class A common stock.

At December 31, 2019, unrecognized compensation costs related to unvested Holdco Unit awards totaled $6.7 million, which will be recognized over a weighted average remaining requisite service period of two years.

Restricted Stock Awards

As part of the Reorganization Transactions and IPO, 940,000 profits interests in GS Holdings were converted into 127,327 and 255,904 vested and unvested Class A common stock awards, respectively, based on the prevailing profits interests thresholds and the IPO price of $23.00 per share. The converted unvested Class A common stock awards remain subject to the same service vesting requirements as the original profits interests and are not subject to post-vesting restrictions. We evaluated this modification in accordance with ASC 718, *Compensation – Stock compensation*, and determined that there was no incremental share-based compensation expense to recognize as a result of this modification. Therefore, unrecognized compensation expense was unaffected by the modification. There were 29 employees and former employees affected by this modification.

Subsequent to the Reorganization Transactions and IPO, we granted restricted stock awards in the form of unvested Class A common stock to certain employees that vest ratably over a three or four year period based on continued employment at the Company and to certain non-employee directors that vest one year from grant date based on continued service on the Board of Directors ("Board"). For these awards, compensation expense is measured based on the closing stock price of the Company's Class A common stock on the date of grant, and the total value of the awards is expensed ratably over the requisite service period.

Unvested Class A common stock activity was as follows during the years indicated:

	Year Ended December 31, 2019		Year Ended December 31, 2018
	Class A common stock	Weighted Average Grant Date Fair Value	Class A common stock
Unvested at beginning of period	454,561	$ 19.08	—
Effect of Reorganization Transactions and IPO	N/A	N/A	255,904
Granted[1]	2,887,905	10.90	234,829
Forfeited[2]	(210,845)	13.94	(11,750)
Vested[3]	(132,278)	19.84	(24,422)
Unvested at end of period	2,999,343	$ 11.53	454,561

(1) Weighted average grant date fair value of restricted stock awards granted during the year ended December 31, 2018 was $15.37.

(2) Forfeited shares of unvested Class A common stock associated with restricted stock awards are held in our treasury stock account. Refer to Note 11 for additional information on our treasury stock.

(3) The total fair value, based on grant date fair value, of previously unvested Class A common stock that vested during the years ended December 31, 2019 and 2018 was $2.6 million and $0.6 million, respectively.

At December 31, 2019, unrecognized compensation costs related to unvested Class A common stock totaled $26.9 million, which will be recognized over a weighted average remaining requisite service period of 3.1 years.

Note 13. Income Taxes

GreenSky, Inc. is taxed as a corporation and pays corporate federal, state and local taxes on income allocated to it from GS Holdings based upon GreenSky, Inc.'s economic interest held in GS Holdings. GS Holdings is treated as a pass-through partnership for income tax reporting purposes and not subject to federal income tax. Accordingly, the Company is not liable for income taxes on the portion of GS Holdings' earnings not allocated to it. The results for the year ended December 31, 2017 do not reflect income tax expense because, prior to the Reorganization Transactions, the consolidated GSLLC (and subsequently GS Holdings) pass-through entity was not subject to corporate tax.

The Company's income before income tax expense of $88,848, $133,514 and $138,668 during the years ended December 31, 2019, 2018 and 2017, respectively, consisted entirely of income earned in the United States.

Components of income tax expense consisted of the following for the years indicated:

	Year Ended December 31,	
	2019	2018
Current income tax expense (benefit):		
Federal	$ 5	$ 4
State	10	5
Deferred income tax expense (benefit):		
Federal	4,206	4,860
State	(11,346)	665
Income tax expense (benefit)	$ (7,125)	$ 5,534

A reconciliation of the United States statutory income tax rate to the Company's effective income tax rate is as follows for the years indicated:

	Year Ended December 31,		
	2019	2018	2017
Statutory federal tax rate	21.0 %	21.0 %	35.0 %
Income attributable to noncontrolling interests and nontaxable income	(15.2)	(16.3)	(35.0)
State income taxes, net of federal benefit	0.6	0.4	—
State rate change impact on deferred taxes	(13.0)	—	—
Remeasurement of liability under tax receivable agreement	2.3	—	—
Excess tax benefits related to share-based compensation	(3.3)	—	—
Other	(0.4)	(1.0)	—
Effective income tax rate	(8.0)%	4.1 %	— %

The Company's effective tax rate was (8.0)% in 2019, in comparison to the U.S. statutory tax rate in 2019 of 21.0%. The comparison of our effective tax rate to the U.S. statutory tax rate was primarily influenced by the fact that the Company is not liable for income taxes on the portion of GS Holdings' earnings that are attributable to the noncontrolling interests. Further, the comparison includes the effects of warrant and share-based compensation deductions, and the effect of remeasuring net deferred tax assets for state tax rate changes, and the removal of the pre-tax loss associated with remeasurement of the tax receivable agreement liability.

Details of the Company's deferred tax assets and liabilities are as follows:

	Year Ended December 31,	
	2019	2018
Deferred tax assets:		
Investment in partnership	$ 358,024	$ 299,466
Net operating loss carryforwards and tax credits	5,160	5,634
Other	1,657	1,879
Total	364,841	306,979
Valuation allowance	—	—
Total deferred tax assets	364,841	306,979
Total deferred tax liabilities	—	—
Deferred tax assets, net	$ 364,841	$ 306,979

As of December 31, 2019, the Company had net operating loss carryforwards ("NOLs") of $4.7 million, of which approximately $3.9 million have an indefinite life. NOLs of $0.8 million will begin to expire in 2030. As of December 31, 2019, the Company had federal and state tax credit carryforwards of $0.2 million and $0.5 million, respectively, which will begin to expire in 2028 and 2038. The Company believes as of December 31, 2019, it is more likely than not that the results of future operations will generate sufficient taxable income to realize the NOLs and tax credits and, as such, no valuation allowance was recorded.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows for the years indicated. The Company did not have uncertain tax benefits during the year ended December 31, 2017 because, prior to the Reorganization Transactions, the Company was not subject to corporate tax.

	Year Ended December 31,	
	2019	2018
Beginning balance	$ 3,377	$ —
Increase related to Reorganization Transactions	—	1,085
Increase related to current year tax positions	53	2,292
Decrease related to current year tax positions	(3,376)	—
Ending balance	$ 54	$ 3,377

As of December 31, 2019 and 2018, the total liability related to uncertain tax positions was $0.1 million and $3.4 million, respectively. The decrease in the liability for uncertain tax positions was due to the Internal Revenue Service issuing a consent agreement whereby the Company was granted permission for a non-automatic method change. If recognized, $0.1 million of the amount of unrecognized tax benefits would impact our effective tax rate. The Company recognizes interest and penalties, if applicable, related to uncertain tax positions as a component of income tax expense. Accrued interest and penalties were immaterial as of December 31, 2019 and 2018, and therefore did not impact the effective income tax rate.

The Company files income tax returns as required by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company may be subject to examination by federal and certain state and local tax authorities. As of December 31, 2019, the Company's federal income tax returns for the years 2016 through 2018 and state and local tax returns for the years 2015 through 2018 remain open and are subject to examination. Currently, no tax authorities are auditing any of the Company's income tax matters.

Tax Receivable Agreement

Pursuant to our election under Section 754 of the Internal Revenue Code (the "Code"), we expect to obtain an increase in our share of the tax basis in the net assets of GS Holdings when Holdco Units are redeemed or exchanged by the Continuing LLC Members of GS Holdings. We intend to treat any redemptions and exchanges of Holdco Units as direct purchases of Holdco Units for United States federal income tax purposes. These increases in tax basis may reduce the amounts that we would otherwise pay in the future to various tax authorities. They may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

On May 23, 2018, we entered into a tax receivable agreement ("TRA") that provides for the payment by us of 85% of the amount of any tax benefits that we actually realize, or in some cases are deemed to realize, as a result of (i) increases in our share of the tax basis in the net assets of GS Holdings resulting from any redemptions or exchanges of Holdco Units and from our acquisition of the equity of certain of the Former Corporate Investors, (ii) tax basis increases attributable to payments made under the TRA, and (iii) deductions attributable to imputed interest pursuant to the TRA (the "TRA Payments"). We expect to benefit from the remaining 15% of any tax benefits that we may actually realize. The TRA Payments are not conditioned upon any continued ownership interest in GS Holdings or us. The rights of each member of GS Holdings that is a party to the TRA are assignable to transferees of their respective Holdco Units. The timing and amount of aggregate payments due under the TRA may vary based on a number of factors, including the timing and amount of taxable income generated by the Company each year, as well as the tax rate then applicable.

As a result of the Reorganization Transactions, the IPO and subsequent exchanges of Class B common stock for Class A common stock, during the years ended December 31, 2019 and 2018, the Company recognized deferred tax assets in the amount of $55.2 million and $317.0 million, respectively, and corresponding tax receivable agreement liabilities of $46.9 million and $264.8 million, respectively, representing approximately 85% of the tax benefits due to beneficiaries of the TRA. The offset to the initial entries recorded in connection with

exchanges in each year was to additional paid-in capital in the Consolidated Statements of Equity (Deficit). During the year ended December 31, 2019, there was an $11.5 million increase in deferred tax assets due to various state tax law changes and filing in certain states for the first time, with a corresponding $11.5 million tax benefit. Because of the state tax rate changes, the TRA liability increased by $9.8 million, with a corresponding adjustment to other losses in the Consolidated Statements of Operations.

As of December 31, 2019 and 2018, the Company had a liability of $311.7 million and $260.9 million, respectively, related to its projected obligations under the TRA, which is captioned as tax receivable agreement liability in our Consolidated Balance Sheets. During the year ended December 31, 2019, we made payments, inclusive of interest, of $4.7 million to members of GS Holdings pursuant to the TRA. Within the next twelve months, we expect such payments to total $12.8 million.

Note 14. Commitments, Contingencies and Guarantees

Commitments

Leases

As discussed in Note 1, we adopted the provisions of ASU 2016-02 as of January 1, 2019. Periods subsequent to this adoption date are presented and disclosed in accordance with ASC 842, *Leases*, while comparative periods continue to be presented and disclosed in accordance with legacy guidance in ASC 840, *Leases*.

In accordance with ASC 842, we determine if an arrangement is or contains a lease at inception of the contract. A contract is or contains a lease if the contract conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. We primarily lease our premises under multi-year, non-cancelable operating leases. Operating leases are included in operating lease ROU assets and operating lease liabilities in our Consolidated Balance Sheets. As of December 31, 2019, we did not have any finance leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at lease commencement date based on the present value of lease payments over the lease term. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at lease commencement date in determining the present value of lease payments. The operating lease ROU assets are increased by any prepaid lease payments and are reduced by any unamortized lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Base rent is typically subject to rent escalations on each annual anniversary from the lease commencement dates. Lease expense for lease payments, including any step rent provisions specified in the lease agreements, is recognized on a straight-line basis over the lease term and is included within property, office and technology and related party expenses in the Consolidated Statements of Operations. Operating lease cost associated with our ROU assets and lease liabilities was $3,847, $3,183, and $2,972 for the years ended December 31, 2019, 2018 and 2017, respectively. See Note 15 for additional information regarding office space leased from a related party.

Our operating leases have terms expiring from 2021 through 2024, exclusive of renewal option periods. Our leases contain renewal option periods ranging from five to fifteen years from the expiration dates. One lease also contains a termination option in 2023. These options were not recognized as part of our operating lease ROU assets and operating lease liabilities, as we did not conclude at the commencement date of the leases that we were reasonably certain to exercise these options. However, in our normal course of business, we expect our leases to be renewed, amended or replaced by other leases.

As of December 31, 2019, we did not have any operating leases that had not yet commenced.

Supplemental cash flow and noncash information related to our operating leases were as follows for the year indicated.

	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	
Operating cash flows from operating leases	$ 4,241
Noncash operating lease ROU assets obtained in exchange for operating lease liabilities	
Resulting from our adoption of ASU 2016-02	$ 11,279
Resulting from new or modified leases	2,975

Supplemental balance sheet information related to our operating leases was as follows as of the date indicated.

	December 31, 2019
Operating lease ROU assets	$ 11,268
Operating lease liabilities	$ 13,884
Weighted average remaining lease term (in years)	3.3
Weighted average discount rate	5.7 %

For the periods presented, maturities of operating lease liabilities as of the date indicated and a reconciliation of the total undiscounted cash flows to the operating lease liabilities in the Consolidated Balance Sheets, were as follows in accordance with ASC 842:

	December 31, 2019
2020	$ 4,491
2021	4,892
2022	3,704
2023	1,501
2024	810
Thereafter	—
Total lease payments	$ 15,398
Less: imputed interest	(1,514)
Operating lease liabilities	$ 13,884

Covenants

Our transaction processor and some Bank Partners impose financial covenants upon our wholly owned subsidiary, GSLLC. As of December 31, 2019 and 2018, GSLLC was in compliance with all financial covenants. See Note 7 for discussion of financial and non-financial covenants associated with our borrowings.

Other Commitments

As of December 31, 2019 and 2018, the outstanding open and unused line of credit on approved loan receivables held for sale was $4.9 million and $3.0 million, respectively. We did not record a provision for these unfunded commitments, but believe we have adequate cash on hand to fund these commitments.

For certain Bank Partners, we maintain a restricted cash balance based on a contractual percentage of the total interest billed on outstanding deferred interest loans that are within the promotional period less previous FCR on such outstanding loans. As of December 31, 2019 and 2018, restricted cash in the Consolidated Balance Sheets includes $75.0 million and $49.8 million, respectively, associated with these arrangements.

Contingencies

In limited instances, the Company may be subject to operating losses if we make certain errors in managing credit programs and we determine that a customer is not liable for a loan originated by a Bank Partner. We evaluated this contingency in accordance with ASC 450, *Contingencies*, and determined that it is reasonably possible that losses could result from errors in underwriting. However, in management's opinion, it is not possible to estimate the likelihood or range of reasonably possible future losses related to errors in underwriting based on currently available information. Therefore, we have not established a liability for this loss contingency.

Further, from time to time, we place Bank Partner loans on non-accrual and non-payment status ("Pended Status") while we investigate consumer loan balance inquiries, which may arise from disputed charges related to work performed by third-party merchants. As of December 31, 2019, Bank Partner loan balances in Pended Status were $13.5 million. While it is management's expectation that most of these loan balance inquiries will be resolved without incident, in certain instances we may determine that it is appropriate for the Company to permanently reverse the loan balance and assume the economic responsibility for the loan balance itself. We record a liability for these instances. As of December 31, 2019, our liability for potential Pended Status future losses was $5.8 million.

Legal Proceedings

The Company and certain of its officers and directors, together with certain underwriters of the Company's IPO, were named in six putative class actions filed in the Supreme Court of the State of New York, all of which actions have been consolidated (In Re GreenSky, Inc. Securities Litigation (Consolidated Action), Index No. 655626/2018 (N.Y. Sup. Ct.) (the "State Case")), and in two putative class actions filed in the United States District Court for the Southern District of New York, both of which actions also have been consolidated (In Re GreenSky, Inc. Securities Litigation (Consolidated Action), Case No. 1:2018-cv-11071-PAE (S.D.N.Y.) (the "Federal Case" and, together with the State Case, the "Consolidated Cases")). The plaintiffs in the Consolidated Cases generally assert on behalf of certain purchasers in the Company's IPO claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933.

The Company and its officers and directors named in the Consolidated Cases intend to defend themselves vigorously in all respects in regard thereto. Under certain circumstances, the Company may be obligated to indemnify some or all of the other defendants in the Consolidated Cases. The Company is unable to estimate the amount of reasonably possible losses it may incur with respect to the Consolidated Cases. Moreover, because the Company has not determined that the likelihood of loss is probable, the Company has not recorded any liability as of December 31, 2019 with respect to either the Federal Case or the State Case.

We are also involved in a number of other proceedings concerning matters arising in connection with the conduct of our business. While the ultimate outcome of such proceedings cannot be predicted with certainty, we do not believe that the resolution of these other proceedings, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flows.

With respect to all legal proceedings, it is our policy to recognize legal fees as they are incurred as a general and administrative expense in our Consolidated Statements of Operations.

Financial Guarantees

Under the terms of the contracts with our Bank Partners, we provide limited protection to the Bank Partners in the event of excess Bank Partner portfolio credit losses by holding cash in restricted, interest-bearing escrow accounts in an amount equal to a contractual percentage of the Bank Partners' monthly originations and month-end outstanding portfolio balance. The Company's maximum exposure to Bank Partner portfolio credit losses is limited to the contractual restricted cash balance, which was $150.4 million as of December 31, 2019.

The Company's estimated contingent value of the financial guarantee represents the amount of payments to Bank Partners from these escrow accounts that are expected to be probable of occurring based on current Bank Partner portfolio composition and is recorded within financial guarantee liability in the Consolidated Balance

Sheets. During 2019, Regions Bank indicated that it made a strategic decision to reduce its use of indirect lending programs and, consequently, did not renew its origination commitment when it expired on November 25, 2019. The non-renewal event prompted management to conclude as of December 31, 2019 that the likelihood of loss with respect to the Regions escrow account was probable of occurring. As of December 31, 2019, the estimated undiscounted value of the financial guarantee was $16.7 million, which was primarily attributable to the Regions Bank portfolio.

Recorded financial guarantees are typically settled within one year of the initial measurement of the liabilities. In estimating the obligation, we consider a variety of factors, including historical experience, management's expectations of current customer delinquencies converting into Bank Partner portfolio losses and recent events and circumstances. We do not expect to directly recover any losses associated with this financial guarantee.

Note 15. Related Party Transactions

Lease

We lease office space from a related party under common management control for which lease expense is recognized within related party expenses in the Consolidated Statements of Operations and for which operating lease ROU assets and operating lease liabilities are recognized within those respective line items in the Consolidated Balance Sheets. Total operating lease cost related to this office space was $1,738, $1,691 and $1,486 for the years ended December 31, 2019, 2018 and 2017, respectively. Operating lease ROU assets and operating lease liabilities related to this office space were $5.2 million and $6.2 million, respectively, as of December 31, 2019.

Contractual and Other Arrangements

In April 2018, we entered into an agreement with an affiliate of a member of the Board of Directors whereby we receive certain executive search and recruiting services in exchange for a fee. We incurred expenses related to this arrangement of $0 and $315 during the years ended December 31, 2019 and 2018, respectively, which is presented within related party expenses in the Consolidated Statements of Operations. There was no payable related to this arrangement as of December 31, 2019 and 2018.

In August 2018, we entered into an agreement in which an unrelated third party acted as a placement agent in connection with certain Charged-Off Receivables transfers and received a fee from us based on the proceeds received from such transfers. In performing these services, the third party agreed to use an affiliate of a member of the Board and, as such, we determined this arrangement to be related party in nature. In December 2018, the unrelated third party assigned its role in the agreement to the affiliate entity itself; therefore, the arrangement remains a related party transaction. We incurred expenses related to this arrangement of $540 and $206 during the years ended December 31, 2019 and 2018, respectively, which are presented within related party expenses in the Consolidated Statements of Operations. There was no payable related to this arrangement as of December 31, 2019 and 2018.

We entered into non-interest bearing loan agreements with certain non-executive employees for which the remaining outstanding balances are forgiven ratably over designated periods based on continued employment with the Company. As of December 31, 2019 and 2018, the remaining outstanding balances on these loan agreements were $155 and $142, respectively, which are presented within related party receivables in the Consolidated Balance Sheets.

In August 2017, we incurred fees of $2.6 million due to an affiliate of one of the members of the board of managers in connection with finalizing our August 2017 term loan transaction. These costs were not directly attributable to the original term loan and were, therefore, expensed as incurred rather than deferred against the term loan balance. There were no remaining unpaid fees as of December 31, 2019. The unpaid portion of these fees of $0.5 million as of December 31, 2018 was recorded within related party liabilities in the Consolidated Balance Sheets.

There were no equity-based payments to non-employees that resulted in related party expenses during the years ended December 31, 2019 and 2018. Equity-based payments to non-employees resulted in related party expenses of $285 for the year ended December 31, 2017.

Distributions

As of December 31, 2019, there were no unpaid portions of related party distributions or reserved payments recorded within related party liabilities in the Consolidated Balance Sheets. See Note 11 for distribution and payment details.

Financing Partner Arrangements

In June 2018, the outstanding receivables purchased by affiliates of two members of our Board from a Bank Partner in November 2016 for $20.0 million were sold to another Bank Partner, which is not a related party, and continue to be serviced by us. In connection with that receivable sale, the related party servicing agreement with us was terminated. As of December 31, 2018, we no longer had any such related party arrangements.

Consolidated Statements of Operations effects associated with our related party financing arrangements were as follows during the years indicated:

	Year Ended December 31,	
	2018	2017
Servicing and other	$ 54	$ 146
Related party expenses[(1)]	—	428

(1) Expenses incurred related to related party bank partner credit losses.

Note 16. Segment Reporting

We conduct our operations through a single operating segment and, therefore, one reportable segment. There are no significant concentrations by state or geographical location, nor are there any significant individual customer concentrations by balance.

Note 17. Variable Interest Entities

Upon completion of our IPO, GreenSky, Inc. became the managing member of GS Holdings with 100% of the management and voting power in GS Holdings. In its capacity as managing member, GreenSky, Inc. has the sole authority to make decisions on behalf of GS Holdings and bind GS Holdings to agreements. Further, GS Holdings maintains separate capital accounts for its investors as a mechanism for tracking earnings and subsequent distribution rights. Accordingly, management concluded that GS Holdings is a limited partnership or similar legal entity as contemplated in ASC 810, *Consolidation*.

Further, management concluded that GreenSky, Inc. is GS Holdings' primary beneficiary based on two conditions. First, GreenSky, Inc., in its capacity as managing member with sole voting rights, has the power to direct the activities of GS Holdings that most significantly impact its economic performance, including selecting, terminating and setting the compensation of management responsible for implementing GS Holdings' policies and procedures, as well as establishing the strategic, operating and capital decisions of GS Holdings in the ordinary course of business. Second, GreenSky, Inc. has an obligation to absorb potential losses of GS Holdings or the right to receive potential benefits from GS Holdings in proportion to its weighted average ownership interest, which was 34.6% for the year ended December 31, 2019. Management considers this exposure to be significant to GS Holdings. As the primary beneficiary, GreenSky, Inc. consolidates the results of GS Holdings for financial reporting purposes under the variable interest consolidation model guidance in ASC 810.

GreenSky, Inc.'s relationship with GS Holdings results in no recourse to the general credit of GreenSky, Inc. GS Holdings and its consolidated subsidiaries represent GreenSky, Inc.'s sole investment. GreenSky, Inc. shares in the income and losses of GS Holdings in direct proportion to GreenSky, Inc.'s ownership percentage.

Further, GreenSky, Inc. has no contractual requirement to provide financial support to GS Holdings.

Below are tabular disclosures that provide insight into how GS Holdings affects GreenSky, Inc.'s financial position, performance and cash flows. Prior to the IPO and Reorganization Transactions, GreenSky, Inc. did not have any variable interest in GS Holdings.

The following table presents the balances related to GS Holdings that are included in the Consolidated Balance Sheets as of the dates indicated, inclusive of GreenSky, Inc.'s interest in the variable interest entity.

	December 31,	
	2019	2018
Assets		
Cash and cash equivalents	$ 177,730	$ 294,364
Restricted cash	250,081	155,109
Loan receivables held for sale, net	51,926	2,876
Accounts receivable, net	19,493	15,400
Related party receivables	156	142
Property, equipment and software, net	18,309	10,232
Operating lease right-of-use assets	11,268	—
Other assets	38,224	7,448
Total assets	$ 567,187	$ 485,571
Liabilities and Members Equity (Deficit)		
Liabilities		
Accounts payable	$ 11,912	$ 5,357
Accrued compensation and benefits	10,734	8,484
Other accrued expenses	3,244	1,015
Finance charge reversal liability	206,035	138,589
Term loan	384,497	386,822
Related party liabilities	—	825
Operating lease liabilities	13,884	—
Financial guarantee liability	16,698	626
Other liabilities	46,444	30,638
Total liabilities	$ 693,448	$ 572,356
Members Equity (Deficit)		
Equity (deficit) attributable to Continuing LLC Members	(80,758)	(60,349)
Equity (deficit) attributable to GreenSky, Inc.	(45,503)	(26,436)
Total members equity (deficit)	(126,261)	(86,785)
Total liabilities and members equity (deficit)	$ 567,187	$ 485,571

The following table reflects the impact of consolidation of GS Holdings into the Consolidated Statements of Operations for the years indicated.

	Year Ended December 31,	
	2019	2018
Total revenue	$ 529,646	$ 414,673
Total costs and expenses	408,693	261,883
Operating profit	120,953	152,790
Total other income (expense), net	(22,297)	(19,276)
Net income	$ 98,656	$ 133,514

The following table reflects the cash flow impact of GS Holdings on the Consolidated Statements of Cash Flows for the years indicated.

	Year Ended December 31,	
	2019	2018
Net cash provided by operating activities	$ 153,327	$ 256,426
Net cash used in investing activities	(15,381)	(6,581)
Net cash used in financing activities	(159,608)	(154,210)
Net increase (decrease) in cash and cash equivalents and restricted cash	(21,662)	95,635
Cash and cash equivalents and restricted cash at beginning of period	449,473	353,838
Cash and cash equivalents and restricted cash at end of period	$ 427,811	$ 449,473

Note 18. Quarterly Consolidated Results of Operations Data (Unaudited)

The following table sets forth our quarterly consolidated results of operations data for each of the eight quarters in the period ended December 31, 2019. GS Holdings is our predecessor for accounting purposes and, accordingly, amounts prior to the Reorganization Transactions and IPO represent the historical consolidated operations of GS Holdings and its subsidiaries. The amounts during the period from May 24, 2018 through December 31, 2018 represent those of consolidated GreenSky, Inc. and its subsidiaries. Basic and diluted earnings per share of Class A common stock is applicable only for the period from May 24, 2018 through December 31, 2018, which is the period following the Reorganization Transactions and IPO. Prior to the Reorganization Transactions and IPO, GreenSky, Inc. did not engage in any business or other activities except in connection with its formation and initial capitalization. See Note 1 for further information on our organization and see Note 2 for further information on our earnings per share.

	Year Ended December 31, 2019				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Total revenue	$ 103,700	$ 138,695	$ 153,415	$ 133,836	$ 529,646
Cost of revenue (exclusive of depreciation and amortization)	58,037	56,228	64,957	69,358	248,580
Total costs and expenses	92,212	92,189	101,017	123,275	408,693
Operating profit	11,488	46,506	52,398	10,561	120,953
Total other income (expense), net	(4,682)	(11,779)	(6,790)	(8,854)	(32,105)
Income before income tax expense (benefit)	6,806	34,727	45,608	1,707	88,848
Net income	7,401	39,193	44,075	5,304	95,973
Less: Net income attributable to noncontrolling interests	4,502	26,877	29,349	3,265	63,993
Net income attributable to GreenSky, Inc.	2,899	12,316	14,726	2,039	31,980
Earnings per share of Class A common stock:					
Basic	$ 0.05	$ 0.20	$ 0.24	$ 0.03	$ 0.52
Diluted[(1)]	$ 0.05	$ 0.19	$ 0.23	$ 0.03	$ 0.49

	Year Ended December 31, 2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Total revenue	$ 85,326	$ 105,704	$ 113,912	$ 109,731	$ 414,673
Cost of revenue (exclusive of depreciation and amortization)	36,130	33,765	35,374	55,170	160,439
Total costs and expenses	61,749	58,896	59,655	81,583	261,883
Operating profit	23,577	46,808	54,257	28,148	152,790
Total other income (expense), net	(4,973)	(4,398)	(5,170)	(4,735)	(19,276)
Income before income tax expense (benefit)	18,604	42,410	49,087	23,413	133,514
Net income	18,604	40,816	45,712	22,848	127,980
Less: Net income attributable to noncontrolling interests	18,604	35,266	33,711	16,143	103,724
Net income attributable to GreenSky, Inc.	N/A	5,550	12,001	6,705	24,256
Earnings per share of Class A common stock:					
Basic	N/A	$ 0.10	$ 0.21	$ 0.12	$ 0.43
Diluted[(1)]	N/A	$ 0.09	$ 0.20	$ 0.11	$ 0.41

(1) Year-to-date results may not agree to the sum of individual quarterly results due to rounding.

Note 19. Subsequent Events

Management determined that the following events subsequent to December 31, 2019 were required for disclosure:

Sale of loan receivables held for sale

The Company executed a sale of loan receivables held for sale of $24.1 million within the Company's Bank Partner network.

Distributions

GS Holdings finalized and paid tax distributions of $45.5 million to its members (including GreenSky, Inc.) and paid previously declared but unpaid non-tax distributions of $1.7 million to certain of its members upon vesting of their equity in GS Holdings.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2019, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Act")), was carried out by our management and with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer). Based upon the evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures were effective as of December 31, 2019.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Act, for the Company. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under management's supervision, an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019 was conducted based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control – Integrated Framework" (2013). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2019.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2019, which is included in Item 8 of this Form 10-K.

Changes in Internal Control Over Financial Reporting

During the fourth quarter ended December 31, 2019, no changes in our internal control over financial reporting occurred that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to the information contained under the captions "Proposal One: Election of Directors," "Executive Officers of GreenSky," "Delinquent Section 16(a) Reports" and "Corporate Governance" in our definitive Proxy Statement with respect to our 2020 Annual Meeting.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information contained under the caption "Executive and Director Compensation" in our definitive Proxy Statement with respect to our 2020 Annual Meeting.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the information contained under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in our definitive Proxy Statement with respect to our 2020 Annual Meeting.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the information contained under the captions "Related Party Transactions" and "Corporate Governance" in our definitive Proxy Statement with respect to our 2020 Annual Meeting.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to the information contained under the caption "Auditor Fees" in our definitive Proxy Statement with respect to our 2020 Annual Meeting.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The following Consolidated Financial Statements of GreenSky, Inc. and its consolidated subsidiaries and the Report of the Independent Registered Public Accounting Firm are included in Part II, Item 8 of this report.

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Report of Independent Registered Public Accounting Firm	74
Consolidated Balance Sheets as of December 31, 2019 and 2018	77
Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017	78
Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017	79
Consolidated Statements of Changes in Equity (Deficit) for the years ended December 31, 2019, 2018 and 2017	80
Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017	82
Notes to Consolidated Financial Statements	84

(2) Financial Statement Schedules

The following financial statement schedules are included in this Form 10-K:

- **Schedule II. Valuation and Qualifying Accounts** is presented for the years ended December 31, 2019, 2018 and 2017.

All remaining schedules are omitted and are not applicable or not required, or the required information is presented in the financial statements or notes thereto.

(3) Exhibits

Exhibit Number	Exhibit Description	Form	File Number	Date of Filing	Exhibit Number Reference
3.1	Amended and Restated Certificate of Incorporation of GreenSky, Inc.	8-K	001-38506	May 29, 2018	3.1
3.2	Amended and Restated Bylaws of GreenSky, Inc. (Effective as of January 31, 2019)	8-K	001-38506	February 6, 2019	3.1
4.1*	Description of Class A Common Stock of GreenSky, Inc.				
4.2	Specimen Stock Certificate for shares of Class A Common Stock of GreenSky, Inc.	S-1/A	333-224505	May 7, 2018	4.1
4.3	Registration Rights Agreement, dated May 23, 2018	8-K	001-38506	May 29, 2018	4.1
10.1†	GreenSky, Inc. 2018 Omnibus Incentive Compensation Plan	10-Q	001-38506	August 10, 2018	10.1
10.1(a)†	Form of Incentive Stock Option Agreement under GreenSky, Inc. 2018 Omnibus Incentive Compensation Plan	10-K	001-38506	March 15, 2019	10.1(a)
10.1(b)†	Form of Non-Qualified Stock Option Agreement under GreenSky, Inc. 2018 Omnibus Incentive Compensation Plan	10-K	001-38506	March 15, 2019	10.1(b)
10.1(c)†	Form of Restricted Stock Agreement under GreenSky, Inc. 2018 Omnibus Incentive Compensation Plan	10-K	001-38506	March 15, 2019	10.1(c)
10.1(d)†	Form of Restricted Stock Unit Agreement under GreenSky, Inc. 2018 Omnibus Incentive Compensation Plan	10-K	001-38506	March 15, 2019	10.1(d)
10.2†	GreenSky Holdings, LLC Equity Incentive Plan	S-1/A	333-224505	May 7, 2018	10.23
10.3†	GreenSky, Inc. Annual Incentive Plan	8-K	001-38506	February 6, 2019	10.1
10.4†	GreenSky, Inc. Executive Severance Plan	8-K	001-38506	April 4, 2019	10.1
10.5†	Employment Agreement, dated September 25, 2014, with David Zalik	S-1	333-224505	April 27, 2018	10.4
10.6†	Offer Letter, dated January 2, 2012, for Timothy D. Kaliban	S-1/A	333-224505	May 7, 2018	10.5
10.7	Form of Indemnification Agreement for each of GreenSky Inc.'s directors and executive officers	S-1	333-224505	April 27, 2018	10.7
10.8	Second Amended and Restated Operating Agreement of GreenSky Holdings, LLC, dated May 23, 2018	8-K	001-38506	May 29, 2018	10.3
10.8(a)	First Amendment to Second Amended and Restated Operating Agreement of GreenSky Holdings, LLC, dated August 24, 2018	10-Q	001-38506	November 9, 2018	10.1
10.9	Tax Receivable Agreement, dated May 23, 2018	8-K	001-38506	May 29, 2018	10.1
10.10	Exchange Agreement, dated May 23, 2018	8-K	001-38506	May 29, 2018	10.2
10.11	Credit Agreement, as amended, with JPMorgan Chase Bank, N.A.	S-1	333-224505	April 27, 2018	10.8
10.12	Phoenix Blackstone Center Lease, as amended, with Phoenix Blackstone, LLC	S-1/A	333-224505	May 7, 2018	10.18
10.13#	Second Amended and Restated GreenSky Installment Loan Program Agreement, dated April 26, 2018, between GreenSky, LLC and Home Depot U.S.A., Inc.	S-1/A	333-224505	May 7, 2018	10.17

Exhibit Number	Exhibit Description	Form	File Number	Date of Filing	Exhibit Number Reference
10.14#	Amended and Restated Co-Branded MasterCard Card Program Agreement, as amended, between GreenSky, LLC (formerly GreenSky Trade Credit, LLC) and Comdata Network, Inc.	S-1/A	333-224505	May 7, 2018	10.16
10.14(a)#	Fourth Amendment to Amended and Restated Co-Branded MasterCard Card Program Agreement, dated August 3, 2018, between GreenSky, LLC and Comdata Network, Inc.	10-Q	001-38506	November 9, 2018	10.2
10.15#	Second Amended and Restated Loan Origination Agreement, as amended, between GreenSky, LLC and SunTrust Bank	S-1	333-224505	April 27, 2018	10.9
10.15(a)#	Amendment No. 3 to Second Amended and Restated Loan Origination Agreement, dated September 28, 2018, among GreenSky, LLC, GreenSky Servicing, LLC and SunTrust Bank	10-Q	001-38506	November 9, 2018	10.3
10.15(b)#	Amendment No. 4 to Second Amended and Restated Loan Origination Agreement, dated February 20, 2019, among GreenSky, LLC, GreenSky Servicing, LLC and SunTrust Bank	10-Q	001-38506	May 15, 2019	10.2
10.15(c)#	Second Amended and Restated Servicing Agreement, as amended, between GreenSky, LLC and SunTrust Bank	S-1	333-224505	April 27, 2018	10.10
10.15(d)#	Amendment No. 3 to Second Amended and Restated Servicing Agreement, dated March 20, 2019, among GreenSky, LLC, GreenSky Servicing, LLC and SunTrust Bank	10-Q	001-38506	May 15, 2019	10.3
10.15(e)#	Amendment No. 4 to Second Amended and Restated Servicing Agreement, dated April 9, 2019, among GreenSky, LLC, GreenSky Servicing, LLC and SunTrust Bank	10-Q	001-38506	August 14, 2019	10.1
10.15(f)#	Amendment No. 5 to Second Amended and Restated Servicing Agreement, dated June 21, 2019, among GreenSky, LLC, GreenSky Servicing, LLC and SunTrust Bank	10-Q	001-38506	August 14, 2019	10.2
10.15(g)#	Amendment No. 6 to Second Amended and Restated Servicing Agreement, dated July 10, 2019, among GreenSky, LLC, GreenSky Servicing, LLC and SunTrust Bank	10-Q	001-38506	November 14, 2019	10.1
10.15(h)	Amendment No. 7 to Second Amended and Restated Servicing Agreement, dated July 10, 2019, among GreenSky, LLC, GreenSky Servicing, LLC and SunTrust Bank	10-Q	001-38506	November 14, 2019	10.2
10.16#	Servicing Agreement, as amended, between GreenSky, LLC and Regions Bank	S-1	333-224505	April 27, 2018	10.12
10.17#	Loan Origination Agreement, as amended, between GreenSky, LLC and Synovus Bank	S-1	333-224505	April 27, 2018	10.13
10.17(a)#	Fifth Amendment to Loan Origination Agreement, dated May 21, 2018, between GreenSky, LLC and Synovus Bank	8-K	001-38506	May 29, 2018	10.6
10.17(b)#	Sixth Amendment to Loan Origination Agreement, dated September 5, 2018, between GreenSky, LLC and Synovus Bank	10-Q	001-38506	November 9, 2018	10.6
10.17(c)#	Seventh Amendment to Loan Origination Agreement, dated December 5, 2018, between GreenSky, LLC and Synovus Bank	10-K	001-38506	March 15, 2019	10.16(c)
10.17(d)#	Eighth Amendment to Loan Origination Agreement, dated September 30, 2019, between GreenSky, LLC and Synovus Bank	10-Q	001-38506	November 14, 2019	10.3
10.17(e)#	Servicing Agreement, as amended, between GreenSky, LLC and Synovus Bank	S-1	333-224505	April 27, 2018	10.14
10.17(f)#	Fourth Amendment to Servicing Agreement, dated May 21, 2018, between GreenSky, LLC and Synovus Bank	8-K	001-38506	May 29, 2018	10.7
10.17(g)#	Fifth Amendment to Servicing Agreement, dated September 27, 2018, between GreenSky, LLC and Synovus Bank	10-Q	001-38506	November 9, 2018	10.5
10.17(h)#	Sixth Amendment to Servicing Agreement, dated December 5, 2018, between GreenSky, LLC and Synovus Bank	10-K	001-38506	March 15, 2019	10.16(g)

Exhibit Number	Exhibit Description	Form	File Number	Date of Filing	Exhibit Number Reference
10.17(i)#	Seventh Amendment to Servicing Agreement, dated December 28, 2018, between GreenSky, LLC and Synovus Bank	10-K	001-38506	March 15, 2019	10.16(h)
10.17(j)#	Eighth Amendment to Servicing Agreement, dated March 22, 2019, between GreenSky, LLC and Synovus Bank	10-Q	001-38506	May 15, 2019	10.4
10.17(k)#	Ninth Amendment to Servicing Agreement, dated September 30, 2019, between GreenSky, LLC and Synovus Bank	10-Q	001-38506	November 14, 2019	10.4
10.18*#	Amended and Restated Loan Origination Agreement, dated December 20, 2019, between GreenSky, LLC and Fifth Third Bank, National Association				
10.18(a)*#	Amended and Restated Servicing Agreement, dated December 20, 2019, between GreenSky, LLC and Fifth Third Bank, National Association				
10.19#	Loan Origination Agreement, dated November 5, 2018, between GreenSky, LLC and BMO Harris Bank N.A.	10-K	001-38506	March 15, 2019	10.18
10.19(a)#	Servicing Agreement, dated November 5, 2018, between GreenSky, LLC and BMO Harris Bank N.A.	10-K	001-38506	March 15, 2019	10.18(a)
21*	List of Subsidiaries of GreenSky, Inc.				
23*	Consent of PricewaterhouseCoopers LLP				
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)				
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)				
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350				
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350				
101	The following financial information from GreenSky, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Inline XBRL (Inline Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2019 and 2018, (ii) Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017, (iv) Consolidated Statements of Changes in Equity (Deficit) for the years ended December 31, 2019, 2018 and 2017, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017, and (vi) Notes to Consolidated Financial Statements.				
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).				

* Filed herewith.

\# Certain portions of this exhibit have been excluded because they are both not material and would likely cause competitive harm to the Company if publicly disclosed.

† Management contract, compensatory plan or arrangement.

(b) See Item 15(a)(3) and separate Exhibit Index attached hereto and incorporated herein.

(c) (1) Not applicable.

(2) Not applicable.

(3) See Item 15(a)(2) and separate Schedule II. Valuation and Qualifying Accounts attached hereto.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GREENSKY, INC.

March 2, 2020 By /s/ David Zalik

David Zalik
Chief Executive Officer and Chairman of the Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 2, 2020.

Signatures	Title
/s/ David Zalik David Zalik	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
/s/ Robert Partlow Robert Partlow	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Gerald Benjamin Gerald Benjamin	Chief Administrative Officer, Vice Chairman and Director
/s/ Joel Babbit Joel Babbit	Director
/s/ Arthur Bacci Arthur Bacci	Director
/s/ John Flynn John Flynn	Director
/s/ Gregg Freishtat Gregg Freishtat	Director
/s/ Robert Sheft Robert Sheft	Director

Schedule II. Valuation and Qualifying Accounts

GreenSky, Inc. and Subsidiaries

		Additions			
	Balance at beginning of period	Charged to costs and expenses[1]	Charged to other accounts[1]	Deductions	Balance at end of period
			(in thousands)		
Year Ended December 31, 2017					
Allowance for losses on accounts receivable	$ 366	$ 817	$ 16	$ (923)	$ 276
Valuation allowance on loan receivables held for sale	—	3,551	—	(2,967)	584
Year Ended December 31, 2018					
Allowance for losses on accounts receivable	$ 276	$ 1,294	$ 17	$ (1,419)	$ 168
Valuation allowance on loan receivables held for sale	584	2,671	—	(2,579)	676
Year Ended December 31, 2019					
Allowance for losses on accounts receivable	$ 168	$ 950	$ —	$ (880)	$ 238
Valuation allowance on loan receivables held for sale	676	3,895	—	(2,606)	1,965

[1] Includes bad debt recoveries.