GENERAL ELECTRIC CAPITAL CORP
Form 10-Q
November 02, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015
OR

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

For the transition period from ___________to ___________

Commission file number 001-06461

GENERAL ELECTRIC CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	13-1500700
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
901 Main Avenue, Norwalk, CT	06851-1168
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) (203) 840-6300

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b 2 of the Exchange Act). Yes No
At September 30, 2015, 1,000 shares of voting common stock, which constitute all of the outstanding common equity, with a par value of $14 per share were outstanding.
REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION h(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM 10-Q WITH THE REDUCED DISCLOSURE FORMAT.

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FORWARD LOOKING STATEMENTS

This document contains "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," or "target."

Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as statements about GE's announced plan to reduce the size of its financial services businesses, including expected cash and non-cash charges associated with this plan; expected income; revenues; net interest margin; cost structure; restructuring charges; cash flows; assets; return on capital or assets; capital structure, including Tier 1 common ratio; and dividends.

For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include:

- obtaining (or the timing of obtaining) any required regulatory reviews or approvals or any other consents or approvals associated with GE's announced plan to reduce the size of its financial services businesses;
- our ability to complete incremental asset sales as part of that plan in a timely manner (or at all) and at the prices we have assumed;
- changes in law, economic and financial conditions, including interest and exchange rate volatility, commodity and equity prices and the value of financial assets, including the impact of these conditions on our ability to sell or the value of incremental assets to be sold as part of GE's announced plan to reduce the size of its financial services businesses as well as other aspects of that plan;
- the impact of conditions in the financial and credit markets on the availability and cost of GECC's funding, GECC's exposure to counterparties and GECC's ability to reduce asset levels as planned;
- the impact of conditions in the housing market and unemployment rates on the level of commercial and consumer credit defaults;
- pending and future mortgage loan repurchase claims and other litigation claims in connection with WMC, which may affect our estimates of liability, including possible loss estimates;
- our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so;
- GECC's ability to pay dividends to GE at the planned level, which may be affected by GECC's cash flows and earnings, financial services regulation and oversight, and other factors;
- the level of demand and financial performance of the major industries and customers GE serves;
- the effectiveness of our risk management framework;
- the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of financial services regulation and litigation;
- adverse market conditions, timing of and ability to obtain required bank regulatory approvals, or other factors relating to GE or Synchrony Financial that could prevent GE from completing the Synchrony Financial split-off as planned;
- our success in completing, including obtaining regulatory approvals for, announced transactions, such as GE's announced plan and transactions to reduce the size of its financial services business;
- our success in integrating acquired businesses and operating joint ventures;
- the impact of potential information technology or data security breaches; and
- the other factors that are described in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014.

These or other uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements. This document includes certain forward-looking projected financial information that is based on current estimates and forecasts. Actual results could differ materially.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

PRESENTATION

Throughout this MD&A, unless otherwise indicated, we refer to captions such as revenues and earnings from continuing operations attributable to General Electric Capital Corporation (GE Capital or GECC) simply as "revenues" and "earnings." Similarly, discussion of other matters in our consolidated financial statements relates to continuing operations unless otherwise indicated.

We integrate acquisitions as quickly as possible. Only revenues and earnings from the date we complete the acquisition through the end of the following fourth quarter are attributed to such businesses.

We have reclassified certain prior-period amounts to conform to the current-period presentation.

NON-GAAP FINANCIAL MEASURES

In the accompanying analysis of financial information, we sometimes use information derived from consolidated financial data but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered "non-GAAP financial measures" under the SEC rules. For such measures, we have provided supplemental explanations and reconciliations in Exhibit 99 to this Form 10-Q Report.

REFERENCES

The MD&A should be read in conjunction with the Financial Statements and Notes to the consolidated financial statements.

CORPORATE INFORMATION AND WEBSITES

GE's Investor Relations website at www.ge.com/investor-relations and our corporate blog at www.gereports.com, as well as GE's Facebook page and Twitter accounts, including @GE_Reports, contain a significant amount of information about GE, including financial and other information for investors. GE encourages investors to visit these websites from time to time, as information is updated and new information is posted.

CONSOLIDATED RESULTS

THE GE CAPITAL EXIT PLAN

On April 10, 2015, GE announced its plan (the GE Capital Exit Plan) to reduce the size of its financial services businesses through the sale of most of the assets of GECC over the following 24 months, and to focus on continued investment and growth in GE's industrial businesses. Under the GE Capital Exit Plan, which was approved on April 2, 2015 and aspects of which were approved on March 31, 2015, GE will retain certain GECC businesses, principally its vertical financing businesses—GE Capital Aviation Services (GECAS), Energy Financial Services (EFS) and Healthcare Equipment Finance—that directly relate to GE's core industrial domain and other operations, including Working Capital Solutions and our run-off insurance activities (together referred to as GE Capital Verticals or Verticals). The assets planned for disposition include Real Estate, most of Commercial Lending and Leasing (CLL) and all Consumer platforms (including all U.S. banking assets). GE expects to execute this strategy using an efficient approach for exiting non-vertical assets that works for GE's and GECC's debt holders and GE's shareowners. An element of this approach involves a merger of GECC into GE to assure compliance with debt covenants as GECC exits non-vertical assets, and the creation of a new intermediate holding company to hold GECC's businesses after the merger. GE has discussed the GE Capital Exit Plan, aspects of which are subject to regulatory review and approval, with its regulators and staff of the Financial Stability Oversight Council (FSOC) and will work closely with these bodies to take the actions necessary over time to terminate the FSOC's designation of GECC (and the new intermediate holding company, as applicable) as a nonbank systemically important financial institution (nonbank SIFI).

It is expected that as a result of the GE Capital Exit Plan, the GE Capital businesses that will remain with GE will account for about $90 billion in ending net investment (ENI), excluding liquidity, including about $40 billion in the U.S. ENI is a metric used to measure the total capital invested in the financial services businesses. GE Capital's ENI, excluding liquidity* at September 30, 2015 was $176 billion.

REORGANIZATION AND EXCHANGE OFFERS

The merger and creation of a new intermediate holding company is part of a reorganization of GECC's businesses (the Reorganization) pursuant to which GE will also separate GECC's international and U.S. operations. GECC's international operations will be consolidated under a new international holding company (GE Capital International Holdings) and will have a separate capital structure and be supervised by the U.K. Prudential Regulation Authority. The Reorganization, Exchange Offers (as described below) and establishment of GE Capital International Holdings are intended, among other things, to establish an efficient and simplified capital structure that is satisfactory to GECC's regulators, a key step in terminating the nonbank systemically important financial institution designation for GECC. In addition, the Exchange Offers were designed to align the liabilities of GE Capital International Holdings to its assets from a maturity profile and liquidity standpoint, taking into consideration asset sales, and where appropriate, shortening the maturity profile of targeted liabilities.

As part of the GE Capital Exit Plan, on September 21, 2015 GE Capital commenced private offers to exchange (the Exchange Offers) up to $30 billion of certain outstanding debt for new notes with maturities of six months, five years, ten years or twenty years. On October 19, 2015, given the high level of participation, the offering was increased by $6 billion with the aggregate principal amount of $36 billion of outstanding notes being tendered for exchange and settled on October 26, 2015. The new notes that were issued at closing are composed of $15.3 billion of 0.964% Six Month Notes due 2016, £0.8 billion of 1.363% Six Month Notes due 2016, $6.1 billion of 2.342% Notes due 2020, $2.0 billion of 3.373% Notes due 2025 and $11.5 billion of 4.418% Notes due 2035. Of the $16.2 billion exchanged into the Six Month Notes, $1.3 billion is in short term borrowings at September 30, 2015. GECC will continue to evaluate the opportunity to repurchase debt while maintaining our liquidity at the levels communicated as part of the GE Capital Exit Plan. The new notes have been fully, irrevocably and unconditionally guaranteed by GE.

*Non-GAAP Financial Measure

SALES AGREEMENTS

During the first nine months of 2015, GE signed agreements to sell approximately $94 billion of ENI, excluding liquidity (as originally reported at December 31, 2014), of which approximately $45 billion and $33 billion related to the CLL and Real Estate businesses, respectively. CLL transactions signed in the third quarter 2015 included approximately $9.3 billion related to its Healthcare Financial Services U.S. lending business with Capital One, approximately $7.6 billion related to its Transportation Finance business in the U.S. and Canada with BMO Financial Group, and approximately $1.8 billion related to its Mubadala joint venture with MidCap Finco. Ltd., which is managed by Apollo Capital Management. Of the signed agreements, approximately $60 billion have closed, including approximately $30 billion and $21 billion related to Real Estate and CLL, respectively. The Real Estate transactions that have closed included the majority of GECC's Real Estate debt and equity portfolio sold to funds managed by The Blackstone Group (which, in turn, sold a portion of this portfolio to Wells Fargo & Company). In connection with The Blackstone Group transactions, GECC provided $3.2 billion of seller financing to The Blackstone Group, which GECC intends to syndicate by 2016. As of September 30, 2015, GECC has collected or sold approximately $0.4 billion of this seller financing. The CLL transactions that have closed included its U.S. and European Sponsor Finance businesses and the majority of its Global Fleet services business.

In addition, during October 2015, we signed agreements to sell approximately $32 billion of ENI, excluding liquidity (as originally reported at December 31, 2014) related to our CLL business. These signed CLL transactions included approximately $30 billion related to our global Commercial Distribution Finance, North American Vendor Finance and North American Corporate Finance businesses with Wells Fargo & Company and approximately $2 billion related to our Corporate Aircraft portfolio with Global Jet Capital.

AFTER-TAX CHARGES RELATED TO THE GE CAPITAL EXIT PLAN

In connection with the GE Capital Exit Plan announced on April 10, GE estimated that it would incur approximately $23 billion in after-tax charges through 2016, approximately $6 billion of which are expected to result in future net cash expenditures. These charges relate to: business dispositions, including goodwill allocations (approximately $13 billion), tax expense related to expected repatriation of foreign earnings and write-off of deferred tax assets (approximately $7 billion), and restructuring and other charges (approximately $3 billion).

In the nine months ended September 30, 2015, GE recorded $21.1 billion of after-tax charges related to the GE Capital Exit Plan, including $0.4 billion of after-tax charges recorded in the third quarter of 2015, primarily exit-related charges in our CLL business, partially offset by income associated with operations in CLL and Real Estate. A description of after-tax charges for the nine months ended September 30, 2015 is provided below.

- $9.8 billion of net loss primarily related to the planned disposition of the Real Estate business and most of the CLL business, which is recorded in discontinued operations under the caption "Earnings (loss) from discontinued operations, net of taxes" in the Statement of Earnings.
- $6.2 billion of tax expense related to expected repatriation of foreign earnings and write-off of deferred tax assets, of which $6.1 billion is reported in GECC's Corporate component and $0.2 billion is reported in our Consumer business all recorded in continuing operations under the caption "Benefit (provision) for income taxes" in the Statement of Earnings.
- $4.7 billion of net asset impairments due to shortened hold periods, of which $3.2 billion is recorded in continuing operations in our Consumer business primarily under the captions "Provisions for losses on financing receivables" and "Revenues from services" in the Statement of Earnings and $1.5 billion is recorded in discontinued operations in our CLL business under the caption "Earnings (loss) from discontinued operations, net of taxes" in the Statement of Earnings.

- $0.4 billion of restructuring and other charges, of which $0.3 billion is recorded in continuing operations in GECC's Corporate component under the caption "Operating and administrative" in the Statement of Earnings and $0.1 billion is recorded in discontinued operations in our CLL business under the caption "Earnings (loss) from discontinued operations, net of taxes" in the Statement of Earnings.

GUARANTEE

As part of the GE Capital Exit Plan, on April 10, 2015, GE and GECC entered into an amendment to their existing financial support agreement. Under this amendment (the Amendment), GE has provided a full and unconditional guarantee (the Guarantee) of the payment of principal and interest on all tradable senior and subordinated outstanding long-term debt securities and all commercial paper issued or guaranteed by GECC identified in the Amendment. In the aggregate, the Guarantee applied to approximately $184 billion of GECC debt as of September 30, 2015. The Guarantee replaced the requirement that GE make certain income maintenance payments to GECC in certain circumstances. GECC's U.S. public indentures were concurrently amended to provide the full and unconditional guarantee by GE set forth in the Guarantee.

SYNCHRONY FINANCIAL EXCHANGE OFFER

On October 14, 2015, the Federal Reserve Board approved Synchrony Financial's application to operate as a publicly owned savings and loan holding company following completion of the exchange offer, conditioned on Synchrony Financial complying with certain conditions, including receipt of all required regulatory approvals, and on the commitments made in connection with Synchrony Financial's applications.

On October 19, 2015, GE commenced an offer to exchange GE common stock for common stock of GECC's approximately 84.6% owned subsidiary, Synchrony Financial. This exchange offer is in connection with the previously announced separation of Synchrony Financial and is expected to conclude the week of November 16, 2015. We estimate that the exchange will reduce the outstanding shares of GE common stock by approximately 6-7%. Following the completion of the share exchange, GECC expects the Federal Reserve Board to act in due course on its application to deregister as a savings and loan holding company but cannot predict the timing of the Federal Reserve Board's action. For further information about the Synchrony Financial transaction, see the Form S-4 filed by Synchrony Financial on October 19, 2015.

REVENUES AND EARNINGS

Revenues decreased 1% in the three months ended September 30, 2015 as a result of higher impairments and the effects of currency exchange, partially offset by higher gains and the effects of acquisitions.

Revenues decreased 9% in the nine months ended September 30, 2015 primarily due to the effects of the GE Capital Exit Plan.

Earnings decreased 13% in the three months ended September 30, 2015 primarily due to core decreases, including charges associated with the GE Capital Exit Plan and higher impairments, partially offset by higher gains, the effects of dispositions and lower provisions for losses on financing receivables.

Earnings decreased significantly in the nine months ended September 30, 2015 primarily due to charges associated with the GE Capital Exit Plan.

SIGNIFICANT DEVELOPMENTS IN 2015

- The GE Capital Exit Plan – see above.
- Budapest Bank – On June 29, 2015 we closed the sale of Budapest Bank to Hungary's government.
- Australia and New Zealand (ANZ) Consumer Lending – At September 30, 2015, we had an agreement to sell our consumer finance business in Australia and New Zealand to a consortium including KKR, Varde Partners and Deutsche Bank for approximately 6.0 billion Australian dollars and 1.4 billion New Zealand dollars, respectively.
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- Milestone Aviation Group – On January 30, 2015, GECAS acquired Milestone Aviation Group, a helicopter leasing business, for approximately $1.8 billion.
- Synchrony Financial – See above.
- Dividends – GECC paid no dividends and $0.5 billion of dividends to GE in the three and nine months ended September 30, 2015, respectively.

OTHER CONSOLIDATED INFORMATION

INCOME TAXES

Income taxes have a significant effect on our net earnings. As a global commercial enterprise, our tax rates are affected by many factors, including our global mix of earnings, the extent to which those global earnings are indefinitely reinvested outside the United States, legislation, acquisitions, dispositions and tax characteristics of our income. Our tax rates are also affected by tax incentives introduced in the U.S. and other countries in furtherance of policies to encourage and support certain types of activity. Our tax returns are routinely audited and settlements of issues raised in these audits sometimes affect our tax provisions.

GE and GECC file a consolidated U.S. federal income tax return. This enables GE to use GECC tax deductions and credits to reduce the tax that otherwise would have been payable by GE. The GECC effective tax rate for each period reflects the benefit of these tax reductions in the consolidated return. GE makes cash payments to GECC for these tax reductions at the time GE's tax payments are due.

	Three months ended September 30		Nine months ended September 30	
(In billions)	2015	2014	2015	2014
(Benefit) provision for income taxes	$-	$-	$6.2	$(0.1)

2015 – 2014 COMMENTARY – THREE MONTHS ENDED SEPTEMBER 30

The GECC income tax rate for the third quarter of 2015 decreased to a negative (6.2%) from a negative (1.7%) in the third of 2014. The tax benefits when compared to the pre-tax income in each respective period resulted in the negative effective tax rates. The 4.5 percentage point decrease was primarily attributable to net tax benefits from marks on businesses held for sale and restructurings related to the GE Capital Exit Plan, partially offset by lower tax benefits on foreign operations.

2015 – 2014 COMMENTARY – NINE MONTHS ENDED SEPTEMBER 30

The negative nine month tax rate of 640.1% is caused by comparing the positive tax expense of $6.2 billion with the pre-tax loss of $1 billion resulting in a negative tax rate. As discussed in Note 7 to the consolidated financial statements, during the first nine months of 2015 in conjunction with the GE Capital Exit Plan we incurred tax expense of $6.2 billion related to expected repatriation of foreign earnings and write-off of deferred tax assets. The increase in the income tax expense from a benefit of $0.1 billion for the first nine months of 2014 to an expense of $6.2 billion for the first nine months of 2015 is primarily due to the tax impacts, discussed in Note 7 to the consolidated financial statements, related to the GE Capital Exit Plan.

BENEFITS FROM GLOBAL OPERATIONS

Absent the effects of the GE Capital Exit Plan, our effective income tax rate is lower than the U.S. statutory rate primarily because of benefits from lower-taxed global operations, including the use of global funding structures. There is a tax benefit from global operations as non-U.S. income is subject to local country tax rates that are significantly below the 35% U.S. statutory rate. These non-U.S. earnings have been indefinitely reinvested outside the U.S. and are not subject to current U.S. income tax. The rate of tax on our indefinitely reinvested non-U.S. earnings is below the 35% U.S. statutory rate because we have significant business operations subject to tax in countries where the tax on that income is lower than the U.S. statutory rate and because GECC funds certain of its non-U.S. operations through foreign companies that are subject to low foreign taxes.

Historically, the most significant portion of these benefits depends on the provision of U.S. law deferring the tax on active financial services income, which, as discussed below, is subject to expiration. A substantial portion of the remaining benefit related to business operations subject to tax in countries where the tax on that income is lower than the U.S. statutory rate is derived from our GECAS aircraft leasing operations located in Ireland. No other operation in any one country accounts for a material portion of the remaining balance of the benefit.

We expect our ability to benefit from non-U.S. income taxed at less than the U.S. rate to continue, subject to changes in our earnings profile due to the GE Capital Exit Plan and changes in U.S. or foreign law, including the expiration of the U.S. tax law provision deferring tax on active financial services income. In addition, since this benefit depends on management's intention to indefinitely reinvest amounts outside the U.S., our tax provision will increase to the extent we no longer intend to indefinitely reinvest foreign earnings.

SEGMENT OPERATIONS

Operating segments comprise our four segments focused on the broad markets they serve: Commercial Lending and Leasing, Consumer, Energy Financial Services and GECAS. The Chairman allocates resources to, and assesses the performance of, these four businesses.

Corporate items and eliminations include unallocated Treasury and Tax operations; Trinity, a group of sponsored special purpose entities; certain consolidated liquidating securitization entities; the effects of eliminating transactions between operating segments; results of our run-off insurance operations remaining in continuing operations attributable to GECC; unallocated corporate costs; certain non-allocated amounts determined by the Chairman; and a variety of sundry items. Corporate items and eliminations is not an operating segment. Rather, it is added to operating segment totals to reconcile to consolidated totals on the financial statements.

Segment profit is determined based on internal performance measures used by the Chairman to assess the performance of each business in a given period. In connection with that assessment, the Chairman may exclude matters such as charges for restructuring; rationalization and other similar expenses; acquisition costs and other related charges; technology and product development costs; certain gains and losses from acquisitions or dispositions; and litigation settlements or other charges, for which responsibility preceded the current management team.

Segment profit excludes results reported as discontinued operations, the portion of earnings attributable to noncontrolling interests of consolidated subsidiaries, GECC preferred stock dividends declared and accounting changes. Segment profit, which we sometimes refer to as "net earnings", includes interest and income taxes. GE allocates certain corporate costs to its segments based on an estimate of expected benefit to the respective segment relative to total GE. Factors considered in the determination of relative benefit include a segment's direct costs and number of employees compared to the total direct costs and number of employees for all segments.

We have reclassified certain prior-period amounts to conform to the current-period presentation.

SUMMARY OF OPERATING SEGMENTS

	Three months ended September 30			Nine months ended September 30		
(In millions)	2015	2014	V%	2015	2014	V%
Revenues						
CLL	$285	$251	14 %	$790	$743	6 %
Consumer	3,652	3,622	1 %	9,237	10,822	(15)%
Energy Financial Services	225	344	(35)%	906	1,120	(19)%
GECAS	1,307	1,262	4 %	3,935	3,952	- %
Total segment revenues	5,468	5,479	- %	14,867	16,637	(11)%
GECC corporate items and eliminations	843	905	(7)%	2,585	2,586	- %
Total revenues	$6,312	$6,384	(1)%	$17,452	$19,223	(9)%
Segment profit (loss)						
CLL	$111	$90	23 %	$286	$252	13 %
Consumer	795	621	28 %	(1,521)	1,879	U
Energy Financial Services	(38)	61	U	106		