

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **GE - GE Capital Investor Meeting**

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## PRESENTATION

**Trevor Schauenberg** - *GE Capital - VP - Corporate Communications*

Good afternoon and welcome, everyone, today to our GE Capital investor meeting. Today's meeting will be webcast and available for replay. All that information can be found on our website at [www.ge.com/investor](http://www.ge.com/investor).

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We're going to start with a presentation from the team today, and then follow with Q&A, so please save your questions until the end and we'll have plenty of time. And following that, for the people in the audience here we'll have a cocktail reception with our leadership team in the fine establishment outside. So looking forward to that.

Today's session will be hosted by Vice Chairman and President and CEO of GE Capital, Mike Neal, and several members of his leadership team that Mike will introduce as we go through. As I have to say, today's meeting is based on elements that are forward-looking and based on the world as we see it today. Those elements can change, so please interpret them in that light. We're very excited to talk to you today about progress of GE Capital and where we're going. And with that, I'll turn it over to Mike Neal to kick it off. Thanks.

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**Mike Neal** - *GE Capital - Vice Chairman, President, CEO*

I'd just like to start off by thanking you for coming. I know the weather's not that attractive today, but at least it's not freezing to anybody's forehead, and that's a good thing. We may have some people kind of drag in a little bit late because of that.

I'd also like to thank Diageo. This is not our space, their space. We're in the next building over. We don't have a room this size. I did want to tell you that all of the nice wine and liquor and ale and whatnot, that's theirs, not ours. I told a member of my team that after the last few years, if they were ours, they'd probably be empty.

But anyway, I'll start with this and just walk you through. We have a lot of people here to talk today and I -- and then we'll answer any questions that you have. So hope that you'll find this comprehensive. It's our plan.

Some of the things you'll hear today, the message is business is really pretty strong and we think even more competitively positioned than we've ever been. This market has been difficult for us, but it's been really difficult for some of the people that we compete against. And so we have been gaining share not so much because we're doing anything too aggressive. It's just that there are people leaving the market. There are customers that are more underserved than perhaps they were.

Earnings growth I'll show you in a minute. 2011, strong, and we expect that to continue into next year. The returns on the new business are actually quite exciting. I've been with the Company for 33 years. Best returns that I've -- I don't know how long that lasts, but for today, the new biz volume is coming on. It's well priced. I'll show you in a bit.

Losses are good. Credit costs are getting close to pre-crisis for us, so that's a really good thing. We continue to strengthen the balance sheet, liquidity funding. We work hard on diversification. We'll talk more about that. Kathy's here. She'll talk about it. Real estate is getting better, and actually quite a bit better. And we'll show you that. Mark is here. Mark will talk about the real estate business.

Capital levels we believe are well in excess of where we believe things may settle out. We don't know for sure yet. We'll show you some slides on that. But we feel pretty good. Having said that, we don't know for sure where some of these things will settle out. But we feel good about. And we're well on track. We told you over the last couple of years that the plan was to shrink ending net investment to \$440 billion by the end of next year. We're getting close to that and actually running a bit ahead.

So I think, in general, for those of you who listened to us last December, the things we said then we've mostly done or maybe done a little bit better. And you'll be the judge as you follow us through the deck.

This is the first three quarters of the year, pretty good. Earnings up 131% for us. Now, that's coming off of a lower base, but still not bad, \$4.9 billion, just under \$5 billion net for the first three quarters. Loss and impairments improved by almost 50%. So again, we feel good about that and we'll talk more about it.

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And then our on-book value up about 16%. And probably the most exciting thing about that is that's a nice number, it's double digit. But the pricing is pretty strong. And we'll show you that here in just a second.

You've seen a variant of this chart, I'm sure, in the past if you've followed us. But this is what we do. We think we have deep industry knowledge, expertise, we call it verticals. You know we have people that are really kind of nailed down to just one or two things that they do. They do energy, they do aircraft. They don't do both of those things.

And we're in the middle market, great space for us. Really kind of -- equipment leasing, equipment financing, mid market, that's what we do. Strong risk. Both Jeff and Ryan Zanin will take you through how we've done through the crisis. So I think you'll see in most cases we've actually outperformed on that dimension. That's going to be part of our pitch today and we'll let you be the judge.

We do match fund. That serves us well. We're pretty good at working out of issues. In fact, we're very good at that. And committed and knowledgeable. We have direct origination. I've talked about it for the last 25 years that I've done these things. And it matters.

And we're continuing to add people on the frontend. We don't have branches. We have people, reps, professionals, like the ones you saw in the commercial, in cars, calling on CFOs. It's our people, it's our documents, it's our product, it's our underwriting, and it serves us well.

So total volume, up 15%. Total volume versus book. This includes things like factoring in Europe, whatnot. But again, probably most important number on this is the bottom right, new business ROI is 3% plus. And that's very, very strong for what we do for a living. There's a lot of reasons for it. It's a little less competitive. Some competitors are gone.

One of the bigger drivers of it is capital markets that we're finding ways, 2006, 2007, to flow straight into our customers, just not there to the way it was before. And as you probably are aware, when capital markets connect directly to an end user, there's not a lot of margin left in that transaction. That's why so many people did so many risky things and it's one of the reasons we ended up where we did.

I just thought I'd show you this. Jeff will show it again in a minute. We're different than banks. We say it a lot. I'd like to show you maybe here where that is. If you think about us, we're kind of 50/50 U.S. versus the rest of the world. Banks tend to be 80/20. And again, I'm -- these are averages. And regional banks in most cases is 100% US. So we're a more global firm than many of the people that you probably track.

We're also weighted two-thirds commercial, one-third consumer, where most banks are just the opposite. So our weighting is more to the middle market commercial accounts than consumers. And then we have a little bit different book of business. We have energy financial services that's doing project financing. We have some equity products. And again, Jeff will talk about that a bit. But a little different than the banks, and I just thought that might be helpful as you try to understand us better.

Verticals, we have two. We have actually more than two. We have two really big ones. But as I was reminded today, as I was going through this chart with some of our people, the healthcare vertical is now as big as the energy vertical. But these are businesses that are great. They're great in their space. They have great connection with the industrial parent.

GE CAS, large -- largest, 1,738 aircraft that they own and manage around the world. They deal with 235 different customers. There's 300 airlines in the world, we cover nearly all of them, 235 we do business with. I will tell you that the top 100 are about 70% of the market. And I usually get this question, so I'll go ahead and answer it. We have one aircraft on the ground right now. A 737-700. We're not particularly concerned about that. Business is doing well. Earnings north of \$1 billion.

EFS, energy. It's a business we've been in for a very long time. GE Capital has been in it for over 30 years. The parent, the industrial company's been in it for over 100. Earnings are strong. We think this is a great space, whether it's for the industrial side or for

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the financial side, it's a space that we feel -- well, we just like it. The business has done very well for us. We've earned \$4 billion of net income in this business since 2004, so it's a long term player for us and we think it's an area where we have deep, deep domain.

Mid market, Dan Henson's here and he'll talk about that at least from a North American perspective. But it's really who we think we are. This is -- these are the companies in the middle. Not the little companies, not the large corporate. This is our space. We're the biggest in this area by a margin. It's 195,000 businesses, fourth largest economy in the world if you look at it just based on the mid market in the US, 41 million jobs. It's where a lot of the jobs are created.

And we're just all over it, equipment finance, inventory finance, direct lending, sponsor, healthcare. You can see the numbers in terms of volume, the new book returns and the earnings on this are pretty good. In fact, if you go back to the '07 numbers, we had a large gain in that year. So if you back that out, they're running at a rate this year about where they were in 2007, which was a terrific year for this particular business.

Retail finance, this is our North American -- well, really, today US consumer business. Margaret Keane is here to talk about it. One of the things I'm going to try to have a little fun with today is that Margaret and Dan are within nickels of each other being the biggest net income producer. So if any of you can help me with that, I'm trying to get them -- we've got three weeks to go in the year, but just having a great year.

A good space for us. We've been in it since the '30s. We know it. We like it. We got an advantage here because most of the large competitors backed away from this space after 2007, so they gave us better pricing, better underwriting, better contracts, better position. And we have strong domain. We have 250,000 retail outlets. It's self-funded, 75% of it through the FSB and through securitizations.

Stable earnings profile. A great year going this year and strong retail partnerships. We just won another one last night, but Margaret told me if I talked about it she'd kill me. So I won't. But a good business and she'll talk more about it. And so if there's a foul-up on that, Margaret, it can be yours and not mine.

This is how we're thinking about next year. Pretty modest, I think. We've dialed in core growth on assets of 6%. So nothing nutty with that. We're not unaware of the world that we live in. Pricing levels are pretty good. Underwriting standards are pretty conservative. That won't change. Conservative liquidity plan. Kathy's here. She'll talk more about that.

Continue to work noncore assets. We've been running them down. Again, I had to plan another \$15 billion for next year. We're going to launch a direct deposit. We've got it in other parts of the world. We haven't done it in this country. We're going to do that very soon, just to give us more diversification in terms of how we fund the business.

We've got a bullet here on Europe. Europe, there's a lot going on in Europe. And I would just tell you that we're prepared to be opportunistic in Europe if the right thing presents itself. I'll also tell you that it would have to be very attractively valued for us to get into that. Otherwise we'll just go at this through the core.

And then we're continuing to add salespeople. So maybe a lot of people are going the other way. Just in the US we've added about 200 new reps this year as we continue to try to fill voids in the market. Having said that, things could get worse. We don't predict the world. Hard to know what's going to happen. But if it does, we've got levers in the business as well.

We have great experience in the last couple of years. We can reduce the ENI further. We can goose liquidity more. We can be more aggressive on cost. The business that I'm talking to you about today versus 2007 has \$4 billion less base cost in it, and so we know how to do that. And we can further tighten underwriting and hurdle rates. And maybe Jeff, Kathy, others will talk a bit about Europe. But we're all over Europe. We measure it. We look at it. We're on it every day. And we'll see how that all plays out. But that's -- we're positioned, I think, for a world that's very hard to predict.

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In terms of the future of the business, this is where we were. This is where we're going. Slightly smaller consumer platform. This is up to the end of next year, \$440 billion of ENI, 20%, 30-% consumer, 2% ROI. Probably on the lower side of the range on real estate, so smaller there as well as we continue to run down particularly the equity book in that. The vertical businesses, the businesses are linked to the industrial parent to continue to goose that. We think it's really our sweet spot in this whole mid market.

And by the way, when I talk about mid market, we're going to talk a lot about the US today. We have the same thing in Asia. We have the same thing in Europe. We don't have those people here today, but we'll use the US as a proxy for that. So we think it's the right strategy. It's consistent. It's what we've been talking about. We're well on our way to doing this. And we feel pretty good about it. So, winning specialty finance platforms, and there really aren't very many others anymore. Probably won't be for maybe a long time.

Select consumer, real estate smaller verticals with advantaged positions, and a great position in mid market. High returning, scale positions in markets that matter. If Jeff were here today he would talk a lot about growth in the emerging markets. From a GE Capital standpoint, we're mostly developed markets and probably always will be. Most of our earnings, Australia, Korea, Japan, North America, the big places in Europe, some Central Europe. That's kind of where we operate.

Safe, secure capital structure. It is today. We had planned to keep it that way. We also have and are planning the dividend. I know we'll probably get a lot of questions about that today. But in our planning is to restart the dividend for next year. But we obviously need some approvals to do that. And then continue to strengthen the industrial connection to the business. But we hope -- we hope to make you like our earnings. And we think we can deliver for investors for this company. So that's what we'll be talking about today.

So here's the lineup. Have Jeff up, Jeff Bornstein. He'll go through financials. Kathy will take you through funding and liquidity. Ryan Zanin, I don't know if you all know Ryan. Ryan -- so, [Jim Collicka] retired and Ryan is our new chief risk officer. He'll talk about risk. Bill, our chief operating officer, will go into kind of how we're thinking about growth and how the business is doing.

And then we kind of break it out. Dan will talk about CLL, commercial lending and leasing, in North America. It's one of our very biggest business. Margaret will talk a bit about the consumer business here in the US. We'll have a real estate update from Mark Begor. And then I'll come back and wrap and we'll be glad to answer any questions that you may have. So, with that, I'll turn it over to Jeff.

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**Jeff Bornstein - GE Capital - CFO**

Afternoon. Thanks, Mike. So what I'm going to do is a brief update on kind of where we see the year coming out, take you through some key financial metrics, and then we're going to walk through some comparative metrics on kind of where we see ourselves versus the industry, kind of how we performed through the cycle against the industry. And then I'll come back and talk a little bit about portfolio quality reserves and then our outlook for 2012.

So, to start, looking back on 2010 and where we think we're going to finish the year in 2011, we see earnings better than \$6 billion. I would say today somewhere between \$6.3 billion and \$6.5 billion of earnings for 2011. That's substantially ahead of the \$3.2 billion that we did in 2010. Pretax earnings I think are going to be very strong, better than \$7 billion. And that's largely better of losses, expanding margins, partially offset by the fact that we continue to shrink the business so the number of earning assets on the balance sheet continues to go down.

ENI, as Mike said, is right on plan. We think we're going to end the year plus or minus \$450 billion of ENI. As you saw on Mike's chart, the peak was \$600 billion, so we're well on track to take the \$160 billion of investment we committed to you three years ago out of the business on the schedule we said we would.

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Losses/impairments, much better year-over-year, \$6.6 billion. Credit cost is part of that \$6.6 billion when we think about 2012, are very closely getting to pre-crisis levels. The impairments will still be higher than they were pre-crisis, but credit costs are getting pretty close.

Costs we continue to execute on. We'll be down \$200 million year-over-year. And as Mike said, over the core since 2008 we've taken out about \$4 billion of structural costs in the business. And this is despite having to add a substantial amount of regulatory resources since the crisis, an investment of upwards of \$300 million. So we continue to execute there.

Volume Mike said was strong. On-book volume at about \$175 billion, up 14%. Maybe more importantly, the returns on that volume are still extraordinarily attractive to us. Cost of funds -- I'm sorry. Margins strong again. I think last year, I'll show you in a minute, we talked about kind of 5% margins. These are finance margins or net revenue margins. We exceeded where we ended up last year. We're going to exceed what we thought this year was going to come in at about 5.4%.

Cost of funds, about what we expected at 2.6%. And then our return on tier 1 common on a Basel I basis is almost double at 13%. And we're still on track here, we think, on a go-forward basis prospectively once we get beyond '12, where we're going to see ROEs in the 11% to 15% range. We're going to see returns on tier 1 common on a Basel III basis much higher than that, in the high teens or maybe even 20%. So we feel great about that.

GE Capital, both on a Basel I and Basel III basis for tier 1 common are going to be very strong this year, north of 11% on a Basel I basis, north of 10% on a Basel III. GECS is in great shape at better than 9%. I'll come back and talk a little bit more about how we're doing on capital.

Think about the segments a little bit in terms of performance for the year. Right now we see the CLL segment at about \$2.6 billion of earnings. Volume's been very strong, strongest in the entire portfolio. Credit loss has been much better. And margins and pricing have been holding.

Consumer is going to have a great year, \$3.6 billion of earnings, largely driven by Margaret's business, the US consumer business. Her loss rates are already better than pre-crisis, so that business has been performing outstanding.

Real estate, we're still going to lose \$1 billion this year, but that's \$700 million less than we lost in 2010. And we're seeing some valuation improvement in the US. We're seeing some improvement in demand, partly driven by interest rates are so low, real estate's becoming enormously attractive again in terms of yield. And that's driving up a bit of demand here in the US.

Asia is more or less stabilized. Europe is still a little soft and the crisis going on in Europe is not helping that. But we still see real estate improving both this year and next year. And as Mike said, aviation and energy have been solid. We'll earn \$1.6 billion there this year. And it performed very well through the crisis. So, in total, between \$6.3 billion and \$6.5 billion is where we think we'll end the year.

You dial the clock back to this meeting a year ago, in December 2010, we said earnings for '10 would be about \$3 billion. We came in a bit better than that. We saw -- we said we'd be up double digits on earnings in 2011. We're going to be up something closer to triple digits.

We talked about liquidity for this year of \$40 billion to \$60 billion. We're going to end at somewhere closer to \$75 billion to \$80 billion. That seems to be prudent given what's going on in the world. And we're in great shape on liquidity. Kathy will talk more about that. I think maybe most importantly, the progress we've made on our capital ratios is significantly better than what we suggested to people a year ago.

And that's a combination of better earnings, obviously, but also getting ahead of the balance sheet faster than what we originally planned. And margins continue to hold in there. We continue to mix up our business. And Bill will take you through a page to

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kind of show you the margins we're getting on what we're originating versus the margins that are running off the books. So that's still accretive to us. We feel great about that.

So Mike walked you through this page. He did the two easy pieces. I'm going to have to -- I'm going to try to explain the bottom third of this page. Average earning assets. Now, this is a concept. The banks when they report net interest margins, net revenue margins, they do it on a basis of average earning assets. And I would think about average earning assets as assets that are -- that are yield or interest rate driven, so loans, leases, investment securities, et cetera.

Somewhat unique to us, we have a big operating lease business as well. And we include operating leases in what we consider financing assets. And then we have a lot of assets, unlike banks, that are not those kinds of assets. They're real estate equity book, some of what we do in project financing and GE energy, et cetera.

So our mix of financing assets/average earning assets is very different from the banks. We're about two-thirds financing assets and one-third non-financing assets. Banks tend to be 90/10. And just keep that thought because on this page I'm going to try to give you a snapshot on how we look on a net interest margin basis.

So this is a question that I get all the time. As you know, our income statement is not constructed like a traditional bank income statement. So what we've done is we've gone back to the third quarter this year, third quarter year-to-date, on an annualized basis and reconstructed our income statement as though we were reporting as a bank. So I'm going to give you a sense of how our net interest margins compare to banks.

So if you start on the top there, you've got interest income, so that's obviously interest income we're collecting on our loans and leases. It's investment income on a fairly modest portfolio of securities. And we've included our [Alto] receivables, or our Alto income, meaning our operating lease rentals. But we've done it net of depreciation. So depreciation we've got up in interest expense.

And you can see that our interest income as a percentage of our average earnings assets is about 8.3% in total. The core's a bit better than that at 8.5%. And then noncore, the \$80 billion that we're still working off, is about 6.6%. And you can see that that compares to an average for the banks. So when the bank's here, we're talking about four big money center banks and four big super regionals. We've taken a straight average, which is about 4.6%.

And if you drop down to interest expense, this is 100% of our interest expense, whether it's financing receivables or it's financing those other assets that we're not including in interest income. This is 100% of our interest expense. And you can see we're about 3.8% compared to banks at about 90 basis points. Just two caveats.

The first is the bank average and what they report as interest expense does not include any of the branch costs associated with their ability to gather deposits. Which is not inconsequential. The second is we have a very different -- we have a very different asset mix. We do have longer dated assets and that's what you see on the right here.

The core book, the average interest expense is about 3.4%. Those assets are between two and four-year average durations. And the noncore, real estate equity, our European mortgage books that are in run off are very long dated assets and we match fund everything we do.

So we've been very consistent over the years about wanting to match ten years or 15 year assets with ten-year or 15-year debt to take the term risk out, interest rate risk out, and we also don't take any foreign exchange risk. So we would expect our interest expense to look a little higher than banks.

So that gets you down to net interest margin, in total at about 4.5%, the core 60 basis points spread [of that 5.1]. And that compares quite favorably, 90 or 100 basis points higher than the banks. But the biggest opportunity is what you see all the way on the right there. So on the noncore stuff, the stuff Bill's going to walk you through that we have an opportunity to get our



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equity out, collect ourselves out of and reinvest in the Company, has got virtually no net interest margin. They are not particularly profitable books. So that's our biggest opportunity going forward from an earnings momentum perspective.

Just a quick update here on losses and impairments. If you look back '08, '09 and '10, cumulatively we've incurred about \$33 billion. I think that's -- I may be exaggerating a little bit. But within basis points of what we shared in '09 is our outlook. We've outperformed every stress test that we did then and then subsequently and we've come in very, very close over that period of time to what we expected we would.

In 2011 I mentioned \$6.6 billion. \$4.3 billion of that is credit losses, about \$2.3 billion of impairments, most of the impairments associated with our real estate equity book in 2011. As we look forward to 2012, we expect that'll improve again year-over-year. Not by the same magnitude, but we're going to get down the credit losses, we think, in 2012 that are going to look very similar to losses that we saw in 2007 pre-crisis. Impairments will still remain a little bit elevated versus pre-crisis and that's almost entirely associated with real estate equity.

So we talked a lot about being senior secured and our loss given defaults being better than unsecured bank portfolios, et cetera. So I thought what we'd do is just kind of walk through some comparative metrics here. And I'll take a few minutes to explain what it is we're measuring. On the left here is peak loss given default.

So what we've done is we've gone back from 2007 through 2011 and we've said in what period, what year did these institutions have their largest net charge-off period and what were those net charge-offs as a percentage of nonperforming assets or nonaccruals on financing receivables.

And you can see we came out -- our biggest year was 2010. We were about a 40% loss given default. And that compares very favorably with most financial institutions. The super regional banks are closer to where we are. Their mix is closer to ours. They're more like 50/50 consumer/commercial. The money center banks that have much higher loss rates because they are much more skewed to unsecured consumer lending.

Then if you look to the right, this may be an even better measure, if you go back and say what were the charge-offs between the first quarter of '07 through the third quarter of this year, so entirely through the cycle. And you compare those charge-offs to the loan balances that everybody brought into the crisis at the end of 2006, what percentage of those loans did you eventually charge off? And you can see we're about 8.8%. Again, we compare very favorably and well inside of where some of the larger banks -- the larger banks have experienced.

Quick update on portfolio quality. I won't grind through all the detail here. But we expect most of the portfolio to sequentially improve again in the fourth quarter. Mortgage is reasonably solid. The French and UK portfolio are doing well. They're doing as we expected or better.

Still some pressure in Ireland and Spain. They're just incredibly tough markets. But we have very, very small books of business there. And a little bit of pressure in Hungary with what the Hungarians are going through and the downgrades, et cetera. But nothing substantial. Most of the rest of the book is performing pretty well.

Real estate, we expect to improve again sequentially in the fourth quarter. I got a question, you know, why aren't we seeing improvement in the delinquency rate in real estate. Well, you got a phenomenon going. If you go back one year in the third quarter 2010, we had \$2.4 billion of delinquent loans in real estate. We finished the third quarter at \$1.4 billion. So that's a pretty dramatic improvement.

The reason you don't see it in the rate is we're shrinking the business so quickly that when you divide the denominator, the outstanding loans or receivables into those that are delinquent, it looks like they're staying in place. They're really not. They've improved delinquencies by more than \$1 billion.



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And then CLL we think will be about basically flat. I think the US is pretty solid, continues to improve. Asia is stabilized. It's improving. A little bit of softness in Europe. Not across all of Europe. Europe is a little soft. Again, not big increases, but we generally think CLL will come in about flat with where they were in the third quarter.

And a few other of the key metrics here, non-earnings sequentially should be down. The percentage of non-earnings, so our total receivables ought to be down. And the number of loans we have where we're on nonaccrual, so we're not recognizing interest income ought to be down sequentially as well.

You look the right here on reserve coverage, we ended last year at \$8 billion of reserves. Third quarter this year was \$6.7 billion. The change between those two numbers, I would attribute it -- they're almost equal, one-third each. One is lower assets. So as we continue to run the book down, we need less reserves and we're provisioning for less loans because we have fewer assets on the books.

About a third of it is the improvement in portfolio quality and about a third are write-offs in excess of our provisions. So pretty balanced on how the reserves come down. As we think about yearend, I don't expect the dollar sin our reserve to change dramatically from the third quarter to yearend. I think we'll be roughly in the same place. And it's about 2.2% reserve coverage.

So, one of the questions you ask me, well, how does \$6.7 billion of reserves with today's outlook and today's portfolio, how does that compare to where we've been during the crisis. So, same set of comparables here, four money center banks, four super regionals.

So what we did is we've gone back, and if you look just under the title there, you're taking today's current reserves over our nonperforming or nonaccrual assets, that coverage, and today for us that's about 38%, and dividing that by in the worst year during the crisis what your peak charge-offs were against nonperforming or nonaccrual loans at that point in time. And as I showed you two pages back, that was 40% for us. I called it loss given default.

So, if you divide those two numbers, we've got almost 100% coverage today of the peak charge-off we experienced in 2010 against those nonperforming assets. That's a pretty good place to be. And you can see where the rest of the industry kind of shakes out here. So we feel very good about where we are in reserves and I think we're more than satisfied that we're adequately covered.

Last comparable I'd like to do here is tier 1 common, but on a Basel III basis. So, as Mike alluded to, we don't have all the answers. The rules aren't finalized. The rules aren't written. We haven't gotten final guidance on what requirements are going to be made or what the [SIFI] requirements are going to be or the designation.

But if we just think about where we are today as of the third quarter, GECS, we've got 9.2% tier 1 common on a Basel III basis. GECC is about a point better than that, 10.4%. And you compare it to where most of the other financial institutions are, that's pretty good. We're not nearly as impacted on Basel III, as many of the larger financial institutions are, probably because we don't have a mortgage servicing business, we don't run a broker dealer, we don't have big investment security portfolio, et cetera.

So we are in very good shape on a Basel III basis. And we'll continue to accrete those ratios going forward, both here in the fourth quarter, and our expectation for 2012 we'll continue to improve on those ratios, even if we're paying an income dividend.

The one thought before I close here, so, on that NIM page I showed you that noncore piece of our business that we're still working to get out, it really contributes very little from an earnings perspective to the business. It's our biggest opportunity growth-wise. So we can still grow this business pretty substantially, shifting equity and assets out of that noncore piece, that \$80 billion into the core part of the book.

Or if the capital allocation planning suggests, we'll return more money to the Company if there's a better deployment at the GE level. But this is a huge opportunity for us. Bill's going to talk more about it. We've got in excess of \$10 billion of capital



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wrapped up in these -- in these red portfolios, in these noncore portfolios that we can still put to work here and drive some momentum.

So kind of close with summarizing where we think '11 is, somewhere between \$6.3 billion and \$6.5 billion for the year. As we look forward to 2012, we think we'll be up double digits year-over-year. That's with, I think, a modest view on what might play out in Europe. We certainly expect there to be a recession in Europe. It doesn't necessarily contemplate Europe completely tipping over, but things are going to be fairly tough in Europe.

The one good news for us is we're one of not many institutions in Europe that are open for business and ready to write business if it's at the right price and the right risk profile. Most European institutions are retrenching dramatically, both in terms of size and what their -- and liquidity, and I think competitively really bodes well for us.

If you look to the right here, this is where we think on a Basel III basis GECS in total is headed for next year. We think we'll add a point to our Basel III numbers next year. We'll end the year at 10%, or over 10% versus 2011. The predominance of that accretion will come with earnings in excess of an income dividend that we presume will play to General Electric next year.

We'll get a little bit of a pop from reducing assets, a little less than we've gotten over the last three years because we need to get \$10 billion to \$15 billion of investment out and we've been taking bigger whacks at that over the last three years.

And we're in very good shape versus the 7% CCAR target. That excludes any kind of SIPI buffer. But I think that we feel really good about the progress we've made on securing a place both in terms of liquidity and capital. And I think we feel like we're ahead of the game here a little bit. So, with that, I'll turn it over to Kathy.

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**Kathy Cassidy** - GE Capital - Treasurer

Thanks. So, thanks, Jeff, and good afternoon, everybody. I thought I'd start today by just giving you a brief snapshot of where we stand in funding capital and liquidity. So if we look back at the third quarter, we had overall \$83 billion of cash. And if you include our investment portfolio of over 90 days, we actually have about \$88 billion of liquidity. We closed the quarter at \$41 billion of commercial paper. And as you can see, we had our bank lines well in excess of our commercial paper outstanding.

We have completed our long term funding for the year. And we think we're very well positioned to handle the \$80 billion of long term debt maturities that we have coming in 2012, which includes paying back the remaining outstanding of the [GLGP] debt as it matures.

Jeff already walked you through the tier 1 common ratios, and you can kind of see the progress there from 2010. But in very strong shape. And if you look at our ending net investment, we're well on our way to achieving our \$440 billion target, actually closing the third quarter just in excess of \$450 billion. So overall strong liquidity in capital position.

So if we turn for a minute to the current market conditions and the execution during 2011, the chart on the upper left, you can see our five-year cash spreads over time. And you can see that our bonds, and here we show our five-year bond, cash spreads, spreads to LIBOR, and how it's traded versus some of the strong financial names. And you can see that we do very well, trading right in line with other strong financials and sometimes a little better, and well below the financial index.

And if you think about this year, especially the last couple of months, which have been pretty volatile, we feel pretty good about what we've achieved in terms of our overall cost of the new funding that we've put on the books, as you can see below, where we'll show -- where we show you a couple of different methods that we use to go to market. Whether it's our CP or our two-year CDs or our AAA rated credit card securitization deals, our spreads are really in line. And in fact, a little bit better than what we've achieved in the last couple of years.



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If we look at the long term debt issuance that we've done in the unsecured market, our \$26 billion of debt has been done in ten different currencies, with a weighted average duration of six years. And you can see in the chart on the right the currencies where we've issued the bulk of our bonds, as well as the average spread to LIBOR. And also the average tenure. So we've had to navigate through some volatile markets. But again, I think we feel pretty good coming out of 2011 in terms of what we've been able to achieve.

Now, a few years back we talked a lot about some of our goals and objectives. And we really do feel comfortable with our funding model. And what we said a few years back is that we wanted to focus on a couple of things. We wanted to focus on bringing down our market share in terms of our US investment grade debt. We talked a lot about commercial paper and bringing down the overall size of our CP in the US and other markets, as well as diversifying our funding.

If you look at the debt composition as we stand today, you can see that we continue to shrink as ENI has come down over the course of time. And I'll just spend a minute talking about some of the markets. On the commercial paper side, we've actually -- are operating well within our range of the \$40 billion to \$50 billion that we laid out a few years back. And the demand has really been excellent this year, both in terms of being able to maintain and sometimes exceed our target maturities of 55 to 65 days outstanding.

So we've really seen very strong demand there. And you can see how our long term debt continues to shrink and actually we're at just under 2.5% of the US investment grade debt market share today. Our liquidity position is strong. It currently covers about 12 months of long term debt maturities, and we continue to enjoy both strong ratings as well as strong support from our parent.

So as we turn now to driving funding diversification, you know, when you look back in 2008, we had about -- our CP at the end of the year was roughly 14% of our overall debt outstanding. And we've really driven that down to about 9% today. And the way we really did that was by growing and focusing on things like deposit programs, securitization, covered bonds and many other forms of alternative funding.

Our deposit programs have gone very well. We've continued to grow in our European banks and most of them are self-funded today. And we work very hard as well to grow the US deposits. And to date we've primarily relied on our brokered CD programs to support both of our US banks which take deposits, and we've focused on originating with three months to ten-year CDs through brokers [into markets] and that's the assets that are in the bank. And both of our banks in the US are virtually self-funded.

But one of the things we're focused on as we go forward is that we're preparing to launch, as Mike mentioned earlier, an internet-based US direct deposit program. That should be launched in the first part of 2012. And we really think that as we launch this with GE's brand, our reputation, the technology we're using, and a variety of products to really go after the retail market in a bigger way that we can be successful here as the businesses continue to grow their assets.

So if we turn for a minute now and take a look at our cash flow, we started the year, 2011, with about \$64 billion of liquidity. And you can see that we're going to end the year with somewhere in the neighborhood of about \$80 billion after paying off about \$64 billion of long term debt. And the way we did that was we issued our long term debt, which I told you about, as well as growing our alternative funding.

And our businesses' cash flows have come in quite strong. As Jeff mentioned, our ENI reduction is actually ahead of our target. So we'll end the year with roughly \$80 billion, which means that as we look at 2012 and look at the \$80 billion of maturities that we have coming due next year and the fact that we want to have ending liquidity somewhere in the vicinity of about \$50 billion, the way we're going to get there is to do some unsecured long term debt issuance, just as we did this year and the year before that, in the \$25 billion to \$30 billion range.

Our business will continue to shrink a little bit as we look to hit our ENI target of \$440 billion. And we've already talked about growing our alternative funding program. So with that kind of a profile, we feel very confident that we can end the year with about \$50 billion, which is our target.

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And as you look to the future, once we get through 2012, our debt maturities come down quite significantly. We expect to have about \$35 billion a year as we go forward, so we feel pretty good about being able to run our liquidity pool in the \$50 billion to \$60 billion range.

So, in summary, our liquidity remains very strong. We have enough cash to pay off our \$80 billion in '12 maturities. And we've just talked about our long term cash target of roughly \$50 billion. And we've tested that and we continue to run on a daily basis liquidity scenarios which cover various stresses, some of which are market driven, some of which are GE specific.

And we also do a lot of daily monitoring of any warning indicators that are coming up so we know and understand what's going on in the market and can take action if we need to. We think we have a lot of flexibility in terms of managing our business origination -- business collections versus originations so that we can control the size of our portfolio.

And then lastly, we have focused on keeping all this cash that we have in a very safe and secure form. So we have a very disciplined investment management focus where we invest this cash in short dated, high quality and highly liquid investments so it's there when we need it. So while we never can tell what market conditions may be, we feel that we're in pretty good shape to withstand both stress and volatility as we enter into 2012. So, with that, I'm going to turn it over to Ryan Zanin, our Chief Risk Officer.

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**Ryan Zanin** - GE Capital - Chief Risk Officer

Thanks, Kathy. Good afternoon, everyone. I thought I would kick off by talking about some of the key risk themes that we're thinking about and kind of bucket it into the portfolio risks that we have, some of the risk disciplines that we use to manage our process and strengthen our risk culture, and then finally settle in and speak a little bit about the macro environment.

Starting off with the portfolio, as Jeff mentioned earlier, overall portfolio trends continue to improve across most sectors in the portfolio. Delinquencies are down or flat. Some are near pre-crisis levels. Non-earners are down and nonaccruals are down as well. So the portfolio is looking pretty good.

We continue to make progress on the mortgage portfolio and the mortgage book. I'll speak to it in a couple of minutes with a little bit more detail. And real estate portfolio continues to shrink, continue to work down the real estate equity portfolio and the metrics in the real estate debt portfolio are getting better. Mark Begor is going to speak to that a little bit later in a little bit more detail.

With respect to the risk disciplines, that's how we think about the process of managing risk, the risk culture we have across the firm. We benefited from significant, tough, early actions, pre-crisis and during the crisis that really benefited the portfolio stats as we wended our way through the process. We're maintaining that discipline, having tight control across the underwriting, the pricing and the portfolio concentrations we've got.

Someone's calling in for the -- oh, not me. Yes, see [Brian Williams] with his fire alarm? Yes, it's not our building, it should be okay. I'll keep talking over it and assuming you guys will be able to hear. We've enhanced our enterprise risk management framework across the portfolio. And by that basically we just mean the way we take a look at risks on a holistic basis. And we'll talk about that a little bit later. We have a rigorous stress testing program in place and you'll see when I talk about stress testing that even after stress testing the portfolio we've got robust capital levels, even under stress.

And finally, we've got a risk appetite framework that we've developed. And really what we're trying to do there is state our risk appetite not only across the enterprise, but also in our individual businesses to make sure that our risk strategy and our business strategy are very well aligned. So I put kind of an improving across all the risk discipline work we do.

And then on the macro environment, it's been mentioned a couple of times, we're all thinking a heck of a lot about Europe. There's a lot going on there in the sovereign/banking crisis, sovereign and banking crisis in Europe. We're actively managing



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the portfolio, looking at our counterparty risks on a daily basis to keep the place safe and secure. And I'll talk a little bit about our financing activities in Europe directly.

Our liquidity risk management, as Kathy mentioned, is a key part of our framework to keep us well positioned for any uncertainty in the markets. And we continue to structure the portfolio in a rigorous way to deliver both for our customers and to keep us safe and secure. So overall portfolio getting better and a disciplined process in place to ensure that that's the case.

So, want to talk a little bit about managing risk differently. And the way I thought I'd approach this is just look at three sort of sectors of our portfolio and talk in kind of a pre-crisis risk and reward opportunity that was out there in the market and what that looks like pre-crisis and then post-crisis to give you a sense of how risk opportunities have improved and how the opportunities across the portfolio are better.

So if you focus in on the mid market finance section of the portfolio, you can see that the ROI available in that space has increased dramatically from 2% to around 3%, 3.5% ROI, while at the same time the underlying credit risk has improved from sort of a B-ish level of credit origination to a B plus, BB minus level of credit. And overall leverage of origination on a senior secured basis has improved, groin from about 5 to 5.5 times leverage to current standards where we're underwriting at a 3, 3.5 times leverage. So better returns, improved risk profile and structuring should lead to better outcomes.

On the retail card portfolio, and Margaret Keane will come up later and talk about the retail finance business overall, but if you look there, we're originating at an I'm proved ROI. So, again, better pricing is driving an I'm proved ROI. And really importantly, we're getting a better, larger mix of our customers in that highly rated A, A plus sector of the portfolio. So that's grown from 54% of our portfolio in that high grade originations to over 62% currently.

And likewise, average FICO scores have improved from around the 700 mark to almost 750 in the new world. And of course, as we're focused on the better credits in the portfolio, we're seeing our overall approval rate drop down a few notches, from 56% in a pre-crisis mode to about a 50% approval rate now.

Mark will talk a little bit more about commercial real estate later, but on the debt portfolio, originations are coming in with a significantly I'm proved ROI from about 1% to 2% ROI. And while at the same time our underwriting standards have tightened such that we're underwriting at a 75% loan to value or less versus 90% loan to value in a pre-crisis mode.

So with respect to -- so better quality portfolio at origination should lead to better outcomes. With respect to process, we've developed an integrated enterprise risk management process for the firm. All that means is we spend a lot of time looking holistically at the risks across the portfolio, not just the credit risk but the market liquidity risks, operational risks across the portfolio. We've implemented the risk appetite framework with both limits and metrics that support that.

And we've put greater emphasis around policy governance, documentation and transparency to the board and GE. So we think all of those efforts together with enhanced analytics and better stress testing will lead to better risk results.

If we move on to stress testing, here I wanted to spend a couple of minutes just detailing two of the specific stress tests that we run. Now, we run many stress tests across the portfolio. We do it in a systematic way twice a year and we line that with our business planning cycle. We also will run ad hoc stress tests as and when it makes sense.

But focusing on two of the most severe stress tests that we run in the portfolio, we've called one the systemic recession case that we run in the portfolio. And the way we think about that is a deep, double dip US recession with a recession in Europe at the same time that's a little bit less severe. And that recession would run through the fourth quarter of '11 through the second quarter of '12.

In the middle we describe the idiosyncratic stress that we run. Again, a second severe stress that we run on the portfolio. This is really just designed to take a different approach, different drivers to what could create stress in the portfolio. In this scenario,

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it's a severe US and global economic recession that runs through from mid 2012 through 2013. And in this scenarios we've imagined that it was driven by an oil supply shock, high inflation and then rising interest rates to combat the inflation effect.

And taking these two severe cases just enhances the view as to what you might think our capital ratios would look like under severe stress. If we drop down into those middle boxes, it's just to give you a sense using economic metrics as to how severe those stress cases are. So on the systemic stress, we look at unemployment at over 13% on a US basis, GDP would drop 2.5% in a 12-month period, and we've significantly hit the housing price index in that scenario.

Over on the idiosyncratic case, which develops a little bit later but is more severe, we have unemployment again just about at that 13% level, GDP takes a much more significant hit, being down 3.5% over a 12-month period, and HPI is down, but a little bit less affected given some of the inflationary effects that we presumed in that scenario. So, two different scenarios, both severe.

If you drop down to the bottom of the page you see how we've looked at the expected impact these types of scenarios would have on our portfolio. We've got the metrics there across each three years that we run the stress test, both as a ratio impact versus the plan, and you'll see that that ranges from 90 to 100 basis points impact.

And then really importantly in that column, the surplus plus 5%, what we're looking at there is the surplus of capital we would have, even with that stress on our portfolio on a standalone basis. And you can see that in each of the variations of the two scenarios we run there, looking at the 5% minimum regulatory capital under stress, we would have between \$24 billion and \$30 billion of excess capital. Stress testing exercises is robust. It informs us about what's going on in the portfolio. And again, these are two of the more severe scenarios that we run to give you a view of how we're thinking about this.

I promised that I would talk a little bit about mortgage. So the mortgage portfolio continues to shrink. It topped up over \$76 billion the portfolio at its peak, with delinquencies that were actually just higher than 15% overall in the second quarter of 2010. You can see that the delinquencies have come down materially to about 13.6% in the third quarter, and the size of the portfolio has shrunk, a combination of runoff of the portfolio, as well as sales and dispositions.

We continue to work this portfolio very aggressively, focused on collections on the portfolio. You can see that the 360 plus accounts there are holding relatively stable as we continue to collect through the accounts. And we've made significant progress on the REO properties as they continue to decline from a peak in the second quarter of 2010, coming down significantly to today's period.

The portfolio primarily focused major markets in UK, France and Poland, where 85% of our exposure is the balance of it in rest of Europe primarily. Driving asset sales in the portfolio and driving that portfolio smaller. Originations, small originations in the portfolio, generally focused on better credit quality.

I said I would speak a little bit about Europe. This is a look at our financing assets across Europe. We have about \$132 billion of assets spread across the various businesses in Europe. And we're focused on the countries to start with. Major market exposure there. UK, France and Germany still at 50% of the portfolio where we have exposure in Europe. These are real customers, real operating businesses where we engage in both the consumer and the CLL businesses.

You can see that the consumer activity is just over half of the exposure in that portfolio. Our commercial loans and leasing is just about 30% of that portfolio, with smaller exposures in real estate and GCAS. Importantly, 85% of that portfolio is secured by collateral. It's well diversified both on the consumer front and then on the commercial front. That portfolio loan has more than 700,000 customers spread across the countries in Europe.

There's really very little sovereign debt in the focus country, with just about \$300 billion in aggregate combined between Greece and Italy in that portfolio. Delinquencies have been stable across that portfolio in aggregate, with some offset between some of the weaker countries. And Ireland and Spain showing a slight trend up in delinquencies, offset by improvements across some



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of the rest of the portfolio. Recently we've been seeing a little bit of softness come out of Italy and we expect that that may wend its way through the portfolio as we roll forward.

Clearly, the market volatility that's in Europe has potential for weakness across the portfolio. We think about that all the time. We continue with our rigors around underwriting and risk management in that portfolio to mitigate against that risk. We have liquidity buffer to manage against any systemic issues in Europe.

And as Mike said earlier, we think that carefully there may be some opportunities here as others exit portfolios in Europe to not only drive pricing, improve risk standards across Europe, and create some potential opportunities for us. Next I'll turn it over to Bill Cary to talk about growth and business update.

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**Bill Cary - GE Capital - COO**

Sorry about that phone call. I was checking on the GE stock price. Seems to be doing pretty well. Yes, it's doing okay. Well, look, good afternoon. It's great to be here. Nice to see some old friends from my IR days, though I will say that you're all looking younger and I'm feeling older. So I'm not sure exactly what that means.

But in any event, I'm going to give you a little bit of an update on how we're thinking about the portfolio mix. Both Mike and Jeff gave you a sense for the magnitude of the change we've got. And then we're going to have Dan, Mark and Margaret run through their businesses and kind of bring it all to life as it relates to the specific business units in the U.S.

In terms of the -- in terms of the portfolio, the repositioning that we embarked on at the end of 2008 has really gone well for us. We've made great progress around that. You can see we had at the end of '08 about \$556 billion of funding in net investment. We'll be close to \$450 billion, as Jeff said, at the end of this year. And well on our way to the \$440 billion of ENI by the end of '12, which was our commitment to our investors both on the fixed income and the equity side of things.

The pie here gives you just a little bit more complexion around that. Shrunk both the equity business and the commercial real estate space pretty significantly. I'll show you more about that in a minute or two here. But the core businesses, if you will, for GE Capital will be over 80% of what we do by the time we conclude our efforts in 2012.

We're very clear and quite disciplined about where we're investing. And you can see on the right-hand side of this page we bring some of those kind of running rules to life here. We've really focused the business on scale businesses in big places, places where our core competitive advantage can make a real difference.

We deliver that through what we believe is some best-in-class domain, both in terms of our connections to GE, and I'll expand on that in a bit here, but also through our tremendous origination force that we've continued to add to through the financial crisis. 2% return on investment has been a watchword for all of our commercial leaders. We're not doing business, with a handful of exceptions, below 2% pretty much anywhere in the world.

Here's a look at the noncore portfolios that we've been working our way through over the last couple of years. Again, sort of same time period, end of 2008. We had about \$160 billion of funded investment that we intended to run off or run down or sell. You can see that by the end of this year we expect to be at something on the order of \$77 billion. For those of you that keep track of this period to period, what we showed you last year was a number that was close to \$20 billion more than that, so we've run ahead of plan both in terms of our runoffs as well as our dispositions.

And as you can see, we've cut the real estate equity business by a third and the balance of the portfolios by more than 50% over the past three years. As Jeff mentioned, this is a group of activities that in aggregate lose money for us. That's really driven by the losses in the commercial real estate equity business.



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If you look at the balance of the portfolios, they're, with a few exceptions, profitable. But the return on capital is just not what we need it to be. And strategically, they don't fit with where we're taking GE Capital going forward, which is really a tremendous focus on mid market lending and leasing in developed markets around the world. We closed -- or expect to close \$19-odd billion worth of dispositions this year, and in aggregate have either run off or sold \$84 billion in total noncore assets over the past three.

We've redeployed a significant amount of that into the core businesses in GE Capital. And as you can see on this chart, despite that tough economic environment and a continued deleveraging in most industries around the world, we've been able to grow our core asset base. We expect this year we'll end with a core ENI on something on the order of \$335 billion to \$340 billion in funded investment. And in addition to that, the real estate debt business will contribute another almost \$35 billion.

Our activity levels, and I'll show you some of this in a little bit more detail, in terms of volume have been quite good. As you can see from this chart, from core commercial lending and leasing, volume is up over 30%, again, with ROIs that are in the 2% range. We feel very good about our ability to take share organically.

Jeff mentioned the situation in Europe. We're watching that with great interest. We've done a couple of small acquisitions, as you know, over there in the factoring space. And there may be other things that we can do in the European market, but we're going to be very particular as it relates to asset class, as it relates to market and as it relates to returns.

This is a look at our on-book volume. And as you can see, we've seen sustained improvement quarter-on-quarter, year-on-year, in our on-book volume. The top of the chart is a combined commercial and consumer look on a global basis. And you can see each quarter has gotten sequentially better. Obviously some seasonality in here, particularly in the fourth quarter. Total year '11 on-book volume will be up something on the order of 14%.

On the bottom left side of the chart here is the commercial lending and leasing businesses. And you can see that volume tracking as well. Very similar theme in terms of consistent improvement quarter-on-quarter.

And in addition to that, the pipeline in the lower left, and for those of you that thing principally about our industrial businesses, think about pipeline like you would backlog. I mean this isn't necessarily all stuff that we've either won or had committed, but it is a really strong showing in terms of our ability to fund volume into 2012. And as you can see, that pipeline has grown substantially over the most recent quarters.

The other point I'll make on this page is in the upper right here is a look at return on investment. And obviously some variability by industry line and by geography. But we're very pleased with the overall return on investment for the new business volume.

In aggregate, ROIs for new business volume this year is something on the order of 3.4%. A year ago when we showed you this chart it was something on the order of 3%. So we feel pretty good about that as well in terms of our ability not only to grow the book, but also to grow it at a higher return profile.

This is a look at margins. And so this gives you -- while the previous slide was a look at kind of through the door activity and return on investment on a fully loaded basis for new business volume, this is the return on the portfolio in aggregate. And you can see we split this between consumer and commercial.

It gives you a sense for the new business volume that we're putting on and what the margin are and how that compares to the business that's rolling off at any given period. And as you can see, in cases where the current stuff is greater than the other stuff, the earnings calories of our underlying portfolio continues to expand. And that's exactly what you see happening here in both the consumer and commercial spaces.

Consumer is in the 12s. The commercial businesses were as low as mid 2s. We're well in the almost mid 3s here as it relates to our commercial businesses, with an aggregate margin effectively contributed value for an industrial comparison is in the mid



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5s for the book in total. And so we feel very good about what that means in terms of our earnings power, again, in the portfolio into 2012 and beyond.

We spent a lot of time and money lately building the GE Capital brand. You saw an example of some of that work at the outset of today's discussion. We ran a longer version of one of the advertisements that we've run on TV. And as you can look -- as you see the data here on the left-hand side of the page, it's really having an impact.

Awareness of GE Capital and our financial services activities has expanded dramatically over the last three years. We were traveling in sort of the 50% awareness range. The most recent data has got us north of 80%. We feel great about that. And more importantly, the consideration for our prospective customers to do business with us has expanded significantly as well. And you can see the data on the bottom left here.

We embarked on the advertising campaigns kind of in the middle of the crisis to send some important messages to our employees and to our customers and to our stakeholders that we were very committed to financial services and that we had a strong presence. We've built that now into this notion of builders to try and drive some significant differentiation into the places where we're competing.

So it's not just about providing financial products. It's about providing some of the industrial benefits and values that you can get by being part of a system like GE. And the lighting/energy efficiency example that you saw in the Wendy's is just one of a host of examples of programs like that that we've been able to run for customers around the world. And we're going to be talking more about that going forward.

Here's just a couple of examples of some of the print advertising that we've run. Again, you're just trying to bring it all to life here in terms of the differentiation. Like any bank, we can lend you money. And in addition to that, we can lend you expertise, whether it's engineering or technical capability. And we're going to expand this dramatically into 2012.

And this is really a very busy chart, but it gives you a sense for how we're thinking about this rolling forward, not just for next year, but over the next several years.

In the upper left, we believe that by the end of next year we'll have qualified almost 500 GE associates, both in the financial services side of the house as well as the industrial businesses that can provide a level of expertise and knowledge for our core mid market customers. We're focusing on really a discrete number of disciplines, financial acumen and capability. And Jeff Bornstein, our CFO, is the chair, if you will, of that discipline.

We've done the same thing in human resources. So think [Crotanville], GE Capital training, our [Session C] and development processes, all of that body of knowledge that we employ across GE can be mobilized for our customers. Same is true for operational effectiveness. Think lean, six sigma, the operating tools that exist within GE.

And then lastly, we have an unparalleled global network in the industrial businesses. And as Mike mentioned, we're very focused on developed markets, but our company is very good in a host of developing markets around the world. Our customers have interest both in terms of selling to and sourcing from those markets.

And we can bring that expertise by leveraging the GE network. And I can tell you that that's a place that our core competitors in financial services just can't go. It's a deliverable that they just can't bring. So we're expected to deliver and will deliver a capable financial services product at a return and a structure that makes sense for our customers.

But we have this host of other capability that we can really use to differentiate GE Capital in the marketplace. And hopefully you'll see more of that. This has been an effort that's been principally focused on the United States. We're going to expand it now to a handful of markets in Western Europe as well as Japan and Australia, New Zealand. You'll see more of that in 2012.

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And then lastly, and you can see some of this for your own eyes this afternoon, we've tried to deliver this capability in a nontraditional way. So we've got the good of fashioned send a GE black belt to a customer site to help them with their problems. We've also created a technological version of that that we're calling GE Edge. And that's what you see in the upper right-hand side of this page here.

And it's really intended to do a couple of different things. One, if a customer has a question and they just want to go in and do a search on how do I -- how do I do foreign exchange in China, how do I do succession planning in my business, they can capture that insight right on a website. There's also capability if they want to talk to a GE expert, and they can do that through a video chat where they can connect with a GE expert on a topic that is relevant to their business success and it's something that we know something about.

And then lastly, we've created kind of the equivalent of a social network for C suite executives in the mid market that want to interact with each other. So a CFO cohort, a CEO cohort, a group of businesses in a given geography, say the Midwest or steel industry, where people have a specific interest in a part of their business and they want to connect with somebody else, we can sponsor that sort of interaction.

And again, it's only value that you can capture if you're a GE Capital customer. And so this is something that we've launched at an event in Ohio State in October. And we're continuing to expand that pretty dramatically over the course of 2012 as well. Mike Pilot, who is on this side, Mike, stick your hand up, Mike Pilot is our chief commercial officer for GE Capital, is the brain trust behind us along with his team.

He's here today and will be able to share a demo with you, if you will, of the GE Edge product if you'd like to see it. I think it's pretty remarkable and you'll -- I think you'll be excited about it when you get a chance to look at it.

So, we feel good about our ability to fund growth going forward by shrinking the noncore assets. We've demonstrated an ability to do that. That can either be redeployed in terms of growing the book or can be redeployed in terms of cash for our ability to pay a greater dividend to our friends up the road here in Fairfield.

And now what we'd like to is get Dan Henson to take you through his commercial lending and leasing businesses and then we'll do real estate and the consumer business as well. So, thanks very much, and here you go, Dan.

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**Dan Henson** - *GE Capital - CEO - Americas*

Thanks, Bill.

A couple of quick pages on the Americas. This is a big chunk of the commercial lending and leasing, the CLL segment that you've heard referred to prior to my coming up here. We offer direct lending equipment financing as well as inventory financing to that middle market segment that Mike Neal outlined early in the pitch. We also have some of the other verticals that he didn't talk about, healthcare, sponsor and franchise most notably.

All of the leasing and lending activity we do is on a senior secured basis. It's against hard, foreclosable assets. And we have a very disciplined underwrite to hold approach, which we think has served us well through the cycle. And we'll show you the loss performance in a couple of pages. We are organized by product and by industry.

We're a specialty finance company. Almost the opposite of what you think of when you think of a bank loan officer model. We have -- and we believe that that has a lot of value, most notably, in our proprietary originations. We have 850 originators with an average industry experience in excess of 10 years. And they are out in the field calling on these mid market customers that we have already identified as people we would like to have in our portfolio.

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We also think that that provides a differentiated value proposition for the customers. If you were the CFO of a transportation company and you're looking at acquiring a fleet of tractor trailers, when you're talking to GE Capital you're talking to an originator who only finances tractor trailers for transportation companies. And the transaction will be underwritten by a risk analyst who only participates in that industry. If it's a lease, the residual value's going to be set by an asset manager who only does Class A tractor trailers.

We do get a lot of questions on our residual performance. It's 120% of booked residual. And even through the peak of the crisis, it never went negative. It was always significantly positive. And in the unlikely event that customer gets into trouble, it's going to go into a workout group and an asset management group that is focused on that particular industry. That model applies across all of the different businesses, whether it's franchise or healthcare or inventory finance. And we think it's a superior model.

We have a broad set of risk, over 300,000 mid market customers, which means our average customer exposure is just over \$300,000. So we think this has worked for us. You can see the financials. We did a little over \$1.3 billion worth of net income last year. Through the third quarter of this year we've exceeded that by \$200 million, and we feel good about the trajectory we have going forward.

A little bit more detail on what we do. Lending is both leverage lending and asset-based lending. If we finance equipment, we can do it through a lease or a loan. We also do inventory and franchise financing. In all cases, like I said, senior secured, hard foreclosable assets.

You look through the various product lines there, equipment is probably our oldest. It's our largest in terms of assets and it's one where we think we have a significant competitive advantage, particularly in small ticket equipment finance, where we offer our product through dealers to finance the sales to their end users. Mike mentioned our space in some segments is a little less crowded. This is one of them.

We've invested very heavily in technology over the last few years. And for a large majority of our dealers, we can offer them the ability to gain not only credit approval, but to print out the documents and conclude a transaction while the customer is still in their showroom. That's a significant advantage and it matters and we like this space. We'll continue to invest in that.

Likewise in inventory finance, where we have over half a century worth of experience. We've also invested in technology. We have 35,000 dealers that we provide inventory finance for. Many of them use our asset management systems as their primary information source above their own software proprietary system. That and the example above in equipment finance, that provides real stickiness, real relationships with customers, so we feel good about these spaces at attractive returns.

We do direct lending. If a customer wants a working capital line and they want you to email in a quotation, that's not what we do. But if the CFO of a food company is looking at spending \$10 million on a new canning line, we're going to have somebody who does canning lines talking to them and experiencing that collateral in that industry. That's what we're known for in direct lending. We also have a great reputation in asset-based lending, debtor in possession lending, retail and restructuring.

Franchise, you saw the commercial when we first kicked off with Junior Bridgeman and his 165 Wendy's franchises. We finance national and regional brands that matter for operators who play in scale. That's not mom and pop financing and we've got a number -- we've got a leading position in that.

We have a great sponsor business, number one in its segment, focused exclusively on the mid market with a very good set of relationships with a sponsor they've been dealing with for 15 to 20 years, delivering very attractive returns. It's a very strong business.

And then finally, you put together the lending expertise of GE Capital with the industrial domain expertise of GE Healthcare and you end up with the number one healthcare financial services vertical, which Mike referred to earlier. All of these delivering very attractive returns, broad spread of risk, mid market focus, and so we feel good about that.

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We've always been a very disciplined business. We're an even more focused and targeted specialty finance company today. We understand the customers we want and their industries. Bill talked about access GE and the things we can do for our clients that no other competitor can do, bringing the breadth and the depth of the organization to bear to differentiate us from the competition. It matters. It's making a difference.

Our volume is up on a year-over-year basis. We figured out how to make more money on less activity. You can see the pipeline that Bill referred to for us. It's \$26 billion, which is up 72% over where it was in 2009. I talked about technology. We'll continue to invest in that to even increase the gap between us and the competitors. And we're delivering this business at what is very attractive returns.

You can see obviously 2009 was an anomaly. Losses were high and liquidity wasn't flowing freely. But the margins that we are generating and putting new business on the books at today are very attractive and they continue to be in excess of the deals that are rolling off the portfolio. In fact, as we project forward to 2012, we anticipate that the new origination will exceed the roll-off by about 50 basis points. So that portfolio margin and profitability continues to lift going into the future.

Then lastly I said I'd talk about losses. I believe we have world-class risk management. This specialty finance model is a superior one. We peaked in losses at \$1.4 billion in 2009. Even that, as bad as it was, was just a little over 1.1% of our asset base. But we're back, as Mike said, to almost pre-crisis norms. We've had \$300 million worth of credit costs through the third quarter. So we think it's a good model. We like our position in this. And we feel that the trajectory of the business is very solid.

So thanks. And I'll bring Mark up to talk about real estate.

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**Mark Begor** - GE Capital - President, CEO - Real Estate

Like Bill, it's nice to be back in front of some old friends from my investor relations days in the last nine years in the retail finance business.

Back in April I took over the real estate business for GE Capital. And I think you're familiar with the business. But we operate in 12 countries around the world. It's about 60% outside the US, 40% in. We've been weathering a very difficult storm in our debt and equity business where values went down by 40%. And I'll take you through in some detail about how we're really trying to manage through that.

The team's really focused on a couple of key priorities. First and foremost is to shrink the business. At the peak we were \$93 billion of on-balance sheet assets, a lot larger than we want to be and we should have been back at the time. We're down about a third, as mentioned earlier, \$29 billion in the last 36 months. So really a rapid shrinking of the business.

We're not done shrinking. We're going to continue driving the business down going forward. In 2011 already year-to-date we're down close to \$10 billion. We'll do another \$2 billion or so of shrinking in the fourth quarter. So mission one is to reduce the scale and de-risk the business going forward.

Second is to improve the profitability. With a 40% decline in asset value, that put -- took a big impact on both our debt and equity business. You see the losses from 2009 and 2010. The good news is those losses have really bottomed in 2010 and the business is improving. And '11, as Jeff mentioned earlier, up over \$700 million in earnings from '10 to '11. We'll end up under \$1 billion of losses this year. And I'll talk a little bit more, but we expect that trajectory of improving earnings to continue into 2012, and as we work our way back to profitability in 2013.

So four key priorities in the business. First is shrink the equity book. We've taken it down from \$41 billion to \$28 billion. This is where we own an entire building. We have 2,800 office buildings, multifamily housing, industrial properties that we own around



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the world. When you own 100% of the building and the value goes down by 40%, that's a tough equation. And as you can see why we're trying to de-risk the business by shrinking down the equity side. And I'll talk more about that.

Inside of the equity book we had a \$7 billion unrealized loss embedded value in the book. We talked to you before at the analyst meetings about that. The good news is that's improving through depreciation and losses that we're taking, as well as some slight value improvement that we've seen in the portfolio. We expect by yearend that to be between \$2.5 billion and \$3 billion. And that's a bit better than the analyst meeting last discussion we had about a year ago with you on the embedded value. So good news there.

Jeff talked about managing our debt maturities and delinquencies. I'll show you a little more detail on that. But we had about \$11 billion of debt maturities this year. Delinquencies are improving from \$1.6 billion at the end of the year down -- I'm sorry, from \$2.4 billion down to \$1.4 billion, a \$1 billion improvement year-over-year. So are continuing to work those delinquencies hard.

And then last, the core business inside of the real estate business is our debt business. Much like some of the businesses Dan talked about where we're secured against the building, whether it's an office building or multifamily apartment building. And as Ryan mentioned, we've improved our underwriting really doing safe underwriting at 75 LTV.

But remember that's 75 LTV against today's asset values that are down 20% to 40% from where they were three years ago. So we really feel good about our underwriting at very attractive returns that are well over 2%. So strong execution in 2011.

I thought I'd show you a kind of a lens that we have on the market. And the headline is the market is recovering. Even with the challenges in the EU, there's very strong demand for real estate assets. The hard cash flowing asset yielding 7% to 8% is an attractive alternative for investors, whether you're a pension fund investor or sovereign wealth fund. And globally, most of the big funds are a couple hundred basis points underweighted in real estate today.

So we're seeing real demand for attractive properties, which is really helping us as we shrink the book. As you know, we're selling assets. Low interest rates are attractive. Again, makes these assets even more positive. No new supply is also attractive for us as -- in the portfolio that we do have. There's very limited construction going on.

Really, no banks are lending against construction. We never have. The big commercial banks used to and they've really stopped doing that. So if you want to start a new office building or multifamily housing, you're really having to do it at 100% equity or very, very expensive debt, which is a big challenge. So no new supply is a positive for us going forward.

And the debt market disruption is also a positive. It allows us to really enhance our returns where we are doing some very safe and careful lending. And of course the Eurozone is still a problem. As Ryan mentioned, we have about \$13 billion of our assets in Europe, so the Eurozone is something we're watching quite closely.

Bottom left shows you transactions improving, up 33% over a year ago. So investors are moving back into the real estate space for those very attractive yields for hard cash flowing assets. Top right shows how values have improved. We all remember the cliff that the real estate -- commercial real estate industry went off in '08 and '09, down dramatically. But you can see improvements of a little bit over 30%, which is attractive for us going forward.

And you can see in the bottom right box in some of the 24/7 markets, you've seen some big improvements over the -- since the trough, which is quite attractive. So better market, which is attractive for our equity book as we continue to shrink that down, and real estate assets remain attractive to investors, which is good for both our debt and our equity business.

A page on our equity business. The headline is clear, continue reducing and shrinking that business. Top left you see a breakdown of the assets by geography. About a third in each of these three [poles] and about 10% in Mexico and Canada combined. A/B



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quality average investment, about \$11 million. We've got 2,800 buildings that we own and manage. Those are -- we own and manage them through our ownership.

We have about 600 people on the asset management side that manage each of these buildings. They're primarily wholly owned. And you can see about half office and some multifamily apartment and warehouse.

The shrinking ENI is a clear strategy here, from \$41 billion down \$13 billion from the peak. And our strategy is clear. By 2015 this will be down to \$10 billion or less as we continue to shrink the equity side of the business. The team is really focused on enhancing value here as we shrink and sell. And you can see some of the operating levers or drivers up in the top right-hand corner.

Driving occupancy in the building is going to create value, going to create cash flow, going to create earnings. And we're up 100 basis points in a negative absorption market. The market is down about 200 basis points globally. So our team is outperforming as we get our buildings filled and occupied.

Strong new leasing, 8.9 million square feet just in the third quarter. And just to put that in perspective, that's the equivalent of leasing out seven Chrysler buildings in New York. So that's the scale of that kind of leasing that's going on just in a quarterly basis in the properties that we have. And that's driving yield improvement. And yield improvement is going to drive value improvement, which is going to allow us to exit out of these properties at a very attractive financial equation.

The middle green bars I think are probably the most important on the page. It shows that the market is vibrant. We're able to sell properties. You see third quarter year-to-date \$330 million of properties we foreclosed on that we've sold at 12% above our book basis we took them back on our book on. So two points there. One is our values we think are sound. And second is there's a market out there to sell them.

On the right-hand side there you see \$2 billion of actual assets that were on our balance sheet that we sold on a third quarter year-to-date basis. We'll sell another \$1.5 billion or so in the fourth quarter. And those are selling at 14% above our book basis. So again, gives us confidence in the marketplace, gives us confidence of our values.

An example of one of those properties is an office building in San Diego, about 160,000 square foot building we sold a month ago. This is a building that we sold for \$32 million. We sent out marketing brochures to 111 different investors to get them to bid on it. We got 11 bids on that property and we got a 10% improvement through the best and final process.

So there's still a real estate market is the point, even in this challenging economic environment. Investors want these kind of cash flowing assets when they have the right equation of stabilized leases, long term leases and attractive positions.

Bottom right is the unrealized loss, a very important metric for us on our equity book, one we're working to really burn that down over time. You can see up \$4 billion in just a couple of years. The \$2.5 billion to \$3 billion slightly better than we talked about a year ago. A year ago we told you we thought we'd be at breakeven by '13. We still believe that to be the case.

And really the drivers of this is we depreciate our assets and about \$1 billion, \$900 million of depreciation annually helps improve that embedded value. Second is when we do take losses on the properties, we've taken some in the equity book, that improves that and that there's some value improvement that also improves our embedded value. So, keen focus on really maximizing the value as we shrink down and de-risk the equity side of the business.

The second side of the house is our debt business and profitability really is improving there. You see in the top left kind of a breakdown of our debt assets. We're non-balance sheet lender. We do primarily senior lending, first mortgage. Our LTVs at 78%, which is about 400 basis points better than it was a year ago, so improving LTV, quite attractive. Debt coverage of 2.3 times. Again, very attractive inside of the book.

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We're also shrinking this side of the business. It got too large. We're getting it down into that range, you can see, at about \$35 billion is about where we want to be going forward. And you can see it's profitable in 2011 and we expect that profitability to grow going forward. So this is an attractive business for us. As mentioned earlier, we're originating in 2011 at 2 plus ROI. I think our average year-to-date is 2.2 or 2.3 and very attractive LTVs.

Right-hand side just shows how the book is performing. We've historically outperformed the banks on delinquencies primarily because of a lot of the assets we don't lend to. We didn't do construction lending. We didn't lend to condos. We got out of a lot of retail lending early on. Those are more volatile real estate classes to lend against and we just never really did it and got out of it.

You can see our delinquencies have improved. Jeff mentioned that improving by 150 basis points. It'd be another 80 basis points better but for the shrinking of the business. So we expect these trends to continue, fourth quarter to be better than third and for our delinquencies to improve as we go into 2012.

Maturities, we get this question a lot about our maturities. We had about \$11 billion of maturities this year, similar to last year. That's going to come down a bit in 2012 as the book shrinks. Right-hand side there just show you how we're managing through the maturities. We're collecting out. A lot of the loans were either we don't like the pricing or we don't like the underwriting of the loan.

Where we are extending a restructuring it's because we like the asset and we like the pricing. And on average we're improving our pricing 100 basis points and we're getting about a 10% pay-down, so improving our LTV on the loans that we do extend a restructure. So making it a safer book going forward. So this core part of our business we think is a good business and a core capital business going forward.

So wrapping up, our strategy is pretty clear. Shrink the equity book. It's really a de-risking of that side of the business. Owning 100% of a building is a lot more risky than owning 75% of a loan against a building. So a much better business for us. Down \$29 billion. We're going to continue to shrink into the \$50 billion range or so as we get out to 2015.

I talked earlier about the earnings being up \$700 million. This year will be a bit better than \$1 billion of losses. We expect a similar improvement in 2012. As I said, our track -- our plan is to really drive to profitability when we get into 2013 and of course continue to grow that profitability in '14 and '15.

So with that I'll wrap up and turn it over to my good friend Margaret Keane, who will talk about my -- one of my favorite businesses, retail finance.

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**Margaret Keane** - GE Capital - CEO - Retail Finance

Thank you, Mark.

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**Mark Begor** - GE Capital - President, CEO - Real Estate

Sure.

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**Margaret Keane** - GE Capital - CEO - Retail Finance

So, let me spend a little bit of time on this business. I think a lot of people talk about this as a consumer business. I really like to talk about as a partner business. We really wake up every morning and our job is really to figure out how do we help our partner

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grow sales, whether that's through our marketing programs and our initiatives around promotions or trying to bring in new customers every single day.

We do that through a wide geographic base of customers, from big box retailers to small retails across the United States. We have 51 million average active accounts. And our average balance is small. I think compared to a bank card, our average balance is only \$870, so that gives us a protection from a risk perspective.

I think the other maybe misconception about the business is that this is a subprime business. And the reality is that 80% of our book is prime. So we're actually originating at on average 750 cycles. Our overall book average is around 715. And we really see that as we see the performance of our sales where we're seeing very good sales growth this year, our sales are up about 12%. And that's really a fact that the consumer and our book is very strong.

So we have a stable, high returning business with very strong retail partners. We pay a lot of attention to who we do business with. An example would be someone like Lowe's who we've had a partnership with them for over 33 years. So longstanding, very integrated programs with our partners.

We have a history of outperforming the business. And I think you can see this in terms of our returns, whether you look at CV and whether you look at how we handled ourselves from a charge-off perspective. And why are we different? Why do we think we're different than our competitors? And really is a couple of things.

The first is we never get confused about what our job is. It's about a business to business program where we work with our retail partners. We're not in this to really grow consumer accounts, which many of our partners in the banks had done or tried to do in this space. Our job is really to work with our partner and to make them look good by growing their retail sales.

The other thing, in many cases in our big partnerships, they actually share in the upside when things are good, and they share in the downside when things are bad. And what's good about that? It really allows both of us sitting across the table, even through the cycle we were able to have very good discussions about what we were going to do to protect the book, to protect the consumers, and protect our retail partnership through the cycle.

We also go out with lower lines. The way we approach our business is our first job is to get that first sale at point of sale. And then we really look at the customer in terms of how they're performing and increase lines slowly if it needs to be. In other words, if the customer [is spending] and they're performing well, we'll increase the line over time, but not right out of the gate.

We have a very low cost acquisition. It costs us about \$15 to acquire accounts at the front end at point of sale. So that really helps us. We have very strong operational execution. And I think that's really played out in the cycle, from our risk expertise to our operational expertise. And our ability to drive productivity and cost and pricing through the cycle really allowed us to drive the performance on these metrics.

Losses have been a good story. Despite very high unemployment, and we continue to see high unemployment in 2011, we really took a lot of actions early in the cycle. I would say we were taking actions as early as the fourth quarter of 2007. And you can see when you look at the peak of our losses to where we are today, 4.6% improvement in our losses is really driven by the fact that our book is much better than what it was back three cycles.

Our portfolio, again, is much stronger. We're 80% prime. And we see our delinquencies actually improving 35% from peak and we're actually at pre-cycle levels. So really a great story on how our early actions and our expertise in this business paid off.

So how do we think about this business? It's solid net income. We see a strong end to 2011. Just to give you a sense on how fourth quarter's doing, holiday sales, we're seeing double digit growth, similar to what the market is seeing. We're seeing very strong online sales. Our receivables are stabilizing. So we have solid long term partnerships with great partners.

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We have a broad distribution in the US and we're growing, as Mike said. We have a very strong credit portfolio. We can self-fund our growth, which is a great story for GE Capital. And we have very attractive returns. So with that, I'm going to turn it over to Mike, who's going to wrap up.

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

Good. And before I start I'd just like to say one thing. Even though the chart was right, Ryan said that we had \$300 billion of exposure to the -- we only have \$300 million, and there's a difference. He's Canadian, so we'll give him -- anyway, sorry about that.

One more chart and then we'll take questions. This is a landing page. I think things are pretty good. A lot of people have used that phrase today. \$6 billion plus for the year next year. We feel pretty good about ENI tracking, returns pretty good. Capital ratios pretty good. We're on track for strong earnings growth, CLL, consumer, real estate. You heard all the stories, verticals doing well for us.

Portfolio quality continues to improve and should improve further next year. We're -- we plan to restart the dividend and we'll see how that goes. But that's in our plan for next year. and then liquidity and funding is in good shape for the business and I think we're well positioned for next year and we're continuing to diversify that. So I think pretty good plan, pretty good performance this year, better than we said. And we're pretty optimistic, I think, about the future for the business. So, with that, Trevor, why don't you come up and we'll do some Q&A.

## QUESTIONS AND ANSWERS

**Trevor Schauenberg** - GE Capital - VP - Corporate Communications

Thanks, Mike. Thanks, team. Since we're on a webcast and we're recording this, if you could raise your hand for Q&A and we'll bring a microphone over to you. Why don't we start off with Steve Winoker.

**Steve Winoker** - Sanford C. Bernstein & Co. - Analyst

All right, let me just -- maybe three things. One risk, second pricing, third portfolio. On the risk side, just want to get a sense on the counterparty risk on page 36 of Ryan's presentation. I know he talked about that broadly. Could you give us a little more color around what counterparty exposure you have and the exposure of those counterparties to sovereign debt?

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

Kathy or Ryan, which one?

**Kathy Cassidy** - GE Capital - Treasurer

Okay, well, I can start. I think our counterparty exposure comes from really two sources. The one is our cash portfolio and how we invest it. We have some money in the bank as well as some operating cash that we need around the world. Then we also have -- we do execute some derivatives because we want to match fund our portfolio. So that in and of itself creates counterparty risk.

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But they're simple derivatives. They're interest rate effects. And we manage them very tightly. So we do daily marks on our derivatives portfolio. We have what we call collateralized agreements so that they post collateral to the extent that there is a change in value in the derivatives.

And then in terms of the cash and how we invest it, we make sure that we operate with the strongest and safest institutions that are out there. And we keep all of our excess cash and very short dated instruments so that they're readily available for the most part within seven days.

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**Ryan Zanin** - GE Capital - Chief Risk Officer

Much of the cash portfolio is invested in reverse repos. And so you have to think of that as double default risk where we not only have the counterparty as a first line of defense but we also have high grade sovereigns UK, France, et cetera, pledges collateral.

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**Steve Winoker** - Sanford C. Bernstein & Co. - Analyst

Okay. And the other two are just on pricing. So we're seeing this great uptick in pricing. How long -- as you're only showing one year out and a slight uptick, so if I sort of think of a five-year -- or how long should we expect and how big could that be in pricing and sustainability of that given the competitive environment?

And then the second part just to get to is the portfolio. So you've talked about the portfolio a lot on the consumer side of the business and the red assets. But if you go beyond the red assets, how are you thinking about the portfolio going forward?

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**Mike Neal** - GE Capital - Vice Chairman, President, CEO

Okay, I'll take a shot. And then maybe, Bill, you might want to chime in as well. But the -- I think try to project pricing out five years is unknowable in that regard. If you'll recall, we didn't expect this good a year this year last December. Pricing was good the first half of the year, and then it started to come under some more pressure, coming down a bit late second quarter. Europe sort of took care of that and pricing, again, is the numbers that you see.

I would say that we've been pretty disciplined around pricing. We really love how the math works on that. So we -- one of the nice things about having a model where you have your own people direct origination is we can change prices with an email, so we can do it very quickly. We actually do control that. We have a throttle and a brake on it. We'll be competitive. And we're not uncompetitive today. It's just the markets are a bit better.

We're planning for next year about how we're thinking about this year. We'll see what the market allows in that regard. I couldn't -- hopefully in five years the world is better, in which case pricing should be more competitive.

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**Steve Winoker** - Sanford C. Bernstein & Co. - Analyst

(inaudible question - microphone inaccessible)

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**Mike Neal** - GE Capital - Vice Chairman, President, CEO

Oh, actually, Jeff, you want to --

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**Jeff Bornstein** - GE Capital - CFO

I would say the average duration of, for instance, Dan's book when he shows you the portfolio, is about two and a half to three years. That obviously can change depending on what rates do and refinancing rates go. But generally speaking, two and a half, three years for book turns.

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

But this is -- I mean there's a lot -- there's a lot about the world that's not -- this is the best -- I've been here a long time and this is the best pricing environment I've been in. and the math on that's very powerful for us.

**Steve Winoker** - Sanford C. Bernstein & Co. - Analyst

(inaudible question - microphone inaccessible)

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

Yes, about the --

**Steve Winoker** - Sanford C. Bernstein & Co. - Analyst

(inaudible question - microphone inaccessible)

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

Well, we've got at the -- we're going to be at 440. We're still going to have a pile of red assets. I mean we're thinking about continuing reduce that to zero, at some point use that to fund -- to fund future growth. We don't have any -- and we make it a question, but we don't really have any plans today to go below 440.

The idea is to get there and then fund growth by reducing a remix, reduce the red assets further. Take a couple of years to do that we think. We think we want to do that in a way that's smart for us, smart for you in that regard. Trevor and I were talking earlier, do we have a plan to get below 440. We don't. But if we did, all roads would have to lead through 440 to do that. We do a new plan each year with Jeff, with the board, so we're flexible around that.

**Trevor Schauenberg** - GE Capital - VP - Corporate Communications

Next Steve Tusa.

**Steve Tusa** - JPMorgan - Analyst

Thanks. In the fourth quarter looks like your losses and impairments are going to be about \$1.8 billion, if you just back into the [chart given us]. That's a little bit up from kind of the quarterly run rate we've seen for the first three quarters. I think it was about \$1.6 billion or something like that. With your delinquencies kind of flat to down and all the credit metrics trending in the right direction, is there -- what explains that modest increase in the fourth quarter is the first question.

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**Jeff Bornstein** - GE Capital - CFO

Well, the fourth quarter we'll do another revaluation on the real estate equity portfolio. I think it'll be a little higher than what we saw in the third quarter, mostly coming out of Europe. And that's the small uptick that you see.

**Steve Tusa** - JPMorgan - Analyst

Okay. And then for 2012 you get another -- if you kind of (inaudible) the losses chart, you're getting something looks like in the range of \$2 billion of tailwind from provisioning and impairments. What are some of the other just high level puts and takes as we look at the income statement? Is tax going to be a headwind? You obviously had portfolio margins going for you, volume. Could you just maybe walk through what some of the other -- maybe just some pluses and minuses what some of the other levers are? And then one more question.

**Jeff Bornstein** - GE Capital - CFO

So we'll get a lift on margin what we originated this year and continue to originate next year versus what runs off the book. And what we accomplish on the red portfolio, that'll all be accretive. That will be offset by the fact that we will continue to shrink. So we'll take somewhere between \$10 billion and \$15 billion of assets off the books at the same time. So it'll be hard to see it on the face of it, those dynamics working through. But it will be there.

We'll get a little bit of lift, not a ton of lift, on credit costs. But we will get a bit of a lift on lower impairments next year than -- versus what we had in 2011. I don't think tax is going to be much of a game changer year to year. We'll have to see how it plays out. I think our tax rate next year will probably be a bit higher than what it is this year. So I don't think there's -- year-over-year I don't think there's a lot of remarkable stuff between the levers -- the earnings levers in the business.

**Steve Tusa** - JPMorgan - Analyst

Right. And then one more question. You guys -- obviously there's careful wording here, but you said it's in your plan to dividend cash from GE Capital up to the parent. Any more color you can give on that front how the process is going with the regulator? I know it's pretty sensitive, but any kind of additional color to help us understand what kind of timing, what kind of hoops you have to jump through to get that done over the course of the next year?

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

I'll start with that and then I'll introduce -- I think I'll introduce -- in fact I'll introduce now Dave Nason. Dave is the head of regulatory for us, been with us about a year and a half and is responsible for the \$300 million spend that Jeff talked about earlier in that regard.

It's incredibly sensitive. And all I can tell you, and then I'll let Dave fill in on that, but we started with the fed back in July of this year. There's a lot of work to be done. We're a little different -- a little different from what the average bank is in terms of they're getting to know us and we're working through a process. They're aware and we've been very public about the dividend and we'll just have to wait and see how that plays through. And I don't really have any more color than that. David?

**Dave Nason** - GE Capital - Chief Regulatory Officer & Compliance Leader

Yes, I would just -- I would just say it's easier to say what exactly the process isn't going to look like as a team instead of showing our plan. That's probably the most important thing. Second thing is Ed's only been here for five months. So they're getting up to speed about the business, the business model, learning our governance and our process.

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And the third is it's just important to say that that regulatory requirements for companies like ours haven't been written. So we're operating in an environment that's pretty uncertain. What is certain is that we're not part of the bank holding company rules that came out in CCAR. They were very explicit about the fact that those do not apply to us.

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**Steve Tusa** - JPMorgan - Analyst

-- understand your business, what inning are you in as far as how you understand your business and how you would see an outsider as understanding your business? How far up the curve are they? Obviously that has to happen before they even make a judgment, but --

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**Dave Nason** - GE Capital - Chief Regulatory Officer & Compliance Leader

It's pretty hard to characterize where they are. I mean they're five months in. We're a pretty unique animal. We're doing our best to get that for them. Hard to characterize.

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**Mike Neal** - GE Capital - Vice Chairman, President, CEO

These are -- it's just hard for us to answer. We don't know what We don't know.

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**Trevor Schauenberg** - GE Capital - VP - Corporate Communications

Terry, you want to go next?

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**Terry Darling** - Goldman Sachs - Analyst

First off a clarification. The \$6.3 billion to \$6.5 billion net income this year, is that the GECC level or the GECS level?

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**Jeff Bornstein** - GE Capital - CFO

The GECS level will be modestly differently, modestly lower.

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**Terry Darling** - Goldman Sachs - Analyst

And can we maybe get a little more color on the alternative funding piece for next year?

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**Jeff Bornstein** - GE Capital - CFO

Kathy?

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**Kathy Cassidy** - GE Capital - Treasurer

Sure. So, as you've probably noticed, we did grow our alternative funding in 2011, primarily by growing deposits in both our international banks as well as in our US banks, our FSB and our ILC. So, now that we have all of Dan's platforms in the banks that are up and running and operating, new business origination will be going through the banks. And as those assets get added to the balance sheet, we will be launching our direct to retail internet deposit platform.

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So when we think about alternative funding, it's a focus on deposits. It's a focus on securitization. The markets have been pretty good this year, especially in the credit card area. But not only there, in other products as well. We have done some covered bond issuance. We'll see how the market is as we move forward. We've done (inaudible) financing and many other things. So I think it depends upon market conditions. It depends upon what our final ending net investment is and how the businesses grow and where it comes from.

But I think the important thing to remember is we have a lot of alternatives that we work on and we review these every other week at our [outgo] to make sure that we've got solid plans in place so that we can focus on the platforms where the assets are and put an appropriate funding product with it.

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**Terry Darling** - *Goldman Sachs - Analyst*

Okay. And then just lastly on the stress test scenarios that you all ran through, why 5%? I've seen some others running them at 7%. And how do you think the April timetable that people talk about on the fed stress test works into the process of the fed getting to know you? Do you think that that runs in parallel? Do you think that pushes the process out? Any color there would be helpful.

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**Mike Neal** - *GE Capital - Vice Chairman, President, CEO*

Ryan?

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**Ryan Zanin** - *GE Capital - Chief Risk Officer*

Just with respect to the stress test, we -- what we presented there was sort of the excess to the minimum of 5% regulatory under stress. So just imagine the (inaudible) requirements for capital for the banks would be 7% before the buffers. On an ongoing basis there's a different view of the requirement of minimum capital under stress. And that's the difference between the two.

Ask Dave to talk about the timing issue.

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**Dave Nason** - *GE Capital - Chief Regulatory Officer & Compliance Leader*

On the timing, they're pretty much detached. I mean the CCAR process sets up a very formulaic process by which those 30 banks would go into the program. They basically apply in January and they'll get an answer around the March timetable. Ours is a much more customized unique process, so we're going to continue informing the fed about our business, continue talking about these plans. But you can't look at the calendar the same way you'd look at the calendar [for 30 banks for us].

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**Trevor Schauenberg** - *GE Capital - VP - Corporate Communications*

Great. Next, why don't we move to this side of the room. Jeff, you want to go?

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**Jeff Sprague** - *Vertical Research Partners - Analyst*

Thank you. Just to be clear on the notion of the plan, I think Kathy actually gave us kind of the liquidity plan getting down to kind of \$50 billion, \$60 billion of liquidity. Is there a dividend embedded in that [walk or we see that] big step down in business cash flows from \$45 billion to \$10 billion to \$15 billion?

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**Mike Neal** - GE Capital - Vice Chairman, President, CEO

Jeff, you want to take that?

**Jeff Bornstein** - GE Capital - CFO

What we planned for 2012 is an income dividend. So we're planning on sending to the Company a percentage of our earnings next year. That's what the plan is.

**Jeff Sprague** - Vertical Research Partners - Analyst

And we should assume that's kind of in keeping with historical percentages pre-crisis?

**Jeff Bornstein** - GE Capital - CFO

Roughly.

**Jeff Sprague** - Vertical Research Partners - Analyst

All right. And --

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

We're surprised anybody's curious about that.

**Jeff Bornstein** - GE Capital - CFO

Yes.

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

-- anticipate that would come up.

**Jeff Sprague** - Vertical Research Partners - Analyst

No one caught that \$30 billion --

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

The [plan is not to] dividend \$30 billion next year.

**Jeff Sprague** - Vertical Research Partners - Analyst

Okay. And obviously there's divestiture proceeds and everything in the '11 number that's part of that delta, correct? You have that number, how much in '11 is from divestitures?



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**Jeff Bornstein** - GE Capital - CFO

Of which number?

**Jeff Sprague** - Vertical Research Partners - Analyst

Of the business cash flows, are you --

**Jeff Bornstein** - GE Capital - CFO

Oh. Oh, oh, oh.

**Jeff Sprague** - Vertical Research Partners - Analyst

-- divestiture proceeds in that?

**Jeff Bornstein** - GE Capital - CFO

We'll get it for you. It's fairly de minimis. Most of the business cash flow numbers are shrinking ENI.

**Jeff Sprague** - Vertical Research Partners - Analyst

Thank you.

**Jeff Bornstein** - GE Capital - CFO

A couple billion dollars. When we do a disposition, the cash that we're getting back is effectively our equity.

**Trevor Schauenberg** - GE Capital - VP - Corporate Communications

Deane want to do the next one?

**Deane Dray** - Citigroup - Analyst

Thank you. It was real interesting to see Jeff Bornstein's slides that showed GE Capital versus bank peers and most importantly on net interest margins. So it begs the question is there a move afoot to change the reporting structure to make this an ongoing metric?

**Jeff Bornstein** - GE Capital - CFO

We did this as an analytic exercise. I'm not sure. We have not crossed the bridge about whether we need to redo our external financial reporting. We wanted to give you kind of a snapshot on what we think the comparables are and how you might think about them. We've not really had the discussion across the bridge around are we changing our external financial reporting.



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**Deane Dray** - Citigroup - Analyst

What was interesting is how would GE Capital compare banks. And comparison obviously is favorable and it would just eliminate that question as to why do you have the different reporting structure. So from our perspective it certainly would be favorable.

**Deane Dray** - Citigroup - Analyst

Great. Thank you.

**Trevor Schauenberg** - GE Capital - VP - Corporate Communications

Jason, you want to go next? Right over here in the middle.

**Jason Feldman** - UBS - Analyst

Yes, thanks. So, you've given the -- where the tier 1 is going and the stress test you laid out with the excess. How did you arrive at \$50 billion as the right long term target for cash given that's about where you're going to end '12 and it's also pretty elevated?

**Kathy Cassidy** - GE Capital - Treasurer

So the way we've thought about cash as we go forward is I would put it into two separate pieces. First is we look at what our upcoming long term maturities are. So if you see -- if you look at 2012, we have about \$80 billion and that's because of the GLGP debt that's maturing.

As we look beyond 2012 and just focus on what's coming -- what maturities are coming in '12, '13 and beyond, it's about \$35 billion a year. So that one fact alone, just looking at your debt maturity profile, will allow you to run with a significantly -- a significant amount less in terms of cash that you need to carry, run through all the liquidity stress test to make sure that you can withstand adverse market environments and so on. So that's sort of one way of getting at it.

And I think the other way is to really think about where the cash is located and some of it is in our -- in our wholly owned banks. And so as we build out our deposit programs, we want to make sure that they've got the liquidity that they need to support the deposits. So when you put both of those models together, I think we come out being comfortable with carrying about \$50 billion of cash as we go forward. Now, we'll refine that as we -- as we see where the ENI is and what markets and so on and which legal entities.

**Jason Feldman** - UBS - Analyst

I mean \$50 billion versus \$35 billion of maturities seems like a lot, no?

**Kathy Cassidy** - GE Capital - Treasurer

Well, it is. But we're going to continue to work through and refine that, as I said, as we go forward. We carry about \$10 billion of that today in our banks. And so that doesn't really factor into what we can readily use. So if you really think about the operating cash we have, it'll be roughly \$40 billion, just as today. We had \$88 billion of total liquidity, which was our cash plus our short term investments that are greater than 90 days.



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So if you look at that \$88 billion, there was roughly \$10 billion in our banks as well. So once you back that out, you get down to the real operating cash that you have that you can use to pay debt and in any of the markets around the world. So it's really kind of a \$78 billion instead of \$50 billion, really looking at a \$40 billion comparison.

**Jason Feldman** - UBS - Analyst

Okay. And just a question on the real estate debt lending, sort of restarting that and targeting bringing ENI back up. I guess the quality of business that you're seeing out there is attractive, but in terms of thinking of what you want GE Capital to look like in a bigger sense, why not either shrink it further or put that capital into CLL somewhere else? Why sort of start growing the real estate debt book again?

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

Well, I think the -- I'll answer that, and if -- Mark, if you want to add anything to it, you can.

But our view is the real estate debt book, we've been in this business for a very long time. It's an area I think we have as much core competency about as anything. (inaudible) equity book get big. No argument there. It is running down. Returns are attractive. We think it's very safe today. We do see -- we do see more opportunity around that market for us. We think it's attractive. We think it's safe. And it's something we've done for over 30 years.

So I think in hindsight, to tell you that the real estate business overall got too big and the equity piece got way too big during that period. We're shrinking that down. And I think as long as we can do these types of conservative loans at north of [a 2 return] in this market, it's very safe. And that's how I would answer.

But we can always make it smaller. But as part of our plan today is we are shrinking the business. It will shrink further. We're not doing a lot of debt, but we are doing smart debt, I think, in terms of what we're seeing. We are profitable in it. Our problem in that book is really on the -- is really on the equity side.

**Trevor Schauenberg** - GE Capital - VP - Corporate Communications

Great. Julian?

**Julian Mitchell** - Credit Suisse - Analyst

Yes, thanks. And I'm just thinking about you're entering sort of the fourth year of the ENI sort of shrinkage. After that you're probably looking to grow it. So I guess if you think about opportunities for growth, from a value side Europe may appear in the next 12 months. Real estate's already getting there, I guess. And from a growth standpoint, obviously non-developed markets, I guess longer term, are a good area to go into.

If you think about those three areas, which are you sort of most excited about in terms of deploying capital, weighing out risk and rewards. So I guess the emerging markets, you're less interested in real estate. It's been kind of back and forth. In Europe it sounds like you're starting to think about it, but what types of activity in Europe would you focus on?

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

I think I'd have to -- it's very complicated -- I mean it would take a long time to answer that. Let me kind of [bucketize] it into kind of core business and anything we might see opportunistically. Everything that we have in core is good to go. They are

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building, growing, adding frontend. We are funding that by selling down noncore or red assets in that. So whether it's CLL in Europe, CLL in North America, CLL in Asia, they're good to go. It's a business where the pricing is north [of 2].

And you saw most of what we do is there today. The debt business, they have a finite budget of what we're allowing them to do in real estate, but they're good to go, too. Margaret's business, as she talked about, is good to go. So all of these businesses, the way we tried to think about, and I don't want to make it hard, but if you go back to a tough period three, four years ago, we decided to -- what's the right size for the Company.

And there was a lot of metrics that went into that. Size of earnings, size of funding, different ways, we had a lot of advice. We ended up circling around the number of 440. It's not science. It's just where we seem to work for everybody. We picked a goal, assigned it to the end of '12.

And so then we dissected the business and to get us to that 440, recognizing that we we're going to have a good core green business on a going forward basis. So we segregated those two things. So red is all about shrink. Red is all about people being paid to make it smaller. Green is sort of normal business open for business, much like Dan and Margaret talked about it.

Now, in terms of doing -- being acquisitive, which I'm not sure you really asked it, but just to answer you, we'd be very selective on that. I think the -- I think that most of our view around our planning, at least so far, is kind of a core growth plan. We think, and I don't know if we're right about it or not, but we think that there should be attractive opportunities in Europe. And we'll have to see how that plays out.

I would say today, the pricing that we've seen today has not been compelling to us, so we haven't done anything with it. But there's certainly, and you probably have different views on it in this room, there's certainly probably conversations going on in Europe on the other side of these equations. I think if the price gets right we would be opportunistic as long as we understood the risk.

We don't have anything big. In fact, I don't think we have anything big, period, in that and nothing that we're working on you'll read about in the paper in the next few weeks. We're just -- we talk to people. We have a big [BD] team and we'll have to wait and see. And the only reason we talk about Europe is because we think Europe is the most likely place for it.

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**Julian Mitchell** - *Credit Suisse - Analyst*

And just a very quick follow-up. I mean excluding divestments, what's going on with sort of headcount and kind of core operating costs in the existing kind of go-forwards business? I mean you're adding some headcount, you mentioned at the beginning. But in aggregate, how should we think about ongoing costs, headcount, those sorts of things?

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**Mike Neal** - *GE Capital - Vice Chairman, President, CEO*

Okay. Well, headcount is a big piece of our costs. When you think of a business like ours, we have -- we have really three levers. We have people in cubicles. That's the lever SG&A. We have -- and we've reduced that quite a lot to get \$4 billion of cost out of the system over the last three, four years. I would say that we're still working through.

We want to add some frontend capacity. We think it's a good time to be doing that. I think it's probably a pretty good time for us to gain some share in some of these markets, just doing that organically. We don't have anything very ambitious. Jeff, I don't know, you want to talk about cost?

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**Jeff Bornstein** - GE Capital - CFO

I would say we're still very diligent about it and we've had to add quite a bit of cost across the functions and regulatory over the last couple of three years. But we're not planning on a substandard cost expansion 2012 forward. Quite the contrary.

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

We think we're in a pretty good place now. And the people that we're adding really is around sales and around -- it's not a lot, several hundred. And then around regulatory in that regard. We have contingency plans. If things get more difficult. But that's where we are.

**Trevor Schauenberg** - GE Capital - VP - Corporate Communications

Great. Any others? That's it?

**Mike Neal** - GE Capital - Vice Chairman, President, CEO

Well, good. We really appreciate you coming out. We're going to hang around here for a bit. We're going to have kind of a hospitality setup for those that want to stay or talk to us individually. And we appreciate it.

**Trevor Schauenberg** - GE Capital - VP - Corporate Communications

Just two housekeeping items for people on the webcast. This will be available for replay tomorrow. And then we have our annual Outlook meeting with Jeff and company next week in New York City on the 13th. So, please join us for cocktails outside. Thank you.

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