

GE Capital AS

Capital and Risk Management - Pillar 3 disclosures
31 December 2009



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1 Introduction

1.1 Overview of GE Capital AS

GE Capital AS is offering products as leasing assets, loans and inventory finance to commercial end customers.

GE Capital AS is supervised by the Norwegian Financial Services Authority (FSA), Finanstilsynet (FT) as a financial institute to LOV-1988-06-10-40: Lov Om finansieringsvirksomhet og finansinstitusjoner (finansieringsvirksomhetsloven) and LOV 1956-12-07 nr 01: Lov om tilsynet for kredittinstitusjoner, forsikringsselskaper og verdipapirhandel m.v. (kredittilsynsloven).

GE Capital AS is a subsidiary of GE Capital AB and is indirectly controlled by General Electric Capital Services, Inc. and General Electric Company¹. Neither General Electric Company, General Electric Capital Services, Inc. nor GE Capital AB are subject to Pillar 3 disclosure requirements or are subject to Basel II requirement.

GE Capital AS and its parent company are part of GE Capital EMEA, the operating division of GE Capital in Europe, Middle East and Africa. In 2009 the institute also forms a part of regional leasing which includes all smaller leasing platforms in Europe (Benelux, Iberia, Switzerland, Nordic).

1.2 Pillar III Disclosure Policy

The supervisory objective of the Basel II Accord is to promote safety and soundness in the financial system and it requires credit institutions to maintain an appropriate level of capital to cover the risks inherent in their business model. Basel II is structured around three 'pillars':

- Pillar 1: Minimum capital requirements,
- Pillar 2: Supervisory review and Internal Capital Adequacy Assessment Process (ICAAP),
- Pillar 3: Market discipline

Pillar 3 aims at promoting market discipline by developing a set of disclosure requirements.

This Pillar 3 report is a summary description of the capital adequacy positions and risk management processes of GE Capital.

All figures within this document are stated as at 31 December 2009 unless otherwise noted.

In Norway, the Financial Services Authority (FSA) implemented Basel II and the European Union's Capital Requirements Directive by publishing new FSA rules in the 2006.12.14 nr 1506: (FIN) Forskrift om kapitalkrav for forretningsbanker, sparebanker, finansieringsforetak, holdingselskaper i finanskonsern, verdipapirforetak og forvaltningsselskaper for verdipapirfond mv.(kapitalkravsforskriften).

¹ About GE and GE Capital

GE Capital offers consumers and businesses around the globe an array of financial products and services.

GE (NYSE: GE) is Imagination at Work - a diversified technology, media and financial services company focused on solving some of the world's toughest problems. For more information, visit the company's Web site at <http://www.ge.com/>.



The purpose of this document is to satisfy the requirements for Pillar 3 (disclosure); the information provided is in accordance with the rules laid out in (kapitalkravsforordningen) Chapter 45.

Future disclosures will be issued on an annual basis and published as soon as practical after the publication of the Annual Report and Accounts. The Pillar III Report of GE Capital AS is presented on the www.gecapitalsolutions.no

The format, frequency and content of the disclosures that follow have been defined by the Board of Directors of GE Capital AS.

1.3 Scope of application

GE Capital AS has no subsidiaries. Therefore, the present report represents the Financial Institution only, as is the case for prudential purposes.



2 Risk management

2.1 Organization of Governance and Risk management

2.1.1 Board and Governance Structure

Board of Directors

The members of the Board of Directors of GE Capital AS (“the Entity”) are appointed by the parent company, GE Capital AB. The Board of Directors mainly comprise Senior Managers of GE Capital AB.

The Board is committed to the ongoing sustainability of the Entity and has established comprehensive control and governance structures to ensure the risks faced by the Entity are monitored and managed.

The Board of Directors determines the risk strategy of the Entity, set the risk appetite and ensures that risk is monitored and controlled effectively. The Board is responsible for defining a clear risk management structure with distinct roles and responsibilities

Senior Management

All senior managers are responsible for managing business in line with the Board of Directors’ overall risk appetite. This requires them to manage their areas in line with operational performance targets and objectives, regulatory capital limits and risk exposure limits set within Risk Policies of GE Capital and its operating division.

In addition to individual responsibilities for risk management, there is a structure of committees that, under authority delegated by the Board of Directors, have formal responsibility for defined aspects of risk management.

Audit Committee (Kontrollkomitee)

Audit Committee reviews and reports on the adequacy of the systems and controls for the Entity, chaired by four external members approved by FSA to provide independent oversight to FSA and Shareholders.

Compliance Committee

The Compliance Committee reviews the Entity’s adherence to legislation within the Norwegian regulatory environment, develops compliance and regulatory plans, oversees regulatory and legislative developments and provides oversight of new legislation implementations. A Regulatory Early Warning System (REWS) is used to evaluate and track regulatory risk to the Entity.

2.1.2 Risk Management Structure & Policies

Risk is inherent to the Entity’s business and activities. As a consequence, risk management is always a priority area for the Entity continuously under development. To secure the financial stability and solvability of the Entity, risks are identified, monitored and managed early on by the dedicated functions.

Credit risk & Operational Risk

The Risk Department is in charge of the governance of credit risk, operational risk and fraud management.



The Regional Chief Risk Officer (CRO) is responsible for the definition and monitoring of risk strategies across all products in line with the Board of Directors' risk appetite. The CRO is supported by several functions to ensure proper monitoring:

- Portfolio analytics undertakes detailed review and production of portfolio performance metrics, loss forecasting and analysis for client and commercial teams.
- Underwriting functions perform deal approvals, credit scoring model development, oversight and monitoring, assessment of risk tools and data and technical implementation of strategies into the relevant systems
- Operational risk functions monitor the business-wide framework for the identification, assessment and management of operational risks
- Collections monitor debt collection from late paying customers. Both written reminders, active calling and follow up on payment promises and also eventually referring late payers to external debt collection. Also deals with repossession of equipment and cooperation with bankruptcy receivers if customer is insolvent.

ALM Risks

The interest rate risk management process is governed by Policy reviewed and approved on regular basis by the Board of Directors. The Policy defines roles and responsibilities of functions in managing this type of risk, declares general requirements that ensure not taking excessive risk and maintaining healthy interest rate margin derived from assets and liabilities.

The Bank applies gap analysis for estimation of potential impact of interest rate mismatch on expected net interest income and fair value of assets and liabilities.

2.2 Management Information and Control

Management Information for Prudential Ratios

Implementation of Basel II has led to further improvements in our risk management and capital monitoring system. Mechanisms for calculating and monitoring the prudential ratios (Solvency ratio and Large Exposure) form an integral part of the Entity's operational procedures for risk monitoring.

A capital calculation engine supports the calculation of prudential ratios, the reporting engine and data storage. A dedicated centre of expertise administers the centralised technical infrastructure of the solution.

Management Information for Strategic Decision Making and Risk Management

GE Capital AS produces relevant management information each month, which is made available to its governance committees for decision-making and risk management:

- Monthly reports are used to track and control key portfolio risk metrics such as industry, collateral concentration, delinquency, loss ratios, current portfolio rating and rating movements. These reports are presented in the quarterly meeting to review the portfolio.
- Other standard reports are also used to track and control the credit application and approval process. Incoming applications, approval levels as well as rating mix and auto decision rates are monitored.

On top of this management information process, GE Capital AS undertakes strategic financial planning annually, the result of which is a 3-year plan, which provides a basis for the risk strategy, the long-term capital and funding requirements and a detailed plan against which actual performance is monitored on a monthly basis.



3 Capital resources and capital management

3.1 Capital Structure

The capital resources of GE Capital AS at 31 December 2009 amounted to 410 million NOK.

The Entity does not hold any Tier 2 & 3 regulatory capital.

GE Capital AS follows the rules in respect of the definition and measurement of regulatory capital resources as detailed in Forskrift om kapitalkrav for forretningsbanker, sparebanker, finansieringsforetak, holdingselskaper i finanskonsern, verdipapirforetak og forvaltningsselskaper for verdipapirfond mv. (kapitalkravsforskriften). Regulatory capital resources comprise Tier 1 capital with associated deductions as described in 1990.06.01 nr 0435: (FIN) Forskrift om beregning av ansvarlig kapital for finansinstitusjoner, oppgjørssentraler og verdipapirforetak.

A summary of the capital resources is set out below.

	Amount
TOTAL OWN FUNDS FOR SOLVENCY PURPOSES	410
ORIGINAL OWN FUNDS	410
- Eligible Capital	370
- Eligible Reserves	146
- Funds for general banking risks	0
- Other country specific Original Own Funds	0
- (-) Other deductions from Original Own Funds	-107
ADDITIONAL OWN FUNDS	0
- Core Additional Own Funds	0
- Supplementary Additional Own Funds	0
- (-) Deductions from Additional Own Funds	0
(-) DEDUCTIONS FROM ORIGINAL AND ADDITIONAL OWN FUNDS	0
- Of which: (-) From Original Own Funds	0
- Of which: (-) From Additional Own Funds	0

Figure 1: Capital Resources as at 31 December 2009 (in Millions NOK)

3.2 Internal Capital Adequacy Assessment Process

On an annual basis, GE Capital AS carries out its Internal Capital Allocation Assessment Process (ICAAP), which consists of defining the adequate level of capital with regard to the risks. The following approach is used:

First, the Senior Management Team as well as the Board of Directors determines the Risk Profile of GE Capital AS during a risk assessment exercise. According to the level of controls and exposure to each of the risks, the senior management define if internal capital should be allocated to it.



Then, according to the output of its risk profile, the Entity measures the internal capital add-on for each risk that has been considered as material. For risks that are already covered by Pillar 1, GE Capital AS uses the methodologies for calculating minimum capital requirements.

Therefore, the Entity determines the total internal capital using a simplified building block approach, which consists in summing the supervisory capital requirements for the Pillar 1 risks with any allocations of internal capital to support other material risks.

The measurement of total internal capital is finalized during two additional analyses: capital planning and stress testing

- The Capital planning presents the evolution of the own funds and the internal capital allocation for the next 3 years. Based on the output, the Entity assesses its general capacity for absorption and the vulnerability of its capital considering its strategic plan and forecasted situation.
- Then, in order to ensure that GE Capital AS could maintain adequate level of capital under a worst-case scenario, the Entity performs a stress-test analysis.

The ICAAP for the present year has been approved by the Board of Directors and is held available to our regulator, the FSA. The level of Internal Capital is considered as adequate with regard to the Risk Profile. The Capital adequacy is monitored on a regular basis.

3.3 Capital Adequacy

GE Capital AS complies with new solvency rules by using Standardised Approach for credit risk and Basic Indicator Approach for operational risk.

The Company has neither securitization transactions nor minimum capital requirement for market risk.

	Capital Requirement
Administrative bodies and non-commercial undertakings	0
Central governments or central banks	0
Corporates	32
Institutions	0
Other items	0
Past due items	1
Regional government or local authorities	1
Retail	7
TOTAL	41

Figure 2: Credit risk Minimum Capital Requirement as at 31 December 2009 (in Millions of NOK)



Own Funds	
Tier 1	410
TOTAL	410
Capital Requirement	
Credit Risk	41
Market Risk	0
Operational Risk	14
TOTAL	55
Solvency Ratio	59,89%

Figure 3: Total minimum capital requirement as at 31 December 2009 (in Millions NOK)

Total own funds of GE Capital AS represents 59,9% of the Risk Weighted Assets as of 31st of December 2009.



Credit risk

3.4 Qualitative information

Credit risk is the inherent likelihood that counterparty does not meet its contractual obligations to return the principle and interest on the due dates agreed.

This risk is primarily due to exposures generated by leasing products and loan. This risk is considered the most significant and therefore represents the largest focus of risk management policies, strategies and resource.

Before issuing and authorizing a credit line, loan or lease for a customer, GE Capital AS performs a credit assessment check to ensure that lending is undertaken responsibly. In order to ensure that credit risk is not exceeding the risk appetite, portfolio/product credit quality is monitored quarterly via a Portfolio Quality Review. These reports are discussed at the leadership and board meetings.

GE Capital AS has a strong framework of control around the credit risk activities it conducts, which is documented in comprehensive risk policy documentation.

GE Capital AS has adopted the Standardized Approach to the measurement of capital relating to credit risk.

3.5 Distribution of Credit Exposure

The distribution of gross exposure² and the average³ for the year per asset class is summarized as follows:

	Exposure	Average Exposure
Administrative bodies and non-commercial undertakings	9	13
Central governments or central banks	1	1
Corporates	514	890
Institutions	2	4
Past due items	21	59
Regional government or local authorities	37	59
Retail	116	223
TOTAL	699	1 250
	Exposure	
Off Balance	242	
On Balance	458	
TOTAL	699	

Figure 4: Distribution of exposure and average exposure by standardized asset classes as at 31 December 2009 (in Millions of NOK)

² Gross Exposure: Exposure to a counterpart before credit risk mitigation and application of the Credit Conversion Factor (CCF)

³ Average Gross Exposure for the four quarters of 2009



All the corporate exposure is in Norway and only 0.02% of the total exposure of GE Capital AS is in foreign countries.

The distribution of the gross exposure by economic sectors (sectors are defined in terms of NACE classification) is as follows:

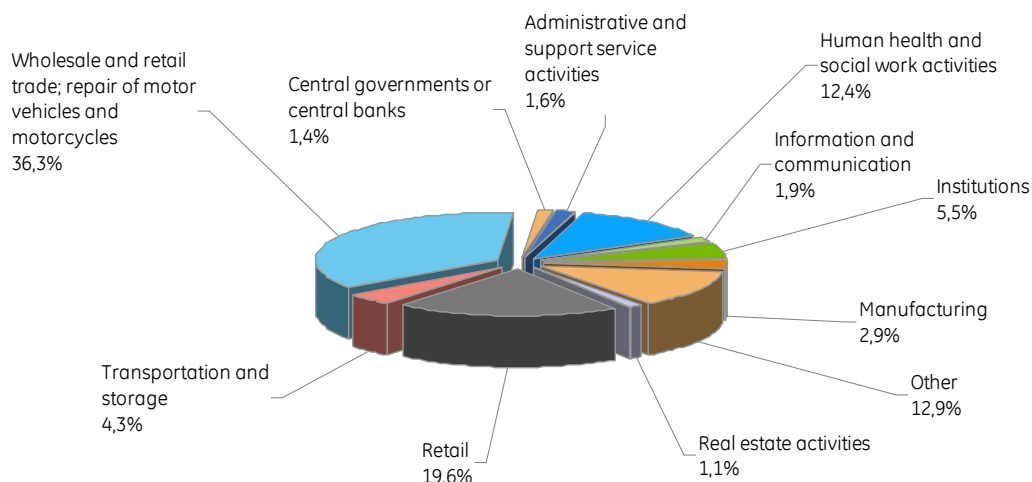


Figure 5: Distribution of exposure by economic sector – Gross Exposure

The following table shows the residual maturity of the gross exposure:

	Administrative bodies and non-commercial undertakings	Central governments or central banks	Corporates	Institutions	Past due items	Regional government or local authorities	Retail	TOTAL
On demand	0		7	0	1	0	5	13
Not more than three months	1	0	17	0	0	7	14	39
Over three months but not more than six months	0	0	6	0	2	2	4	14
Over six months but not more than one year	0	0	11	0	3	1	10	26
Over one year but not more than three years	8	0	191	1	2	20	62	284
Over three years but not more than five years	0		26	0	0	7	22	55
Over five years but not more than ten years			25				0	25
Over ten years			1		0			2
TOTAL	9	1	285	2	8	37	116	458

Figure 6: Distribution of exposure by residual maturity as of 31 December 2009 (in Millions of NOK)

3.6 Past-due exposure and provisions

Past due classification is defined as counterparties with invoices > 90 days past due.

It is the policy of GE Capital AS to maintain a loss reserve to provide adequate protection against anticipated future net losses. The reserve amount is established at the inception of the asset and is adjusted in accordance with changes in asset quality.



Provisions have been deducted from the appropriate asset values in the balance sheet for calculation of capital, which is disclosed above.

	Past Due
Central governments or central banks	0
Corporates	0
Institutions	0
Non-credit obligation assets	0
Retail	21
TOTAL	21

Figure 7: Credit risk – Past due and impaired exposure by counterparty type as of 31 December 2009 (IRB asset class, in Millions of NOK)

All past-due exposure is in Norway.

	Specific Provisions	General and collective provisions	Total
Opening balance as of 31 / 12 / 2008	0	8,5	8,5
+ Provisions made during the year		14	14
+/- Write-off / Write-back of excess Provisions during the year		3,4	3,4
+/- Other reversal / allowance during the year		-22,9	-22,9
Closing balance as of 31 / 12 / 2009	0	3	3

Figure 8: Provisions (in Millions of NOK)

3.7 Calculation of Risk Weighted Asset

GE Capital AS does not use external ratings from ECAs (External Credit Assessment Institutions) to calculate the Risk Weighted Assets for the Corporate Asset Class.

In the tables below we lay out the breakdown of the gross exposure and the exposure value⁴ by credit quality step.

	Exposure	Exposure at Risk
0%	10	10
20%	39	39
75%	116	116
100%	519	399
150%	16	10
TOTAL	699	574

Figure 9: Distribution of the exposure per risk weight (in Millions NOK)

⁴ Exposure value: Exposure to a counterpart after credit risk mitigation and application of the Credit Conversion Factor (CCF)



3.8 Credit risk mitigation

GE Capital AS usually does not use credit risk mitigations to calculate the minimum capital requirements for credit risk. In total there is just one guarantee provided from a local bank that apply for a total exposure of NOK 0.5 million.



4 Interest rate risk in the Banking Book

4.1 Qualitative information

The Interest rate risk is the risk of losses derived from the negative effects of interest rate fluctuations. If fixed rate assets are not match funded 100% with regards to currency, amount and duration, a movement in interest rates can have negative impact on the net income.

In the case of GE Capital AS assets are predominantly floating rate (IBOR-based) and match funded. As a result interest rate risk exposure is minimized.

4.2 Interest Rate Risk Measurement

To evaluate the impact of a sudden interest rate increase/decrease, on the economic value of portfolio; a stress test has been performed simulating an increase/decrease of 200 bps. A 200 bps rate increase would lead to a decrease in the economic value of the Institute's assets by 3,8 million NOK.

In the event that a user of this document has comments or requires further information then they are requested to contact Christina Israelsson, CFO, at christina.israelsson@ge.com

