GENERAL ELECTRIC CAPITAL CORP
Form 10-Q
August 03, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from ___________to ___________

Commission file number 1-6461

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

Delaware (State or other jurisdiction of incorporation or organization)	13-1500700 (I.R.S. Employer Identification No.)
3135 Easton Turnpike, Fairfield, Connecticut (Address of principal executive offices)	06828-0001 (Zip Code)

(Registrant’s telephone number, including area code) (203) 373-2211

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer þ	Smaller reporting company ¨

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

At July 31, 2009, 3,985,404 shares of voting common stock, which constitute all of the outstanding common equity, with a par value of $14 per share were outstanding.

REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM 10-Q WITH THE REDUCED DISCLOSURE FORMAT.

(1)

General Electric Capital Corporation

Forward-Looking Statements

This document contains "forward-looking statements"- that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," or "will. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include: the severity and duration of current economic and financial conditions, including volatility in interest and exchange rates, commodity and equity prices and the value of financial assets; the impact of U.S. and foreign government programs to restore liquidity and stimulate national and global economies; the impact of conditions in the financial and credit markets on the availability and cost of our funding and on our ability to reduce our asset levels and commercial paper exposure as planned; the impact of conditions in the housing market and unemployment rates on the level of commercial and consumer credit defaults; our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so; the soundness of other financial institutions with which we do business; the level of demand and financial performance of the major industries we serve, including, without limitation, real estate and healthcare; the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of proposed financial services regulation; strategic actions, including acquisitions and dispositions and our success in integrating acquired businesses; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

Part I. Financial Information

Item 1. Financial Statements.

General Electric Capital Corporation and consolidated affiliates

Condensed Statement of Current and Retained Earnings

(Unaudited)

	Three months ended June 30		Six months ended June 30	
(In millions)	2009	2008	2009	2008
Revenues				
Revenues from services (Note 9)	$ 12,357	$ 17,621	$ 25,693	$ 34,377
Sales of goods	205	528	478	895
Total revenues	12,562	18,149	26,171	35,272
Costs and expenses				
Interest	4,436	6,267	9,526	12,346
Operating and administrative	3,454	4,834	7,312	9,366
Cost of goods sold	164	461	388	778
Investment contracts, insurance losses and insurance annuity benefits	45	122	118	265
Provision for losses on financing receivables	2,815	1,470	5,137	2,803
Depreciation and amortization	1,939	2,136	4,112	4,257
Total costs and expenses	12,853	15,290	26,593	29,815
Earnings (loss) from continuing operations before income taxes	(291)	2,859	(422)	5,457
Benefit (provision) for income taxes	695	(46)	1,850	(127)
Earnings from continuing operations	404	2,813	1,428	5,330
Loss from discontinued operations, net of taxes (Note 2)	(194)	(336)	(197)	(382)
Net earnings	210	2,477	1,231	4,948
Less net earnings attributable to noncontrolling interests	29	63	79	99
Net earnings attributable to GECC	181	2,414	1,152	4,849
Dividends	–	(889)	–	(2,019)
Retained earnings at beginning of period(a)	46,468	41,818	45,497	40,513
Retained earnings at end of period	$ 46,649	$ 43,343	$ 46,649	$ 43,343
Amounts attributable to GECC				
Earnings from continuing operations	$ 375	$ 2,750	$ 1,349	$ 5,231
Loss from discontinued operations, net of taxes	(194)	(336)	(197)	(382)
Net earnings attributable to GECC	$ 181	$ 2,414	$ 1,152	$ 4,849

(a) Included a cumulative effect adjustment to increase retained earnings by $25 million in 2009.

See Note 3 for other-than-temporary impairment amounts.
See accompanying notes.

(3)

General Electric Capital Corporation and consolidated affiliates
Condensed Statement of Financial Position

(In millions)		June 30, 2009 (Unaudited)		December 31, 2008
Assets				
Cash and equivalents	$	49,141	$	36,430
Investment securities (Note 3)		20,817		19,318
Inventories		73		77
Financing receivables – net (Note 4)		358,006		370,592
Other receivables		21,784		22,175
Property, plant and equipment, less accumulated amortization of $26,315 and $29,026		58,618		64,043
Goodwill (Note 5)		27,160		25,204
Other intangible assets – net (Note 5)		3,541		3,174
Other assets		84,849		84,201
Assets of businesses held for sale		232		10,556
Assets of discontinued operations (Note 2)		1,462		1,640
Total assets	$	625,683	$	637,410
Liabilities and equity				
Short-term borrowings (Note 6)	$	168,029	$	188,601
Accounts payable		13,184		14,863
Long-term borrowings (Note 6)		330,067		321,755
Investment contracts, insurance liabilities and insurance annuity benefits		9,526		11,403
Other liabilities		24,058		30,629
Deferred income taxes		5,961		8,112
Liabilities of businesses held for sale		196		636
Liabilities of discontinued operations (Note 2)		913		799
Total liabilities		551,934		576,798
Capital stock		56		56
Accumulated other comprehensive income – net(a)				
Investment securities		(1,497)		(2,013)
Currency translation adjustments		370		(1,337)
Cash flow hedges		(1,937)		(3,253)
Benefit plans		(376)		(367)
Additional paid-in capital		28,419		19,671
Retained earnings		46,649		45,472
Total GECC shareowner's equity		71,684		58,229
Noncontrolling interests(b)		2,065		2,383
Total equity		73,749		60,612
Total liabilities and equity	$	625,683	$	637,410

(a)

The sum of accumulated other comprehensive income – net was $(3,440) million and $(6,970) million at June 30, 2009 and December 31, 2008, respectively.

(b) Included accumulated other comprehensive income attributable to noncontrolling interests of $(120) million and $(181) million at June 30, 2009 and December 31, 2008, respectively.

See accompanying notes.

(4)

General Electric Capital Corporation and consolidated affiliates
Condensed Statement of Cash Flows
(Unaudited)

	Six months ended June 30	
(In millions)	2009	2008
Cash flows – operating activities		
Net earnings attributable to GECC	$ 1,152	$ 4,849
Loss from discontinued operations	197	382
Adjustments to reconcile net earnings attributable to GECC to cash provided from operating activities		
Depreciation and amortization of property, plant and equipment	4,112	4,257
Increase (decrease) in accounts payable	(1,789)	1,949
Provision for losses on financing receivables	5,137	2,803
All other operating activities	(11,484)	(1,851)
Cash from (used for) operating activities – continuing operations	(2,675)	12,389
Cash from (used for) operating activities – discontinued operations	(26)	474
Cash from (used for) operating activities	(2,701)	12,863
Cash flows – investing activities		
Additions to property, plant and equipment	(3,269)	(6,519)
Dispositions of property, plant and equipment	2,631	5,332
Increase in loans to customers	(114,353)	(191,176)
Principal collections from customers – loans	132,489	165,348
Investment in equipment for financing leases	(4,609)	(13,460)
Principal collections from customers – financing leases	9,818	12,098
Net change in credit card receivables	2,046	(468)
Proceeds from principal business dispositions	8,846	4,422
Payments for principal businesses purchased	(5,637)	(12,762)
All other investing activities	2,928	(1,638)
Cash from (used for) investing activities – continuing operations	30,890	(38,823)
Cash from (used for) investing activities – discontinued operations	30	(438)
Cash from (used for) investing activities	30,920	(39,261)
Cash flows – financing activities		
Net increase (decrease) in borrowings (maturities of 90 days or less)	(34,239)	8,395
Newly issued debt		
Short-term (91 to 365 days)	2,804	313
Long-term (longer than one year)	47,792	61,026
Non-recourse, leveraged lease	–	57
Repayments and other debt reductions		
Short-term (91 to 365 days)	(35,656)	(33,251)
Long-term (longer than one year)	(2,866)	(859)
Non-recourse, leveraged lease	(470)	(429)
Dividends paid to shareowner	–	(2,019)
Capital contribution and share issuance	8,750	–
All other financing activities	(1,619)	95

Cash from (used for) financing activities – continuing operations	(15,504)	33,328
Cash used for financing activities – discontinued operations	–	(3)
Cash from (used for) financing activities	(15,504)	33,325
Increase in cash and equivalents	12,715	6,927
Cash and equivalents at beginning of year	36,610	8,907
Cash and equivalents at June 30	49,325	15,834
Less cash and equivalents of discontinued operations at June 30	184	333
Cash and equivalents of continuing operations at June 30	$ 49,141	$ 15,501

See accompanying notes.

(5)

Notes to Condensed, Consolidated Financial Statements (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All of the outstanding common stock of General Electric Capital Corporation (GE Capital or GECC) is owned by General Electric Capital Services, Inc. (GECS), all of whose common stock is owned by General Electric Company (GE Company or GE). Our financial statements consolidate all of our affiliates – companies that we control and in which we hold a majority voting interest. We also consolidate the economic interests we hold in certain businesses within companies in which we hold a voting equity interest and are majority owned by our ultimate parent, but which we have agreed to actively manage and control. See Note 1 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008 (2008 Form 10-K), which discusses our consolidation and financial statement presentation. GECC includes Commercial Lending and Leasing (CLL), Consumer (formerly GE Money), Real Estate, Energy Financial Services and GE Capital Aviation Services (GECAS). During the first quarter of 2009, we transferred Banque Artesia Nederland N.V. (Artesia) from CLL to Consumer. Details of total revenues and segment profit by operating segment can be found on page 42 of this report. We have reclassified certain prior-period amounts to conform to the current-period's presentation. Unless otherwise indicated, information in these notes to condensed, consolidated financial statements relates to continuing operations.

Accounting Changes

Effective January 1, 2008, we adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements, for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. Effective January 1, 2009, we adopted SFAS 157 for all non-financial instruments accounted for at fair value on a non-recurring basis. SFAS 157 establishes a new framework for measuring fair value and expands related disclosures. See Note 10.

On January 1, 2009, we adopted SFAS 141(R), Business Combinations. This standard significantly changes the accounting for business acquisitions both during the period of the acquisition and in subsequent periods. Among the more significant changes in the accounting for acquisitions are the following:

- Acquired in-process research and development (IPR&D) is accounted for as an asset, with the cost recognized as the research and development is realized or abandoned. IPR&D was previously expensed at the time of the acquisition.
- Contingent consideration is recorded at fair value as an element of purchase price with subsequent adjustments recognized in operations. Contingent consideration was previously accounted for as a subsequent adjustment of purchase price.
- Subsequent decreases in valuation allowances on acquired deferred tax assets are recognized in operations after the measurement period. Such changes were previously considered to be subsequent changes in consideration and were recorded as decreases in goodwill.
- Transaction costs are expensed. These costs were previously treated as costs of the acquisition.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, which amends the accounting in SFAS 141(R) for assets and liabilities arising from contingencies in a business combination. The FSP is effective January 1, 2009, and requires pre-acquisition contingencies to be recognized at fair value, if fair value can be reasonably determined during the measurement period. If fair value cannot be reasonably determined, the FSP requires measurement based on the recognition and measurement criteria of SFAS 5, Accounting for Contingencies.

(6)

On January 1, 2009, we adopted SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, which requires us to make certain changes to the presentation of our financial statements. This standard requires us to classify noncontrolling interests (previously referred to as “minority interest”) as part of consolidated net earnings ($29 million and $63 million for the three months ended June 30, 2009 and 2008, respectively, and $79 million and $99 million for the six months ended June 30, 2009 and 2008, respectively) and to include the accumulated amount of noncontrolling interests as part of shareowner’s equity ($2,065 million and $2,383 million at June 30, 2009 and December 31, 2008, respectively). The net earnings amounts we have previously reported are now presented as "Net earnings attributable to GECC". Similarly, in our presentation of shareowner’s equity, we distinguish between equity amounts attributable to the GECC shareowner and amounts attributable to the noncontrolling interests – previously classified as minority interest outside of shareowner’s equity. Beginning January 1, 2009, dividends to noncontrolling interests are classified as financing cash flows. In addition to these financial reporting changes, SFAS 160 provides for significant changes in accounting related to noncontrolling interests; specifically, increases and decreases in our controlling financial interests in consolidated subsidiaries will be reported in equity similar to treasury stock transactions. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are remeasured with the gain or loss reported in net earnings.

Effective April 1, 2009, we adopted FASB FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. Adoption of the FSP had an insignificant effect on our financial statements.

Effective April 1, 2009, we adopted FASB FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. See Note 3. The FSP modifies the existing model for recognition and measurement of impairment for debt securities. The two principal changes to the impairment model for securities are as follows:

- Recognition of an other-than-temporary impairment charge for debt securities is required if any of these conditions are met: (1) we do not expect to recover the entire amortized cost basis of the security, (2) we intend to sell the security or (3) it is more likely than not that we will be required to sell the security before we recover its amortized cost basis.

- If the first condition above is met, but we do not intend to sell and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis, we would be required to record the difference between the security’s amortized cost basis and its recoverable amount in earnings and the difference between the security’s recoverable amount and fair value in other comprehensive income. If either the second or third criteria are met, then we would be required to recognize the entire difference between the security’s amortized cost basis and its fair value in earnings.

Interim Period Presentation

The condensed, consolidated financial statements and notes thereto are unaudited. These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to present a fair statement of our results of operations, financial position and cash flows. We have evaluated subsequent events that have occurred through August 3, 2009, the date of financial statement issuance. The results reported in these condensed, consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. It is suggested that these condensed, consolidated financial statements be read in conjunction with the financial statements and notes thereto included in our 2008 Form 10-K. We label our quarterly information using a calendar convention, that is, first quarter is labeled as ending on March 31, second quarter as ending on June 30, and third quarter as ending on September 30. It is our longstanding practice to establish interim quarterly closing dates using a fiscal calendar, which requires our businesses to close their books on either a Saturday or Sunday, depending on the business. The effects of this practice are modest and only exist within a reporting year. The fiscal closing calendar from 1993 through 2013 is available on our website, www.ge.com/secreports.

2. DISCONTINUED OPERATIONS

Discontinued operations comprised GE Money Japan (our Japanese personal loan business, Lake, and our Japanese mortgage and card businesses, excluding our investment in GE Nissen Credit Co., Ltd.), our U.S. mortgage business (WMC), GE Life and Genworth Financial, Inc. (Genworth). Associated results of operations, financial position and cash flows are separately reported as discontinued operations for all periods presented.

GE Money Japan

During the third quarter of 2007, we committed to a plan to sell Lake upon determining that, despite restructuring, Japanese regulatory limits for interest charges on unsecured personal loans did not permit us to earn an acceptable return. During the third quarter of 2008, we completed the sale of GE Money Japan, which included Lake, along with our Japanese mortgage and card businesses, excluding our investment in GE Nissen Credit Co., Ltd. As a result, we recognized an after-tax loss of $908 million in 2007 and an incremental loss in 2008 of $361 million. In connection with the transaction, GE Money Japan reduced the proceeds on the sale for estimated interest refund claims in excess of the statutory interest rate. Proceeds from the sale may be increased or decreased based on the actual claims experienced in accordance with terms specified in the agreement, and will not be adjusted unless claims exceed approximately $2,800 million. During the second quarter of 2009, we accrued $132 million, which represents the amount by which we expect claims to exceed those levels and is based on our historical and recent claims experience and the estimated future requests, taking into consideration the ability and likelihood of customers to make claims and other industry risk factors. Uncertainties around the status of laws and regulations and lack of certain information related to the individual customers make it difficult to develop a meaningful estimate of the aggregate claims exposure. We will continue to review our estimated exposure quarterly, and make adjustments when required. GE Money Japan revenues from discontinued operations were an insignificant amount and $261 million in the second quarters of 2009 and 2008, respectively, and an insignificant amount and $551 million in the first six months of 2009 and 2008, respectively. In total, GE Money Japan losses from discontinued operations, net of taxes, were $136 million and $311 million in the second quarters of 2009 and 2008, respectively, and $132 million and $348 million in the first six months of 2009 and 2008, respectively.

WMC

During the fourth quarter of 2007, we completed the sale of our U.S. mortgage business. In connection with the transaction, WMC retained certain obligations related to loans sold prior to the disposal of the business, including WMC's contractual obligations to repurchase previously sold loans as to which there was an early payment default or with respect to which certain contractual representations and warranties were not met. Reserves related to these obligations were $243 million at June 30, 2009, and $244 million at December 31, 2008. The amount of these reserves is based upon pending and estimated future loan repurchase requests, the estimated percentage of loans validly tendered for repurchase, and our estimated losses on loans repurchased. Based on our historical experience, we estimate that a small percentage of the total loans we originated and sold will be tendered for repurchase, and of those tendered, only a limited amount will qualify as "validly tendered," meaning the loans sold did not satisfy specified contractual obligations. The amount of our current reserve represents our best estimate of losses with respect to our repurchase obligations. However, actual losses could exceed our reserve amount if actual claim rates, valid tenders or losses we incur on repurchased loans are higher than historically observed. WMC revenues from discontinued operations were $(2) million and $(62) million in the second quarters of 2009 and 2008, respectively, and $(9) million and $(57) million in the first six months of 2009 and 2008, respectively. In total, WMC's losses from discontinued operations, net of taxes, were $5 million and $20 million in the second quarters of 2009 and 2008, respectively, and $11 million and $27 million in the first six months of 2009 and 2008, respectively.

Summarized financial information for discontinued operations is shown below.

(In millions)	Three months ended June 30 2009	Three months ended June 30 2008	Six months ended June 30 2009	Six months ended June 30 2008
Operations				
Total revenues	$ (2)	$ 199	$ (8)	$ 494
Loss from discontinued operations before income taxes	$ (101)	$ (204)	$ (112)	$ (282)
Income tax benefit	38	101	42	133
Loss from discontinued operations, net of taxes	$ (63)	$ (103)	$ (70)	$ (149)
Disposal				
Loss on disposal before income taxes	$ (130)	$ (224)	$ (123)	$ (224)
Income tax expense	(1)	(9)	(4)	(9)
Loss on disposal, net of taxes	$ (131)	$ (233)	$ (127)	$ (233)
Loss from discontinued operations, net of taxes	$ (194)	$ (336)	$ (197)	$ (382)

(In millions)	At June 30, 2009	At December 31, 2008
Assets		
Cash and equivalents	$ 184	$ 180
Other assets	13	19
Other	1,265	1,441
Assets of discontinued operations	$ 1,462	$ 1,640

(In millions)	At June 30, 2009	At December 31, 2008
Liabilities		
Liabilities of discontinued operations	$ 913	$ 799

Assets at June 30, 2009 and December 31, 2008, primarily comprised a deferred tax asset for a loss carryforward, which expires in 2015, related to the sale of our GE Money Japan business.

(9)

3. INVESTMENT SECURITIES

The vast majority of our investment securities are classified as available-for-sale and comprise mainly investment-grade debt securities supporting obligations to holders of guaranteed investment contracts.

	At							
	June 30, 2009				December 31, 2008			
(In millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Debt								
U.S. corporate	$ 3,927	$ 53	$ (514)	$ 3,466	$ 4,456	$ 54	$ (637)	$ 3,873
State and municipal	1,204	4	(216)	992	915	5	(70)	850
Residential mortgage-backed(a)	3,526	20	(994)	2,552	4,228	9	(976)	3,261
Commercial mortgage-backed	1,649	–	(487)	1,162	1,664	–	(509)	1,155
Asset-backed	2,920	25	(345)	2,600	2,922	2	(668)	2,256
Corporate – non-U.S.	707	14	(48)	673	608	6	(23)	591
Government – non-U.S.	1,490	6	(20)	1,476	936	2	(15)	923
U.S. government and federal agency	71	2	–	73	26	3	–	29
Retained interests(b)(c)	6,154	167	(62)	6,259	5,144	73	(136)	5,081
Equity								
Available-for-sale	867	78	(25)	920	1,023	22	(134)	911
Trading	644	–	–	644	388	–	–	388
Total	$ 23,159	$ 369	$ (2,711)	$ 20,817	$ 22,310	$ 176	$ (3,168)	$ 19,318

(a) Substantially collateralized by U.S. mortgages.
(b) Included $1,861 million and $1,752 million of retained interests at June 30, 2009 and December 31, 2008, respectively, accounted for in accordance with SFAS 155, Accounting for Certain Hybrid Financial Instruments. See Note12.
(c) Amortized cost and estimated fair value included $5 million of trading securities at June 30, 2009.

The following tables present the estimated fair values and gross unrealized losses of our available-for-sale investment securities.

	In loss position for			
	Less than 12 months		12 months or more	
(In millions)	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
June 30, 2009				
Debt				
U.S. corporate	$ 478	$ (44)	$ 1,474	$ (470)
State and municipal	318	(135)	283	(81)
Residential mortgage-backed	126	(39)	1,713	(955)
Commercial mortgage-backed	–	–	1,155	(487)
Asset-backed	65	(7)	1,369	(338)
Corporate – non-U.S.	198	(27)	260	(21)
Government – non-U.S.	447	(3)	280	(17)
U.S. government and federal agency	–	–	–	–
Retained interests	204	(5)	182	(57)
Equity	91	(23)	5	(2)
Total	$ 1,927	$ (283)	$ 6,721	$ (2,428)
December 31, 2008				
Debt				
U.S. corporate	$ 1,152	$ (397)	$ 1,253	$ (240)
State and municipal	302	(21)	278	(49)
Residential mortgage-backed	1,216	(64)	1,534	(912)
Commercial mortgage-backed	285	(85)	870	(424)
Asset-backed	903	(406)	1,031	(262)
Corporate – non-U.S.	60	(7)	265	(16)
Government – non-U.S.	–	–	275	(15)
U.S. government and federal agency	–	–	–	–
Retained interests	1,246	(61)	238	(75)
Equity	200	(132)	6	(2)
Total	$ 5,364	$ (1,173)	$ 5,750	$ (1,995)

We adopted FASB FSP FAS 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, and recorded a cumulative effect adjustment to increase retained earnings as of April 1, 2009 of $25 million.

We regularly review investment securities for impairment using both qualitative and quantitative criteria. We presently do not intend to sell our debt securities and believe that it is not more likely than not that we will be required to sell these securities that are in an unrealized loss position before recovery of our amortized cost. We believe that the unrealized loss associated with our equity securities will be recovered within the foreseeable future.

The vast majority of our U.S. corporate debt securities are rated investment grade by the major rating agencies. The unrealized loss on these securities at June 30, 2009 largely reflects changes in interest rates and higher spreads driven by the challenging conditions in the credit markets. We evaluate U.S. corporate debt securities based on a variety of factors such as the financial health of and specific prospects for the issuer, including whether the issuer is in compliance with the terms and covenants of the security. In the event a U.S. corporate debt security is deemed to be other-than-temporarily impaired, in accordance with the FSP, we isolate the credit portion of the impairment by comparing the present value of our expectation of cash flows to the amortized cost of the security. We discount the cash flows using the original effective interest rate of the security.

The vast majority of our residential mortgage-backed securities (RMBS) have investment-grade credit ratings from the major rating agencies and are in a senior position in the capital structure of the deal. Of our total RMBS at June 30, 2009 and December 31, 2008, approximately $1,116 million and $1,284 million, respectively, relate to residential subprime credit, primarily supporting our guaranteed investment contracts. These are collateralized primarily by pools of individual, direct mortgage loans (a majority of which were originated in 2006 and 2005), not other structured products such as collateralized debt obligations. In addition, of the total residential subprime credit exposure at June 30, 2009 and December 31, 2008, approximately $962 million and $1,089 million, respectively, was insured by monoline insurers.

Substantially all of our commercial mortgage-backed securities (CMBS) also have investment-grade credit ratings from the major rating agencies and are in a senior position in the capital structure of the deal. Our CMBS investments are collateralized by both diversified pools of mortgages that were originated for securitization (conduit CMBS) and pools of large loans backed by high quality properties (large loan CMBS), a majority of which were originated in 2006 and 2007.

For asset-backed securities, including RMBS, we estimate the portion of loss attributable to credit using a discounted cash flow model that considers estimates of cash flows generated from the underlying collateral. Estimates of cash flows consider internal credit risk, interest rate and prepayment assumptions that incorporate management's best estimate of key assumptions, including default rates, loss severity and prepayment rates. For CMBS, we estimate the portion of loss attributable to credit by evaluating potential losses on each of the underlying loans in the security. Collateral cash flows are considered in the context of our position in the capital structure of the deal. Assumptions can vary widely depending upon the collateral type, geographic concentrations and vintage.

If there has been an adverse change in cash flows for RMBS, management considers credit enhancements such as monoline insurance (which are features of a specific security). In evaluating the overall credit worthiness of the Monoline, we use an analysis that is similar to the approach we use for corporate bonds, including an evaluation of the sufficiency of the Monoline's cash reserves and capital, ratings activity, whether the Monoline is in default or default appears imminent, and the potential for intervention by an insurance or other regulator.

During the three months ended June 30, 2009, we recorded pre-tax, other-than-temporary impairments of $132 million, of which $57 million was recorded through earnings ($15 million relates to equity securities), and $75 million was recorded in Accumulated Other Comprehensive Income (AOCI). Had we not adopted FASB FSP FAS 115-2 and 124-2, other-than-temporary impairments recorded to earnings would have been $121 million in the second quarter of 2009.

Under the new standard, previously recognized other-than-temporary impairments related to credit on securities still held at April 1, 2009 were $101 million. During the quarter, first time credit and incremental impairments were both $21 million. There were no securities sold that had previously been impaired.

Supplemental information about gross realized gains and losses on available-for-sale investment securities follows.

	Three months ended June 30		Six months ended June 30	
(In millions)	2009	2008	2009	2008
Gains	$ 19	$ 55	$ 27	$ 107
Losses, including impairments	(58)	(62)	(204)	(100)
Net	$ (39)	$ (7)	$ (177)	$ 7

In the ordinary course of managing our investment securities portfolio, we may sell securities prior to their maturities for a variety of reasons, including diversification, credit quality, yield and liquidity requirements and the funding of claims and obligations to policyholders.

Proceeds from investment securities sales and early redemptions by the issuer totaled $1,313 million and $1,031 million in the second quarters of 2009 and 2008, respectively, and $3,278 million and $1,290 million in the first six months of 2009 and 2008, respectively, principally from the sales and maturities of short-term securities in our bank subsidiaries.

We recognized pre-tax gains on trading securities of $204 million and $167 million in the second quarters of 2009 and 2008, respectively, and $244 million and $387 million in the first six months of 2009 and 2008, respectively. Investments in retained interests increased by $172 million and decreased by $93 million during the first six months of 2009 and 2008, respectively, reflecting changes in fair value accounted for in accordance with SFAS 155.

4. FINANCING RECEIVABLES AND ALLOWANCE FOR LOSSES ON FINANCING RECEIVABLES

Financing receivables – net, consisted of the following.

(In millions)	At June 30, 2009	At December 31, 2008
Loans, net of deferred income	$ 305,003	$ 308,821
Investment in financing leases, net of deferred income	59,593	67,077
	364.596	375,898
Less allowance for losses	(6,590)	(5,306)
Financing receivables – net(a)	$ 358,006	$ 370,592

(a) Included $4,967 million and $6,461 million related to consolidated, liquidating securitization entities at June 30, 2009 and December 31, 2008, respectively. In addition, financing receivables at June 30, 2009 and December 31, 2008 included $3,011 million and $2,736 million, respectively, relating to loans that had been acquired and accounted for in accordance with SOP 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer.

We adopted SFAS 141(R) on January 1, 2009. As a result of this adoption, loans acquired in a business acquisition are recorded at fair value, which incorporates our estimate at the acquisition date of the credit losses over the remaining life of the portfolio. As a result, the allowance for loan losses is not carried over at acquisition. This may result in lower reserve coverage ratios prospectively. Details of financing receivables – net follow.

	At	
(In millions)	June 30, 2009	December 31, 2008
CLL(a)		
Americas	$ 96,352	$ 104,462
Europe	40,549	36,972
Asia	14,057	16,683
Other	751	786
	151,709	158,903
Consumer(a)		
Non-U.S. residential mortgages(b)	62,587	60,753
Non-U.S. installment and revolving credit	25,485	24,441
U.S. installment and revolving credit	23,939	27,645
Non-U.S. auto	14,853	18,168
Other	13,218	11,541
	140,082	142,548
Real Estate	46,018	46,735
Energy Financial Services	8,471	8,355
GECAS(c)	14,992	15,326
Other(d)	3,324	4,031
	364,596	375,898
Less allowance for losses	(6,590)	(5,306)
Total	$ 358,006	$ 370,592

(a) During the first quarter of 2009, we transferred Artesia from CLL to Consumer. Prior-period amounts were reclassified to conform to the current-period's presentation.

(b) At June 30, 2009, net of credit insurance, approximately 26% of this portfolio comprised loans with introductory, below market rates that are scheduled to adjust at future dates; with high loan-to-value ratios at inception; whose terms permitted interest-only payments; or whose terms resulted in negative amortization. At the origination date, loans with an adjustable rate were underwritten to the reset value.

(c) Included loans and financing leases of $12,901 million and $13,078 million at June 30, 2009 and December 31, 2008, respectively, related to commercial aircraft at Aviation Financial Services.

(d) Consisted of loans and financing leases related to certain consolidated, liquidating securitization entities.

(14)

Individually impaired loans are defined by GAAP as larger balance or restructured loans for which it is probable that the lender will be unable to collect all amounts due according to original contractual terms of the loan agreement. An analysis of impaired loans and specific reserves follows.

	At	
(In millions)	June 30, 2009	December 31, 2008
Loans requiring allowance for losses	$ 5,657	$ 2,712
Loans expected to be fully recoverable	2,425	871
Total impaired loans	$ 8,082	$ 3,583
Allowance for losses (specific reserves)	$ 1,321	$ 635
Average investment during the period	5,836	2,064
Interest income earned while impaired(a)	55	48

(a) Recognized principally on cash basis.

Allowance for Losses on Financing Receivables

(In millions)	Balance January 1, 2009	Provision charged to operations	Other(a)	Gross write-offs	Recoveries	Balance June 30, 2009
CLL(b)						
Americas	$ 824	$ 720	$ (35)	$ (435)	$ 42	$ 1,116
Europe	288	290	(1)	(139)	10	448
Asia	163	120	(6)	(85)	7	199
Other	2	3	2	(1)	–	6
Consumer(b)						
Non-U.S. residential mortgages	383	561	59	(231)	59	831
Non-U.S. installment and revolving credit	1,051	900	65	(1,098)	229	1,147
U.S. installment and revolving credit	1,700	1,729	(497)	(1,438)	81	1,575
Non-U.S. auto	222	245	13	(302)	91	269
Other	226	180	(2)	(205)	51	250
Real Estate	301	344	10	(85)	–	570
Energy Financial Services	58	32	1	–	–	91
GECAS	60	1	–	–	–	61

Other	28	12	1	(14)	–	27
Total	$ 5,306	$ 5,137	$ (390)	$ (4,033)	$ 570	$ 6,590

(a) Other primarily included the effects of securitization activity and currency exchange.
(b) During the first quarter of 2009, we transferred Artesia from CLL to Consumer. Prior-period amounts were reclassified to conform to the current-period's presentation.

(15)

(In millions)	Balance January 1, 2008	Provision charged to operations	Other(a)	Gross write-offs	Recoveries	Balance June 30, 2008
CLL(b)						
Americas	$ 451	$ 251	$ 49	$ (239)	$ 32	$ 544
Europe	230	94	(38)	(82)	17	221
Asia	226	49	(8)	(162)	3	108
Other	3	1	(2)	–	–	2
Consumer(b)						
Non-U.S. residential mortgages	246	61	33	(62)	41	319
Non-U.S. installment and revolving credit	1,371	847	77	(1,265)	436	1,466
U.S. installment and revolving credit	985	1,144	(304)	(952)	132	1,005
Non-U.S. auto	324	154	(37)	(299)	144	286
Other	167	119	83	(149)	33	253
Real Estate	168	34	14	(8)	1	209
Energy Financial Services	19	1	2	–	–	22
GECAS	8	38	–	(1)	–	45
Other	18	10	–	(8)	–	20
Total	$ 4,216	$ 2,803	$ (131)	$ (3,227)	$ 839	$ 4,500

(a) Other primarily included the effects of securitization activity, currency exchange, dispositions and acquisitions.
(b) During the first quarter of 2009, we transferred Artesia from CLL to Consumer. Prior-period amounts were reclassified to conform to the current-period's presentation.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets – net, consisted of the following.

	At	
(In millions)	June 30, 2009	December 31, 2008
Goodwill	$ 27,160	$ 25,204

Other intangible assets		
Intangible assets subject to amortization	$ 3,541	$ 3,174

(16)

Changes in goodwill balances follow.

(In millions)	Balance January 1, 2009	Acquisitions/ acquisition accounting adjustments	Dispositions, currency exchange and other	Balance June 30, 2009
CLL	$ 12,321(a)	$ 839	$ (351)	$ 12,809
Consumer	9,407(a)	1,352	138	10,897
Real Estate	1,159	(7)	26	1,178
Energy Financial Services	2,162	(4)	(39)	2,119
GECAS	155	–	2	157
Total	$ 25,204	$ 2,180	$ (224)	$ 27,160

(a) Reflected the transfer of Artesia during the first quarter of 2009, resulting in a related movement of beginning goodwill balance of $326 million.

Goodwill related to new acquisitions in the first six months of 2009 was $1,952 million and included acquisitions of BAC Credomatic (BAC) ($1,309 million) at GE Money and Interbanca S.p.A. (Interbanca) ($643 million) at CLL. During the first six months of 2009, the goodwill balance increased by $228 million related to acquisition accounting adjustments for prior-year acquisitions. The most significant of these adjustments was an increase of $177 million associated with the 2008 acquisition of CitiCapital at CLL. Also during the first six months of 2009, goodwill balances decreased $224 million, primarily as a result of the deconsolidation of Penske Truck Leasing Co., L.P. (PTL) ($634 million) at CLL, partially offset by an increase of $449 million as a result of the weaker U.S. dollar.

On June 25, 2009, we increased our ownership in BAC from 49.99% to 75% for a purchase price of $623 million, in accordance with terms of a previous agreement. We remeasured our previously held equity investment to fair value, resulting in a pre-tax gain of $343 million, which is reported in Revenues from services.

We test goodwill for impairment annually and more frequently if circumstances warrant. Given the significant decline in GE's stock price in the first quarter of 2009 and market conditions in the financial services industry at that time, we conducted an additional impairment analysis of the reporting units during the first quarter of 2009 using data as of January 1, 2009.

We determined fair values for each of the reporting units using an income approach. When available and as appropriate, we used comparative market multiples to corroborate discounted cash flow results. For purposes of the income approach, fair value was determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. We use our internal forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on our most recent views of the long-term outlook for each business. Actual results may differ from those assumed in our forecasts. We derive our discount rates by applying the capital asset pricing model (i.e., to estimate the cost of equity financing) and analyzing published rates for industries relevant to our reporting units. We used discount rates that are commensurate with the risks and uncertainty inherent in the financial markets generally and in our internally developed forecasts. Discount rates used in these reporting unit valuations ranged from 11.5% to 13.0%. Valuations using the market approach reflect prices and other relevant observable information generated by market transactions involving financial services businesses.

(17)

Compared to the market approach, the income approach more closely aligns the reporting unit valuation to a company's or business' specific business model, geographic markets and product offerings, as it is based on specific projections of the business. Required rates of return, along with uncertainty inherent in the forecasts of future cash flows are reflected in the selection of the discount rate. Equally important, under this approach, reasonably likely scenarios and associated sensitivities can be developed for alternative future states that may not be reflected in an observable market price. A market approach allows for comparison to actual market transactions and multiples. It can be somewhat more limited in its application because the population of potential comparables (or pure plays) is often limited to publicly-traded companies where the characteristics of the comparative business and ours can be significantly different, market data is usually not available for divisions within larger conglomerates or non-public subsidiaries that could otherwise qualify as comparable, and the specific circumstances surrounding a market transaction (e.g., synergies between the parties, terms and conditions of the transaction, etc.) may be different or irrelevant with respect to our business. It can also be difficult under the current market conditions to identify orderly transactions between market participants in similar financial services businesses. We assess the valuation methodology based upon the relevance and availability of data at the time of performing the valuation and weight the methodologies appropriately.

In performing the valuations, we updated cash flows to reflect management's forecasts and adjusted discount rates to reflect the risks associated with the current market. Based on the results of our testing, the fair values of these reporting units exceeded their book values; therefore, the second step of the impairment test (in which fair value of each of the reporting units assets and liabilities are measured) was not required to be performed and no goodwill impairment was recognized. Estimating the fair value of reporting units involves the use of estimates and significant judgments that are based on a number of factors including actual operating results, future business plans, economic projections and market data. Actual results may differ from forecasted results. While no impairment was noted in our step one impairment tests, goodwill in our Real Estate reporting unit may be particularly sensitive to further deterioration in economic conditions. If current conditions persist longer or deteriorate further than expected, it is reasonably possible that the judgments and estimates described above could change in future periods.

Intangible Assets Subject to Amortization

	At					
	June 30, 2009			December 31, 2008		
(In millions)	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Customer-related	$ 1,774	$ (711)	$ 1,063	$ 1,790	$ (616)	$ 1,174
Patents, licenses and trademarks	564	(417)	147	564	(460)	104
Capitalized software	2,262	(1,591)	671	2,148	(1,463)	685
Lease valuations	1,748	(702)	1,046	1,761	(594)	1,167
All other	878	(264)	614	233	(189)	44
Total	$ 7,226	$ (3,685)	$ 3,541	$ 6,496	$ (3,322)	$ 3,174

Amortization related to intangible assets subject to amortization was $236 million and $207 million for the quarters ended June 30, 2009 and 2008, respectively. Amortization related to intangible assets subject to amortization for the six months ended June 30, 2009 and 2008, was $410 million and $402 million, respectively.

(18)

6. BORROWINGS

Borrowings are summarized in the following table.

	At	
(In millions)	June 30, 2009	December 31, 2008
Short-term borrowings		
Commercial paper		
U.S.		
Unsecured(a)	$ 35,162	$ 57,665
Asset-backed(b)	3,032	3,652
Non-U.S.	9,356	9,033
Current portion of long-term debt(a)(c)(d)	82,417	69,680
Bank deposits(e)	26,959	29,634
Bank borrowings(f)	3,475	10,028
GE Interest Plus notes(g)	5,964	5,633
Other	1,664	3,276
Total	168,029	188,601
Long-term borrowings		
Senior notes		
Unsecured(a)(d)(h)	306,053	299,651
Asset-backed(i)	4,558	5,002
Subordinated notes(j)	2,475	2,567
Subordinated debentures(k)	7,534	7,315
Bank deposits(l)	9,447	7,220
Total	330,067	321,755
Total borrowings	$ 498,096	$ 510,356

(a) GE Capital had issued and outstanding $69,132 million ($21,132 million commercial paper and $48,000 million long-term borrowings) and $35,243 million ($21,823 million commercial paper and $13,420 million long-term borrowings) of senior, unsecured debt that was guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program at June 30, 2009 and December 31, 2008, respectively. GE Capital and GE are parties to an Eligible Entity Designation Agreement and GE Capital is subject to the terms of a Master Agreement, each entered into with the FDIC. The terms of these agreements include, among other things, a requirement that GE and GE Capital reimburse the FDIC for any amounts that the FDIC pays to holders of GE Capital debt that is guaranteed by the FDIC.

(b) Consists entirely of obligations of consolidated, liquidating securitization entities. See Note 12.

(c) Included $222 million and $326 million of asset-backed senior notes, issued by consolidated, liquidating securitization entities at June 30, 2009 and December 31, 2008, respectively.

(d) Included $1,632 million ($113 million short-term and $1,519 million long-term) of borrowings under European government-sponsored programs at June 30, 2009.

(e) Included $18,757 million and $11,793 million of deposits in non-U.S. banks at June 30, 2009 and December 31, 2008, respectively, and included certificates of deposits distributed by brokers of $8,202 million and $17,841 million at June 30, 2009 and December 31, 2008, respectively.

(f) Term borrowings from banks with an original term to maturity of less than 12 months.

(g) Entirely variable denomination floating rate demand notes.

(h) Included borrowings from GECS affiliates of $1,010 million and $1,006 million at June 30, 2009 and December 31, 2008, respectively.

(i) Included $1,309 million and $2,104 million of asset-backed senior notes, issued by consolidated, liquidating securitization entities at June 30, 2009 and December 31, 2008, respectively. See Note 12.

(j) Included $117 million and $450 million of subordinated notes guaranteed by GE at June 30, 2009 and December 31, 2008, respectively.

(k) Subordinated debentures receive rating agency equity credit and were hedged at issuance to the U.S. dollar equivalent of $7,725 million.

(l) Included certificates of deposits distributed by brokers with maturities greater than one year of $9,069 million and $6,699 million at June 30, 2009 and December 31, 2008, respectively.

7. INCOME TAXES

During the first quarter of 2009, following the change in our external credit ratings, funding actions taken and review of our operations, liquidity and funding, we determined that undistributed prior-year earnings of non-U.S. subsidiaries of GECC, on which we had previously provided deferred U.S. taxes, would be indefinitely reinvested outside the U.S. This change increased the amount of prior-year earnings indefinitely reinvested outside the U.S. by approximately $2 billion (to $52 billion), resulting in an income tax benefit of $700 million in the first quarter of 2009.

The balance of "unrecognized tax benefits," the amount of related interest and penalties we have provided and what we believe to be the range of reasonably possible changes in the next 12 months, were:

	At	
(In millions)	June 30, 2009	December 31, 2008
Unrecognized tax benefits	$ 3,590	$ 3,454
Portion that, if recognized, would reduce tax expense and effective tax rate(a)	1,853	1,734
Accrued interest on unrecognized tax benefits	719	693
Accrued penalties on unrecognized tax benefits	71	65
Reasonably possible reduction to the balance of unrecognized tax benefits in succeeding 12 months	0-150	0-350
Portion that, if recognized, would reduce tax expense and effective tax rate(a)	0-50	0-50

(a) Some portion of such reduction might be reported as discontinued operations.

The IRS is currently auditing the GE consolidated income tax returns for 2003-2007, a substantial portion of which include our activities. In addition, certain other U.S. tax deficiency issues and refund claims for previous years remain unresolved. It is reasonably possible that the 2003-2005 U.S. audit cycle will be completed during the next 12 months, which could result in a decrease in our balance of unrecognized tax benefits. We believe that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. We further believe that we have made adequate provision for all income tax uncertainties.

GE and GECC file a consolidated U.S. federal income tax return. The GECC provision for current tax expense includes its effect on the consolidated return. The effect of GECC on the consolidated liability is settled in cash as GE tax payments are due.

8. SHAREOWNER'S EQUITY

A summary of increases (decreases) in GECC shareowner's equity that did not result directly from transactions with the shareowner, net of income taxes, follows.

	Three months ended June 30		Six months ended June 30	
(In millions)	2009	2008	2009	2008

Net earnings attributable to GECC	$ 181	$ 2,414	$ 1,152	$ 4,849
Investment securities – net	556	(240)	516	(741)
Currency translation adjustments – net	4,731	(320)	1,707	789
Cash flow hedges – net	593	1,792	1,316	114
Benefit plans – net	(17)	5	(9)	18
Total	$ 6,044	$ 3,651	$ 4,682	$ 5,029

Changes to noncontrolling interests during the second quarter of 2009 resulted from net earnings ($29 million), dividends ($(26) million), AOCI ($(16) million) and other ($(19) million). Changes to the individual components of AOCI attributable to noncontrolling interests were primarily related to changes in currency translation adjustments ($(54) million, partially offset by cash flow hedges ($37 million).

Changes to noncontrolling interests during the first six months of 2009 resulted from net earnings ($79 million), dividends ($(53) million), the effects of deconsolidating PTL ($(331) million, including $101 million of AOCI), other AOCI ($(40) million) and other ($27 million). Changes to the individual components of AOCI attributable to noncontrolling interests were primarily related to changes in currency translation adjustments ($(76) million).

During the first quarter of 2009, GE made a $9,500 million capital contribution to GECS, of which GECS subsequently contributed $8,250 million to us. In addition, we issued one share of common stock (par value $14) to GECS for $500 million.

9. REVENUES FROM SERVICES

Revenues from services are summarized in the following table.

	Three months ended June 30		Six months ended June 30	
(In millions)	2009	2008	2009	2008
Interest on loans	$ 5,008	$ 6,675	$ 10,053	$ 13,105
Equipment leased to others	2,916	3,896	6,389	7,691
Fees	1,100	1,399	2,259	2,731
Financing leases	825	1,190	1,726	2,339
Real estate investments	369	1,133	715	2,290
Associated companies	309	647	474	1,116
Investment income(a)	599	597	924	1,146
Net securitization gains	360	273	640	622
Other items(b)(c)	871	1,811	2,513	3,337
Total	$ 12,357	$ 17,621	$ 25,693	$ 34,377

(a) Included net other-than-temporary impairments on investment securities of $57 million and $62 million in the second quarters of 2009 and 2008, respectively, and $198 million and $97 million in the first six months of 2009 and 2008, respectively. See Note 3.
(b) Included a gain on the sale of a limited partnership interest in PTL and a related gain on the remeasurement of the retained investment to fair value totaling $296 million in the first quarter of 2009. See Note 12.
(c) Included a gain of $343 million on the remeasurement to fair value of our equity method investment in BAC, following our acquisition of a controlling interest in the second quarter of 2009. See Note 5.

10. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, we adopted SFAS 157, Fair Value Measurements, for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. Effective January 1, 2009, we adopted SFAS 157 for all non-financial instruments accounted for at fair value on a non-recurring basis. SFAS 157 establishes a new framework for measuring fair value and expands related disclosures. Broadly, the SFAS 157 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS 157 establishes a three-level valuation hierarchy based upon observable and non-observable inputs.

For financial assets and liabilities, fair value is the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable.

We maintain policies and procedures to value instruments using the best and most relevant data available. In addition, we have risk management teams that review valuation, including independent price validation for certain instruments. Further, in other instances, we retain independent pricing vendors to assist in valuing certain instruments.

The following section describes the valuation methodologies we use to measure different financial instruments at fair value on a recurring basis. There has been no change to the valuation methodologies during 2009.

Investments in Debt and Equity Securities

When available, we use quoted market prices to determine the fair value of investment securities, and they are included in Level 1. Level 1 securities primarily include publicly-traded equity securities.

When quoted market prices are unobservable, we obtain pricing information from an independent pricing vendor. The pricing vendor uses various pricing models for each asset class that are consistent with what other market participants would use. The inputs and assumptions to the model of the pricing vendor are derived from market observable sources including: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and other market-related data. Since many fixed income securities do not trade on a daily basis, the methodology of the pricing vendor uses available information as applicable such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. The pricing vendor considers all available market observable inputs in determining the evaluation for a security. Thus, certain securities may not be priced using quoted prices, but rather determined from market observable information. These investments are included in Level 2 and primarily comprise our portfolio of corporate fixed income, and government, mortgage and asset-backed securities. In infrequent circumstances, our pricing vendors may provide us with valuations that are based on significant unobservable inputs, and in those circumstances we classify the investment securities in Level 3.

Annually since our adoption of SFAS 157, we have conducted reviews of our primary pricing vendor, with the assistance of an accounting firm, to validate that the inputs used in that vendor's pricing process are deemed to be market observable as defined in the standard. While we were not provided access to proprietary models of the vendor, our reviews have included on-site walk-throughs of the pricing process, methodologies and control procedures for each asset class and levels for which prices are provided. Our review also included an examination of the underlying inputs and assumptions for a sample of individual securities across asset classes, credit rating levels and various durations, a process we continue to perform for each reporting period. In addition, the pricing vendor has an established challenge process in place for all security valuations, which facilitates identification and resolution of potentially erroneous prices. We believe that the prices received from our pricing vendor are representative of exit prices in accordance with SFAS 157, as amended, and are classified appropriately in the SFAS 157 hierarchy.

We use non-binding broker quotes as our primary basis for valuation when there is limited, or no, relevant market activity for a specific instrument or for other instruments that share similar characteristics. We have not adjusted the prices we have obtained. Investment securities priced using non-binding broker quotes are included in Level 3. As is the case with our primary pricing vendor, third-party brokers do not provide access to their proprietary valuation models, inputs and assumptions. Accordingly, our risk management personnel conduct internal reviews of pricing for all such investment securities quarterly to ensure reasonableness of valuations used in our financial statements. These reviews are designed to identify prices that appear stale, those that have changed significantly from prior valuations, and other anomalies that may indicate that a price may not be accurate. Based on the information available, we believe that the fair values provided by the brokers are consistent with the principles of SFAS 157. Level 3 investment securities valued using non-binding broker quotes totaled $620 million and $556 million at June 30, 2009 and December 31, 2008, respectively, and were classified as available-for-sale securities.

Retained interests in securitizations are valued using a discounted cash flow model that considers the underlying structure of the securitization and estimated net credit exposure, prepayment assumptions, discount rates and expected life.

Private equity investments held in investment company affiliates are initially valued at cost. Valuations are reviewed at the end of each quarter utilizing available market data to determine whether or not any fair value adjustments are necessary. Such market data include any comparable public company trading multiples. Unobservable inputs include company-specific fundamentals and other third-party transactions in that security. These investments are generally included in Level 3.

Derivatives

We use closing prices for derivatives included in Level 1, which are traded either on exchanges or liquid over-the-counter markets.

The majority of our derivatives portfolio is valued using internal models. The models maximize the use of market observable inputs including interest rate curves and both forward and spot prices for currencies and commodities. Derivative assets and liabilities included in Level 2 primarily represent interest rate swaps, cross-currency swaps and foreign currency and commodity forward and option contracts.

Derivative assets and liabilities included in Level 3 primarily represent interest rate products that contain embedded optionality or prepayment features.

The following tables present our assets and liabilities measured at fair value on a recurring basis. Included in the tables are investment securities of $7,276 million and $8,190 million at June 30, 2009 and December 31, 2008, respectively, supporting obligations to holders of guaranteed investment contracts. Such securities are mainly investment grade.

(In millions)	Level 1	Level 2	Level 3	FIN 39 netting(a)	Net balance
June 30, 2009					
Assets					
Investment securities					
Debt					
U.S. corporate	$ 191	$ 1,729	$ 1,546	$ –	$ 3,466
State and municipal	273	562	157	–	992
Residential mortgage-backed	58	2,443	51	–	2,552
Commercial mortgage-backed	–	1,112	50	–	1,162
Asset-backed	–	852	1,748	–	2,600
Corporate – non-U.S.	143	78	452	–	673
Government – non-U.S.	1,283	51	142	–	1,476
U.S. government and federal agency	2	71	–	–	73
Retained interests	–	–	6,259	–	6,259
Equity					
Available-for-sale	404	500	16	–	920
Trading	644	–	–	–	644
Derivatives(b)	–	9,523	553	(4,900)	5,176
Other(c)	–	–	571	–	571
Total	$ 2,998	$ 16,921	$ 11,545	$ (4,900)	$ 26,564
Liabilities					
Derivatives	$ –	$ 9,127	$ 222	$ (4,978)	$ 4,371
Other	–	30	–	–	30
Total	$ –	$ 9,157	$ 222	$ (4,978)	$ 4,401
December 31, 2008					
Assets					
Investment securities					
Debt					
U.S. corporate	$ 525	$ 1,708	$ 1,640	$ –	$ 3,873
State and municipal	–	603	247	–	850
Residential mortgage-backed	30	3,113	118	–	3,261
Commercial mortgage-backed	–	1,098	57	–	1,155
Asset-backed	–	676	1,580	–	2,256
Corporate – non-U.S.					