GENERAL ELECTRIC CAPITAL CORP
Form 10-K/A
March 05, 2004

United States Securities and Exchange Commission

Washington, D.C. 20549

Form 10-K/A
Amendment No. 1

þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2003
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 charter)

Delaware (State or other jurisdiction of incorporation or organization)		13-1500700 (I.R.S. Employer Identification No.)
260 Long Ridge Road, Stamford, Connecticut	06927	203/357-4000
(Address of principal executive offices)	(Zip Code)	(Telephone No.)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
7.875% Guaranteed Subordinated Notes Due December 1, 2006	New York Stock Exchange
	New York Stock Exchange
6.625% Public Income Notes Due June 28, 2032	New York Stock Exchange
6.10% Public Income Notes Due November 15, 2032	New York Stock Exchange

5.875% Notes Due February 18, 2033

SECURITIES REGISTERED PURSUANT
TO SECTION 12(g) OF THE ACT:
Title of each class

None.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ¨ No þ

Aggregate market value of the outstanding common equity held by nonaffiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter: None

At February 27, 2004, 3,985,403 shares of voting common stock, which constitute all of the outstanding common equity, with a par value of $4.00 were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The consolidated financial statements of General Electric Company, set forth in the Annual Report on Form 10-K of General Electric Company for the year ended December 31, 2003 are incorporated by reference into Part IV hereof.

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

-

TABLE OF CONTENTS

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A is being filed solely to correct Part II, Item 8, Note 21, Commitments and Guarantees, in the Annual Report on Form 10-K of General Electric Capital Corporation (GECC) for the year ended December 31, 2003, filed with the Securities and Exchange Commission on March 2, 2003. This filing makes no other changes.

-

PART II

Item 8. Financial Statements and Supplementary Data.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
General Electric Capital Corporation:

We have audited the consolidated financial statements of General Electric Capital Corporation (GECC) and consolidated affiliates as listed in Item 15. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in Item 15. These consolidated financial statements and financial statement schedule are the responsibility of GECC management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of General Electric Capital Corporation and consolidated affiliates at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 1 to the consolidated financial statements, GECC in 2003 changed its method of accounting for variable interest entities, in 2002 changed its method of accounting for goodwill and other intangible assets and in 2001 changed its methods of accounting for derivative instruments and hedging activities and impairment of certain beneficial interests in securitized assets.

/s/ KPMG LLP

Stamford, Connecticut

February 6, 2004

-

GENERAL ELECTRIC CAPITAL CORPORATION AND CONSOLIDATED AFFILIATES
STATEMENT OF EARNINGS

For the years ended December 31 (In millions)	2003	2002	2001
REVENUES			
Revenues from services (note 2)	$ 49,995	$ 45,523	$ 45,421
Consolidated, liquidating securitization entities (note 20)	693	--	--
Sales of goods	2,228	3,296	3,627
Total revenues	52,916	48,819	49,048
EXPENSES			
Interest	9,546	9,544	10,025
Operating and administrative (note 3)	15,149	13,175	13,465
Insurance losses and policyholder and annuity benefits	8,510	8,275	8,171
Cost of goods sold	2,119	3,039	3,266
Provision for losses on financing receivables (note 6)	3,612	2,978	2,312
Depreciation and amortization of equipment on operating leases (including buildings and equipment) (note 8)	4,594	4,248	3,931
Minority interest in net earnings of consolidated affiliates	64	95	84
Consolidated, liquidating securitization entities (note 20)	500	--	--
Total expenses	44,094	41,354	41,254
EARNINGS BEFORE INCOME TAXES AND ACCOUNTING CHANGES	8,822	7,465	7,794
Provision for income taxes (note 13)	(1,590)	(960)	(1,734)
EARNINGS BEFORE ACCOUNTING CHANGES	7,232	6,505	6,060
Cumulative effect of accounting changes (note 1)	(339)	(1,015)	(158)
NET EARNINGS	$ 6,893	$ 5,490	$ 5,902

STATEMENT OF CHANGES IN SHAREOWNER'S EQUITY

(In millions)	2003	2002	2001
CHANGES IN SHAREOWNER'S EQUITY			
(note 16)			
Balance at January 1	$ 39,753	$ 31,563	$ 26,073

Dividends and other transactions with shareowner	(4,466)	2,462	607
Changes other than transactions with shareowner:			
Increases attributable to net earnings	6,893	5,490	5,902
Investment securities - net	508	1,392	(223)
Currency translation adjustments - net	3,212	(27)	36
Derivatives qualifying as hedges - net	341	(1,127)	(832)
Total changes other than transactions with shareowner	10,954	5,728	4,883
Balance at December 31	$ 46,241	$ 39,753	$ 31,563

The notes to consolidated financial statements on pages 42-84 are an integral part of these statements.

-

GENERAL ELECTRIC CAPITAL CORPORATION AND CONSOLIDATED AFFILIATES
STATEMENT OF FINANCIAL POSITION

At December 31 (In millions)	2003	2002
ASSETS		
Cash and equivalents	$ 9,719	$ 6,983
Investment securities (note 4)	92,480	89,807
Financing receivables (note 5)		
Time sales and loans, net of deferred income	169,683	141,775
Investment in financing leases, net of deferred income	59,933	58,994
	229,616	200,769
Allowance for losses on financing receivables (note 6)	(6,198)	(5,447)
Financing receivables -- net	223,418	195,322
Insurance receivables -- net (note 7)	11,952	14,273
Other receivables	16,351	16,388
Inventories	197	208
Equipment on operating leases (including buildings and equipment) (note 8)	38,615	35,060
Intangible assets -- net (note 9)	22,610	20,916
Consolidated, liquidating securitization entities (note 20)	26,468	--
Other assets (note 10)	64,618	60,485
TOTAL ASSETS	$ 506,428	$ 439,442
LIABILITIES AND SHAREOWNER'S EQUITY		
Short-term borrowings (note 11)	$ 126,105	$ 122,745
Long-term borrowings (note 11)	160,579	138,858
Total borrowings	286,684	261,603
Accounts payable	14,124	10,250
Insurance liabilities, reserves and annuity benefits (note 12)	100,449	99,537
Consolidated, liquidating securitization entities (note 20)	25,721	--
Other liabilities	20,700	15,919
Deferred income taxes (note 13)	10,411	10,546

TOTAL LIABILITIES	458,089	397,855
Minority interest in equity of consolidated affiliates (note 14)	2,098	1,834
Variable cumulative preferred stock, $100 par value, liquidation preference $100,000 per share		
(33,000 shares authorized; 26,000 shares issued and outstanding at December 31, 2003 and 2002)	3	3
Common stock, $4 par value (4,166,000 and 3,866,000 shares authorized at December 31, 2003 and 2002, respectively and 3,985,403 and 3,837,825 shares issued and outstanding at December 31, 2003 and 2002, respectively)	16	15
Additional paid-in capital	14,236	14,231
Retained earnings	29,445	27,024
Accumulated gains/(losses) -- net:		
Investment securities (a)	1,538	1,030
Currency translation adjustments (a)	2,621	(591)
Derivatives qualifying as hedges (a)	(1,618)	(1,959)
Total shareowner's equity (note 16)	46,241	39,753
TOTAL LIABILITIES AND SHAREOWNER'S EQUITY	$ 506,428	$ 439,442

(a) The sum of accumulated gains/(losses) on investment securities, currency translation adjustments and derivatives qualifying as hedges constitutes "Accumulated nonowner changes other than earnings," as shown in note 16, and was $2,541 million and $(1,520) million at year-end 2003 and 2002, respectively.

The notes to consolidated financial statements on pages 42-84 are an integral part of this statement.

-

GENERAL ELECTRIC CAPITAL CORPORATION AND CONSOLIDATED AFFILIATES
STATEMENT OF CASH FLOWS

For the years ended December 31 (In millions)	2003	2002	2001
CASH FLOWS -- OPERATING ACTIVITIES			
Net earnings	$ 6,893	$ 5,490	$ 5,902
Adjustments to reconcile net earnings to cash provided from operating activities:			
Cumulative effect of accounting changes	339	1,015	158
Depreciation and amortization of equipment on operating leases (including buildings and equipment)	4,594	4,248	3,931
Provision for losses on financing receivables	3,612	2,978	2,312
Amortization of goodwill	--	--	617
Deferred income taxes	683	1,277	705
Decrease (increase) in inventories	(35)	62	396
Increase (decrease) in accounts payable	2,793	(2,120)	3,914
Increase in insurance liabilities and reserves	1,372	5,539	3,499
Consolidated, liquidating securitization entities	386	---	--
All other operating activities	1,413	1,536	(4,092)
CASH FROM OPERATING ACTIVITIES	22,050	20,025	17,342
CASH FLOWS -- INVESTING ACTIVITIES			
Net increase in financing receivables (note 17)	(14,322)	(18,285)	(12,975)
Equipment on operating leases (including buildings and equipment)			
-- additions	(7,243)	(11,346)	(13,443)
-- dispositions	4,615	6,227	7,504
Payments for principal businesses purchased, net of cash acquired	(10,537)	(12,300)	(10,993)
Consolidated, liquidating securitization entities (note 20)	9,375	--	--
All other investing activities (note 17)	(553)	(12,368)	(6,499)
CASH USED FOR INVESTING ACTIVITIES	(18,665)	(48,072)	(36,406)
CASH FLOWS -- FINANCING ACTIVITIES			
Net increase (decrease) in borrowings (maturities of 90 days or less)	(3,520)	(35,348)	23,424
Newly issued debt (maturities longer than 90	59,838	96,044	30,738

days) (note 17)			
Repayments and other reductions (maturities longer than 90 days) (note 17)	(42,804)	(38,586)	(36,051)
Dividends paid	(4,472)	(2,020)	(2,042)
Consolidated, liquidating securitization entities (note 20)	(9,761)	--	--
All other financing activities (note 17)	70	8,156	3,960
CASH FROM (USED FOR) FINANCING ACTIVITIES	(649)	28,246	20,029
INCREASE IN CASH AND EQUIVALENTS DURING YEAR	2,736	199	965
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	6,983	6,784	5,819
CASH AND EQUIVALENTS AT END OF YEAR	$ 9,719	$ 6,983	$ 6,784

The notes to consolidated financial statements on pages 42-84 are an integral part of this statement.

(6)

-

GENERAL ELECTRIC CAPITAL CORPORATION AND CONSOLIDATED AFFILIATES

Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

Our financial statements consolidate all of our affiliates--companies that we control and in which we hold a majority voting interest. All outstanding common stock of the Parent is owned by General Electric Capital Services, Inc. (GE Capital Services or GECS), all of whose common stock is owned, directly or indirectly, by General Electric Company (GE Company or GE). In 2003, as we describe on page 46, we added certain non-affiliates that we do not control to our consolidated financial statements because of new accounting requirements that require consolidation of entities based on holding qualifying residual interests.

Associated companies are companies that we do not control but over which we have significant influence, most often because we hold a shareholder voting position of 20% to 50%. Results of associated companies are presented on a "one-line" basis.

Financial statement presentation

We have reclassified certain prior-year amounts to conform to this year's presentation. Effects of transactions between related companies are eliminated.

Preparing financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

Sales of Goods

We record sales of goods when a firm sales agreement is in place, delivery has occurred and collectibility of the fixed or determinable sales price is reasonably assured. If customer acceptance of products is not assured, sales are recorded only upon formal customer acceptance.

Revenues from Services (earned income)

We use the interest method to recognize income on all loans. Interest on time sales and loans includes origination, commitment and other non-refundable fees related to funding (recorded in earned income on the interest method). Nonearning loans are loans on which we have stopped accruing interest at the earlier of the time at which collection of an account becomes doubtful or the account becomes 90 days past due. We recognize interest income on nonearning loans either as cash is collected or on a cost-recovery basis as conditions warrant. We resume accruing interest on nonearning, non-restructured Commercial Finance loans only when (a) payments are brought current according to the loan's original terms and (b) future payments are reasonably assured. When we agree to restructured terms with the borrower, we resume accruing interest only when reasonably assured that we will recover full contractual payments, and pass underwriting reviews equivalent to those to which we subject new loans. We resume accruing interest on nonearning Consumer Finance loans only upon receipt of the third consecutive minimum monthly payment or the equivalent. Specific limits restrict the number of times any particular type of delinquent loan may be categorized as non-delinquent and interest accrual resumed.

We record financing lease income on the interest method to produce a level yield on funds not yet recovered. Estimated unguaranteed residual values of leased assets are based primarily on periodic independent appraisals of the values of leased assets remaining at expiration of the lease terms. Significant assumptions we use in estimating

-

residual values include estimated net cash flows over the remaining lease term, results of future remarketing, and future component part and scrap metal prices, discounted at an appropriate rate.

We recognize operating lease income on a straight-line basis over the terms of underlying leases.

Fees include commitment fees related to loans that we do not expect to fund and line-of-credit fees. We record these fees in earned income on a straight-line basis over the period to which they relate. We record syndication fees in earned income at the time related services are performed unless significant contingencies exist.

See pages 44-46 for a discussion of income from investment and insurance activities.

Depreciation and amortization

The cost of our equipment leased to others on operating leases is amortized on a straight-line basis to estimated residual value over the lease term or over the estimated economic life of the equipment. See note 8.

Losses on financing receivables

Our allowance for losses on financing receivables represents our best estimate of probable losses inherent in the portfolio. Our method of calculating estimated losses depends on the size, type and risk characteristics of the related receivables.

Our consumer loan portfolio consists of homogeneous card receivables, installment loans, auto loans and leases and residential mortgages. The allowance for losses on these receivables is based on ongoing statistical analyses of our historical experience adjusted for the effects of economic cycles.

Our allowance for losses on our commercial and equipment loan and lease portfolios is based on relevant observable data that include, but are not limited to, historical experience; loan stratification by portfolio and, when applicable, geography; collateral type; credit class or program type; size of the loan balance; and delinquency. In certain commercial loan and lease portfolios, we review all loans based on a number of monitored risk factors other than size, including collateral value, financial performance of the borrower, aging and bankruptcy. We stratify portfolios in which we believe that it is informative to differentiate between small and large balance loans depending on geography and portfolio. For loans deemed individually impaired, we determine allowances using the present values of expected future cash flows. If repossession is expected to be a source of repayment, we estimate the fair value of that collateral using independent appraisals when necessary.

Delinquencies are the clearest indication of a developing loss, and we monitor delinquency rates closely in all of our portfolios. Experience is not available with new products; therefore, while we are developing that experience, we set loss allowances based on our experience with the most closely analogous products in our portfolio. When we repossess collateral in satisfaction of a commercial loan, we write the receivable down against the allowance for losses. We transfer the asset to "Other assets" and carry it at the lower of cost or estimated fair value less costs to sell.

Cash and Equivalents

Debt securities with original maturities of three months or less are included in cash equivalents unless designated as available for sale and classified as investment securities.

-

Investment Securities

We report investments in debt and marketable equity securities, and equity securities at our insurance affiliates, at fair value based on quoted market prices or, if quoted prices are not available, discounted expected cash flows using market rates commensurate with credit quality and maturity of the investment. Substantially all investment securities are designated as available for sale with unrealized gains and losses included in shareowner's equity, net of applicable taxes and other adjustments. We regularly review investment securities for impairment based on criteria that include the extent to which investment's carrying value exceeds its related market value, the duration of the market decline, our ability to hold to recovery and the financial strength and specific prospects of the issuer of the security. Unrealized losses that are other than temporary are recognized in earnings. Realized gains and losses are accounted for on the specific identification method.

Inventories

All inventories are stated at the lower of cost or realizable values. Inventories consist of finished products held for sale. Cost is determined on a first-in, first-out basis.

Intangible Assets

As of January 1, 2002, goodwill is no longer amortized but is tested for impairment using a fair value approach, at the "reporting unit" level. A reporting unit is the operating segment, or a business one level below that operating segment (the "component" level) if discrete financial information is prepared and regularly reviewed by management at the component level. We recognize an impairment charge for any amount by which the carrying amount of a reporting unit's goodwill exceeds its fair value. We use discounted cash flows to establish fair values. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. When a business within a reporting unit is disposed of, goodwill is allocated to the gain or loss on disposition using the relative fair value methodology.

We amortize the cost of other intangibles over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. Intangible assets with indefinite lives are tested annually for impairment and written down to fair value as required.

Before January 1, 2002, we amortized goodwill over its estimated period of benefit on a straight-line basis; we amortized other intangible assets on appropriate bases over their estimated lives. No amortization period exceeded 40 years. When an intangible asset's carrying value exceeded associated expected operating cash flows, we considered it to be impaired and wrote it down to fair value, which we determined based on either discounted future cash flows or appraised values.

Insurance Accounting Policies

Accounting policies for insurance businesses follow.

PREMIUM INCOME.

We report insurance premiums as earned income as follows:

- For short-duration insurance contracts (including property and casualty, accident and health, and financial guaranty insurance), we report premiums as earned income, generally on a pro-rata basis, over the terms of the related agreements. For retrospectively rated reinsurance contracts, we record premium adjustments based on estimated losses and loss expenses, taking into consideration both case and incurred-but-not-reported (IBNR) reserves.

-

- For traditional long-duration insurance contracts (including term and whole life contracts and annuities payable for the life of the annuitant), we report premiums as earned income when due.
- For investment contracts and universal life contracts, we report premiums received as liabilities, not as revenues. Universal life contracts are long-duration insurance contracts with terms that are not fixed and guaranteed; for these contracts, we recognize revenues for assessments against the policyholder's account, mostly for mortality, contract initiation, administration and surrender. Investment contracts are contracts that have neither significant mortality nor significant morbidity risk, including annuities payable for a determined period; for these contracts, we recognize revenues on the associated investments and amounts credited to policyholder accounts are charged to expense.

LIABILITIES FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

represent our best estimate of the ultimate obligations for reported claims plus those IBNR and the related estimated claim settlement expenses for all claims incurred through December 31 of each year. Specific reserves -- also referred to as case reserves -- are established for reported claims using case-basis evaluations of the underlying claim data and are updated as further information becomes known. IBNR reserves are determined using generally accepted actuarial reserving methods that take into account historical loss experience data and, as appropriate, certain qualitative factors. IBNR reserves are adjusted to take into account certain additional factors that can be expected to affect the liability for claims over time, such as changes in the volume and mix of business written, revisions to contract terms and conditions, changes in legal precedents or developed case law, trends in healthcare and medical costs, and general inflation levels. Settlement of complex claims routinely involves threatened or pending litigation to resolve disputes as to coverage, interpretation of contract terms and conditions or fair compensation for damages suffered. These disputes are settled through negotiation, arbitration, or actual litigation. Recorded reserves incorporate our best estimate of the effect that ultimate resolution of such disputes have on both claims payments and related settlement expenses. Liabilities for unpaid claims and claims adjustment expenses are continually reviewed and adjusted; such adjustments are included in current operations and accounted for as changes in estimates.

DEFERRED ACQUISITION COSTS.

Costs that vary with and are directly related to the acquisition of new and renewal insurance and investment contracts are deferred and amortized as follows:

- Short-Duration Contracts - Acquisition costs consist of commissions, brokerage expenses and premium taxes and are amortized ratably over the contract periods in which the related premiums are earned.

-

- Long-Duration Contracts - Acquisition costs consist of first-year commissions in excess of recurring renewal commissions, certain variable sales expenses and certain support costs such as underwriting and policy issue expenses. For traditional long-duration insurance contracts, we amortize these costs over the respective contract periods in proportion to either anticipated premium income, or, in the case of limited-payment contracts, estimated benefit payments. For investment contracts and universal life contracts, amortization of these costs is based on estimated gross profits and is adjusted as those estimates are revised.

We review deferred acquisition costs periodically for recoverability considering anticipated investment income.

PRESENT VALUE OF FUTURE PROFITS.

The actuarially determined present value of anticipated net cash flows to be realized from insurance, annuity and investment contracts in force at the date of acquisition of life insurance policies is recorded as the present value of future profits and is amortized over the respective policy terms in a manner similar to deferred acquisition costs. We adjust unamortized balances to reflect experience and impairment, if any.

Accounting Changes

We adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46, *Consolidation of Variable Interest Entities*, on July 1, 2003, and consolidated certain entities in our financial statements for the first time. New balance sheet captions, "Consolidated, liquidating securitization entities," included $36.3 billion of assets and $35.8 billion of liabilities at transition related to entities involved in securitization arrangements. Given their unique nature and the fact that their activities have been discontinued, they are classified in separate financial statement captions. Further information about these entities is provided in note 20. In addition, $14.1 billion and $1.0 billion were added to "Investment securities" and "Other receivables", respectively, at transition for investment securities related to guaranteed investment contracts (GICs) issued by Trinity, a group of sponsored special purpose entities. The related GIC liabilities of $14.7 billion, consolidated at transition, are displayed in "Insurance liabilities, reserves and annuity benefits." As issuance of GICs by these entities is likely to continue in the future, we have displayed these investment securities in financial statement captions consistent with like items of our Insurance businesses. Our consolidation of these entities resulted in a $339 million after-tax accounting charge to net earnings and is reported in the caption "Cumulative effect of accounting changes." This charge resulted from several factors. For entities consolidated based on carrying amounts, the effect of changes in interest rates resulted in transition losses on interest rate swaps that did not qualify for hedge accounting before transition. Losses also arose from the FIN 46 requirement to record carrying amounts of assets in certain securitization entities as if those entities had always been consolidated, requiring us to eliminate certain previously recognized gains. For certain other entities that we were required to consolidate at their July 1, 2003, fair values, we recognized a loss on consolidation because their liabilities, including the fair value of interest rate swaps, exceeded independently appraised fair values of the related assets.

In 2002, we adopted SFAS 142, *Goodwill and Other Intangible Assets*, under which goodwill is no longer amortized but is tested for impairment using a fair value methodology. Using the required reporting unit basis, we tested all of our goodwill for impairment as of January 1, 2002, and recorded a non-cash charge of $1.204 billion ($1.015 billion after tax). Substantially all of the charge related to the IT Solutions business and the U.S. Auto and Home business. Factors contributing to the impairment charge were the difficult economic environment in the information technology sector and heightened price competition in the auto insurance industry. No impairment charge had been required under our previous goodwill impairment policy, which was based on undiscounted cash flows.

-

In 2001, we adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Under SFAS 133, all derivative instruments are recognized in the balance sheet at their fair values. Further information about derivatives and hedging is provided in note 19. The cumulative transition effect of adopting this accounting change at January 1, 2001, was a $38 million reduction of net earnings and $810 million reduction in equity.

Also in 2001, we adopted Emerging Issues Task Force (EITF) Issue 99-20. Under this consensus, impairment of certain retained interests in securitized assets must be recognized when (a) the asset's fair value is below its carrying value, and (b) it is probable that there has been an adverse change in estimated cash flows. The cumulative effect of adopting EITF 99-20 at January 1, 2001, was a one-time reduction of net earnings of $120 million.

NOTE 2. REVENUES FROM SERVICES

(In millions)	2003	2002	2001
Premiums earned by insurance businesses	$ 8,618	$ 8,655	$ 8,347
Interest on time sales and loans	16,404	13,723	11,741
Operating lease rentals	7,123	6,812	6,753
Investment income	5,003	4,224	4,949
Financing leases	3,988	4,334	4,323
Fees	3,292	2,777	2,363
Other income	5,567	4,998	6,945
Total	$ 49,995	$45,523	$ 45,421

For insurance businesses, the effects of reinsurance on premiums written and premiums earned were as follows:

	Premiums written			Premiums earned		
(In millions)	2003	2002	2001	2003	2002	2001
Direct	$ 8,669	$ 8,972	$ 8,092	$ 8,650	$ 8,525	$8,075
Assumed	1,028	1,125	1,056	1,089	1,133	1,055
Ceded	(949)	(980)	(776)	(1,121)	(1,003)	(783)
Total	$ 8,748	$ 9,117	$ 8,372	$ 8,618	$ 8,655	$8,347

NOTE 3. OPERATING AND ADMINISTRATIVE EXPENSES

Our employees and retirees are covered under a number of pension, health and life insurance plans. The principal pension plan is the GE Company Pension Plan, a defined benefit plan. Employees of certain affiliates are covered under separate pension plans which are not significant individually or in the aggregate. We provide health and life insurance benefits to certain of our retired employees, principally through GE Company's benefit program. The annual cost to us of providing these benefits is not material.

Rental expense relating to equipment we lease from others for the purpose of subleasing was $338 million in 2003, $378 million in 2002 and $400 million in 2001. Other rental expense was $527 million in 2003, $571 million

-

in 2002 and $570 million in 2001, principally for the rental of office space and data processing equipment. At December 31, 2003, minimum rental commitments under noncancelable operating leases aggregated $4,147 million; $724 million in 2004; $595 million in 2005; $511 million in 2006; $487 million in 2007; $400 million in 2008 and $1,430 million thereafter. As a lessee, we have no material lease agreements classified as capital leases.

Amortization of deferred acquisition costs charged to operations in 2003, 2002 and 2001 was $1,206 million, $1,104 million and $939 million, respectively.

NOTE 4. INVESTMENT SECURITIES

(In millions)	Amortized Cost	Gross Unrealized gains	Gross Unrealized losses	Estimated fair value
December 31, 2003				
Debt:				
U.S. corporate	$ 45,238	$ 2,336	$ (630)	$ 46,944
State and municipal	3,794	185	(2)	3,977
Mortgage-backed	11,274	219	(76)	11,417
Asset-backed	11,542	185	(74)	11,653
Corporate -- non-U.S.	10,371	453	(65)	10,759
Government -- non-U.S.	2,312	67	(9)	2,370
U.S. government and federal agency	1,386	50	(18)	1,418
Equity	3,656	363	(77)	3,942
Total	$ 89,573	$ 3,858	$ (951)	$ 92,480
December 31, 2002				
Debt:				
U.S. corporate	$ 47,784	$ 2,257	$ (1,424)	$ 48,617
State and municipal	6,408	217	(21)	6,604
Mortgage-backed	8,987	347	(41)	9,293
Asset-backed	4,019	100	(25)	4,094
Corporate -- non-U.S.	10,642	466	(198)	10,910
Government -- non-U.S.	3,783	216	(51)	3,948
U.S. government and federal agency	1,311	57	(17)	1,351
Equity	5,206	156	(372)	4,990
Total	$ 88,140	$ 3,816	$ (2,149)	$ 89,807

(13)

-

The following table presents the gross unrealized losses on, and estimated fair value of, our investment securities, aggregated by investment category and length of time that individual investment securities have been in a continuous unrealized loss position, at December 31, 2003.

	Less than 12 months		12 months or more	
(In millions)	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Debt:				
U.S. corporate	$ 6,320	$ (219)	$ 1,882	$ (411)
State and municipal	213	(2)	2	--
Mortgage-backed	3,375	(70)	127	(6)
Asset-backed	1,982	(18)	1,476	(56)
Corporate -- non-U.S.	1,341	(49)	97	(16)
Government -- non-U.S.	67	(5)	10	(4)
U.S. government and federal agency	210	(18)	--	--
Equity	203	(45)	44	(32)
Total	$13,711	$ (426)	$ 3,638	$ (525)

Of the $525 million of investment securities in an unrealized loss position for twelve months or more, approximately $342 million relates to securities collateralized by commercial aircraft, of which approximately $275 million are enhanced equipment trust certificates. Commercial aircraft positions are in a loss position as a result of ongoing negative market reaction to commercial airline industry difficulties. We review all of our investment securities routinely for other than temporary impairment as described on page 44. In accordance with that policy, we provide for all amounts that we do not expect either to collect in accordance with the contractual terms of the instruments or to recover based on underlying collateral values.

A substantial portion of our mortgage-backed securities are collateralized by U.S. residential mortgages.

CONTRACTUAL MATURITIES OF OUR INVESTMENT IN DEBT SECURITIES (EXCLUDING MORTGAGE-BACKED AND ASSET-BACKED SECURITIES)

(In millions)	Amortized cost	Estimated fair value
Due in:		
2004	$ 6,261	$ 6,300
2005-2008	14,492	14,880
2009-2013	15,499	15,959
2014 and later	26,849	28,329

We expect actual maturities to differ from contractual maturities because borrowers have the right to call or pre-pay certain obligations.

-

Supplemental information about gross realized gains and losses on investment securities follows.

(In millions)	2003	2002	2001
Gains	$ 890	$ 1,143	$ 1,234
Losses, including impairments	(729)	(1,120)	(713)
Net	$ 161	$ 23	$ 521

Proceeds from securities sales amounted to $20,505 million, $31,344 million and $24,171 million in 2003, 2002 and 2001, respectively.

NOTE 5. FINANCING RECEIVABLES (INVESTMENTS IN TIME SALES, LOANS AND FINANCING LEASES)

December 31 (In millions)	2003	2002
COMMERCIAL FINANCE		
Equipment	$ 58,985	$ 60,692
Commercial and industrial	38,946	35,675
Real estate	20,171	20,984
Commercial aircraft	12,424	11,397
	130,526	128,748
CONSUMER FINANCE		
Non U.S. installment, revolving credit and other	34,440	23,655
Non U.S. residential	19,593	9,731
Non U.S. auto	18,668	15,113
U.S. installment, revolving credit and other	15,882	13,684
Other	5,432	3,225
	94,015	65,408
Other, principally Equipment Management	5,075	6,613
	229,616	200,769
Less allowance for losses (note 6)	(6,198)	(5,447)
Total	$ 223,418	$ 195,322

Our financing receivables include both time sales and loans and financing leases. Time sales and loans represents transactions in a variety of forms, including time sales, revolving charge and credit, mortgages, installment loans, intermediate-term loans and revolving loans secured by business assets. The portfolio includes time sales and loans carried at the principal amount on which finance charges are billed periodically, and time sales and loans carried at gross book value, which includes finance charges.

Investment in financing leases consists of direct financing and leveraged leases of aircraft, railroad rolling stock, autos, other transportation equipment, data processing equipment and medical equipment, as well as other manufacturing, power generation, commercial real estate, and commercial equipment and facilities.

As the sole owner of assets under direct financing leases and as the equity participant in leveraged leases, we are taxed on total lease payments received and are entitled to tax deductions based on the cost of leased assets and tax deductions for interest paid to third-party participants. We are generally entitled to any residual value of leased assets.

-

Investment in direct financing and leveraged leases represents net unpaid rentals and estimated unguaranteed residual values of leased equipment, less related deferred income. We have no general obligation for principal and interest on notes and other instruments representing third-party participation related to leveraged leases; such notes and other instruments have not been included in liabilities but have been offset against the related rentals receivable. Our share of rentals receivable on leveraged leases is subordinate to the share of other participants who also have security interests in the leased equipment.

NET INVESTMENT IN FINANCING LEASES

	Total financing leases		Direct financing leases		Leveraged leases	
December 31 (In millions)	2003	2002	2003	2002	2003	2002
Total minimum lease payments receivable	$ 86,173	$ 87,625	$56,702	$55,764	$ 29,471	$ 31,861
Less principal and interest on third-party nonrecourse debt	(22,144)	(24,249)	--	--	(22,144)	(24,249)
Net rentals receivable	64,029	63,376	56,702	55,764	7,327	7,612
Estimated unguaranteed residual value of leased assets	8,810	8,944	5,135	5,169	3,675	3,775
Less deferred income	(12,906)	(13,326)	(9,130)	(9,377)	(3,776)	(3,949)
Investment in financing leases	59,933	58,994	52,707	51,556	7,226	7,438
Less amounts to arrive at net investment						
Allowance for losses	(803)	(851)	(707)	(749)	(96)	(102)
Deferred taxes	(9,815)	(9,378)	(5,314)	(5,174)	(4,501)	(4,204)
Net investment in financing leases	$ 49,315	$ 48,765	$46,686	$45,633	$ 2,629	$ 3,132

-

CONTRACTUAL MATURITIES

(In Millions)	Total time sales and loans	Net rentals receivable
Due in:		
2004	$ 54,572	$ 16,076
2005	27,689	12,920
2006	23,086	9,899
2007	13,922	6,734
2008	12,632	4,027
2009 and later	37,782	14,373
Total	$ 169,683	$ 64,029

We expect actual maturities to differ from contractual maturities.

"Impaired" loans are defined by generally accepted accounting principles as large balance 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 follows.

December 31 (In millions)	2003	2002
Loans requiring allowance for losses	$ 932	$ 1,136
Loans expected to be fully recoverable	1,355	837
	$ 2,287	$ 1,973
Allowance for losses	$ 378	$ 395
Average investment during year	2,187	1,732

Interest income earned while impaired [(a)]	33	16

(a) Recognized principally on cash basis.

-

NOTE 6. ALLOWANCE FOR LOSSES ON FINANCING RECEIVABLES

(In millions)	2003	2002	2001
BALANCE AT JANUARY 1			
Commercial Finance	$ 2,601	$ 2,491	$ 1,668
Consumer Finance	2,762	2,137	2,099
Other	84	106	195
	5,447	4,734	3,962
PROVISION CHARGED TO OPERATIONS			
Commercial Finance	857	1,074	727
Consumer Finance	2,694	1,861	1,506
Other	61	43	79
	3,612	2,978	2,312
OTHER ADDITIONS			
(a)	686	693	584
GROSS WRITE-OFFS			
Commercial Finance	(1,286)	(1,226)	(531)
Consumer Finance	(3,044)	(2,278)	(1,941)
Other	(61)	(92)	(147)
	(4,391)	(3,596)	(2,619)
RECOVERIES			
Commercial Finance	122	91	65
Consumer Finance	710	534	417
Other	12	13	13
	844	638	495
BALANCE AT DECEMBER 31			
Commercial Finance	2,186	2,601	2,491
Consumer Finance	3,959	2,762	2,137
Other	53	84	106
Balance at December 31	$ 6,198	$ 5,447	$ 4,734

(a) Includes $206 million, $483 million and $687 million related to acquisitions and $480 million, $210 million and $(103) million related to the net effects of exchange rates in 2003, 2002 and 2001, respectively.

(18)

-

SELECTED FINANCING RECEIVABLES RATIOS

December 31	2003	2002
ALLOWANCE FOR LOSSES ON FINANCING RECEIVABLES AS A PERCENTAGE OF TOTAL FINANCING RECEIVABLES		
Commercial Finance	1.67%	2.02%
Consumer Finance	4.21	4.22
Other	1.04	1.27
Total	2.70	2.71
NONEARNING AND REDUCED EARNING FINANCING RECEIVABLES AS A PERCENTAGE OF TOTAL FINANCING RECEIVABLES		
Commercial Finance	1.3%	1.7%
Consumer Finance	2.6	2.4
Other	1.4	1.2
Total	1.8	1.9

NOTE 7. INSURANCE RECEIVABLES

December 31 (In millions)	2003	2002
Reinsurance recoverables	$ 2,381	$ 2,560
Commercial mortgage loans	6,165	5,358
Premiums receivable	507	812
Residential mortgage loans	1,258	1,919
Corporate and individual loans – Edison Life	--	1,801
Policy loans	1,138	1,422
Funds on deposit with reinsurers	4	15
Other	596	521
Allowance for losses	(97)	(135)
Total	$ 11,952	$ 14,273

(19)

-

NOTE 8. EQUIPMENT ON OPERATING LEASES (INCLUDING BUILDINGS AND EQUIPMENT)

December 31 (In millions)	Estimated Useful Lives	2003	2002
ORIGINAL COST			
Buildings and equipment [(a)]	1-40	$ 4,574	$ 4,510
Equipment leased to others			
Aircraft	6-19	23,065	20,053
Vehicles	3-12	16,600	13,349
Railroad rolling stock	3-30	3,356	3,376
Mobile and modular	3-20	3,164	2,994
Construction and manufacturing	3-25	1,562	1,326
All other	2-35	2,881	2,859
Total		$ 55,202	$ 48,467
NET CARRYING VALUE			
Buildings and equipment		$ 2,695	$ 2,743
Equipment leased to others			
Aircraft[(b)]		19,093	17,030
Vehicles		9,745	8,481
Railroad rolling stock		2,220	2,309
Mobile and modular		1,814	1,632
Construction and manufacturing		1,120	1,010
All other		1,928	1,855
Total		$ 38,615	$ 35,060

(a) Includes $1.8 billion and $1.4 billion of assets leased to GE as of December 31, 2003 and 2002, respectively.

(b) Commercial Finance recognized impairment losses of $0.2 billion in 2003 and 2002 recorded in the caption "Depreciation and amortization of equipment on operating leases (including buildings and equipment)" in the Statement of Earnings to reflect adjustments to fair value based on current market values from independent appraisers.

Amortization of equipment leased to others was $4,162 million, $3,868 million and $3,458 million in 2003, 2002 and 2001, respectively. Noncancelable future rentals due from customers for equipment on operating leases at year-end 2003 are due as follows:

(In millions)	
Due in	
2004	$ 5,261
2005	4,662
2006	3,426
2007	2,373
2008	1,661
After 2008	5,673
Total	$ 23,056

(20)

-

NOTE 9. INTANGIBLE ASSETS

December 31 (In millions)	2003	2002
Goodwill	$ 19,741	$ 17,399
Present value of future profits (PVFP)	1,259	2,078
Capitalized software	695	770
Other intangibles	915	669
Total	$ 22,610	$ 20,916

Intangible assets are net of accumulated amortization of $10,616 million in 2003 and $9,788 million in 2002.

INTANGIBLE ASSETS SUBJECT TO AMORTIZATION

	2003			2002		
December 31 (In millions)	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
PVFP	$ 4,092	$ (2,833)	$ 1,259	$ 4,754	$ (2,676)	$ 2,078
Capitalized software	1,348	(653)	695	1,269	(499)	770
Servicing assets [(a)]	3,538	(3,391)	147	3,580	(3,238)	342
Patents, licenses and other	304	(201)	103	283	(158)	125
All other	1,074	(413)	661	539	(341)	198
Total	$ 10,356	$ (7,491)	$ 2,865	$ 10,425	$ (6,912)	$ 3,513

(a) Servicing assets, net of accumulated amortization, are associated primarily with serviced residential mortgage loans amounting to $14 billion and $33 billion at December 31, 2003 and 2002, respectively.

Indefinite-lived intangible assets were $4 million at December 31, 2003 and 2002, respectively and related primarily to patents, licenses and other.

Amortization expense related to intangible assets, excluding goodwill, for 2003 and 2002, was $785 million and $1,465 million, respectively. The estimated percentage of the December 31, 2003, net PVFP balance to be amortized over each of the next five years follows.

2004	2005	2006	2007	2008
9.3%	8.7%	8.0%	7.3%	6.7%

-

Change in PVFP balances follow.

(In millions)	2003	2002
Balance at January 1	$ 2,078	$ 2,033
Acquisitions	20	265
Dispositions	(574)	--
Accrued interest [a]	58	69
Amortization	(262)	(333)
Other	(61)	44
Balance at December 31	$ 1,259	$ 2,078

(a) Interest was accrued at a rate of 3.8% and 3.7% for 2003 and 2002, respectively.

Recoverability of PVFP is evaluated periodically by comparing the current estimate of expected future gross profits to the unamortized asset balance. If such comparison indicates that the expected gross profits will not be sufficient to recover PVFP, the difference is charged to expense. No such expense was recorded in 2003 or 2002.

Amortization expense for PVFP in future periods will be affected by acquisitions, realized capital gains/losses or other factors affecting the ultimate amount of gross profits realized from certain lines of business. Similarly, future amortization expense for other intangibles will depend on acquisition activity and other business transactions.

The amount of goodwill amortization included in net earnings (net of income taxes) in 2001 was $474 million. The effects on earnings of excluding such goodwill amortization from 2001 follow.

(In millions)	2001
Net earnings, as reported	$5,902
Net earnings, excluding goodwill amortization	$6,376

-

Changes in goodwill balances, net of accumulated amortization, follow.

	2003					
(In millions)	Commercial Finance	Consumer Finance	Equipment Management	Insurance	All Other GECS and Eliminations	Total
Balance January 1	$ 7,987	$ 5,562	$ 1,242	$ 4,176	$ (1,568)	$17,399
Acquisitions/purchase accounting adjustments(a)	121	1,294	91	12	---	1,518
Foreign exchange and other	82	923	6	(96)	(91)	824
Balance December 31	$ 8,190	$ 7,779	$ 1,339	$ 4,092	$ (1,659)	$19,741

	2002					
(In millions)	Commercial Finance	Consumer Finance	Equipment Management	Insurance	All Other GECS and Eliminations	Total
Balance January 1	$ 6,235	$ 3,826	$ 1,160	$ 3,372	$ (119)	$14,474
Transition Impairment	--	--	--	--	(1,204)	(1,204)
Acquisitions/purchase accounting adjustments(a)	1,684	1,286	31	542	(88)	3,455
Foreign exchange and other	68	450	51	262	(157)	674
Balance December 31	$ 7,987	$ 5,562	$ 1,242	$ 4,176	$ (1,568)	$17,399

(a) The amount of goodwill related to new acquisitions recorded during 2003 was $1,382 million, the largest of which was First National Bank ($680 million) by Consumer Finance. The amount of goodwill related to purchase accounting adjustments during 2003 was $136 million, primarily associated with the 2002 acquisitions of Australian Guarantee Corporation at Consumer Finance and Security Capital Group at Commercial Finance. The amount of goodwill related to new acquisitions recorded during 2002 was $2,283 million, the largest of which was Australian Guarantee Corporation ($621 million) by Consumer Finance. The amount of goodwill related to purchase accounting adjustments during 2002 was $1,172 million, primarily associated with the

2001 acquisition of Heller Financial, Inc. Upon closing an acquisition, we estimate the fair values of assets and liabilities acquired and consolidate the acquisition as quickly as possible. Given the time it takes to obtain pertinent information to finalize the acquired company's balance sheet (frequently with implications for the price of the acquisition), then to adjust the acquired company's policies, procedures, books and records to our standards, it is often several quarters before we are able to finalize those initial fair value estimates. Accordingly, it is not uncommon for our initial estimates to be subsequently revised.

-

NOTE 10. OTHER ASSETS

December 31 (In millions)	2003	2002
Investments		
Associated companies [(a)]	$ 12,919	$ 11,586
Real estate [(b)]	13,280	14,339
Assets held for sale [(c)]	1,833	2,998
Other	7,752	4,593
	35,784	33,516
Separate accounts (see note 12)	16,447	14,537
Deferred acquisition costs	5,966	6,204
Derivative instruments [(d)]	1,782	1,776
Other	4,639	4,452
Total	$ 64,618	$ 60,485

(a) Includes advances to associated companies which are non-controlled, non-consolidated equity investments.

(b) Our investment in real estate consists principally of two categories: real estate held for investment and equity method investments. Both categories contain a wide range of properties including the following at December 31, 2003: office buildings (24%), self storage facilities (20%), apartment buildings (17%), retail facilities (14%), industrial properties (8%), franchise properties (7%), parking facilities (7%) and other (3%). At December 31, 2003, investments were located in North America (59%), Europe (25%) and Asia (16%).

(c)

These assets held for sale were accounted for at the lower of carrying amount or each asset's fair value less costs to sell.

(d) Amounts are stated at fair value in accordance with SFAS 133. We discuss the types of derivative instruments and how we use them in note 19.

Separate accounts represent investments controlled by policyholders and are associated with identical amounts reported as insurance liabilities in note 12.

NOTE 11. BORROWINGS

SHORT-TERM BORROWINGS

December 31 (In millions)	2003 Amount	2003 Average rate(a)	2002 Amount	2002 Average rate(a)
Commercial paper -- U.S.	$ 58,801	1.11%	$ 58,888	1.51%
Commercial paper -- non-U.S.	15,062	2.93	17,610	3.41
Current portion of long-term debt	37,880	3.32	35,545	4.19
Other	14,362		10,702	
Total	$ 126,105		$ 122,745	

LONG-TERM BORROWINGS

December 31 (In millions)	2003 Average rate(a)	Maturities	2003	2002
Senior notes	3.39%	2005-2055	$ 147,387	$ 125,893
Extendible notes	1.27	2007-2008	12,229	12,000
Subordinated notes (b)	7.52	2005-2014	963	965
Total			$ 160,579	$ 138,858

(a) Based on year-end balances and year-end local currency interest rates, including the effects of interest rates and currency swaps, if any, directly associated with the original debt issuance.

(b) At year-end 2003 and 2002, $0.7 billion of subordinated notes were guaranteed by GE.

-

Our borrowings are addressed below from the perspectives of liquidity, interest rate and currency risk management. Additional information about borrowings and associated swaps can be found in note 19.

LIQUIDITY

is affected by debt maturities and our ability to repay or refinance such debt. Long-term debt maturities over the next five years follow.

(In millions)	2004	2005	2006	2007	2008
	$ 37,880	$ 45,456(a)	$ 28,671	$18,140	$ 13,141

(a) Floating rate extendible notes of $12.2 billion are due in 2005, but are extendible at the investor's option to a final maturity in 2007 ($12.0 billion) or 2008 ($0.2 billion).

Committed credit lines totaling $57.2 billion had been extended to us by 85 banks at year-end 2003. Included in this amount was $48.3 billion provided directly to us and $8.9 billion provided by 22 banks to GE to which we also have access. Our lines include $19.9 billion of revolving credit agreements under which we can borrow funds for periods exceeding one year. The remaining $37.3 billion are 364-day lines of which $26.9 billion contain a term-out feature that allows us to extend the borrowings for one year from the date of expiration of the lending agreement. We pay banks for credit facilities, but compensation amounts were insignificant in each of the past three years.

INTEREST RATE AND CURRENCY RISK

is managed through the direct issuance of debt or use of derivatives. We take positions in view of anticipated behavior of assets, including prepayment behavior. We use a variety of instruments, including interest rate and currency swaps and currency forwards, to achieve our interest rate objectives. Effective interest rates were lower under these "synthetic" positions than could have been achieved by issuing debt directly. The following table shows our borrowing positions considering the effects of currency and interest rate swaps.

EFFECTIVE BORROWINGS (INCLUDING SWAPS)	2003		2002
December 31 (In millions)	Amount	Average rate	Amount
Short-term [(a)]	$ 60,623	1.79%	$ 54,430
Long-term (including current portion)			
Fixed rate [(b)]	$ 118,133	4.85%	$ 117,510
Floating rate	107,928	1.96	89,048
Total long-term	$ 226,061		$ 206,558

(a) Includes commercial paper and other short-term debt.

(b) Includes fixed-rate borrowings and $25.5 billion ($32.8 billion in 2002) notional long-term interest rate swaps that effectively convert the floating-rate nature of short-term borrowings to fixed rates of interest.

At December 31, 2003, interest rate swap maturities ranged from 2004 to 2048, including swap maturities for hedges of commercial paper that ranged from 2004 to 2024. The use of commercial paper swaps allows us to match our actual asset profile more efficiently and provides more flexibility as it does not depend on investor demand for particular maturities.

-

NOTE 12. INSURANCE LIABILITIES, RESERVES AND ANNUITY BENEFITS

December 31 (In millions)	2003	2002
Investment contracts and universal life benefits	$ 52,659	$ 40,788
Life insurance benefits [(a)]	24,240	35,402
Unpaid claims and claims adjustment expenses [(b)]	3,232	4,604
Unearned premiums	3,871	4,206
Separate accounts (see note 10)	16,447	14,537
Total	$ 100,449	$ 99,537

(a) Life insurance benefits are accounted for mainly by a net-level-premium method using estimated yields generally ranging from 1.2% to 7.5% in 2003 and 1.5% to 7.15% in 2002.

(b) Principally property and casualty reserves amounting to $0.6 billion and $1.7 billion at December 31, 2003 and 2002, respectively. Includes amounts for both reported and incurred-but-not-reported claims, reduced by anticipated salvage and subrogation recoveries. Estimates of liabilities are reviewed and updated continually, with changes in estimated losses reflected in operations.

When insurance affiliates cede insurance to third parties, we are not relieved of our primary obligation to policyholders. Losses on ceded risks give rise to claims for recovery; we establish allowances for probable losses on such receivables from reinsurers as required.

We recognize reinsurance recoveries as a reduction of the statement of earnings caption "Insurance losses and policyholder and annuity benefits." Reinsurance recoveries were $816 million, $664 million and $503 million for the years ended December 31, 2003, 2002 and 2001, respectively.

The insurance liability for unpaid claims and claims adjustment expenses related to policies that may cover environmental and asbestos exposures is based on known facts and an assessment of applicable law and coverage litigation. Liabilities are recognized for both known and unasserted claims, (including the cost of related litigation) when sufficient information has been developed to indicate that a claim has been incurred and a range of potential losses can be reasonably estimated. Developed case law and adequate claim history do not exist for certain claims principally due to significant uncertainties as to both the level of ultimate losses that will occur and what portion, if any, will be deemed to be insured amounts.

-

A summary of activity affecting unpaid claims and claims adjustment expenses, principally in property and casualty lines, follows.

(In millions)	2003	2002	2001
Balance at January 1 -- gross	$ 4,604	$ 4,299	$ 4,143
Less reinsurance recoverables	(604)	(557)	(542)
Balance at January 1 -- net	4,000	3,742	3,601
Claims and expenses incurred:			
Current year	2,257	3,818	3,147
Prior years	(112)	(145)	(156)
Claims and expenses paid:			
Current year	(1,394)	(2,069)	(1,801)
Prior years	(847)	(1,336)	(1,258)
Claim reserves related to acquired companies	-	6	-
Other	(1,080)	(16)	209
Balance at December 31 -- net	2,824	4,000	3,742
Add reinsurance recoverables	408	604	557
Balance at December 31 -- gross	$ 3,232	$ 4,604	$ 4,299

Claims and expenses incurred--prior years represents additional losses (adverse development) recognized in any year for loss events that occurred before the beginning of that year. Our Mortgage Insurance business experienced favorable development during the three-year period, primarily reflecting continued strength in certain real estate markets and the success of our loss containment initiatives.

Financial guarantees and credit life risk of insurance affiliates are summarized below.

December 31 (In millions)	2003	2002
Guarantees, principally on municipal bonds and asset-backed securities	$ -	$ 224,924
Mortgage insurance risk in force	146,627	101,530
Credit life insurance risk in force	25,728	23,283
Less reinsurance	(2,207)	(38,883)
Total	$ 170,148	$ 310,854

Certain insurance affiliates offer insurance guaranteeing the timely payment of scheduled principal and interest on municipal bonds and certain asset-backed securities. Substantially all of this business was conducted by Financial Guaranty Insurance Company (FGIC), which we sold in the fourth quarter of 2003. Other insurance affiliates provide insurance to protect residential mortgage lenders from severe financial loss caused by the non-payment of loans and issue credit life insurance designed to pay the balance due on a loan if the borrower dies before the loan is repaid. As part of their overall risk management process, insurance affiliates cede to third parties a portion of their risk associated with these guarantees. In doing so, they are not relieved of their primary obligation to policyholders.

-

NOTE 13. INCOME TAXES

The provision for income taxes is summarized in the following table.

(In millions)	2003	2002	2001
Current tax expense (benefit)	$ 907	$ (317)	$ 1,029
Deferred tax expense from temporary differences	683	1,277	705
	$ 1,590	$ 960	$ 1,734

We are included in the consolidated U.S. federal income tax return which GE Company files. The provision for current tax expense includes our effect on the consolidated return.

Current tax expense (benefit) includes amounts applicable to U.S. federal income taxes of $150 million, $(932) million and $300 million in 2003, 2002 and 2001, respectively, and amounts applicable to non-U.S. jurisdictions of $754 million, $606 million and $697 million in 2003, 2002 and 2001, respectively. Deferred tax expense related to U.S. federal income taxes was $319 million, $846 million, and $722 million in 2003, 2002 and 2001, respectively.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered.

We have not provided U.S. deferred taxes on cumulative earnings of non-U.S. affiliates and associated companies that have been reinvested indefinitely. These earnings relate to ongoing operations and, at December 31, 2003, were approximately $13.2 billion. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability that would be payable if such earnings were not reinvested indefinitely. Deferred taxes are provided for earnings of non-U.S. affiliates and associated companies when we plan to remit those earnings.

U.S. income before taxes and the cumulative effect of accounting changes was $3.1 billion in 2003, $2.0 billion in 2002 and $3.9 billion in 2001. The corresponding amounts for non-U.S. based operations were $5.7 billion in 2003, $5.5 billion in 2002, and $3.9 billion in 2001.

A reconciliation of the U.S. federal statutory tax rate to the actual tax rate is provided below.

RECONCILIATION OF U.S. FEDERAL STATUTORY TAX RATE TO ACTUAL TAX RATE.

	2003	2002	2001
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Increase (reduction) in rate resulting from:			
Amortization of goodwill	--	--	0.6
Tax-exempt income	(1.5)	(2.0)	(2.1)
Tax on international activities including exports	(11.3)	(13.5)	(5.3)
Kidder Peabody tax settlement	--	(2.2)	--
GE Financial Assurance tax settlement	--	(2.0)	--
Fuels credits	(1.3)	(1.9)	(1.3)
Americom / Rollins goodwill	--	--	(2.9)
All other -- net	(2.9)	(0.5)	(1.8)
	(17.0)	(22.1)	(12.8)
Actual income tax rate	18.0%	12.9%	22.2%

Principal components of our net liability/(asset) representing deferred income tax balances are as follows:

December 31 (In millions)	2003	2002
ASSETS		
Allowance for losses	$ 2,024	$ 1,534
Insurance reserves	619	1,122
Derivatives qualifying as hedges	969	1,180
AMT credit carryforward	351	597
Other	5,160	2,311
Total deferred tax assets	9,123	6,744
LIABILITIES		
Financing leases	9,815	9,378
Operating leases	3,494	3,659
Deferred acquisition costs	1,233	1,212
Other	4,992	3,041
Total deferred tax liabilities	19,534	17,290
NET DEFERRED INCOME TAX LIABILITY	$ 10,411	$ 10,546

NOTE 14. MINORITY INTEREST

Minority interest in equity of consolidated affiliates includes preferred stock issued by our affiliates. The preferred stock primarily pays cumulative dividends at variable rates. Value of the preferred shares is summarized below.

December 31 (In millions)	2003	2002
GE Capital affiliates	$ 1,841	$ 1,588

Dividend rates in local currency on the preferred stock ranged from 0.98% to 5.65% during 2003 and from 1.46% to 6.20% during 2002.

NOTE 15. RESTRICTED NET ASSETS OF AFFILIATES

Certain of our consolidated affiliates are restricted from remitting funds to us in the form of dividends or loans by a variety of regulations, the purpose of which is to protect affected insurance policyholders, depositors or investors. At December 31, 2003 and 2002, net assets of our regulated affiliates amounted to $35.5 billion and $34.2 billion, respectively, of which $26.0 billion and $28.5 billion, respectively, was restricted.

At December 31, 2003 and 2002, the aggregate statutory capital and surplus of the insurance businesses totaled $9.8 billion and $11.2 billion, respectively. Accounting practices prescribed by statutory authorities are used in preparing statutory statements.

NOTE 16. SHAREOWNER'S EQUITY

(In millions)	2003	2002	2001
VARIABLE CUMULATIVE PREFERRED STOCK ISSUED	$ 3	$ 3	$ 3
COMMON STOCK ISSUED	$ 16	$ 15	$ 15
ACCUMULATED NONOWNER CHANGES OTHER THAN EARNINGS			
Balance at January 1	(1,520)	(1,758)	(739)
Cumulative effect of adopting SFAS 133 -- net of deferred taxes of $(505)	--	--	(810)
Investment securities -- net of deferred taxes of $371, $725, and $69 [(a)]	613	1,407	116
Currency translation adjustments -- net of deferred taxes of $(1,410), $(15) and $19	3,208	(27)	36
Derivatives qualifying as hedges -- net of deferred taxes of $(387), $(805) and $(413)	(717)	(1,999)	(525)
Reclassification adjustments -			
Investment securities -- net of deferred taxes of $(56), $(8) and $(182)	(105)	(15)	(339)
Currency translation adjustments	4	--	--
Derivatives qualifying as hedges -- net of deferred taxes of $593, $190 and $381	1,058	872	503
Balance at December 31	$ 2,541	$ (1,520)	$ (1,758)
OTHER CAPITAL			
Balance at January 1	$ 14,231	$ 9,749	$ 7,100
Contributions [(b)]	6	4,482	2,649
Common Stock Issued	(1)	--	--
Balance at December 31	$ 14,236	$ 14,231	$ 9,749
RETAINED EARNINGS			
Balance at January 1	$ 27,024	$ 23,554	$ 19,694
Net earnings	6,893	5,490	5,902
Dividends [(b)]	(4,472)	(2,020)	(2,042)
Balance at December 31	$ 29,445	$ 27,024	$ 23,554
TOTAL SHAREOWNER'S EQUITY	$ 46,241	$ 39,753	$ 31,563

(a) This category includes $(9) million and $(22) million, net of deferred taxes of $(4) million and $(14) million in 2003 and 2002, respectively for minimum pension liabilities on certain pension plans other than the principal pension plans.

(b) Total dividends and other transactions with the shareowner reduced equity by $4,466 million in 2003 and increased equity by $2,462 million and $607 million in 2002 and 2001, respectively.

All common stock is owned by GE Capital Services, all of the common stock of which is in turn owned, directly or indirectly, by GE Company.

The effects of translating to U.S. dollars the financial statements of non-U.S. affiliates whose functional currency is the local currency are included in shareowner's equity. Asset and liability accounts are translated at year-end exchange rates, while revenues and expenses are translated at average rates for the period.

NOTE 17. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in operating assets and liabilities are net of acquisitions and dispositions of principal businesses.

"Payments for principal businesses purchased" in the Statement of Cash Flows is net of cash acquired and includes debt assumed and immediately repaid in acquisitions.

"All other operating activities" in the Statement of Cash Flows consists primarily of adjustments to current and noncurrent accruals and deferrals of costs and expenses, adjustments for gains and losses on assets, increases and decreases in assets held for sale, and adjustments to assets.

Certain supplemental information related to our cash flows is shown below.

For the years ended December 31 (In millions)	2003	2002	2001
FINANCING RECEIVABLES			
Increase in loans to customers	$(261,039)	$(205,634)	$(135,458)
Principal collections from customers -- loans	226,739	181,604	116,598
Investment in equipment for financing leases	(22,167)	(19,382)	(20,272)
Principal collections from customers -- financing leases	17,515	15,319	12,096
Net change in credit card receivables	(11,379)	(19,843)	(15,230)
Sales of financing receivables	36,009	29,651	29,291
	$ (14,322)	$ (18,285)	$ (12,975)
ALL OTHER INVESTING ACTIVITIES			
Purchases of securities by insurance and annuity businesses	$ (27,777)	$ (46,148)	$ (35,071)
Dispositions and maturities of securities by insurance and annuity businesses	25,760	37,219	28,189
Proceeds from principal business dispositions	3,193	--	2,572
Other	(1,729)	(3,439)	(2,189)
	$ (553)	$ (12,368)	$ (6,499)
NEWLY ISSUED DEBT HAVING MATURITIES LONGER THAN 90 DAYS			
Short-term (91 to 365 days)	$ 1,576	$ 1,796	$ 12,622
Long-term (longer than one year)	57,471	93,026	16,104
Proceeds -- nonrecourse, leveraged lease debt	791	1,222	2,012
	$ 59,838	$ 96,044	$ 30,738
REPAYMENTS AND OTHER REDUCTIONS OF DEBT HAVING MATURITIES LONGER THAN 90 DAYS			
Short-term (91 to 365 days)	$ (38,634)	$ (32,950)	$ (29,195)
Long-term (longer than one year)	(3,388)	(5,297)	(6,582)
Principal payments -- nonrecourse, leveraged lease debt	(782)	(339)	(274)
	$ (42,804)	$ (38,586)	$ (36,051)
ALL OTHER FINANCING ACTIVITIES			
Proceeds from sales of investment contracts	$ 9,337	$ 7,806	$ 8,113
Redemption of investment contracts	(9,267		