

GENERAL ELECTRIC CAPITAL CORP
Form 424B3
May 17, 2005

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File No. 333-123085

PROSPECTUS SUPPLEMENT
(TO PROSPECTUS DATED MAY 17, 2005)

GENERAL ELECTRIC CAPITAL CORPORATION

\$14,651,734,000
GE CAPITAL* INTERNOTES(R)
DUE FROM 9 MONTHS TO 60 YEARS FROM DATE OF ISSUE

We may offer to sell our GE Capital* InterNotes(R) from time to time. The specific terms of the notes will be set prior to the time of sale and described in a pricing supplement. You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest.

We may offer the notes to or through agents for resale. The amount we expect to receive if all of the notes are sold to or through the agents is from \$14,622,430,532 to \$14,212,182,000, after paying agent discounts and commissions of between \$29,303,468 and \$439,552,020. We also may offer the notes directly. We have not set a date for termination of our offering.

The agents have advised us that from time to time they may purchase and sell notes in the secondary market, but they are not obligated to make a market in the notes and may suspend or completely stop that activity without notice and at any time. Unless otherwise specified in the applicable pricing supplement, we do not intend to list the notes on any stock exchange.

INVESTING IN THE NOTES INVOLVES CERTAIN RISKS, INCLUDING THOSE DESCRIBED IN THE "RISK FACTORS" SECTION BEGINNING ON PAGE S-4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these notes or passed on the adequacy or accuracy of this prospectus supplement, the accompanying prospectus or any pricing supplement. Any representation to the contrary is a criminal offense.

JOINT LEAD MANAGERS AND LEAD AGENTS

BANC OF AMERICA SECURITIES LLC

INCAPITAL LLC

AGENTS

A.G. EDWARDS AND SONS, INC.
CITIGROUP
MERRILL LYNCH & CO.
UBS FINANCIAL SERVICES, INC.

CHARLES SCHWAB & CO., INC.
EDWARD D. JONES & CO., L.P.
MORGAN STANLEY
WACHOVIA SECURITIES

Prospectus Supplement dated May 17, 2005

* GE Capital is a registered trademark of General Electric Company
InterNotes(R) is a registered servicemark of Incapital Holdings LLC

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS SUPPLEMENT, THE ACCOMPANYING PROSPECTUS AND ANY PRICING SUPPLEMENT. WE HAVE NOT AUTHORIZED ANY OTHER PERSON TO PROVIDE YOU WITH DIFFERENT OR ADDITIONAL INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR ADDITIONAL INFORMATION, YOU SHOULD NOT RELY ON IT. WE ARE NOT MAKING AN OFFER TO SELL THESE SECURITIES OR SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. YOU SHOULD ASSUME THAT THE INFORMATION APPEARING IN THIS PROSPECTUS SUPPLEMENT, THE ACCOMPANYING PROSPECTUS AND ANY PRICING SUPPLEMENT, AS WELL AS INFORMATION FILED BY US WITH THE SECURITIES AND EXCHANGE COMMISSION AND INCORPORATED BY REFERENCE IN THESE DOCUMENTS, IS ACCURATE ONLY AS OF THEIR RESPECTIVE DATES. OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS MAY HAVE CHANGED SINCE THEN.

UNLESS OTHERWISE INDICATED OR THE CONTEXT REQUIRES OTHERWISE, REFERENCES IN THIS PROSPECTUS SUPPLEMENT TO "WE," "US," "OUR" AND "GECC" ARE TO GENERAL ELECTRIC CAPITAL CORPORATION.

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THIS SECTION SUMMARIZES THE LEGAL AND FINANCIAL TERMS OF THE NOTES THAT ARE DESCRIBED IN MORE DETAIL IN "DESCRIPTION OF NOTES" BEGINNING ON PAGE S-7. FINAL TERMS OF ANY PARTICULAR NOTES WILL BE DETERMINED AT THE TIME OF SALE AND WILL BE CONTAINED IN THE PRICING SUPPLEMENT RELATING TO THOSE NOTES. THE TERMS IN THAT PRICING SUPPLEMENT MAY VARY FROM AND SUPERSEDE THE TERMS CONTAINED IN THIS SUMMARY AND IN "DESCRIPTION OF NOTES." IN ADDITION, YOU SHOULD READ THE MORE DETAILED INFORMATION APPEARING ELSEWHERE IN THIS PROSPECTUS SUPPLEMENT, THE ACCOMPANYING PROSPECTUS AND IN THAT PRICING SUPPLEMENT.

Issuer General Electric Capital Corporation

Purchasing Agent Incapital LLC

Joint Lead Managers and
Lead Agents Banc of America Securities LLC and Incapital LLC

Agents A.G. Edwards & Sons, Inc.
Charles Schwab & Co., Inc.
Citigroup Global Markets Inc.
Edward D. Jones & Co., L.P.
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Morgan Stanley & Co. Incorporated
UBS Financial Services, Inc.
Wachovia Securities, LLC

Title of Notes GE Capital* InterNotes(R)

Amount We may issue up to \$14,651,734,000 of notes under this Prospectus Supplement. Additional notes may be issued in the future without the consent of note holders. The notes will not contain any limitations on our ability to issue additional indebtedness in the form of these notes or otherwise.

Denominations The notes will be issued and sold in denominations of \$1,000 and multiples of \$1,000 (unless otherwise stated in the pricing supplement).

Status The notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.

Maturities Each note will mature nine months or more from its date of original issuance.

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Interest Each note will bear interest from its date of original issuance at a fixed rate per year.

Interest on each note will be payable either monthly, quarterly, semiannually or annually on each interest payment date and on the stated maturity date. Interest also will be paid on the date of redemption or repayment if a note is redeemed or repurchased prior to its stated maturity in accordance with its terms.

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Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.

Principal The principal amount of each note will be payable on its stated maturity date or upon earlier redemption or repayment at the corporate trust office of the paying agent or at any other place we may designate.

Redemption and Repayment Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will not be subject to any sinking fund.

Survivor's Option Specific notes may contain a provision permitting the optional repayment of those notes prior to stated maturity, if requested by the authorized representative of the beneficial owner of those notes, following the death of the beneficial owner of the notes, so long as the notes were owned by the beneficial owner or his or her estate at least six months prior to the request. This feature is referred to as a "Survivor's Option." Your notes will not be repaid in this manner unless the pricing supplement for your notes provides for the Survivor's Option. The right to exercise the Survivor's Option is subject to limits set by us on (1) the permitted dollar amount of total exercises by all holders of notes in any calendar year, and (2) the permitted dollar amount of an individual exercise by a holder of a note in any calendar year. Additional details on the Survivor's Option are described in the section entitled "Description of Notes--Survivor's Option" on page S-10.

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Sale and Clearance We will sell notes in the United States only. Notes will be issued in book-entry only form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form.

Trustee The trustee for the notes is JPMorgan Chase Bank, N.A., under an indenture dated as of February 27, 1997, as supplemented.

Selling Group The agents and dealers comprising the selling group are broker-dealers and securities firms. The agents, including the Purchasing Agent, have entered into a Selling Agent Agreement with us dated November 22, 2002, as amended. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and

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all other applicable laws and regulations. You may contact the Purchasing Agent at info@incapital.com for a list of selling group members.

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RISK FACTORS

YOUR INVESTMENT IN THE NOTES WILL INVOLVE CERTAIN RISKS. THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS DO NOT DESCRIBE ALL OF THOSE RISKS.

IN ADDITION TO THE INFORMATION RELATING TO THE BUSINESSES OF GECC, WHICH IS INCORPORATED BY REFERENCE IN THE ACCOMPANYING PROSPECTUS, YOU SHOULD, IN CONSULTATION WITH YOUR OWN FINANCIAL AND LEGAL ADVISORS, CAREFULLY CONSIDER THE FOLLOWING DISCUSSION OF RISKS BEFORE DECIDING WHETHER AN INVESTMENT IN THE NOTES IS SUITABLE FOR YOU. THE NOTES WILL NOT BE AN APPROPRIATE INVESTMENT FOR YOU IF YOU ARE NOT KNOWLEDGEABLE ABOUT SIGNIFICANT FEATURES OF THE NOTES OR FINANCIAL MATTERS IN GENERAL. YOU SHOULD NOT PURCHASE THE NOTES UNLESS YOU UNDERSTAND, AND KNOW THAT YOU CAN BEAR, THESE INVESTMENT RISKS.

THE MARKET VALUE OF THE NOTES MAY BE AFFECTED BY FACTORS IN ADDITION TO CREDIT RATINGS.

The credit ratings assigned to the notes reflect the rating agencies' opinion of our ability to make payments on the notes when such payments are due. However, the ratings do not take into account fluctuations in the market value of the notes as a result of changes in prevailing interest rates or other factors.

WE MAY CHOOSE TO REDEEM NOTES WHEN PREVAILING INTEREST RATES ARE RELATIVELY LOW.

If your notes will be redeemable at our option, we may choose to redeem your notes from time to time, especially when prevailing interest rates are lower than the rate borne by the notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes being redeemed. Our redemption right also may adversely impact your ability to sell your notes as the optional redemption date or period approaches.

SURVIVOR'S OPTION MAY BE LIMITED IN AMOUNT.

We will have a discretionary right to limit the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the outstanding principal amount of all the notes of this series outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in such calendar year on behalf of any individual deceased beneficial owner of notes. Accordingly, no assurance can be given that exercise of the Survivor's Option for the desired amount will be permitted in any single calendar year.

WE CANNOT ASSURE THAT A TRADING MARKET FOR YOUR NOTES WILL EVER DEVELOP OR BE MAINTAINED.

In evaluating the notes, you should assume that you will be holding the notes until their stated maturity. The notes are a new issue of securities. We cannot assure you that a trading market for your notes will ever develop, be liquid or be maintained. Many factors independent of our creditworthiness affect any trading market for and market value of your notes. Those factors include,

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without limitation:

- o the method of calculating the principal and interest for the notes;
- o the time remaining to the stated maturity of the notes;
- o the outstanding amount of the notes;
- o the redemption or repayment features of the notes; and
- o the level, direction and volatility of interest rates generally.

There may be a limited number of buyers when you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all.

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WHERE YOU CAN GET MORE INFORMATION ON GECC

GECC files annual, quarterly and current reports with the SEC. You may obtain any document we file with the SEC at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also accessible through the Internet at the SEC's Web site at <http://www.sec.gov>.

The SEC allows us to "incorporate by reference" into this prospectus the information in documents we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede information contained in documents filed earlier with the SEC or contained in this prospectus. We incorporate by reference in this prospectus the documents listed below and any future filings that we make with the SEC under Section 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended, until we sell all the securities that may be offered by this prospectus supplement and the accompanying prospectus; provided, however, that we are not incorporating any information furnished under either Item 2.02 or Item 7.01 of any Current Report on Form 8-K unless, and except to the extent, specified in any such Current Report on Form 8-K:

- (i) GECC's Annual Report on Form 10-K, as amended by amendment No. 1 on Form 10-K/A, for the year ended December 31, 2004;
- (ii) GECC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005; and
- (iii) GECC's Current Report on Form 8-K filed on May 6, 2005.

You may request a copy of these filings at no cost. Requests should be directed to David P. Russell, Senior Counsel, Corporate Treasury and Assistant Secretary, General Electric Capital Corporation, 260 Long Ridge Road, Stamford, Connecticut 06927, Telephone No. (203) 357-4000.

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THE COMPANY

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General Electric Capital Corporation was incorporated in 1943 in the State of New York, under the provisions of the New York Banking Law relating to investment companies, as successor to General Electric Contracts Corporation, which was formed in 1932. Until November 1987, our name was General Electric Credit Corporation. As of July 2001, General Electric Capital Corporation completed its reincorporation as a Delaware corporation. All of our outstanding common stock is owned by General Electric Capital Services, Inc. ("GE Capital Services") formerly General Electric Financial Services, Inc., the common stock of which is in turn wholly owned directly or indirectly by General Electric Company ("GE Company"). Financing and services offered by us are diversified, a significant change from the original business of GECC, that is, financing distribution and sale of consumer and other GE Company products. GE Company manufactures few of the products financed by us.

We operate in four separate financial services businesses: GE Commercial Finance, GE Consumer Finance, GE Insurance and GE Equipment and Other Services. Our operations are subject to a variety of regulations in their respective jurisdictions.

We offer our services primarily throughout the United States, Canada, Europe and the Pacific Basin. Our principal executive offices are located at 260 Long Ridge Road, Stamford, Connecticut 06927 (telephone number (203) 357-4000). At December 31, 2004, our employment totaled approximately 76,300.

CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES

YEAR ENDED DECEMBER 31,

	2001 (RESTATED)	2002 (RESTATED)	2003 (RESTATED)	2004 (RESTATED)	THREE MONTHS ENDED MARCH 31, 2005
2000	-----	-----	-----	-----	-----
1.52	1.73	1.66	1.86	1.89	1.74

CONSOLIDATED RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

YEAR ENDED DECEMBER 31,

	2001 (RESTATED)	2002 (RESTATED)	2003 (RESTATED)	2004 (RESTATED)	THREE MONTHS ENDED MARCH 31, 2005
2000	-----	-----	-----	-----	-----
1.50	1.71	1.65	1.85	1.88	1.73

For purposes of computing the consolidated ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends, earnings consist of net earnings adjusted for the provision for income taxes, minority interest, interest capitalized (net of amortization) and fixed charges. Fixed charges consist of interest on all indebtedness and one-third of rentals, which we believe is a reasonable approximation of the interest factor of such rentals.

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DESCRIPTION OF NOTES

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THE FOLLOWING DESCRIPTION OF THE PARTICULAR TERMS OF THE NOTES BEING OFFERED SUPPLEMENTS AND, TO THE EXTENT INCONSISTENT WITH OR TO THE EXTENT OTHERWISE SPECIFIED IN AN APPLICABLE PRICING SUPPLEMENT, REPLACES THE DESCRIPTION OF THE GENERAL TERMS AND PROVISIONS OF THE DEBT SECURITIES SET FORTH UNDER THE HEADINGS "DESCRIPTION OF DEBT SECURITIES" IN THE ACCOMPANYING PROSPECTUS. UNLESS OTHERWISE SPECIFIED IN AN APPLICABLE PRICING SUPPLEMENT, THE NOTES WILL HAVE THE TERMS DESCRIBED BELOW. CAPITALIZED TERMS USED BUT NOT DEFINED BELOW HAVE THE MEANINGS GIVEN TO THEM IN THE ACCOMPANYING PROSPECTUS AND IN THE INDENTURE RELATING TO THE NOTES.

The notes being offered by this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will be issued under an Amended and Restated Indenture between us and JPMorgan Chase Bank, N.A., as successor trustee (the "trustee"), dated as of February 27, 1997, as supplemented by a First Supplemental Indenture dated as of May 3, 1999, a Second Supplemental Indenture dated as of July 2, 2001 and a Third Supplemental Indenture dated as of November 22, 2002 (collectively, the "indenture"). The indenture is more fully described in the accompanying prospectus. The indenture does not limit the aggregate amount of debt securities that may be issued under it and provides that the debt securities may be issued under it from time to time in one or more series. The following statements are summaries of the material provisions of the indenture and the notes. These summaries do not purport to be complete and are qualified in their entirety by reference to the indenture, including for the definitions of certain terms. The notes constitute a single series of debt securities for purposes of the indenture and are limited to an aggregate principal amount of up to \$20,000,000,000. We have issued \$5,348,266,000 of these Notes as of May 17, 2005; therefore the amount of additional Notes of this series that we may offer with this Prospectus Supplement is \$14,651,734,000. We may increase the foregoing limit, however, without the consent of any holders of the notes, by appropriate corporate action if in the future we wish to sell additional notes.

Notes issued in accordance with this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will have the following general characteristics:

- o the notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding;
- o the notes may be offered from time to time by us through the Purchasing Agent and each note will mature on a day that is at least nine months from its date of original issuance;
- o each note will bear interest from its date of original issuance at a fixed rate per year;
- o the notes will not be subject to any sinking fund; and
- o the minimum denomination of the notes will be \$1,000 (unless otherwise stated in the pricing supplement).

In addition, the pricing supplement relating to each offering of notes will describe specific terms of the notes, including:

- o the price, which may be expressed as a percentage of the aggregate initial public offering price of the notes, at which the notes will be issued to the public;
- o the date on which the notes will be issued to the public;
- o the stated maturity date of the notes;

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- o the rate per year at which the notes will bear interest;
- o the interest payment frequency;
- o the purchase price, Purchasing Agent's discount and net proceeds to us;

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- o whether the authorized representative of the holder of a beneficial interest in the note will have the right to seek repayment upon the death of the holder as described under "--Survivor's Option" on page S-10;
- o if the notes may be redeemed at our option or repaid at the option of the holder prior to its stated maturity date, the provisions relating to any such redemption or repayment; and
- o any other significant terms of the notes not inconsistent with the provisions of the indenture.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the trustee for cancellation.

PAYMENT OF PRINCIPAL AND INTEREST

Payment of principal of and interest on beneficial interests in the notes will be made in accordance with the arrangements then in place between the paying agent and The Depository Trust Company (referred to as "DTC") and its participants as described under "Registration and Settlement--The Depository Trust Company" on page S-13. Payments in respect of any notes in certificated form will be made as described under "Registration and Settlement--Registration, Transfer and Payment of Certificated Notes" on page S-15.

Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and at the note's stated maturity or on the date of redemption or repayment if a note is redeemed or repaid prior to maturity. Interest is payable to the person in whose name a note is registered at the close of business on the regular record date before each interest payment date. Interest due at a note's stated maturity or on a date of redemption or repayment will be payable to the person to whom principal is payable.

We will pay any administrative costs imposed by banks in connection with making payments in immediately available funds, but any tax, assessment or governmental charge imposed upon any payments on a note, including, without limitation, any withholding tax, is the responsibility of the holders of beneficial interests in the note in respect of which such payments are made.

INTEREST AND INTEREST RATES

Each note will accrue interest from its date of original issuance until its stated maturity or earlier redemption or repayment. The applicable pricing supplement will specify a fixed interest rate per year payable monthly, quarterly, semi-annually or annually. Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months. If the stated maturity date, date of earlier redemption or repayment or interest payment date for any note is not a business day, principal and interest for that note will be paid on

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the next business day, and no interest will accrue on the amount payable from, and after, the stated maturity date, date of earlier redemption or repayment or interest payment date.

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PAYMENT OF INTEREST

Interest on the notes will be paid as follows:

INTEREST PAYMENT FREQUENCY	INTEREST PAYMENT DATES
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third month, beginning in the third calendar month following the month the note was issued.
Semi-annually	Fifteenth day of every sixth month, beginning in the sixth calendar month following the month the note was issued.
Annually	Fifteenth day of every twelfth month, beginning in the twelfth calendar month following the month the note was issued.

The regular record date for any interest payment date will be the first day of the calendar month in which the interest payment date occurs (whether or not a business day), except that the regular record date for interest due on any note's stated maturity date or date of earlier redemption or repayment will be that particular date.

Interest on a note will generally be payable beginning on the first interest payment date after its date of original issuance to holders of record on the corresponding regular record date. However, if the date of original issuance of a note is between a regular record date and the corresponding interest payment date, the first interest payment will be made on the next succeeding interest payment date. Unless the applicable pricing supplement specifies otherwise, interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.

"Business day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in The City of New York.

REDEMPTION AND REPAYMENT

Unless we otherwise provide in the applicable pricing supplement, a note will not be redeemable or repayable prior to its stated maturity date.

If the pricing supplement states that the note will be redeemable at our option prior to its stated maturity date, then on such date or dates specified in the pricing supplement, we may redeem those notes at our option either in whole or from time to time in part, upon not less than 30 nor more than 60 days' written notice to the holder of those notes.

If the pricing supplement states that your note will be repayable at your

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option prior to its stated maturity date, we will require receipt of notice of the request for repayment at least 30 but not more than 60 days prior to the date or dates specified in the pricing supplement. We also must receive the completed form entitled "Option to Elect Repayment." Exercise of the repayment option by the holder of a note is irrevocable. In addition, we will not permit you to exercise the repayment option except in principal amounts of \$1,000 and multiples of \$1,000.

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Since the notes will be represented by a global note, DTC or its nominee will be treated as the holder of the notes; therefore DTC or its nominee will be the only entity that receives notices of redemption of notes from us, in the case of our redemption of notes, and will be the only entity that can exercise the right to repayment of notes, in the case of optional repayment. See "Registration and Settlement" on page S-13.

To ensure that DTC or its nominee will timely exercise a right to repayment with respect to a particular beneficial interest in a note, the beneficial owner of the interest in that note must instruct the broker or other direct or indirect participant through which it holds the beneficial interest to notify DTC or its nominee of its desire to exercise a right to repayment. Because different firms have different cut-off times for accepting instructions from their customers, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a note to determine the cut-off time by which the instruction must be given for timely notice to be delivered to DTC or its nominee. Conveyance of notices and other communications by DTC or its nominee to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners of the notes will be governed by agreements among them and any applicable statutory or regulatory requirements.

The redemption or repayment of a note normally will occur on the interest payment date or dates following receipt of a valid notice. Unless otherwise specified in the pricing supplement, the redemption or repayment price will equal 100% of the principal amount of the note plus unpaid interest accrued to the date or dates of redemption or repayment.

We may at any time purchase notes at any price or prices in the open market or otherwise. We may also purchase notes otherwise tendered for repayment by a holder or tendered by a holder's duly authorized representative through exercise of the Survivor's Option described below. If we purchase the notes in this manner, we have the discretion to either hold, resell or surrender the notes to the trustee for cancellation.

SURVIVOR'S OPTION

The "Survivor's Option" is a provision in a note pursuant to which we agree to repay that note, if requested by the authorized representative of the beneficial owner of that note, following the death of the beneficial owner of the note, so long as the note was owned by that beneficial owner or the estate of that beneficial owner at least six months prior to the request. The pricing supplement relating to each offering of notes will state whether the Survivor's Option applies to those notes.

If a note is entitled to a Survivor's Option, upon the valid exercise of the Survivor's Option and the proper tender of that note for repayment, we will repay that note, in whole or in part, at a price equal to 100% of the principal amount of the deceased beneficial owner's interest in that note plus unpaid interest accrued to the date of repayment.

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To be valid, the Survivor's Option must be exercised by or on behalf of the person who has authority to act on behalf of the deceased beneficial owner of the note (including, without limitation, the personal representative or executor of the deceased beneficial owner or the surviving joint owner with the deceased beneficial owner) under the laws of the applicable jurisdiction.

The death of a person holding a beneficial ownership interest in a note as a joint tenant or tenant by the entirety with another person, or as a tenant in common with the deceased holder's spouse, will be deemed the death of a beneficial owner of that note, and the entire principal amount of the note so held will be subject to repayment by us upon request. However, the death of a person holding a beneficial ownership interest in a note as tenant in common with a person other than such deceased holder's spouse will be deemed the death of a beneficial owner only with respect to such deceased person's interest in the note.

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The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial ownership interests in a note will be deemed the death of the beneficial owner of that note for purposes of the Survivor's Option, regardless of whether that beneficial owner was the registered holder of that note, if entitlement to those interests can be established to the satisfaction of the trustee and us. A beneficial ownership interest will be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Transfers to Minors Act or Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife. In addition, a beneficial ownership interest will be deemed to exist in custodial and trust arrangements where one person has all of the beneficial ownership interests in the applicable note during his or her lifetime.

We have the discretionary right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from authorized representatives of all deceased beneficial owners in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the principal amount of all of the notes of this series outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from the authorized representative of any individual deceased beneficial owner of notes in such calendar year. In addition, we will not permit the exercise of the Survivor's Option except in principal amounts of \$1,000 and multiples of \$1,000.

An otherwise valid election to exercise the Survivor's Option may not be withdrawn. Each election to exercise the Survivor's Option will be accepted in the order that elections are received by the trustee, except for any note the acceptance of which would contravene any of the limitations described in the preceding paragraph. Notes accepted for repayment through the exercise of the Survivor's Option normally will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of the acceptance. Each tendered note that is not accepted in any calendar year due to the application of any of the limitations described in the preceding paragraph will be deemed to be tendered in the following calendar year in the order in which all such notes were originally tendered. If a note tendered through a valid exercise of the Survivor's Option is not accepted, the trustee will deliver a notice by first-class mail to the authorized representative of the deceased beneficial owner that states the reason that note has not been accepted for repayment.

With respect to notes represented by a global note, DTC or its nominee is

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treated as the holder of the notes and will be the only entity that can exercise the Survivor's Option for such notes. To obtain repayment pursuant to exercise of the Survivor's Option for a note, the deceased beneficial owner's authorized representative must provide the following items to the broker or other entity through which the beneficial interest in the note is held by the deceased beneficial owner:

- o a written instruction to such broker or other entity to notify DTC of the authorized representative's desire to obtain repayment pursuant to exercise of the Survivor's Option;
- o appropriate evidence satisfactory to the trustee and us (a) that the deceased was the beneficial owner of the note at the time of death and his or her interest in the note was owned by the deceased beneficial owner or his or her estate at least six months prior to the request for repayment, (b) that the death of the beneficial owner has occurred, (c) of the date of death of the beneficial owner, and (d) that the representative has authority to act on behalf of the beneficial owner;
- o if the interest in the note is held by a nominee of the deceased beneficial owner, a certificate or letter satisfactory to the trustee and us from the nominee attesting to the deceased's beneficial ownership of such note;
- o a written request for repayment signed by the authorized representative of the deceased beneficial owner with the signature guaranteed by a member firm of a registered national securities exchange or of the

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National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States;

- o if applicable, a properly executed assignment or endorsement;
- o tax waivers and any other instruments or documents that the trustee and we reasonably require in order to establish the validity of the beneficial ownership of the note and the claimant's entitlement to payment; and
- o any additional information the trustee or we reasonably require to evidence satisfaction of any conditions to the exercise of the Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of the note.

In turn, the broker or other entity will deliver each of these items to the trustee, together with evidence satisfactory to the trustee from the broker or other entity stating that it represents the deceased beneficial owner.

We retain the right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option applicable to the notes will be accepted in any one calendar year as described above. All other questions regarding the eligibility or validity of any exercise of the Survivor's Option will be determined by us, in our sole discretion, which determination will be final and binding on all parties.

The broker or other entity will be responsible for disbursing payments

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received from the trustee to the authorized representative. See "Registration and Settlement" on page S-13.

If applicable, we will comply with the requirements of Section 14(e) of the Securities Exchange Act of 1934, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders or beneficial owners thereof.

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REGISTRATION AND SETTLEMENT

THE DEPOSITORY TRUST COMPANY

All of the notes we offer will be issued in book-entry only form. This means that we will not issue certificates for notes, except in the limited case described below. Instead, we will issue global notes in registered form. Each global note will be held through DTC and will be registered in the name of Cede & Co., as nominee of DTC. Accordingly, Cede & Co. will be the holder of record of the notes. Each note represented by a global note evidences a beneficial interest in that global note.

Beneficial interests in a global note will be shown on, and transfers are effected through, records maintained by DTC or its participants. In order to own a beneficial interest in a note, you must be an institution that has an account with DTC or have a direct or indirect account with such an institution. Transfers of ownership interests in the notes will be accomplished by making entries in DTC participants' books acting on behalf of beneficial owners.

So long as DTC or its nominee is the registered holder of a global note, DTC or its nominee, as the case may be, will be the sole holder and owner of the notes represented thereby for all purposes, including payment of principal and interest, under the indenture. Except as otherwise provided below, you will not be entitled to receive physical delivery of certificated notes and will not be considered the holder of the notes for any purpose under the indenture. Accordingly, you must rely on the procedures of DTC and the procedures of the DTC participant through which you own your note in order to exercise any rights of a holder of a note under the indenture. The laws of some jurisdictions require that certain purchasers of notes take physical delivery of such notes in certificated form. Those limits and laws may impair the ability to transfer beneficial interests in the notes.

Each global note representing notes will be exchangeable for certificated notes of like tenor and terms and of differing authorized denominations in a like aggregate principal amount, only if (1) DTC notifies us that it is unwilling or unable to continue as depository for the global notes or we become aware that DTC has ceased to be a clearing agency registered under the Securities Exchange Act of 1934 and, in any such case we fail to appoint a successor to DTC within 90 calendar days or (2) we determine at any time that the notes shall no longer be represented by global notes, in which case we will inform DTC of such determination, who will, in turn, notify participants of their right to withdraw their notes from DTC. Upon any such exchange, the certificated notes shall be registered in the names of the beneficial owners of the global note representing the notes.

The following is based on information furnished by DTC:

DTC will act as securities depository for the notes. The notes will be issued as fully-registered notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized

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representative of DTC. Generally, one fully registered global note will be issued for all of the principal amount of the notes. If, however, the aggregate principal amount of the notes exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such note.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's direct participants deposit with DTC.

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DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of direct participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, as well as by The New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of the notes under the DTC system must be made by or through direct participants, which will receive a credit for the notes on DTC's records. The beneficial interest of each actual purchaser of each note is in turn to be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of beneficial interests in the notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their beneficial interests in notes, except in the event that use of the book-entry system for the notes is discontinued.

To facilitate subsequent transfers, all notes deposited by direct participants with DTC will be registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the direct participants to

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whose accounts such notes will be credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of the notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the notes, such as redemption, tenders, defaults, and proposed amendments to the security documents. For example, beneficial owners of the notes may wish to ascertain that the nominee holding the notes for their benefit has agreed to obtain and transmit notices to beneficial owners. In the alternative, beneficial owners may wish to provide their names and addresses to the registrar of the notes and request that copies of the notices be provided to them directly. Any such request may or may not be successful.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the notes unless authorized by a direct participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the regular record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

We will pay principal and or interest payments on the notes in same-day funds directly to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct

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participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records upon DTC's receipt of funds and corresponding detail information. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of these participants and not of DTC or any other party, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is our responsibility, disbursement of such payments to direct participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of the direct or indirect participant.

We will send any redemption notices to DTC. If less than all of the notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in such issue to be redeemed.

A beneficial owner, or its authorized representative, shall give notice to elect to have its notes repaid by us, through its direct or indirect participant, to the trustee, and shall effect delivery of such notes by causing the direct participant to transfer that participant's interest in the global note representing such notes, on DTC's records, to the trustee. The requirement for physical delivery of notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global note representing such notes are transferred by the direct participants on DTC's records.

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DTC may discontinue providing its services as securities depository for the notes at any time by giving us reasonable notice. Under such circumstances, if a successor securities depository is not obtained, we will print and deliver certificated notes. We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, we will print and deliver certificated notes.

The information in this section concerning DTC and DTC's system has been obtained from sources that we believe to be reliable, but neither we, the Purchasing Agent nor any agent takes any responsibility for its accuracy.

REGISTRATION, TRANSFER AND PAYMENT OF CERTIFICATED NOTES

If we ever issue notes in certificated form, those notes may be presented for registration, transfer and payment at the office of the registrar or at the office of any transfer agent designated and maintained by us. We have initially designated JPMorgan Chase Bank, N.A., to act in those capacities for the notes. The registrar or transfer agent will make the transfer or registration only if it is satisfied with the documents of title and identity of the person making the request. There will not be a service charge for any exchange or registration of transfer of the notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange. At any time, we may change transfer agents or approve a change in the location through which any transfer agent acts. We also may designate additional transfer agents for any notes at any time.

We will not be required to: (1) issue, register the transfer of or exchange any note to be redeemed for a period of 15 calendar days preceding the first publication of the relevant notice of redemption, or if registered notes are outstanding and there is no publication, the mailing of the relevant notice of redemption; (2) exchange or register the transfer of any note that was selected for redemption, in whole or in part, except the unredeemed portion of any such notes being redeemed in part; (3) exchange any unregistered notes selected for redemption except that such unregistered notes may be exchanged for registered notes of like tenor, provided that such registered notes shall be simultaneously surrendered for redemption; or (4) register the transfer of or exchange any notes surrendered for optional repayment, in whole or in part.

We will pay principal of and interest on any certificated notes at the offices of the paying agents we may designate from time to time. Generally, we will pay interest on a note by check on any interest payment date other than at stated maturity or upon earlier redemption or repayment to the person in whose name the note is registered at the

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close of business on the regular record date for that payment. We will pay principal and interest at stated maturity or upon earlier redemption or repayment in same-day funds against presentation and surrender of the applicable notes.

UNITED STATES FEDERAL TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to you if you invest in notes. Except as discussed under "Non-U.S. Holders" and "Information Reporting and Backup Withholding", the discussion generally applies to you only if you are an individual who is a citizen or resident of the United States that is a cash

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basis taxpayer (a "U.S. holder"). This summary deals only with U.S. holders that hold notes as capital assets and purchase notes as part of the initial distribution at their issue price. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a person that: (i) is not an individual; (ii) uses the accrual method of tax accounting; (iii) elects mark to market treatment; (iv) holds notes as a hedge or as a position in a "straddle," conversion or other integrated transaction; (v) is a former citizen or resident; or (vi) has a "functional currency" other than the U.S. dollar.

This summary is based on laws, regulations, rulings and decisions now in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary.

You should consult your tax adviser about the tax consequences of purchasing, holding or disposing of notes, including the relevance to your particular situation of the considerations discussed below, as well as the relevance to your particular situation of state, local or other tax laws.

PAYMENTS OF INTEREST

Payments of interest on a note will be taxable to you as ordinary interest income at the time that you receive such amounts.

Notes that pay interest annually that are issued between a regular record date and the corresponding interest payment date will have an initial payment period that is longer than one year. Such notes will have original issue discount for U.S. federal income tax purposes. Additional tax considerations relating to any such notes, or any other notes that have original issue discount, will be set forth in the applicable pricing supplement.

SALE AND RETIREMENT OF NOTES

When you sell or exchange a note, or if a note that you hold is retired, you generally will recognize gain or loss equal to the difference between the amount you realize on the transaction (less any accrued interest, which will be taxable to you as ordinary interest income) and your tax basis in the note. Your tax basis in a note generally will equal the cost of the note to you.

Except as discussed below with respect to short-term notes, the gain or loss that you recognize on the sale, exchange or retirement of a note generally will be capital gain or loss. The gain or loss on the sale, exchange or retirement of a note will be long-term capital gain or loss if you have held the note for more than one year on the date of disposition. Net long-term capital gain recognized by you generally will be subject to tax at a lower rate than net short-term capital gain or ordinary income. The ability of U.S. holders to offset capital losses against ordinary income is limited.

SHORT-TERM NOTES

Special U.S. federal income tax rules will apply to notes with maturities of one year or less ("short-term notes"). Those rules provide that payments on a short term note give rise to "original issue discount" that generally

is not required to be included in income prior to the maturity or disposition of a short-term note. Thus, if a short-term note provides for a single interest payment at maturity, you will be required to include that payment as ordinary

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income upon maturity of the note. In addition, you will be required to treat any gain realized on a sale, exchange or retirement of a short-term note as ordinary income to the extent such gain does not exceed the interest accrued during the period you held the note. The treatment of interest payments received on a short-term note prior to maturity is not entirely clear under these special rules, however, and it is possible that you would be required to include such payments as ordinary income at the time received rather than upon a subsequent disposition of the note.

You may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a short-term note until the note matures or upon an earlier disposition in a taxable transaction. However, you may elect to accrue interest in gross income on a current basis and avoid the limitation on the deductibility of interest described above.

NON-U.S. HOLDERS

If you are a non-resident alien individual or a foreign corporation (a "non-U.S. holder"), the interest income that you derive in respect of the notes generally will be exempt from United States federal withholding tax. This exemption will apply to you provided that

- o you do not actually or constructively own 10 percent or more of the combined voting power of all classes of our stock and you are not a controlled foreign corporation that is related, directly or indirectly to us through stock ownership, and
- o the beneficial owner provides a statement (generally, an Internal Revenue Service Form W-8BEN) signed under penalties of perjury that includes its name and address and certifies that it is a non-U.S. person in compliance with applicable requirements (or satisfies certain documentary evidence requirements for establishing that it is a non-U.S. person).

If you are a non-U.S. holder, any gain you realize on a sale, exchange or other disposition of notes generally will be exempt from United States federal income tax, including withholding tax. This exemption will not apply to you if your gain is effectively connected with your conduct of a trade or business in the United States or you are an individual holder and are present in the United States for 183 days or more in the taxable year of the disposition and either your gain is attributable to an office or other fixed place of business that you maintain in the United States or you have a tax home in the United States.

U.S. federal estate tax will not apply to a note held by you if at the time of death you were not a citizen or resident of the United States, you did not actually or constructively own 10 percent or more of the combined voting power of all classes of our stock and payments of interest on the note would not have been effectively connected with the conduct by you of a trade or business in the United States.

For purposes of applying the rules set forth under this heading "Non-U.S. Holders" to a note held by an entity that is treated as fiscally transparent (for example, a partnership) for U.S. federal income tax purposes, the beneficial owner means each of the ultimate beneficial owners of the entity.

INFORMATION REPORTING AND BACKUP WITHHOLDING

The paying agent must file information returns with the Internal Revenue Service in connection with payments made on the notes to certain U.S. holders. If you are a U.S. holder, you generally will not be subject to United States backup withholding tax on such payments if you provide your taxpayer identification number to the paying agent. You may also be subject to

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information reporting and backup withholding tax requirements with

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respect to the proceeds from a sale of the notes. If you are a non-U.S. holder, you may have to comply with certification procedures to establish your non-U.S. status in order to avoid information reporting and backup withholding tax requirements. The certification procedures required to claim the exemption from withholding tax on interest income described above will satisfy these requirements. The amount of any backup withholding from a payment to a holder may be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

EMPLOYEE RETIREMENT INCOME SECURITY ACT

A fiduciary of a pension plan or other employee benefit plan (including a governmental plan, an individual retirement account or a Keogh plan) proposing to invest in the notes should consider this section carefully.

A fiduciary of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (commonly referred to as "ERISA") should consider fiduciary standards under ERISA in the context of the particular circumstances of such plan before authorizing an investment in the notes. Such fiduciary should consider whether the investment is in accordance with the documents and instruments governing the plan.

In addition, ERISA and the Internal Revenue Code of 1986, as amended (the "Code") prohibit certain transactions (referred to as "prohibited transactions") involving the assets of a plan subject to ERISA or the assets of an individual retirement account or plan subject to Section 4975 of the Code (referred to as an "ERISA plan"), on the one hand, and persons who have certain specified relationships to the plan ("parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code), on the other. If we (or an affiliate) are considered a party in interest or disqualified person with respect to an ERISA plan, then the investment in notes by the ERISA plan may give rise to a prohibited transaction. Governmental employee benefit plans may be subject to transaction or investment prohibitions or limitations under the rules applicable to such plans.

By purchasing and holding the notes, the person making the decision to invest on behalf of (or with plan assets of) an ERISA plan or a governmental employee benefit plan is representing that the purchase and holding of the notes will not result in a prohibited transaction under ERISA or the Code or other transaction or investment prohibitions or limitations under rules applicable to the plan. Therefore, an ERISA plan should not invest in the notes unless the plan fiduciary or other person acquiring securities on behalf of the ERISA plan determines that neither we nor an affiliate is a party in interest or a disqualified person or, alternatively, that an exemption from the prohibited transaction rules is available. If an ERISA plan engages in a prohibited transaction, the transaction may require "correction" and may cause the ERISA plan fiduciary to incur certain liabilities and the parties in interest or disqualified persons to be subject to excise taxes.

If you are the fiduciary of an ERISA plan, governmental plan or an insurance company or other party that is providing investment advice or other features to such a plan, and you propose to invest in the notes with the assets of the plan, you should consult your own legal counsel for further guidance. Each investor bears sole responsibility for ensuring that their purchase and

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holding of the notes complies with ERISA, the Code and any similar roles applicable to the investor.

PLAN OF DISTRIBUTION

Under the terms of a Selling Agent Agreement dated November 22, 2002, as amended, the notes will be offered from time to time by us to the Purchasing Agent for subsequent resale to the agents and other dealers who are broker-dealers and securities firms. The agents, including the Purchasing Agent, are parties to the Selling Agent Agreement. The notes will be offered for sale in the United States only. Dealers who are members of the selling group have

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executed a Master Selected Dealer Agreement with the Purchasing Agent. We also may appoint additional agents to sell the notes. Any sale of the notes through those additional agents, however, will be on the same terms and conditions to which the original agents have agreed. The Purchasing Agent will purchase the notes at a discount ranging from 0.2% to 3.0% of the non-discounted price for each note sold. However, we also may sell the notes to the Purchasing Agent at a discount greater than or less than the range specified above. The discount at which we sell the notes to the Purchasing Agent will be set forth in the applicable pricing supplement. The Purchasing Agent also may sell notes to dealers at a concession not in excess of the discount it received from us. In certain cases, the Purchasing Agent and the other agents and dealers may agree that the Purchasing Agent will retain the entire discount. We will disclose any particular arrangements in the applicable pricing supplement.

Following the solicitation of orders, each of the agents, severally and not jointly, may purchase notes as principal for its own account from the Purchasing Agent. Unless otherwise set forth in the applicable pricing supplement, these notes will be purchased by the agents and resold by them to one or more investors at a fixed public offering price. After the initial public offering of notes, the public offering price (in the case of notes to be resold at a fixed public offering price), discount and concession may be changed.

We have the sole right to accept offers to purchase notes and may reject any proposed offer to purchase notes in whole or in part. Each agent also has the right, in its discretion reasonably exercised, to reject any proposed offer to purchase notes in whole or in part. We reserve the right to withdraw, cancel or modify any offer without notice. We also may change the terms, including the interest rate we will pay on the notes, at any time prior to our acceptance of an offer to purchase.

Each agent, including the Purchasing Agent, may be deemed to be an "underwriter" within the meaning of the Securities Act of 1933. We have agreed to indemnify the agents against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to any payments they may be required to make in respect of such liabilities. We also have agreed to reimburse the agents for certain expenses.

No note will have an established trading market when issued. We do not intend to apply for the listing of the notes on any securities exchange. However, we have been advised by the agents that they may purchase and sell notes in the secondary market as permitted by applicable laws and regulations. The agents are not obligated to make a market in the notes, and they may discontinue making a market in the notes at any time without notice. Neither we nor the agents can provide any assurance regarding the development, liquidity or maintenance of any trading market for any notes. All secondary trading in the

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notes will settle in same-day funds. See "Registration and Settlement" on page S-13.

In connection with certain offerings of notes, the rules of the SEC permit the Purchasing Agent to engage in transactions that may stabilize the price of the notes. The Purchasing Agent will conduct these activities for the agents. These transactions may consist of short sales, stabilizing transactions and purchases to cover positions created by short sales. A short sale is the sale by the Purchasing Agent of a greater amount of notes than the amount the Purchasing Agent has agreed to purchase in connection with a specific offering of notes. Stabilizing transactions consist of certain bids or purchases made by the Purchasing Agent to prevent or retard a decline in the price of the notes while an offering of notes is in process. In general, these purchases or bids for the notes for the purpose of stabilization or to reduce a syndicate short position could cause the price of the notes to be higher than it might otherwise be in the absence of those purchases or bids. Neither we nor the Purchasing Agent makes any representation or prediction as to the direction or magnitude of any effect that these transactions may have on the price of any notes. In addition, neither we nor the Purchasing Agent makes any representation that, once commenced, these transactions will not be discontinued without notice. The Purchasing Agent is not required to engage in these activities and may end any of these activities at any time.

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We may offer certain of these notes to entities, including statutory or common law trusts, that are not affiliated with us and that offer pass-through or similar securities to investors, in public offerings that will occur at or around the same time as the offering of the notes. We will utilize the services of one or more broker-dealers as our agents in the offerings of notes to these entities. These broker-dealers will be considered statutory underwriters, within the meaning of the Securities Act of 1933, with respect to the notes offered to those entities.

The agents or dealers to or through which we may sell notes may engage in transactions with us and perform services for us in the ordinary course of business.

LEGAL OPINIONS

Alan M. Green, our General Counsel, Corporate Treasury, will issue an opinion about the legality of the notes for us. Davis Polk & Wardwell, New York, New York will issue an opinion for the agents. Cleary, Gottlieb, Steen & Hamilton, New York, New York will issue an opinion regarding the "United States Tax Considerations" section of this prospectus supplement. Mr. Green beneficially owns or has rights to acquire an aggregate of less than 0.01% of General Electric Company's common stock.

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PROSPECTUS

GENERAL ELECTRIC CAPITAL CORPORATION

DEBT SECURITIES

WARRANTS TO PURCHASE DEBT SECURITIES

PREFERRED STOCK

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GUARANTEES, LETTERS OF CREDIT AND PROMISSORY NOTES OR LOAN OBLIGATIONS, INCLUDING INTERESTS THEREIN

General Electric Capital Corporation may offer from time to time:

- o unsecured debt securities;
- o warrants to purchase any of the debt securities;
- o variable cumulative preferred stock, par value \$100 per share, which may be issued in the form of depositary shares evidenced by depositary receipts;
- o preferred stock, par value \$.01 per share, which may be issued in the form of depositary shares evidenced by depositary receipts; and
- o unsecured guarantees, direct-pay letters of credit and indebtedness evidenced by promissory notes or loan obligations, including in each case interests therein.

WE WILL PROVIDE SPECIFIC TERMS OF THESE SECURITIES IN SUPPLEMENTS TO THIS PROSPECTUS. YOU SHOULD READ THIS PROSPECTUS AND ANY PROSPECTUS SUPPLEMENT CAREFULLY BEFORE YOU INVEST.

THESE SECURITIES HAVE NOT BEEN APPROVED BY THE SEC OR ANY STATE SECURITIES COMMISSION, NOR HAVE THESE ORGANIZATIONS DETERMINED THAT THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

May 17, 2005

ABOUT THIS PROSPECTUS

This prospectus is part of a "shelf" registration statement that we have filed with the Securities and Exchange Commission (the "SEC"). By using a shelf registration statement, we may sell, from time to time, in one or more offerings, any combination of the securities described in this prospectus in a U.S. dollar amount that does not exceed the amount registered. For further information about our business and the securities, you should refer to the registration statement and its exhibits. The exhibits to our registration statement contain the full text of certain contracts and other important documents we have summarized in this prospectus. Since these summaries may not contain all the information that you may find important in deciding whether to purchase the securities we offer, you should review the full text of these documents. The registration statement can be obtained from the SEC as indicated under the heading "Where You Can Get More Information on GECC."

This prospectus only provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that contains specific information about the terms of those securities. The prospectus supplement may also add, update or change information contained in this prospectus.

YOU SHOULD READ BOTH THIS PROSPECTUS AND ANY PROSPECTUS SUPPLEMENT

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TOGETHER WITH THE ADDITIONAL INFORMATION DESCRIBED BELOW UNDER THE HEADING "WHERE YOU CAN GET MORE INFORMATION ON GECC." YOU SHOULD RELY ONLY ON THE INFORMATION INCORPORATED BY REFERENCE OR PROVIDED IN THIS PROSPECTUS AND THE PROSPECTUS SUPPLEMENT. WE HAVE AUTHORIZED NO ONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. WE ARE NOT MAKING AN OFFER OF THESE SECURITIES IN ANY STATE WHERE THE OFFER IS NOT PERMITTED. YOU SHOULD NOT ASSUME THAT THE INFORMATION IN THIS PROSPECTUS OR THE PROSPECTUS SUPPLEMENT IS ACCURATE AS OF ANY DATE OTHER THAN THE DATE ON THE FRONT OF THE DOCUMENT.

REFERENCES IN THIS PROSPECTUS TO "GECC", "WE", "US" AND "OUR" ARE TO GENERAL ELECTRIC CAPITAL CORPORATION.

WHERE YOU CAN GET MORE
INFORMATION ON GECC

GECC files annual, quarterly and current reports with the SEC. You may obtain any document we file with the SEC at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also accessible through the Internet at the SEC's Web site at <http://www.sec.gov>.

The SEC allows us to "incorporate by reference" into this prospectus the information in documents we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede information contained in documents filed earlier with the SEC or contained in this prospectus. We incorporate by reference in this prospectus the documents listed below and any future filings that we make with the SEC under Section 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended, until we sell all the securities that may be offered by this prospectus (including, without limitation, filings made after the date of this Amendment No. 1 and before the effectiveness of the registration statement); provided, however, that we are

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not incorporating any information furnished under either Item 2.02 or Item 7.01 of any Current Report on Form 8-K unless, and except to the extent, specified in any such Current Report on Form 8-K:

- (i) GECC's Annual Report on Form 10-K, as amended by amendment no. 1 on Form 10-K/A, for the year ended December 31, 2004;
- (ii) GECC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005; and
- (iii) GECC's Current Report on Form 8-K filed on May 6, 2005. You may request a copy of these filings at no cost. Requests should be directed to David P. Russell, Senior Counsel, Corporate Treasury and Assistant Secretary, General Electric Capital Corporation, 260 Long Ridge Road, Stamford, Connecticut 06927, Telephone No. (203) 357-4000.

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THE COMPANY

General Electric Capital Corporation was incorporated in 1943 in the State of New York under the provisions of the New York Banking Law relating to investment companies, as successor to General Electric Contracts Corporation, which was formed in 1932. Until November 1987, our name was General Electric Credit Corporation. On July 2, 2001, we changed our state of incorporation to Delaware. All of our outstanding common stock is owned by General Electric Capital Services, Inc. ("GE Capital Services"), formerly General Electric Financial Services, Inc., the common stock of which is in turn wholly owned directly or indirectly by General Electric Company ("GE Company"). Financing and services offered by us are diversified, a significant change from the original business of GECC, that is, financing distribution and sale of consumer and other GE Company products. GE Company manufactures few of the products financed by us.

We operate in four key operating segments: GE Commercial Finance, GE Consumer Finance, GE Insurance and GE Equipment and Other Services. These operations are subject to a variety of regulations in their respective jurisdictions.

Our services are offered primarily within the United States, Canada, Europe and the Pacific Basin. GECC's principal executive offices are at 260 Long Ridge Road, Stamford, Connecticut 06927-1600 (telephone number (203) 357-4000). At December 31, 2004, our employment totaled approximately 76,300.

CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES

	YEAR ENDED DECEMBER 31,				THREE MONTHS ENDED MARCH 31, 2005
	2001	2002	2003	2004	
2000	(RESTATED)	(RESTATED)	(RESTATED)	(RESTATED)	
----	----	----	----	----	
1.52	1.73	1.66	1.86	1.89	1.74

CONSOLIDATED RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	YEAR ENDED DECEMBER 31,				THREE MONTHS ENDED MARCH 31, 2005
	2001	2002	2003	2004	
2000	(RESTATED)	(RESTATED)	(RESTATED)	(RESTATED)	
----	----	----	----	----	
1.50	1.71	1.65	1.85	1.88	1.73

For purposes of computing the consolidated ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends, earnings consist of net earnings adjusted for the provision for income taxes, minority interest, interest capitalized (net of amortization) and fixed charges. Fixed charges consist of interest on all indebtedness and one-third of rentals, which we believe is a reasonable approximation of the interest factor of such rentals.

USE OF PROCEEDS

Unless otherwise specified in the prospectus supplement accompanying this prospectus, we will add the net proceeds from the sale of the securities to which this prospectus and the prospectus supplement relate to our general funds,

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which we will use for financing our operations. We can conduct additional financings at any time.

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PLAN OF DISTRIBUTION

We may sell our securities through agents, underwriters, dealers or directly to purchasers.

We may designate agents to solicit offers to purchase our securities. We will name any agent involved in offering or selling our securities, and any commissions that we will

- o pay to the agent, in our prospectus supplement.
- o Unless we indicate otherwise in our prospectus supplement, our agents will act on a best efforts basis for the period of their appointment.
- o Our agents may be deemed to be underwriters under the Securities Act of 1933 of any of our securities that they offer or sell.

We may use an underwriter or underwriters in the offer or sale of our securities.

- o If we use an underwriter or underwriters, we will execute an underwriting agreement with the underwriter or underwriters at the time that we reach an agreement for the sale of our securities.
- o We will include the names of the specific managing underwriter or underwriters, as well as any other underwriters, and the terms of the transactions, including the compensation the underwriters and dealers will receive, in our prospectus supplement.
- o The underwriters will use our prospectus supplement to sell our securities.

We may use a dealer to sell our securities.

- o If we use a dealer, we, as principal, will sell our securities to the dealer.
- o The dealer will then sell our securities to the public at varying prices that the dealer will determine at the time it sells our securities.
- o We will include the name of the dealer and the terms of our transactions with the dealer in our prospectus supplement.

We may solicit directly offers to purchase our securities, and we may directly sell our securities to institutional or other investors. We will describe the terms of our direct sales in our prospectus supplement.

We may indemnify agents, underwriters, and dealers against certain liabilities, including liabilities under the Securities Act of 1933. Our agents, underwriters, and dealers, or their affiliates, may be customers of, engage in transactions with or perform services for us, in the ordinary course of business.

We may authorize our agents and underwriters to solicit offers by certain

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institutions to purchase our securities at the public offering price under delayed delivery contracts.

- o If we used delayed delivery contracts, we will disclose that we are using them in the prospectus supplement and will tell you when we will demand payment and delivery of the securities under the delayed delivery contracts.
- o These delayed delivery contracts will be subject only to the conditions that we set forth in the prospectus supplement.

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- o We will indicate in our prospectus supplement the commission that underwriters and agents soliciting purchases of our securities under delayed contracts will be entitled to receive.

Unless otherwise provided in the prospectus supplement accompanying this prospectus, neither the support obligations nor the interests therein will be offered or sold separately from the underlying securities to which they relate. The underlying securities will be offered and sold under a separate offering document.

NASD REGULATIONS

GECC Markets Group, Inc. is an affiliate of GECC and may participate as an underwriter in the distribution of securities issued pursuant to this prospectus. Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc. imposes certain requirements when an NASD member such as GECC Capital Markets Group, Inc. distributes an affiliated company's securities. As a result, we will conduct any offering in which GECC Capital Markets Group, Inc. acts as an underwriter in compliance with the applicable requirements of Rule 2720.

The maximum compensation we will pay to underwriters in connection with any offering of the securities will not exceed 8% of the maximum proceeds of such offering. All post-effective amendments or prospectus supplements disclosing the actual price and selling terms of each offering of the securities will be submitted to the NASD Corporate Financing Department at the same time they are filed with the SEC. The NASD Corporate Financing Department will be advised if, subsequent to the filing of any offering of the securities, any of our 5% or greater shareholders is or becomes an affiliate or associated person of an NASD member participating in the distribution of such securities. All NASD members participating in offerings of the securities understand the requirements that have to be met in connection with SEC Rule 415 and Notice to Members 88-101.

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SECURITIES OFFERED

Using this prospectus, we may offer senior or subordinated debt securities (collectively, the "debt securities"), warrants to purchase debt securities, variable cumulative preferred stock and preferred stock. In addition, we may issue guarantees, direct-pay letters of credit and indebtedness evidenced by promissory notes or loan obligations, including interests therein. We registered these securities with the SEC using a "shelf" registration

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statement. This "shelf" registration statement allows us to offer any combination of these securities. Each time we offer securities, we must provide a prospectus supplement that describes the specific terms of the securities. The prospectus supplement may also provide new information or update the information in the prospectus.

DESCRIPTION OF DEBT SECURITIES

GENERAL

The description below of the general terms of the debt securities issued under this prospectus will be supplemented by the more specific terms in the applicable prospectus supplement.

The senior debt securities will be issued pursuant to an Amended and Restated Indenture, between us and JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank), dated as of February 27, 1997, as supplemented by a Supplemental Indenture dated as of May 3, 1999, a Second Supplemental Indenture dated as of July 2, 2001 and a Third Supplemental Indenture dated November 22, 2002 and pursuant to an Amended and Restated Indenture, between us and JPMorgan Chase Bank, N.A., dated as of February 28, 1997, as supplemented by a First Supplemental Indenture dated as of July 2, 2001 (collectively, the "senior indentures"). The subordinated debt securities will be issued pursuant to a Subordinated Debt Indenture to be entered into between us and JPMorgan Chase Bank, N.A. (the "subordinated indenture" and, together with the senior indentures, the "indentures"). None of the indentures limits the amount of debt securities or other unsecured debt which we may issue.

In addition to the following description of the debt securities, you should refer to the detailed provisions of each indenture, copies of which are led as exhibits to the registration statement.

The prospectus supplement will specify the following terms of such issue of debt securities:

- o the designation, the aggregate principal amount and the authorized denominations if other than the denominations set forth in the applicable indenture;
- o the percentage of their principal amount at which the debt securities will be issued;
- o the date or dates on which the debt securities will mature;
- o whether the debt securities will be senior or subordinated obligations;
- o if the debt securities are subordinated debt securities, whether the subordination provisions summarized below or different subordination provisions will apply;
- o any deletions or modifications of or additions to the Events of Default described below or the covenants of GECC set forth in the applicable indenture;

- o the currency, currencies or currency units in which we will make payments on the debt securities;

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- o the rate or rates at which the debt securities will bear interest, if any, or the method of determination of such rate or rates;
- o the date or dates from which such interest, if any, shall accrue, the dates on which such interest, if any, will be payable and the method of determining holders to whom interest shall be payable;
- o the prices, if any, at which, and the dates at or after which, we may or must repay, repurchase or redeem the debt securities;
- o the exchanges, if any, on which the debt securities may be listed;
- o the trustee under the indenture pursuant to which the debt securities are to be issued. (Sections 2.02 and 2.02A. Section references refer to the sections in the applicable indenture.); and
- o any other terms of the debt securities not inconsistent with the provisions of the applicable indenture.

Unless otherwise specified in the prospectus supplement, we will compute interest payments on the basis of a 360-day year consisting of twelve 30-day months. (Section 2.10).

Some of the debt securities may be issued as discounted debt securities to be sold at a substantial discount below their stated principal amount. The prospectus supplement will contain any Federal income tax consequences and other special considerations applicable to discounted debt securities.

The indentures do not contain any provisions that:

- o limit our ability to incur indebtedness, or
- o provide protection in the event GE Company, as sole indirect stockholder of GECC, causes GECC to engage in a highly leveraged transaction, reorganization, restructuring, merger or similar transaction.

Claims of our subsidiaries' creditors generally will have priority with respect to the assets and earnings of the subsidiaries over the claims of our creditors, including holders of the debt securities. The debt securities, therefore, will be effectively subordinated to creditors, including trade creditors of our subsidiaries.

PAYMENT AND TRANSFER

Unless we otherwise state in a prospectus supplement, we will issue debt securities only as registered securities, which means that the name of the holder will be entered in a register which will be kept by the Trustee or another agent of GECC. Unless we state otherwise in a prospectus supplement, we will make principal and interest payments at the office of the paying agent or agents we name in the prospectus supplement or by mailing a check to such holder at the address specified in the register.

Unless we describe other procedures in a prospectus supplement, a registered holder will be able to transfer registered debt securities at the office of the transfer agent or agents we name in the prospectus supplement. The registered holder may also exchange registered debt securities at the office of the transfer agent for an equal aggregate principal amount of registered debt securities of the same series having the same maturity date, interest rate and other terms as long as the debt securities are issued in authorized denominations.

Neither GECC nor the Trustee will impose any service charge for any such transfer or exchange of a debt security, however, a registered holder may be required to pay any taxes or other governmental charges in connection with a transfer or exchange of debt securities.

GLOBAL NOTES, DELIVERY AND FORM

We may issue some or all of the debt securities in the form of one or more Global Notes representing an entire issuance in book-entry form. We will deposit each Global Note with a depository (a "Depository") or with a nominee for a Depository identified in the applicable prospectus supplement. We will register each Global Note in the name of such Depository or nominee. Unless and until it is exchanged in whole or in part for debt securities in definitive registered form, a Global Note may not be transferred, except as a whole by the Depository for such Global Note to a nominee of such Depository or by a nominee of such Depository to such Depository or another nominee of such Depository or by such Depository or any such nominee to a successor of such Depository or a nominee of such successor. For purposes of this Prospectus, "Global Note" refers to the Global Note or Global Notes representing an entire issue of debt securities.

The specific terms of the depository arrangement with respect to any debt securities to be represented by a Global Note will be described in the prospectus supplement.

MODIFICATION OF THE INDENTURES

In general, our rights and obligations and the rights of the holders under the above-referenced indentures may be modified if the holders of not less than 66 2/3% in aggregate principal amount of the outstanding debt securities of each series affected by the modification consent to it. However, Section 10.02 of each indenture provides that, unless each affected holder agrees, we cannot

- o make any adverse change to any payment term of a debt security such as:
 - o extending the maturity date;
 - o extending the date on which we have to pay interest or make a sinking fund payment;
 - o reducing the interest rate;
 - o reducing the amount of principal we have to repay;
 - o changing the currency in which we have to make any payment of principal premium or interest;
 - o modifying any redemption or repurchase right to the detriment of the holder; and
 - o impairing any right of a holder to bring suit for payment;
- o reduce the percentage of the aggregate principal amount of debt securities needed to make any amendment to the indenture or to waive any covenant or default;

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- o make any change to the section of the indenture relating to waivers of any past default; and
- o make any change to Section 10.02.

However, if we and the Trustee agree, we can amend the indentures without notifying any holders or seeking their consent if the amendment does not materially and adversely affect any holder.

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EVENTS OF DEFAULT

Each indenture defines an "Event of Default" with respect to any series of debt securities as any of the following:

- o default in any payment of principal or premium, if any, on any debt security of such series;
- o default for 30 days in payment of any interest, if any, on any debt security of such series;
- o default in the making or satisfaction of any sinking fund payment or analogous obligation on the debt securities of such series;
- o default for 60 days after written notice to GECC in performance of any other covenant in respect of the debt securities of such series contained in such indenture;
- o a default, as defined, with respect to any other series of debt securities outstanding under the relevant Indenture or as defined in any other indenture or instrument evidencing or under which GECC has outstanding any indebtedness for borrowed money, as a result of which such other series or such other indebtedness of GECC shall have been accelerated and such acceleration shall not have been annulled within 10 days after written notice thereof (provided, that the resulting Event of Default with respect to such series of debt securities may be remedied, cured or waived by the remedying, curing or waiving of such other default under such other series or such other indebtedness); or
- o certain events involving bankruptcy, insolvency or reorganization. (Section 6.01).

Each indenture requires us to deliver to the Trustee annually a written statement as to the presence or absence of certain defaults under the terms thereof. (Section 4.05). An Event of Default under one series of debt securities does not necessarily constitute an Event of Default under any other series of debt securities. Each indenture provides that the Trustee may withhold notice to the holders of any series of debt securities issued thereunder of any default if the Trustee considers it in the interest of such noteholders to do so provided the Trustee may not withhold notice of default in the payment of principal, premium, if any, or interest, if any, on any of the debt securities of such series or in the making of any sinking fund installment or analogous obligation with respect to such series. (Section 6.08).

The senior indentures provide that if any Event of Default occurs and is continuing with respect to any series of senior debt securities, either the Trustee or the holders of not less than 25% in aggregate principal amount of the outstanding senior debt securities of such series may declare the principal, or in the case of discounted debt securities, a portion of the principal amount, of

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all such senior debt securities to be due and payable immediately. The subordinated indenture provides that (i) if an Event of Default arising from a breach of our covenants and agreements with respect to merger, sale or conveyance or certain events involving bankruptcy, insolvency or reorganization occurs and is continuing with respect to any series of subordinated debt securities or (ii) when no "senior indebtedness" as defined below under "Subordinated Debt Securities" is outstanding, if an Event of Default specified in (i) above or any other Event of Default occurs with respect to a series of subordinated debt securities, then, in either case, the Trustee or the holders of not less than 25% in aggregate principal amount of the outstanding subordinated debt securities of such series may declare the principal, or in the case of discounted debt securities, a portion of the principal amount, of all such subordinated debt securities to be due and payable immediately. Under certain conditions such declaration may be annulled by the holders of a majority in principal amount of such debt securities then outstanding. The

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holders of a majority in aggregate principal amount of such debt securities then outstanding may also waive on behalf of all holders past defaults with respect to a particular series of debt securities except, unless previously cured, a default in payment of principal, premium, if any, or interest, if any, on any of the debt securities of such series, or the payment of any sinking fund installment or analogous obligation on the debt securities of such series. (Sections 6.01 and 6.07).

Other than the duties of a trustee during a default, the Trustee is not obligated to exercise any of its rights or powers under the indenture at the request, order or direction of any holders of debt securities of any series issued thereunder unless such holders shall have offered to the Trustee reasonable indemnity. (Sections 7.01 and 7.02). Subject to such indemnification provision, each indenture provides that the holders of a majority in aggregate principal amount of the debt securities of any series issued thereunder at the time outstanding shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee thereunder, or exercising any trust or power conferred on such Trustee with respect to the debt securities of such series. However, the Trustee may decline to act if it determines that the proceedings so directed would be illegal or involve it in any personal liability. (Section 6.07).

SENIOR DEBT SECURITIES

The senior debt securities will be unsecured and will rank equally with all of our other unsecured and unsubordinated indebtedness.

SUBORDINATED DEBT SECURITIES

The subordinated debt securities will be unsecured. The subordinated debt securities will be subordinate in right of payment to all senior indebtedness. (Section 14.01 of subordinated indenture).

The subordinated indenture defines "senior indebtedness" to mean:

- o the principal of, premium, if any, and interest on all indebtedness for money borrowed other than the subordinated debt securities and any deferrals, renewals or extensions thereof;
- o obligations arising from any guaranty, letter of credit or similar credit enhancement; and

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- o obligations associated with derivative products such as interest rate and foreign exchange rate swaps, forward sales of interests in commodities, and similar arrangements.

However, the term "senior indebtedness" will not include:

- o any liability for Federal, state, local or other taxes owed or owing by us;
- o any accounts payable or other liability to trade creditors (other than those obligations referenced in the last two bullet points under the definition of "senior indebtedness" above) arising in the ordinary course of business, including instruments evidencing those liabilities;
- o any indebtedness, guarantee or obligation of ours which is expressly subordinate or junior in right of payment in any respect to any other indebtedness, guarantee or obligation of ours; or
- o any obligations with respect to any capital stock.

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We use the term "indebtedness for money borrowed" to include, without limitation, any obligation of ours for the repayment of borrowed money, whether or not evidenced by bonds, debentures, notes, or other written instruments, and any deferred obligation for the payment of the purchase price of property or assets.

There is no limitation on our ability to issue additional senior indebtedness. The senior debt securities constitute senior indebtedness under the subordinated indenture.

Under the subordinated indenture, no payment may be made on the subordinated debt securities and no purchase, redemption or retirement of any subordinated debt securities may be made in the event:

- o any senior indebtedness is not paid when due, or
- o the maturity of any senior indebtedness is accelerated as a result of a default, unless the default has been cured or waived and the acceleration has been rescinded or that senior indebtedness has been paid in full.

In addition, while any senior indebtedness is outstanding, subordinated debt securities can only be accelerated in the event of an Event of Default arising from a breach of our covenants and agreements with respect to merger, sale or conveyance and certain events involving bankruptcy, insolvency or reorganization, and the right to receive payment through an acceleration will not be available for any other Events of Default including, without limitation, failure to pay principal, interest or premium on the subordinated debt securities. (Section 6.01 of the subordinated indenture).

In the event we pay or distribute our assets to creditors upon a total or partial liquidation, dissolution or reorganization of us or our property, the holders of senior indebtedness will be entitled to receive payment in full of the senior indebtedness before the holders of subordinated debt securities are entitled to receive any payment and until the senior indebtedness is paid in full, any payment or distribution to which holders of subordinated debt

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securities would be entitled but for the subordination provisions of the subordinated indenture will be made to holders of the senior indebtedness. (Section 14.02 of subordinated indenture).

If a distribution is made to holders of subordinated debt securities that, due to the subordinated provisions, should not have been made to them, those holders of subordinated debt securities are required to hold it in trust for the holders of senior indebtedness, and pay it over to them as their interests may appear. (Section 14.05 of subordinated indenture).

As a result of the subordination provisions contained in the subordinated indenture, in the event of default or insolvency, our creditors who are holders of senior indebtedness are likely to recover more, ratably, than the holders of subordinated debt securities. It is important to keep this in mind if you decide to hold our subordinated debt securities.

CONCERNING THE TRUSTEE

JPMorgan Chase Bank, N.A. acts, or will act, as the case may be, as Trustee under (i) an Amended and Restated Indenture with us dated as of February 27, 1997, as supplemented by a Supplemental Indenture with us dated as of May 3, 1999, a Second Supplemental Indenture with us dated as of July 2, 2001, and a Third Supplemental Indenture with us dated November 22, 2002, (ii) an Amended and Restated Indenture with us dated as of February 28, 1997, as supplemented by a First Supplemental Indenture with us dated as of July 2, 2001, (iii) a Subordinated Debt Indenture to be entered into with us, (iv) an Indenture with us dated as of June 3, 1994,

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as amended and supplemented, and (v) an Indenture with us dated as of October 1, 1991, as amended and supplemented. JPMorgan Chase Bank, N.A. also acts as Trustee under certain other indentures with us. A number of our series of senior unsecured notes are presently outstanding under each of the indentures referred to in clauses (i), (ii), (iv) and (v) above. Debt securities may be issued under any of the indentures referred to in clauses (i), (ii) and (iii) above.

GECC, GE Company and other affiliates of GE Company maintain various commercial and investment banking relationships with JPMorgan Chase Bank, N.A. and its affiliates in their ordinary course of business.

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DESCRIPTION OF WARRANTS

GENERAL

We may issue warrants to purchase debt securities under this prospectus either alone or together with debt securities. In addition to this summary, you should refer to the detailed provisions of the specific warrant agreement for complete terms of the warrants and the warrant agreement. Each warrant agreement will be between GECC and a banking institution organized under the laws of the United States or a state. A form of warrant agreement was filed as an exhibit to the Registration Statement.

The warrants will be evidenced by warrant certificates. Unless otherwise specified in the prospectus supplement, the warrant certificates may be traded separately from the debt securities, if any, with which the warrant certificates

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were issued. Warrant certificates may be exchanged for new warrant certificates of different denominations at the office of an agent that we will appoint. Until a warrant is exercised, the holder of a warrant does not have any of the rights of a debtholder and is not entitled to any payments on any debt securities issuable upon exercise of the warrants.

We may issue warrants in one or more series. The prospectus supplement accompanying this prospectus relating to the particular series of warrants will contain terms of the warrants, including:

- o the title and the aggregate number of warrants;
- o the debt securities for which each warrant is exercisable;
- o the date or dates on which such warrants will expire;
- o the price or prices at which such warrants are exercisable;
- o the currency or currencies in which such warrants are exercisable;
- o the periods during which and places at which such warrants are exercisable;
- o the terms of any mandatory or optional call provisions;
- o the price or prices, if any, at which the warrants may be redeemed at the option of the holder or will be redeemed upon expiration;
- o the identity of the warrant agent; and
- o the exchanges, if any, on which such warrants may be listed.

EXERCISE OF WARRANTS

You may exercise warrants by payment to our warrant agent of the exercise price, in each case in such currency or currencies as are specified in the warrant, and giving your identity and the number of warrants to be exercised. Once you pay our warrant agent and deliver the properly completed and executed warrant certificate to our warrant agent at the specified office, our warrant agent will, as soon as practicable, forward notes to you in authorized denominations. If you exercise less than all of the warrants evidenced by your warrant certificate, you will be issued a new warrant certificate for the remaining amount of warrants.

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DESCRIPTION OF THE PREFERRED STOCK

GENERAL

Our Board of Directors has authorized the issuance of preferred stock. The terms of the preferred stock will be stated and expressed in a resolution or resolutions to be adopted by our Board of Directors (or any duly authorized committee of the Board of Directors) consistent with our restated certificate of incorporation. The preferred stock, when issued and sold, will be fully paid and non-assessable and will have no pre-emptive rights.

As of the date of this prospectus, our capital stock as authorized by our sole common stockholder consists of:

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- o 4,166,000 shares of Common Stock, par value \$14.00 per share,
- o 33,000 shares of Variable Cumulative Preferred Stock, par value \$100 per share, and
- o 750,000 shares of Preferred Stock, par value \$.01 per share.

IN ORDER TO DISTINGUISH BETWEEN OUR TWO CLASSES OF PREFERRED STOCK, WE WILL REFER TO THE FIRST CLASS OF OUR PREFERRED STOCK AS "VARIABLE CUMULATIVE PREFERRED STOCK" AND TO THE SECOND CLASS AS OUR "SECOND CLASS OF PREFERRED STOCK". WHEN WE REFER TO BOTH CLASSES WE USE THE PHRASE "PREFERRED STOCK." 3,985,403 shares of Common Stock and 26,000 shares of Variable Cumulative Preferred Stock are presently outstanding. There are no shares of our second class of preferred stock currently outstanding. Each Series of Variable Cumulative Preferred Stock ranks equally with each other Series of Variable Cumulative Preferred Stock as to dividend and liquidation preference.

We will describe the particular terms of any series of preferred stock being offered by use of this prospectus in the prospectus supplement relating to that series of preferred stock. Those terms may include:

- o the designation, number of shares and stated value per share;
- o the amount of liquidation preference;
- o the initial public offering price at which shares of such series of preferred stock will be sold;
- o the dividend rate or rates (or method of determining the dividend rate);
- o the dates on which dividends shall be payable, the date from which dividends shall accrue and the record dates for determining the holders entitled to such dividends;
- o any redemption or sinking fund provisions;
- o any voting rights;
- o any conversion or exchange provisions;
- o any provisions to issue the shares of such series as depositary shares evidenced by depositary receipts; and
- o any additional dividend, redemption, liquidation or other preferences or rights and qualifications, limitations or restrictions thereof.

1

268

268

Exercise of stock warrants

2

2

(2)

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Dividends: Common (\$0.14 per share)

(913)

(913)

Dividend reinvestment plan

8

8

90

98

Balance, June 30, 2015

6,679

\$6,679

\$46

\$75,641

\$(555)

\$(6,352)

\$952

\$76,411

Balance December 31, 2015

6,690

\$6,690

\$46

\$75,761

\$(297)

\$(3,992)

\$830

\$79,038

Net income

3,213

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3,213

Other comprehensive income net of tax of \$1,552

3,013

3,013

Issuance of restricted stock

22

22

275

(297)

—

Amortization compensation restricted stock

189

189

Shares retired

(26)

(26)

(327)

(353)

Issuance of common stock

1

1

13

14

Dividends: Common (\$0.16 per share)

(1,056)

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(1,056)

Dividend reinvestment plan

12

12

141

153

Balance, June 30, 2016

6,699

\$6,699

\$46

\$75,863

\$(405)

\$(1,835)

\$3,843

\$84,211

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 3,213	\$ 2,847
Adjustments to reconcile net income to net cash provided in operating activities:		
Depreciation	657	613
Premium amortization	1,953	2,009
Provision for loan losses	357	797
Writedowns of other real estate owned	10	162
Loss (gain) on sale of other real estate owned	81	(5)
Sale of loans held-for-sale	40,653	51,243
Originations of loans held-for-sale	(45,397)	(53,781)
Amortization of intangibles	163	201
Accretion on acquired loans	(741)	(607)
Gain on sale of securities	(123)	(271)
Writedown of land held for sale	—	100
Loss on early extinguishment of debt	—	103
Decrease in other assets	158	1,098
Decrease in other liabilities	(277)	(1,220)
Net cash provided from operating activities	705	3,289
Cash flows from investing activities:		
Purchase of investment securities available-for-sale and other investments	(31,005)	(21,341)
Purchase of investment securities held-to-maturity	—	(6,065)
Maturity of investment securities available-for-sale	16,903	19,127
Proceeds from sale of securities available-for-sale	14,126	17,061
Proceeds from sale of other investments	—	793
Increase in loans	(21,817)	(30,421)
Proceeds from sale of other real estate owned	1,357	388
Purchase of property and equipment	(858)	(1,820)
Net cash used in investing activities	(21,294)	(22,278)
Cash flows from financing activities:		
Increase in deposit accounts	13,472	14,532
Increase in securities sold under agreements to repurchase	79	2,077
Advances from the Federal Home Loan Bank	50,500	29,500
Repayment of advances from Federal Home Loan Bank	(42,866)	(22,863)
Restricted shares surrendered	(353)	(98)
Issuance of common stock	14	—
Dividends paid: Common Stock	(1,056)	(913)
Dividend reinvestment plan	153	98
Net cash provided from financing activities	19,943	22,333
Net increase (decrease) in cash and cash equivalents	(646)	3,344
Cash and cash equivalents at beginning of period	22,941	22,532
Cash and cash equivalents at end of period	\$ 22,295	\$ 25,876
Supplemental disclosure:		
Cash paid during the period for:		

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Interest	\$ 1,614	\$ 1,754
Income taxes	\$ 650	\$ 1,460
Non-cash investing and financing activities:		
Unrealized gain (loss) on securities	\$ 3,013	\$ (319)
Transfer of loans to foreclosed property	\$ 347	\$ 122

See Notes to Consolidated Financial Statements

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Notes to Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated balance sheets, and the consolidated statements of income, comprehensive income, changes in shareholders' equity, and the cash flows of First Community Corporation (the "Company"), present fairly in all material respects the Company's financial position at June 30, 2016 and December 31, 2015, and the Company's results of operations and cash flows for the three and six months ended June 30, 2016 and 2015. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

In the opinion of management, all adjustments necessary to fairly present the consolidated financial position and consolidated results of operations have been made. All such adjustments are of a normal, recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements and notes thereto are presented in accordance with the instructions for Form 10-Q. The information included in the Company's 2015 Annual Report on Form 10-K should be referred to in connection with these unaudited interim financial statements.

Note 2 – Earnings Per Common Share

The following reconciles the numerator and denominator of the basic and diluted earnings per common share computation:

(In thousands except average market price)

	Six months Ended June 30, 2016		Three months Ended June 30, 2015	
Numerator (Net income)	\$3,213	\$2,847	\$1,745	\$1,443
Denominator				
Weighted average common shares outstanding for:				
Basic earnings per share	6,554	6,534	6,584	6,539
Dilutive securities:				
Deferred compensation	38	50	38	50
Warrants/Restricted stock – Treasury stock method	141	94	147	109
Diluted earnings per share	6,733	6,678	6,769	6,698
The average market price used in calculating assumed number of shares	\$14.00	\$12.12	\$14.00	\$12.12

In the fourth quarter of 2011, we issued \$2.5 million in 8.75% subordinated notes maturing December 16, 2019. On November 15, 2012, the subordinated notes were redeemed in full at par. Warrants for 107,500 shares of common stock at \$5.90 per share were issued in connection with the issuance of the subordinated notes. At June 30, 2016 there were 97,180 warrants outstanding. These warrants expire on December 16, 2019 and are included in dilutive securities in the table above.

The Company has issued a total of 138,000 restricted shares under the terms of its compensation plans and employment agreements. The employee shares cliff vest over a three year period, and the non-employee director shares vest one year after issuance. The unrecognized compensation cost at June 30, 2016 for non-vested shares amounts to \$405 thousand.

In 2006, the Company established a Non-Employee Director Deferred Compensation Plan, whereby a director may elect to defer all or any part of their annual retainer and monthly meeting fees payable with respect to service on the board of directors or a committee of the board. Units of common stock are credited to the director's account at the time compensation is earned and are included in dilutive securities in the table above. At June 30, 2016 there were 99,050 units issued under the Plan. The accrued liability at June 30, 2016 amounted to \$922.5 thousand and is included in "Other liabilities" on the balance sheet.

Note 3—Investment Securities

The amortized cost and estimated fair values of investment securities at June 30, 2016 and December 31, 2015 are summarized below:

AVAILABLE-FOR-SALE:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016:				
US Treasury securities	\$ 1,542	\$ 35	\$ —	\$ 1,577
Government sponsored enterprises	954	78	—	1,032
Mortgage-backed securities	149,415	2,168	315	151,268
Small Business Administration pools	55,223	476	348	55,351
State and local government	52,595	3,663	—	56,258
Corporate and other securities	1,882	—	53	1,829
	\$ 261,611	\$ 6,420	\$ 716	\$ 267,315
December 31, 2015:				
US Treasury securities	\$ 1,547	\$ —	\$ 25	\$ 1,522
Government sponsored enterprises	950	42	—	992
Mortgage-backed securities	146,935	498	1,172	146,261
Small Business Administration pools	57,474	355	501	57,328
State and local government	55,294	2,037	36	57,295
Corporate and other securities	1,349	—	60	1,289
	\$ 263,549	\$ 2,932	\$ 1,794	\$ 264,687

HELD-TO-MATURITY:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016:				
State and local government	\$ 17,283	\$ 817	\$ —	\$ 18,100
	\$ 17,283	\$ 817	\$ —	\$ 18,100
December 31, 2015:				
State and local government	\$ 17,371	\$ 211	\$ 27	\$ 17,555
	\$ 17,371	\$ 211	\$ 27	\$ 17,555

During the six months ended June 30, 2016 and 2015, the Company received proceeds of \$14.1 million and \$17.1 million, respectively, from the sale of investment securities available-for-sale. For the six months ended June 30, 2016, gross realized gains totaled \$123 thousand and there were no gross realized losses. For the six months ended June 30, 2015, gross realized gains totaled \$271 thousand and there were no gross realized losses. During the three months ended June 30, 2016 and 2015, the Company received proceeds of \$2.2 million and \$10.1 million, respectively, from the sale of investment securities available-for-sale. For the three months ended June 30, 2016, gross realized gains totaled \$64 thousand and there were no gross realized losses. For the three months ended June 30,

2015, gross realized gains totaled \$167 thousand and there were no gross realized losses.

At June 30, 2016, corporate and other securities available-for-sale included the following at fair value: mutual funds at \$826.1 thousand, foreign debt of \$60.2 thousand, and preferred stock in the amount of \$950.0 thousand. At December 31, 2015, corporate and other securities available-for-sale included the following at fair value: mutual funds at \$839.2 thousand, foreign debt of \$60.3 thousand, and corporate preferred stock in the amount of \$416.8 thousand.

Other investments, at cost, include Federal Home Loan Bank (“FHLB”) stock in the amount of \$2.2 million and \$1.8 million at June 30, 2016 and December 31, 2015, respectively.

The following tables show gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous loss position, at June 30, 2016 and December 31, 2015. There were no held-to-maturity securities with gross unrealized losses at June 30, 2016.

June 30, 2016 (Dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale securities:						
Government Sponsored Enterprise mortgage-backed securities	\$ 13,693	\$ 109	\$ 15,017	\$ 201	\$ 28,710	\$ 310
Small Business Administration pools	6,708	16	24,810	331	31,518	347
Non-agency mortgage-backed securities	159	2	250	4	409	6
Corporate bonds and other	—	—	818	53	818	53
Total	\$ 20,560	\$ 127	\$ 40,895	\$ 589	\$ 61,455	\$ 716

December 31, 2015 (Dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale securities:						
US Treasury	\$ 1,522	\$ 25	\$ —	\$ —	\$ 1,522	\$ 25
Government Sponsored Enterprise mortgage-backed securities	69,112	731	17,593	439	86,705	1,170
Small Business Administration pools	13,386	153	25,709	348	39,095	501
Non-agency mortgage-backed securities	—	—	186	2	186	2
State and local government	1,461	8	1,362	28	2,823	36
Corporate bonds and other	—	—	812	60	812	60
Total	\$ 85,481	\$ 917	\$ 45,662	\$ 877	\$ 131,143	\$ 1,794

December 31, 2015 (Dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Held-to-maturity securities:						
State and local government	\$ 3,473	\$ 24	\$ 444	\$ 3	\$ 3,917	\$ 27
Total	\$ 3,473	\$ 24	\$ 444	\$ 3	\$ 3,917	\$ 27

Note 3—Investment Securities - continued

Government Sponsored Enterprise, Mortgage-Backed Securities: The Company owned mortgage-backed securities (“MBSs”), including collateralized mortgage obligations (“CMOs”), issued by government sponsored enterprises (“GSEs”) with an amortized cost of \$148.9 million and \$146.9 million and approximate fair value of \$150.8 million and \$146.3 million at June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016 and December 31, 2015, all of the MBSs issued by GSEs were classified as “Available for Sale.” Unrealized losses on certain of these investments are not considered to be “other than temporary,” and we have the intent and ability to hold these until they mature or recover the current book value. The contractual cash flows of the investments are guaranteed by the GSE. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company’s investment. Because the Company does not intend to sell these securities and it is more likely than not the Company will not be required sell these securities before a recovery of its amortized cost, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at June 30, 2016.

Non-agency Mortgage-Backed Securities: The Company held private label mortgage-backed securities (“PLMBSs”), including CMOs, at June 30, 2016 with an amortized cost of \$480.4 thousand and approximate fair value of \$475.7 thousand. The Company held PLMBSs, including CMOs, at December 31, 2015 with an amortized cost of \$554.8 thousand and approximate fair value of \$556.3 thousand. Management monitors each of these securities on a quarterly basis to identify any deterioration in the credit quality, collateral values and credit support underlying the investments.

State and Local Governments and Other: Management monitors these securities on a quarterly basis to identify any deterioration in the credit quality. Included in the monitoring is a review of the credit rating, a financial analysis and certain demographic data on the underlying issuer. The Company does not consider these securities to be other-than-temporarily impaired at June 30, 2016.

The following sets forth the amortized cost and fair value of investment securities at June 30, 2016 by contractual maturity. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay the obligations with or without prepayment penalties. MBSs are based on average life at estimated prepayment speeds.

(Dollars in thousands)	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$8,059	\$8,075	\$—	\$—
Due after one year through five years	143,234	145,584	4,994	5,147
Due after five years through ten years	100,893	104,248	12,289	12,953
Due after ten years	9,425	9,408	—	—
	\$261,611	\$267,315	\$17,283	\$18,100

Note 4—Loans

Loans summarized by category as of June 30, 2016, December 31, 2015 and June 30, 2015 are as follows:

(Dollars in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Commercial, financial and agricultural	\$39,480	\$ 37,809	\$37,915
Real estate:			
Construction	42,253	35,829	30,392
Mortgage-residential	50,500	49,077	49,341
Mortgage-commercial	339,276	326,978	315,373
Consumer:			
Home equity	31,608	30,906	32,264
Other	8,186	8,592	8,731
Total	\$511,303	\$ 489,191	\$474,016

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Note 4—Loans-continued

The detailed activity in the allowance for loan losses and the recorded investment in loans receivable as of and for the six months ended June 30, 2016 and 2015 and for the year ended December 31, 2015 is as follows:

(Dollars in thousands)

	Real estate Commercial	Real estate Construction	Real estate Residential	Real estate Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
June 30, 2016								
Allowance for loan losses:								
Beginning balance December 31, 2015	\$ 75	\$ 51	\$ 223	\$ 2,036	\$ 127	\$ 37	\$ 2,047	\$ 4,596
Charge-offs	—	—	(1)	(58)	(8)	(33)	—	(100)
Recoveries	3	—	5	8	2	6	—	24
Provisions	(7)	8	(20)	363	(28)	13	28	357
Ending balance June 30, 2016	\$ 71	\$ 59	\$ 207	\$ 2,349	\$ 93	\$ 23	\$ 2,075	\$ 4,877
Ending balances:								
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ 3	\$ —	\$ —	\$ —	\$ 3
Collectively evaluated for impairment	71	59	207	2,346	93	23	2,075	4,874
June 30, 2016 Loans receivable:								
Ending balance-total	\$ 39,480	\$ 42,253	\$ 50,500	\$ 339,276	\$ 31,608	\$ 8,186	\$ —	\$ 511,303
Ending balances:								
Individually evaluated for impairment	1	—	718	5,353	30	—	—	6,102
Collectively evaluated for impairment	\$ 39,479	\$ 42,253	\$ 49,782	\$ 333,923	\$ 31,578	\$ 8,186	\$ —	\$ 505,201

Note 4—Loans-continued

(Dollars in thousands)

	Real estate Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
June 30, 2015								
Allowance for loan losses:								
Beginning balance December 31, 2014	\$ 67	\$ 45	\$ 179	\$ 1,572	\$ 134	\$ 44	\$ 2,091	\$ 4,132
Charge-offs	(56)	—	(26)	(625)	—	(27)	—	(734)
Recoveries	3	—	2	5	2	74	—	86
Provisions	207	79	24	822	(17)	(31)	(287)	797
Ending balance June 30, 2015	\$ 221	\$ 124	\$ 179	\$ 1,774	\$ 119	\$ 60	\$ 1,804	\$ 4,281
Ending balances:								
Individually evaluated for impairment	\$ —	\$ —	\$ 3	\$ 1	\$ —	\$ —	\$ —	\$ 4
Collectively evaluated for impairment	221	124	176	1,773	119	60	1,804	4,277
June 30, 2015 Loans receivable:								
Ending balance-total	\$ 37,915	\$ 30,392	\$ 49,341	\$ 315,373	\$ 32,264	\$ 8,731	\$ —	\$ 474,016
Ending balances:								
Individually evaluated for impairment	13	—	997	5,924	89	—	—	7,023
Collectively evaluated for impairment	\$ 37,902	\$ 30,392	\$ 48,344	\$ 309,449	\$ 32,175	\$ 8,731	\$ —	\$ 466,993

Note 4—Loans-continued

(Dollars in thousands)

	Real estate Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
December 31, 2015 Allowance for loan losses:								
Beginning balance	\$ 67	\$ 45	\$ 179	\$ 1,572	\$ 134	\$ 44	\$ 2,091	\$ 4,132
December 31, 2014								
Charge-offs	(69)	—	(50)	(626)	—	(62)	—	(807)
Recoveries	6	—	7	33	3	84	—	133
Provisions	71	6	87	1,057	(10)	(29)	(44)	1,138
Ending balance	\$ 75	\$ 51	\$ 223	\$ 2,036	\$ 127	\$ 37	\$ 2,047	\$ 4,596
December 31, 2015								
Ending balances:								
Individually evaluated for impairment	\$ —	\$ —	\$ 3	\$ —	\$ —	\$ —	\$ —	\$ 3
Collectively evaluated for impairment	75	51	220	2,036	127	37	2,047	4,593
December 31, 2015 Loans receivable:								
Ending balance-total	\$ 37,809	\$ 35,829	\$ 49,077	\$ 326,978	\$ 30,906	\$ 8,592	\$ —	\$ 489,191
Ending balances:								
Individually evaluated for impairment	9	—	848	5,620	—	—	—	6,477
Collectively evaluated for impairment	\$ 37,800	\$ 35,829	\$ 48,229	\$ 321,358	\$ 30,906	\$ 8,592	\$ —	\$ 482,714

Loans outstanding and available lines of credit to bank directors, executive officers and their related business interests totaled \$8.8 million and \$8.4 million at June 30, 2016 and 2015, respectively. Repayments on these loans during the six months ended June 30, 2016 were \$378.9 thousand and there were no new loans made. During the six months ended June 30, 2015, repayments on these loans totaled \$1.2 million and loans made totaled \$1.7 million. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and generally do not involve more than the normal risk of collectability.

Note 4—Loans-continued

The detailed activity in the allowance for loan losses as of and for the three months ended June 30, 2016 and the three months ended June 30, 2015 is as follows:

(Dollars in thousands)

	Real estate	Real estate	Real estate	Real estate	Consumer	Consumer		
	Commercial	Construction	Residential	Commercial	Home equity	Other	Unallocated	Total
2016								
Allowance for loan losses:								
Beginning balance March 31, 2016	\$ 73	\$ 57	\$ 237	\$ 2,001	\$ 87	\$ 26	\$ 2,206	\$ 4,687
Charge-offs	—	—	(1)	(13)	(8)	(15)	—	(37)
Recoveries	1	—	3	2	1	3	—	10
Provisions	(3)	2	(32)	359	13	9	(131)	217
Ending balance June 30, 2016	\$ 71	\$ 59	\$ 207	\$ 2,349	\$ 93	\$ 23	\$ 2,075	\$ 4,877

(Dollars in thousands)

	Real estate	Real estate	Real estate	Real estate	Consumer	Consumer		
	Commercial	Construction	Residential	Commercial	Home equity	Other	Unallocated	Total
2015								
Allowance for loan losses:								
Beginning balance March 31, 2015	\$ 210	\$ 134	\$ 243	\$ 1,580	\$ 121	\$ 58	\$ 1,906	\$ 4,252
Charge-offs	—	—	(26)	(334)	—	(16)	—	(376)
Recoveries	1	—	1	1	1	10	—	14
Provisions	10	(10)	(39)	527	(3)	8	(102)	391
Ending balance June 30, 2015	\$ 221	\$ 124	\$ 179	\$ 1,774	\$ 119	\$ 60	\$ 1,804	\$ 4,281

The following table presents at June 30, 2016 and December 31, 2015 loans individually evaluated and considered impaired under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 310 “Accounting by Creditors for Impairment of a Loan.” Impairment includes performing troubled debt restructurings (“TDRs”).

(Dollars in thousands)

June 30, 2016 December 31, 2015

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Total loans considered impaired	\$ 6,102	\$ 6,477
Loans considered impaired for which there is a related allowance for loan loss:		
Outstanding loan balance	48	49
Related allowance	3	3
Loans considered impaired and previously written down to fair value	6,054	6,428
Average impaired loans	9,729	9,518

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Note 4—Loans-continued

The following tables are by loan category and present at June 30, 2016, December 31, 2015 and June 30, 2015 loans individually evaluated and considered impaired under FASB ASC 310 “Accounting by Creditors for Impairment of a Loan.” Impairment includes performing TDRs.

(Dollars in thousands)		Unpaid		Six months ended		Three months ended	
June 30, 2016	Recorded Investment	Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:							
Commercial	\$ 1	\$ 1	\$ —	\$ 6	\$ —	\$ 3	\$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	670	687	—	794	1	837	1
Mortgage-commercial	5, 353	7,855	—	8,851	50	8,796	24
Consumer:							
Home Equity	30	30	—	30	—	30	—
Other	—	—	—	—	—	—	—
With an allowance recorded:							
Commercial	—	—	—	—	—	—	—
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	48	48	3	48	1	48	1
Mortgage-commercial	—	—	—	—	—	—	—
Consumer:							
Home Equity	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total:							
Commercial	\$ 1	\$ 1	\$ —	\$ 6	\$ —	\$ 3	\$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	718	735	3	842	1	837	1
Mortgage-commercial	5, 353	7,855	—	8,851	50	8,796	24
Consumer:							
Home Equity	30	30	—	30	—	30	—
Other	—	—	—	—	—	—	—
	\$ 6,102	\$ 8,621	\$ 3	\$ 9,729	\$ 51	\$ 9,666	\$ 25

Note 4—Loans-continued

(Dollars in thousands)

June 30, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Six months ended Average Recorded Investment	Interest Income Recognized	Three months ended Average Recorded Investment	Interest Income Recognized
With no allowance recorded:							
Commercial	\$ 13	\$ 13	\$ —	\$ 15	\$ 1	\$ 14	\$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	946	1,201	—	1,207	14	1,204	8
Mortgage-commercial	5,890	8,327	—	8,428	165	8,073	79
Consumer:							
Home Equity	89	95	—	96	2	97	1
Other	—	—	—	—	—	—	—
With an allowance recorded:							
Commercial	—	—	—	—	—	—	—
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	51	51	3	52	2	51	—
Mortgage-commercial	34	34	1	34	1	346	—
Consumer:							
Home Equity	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total:							
Commercial	\$ 13	\$ 13	\$ —	\$ 15	\$ 1	\$ 14	\$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	997	1,252	3	1,259	16	1,255	8
Mortgage-commercial	5,924	8,361	1	8,462	166	8,419	79
Consumer:							
Home Equity	89	95	—	96	2	97	1
Other	—	—	—	—	—	—	—
	\$ 7,023	\$ 9,721	\$ 4	\$ 9,832	\$ 185	\$ 9,785	\$ 88

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Note 4—Loans-continued

(Dollars in thousands)

December 31, 2015

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	\$ 9	\$ 9	\$ —	\$ 13	\$ —
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	799	874	—	1,082	1
Mortgage-commercial	5,620	7,548	—	8,372	60
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
With an allowance recorded:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	49	49	3	51	3
Mortgage-commercial	—	—	—	—	—
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
Total:					
Commercial	9	9	—	13	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	848	923	3	1,133	4
Mortgage-commercial	5,620	7,548	—	8,372	60
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
	\$ 6,477	\$ 8,480	\$ 3	\$ 9,518	\$ 64

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a monthly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered as pass rated loans. As of June 30, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk category of loans by class of loans is shown in the table below. As of June 30, 2016 and December 31, 2015, no loans were classified as doubtful.

Note 4—Loans-continued

(Dollars in thousands)

June 30, 2016

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	\$39,247	\$232	\$ 1	\$ —	\$39,480
Real estate:					
Construction	41,912	341	—	—	42,253
Mortgage – residential	48,742	776	982	—	50,500
Mortgage – commercial	320,094	11,775	7,407	—	339,276
Consumer:					
Home Equity	31,274	173	161	—	31,608
Other	8,185	—	1	—	8,186
Total	\$489,454	\$13,297	\$ 8,552	\$ —	\$511,303

(Dollars in thousands)

December 31, 2015

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	\$37,501	\$ 299	\$ 9	\$ —	\$37,809
Real estate:					
Construction	35,374	455	—	—	35,829
Mortgage – residential	46,580	1,378	1,119	—	49,077
Mortgage – commercial	310,367	7,555	9,056	—	326,978
Consumer:					
Home Equity	30,587	180	139	—	30,906
Other	8,587	1	4	—	8,592
Total	\$468,996	\$ 9,868	\$ 10,327	\$ —	\$489,191

At June 30, 2016 and December 31, 2015, non-accrual loans totaled \$4.5 million and \$4.8 million, respectively.

TDRs that are still accruing and included in impaired loans at June 30, 2016 and December 31, 2015 amounted to \$1.6 million and \$1.6 million, respectively. TDRs in non-accrual status at June 30, 2016 and December 31, 2015 amounted to \$1.5 million and \$1.8 million, respectively.

Loans greater than 90 days delinquent and still accruing interest were \$38.1 thousand as of June 30, 2016. There were no loans greater than 90 days delinquent and still accruing interest as of December 31, 2015.

Note 4—Loans-continued

We account for acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk.

Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration are considered impaired. Loans acquired through business combinations that do not meet the specific criteria of FASB ASC Topic 310-30, but for which a discount is attributable, at least in part to credit quality, are also accounted for under this guidance. Certain acquired loans, including performing loans and revolving lines of credit (consumer and commercial), are accounted for in accordance with FASB ASC Topic 310-20, where the discount is accreted through earnings based on estimated cash flows over the estimated life of the loan.

Purchase credit impaired (“PCI”) loans acquired totaled \$4.2 million at estimated fair value, and acquired performing loans totaling \$102.3 million at estimated fair value were not credit impaired. The gross contractual amount receivable for PCI loans and acquired performing loans was approximately \$5.7 million and \$116.0 million, respectively, as of the acquisition date. For the acquired performing loans, the best estimate at acquisition date of contractual cash flows not expected to be collected is \$825 thousand. Determining the fair value of PCI loans at acquisition required the Company to estimate cash flows expected to result from those loans and to discount those cash flows at appropriate rates of interest. For such loans, the excess of cash flows expected to be collected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans and is called the accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and is called the nonaccretable difference. In accordance with GAAP, there was no carry-over of previously established allowance for credit losses from the acquired company.

In conjunction with the acquisition of Savannah River Financial Corporation of Augusta, Georgia, the bank holding company for Savannah River Banking Company (“Savannah River”), on February 1, 2014, the acquired PCI loan portfolio was accounted for at fair value as follows:

(Dollars in thousands)	February 1, 2014
Contractual principal and interest at acquisition	\$ 5,717
Nonaccretable difference	(1,205)
Expected cash flows at acquisition	4,512

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Accretable yield	(272)
Basis in PCI loans at acquisition – estimated fair value	\$ 4,240	

Note 4—Loans-continued

A summary of changes in the accretable yield for PCI loans for the three and six months ended June 30, 2016 and 2015 follows (in thousands):

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Accretable yield, beginning of period	\$ 50	\$ 92
Accretion	(91)	(133)
Reclassification of nonaccretable difference due to improvement in expected cash flows	94	94
Accretable yield, end of period	\$ 53	\$ 53
	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Accretable yield, beginning of period	\$ 28	\$ 75
Accretion	(34)	(471)
Reclassification of nonaccretable difference due to improvement in expected cash flows	141	531
Accretable yield, end of period	\$ 135	\$ 135

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Note 4—Loans-continued

The following tables are by loan category and present loans past due and on non-accrual status as of June 30, 2016 and December 31, 2015:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
June 30, 2016							
Commercial	\$ 163	\$ —	\$ —	\$ 1	\$ 164	\$39,316	\$ 39,480
Real estate:							
Construction	288	—	—	—	288	41,965	42,253
Mortgage-residential	319	—	—	670	989	49,511	50,500
Mortgage-commercial	413	455	—	3,801	4,669	334,607	339,276
Consumer:							
Home equity	62	70	31	30	193	31,415	31,608
Other	40	2	7	—	49	8,137	8,186
Total	\$ 1,285	\$ 527	\$ 38	\$ 4,502	\$ 6,352	\$504,951	\$ 511,303

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
December 31, 2015							
Commercial	\$ 5	\$ —	\$ —	\$ 9	\$ 14	\$37,795	\$ 37,809
Real estate:							
Construction	—	—	—	—	—	35,829	35,829
Mortgage-residential	126	195	—	799	1,120	47,957	49,077
Mortgage-commercial	1,180	290	—	4,031	5,501	321,477	326,978
Consumer:							
Home equity	135	—	—	—	135	30,771	30,906
Other	4	4	—	—	8	8,584	8,592
Total	\$ 1,450	\$ 489	\$ —	\$ 4,839	\$ 6,778	\$482,413	\$ 489,191

Note 4—Loans-continued

The Company reviews TDRs in accordance with applicable regulatory and accounting guidance

There were no loans determined to be TDRs that were restructured during the three and six month periods ended June 30, 2015 or the three month period ended June 30, 2016.

The following table, by loan category, presents one loan determined to be a TDR during the six month period ended June 30, 2016. The loan was modified to extend the term of the loan due to financial hardship of the borrower. The loan was subsequently paid off in June 2016.

(Dollars in thousands)	Troubled Debt Restructurings For the six months ended June 30, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Accrual			
Mortgage-Commercial	1	\$ 413	\$ 413
Total Accrual	1	\$ 413	\$ 413
Total TDRs	1	\$ 413	\$ 413

During the three and six month periods ended June 30, 2016 and 2015, there were no loans determined to be TDRs in the previous twelve months that had payment defaults. Defaulted loans are those loans that are greater than 89 days past due.

In the determination of the allowance for loan losses, all TDRs are reviewed to ensure that one of the three proper valuation methods (fair market value of the collateral, present value of cash flows, or observable market price) is adhered to. All non-accrual loans are written down to their corresponding collateral value. All troubled TDR accruing loans that have a loan balance that exceeds the present value of cash flows will have a specific allocation. All nonaccrual loans are considered impaired. Under ASC 310-10, a loan is impaired when it is probable that the Company will be unable to collect all amounts due including both principal and interest according to the contractual terms of the loan agreement.

Note 5 - Recently Issued Accounting Pronouncements

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. Although the amendments are expected to result in the deconsolidation of many entities, the Company will need to reevaluate all its previous consolidation conclusions. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance which changes the presentation of debt issuance costs. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance which provides a practical expedient that permits the Company to measure defined benefit plan assets and obligations using the month-end that is closest to the Company's fiscal year-end. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance which provides guidance to customers about whether a cloud computing arrangement includes a software license. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2015, the FASB issued guidance which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Company for reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2015, the FASB issued amendments to the Interest topic of the Accounting Standards Codification to clarify the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements.

Note 5 - Recently Issued Accounting Pronouncements-continued

In September 2015, the FASB amended the Business Combinations topic of the Accounting Standards Codification to simplify the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. All entities are required to apply the amendments prospectively to adjustments to provisional amounts that occur after the effective date. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2015, the FASB amended the Income Taxes topic of the Accounting Standards Codification to simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments will be effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.- The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In March 2016, the FASB amended the Liabilities topic of the Accounting Standards Codification to address the current and potential future diversity in practice related to the derecognition of a prepaid stored-value product liability. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance using a modified retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective to each period presented. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB amended the Derivatives and Hedging topic of the Accounting Standards Codification to clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company will apply the guidance prospectively to each period presented. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB amended the Investments—Equity Method and Joint Ventures topic of the Accounting Standards Codification to eliminate the requirement to retroactively adopt the equity method of accounting. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company will apply the guidance prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The Company does not expect these amendments to have a material effect on its financial statements.

Note 5 - Recently Issued Accounting Pronouncements-continued

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Additionally, the guidance simplifies two areas specific to entities other than public business entities allowing them to apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics and also allowing them to make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. The amendments will be effective for the Company for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2019. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Note 6– Fair Value of Financial Instruments

The Company adopted FASB ASC Fair Value Measurement Topic 820, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 defines fair value as 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 on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Quoted prices in active markets for identical assets or liabilities.

Level 1

Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market

Level 2 data for substantially the full term of the assets or liabilities.

Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is

Level 3

determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

FASB ASC 825-10-50 “Disclosure about Fair Value of Financial Instruments”, requires the Company to disclose estimated fair values for its financial instruments. Fair value estimates, methods, and assumptions are set forth below.

Cash and Short Term Investments - The carrying amount of these financial instruments (cash and due from banks, interest-bearing bank balances, federal funds sold and securities purchased under agreements to resell) approximates fair value. All mature within 90 days and do not present unanticipated credit concerns and are classified as Level 1.

Investment Securities - Measurement is on a recurring basis based upon quoted market prices, if available. If quoted market prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for prepayment assumptions, projected credit losses, and liquidity. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, or by dealers or brokers in active over-the-counter markets. Level 2 securities include MBSs issued both by government sponsored enterprises and PLMBSs. Generally these fair values are priced from established pricing models. Level 3 securities include corporate debt obligations and asset-backed securities that are less liquid or for which there is an inactive market.

Loans Held for Sale - The Company originates fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with an investor, are carried in the Company's loans held for sale portfolio. These loans are fixed rate residential loans that have been originated in the Company's name and have closed. Virtually all of these loans have commitments to be purchased by investors at a locked in price with the investors on the same day that the loan was locked in with the company's customers. Therefore, these loans present very little market risk for the Company and are classified as Level 2. The carrying amount of these loans approximates fair value.

Loans - The fair value of loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities and are classified as Level 2. As discount rates are based on current loan rates as well as management estimates, the fair values presented may not be indicative of the value negotiated in an actual sale. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair value of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Company considers to be Level 3 inputs.

Note 6 – Fair Value of Financial Instruments - continued

Other Real Estate Owned (OREO) - OREO is carried at the lower of carrying value or fair value on a non-recurring basis. Fair value is based upon independent appraisals or management's estimation of the collateral and is considered a Level 3 measurement.

Accrued Interest Receivable - The fair value approximates the carrying value and is classified as Level 1.

Deposits - The fair value of demand deposits, savings accounts, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposits is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities. Deposits are classified as Level 2.

Federal Home Loan Bank Advances - Fair value is estimated based on discounted cash flows using current market rates for borrowings with similar terms and are classified as Level 2.

Short Term Borrowings - The carrying value of short term borrowings (securities sold under agreements to repurchase and demand notes to the Treasury) approximates fair value. These are classified as Level 2.

Junior Subordinated Debentures - The fair values of junior subordinated debentures is estimated by using discounted cash flow analyses based on incremental borrowing rates for similar types of instruments. These are classified as Level 2.

Accrued Interest Payable -The fair value approximates the carrying value and is classified as Level 1.

Commitments to Extend Credit - The fair value of these commitments is immaterial because their underlying interest rates approximate market.

Note 6 – Fair Value of Financial Instruments - continued

The carrying amount and estimated fair value by classification level of the Company's financial instruments as of June 30, 2016 and December 31, 2015 are as follows:

(Dollars in thousands)	June 30, 2016				
	Carrying Amount	Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and short term investments	\$22,295	\$22,295	\$22,295	\$—	\$—
Held-to-maturity securities	17,283	18,100	—	18,100	—
Available-for-sale securities	267,315	267,315	818	265,547	950
Other investments, at cost	2,168	2,168	—	—	2,168
Loans held for sale	7,707	7,707	—	7,707	—
Net loans receivable	506,426	505,415	—	499,316	6,099
Accrued interest	2,934	2,934	2,934	—	—
Financial liabilities:					
Non-interest bearing demand	\$170,976	\$170,976	\$—	\$170,976	\$—
NOW and money market accounts	318,875	318,875	—	318,875	—
Savings	63,887	63,887	—	63,887	—
Time deposits	175,885	176,141	—	176,141	—
Total deposits	729,623	729,879	—	729,879	—
Federal Home Loan Bank Advances	32,445	33,993	—	33,993	—
Short term borrowings	21,112	21,112	—	21,112	—
Junior subordinated debentures	14,964	14,961	—	14,961	—
Accrued interest payable	621	621	621	—	—
December 31, 2015					
(Dollars in thousands)	Fair Value				
	Carrying Amount	Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and short term investments	\$22,941	\$22,941	\$22,941	\$—	\$—
Held-to-maturity securities	17,371	17,555	—	17,555	—
Available-for-sale securities	264,687	264,687	812	263,458	417
Other investments, at cost	1,783	1,783	—	—	1,783
Loans held for sale	2,962	2,962	—	2,962	—
Net loans receivable	484,595	484,669	—	478,195	6,474
Accrued interest	2,877	2,877	2,877	—	—
Financial liabilities:					
Non-interest bearing demand deposits	\$156,247	\$156,247	\$—	\$156,247	\$—
NOW and money market accounts	318,308	318,308	—	318,308	—
Savings	60,699	60,699	—	60,699	—
Time deposits	180,897	181,325	—	181,325	—

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Total deposits	716,151	716,579	—	716,579	—
Federal Home Loan Bank Advances	24,788	25,841	—	25,841	—
Short term borrowings	21,033	21,033	—	21,033	—
Junior subordinated debentures	14,964	14,954	—	14,954	—
Accrued interest payable	652	652	652	—	—

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Note 6 – Fair Value of Financial Instruments - continued

The following tables summarize quantitative disclosures about the fair value for each category of assets carried at fair value as of June 30, 2016 and December 31, 2015 that are measured on a recurring basis. There were no liabilities carried at fair value as of June 30, 2016 or December 31, 2015 that are measured on a recurring basis.

(Dollars in thousands)

Description	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
US Treasury	\$ 1,577	\$ —	\$ 1,577	\$ —
Government sponsored enterprises	1,032	—	1,032	\$ —
Mortgage-backed securities	151,268	—	151,268	—
Small Business Administration securities	55,351	—	55,351	—
State and local government	56,258	—	56,258	—
Corporate and other securities	1,829	818	61	950
Total	\$ 267,315	\$ 818	\$ 265,547	\$ 950

(Dollars in thousands)

Description	December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
US Treasury Securities	\$ 1,522	\$ —	\$ 1,522	\$ —
Government sponsored enterprises	992	—	992	—
Mortgage-backed securities	146,261	—	146,261	—
Small Business Administration securities	57,328	—	57,328	—
State and local government	57,295	—	57,295	—
Corporate and other securities	1,289	812	60	417
Total	\$ 264,687	\$ 812	\$ 263,458	\$ 417

Note 6 – Fair Value of Financial Instruments – continued

The following table reconciles the changes in Level 3 financial instruments for the six months ended June 30, 2016 and 2015 that are measured on a recurring basis.

(Dollars in thousands)	June 30,	
	2016	2015
	Corporate Preferred Stock	Corporate Preferred Stock
Beginning Balance	\$417	\$ 417
Total gains or losses (realized/unrealized) Included in earnings	—	—
Included in other comprehensive income	—	—
Purchases, issuances, and settlements	950	—
Maturities, sales, payoffs	(417)	—
Transfers in and/or out of Level 3	—	—
Ending Balance	\$950	\$ 417

The following table reconciles the changes in Level 3 financial instruments for the three months ended June 30, 2016 and June 30, 2015 that are measured on a recurring basis.

(Dollars in thousands)	June 30,	
	2016	2015
	Corporate Preferred Stock	Corporate Preferred Stock
Beginning Balance	\$417	\$ 417
Total gains or losses (realized/unrealized) Included in earnings	—	—
Included in other comprehensive income	—	—
Purchases, issuances, and settlements	950	—
Maturities, sales, payoffs	(417)	—
Transfers in and/or out of Level 3	—	—
Ending Balance	\$950	\$ 417

Note 6 – Fair Value of Financial Instruments – continued

The following tables summarize quantitative disclosures about the fair value for each category of assets carried at fair value as of June 30, 2016 and December 31, 2015 that are measured on a non-recurring basis.

(Dollars in thousands)

Description	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial & Industrial	\$ 1	\$ —	\$ —	\$ 1
Real estate:				
Mortgage-residential	715	—	—	715
Mortgage-commercial	5,353	—	—	5,353
Consumer:				
Home equity	30	—	—	30
Other	—	—	—	—
Total impaired	6,099	—	—	6,099
Other real estate owned:				
Construction	—	—	—	—
Mortgage-residential	336	—	—	336
Mortgage-commercial	1,019	—	—	1,019
Total other real estate owned	1,355	—	—	1,355
Total	\$ 7,454	\$ —	\$ —	\$ 7,454

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Note 6 – Fair Value of Financial Instruments - continued

(Dollars in thousands)

Description	December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial	\$ 9	\$ —	\$ —	\$ 9
Real estate:				
Mortgage-residential	845	—	—	845
Mortgage-commercial	5,620	—	—	5,620
Consumer:				
Home equity	—	—	—	—
Other	—	—	—	—
Total impaired	6,474	—	—	6,474
Other real estate owned:				
Construction	276	—	—	276
Mortgage-residential	191	—	—	191
Mortgage-commercial	1,991	—	—	1,991
Total other real estate owned	2,458	—	—	2,458
Total	\$ 8,932	\$ —	\$ —	\$ 8,932

The Company has a large percentage of loans with real estate serving as collateral. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair value of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Company considers to be Level 3 inputs. Third party appraisals are generally obtained when a loan is identified as being impaired or at the time it is transferred to OREO. This internal process consists of evaluating the underlying collateral to independently obtained comparable properties. With respect to less complex or smaller credits, an internal evaluation may be performed. The independent and internal evaluations are generally updated annually. Factors considered in determining the fair value include geographic sales trends, the value of comparable surrounding properties as well as the condition of the property. The aggregate amount of impaired loans was \$6.1 million and \$6.5 million as of June 30, 2016 and December 31, 2015, respectively.

Note 6 – Fair Value of Financial Instruments - continued

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of June 30, 2016 and December 31, 2015, the significant unobservable inputs used in the fair value measurements were as follows:

(Dollars in thousands)	Fair Value as of June 30, 2016	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Preferred stock	\$ 950	Estimation based on comparable non-listed securities	Comparable transactions	n/a
OREO	\$1,355	Appraisal Value/Comparison Sales/Other estimates	Appraisals and or sales of comparable properties	Appraisals discounted 6% to 16% for sales commissions and other holding cost
Impaired loans	\$6,099	Appraisal Value	Appraisals and or sales of comparable properties	Appraisals discounted 6% to 16% for sales commissions and other holding cost
(Dollars in thousands)	Fair Value as of December 31, 2015	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Preferred stock	\$ 417	Estimation based on comparable non-listed securities	Comparable transactions	n/a
OREO	\$2,458	Appraisal Value/Comparison Sales/Other estimates	Appraisals and or sales of comparable properties	Appraisals discounted 6% to 16% for sales commissions and other holding cost
Impaired loans	\$6,474	Appraisal Value	Appraisals and or sales of comparable properties	Appraisals discounted 6% to 16% for sales commissions and other holding cost

Note 7 — Deposits

The Company's total deposits are comprised of the following at the dates indicated:

(Dollars in thousands)	June 30, 2016	December 31, 2015
Non-interest bearing demand deposits	\$ 170,976	\$ 156,247
NOW and money market accounts	318,875	318,308
Savings	63,887	60,699
Time deposits	175,885	180,897
Total deposits	\$ 729,623	\$ 716,151

As of June 30, 2016 and December 31, 2015, the Company had time deposits greater than \$250,000 of \$22.1 million and \$21.2 million, respectively.

Note 8 – Reportable Segments

The Company's reportable segments represent the distinct product lines the Company offers and are viewed separately for strategic planning by management. The Company has four reportable segments:

Commercial and retail banking: The Company's primary business is to provide deposit and lending products and services to its commercial and retail customers.

Mortgage banking: This segment provides mortgage origination services for loans that will be sold to investors in the secondary market.

Investment advisory and non-deposit: This segment provides investment advisory services and non-deposit products.

Corporate: This segment includes the parent company financial information, including interest on parent company debt and dividend income received from First Community Bank (the "Bank").

The following tables present selected financial information for the Company's reportable business segments for the three and six months ended June 30, 2016 and 2015:

Six months ended June 30, 2016 (Dollars in thousands)	Commercial and Retail Banking	Mortgage Banking	Investment advisory and non-deposit	Corporate	Eliminations	Consolidated
Dividend and Interest Income	\$ 14,396	\$ 82	\$ —	\$ 1,414	\$ (1,296)	\$ 14,596
Interest expense	1,343	—	—	239	—	1,582
Net interest income	\$ 13,053	\$ 82	\$ —	\$ 1,175	\$ —	\$ 13,014
Provision for loan losses	357	—	—	—	—	357
Noninterest income	2,187	1,578	588	—	—	4,353
Noninterest expense	10,722	1,155	517	281	—	12,675
Net income before taxes	\$ 4,161	\$ 505	\$ 71	\$ 894	\$ —	\$ 4,335
Income tax (provision) benefit	(1,233)	—	—	111	—	(1,122)
Net income (loss)	\$ 2,928	\$ 505	\$ 71	\$ 1,005	\$ —	\$ 3,213
Three months ended June 30, 2016 (Dollars in thousands)	Commercial and Retail Banking	Mortgage Banking	Investment advisory and non-deposit	Corporate	Eliminations	Consolidated
Dividend and Interest Income	\$ 7,389	\$ 55	\$ —	\$ 679	\$ (664)	7,459
Interest expense	664	—	—	118	—	782
Net interest income	\$ 6,725	\$ 55	\$ —	\$ 561	\$ —	\$ 6,677
Provision for loan losses	217	—	—	—	—	217
Noninterest income	1,054	913	297	—	—	2,264
Noninterest expense	5,317	623	260	133	—	6,333
Net income before taxes	\$ 2,245	\$ 345	\$ 37	\$ 428	\$ —	\$ 2,391
Income tax (provision) benefit	(709)	—	—	63	—	(646)

Net income	\$ 1,536	\$ 345	\$ 37	\$ 491	\$ —	\$ 1,745
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Note 8 – Reportable Segments - continued

Six months ended June 30, 2015 (Dollars in thousands)	Commercial and Retail Banking	Mortgage Banking	Investment advisory and non-deposit	Corporate	Eliminations	Consolidated
Dividend and Interest Income	\$ 14,194	\$ 109	\$ —	\$ 1,127	\$ (1,098)	\$ 14,332
Interest expense	1,460	—	—	220	—	1,680
Net interest income	\$ 12,734	\$ 109	\$ —	\$ 907	\$ —	\$ 12,652
Provision for loan losses	797	—	—	—	—	797
Noninterest income	2,128	1,715	703	—	—	4,546
Noninterest expense	10,223	1,317	506	443	—	12,489
Net income before taxes	\$ 3,842	\$ 507	\$ 197	\$ 464	\$ —	\$ 3,912
Income tax (provision) benefit	(1,248)	—	—	183	—	(1,065)
Net income	\$ 2,594	\$ 507	\$ 197	\$ 647	\$ —	\$ 2,847
Three months ended June 30, 2015 (Dollars in thousands)	Commercial and Retail Banking	Mortgage Banking	Investment advisory and non-deposit	Corporate	Eliminations	Consolidated
Dividend and Interest Income	\$ 6,970	\$ 64	\$ —	\$ 547	\$ (532)	7,049
Interest expense	736	—	—	109	—	845
Net interest income	\$ 6,234	\$ 64	\$ —	\$ 438	\$ —	\$ 6,204
Provision for loan losses	391	—	—	—	—	391
Noninterest income	1,290	981	294	—	—	2,565
Noninterest expense	5,256	740	220	173	—	6,389
Net income before taxes	\$ 1,877	\$ 305	\$ 74	\$ 265	\$ —	\$ 1,989
Income tax (provision) benefit	(622)	—	—	76	—	(546)
Net income	\$ 1,255	\$ 305	\$ 74	\$ 341	\$ —	\$ 1,443
(Dollars in thousands)	Commercial and Retail Banking	Mortgage Banking	Investment advisory and non-deposit	Corporate	Eliminations	Consolidated
Total Assets as of June 30, 2016	\$ 877,142	\$ 9,594	\$ 37	\$ 95,445	\$ (93,381)	\$ 888,837
Total Assets as of December 31, 2015	\$ 855,888	\$ 4,355	\$ 34	\$ 93,296	\$ (90,839)	\$ 862,734

Note 8 – Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that

existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report contains statements which constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may relate to, among other matters, the financial condition, results of operations, plans, objectives, future performance, and business of our Company. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words "may," "would," "could," "should," "will," "expect," "anticipate," "predict," "project," "potential," "continue," "assume," "believe," "intend," "plan," "forecast," "goal," and "estimate," as well as similar expressions are used herein to identify such forward-looking statements. Potential risks and uncertainties that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, without limitation, those described under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission (the "SEC") and the following:

- credit losses as a result of, among other potential factors, declining real estate values, increasing interest rates, increasing unemployment, changes in customer payment behavior or other factors;
 - the amount of our loan portfolio collateralized by real estate and weaknesses in the real estate market;
- restrictions or conditions imposed by our regulators on our operations;
- the adequacy of the level of our allowance for loan losses and the amount of loan loss provisions required in future periods;
- examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for loan losses or write-down assets;
- reduced earnings due to higher other-than-temporary impairment charges resulting from additional decline in the value of our securities portfolio, specifically as a result of increasing default rates, and loss severities on the underlying real estate collateral;
 - increases in competitive pressure in the banking and financial services industries;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- changes in political conditions or the legislative or regulatory environment, including governmental initiatives affecting the financial services industry;
- general economic conditions resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in access to funding or increased regulatory requirements with regard to funding;
 - increased cybersecurity risk, including potential business disruptions or financial losses;
- changes in deposit flows;
- changes in technology;
- our current and future products, services, applications and functionality and plans to promote them;
- changes in monetary and tax policies;
- changes in accounting standards, policies, estimates, and practices;

- our assumptions and estimates used in applying critical accounting policies, which may prove unreliable, inaccurate or not predictive of actual results;
- the rate of delinquencies and amounts of loans charged-off;
- the rate of loan growth in recent years and the lack of seasoning of a portion of our loan portfolio;
- our ability to maintain appropriate levels of capital, including levels of capital required under the capital rules implementing Basel III;
- our ability to attract and retain key personnel;
- our ability to retain our existing clients, including our deposit relationships;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- disruptions due to flooding, severe weather or other natural disasters; and
- other risks and uncertainties detailed from time to time in our filings with the SEC.

Because of these and other risks and uncertainties, our actual future results may be materially different from the results indicated by any forward-looking statements. For additional information with respect to factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see “Risk Factors” under Part I, Item 1A of our 2015 Annual Report on Form 10-K as filed with the SEC. In addition, our past results of operations do not necessarily indicate our future results. Therefore, we caution you not to place undue reliance on our forward-looking information and statements.

All forward-looking statements in this report are based on information available to us as of the date of this report. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee you that these expectations will be achieved. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

The following discussion describes our results of operations for the six months and three months ended June 30, 2016 as compared to the six month and three month periods ended June 30, 2015 and also analyzes our financial condition as of June 30, 2016 as compared to December 31, 2015. Like most community banks, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section we have included a discussion of this process, as well as several tables describing our allowance for loan losses and the allocation of this allowance among our various categories of loans.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this non-interest income, as well as our non-interest expense, in the following discussion.

The following discussion and analysis identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this report.

Critical Accounting Policies

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States and with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in the footnotes to our unaudited consolidated financial statements as of June 30, 2016 and our notes included in the consolidated financial statements in our 2015 Annual Report on Form 10-K as filed with the SEC.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgment and assumptions we make, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Allowance for Loan Losses

We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgment and estimates used in preparation of our consolidated financial statements. Some of the more critical judgments supporting the amount of our allowance for loan losses include judgments about the credit worthiness of borrowers, the estimated value of the underlying collateral, the assumptions about cash flow, determination of loss factors for estimating credit losses, the impact of current events, and conditions, and other factors impacting the level of probable inherent losses. Under different conditions or using different assumptions, the actual amount of credit losses incurred by us may be different from management's estimates provided in our consolidated financial statements. Refer to the portion of this discussion that addresses our allowance for loan losses for a more complete discussion of our processes and methodology for determining our allowance for loan losses.

Goodwill and Other Intangibles

Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Qualitative factors are assessed to first determine if it is more likely than not (more than 50%) that the carrying value of goodwill is less than fair value. These qualitative factors include but are not limited to overall deterioration in general economic conditions, industry and market conditions, and overall financial performance. If determined that it is more likely than not that there has been a deterioration in the fair value of the carrying value than the first of a two-step process would be performed. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair

value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

If required, the second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Management has determined that the Company has four reporting units (See Note 8 to the Consolidated Financial Statements).

Core deposit intangibles consist of costs that resulted from the acquisition of deposits from Savannah River and First South. Core deposit intangibles represent the estimated value of long-term deposit relationships acquired in this transaction. These costs are amortized over the estimated useful lives of the deposit accounts acquired on a method that we believe reasonably approximates the anticipated benefit stream from the accounts. The estimated useful lives are periodically reviewed for reasonableness.

Income Taxes and Deferred Tax Assets and Liabilities

Income taxes are provided for the tax effects of the transactions reported in our consolidated financial statements and consist of taxes currently due plus deferred taxes related to differences between the tax basis and accounting basis of certain assets and liabilities, including available-for-sale securities, allowance for loan losses, write downs of OREO properties, accumulated depreciation, net operating loss carry forwards, accretion income, deferred compensation, intangible assets, and pension plan and post-retirement benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. A valuation allowance is recorded when it is “more likely than not” that a deferred tax asset will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. We file a consolidated federal income tax return for the Bank. At June 30, 2016 and December 31, 2015, we were in a net deferred tax asset position.

Other-Than-Temporary Impairment

We evaluate securities for other-than-temporary impairment at least on a quarterly basis. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the outlook for receiving the contractual cash flows of the investments, (4) the anticipated outlook for changes in the general level of interest rates, and (5) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its fair value (See Note 3 to the Consolidated Financial Statements).

Business Combinations, Method of Accounting for Loans Acquired

We account for acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk.

Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration are considered impaired. Loans acquired through business combinations that do not meet the specific criteria of FASB ASC Topic 310-30, but for which a discount is attributable, at least in part to credit quality, are also accounted for under this guidance. Certain acquired loans, including performing loans and revolving lines of credit (consumer and commercial), are accounted for in accordance with FASB ASC Topic 310-20, where the discount is accreted through earnings based on estimated cash flows over the estimated life of the loan.

Comparison of Results of Operations for Six Months Ended June 30, 2016 to the Six Months Ended June 30, 2015

Net Income

Our net income for the six months ended June 30, 2016 was \$3.2 million or \$0.47 diluted earnings per common share, as compared to \$2.8 million or \$0.43 diluted earnings per common share for the six months ended June 30, 2015. Net interest income increased \$802 thousand for the six months ended June 30, 2016 as compared to the same period 2015. This increase is a result of an increase in average earning assets, which increased by \$44.7 million in the first

half of 2016 as compared to the same period in 2015. Average earning assets were \$756.0 million during the six months ended June 30, 2015 as compared to \$800.6 million during the six months ended June 30, 2016. The net interest margin on a tax equivalent basis decreased to 3.67% during the first half of 2016 as compared to 3.82% during the first six months of 2015. Non-interest income decreased by \$193 thousand in the first six months of 2016 compared to the first six months of 2015. This was primarily attributable to a decrease in mortgage banking income and investment advisory fees and non-deposit commissions of \$137 thousand and \$115 thousand, respectively, in the six months ended June 30, 2016 as compared to the same period in 2015. Non-interest expense in the six months ended June 30, 2016 increased \$186 thousand as compared to the same period in 2015.

Net Interest Income

Please refer to the table at the end of this Item 2 for the yield and rate data for interest-bearing balance sheet components during the six-month periods ended June 30, 2016 and 2015, along with average balances and the related interest income and interest expense amounts.

Net interest income was \$13.0 million for the six months ended June 30, 2016 as compared to \$12.7 million for the six months ended June 30, 2015. The \$362 thousand increase in net interest income was attributable to an increase in average earning assets of \$44.7 million partially offset by a decrease of 9 basis points in the taxable equivalent net interest margin between the two periods. Our net interest margin on a tax equivalent basis decreased 9 basis points, from 3.47% at June 30, 2015 to 3.38% at June 30, 2016. The net interest margin was positively impacted during the first six months of 2015 as a result of two pay-offs on purchased credit impaired loans. These two payoffs accounted for approximately 9 basis points in our taxable equivalent net-interest margin for the six months ended June 30, 2015. During the first six months of 2016, the net interest margin was positively impacted by an investment that had been purchased at a discount and was called at par during the second quarter of 2016. The \$82 thousand remaining discount recognized in interest income accounted for approximately 2 basis points of the taxable equivalent net interest margin for the six months ended June 30, 2016. The yield on earning assets decreased by 15 basis points in the first half of 2016 as compared to the same period in 2015. Average loans comprised 62.6% of average earning assets in the first six months of 2016 as compared to 61.1% in the same period of 2015. The yield on our loan portfolio decreased 39 basis points in the six month-period ended June 30, 2016 to 4.66% as compared to 5.06% during the same period in 2015. As previously noted, the yield on loans was positively impacted by recognizing the discount on two purchased impaired loans that paid off in the six months ended June 30, 2015. The yield on our investment portfolio increased from 1.97% for the six month ended June 30, 2015 to 2.09% for the same period in 2016. The previously mentioned \$82 thousand discount recognized on a called bond accounted for approximately 6 basis points of the investment yield increase between the two periods. The cost of interest-bearing liabilities during the first six months of 2016 was 0.51% as compared to 0.56% in the same period of 2015, reflecting a 5 basis point decrease. The continued focus and resulting shift in our deposit funding mix has continued to allow us to lower our overall cost of funds. Interest-bearing transaction accounts, money market accounts and savings deposits, which are typically our lower costing funds, represent 61.3% of our average interest bearing liabilities during the first six months of 2016 as compared to 57.9% in the same period of 2015.

Provision and Allowance for Loan Losses

At June 30, 2016 and December 31, 2015, the allowance for loan losses was \$4.9 million and \$4.6 million, respectively. This represented 0.95% of total loans and 0.94% of loans at June 30, 2016 and December 31, 2015, respectively. No allowance for loan losses related to the Savannah River acquired loans was recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired were recorded at the acquisition date fair value, which was based on expected cash flows and included an estimation of expected future loan losses for the purchased credit-impaired loans, including principal and interest. There have been no material adjustments to our original assumptions since the acquisition date. At June 30, 2016 and December 31, 2015, the allowance for loan losses plus the fair value adjustment related to credit as a percentage of total loans (excluding loans held for sale) was 1.03% and 1.15%, respectively. Our provision for loan losses was \$357 thousand for the six months ended June 30, 2016 as compared to \$797 thousand for the six months ended June 30, 2015. This provision is made based on our assessment of general loan loss risk and asset quality. The allowance for loan losses represents an amount which we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. Our determination of the allowance for loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of our overall loan portfolio, the experience ability and depth of lending personnel, economic conditions (local and national) that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, our historical loan loss experience, and a review of specific problem loans. We also consider subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight, and concentrations of credit. Periodically, we adjust the amount of the allowance based on changing circumstances. We charge recognized losses to the allowance

and add subsequent recoveries back to the allowance for loan losses.

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We perform an analysis quarterly to assess the risk within the loan portfolio. The portfolio is segregated into similar risk components for which historical loss ratios are calculated and adjusted for identified changes in current portfolio characteristics. Historical loss ratios are calculated by product type and by regulatory credit risk classification (See Note 4 – Loans). The annualized weighted average loss ratios over the last 36 months for loans classified substandard, special mention and pass have been approximately 5.81%, 3.19% and 0.07%, respectively. The allowance consists of an allocated and unallocated allowance. The allocated portion is determined by types and ratings of loans within the portfolio. The unallocated portion of the allowance is established for losses that exist in the remainder of the portfolio and compensates for uncertainty in estimating the loan losses. The allocated portion of the allowance is based on historical loss experience as well as certain qualitative factors as explained above. The qualitative factors have been established based on certain assumptions made as a result of the current economic conditions and are adjusted as conditions change to be directionally consistent with these changes. The unallocated portion of the allowance is composed of factors based on management's evaluation of various conditions that are not directly measured in the estimation of probable losses through the experience formula or specific allowances. The unallocated allowance of the portfolio is primarily identified through discussions with senior credit management and through consideration of various portfolio specifics and other uncertainties outside of our markets that could impact the risk inherent in the portfolio. These include factors such as uncertainty as to a sustainable economic recovery, ongoing global economic conditions and sustained levels of high national unemployment. Given these uncertainties in economic conditions and particularly real estate valuations, we do not believe it would be prudent to reduce substantially the overall level of our allowance at this time. As economic conditions show sustainable improvement, we believe the unallocated portion of the allowance should decrease as a percentage of the total allowance.

Our loan portfolio consists of a large percentage of real estate secured loans. Real estate values continue to be adversely impacted as a result of the economic downturn that began in late 2007. Impaired values of the underlying real estate collateral as well as continued slowdown in both residential and commercial real estate sales impacts our ability to sell collateral upon foreclosure, and there is a risk that this trend will continue. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses. If during a period of reduced real estate values we are required to liquidate the property collateralizing a loan to satisfy the debt or to increase the allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition.

Non-performing assets were \$5.9 million (0.66% of total assets) at June 30, 2016 as compared to \$7.5 million (0.86% of total assets) and \$7.3 million (0.85% of total assets) at March 31, 2016 and December 31, 2015, respectively. While we believe our amount of non-performing assets compares favorably to current industry results (both nationally and locally), we continue to be concerned about the impact of this economic environment on our customer base of local businesses and professionals. There were 43 loans, totaling \$4.5 million, included in non-performing status (non-accrual loans and loans past due 90 days and still accruing) at June 30, 2016. The largest non-performing loan is a \$975 thousand first mortgage on developed lots to be sold for residential use. The average balance of the remaining 42 loans is approximately \$106.0 thousand and the majority of these loans are secured by first mortgage liens. At the time the loans are placed in non-accrual status, we typically obtain an updated appraisal and, if the loan balance exceeds fair value, write the balance down to the fair value. At June 30, 2016, we had one loan delinquent more than 90 days in the amount of \$38 thousand and still accruing interest. At June 30, 2016, we had loans totaling \$1.8 million that were delinquent 30 days to 89 days which represented 0.35% of total loans.

Our management continuously monitors non-performing, classified and past due loans to identify deterioration regarding the condition of these loans. We have identified one loan relationship in the amount of \$1.1 million that is current as to principal and interest and not included in non-performing assets that could represent a potential problem loan. This balance is included as substandard loans in Note 4 of the financial statements.

The following table summarizes the activity related to our allowance for loan losses for the periods indicated:

Allowance for Loan Losses

(Dollars in thousands)	Six Months Ended			
	June 30, 2016	2015		
Average loans (including loans held for sale) outstanding	\$500,854	\$461,848		
Loans outstanding at period end	\$511,303	\$474,016		
Non-performing assets:				
Nonaccrual loans	\$4,502	\$5,349		
Loans 90 days past due still accruing	38	—		
Repossessed-other	—	—		
Foreclosed real estate and other assets	1,355	2,523		
Total non-performing assets	\$5,895	\$7,872		
Beginning balance of allowance	\$4,596	\$4,132		
Loans charged-off:				
1-4 family residential mortgage	1	26		
Non-residential real estate	58	625		
Home equity	8	—		
Commercial	—	56		
Installment & credit card	33	27		
Total loans charged-off	100	734		
Recoveries:				
1-4 family residential mortgage	5	2		
Non-residential real estate	8	5		
Home equity	2	2		
Commercial	3	3		
Installment & credit card	6	74		
Total recoveries	24	86		
Net loan charge offs	76	648		
Provision for loan losses	357	797		
Balance at period end	\$4,877	\$4,281		
Net charge-offs to average loans	0.02	%	0.14	%
Allowance as percent of total loans	0.95	%	0.90	%
Non-performing assets as % of total assets	0.66	%	0.94	%
Allowance as % of non-performing loans	107.42	%	80.03	%

The following allocation of the allowance to specific components is not necessarily indicative of future losses or future allocations. The entire allowance is available to absorb losses in the portfolio.

Composition of the Allowance for Loan Losses

(Dollars in thousands)	June 30, 2016			December 31, 2015		
	Amount	% of loans in Category	%	Amount	% of loans in Category	%
Commercial, Financial and Agricultural	\$71	7.7	%	\$75	7.7	%
Real Estate – Construction	59	8.2	%	51	7.3	%
Real Estate Mortgage:						
Commercial	2,349	66.4	%	2,036	66.9	%
Residential	207	9.9	%	223	10.0	%
Consumer:						
Home Equity	93	6.2	%	127	6.3	%
Other	23	1.6	%	37	1.8	%
Unallocated	2,075	N/A		2,047	N/A	
Total	\$4,877	100.0	%	\$4,596	100.0	%

Accrual of interest is discontinued on loans when management believes, after considering economic and business conditions and collection efforts that a borrower's financial condition is such that the collection of interest is doubtful. A delinquent loan is generally placed in nonaccrual status when it becomes 90 days or more past due. At the time a loan is placed in nonaccrual status, all interest, which has been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain.

Non-interest Income and Non-interest Expense

Non-interest income during the first half of 2016 was \$4.4 million as compared to \$4.5 million during the same period in 2015. Mortgage banking income decreased \$137 thousand during the first six months of 2016 compared to the same period in 2015, resulting primarily from the resignation of one mortgage loan producer in the first quarter of 2016. Investment advisory fees and non-deposit commissions decreased by \$115 thousand in the first half of 2016 as compared to the same period in 2015. During the second quarter of 2015, we had one transaction that is non-recurring that accounted for substantially all of the difference between the two periods. Management continues to focus on increasing this recurring source of revenue by increasing total assets under management. During the first half of 2015, we sold investment securities for a net gain of \$271 thousand as compared to a gain on the sale of investment securities of \$123 thousand in the same period of 2016. These gains in 2015 were partially offset by prepayment penalties in the amount of \$103 thousand resulting from early payoff of \$2.7 million of FHLB advances. There were no prepayment penalties in the first six months of 2016. Non-interest income other increased by \$196 thousand in the

first six months of 2016 as compared to the same period in 2015. This increase resulted from increased ATM/debit card income of \$78 thousand in first six months of 2016 as compared to the same period in 2015. In addition, income recognized on bank owned life insurance increased by \$97 thousand in the 2016 period as compared to 2015. At the end of 2015 the Bank purchased additional bank owned life insurance which accounts for the increased income.

Total non-interest expense increased by \$186 thousand, or 1.5%, during the first six months of 2016 as compared to the same period in 2015. Salary and benefit expense increased \$361 thousand from \$7.2 million in the first half of 2015 to \$7.6 million in the first half of 2016. This increase is primarily a result of the normal salary adjustments, the addition of the new Greenville loan production office staff in the first quarter of 2016, as well as increased medical benefit premiums. At June 30, 2015, we had 183 full time equivalent employees as compared to 187 at June 30, 2016. Occupancy expense increased \$85 thousand in the first half of 2016 as compared to the first half of 2015. The increase in occupancy expense primarily relates to repair costs associated with the fourth quarter 2015 flooding and rain that were not previously identified and determined not to be covered by insurance in the approximate amount of \$50 thousand as well as occupancy cost of \$15 thousand associated with opening the Greenville loan production office. Marketing and public relations expense decreased from \$554 thousand in the first half of 2015 to \$289 thousand in the first half of 2016. The timing of a media campaigns impact the recognition of marketing expense and, in 2015, more of these costs were primarily incurred in the first half of the year. It is expected that we will have higher media costs in the third and fourth quarters of 2016. Other real estate expense decreased \$236 thousand in the first half of 2016 as compared to the same period in 2015. This reflects the overall decrease in the level of our repossessed real estate assets between the two periods. Non-interest expense "Other" increased by \$209 thousand in the first half of 2016 as compared to the same period in 2015. This increase is a primarily a result increased ATM/debit card activity charges of \$194 thousand during the first half of 2016 as compared to the same period in 2015. We incurred \$64 thousand in costs associated with the mass reissue of our debit cards to implement the new EMV (chip) card in the first half of 2016. We have also had significantly higher levels of attempted fraud activity on our card base in the first half of 2016 as compared to the same period in 2015. There is a direct cost assessed by our processor for each card that is compromised or had attempted fraud activity. The higher level of fraud cases in the first half of 2016 accounted for approximately \$51.3 thousand of the ATM/debit card charges. We believe the "chip" card technology will ultimately reduce the level of fraud activity and losses on debit cards. Also included in the increase of "Other" non-interest expense were costs of approximately \$23 thousand related to converting our current bill pay system to another vendor. This conversion was completed in the second quarter of 2016.

The following is a summary of the components of other non-interest expense for the periods indicated:

(In thousands)	Six months ended June 30,	
	2016	2015
ATM/Debit card cost	\$474	\$284
Supplies	72	66
Telephone	172	183
Courier	47	44
Correspondent services	106	109
Dues	55	54
Subscriptions	75	68
Loan closing costs/fees	91	50
Insurance	139	137
Loss on limited partnership interest	75	86
Postage	92	95
Legal and Professional fees	300	286
Director fees	211	198

Shareholder expense	79	64
Other Miscellaneous	367	422
	\$2,355	\$2,146

Income Tax Expense

Our effective tax rate was 25.8% and 27.2% in the first half of 2016 and 2015, respectively. As a result of our current level of tax exempt securities in our investment portfolio, our effective tax rate is expected to remain at 26.0% to 27.0% throughout the remainder of 2016.

Comparison of Results of Operations for Three Months Ended June 30, 2016 to the Three Months Ended June 30, 2015:

Net Income

Our net income for the three months ended June 30, 2016 was \$1.7 million, or \$0.26 diluted earnings per common share, as compared to \$1.4 million, or \$0.22 diluted earnings per common share, for the three months ended June 30, 2015. The increase in net income between the two periods is primarily due to a \$473 thousand increase in net interest income and a lower provision for loan losses of \$174 thousand in the three months ended June 30, 2016 as compared to the same period of 2015. These increases were partially offset by a \$301 thousand decrease in non-interest income categories.

Net Interest Income

Please refer to the table “Yields on Average Earning Assets and Rates on Average Interest-Bearing Liabilities” appearing at the end of this Item for the yield and rate data for interest-bearing balance sheet components during the three-month periods ended June 30, 2016 and 2015, along with average balances and the related interest income and interest expense amounts.

Net interest income increased by \$473 thousand for the three months ended June 30, 2016 to \$6.7 million as compared to \$6.2 million in the same period in 2015. Our taxable equivalent net interest margin in the second quarter of 2016 was 3.43% compared to 3.34% in the same period of 2015. As noted previously, we recognized approximately \$82 thousand in discount in interest income on an investment that was called at par during the second quarter of 2016. Absent this discount our taxable equivalent net interest margin would have been approximately 3.38%. The yield on average earning assets increased to 3.71% (3.67% adjusted for the previously mentioned discount) the second quarter of 2016 from 3.69% in the second quarter of 2015. The extended period of historically low interest rates continues to put pressure on our net interest margin. We believe we can continue to offset some of this margin pressure by continuing to remix our balance sheet asset mix out of investments into the loan portfolio. Average earning assets were \$808.7 million during the second quarter of 2016 as compared to \$766.0 million during the second quarter of 2015. Average loans were \$509.5 million (63.0% of earning assets) in the second quarter of 2016 as compared to \$472.6 million (61.7% of earning assets) for the second quarter of 2015. The cost of interest bearing liabilities also decreased to 0.51% in the second quarter of 2016 as compared to 0.56% in the second quarter of 2015. Interest-bearing transaction accounts, money market accounts and savings deposits, which are typically our lower costing funds, represent 61.4% of our average interest bearing liabilities during the second quarter of 2016 as compared to 58.6% in the same period of 2016. Due to the continued historically low interest rate environment, the cost of these funds has remained very stable over the last several years. The current cost of these funds do not provide significant ability to offset further interest rate declines or a flattening of the yield curve.

Provision for Loan Losses

The provision for loan losses for the three months ended June 30, 2016 was \$217 thousand as compared to \$391 thousand for the three months ended June 30, 2015. As previously discussed, the provision is made based on our assessment of general loan loss risk and asset quality, historical loss experience and various other qualitative factors.

Non-interest Income and Non-interest Expense

For the three months ended June 30, 2016, we had non-interest income of \$2.3 million as compared to non-interest income of \$2.6 million in the same period of 2015. Mortgage banking income decreased slightly by \$67 thousand during the second quarter of 2016, as compared to the same period in 2015. Investment advisory fees and non-deposit commissions decreased \$110 thousand in the second quarter of 2016 as compared to the same period in 2015. As noted previously, we had a large transaction in the second quarter of 2015 that accounted for this decrease. Management continues to focus on increasing this recurring source of revenue by increasing total assets under management. Gains on the sale of securities in the second quarter of 2016 and 2015 amounted to \$64 thousand and \$167 thousand, respectively. Total proceeds from the sales in the second quarter of 2016 and 2015 amounted to approximately \$2.6 million and \$10.1 million, respectively. These proceeds partially funded loan growth during the two quarters.

Non-interest income other increased by \$70 thousand in the second quarter of 2016 as compared to the same period in 2015. As previously noted, this increase primarily resulted from increased ATM/debit card income as well as increased income recognized on bank owned life insurance.

Total non-interest expense decreased slightly by \$56 thousand in the second quarter of 2016, compared to the same period of 2015. Salaries and benefits increased \$175 thousand in the second quarter of 2016 as compared to the same period in 2015. This increase is primarily a result of normal salary adjustments and the addition of the four employees that were added as a result of the expansion of the loan production office in Greenville, South Carolina. Marketing and public relations expense decreased \$133 thousand in the second quarter of 2016 as compared to the same period in 2015. As noted in the six month results, the timing of our media marketing campaign was designed to be concentrated more in the first half of the year for 2015 and later in the year during 2016. The increase in salaries and benefits were partially offset by a \$133 thousand decrease in other real estate owned expenses

Financial Position

Assets totaled \$888.8 million at June 30, 2016 as compared to \$862.7 million at December 31, 2015, an increase of \$26.1 million. Loans increased by approximately \$22.1 million during the six months ended June 30, 2016. Loans (excluding loans held for sale) at June 30, 2016 were \$511.3 million as compared to \$489.2 million at December 31, 2015. Total loan production was \$66.1 million during the first half of 2016. At June 30, 2016 and December 31, 2015, loans (excluding loans held for sale) accounted for 62.7% and 62.1% of earning assets, respectively. The loan-to-deposit ratio at June 30, 2016 was 71.1% as compared to 68.7% at December 31, 2015. Investment securities increased to \$286.8 million at June 30, 2016 from \$283.8 million at December 31, 2015. Deposits increased \$13.4 million at June 30, 2016 as compared to December 31, 2015. Pure deposits (deposits less time deposits) represented 75.9% of total deposits as of June 30, 2016 as compared to 74.7% at December 31, 2015. We continue to focus on growing our pure deposits as a percentage of total deposits in order to better manage our overall cost of funds. Deposits were \$729.6 million at June 30, 2016 as compared to \$716.2 million at December 31, 2015. FHLB advances increased \$7.7 million from December 31, 2015 to June 30, 2016. This increase represented overnight advances that have been paid off subsequent to June 30, 2016. One of our goals as a community bank has been, and continues to be, to grow our assets through quality loan growth by providing credit to small and mid-size businesses and individuals within the markets we serve. Loan production and portfolio growth rates, although improving, continue to be impacted by the current economic cycle as borrowers are less inclined to leverage their corporate and personal balance sheets. We remain committed to meeting the credit needs of our local markets.

The following table shows the composition of the loan portfolio by category at June 30, 2016 and December 31, 2015:

(In thousands)	June 30, 2016		December 31, 2015	
	Amount	Percent	Amount	Percent
Commercial, financial & agricultural	\$39,480	7.7 %	\$37,809	7.7 %
Real estate:				
Construction	42,253	8.2 %	35,829	7.3 %
Mortgage – residential	50,500	9.9 %	49,077	10.0 %
Mortgage – commercial	339,276	66.4 %	326,978	66.9 %
Consumer:				

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Home Equity	31,608	6.2	%	30,906	6.3	%
Other	8,186	1.6	%	8,592	1.8	%
Total gross loans	511,303	100.0	%	489,191	100.0	%
Allowance for loan losses	(4,877)			(4,596)		
Total net loans	\$506,426			\$484,595		

In the context of this discussion, a real estate mortgage loan is defined as any loan, other than loans for construction purposes and advances on home equity lines of credit, secured by real estate, regardless of the purpose of the loan. Advances on home equity lines of credit are included in consumer loans. We follow the common practice of financial institutions in our market areas of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan components. Generally we limit the loan-to-value ratio to 80%.

Market Risk Management

The effective management of market risk is essential to achieving our strategic financial objectives. Our most significant market risk is interest rate risk. We have established an Asset/Liability Management Committee (“ALCO”) to monitor and manage interest rate risk. The ALCO monitors and manages the pricing and maturity of assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on net interest income. The ALCO has established policy guidelines and strategies with respect to interest rate risk exposure and liquidity.

A monitoring technique employed by the ALCO is the measurement of interest sensitivity “gap,” which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Simulation modeling is performed to assess the impact varying interest rates and balance sheet mix assumptions will have on net interest income. We model the impact on net interest income for several different changes, to include a flattening, steepening and parallel shift in the yield curve. For each of these scenarios, we model the impact on net interest income in an increasing and decreasing rate environment of 100 and 200 basis points. Policies have been established in an effort to maintain the maximum anticipated negative impact of these modeled changes in net interest income at no more than 10% and 15% respectively, in a 100 and 200 basis point change in interest rates over a twelve month period. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity or by adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates.

We are currently asset sensitive within one year. However, neither the “gap” analysis nor asset/liability simulation modeling is a precise indicator of our interest sensitivity position due to the many factors that affect net interest income, including changes in the volume and mix of earning assets and interest-bearing liabilities.

Net Interest Income Sensitivity

Change in short term interest rates	Hypothetical percentage change in net interest income		
	June 30, 2016	March 31, 2016	December 31, 2015
+200bp	+2.13 %	+1.68%	1.61 %
+100bp	+1.26 %	+1.18%	0.89 %
Flat	—	—	—
-100bp	-3.66 %	-4.08%	-3.55 %
-200bp	-4.60 %	-6.27%	-9.19 %

The decrease in net interest income in a down 200 basis point environment primarily results from the current level of interest rates being paid on our interest bearing transaction accounts as well as money market accounts. The interest rates on these accounts are at a level where they cannot be repriced in proportion to the change in interest rates. At the current historically low interest rate levels, we believe that a downward shift of 200 basis points across the entire yield curve is unlikely.

We also perform a valuation analysis projecting future cash flows from assets and liabilities to determine the Present Value of Equity ("PVE") over a range of changes in market interest rates. The sensitivity of PVE to changes in interest rates is a measure of the sensitivity of earnings over a longer time horizon. At June 30, 2016, March 31, 2016 and December 31 2015, the PVE exposure in a plus 200 basis point increase in market interest rates was estimated to be +5.73% ,+3.49% and -0.07%, respectively.

Liquidity and Capital Resources

We believe our liquidity remains adequate to meet operating and loan funding requirements. Interest-bearing bank balances, federal funds sold, and investment securities available-for-sale represent 31.2% of total assets at June 30, 2016. We believe that our existing stable base of core deposits along with continued growth in this deposit base will enable us to meet our long-term and short-term liquidity needs successfully. These needs include the ability to respond to short-term demand for funds caused by the withdrawal of deposits, maturity of repurchase agreements, extensions of credit and the payment of operating expenses. Other sources of liquidity, in addition to deposit gathering activities, include maturing loans and investments, purchase of federal funds from other financial institutions and selling securities under agreements to repurchase. We monitor closely the level of large certificates of deposits in amounts of \$100 thousand or more as they tend to be more sensitive to interest rate changes and, thus, less reliable sources of funding for liquidity purposes. At June 30, 2016, the amount of certificates of deposits of \$100 thousand or more represented 10.9% of total deposits and the amount of certificates of deposits of \$250 thousand or more represented 3.0% of deposits. The majority of these deposits are issued to local customers many of whom have other product relationships with the Bank.

Through the operations of our Bank, we have made contractual commitments to extend credit in the ordinary course of our business activities. These commitments are legally binding agreements to lend money to our customers at predetermined interest rates for a specified period of time. At June 30, 2016, we had issued commitments to extend credit of \$74.7 million, including \$30.7 million in unused home equity lines of credit, through various types of lending arrangements. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. We manage the credit risk on these commitments by subjecting them to normal underwriting and risk management processes.

Other than as described elsewhere in this report, we are not aware of any trends, events or uncertainties that we expect to result in a significant adverse effect on our liquidity position. However, no assurances can be given in this regard, as rapid growth, deterioration in loan quality, and poor earnings, or a combination of these factors, could change the liquidity position in a relatively short period of time.

The Company has generally maintained a high level of liquidity and adequate capital, which along with continued retained earnings, we believe will be sufficient to fund the operations of the Bank for at least the next 12 months. Shareholders' equity was 9.5% and 9.2% of total assets at June 30, 2016 and December 31, 2015, respectively. The Bank maintains federal funds purchased lines in the total amount of \$20.0 million with two financial institutions, although these were not utilized in the first half of 2016. Specific investment securities would be pledged if and when we were to utilize this line. The FHLB of Atlanta has approved a line of credit of up to 25% of the Bank's assets, which when utilized is collateralized by a pledge against specific investment securities and/or eligible loans. We regularly review the liquidity position of the Company and have implemented internal policies establishing guidelines for sources of asset based liquidity and evaluate and monitor the total amount of purchased funds used to support the balance sheet and funding from noncore sources. We believe that our existing stable base of core deposits along with

continued growth in this deposit base will enable us to meet our long term liquidity needs successfully.

Regulatory capital rules released by the federal bank regulatory agencies in July 2013 to implement capital standards, referred to as Basel III and developed by an international body known as the Basel Committee on Banking Supervision, impose higher minimum capital requirements for bank holding companies and banks. The rules apply to all national and state banks and savings associations regardless of size and bank holding companies and savings and loan holding companies with \$500 million or more in total consolidated assets. More stringent requirements are imposed on “advanced approaches” banking organizations which are organizations with \$250 billion or more in total consolidated assets, with \$10 billion or more in total foreign exposures, or that have opted in to the Basel II capital regime. The new regulatory capital rules became effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period for certain provisions), and all of the requirements in the rules will be fully phased in by January 1, 2019.

The final rule includes certain new and higher risk-based capital and leverage requirements than those previously in place. Specifically, the following minimum capital requirements apply to us:

- a new Common Equity Tier 1 risk-based capital ratio of 4.5%;
- a Tier 1 risk-based capital ratio of 6% (increased from the former 4% requirement);
- a total risk-based capital ratio of 8% (unchanged from former requirements); and
- a leverage ratio of 4% (also unchanged from the former requirement).

Under the rules, Tier 1 capital is redefined to include two components: Common Equity Tier 1 capital and additional Tier 1 capital. The new and highest form of capital, Common Equity Tier 1 capital, consists solely of common stock (plus related surplus), retained earnings, accumulated other comprehensive income, and limited amounts of minority interests that are in the form of common stock. Additional Tier 1 capital includes other perpetual instruments historically included in Tier 1 capital, such as noncumulative perpetual preferred stock. The rules permit bank holding companies with less than \$15 billion in total consolidated assets to continue to include trust preferred securities and cumulative perpetual preferred stock issued before May 19, 2010 in Tier 1 capital, but not in Common Equity Tier 1 capital, subject to certain restrictions. Tier 2 capital consists of instruments that currently qualify in Tier 2 capital plus instruments that the rules have disqualified from Tier 1 capital treatment. Cumulative perpetual preferred stock, formerly includable in Tier 1 capital, is now included only in Tier 2 capital. Accumulated other comprehensive income (“AOCI”) is presumptively included in Common Equity Tier 1 capital and often would operate to reduce this category of capital. The rules provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI. We elected to opt out from the inclusion of AOCI in Common Equity Tier 1 capital.

In addition, in order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization must maintain a “capital conservation buffer” on top of its minimum risk-based capital requirements. This buffer must consist solely of Tier 1 Common Equity, but the buffer applies to all three measurements (Common Equity Tier 1, Tier 1 capital and total capital). The capital conservation buffer will be phased in incrementally over time, becoming fully effective on January 1, 2019, and will consist of an additional amount of common equity equal to 2.5% of risk-weighted assets. As of January 1, 2016, we are required to hold a capital conservation buffer of 0.625%, increasing by that amount each successive year until 2019.

In general, the rules have had the effect of increasing capital requirements by increasing the risk weights on certain assets, including high volatility commercial real estate, certain loans past due 90 days or more or in nonaccrual status, mortgage servicing rights not includable in Common Equity Tier 1 capital, equity exposures, and claims on securities firms, that are used in the denominator of the three risk-based capital ratios.

The Bank’s risk-based capital ratios of leverage ratio, Tier 1, and total capital were 9.8%, 14.6%, and 15.5%, respectively, at June 30, 2016 as compared to 9.7%, 14.7%, and 15.5%, respectively, at December 31, 2015. The Bank’s CET1 ratio at June 30, 2016 was 14.6% and 14.7% at December 31, 2015. The Company’s risk-based capital ratios of leverage ratio, Tier 1, and total capital were 10.2%, 15.3%, and 16.1%, respectively at June 30, 2016 as compared to 10.2%, 15.4% and 16.2%, respectively at December 31, 2015. The Company’s CET1 ratio at June 30, 2016 and December 31, 2015 was 12.8% and 12.9%, respectively. Our management anticipates that the Bank and the Company will remain a well-capitalized institution for at least the next 12 months.

Since the Company is a bank holding company, its ability to declare and pay dividends is dependent on certain federal and state regulatory considerations, including the guidelines of the Federal Reserve Board. The Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board’s policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization’s capital needs, asset

quality and overall financial condition. The Federal Reserve Board's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. In addition, under the prompt corrective action regulations, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

In addition, since the Company is a legal entity separate and distinct from the Bank and does not conduct stand-alone operations, its ability to pay dividends depends on the ability of the Bank to pay dividends to it, which is also subject to regulatory restrictions. As a South Carolina chartered bank, the Bank is subject to limitations on the amount of dividends that it is permitted to pay. Unless otherwise instructed by the South Carolina Board of Financial Institutions, the Bank is generally permitted under South Carolina State banking regulations to pay cash dividends of up to 100% of net income in any calendar year without obtaining the prior approval of the South Carolina Board of Financial Institutions. The FDIC also has the authority under federal law to enjoin a bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances.

FIRST COMMUNITY CORPORATION
 Yields on Average Earning Assets and Rates
 on Average Interest-Bearing Liabilities

	Six months ended June 30, 2016			Six months ended June 30, 2015		
	Average Balance	Interest Earned/Paid	Yield/ Rate	Average Balance	Interest Earned/Paid	Yield/ Rate
Assets						
Earning assets						
Loans	\$500,854	\$11,605	4.66 %	\$461,848	\$ 11,578	5.06 %
Securities:	283,185	2,942	2.09 %	276,529	2,697	1.97 %
Federal funds sold and securities purchased under agreements to resell	16,544	49	0.60 %	17,488	57	0.66 %
Total earning assets	800,583	14,596	3.67 %	755,865	14,332	3.82 %
Cash and due from banks	10,655			8,329		
Premises and equipment	30,160			29,411		
Other assets	36,245			32,630		
Allowance for loan losses	(4,708)			(4,290)		
Total assets	\$872,935			\$821,945		
Liabilities						
Interest-bearing liabilities						
Interest-bearing transaction accounts	\$152,096	89	0.12 %	\$135,278	78	0.12 %
Money market accounts	165,213	218	0.27 %	156,903	203	0.26 %
Savings deposits	63,039	36	0.11 %	55,977	32	0.12 %
Time deposits	177,806	550	0.62 %	190,722	548	0.58 %
Other borrowings	62,690	689	2.21 %	62,890	819	2.63 %
Total interest-bearing liabilities	620,844	1,582	0.51 %	601,770	1,680	0.56 %
Demand deposits	164,369			138,476		
Other liabilities	6,418			5,558		
Shareholders' equity	81,304			76,141		
Total liabilities and shareholders' equity	\$872,935			\$821,945		
Cost of funds, including demand deposits			0.41 %			0.46 %
Net interest spread			3.16 %			3.26 %
Net interest income/margin		\$13,014	3.27 %		\$ 12,652	3.38 %
Net interest income/margin FTE basis	\$432	\$13,446	3.38 %	\$365	\$ 13,017	3.47 %

FIRST COMMUNITY CORPORATION

Yields on Average Earning Assets and Rates
on Average Interest-Bearing Liabilities

	Three months ended June 30, 2016			Three months ended June 30, 2015		
	Average Balance	Interest Earned/Paid	Yield/ Rate	Average Balance	Interest Earned/Paid	Yield/ Rate
Assets						
Earning assets						
Loans	\$509,489	\$ 5,924	4.68 %	\$472,591	\$ 5,704	4.84 %
Securities:	282,453	1,509	2.15 %	275,759	1,315	1.91 %
Federal funds sold and securities purchased	16,805	26	0.62 %	17,649	30	0.68 %
Total earning assets	808,747	7,459	3.71 %	765,999	7,049	3.69 %
Cash and due from banks	10,756			8,883		
Premises and equipment	30,224			29,741		
Other assets	35,423			32,002		
Allowance for loan losses	(4,768)			(4,341)		
Total assets	\$880,382			\$832,284		
Liabilities						
Interest-bearing liabilities						
Interest-bearing transaction accounts	\$153,734	\$ 43	0.11 %	\$137,534	\$ 39	0.11 %
Money market accounts	164,795	109	0.27 %	160,963	107	0.27 %
Savings deposits	63,742	18	0.11 %	56,808	16	0.11 %
Time deposits	176,871	275	0.63 %	188,162	273	0.58 %
Other borrowings	63,434	337	2.14 %	62,804	410	2.62 %
Total interest-bearing liabilities	622,576	782	0.51 %	606,271	845	0.56 %
Demand deposits	169,261			144,181		
Other liabilities	6,269			4,923		
Shareholders' equity	82,276			76,909		
Total liabilities and shareholders' equity	\$880,382			\$832,284		
Cost of funds, including demand deposits			0.40 %			0.45 %
Net interest spread			3.20 %			3.13 %
Net interest income/margin		\$ 6,677	3.32 %		\$ 6,204	3.25 %
Net interest income/margin FTE basis	\$212	\$ 6,889	3.43 %	\$183	\$ 6,387	3.34 %

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our quantitative and qualitative disclosures about market risk as of June 30, 2016 from that presented in our 2015 Annual Report on Form 10-K. See the “Market Risk Management” subsection in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, for quantitative and qualitative disclosures about market risk, which information is incorporated herein by reference.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the three months ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II -

OTHER INFORMATION

Item 1. Legal Proceedings.

We are a party to claims and lawsuits arising in the course of normal business activities. Management is not aware of any material pending legal proceedings against the Company which, if determined adversely, the Company believes would have a material adverse impact on the Company's financial position, results of operations or cash flows.

Item 1A. Risk Factors.

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not Applicable.

Item 3. Defaults Upon Senior Securities.

Not Applicable.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Description

10.1 Amendment No. 1 to the First Community Corporation 2011 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on April 22, 2016).

10.2 Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on April 22, 2016).

31.1 Rule 13a-14(a) Certification of the Principal Executive Officer.

31.2 Rule 13a-14(a) Certification of the Principal Financial Officer.

32 Section 1350 Certifications.

The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in eXtensible Business Reporting Language (XBRL); (i) Consolidated Balance Sheets at June 30, 2016 and December 31, 2015, (ii) Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015 (iv) Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2016 and 2015, (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015, and (vi) Notes to Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST COMMUNITY CORPORATION
(REGISTRANT)

Date: August 11, 2016 By: /s/ Michael C. Crapps
Michael C. Crapps
President and Chief Executive Officer

Date: August 11, 2016 By: /s/ Joseph G. Sawyer
Joseph G. Sawyer
Executive Vice President, Principal Financial Officer

INDEX TO EXHIBITS

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