

## GENERAL ELECTRIC, A BIGGER FRAUD THAN ENRON

**Summary: GE's \$38 Billion in Accounting Fraud**[www.gefraud.com](http://www.gefraud.com)

by Harry Markopolos, CFA®, CFE

**Synopsis:**

This is my accounting fraud team's ninth insurance fraud case in the past nine years and it's the biggest, bigger than Enron and WorldCom combined. In fact, GE's \$38 Billion in accounting fraud amounts to over 40% of GE's market capitalization, making it far more serious than either the Enron or WorldCom accounting frauds. Enron's CEO, Jeff Skilling resigned on August 14, 2001, Enron was downgraded to junk status on November 28th and filed for bankruptcy protection on December 2nd. On March 11, 2002 WorldCom received document requests from the SEC related to its accounting and loans to officers; on April 30th CEO Bernie Ebbers resigns regarding his \$400 million in personal loans from the company, then on June 25th CFO Scott Sullivan is fired before WorldCom files Chapter 11 on July 21st. It's been 17 years since WorldCom so we're long overdue for something like GE. As you read our slide deck you'll see that GE utilizes many of the same accounting tricks as Enron did, so much so that we've taken to calling this the "GEEnron" case.

To prove GE's fraud we went out and located the 8 largest Long-Term Care (LTC) insurance deals that GE is a counter-party to, accounting for approximately 95% or more of GE's exposure. Either these 8 insurance companies filed false statutory financial statements with their regulators or GE's financial statements are false. We'll show you the losses from each reinsurance arrangement in both dollar losses and percentage losses and let you determine who is telling the truth.

We paid to use the National Association of Insurance Commissioners (NAIC) and AM Best Databases to access these 8 insurers' statutory financial statements filed with the relevant state insurance commissions. What they revealed was GE was hiding massive loss ratios, the highest ever seen in the LTC insurance industry, along with exponentially increasing dollar losses being absorbed by GE. The GE Capital insurance unit with the largest losses is ERAC and that unit's average policy-holders' age is now 75. The losses in this unit led to GE's unexpected late 2017/early 2018 \$15 Billion reserve hit. Unfortunately, the fast approaching 5-year age group between 76-80 will see a 77% increase in LTC claims filed which will see GE's losses increase several-fold. We expect to soon see loss ratios of 750% to 1,000% or more on some of GE's reinsurance agreements. According to industry data, approximately 86% of GE's LTC claims are ahead of them and the accompanying losses are growing at an exponential and un-survivable rate.

Of the \$29 Billion in new LTC reserves that GE needs, \$18.5 Billion requires cash immediately while the remaining \$10.5 Billion is a non-cash GAAP charge which accounting rules require to be taken no later than 1QTR 2021. These impending losses will destroy GE's balance sheet, debt ratios and likely also violate debt covenants. Unfortunately, GE has almost no cash, so they had to request special forbearance from the Kansas Insurance Department (KID) to be able to fund their January 2018 \$15 Billion reserve increase over a 7-year time horizon, so the odds of them being able to fund \$18.5 Billion in new cash reserves is doubtful. What's even more doubtful is GE becoming cash flow positive in 2021 as management would have you believe.

GE's cash situation is far worse than disclosed in their 2018 10-K, in fact once GE's \$9.1 Billion accounting fraud tied to its Baker-Hughes GE (BHGE) acquisition is accounted for, GE only had \$495 Million in cash flow from operating activities in 2018 and it ended the year with MINUS \$20 Billion in working capital. After we accounted for the \$38 Billion in accounting fraud GE's debt to equity ratio goes from the 3:1 ratio it reported at the end of the 2nd quarter 2019 to a woefully deficient 17:1.

My team has spent the past 7 months analyzing GE's accounting and we believe the \$38 Billion in fraud we've come across is merely the tip of the iceberg. To put it into perspective, \$38 Billion in accounting fraud is over 40% of GE's market capitalization and we know we only found a portion of it. If you love analyzing accounting fraud as much as we do, we're sure you'll find our slide deck a gripping read.

## Awareness:

I first became aware of GE's suspect accounting attending educational program luncheons at the CFA® Society of Boston in the late 90's. Chief investment officers, portfolio managers, analysts, and directors of research would all comment on how they believed GE's earnings numbers couldn't be true because they always met or beat consensus earnings estimates every quarter, year after year, no matter what the economy was doing. The question around the lunch table was always, *"as an investment manager charged with beating the S&P 500, how much GE stock should you put into your portfolios?"* When GE had a 3% weight in the S&P 500, if you only had a 1% allocation to GE, your portfolio was effectively short GE by a 2% portfolio weight. Most agreed that the proper thing to do was to be neutral on GE and invest a 3% benchmark weight of your portfolio in GE shares so that it would neither hurt nor help your performance.

## GE Is Hiding \$29 Billion in Long-Term Care Losses:

There are three key risks to GE's survival. First, a stiff recession after ten years of domestic economic growth, will see that the next chapter in GE's history is Chapter 11. Second, in 2021 there isn't going to be any positive cash flow, which is the fairy tale that GE's new management team is pitching because an accounting rule change for insurance liabilities and significant under-reserving is going to cause GE to take \$29 Billion in additional reserve hits for its Long-Term Care (LTC) liabilities. Third, assuming GE can avoid a recession and somehow borrow enough to fund its LTC liabilities, it will next face repaying its \$107 Billion in debt and also covering its \$27 Billion in pension liabilities. How is GE, a company that has almost no cash and which earned a total of only \$14.9 Billion over the last seven years, going to out-earn over \$160 Billion in liabilities with the operating business units it hasn't already sold to stay afloat?

As you go through our presentation you'll see that our "edge" was having two members of my team with extensive insurance fraud expertise. They own a forensic accounting and consulting firm in Baltimore that specializes in this field.

The GE LTC story is very similar to AIG's Financial Products Corporation (AIGFP) and how that ill-fated unit destroyed AIG's share price and resulted in a \$189 Billion government bailout to keep AIG alive. For many years AIGFP sold credit default swaps, took the premiums as "earnings" and never set aside proper reserves until the 2007-2009 Global Financial Crises revealed that the underlying securities AIGFP was guaranteeing were anything but the solid credits AIG thought they were. AIG's stock price enjoyed those "earnings" for many years until the risks became apparent too late for AIG to survive without government assistance.

GE's LTC reinsurance units are part of GE Capital (GEC), and GEC was very happy to imprudently account for LTC insurance premiums as "earnings" in the 1980's, 1990's and 2000's while policy-holders were still young and weren't filing claims. GE continuously failed to fund adequate reserves to offset its LTC liabilities, allowing itself to book billions in "earnings" over a period of decades and pay dividends to the holding company and then to shareholders.

We include a 2018 LTC industry age chart in our presentation showing at what ages LTC claims are filed. Industry data shows that 86.2% of the GE-ERAC's claims are ahead of them so, if less than 14% of these claims have already led to a \$15 Billion reserve hit, simple math tells you what the other 86% will do to GE's balance sheet. GE's LTC losses will continue rising at an exponential rate until it either files for bankruptcy protection or finds some way to out-earn its LTC liabilities. You'll note that GE's 7 March 2019 Teach-In failed to show you any of the industry comparative data that we've included in our slide deck. When you see the data we're providing that compares GE's LTC loss ratios to the rest of the industry's, you'll know why they're hiding their true financial picture from you.

Insurance companies keep GAAP books if they're public companies, but State Insurance Departments also require them to file Statutory Financial Statements using a completely different set of statutory accounting rules, which we'll call SAP going forward. These are longer, more complex filings than the 10-K's that analysts use and it takes special training to know what you're looking for. But once you know how, it's easy to model the differences between GAAP and SAP accounting. Simply accessing and analyzing the SAP filings from the Long-Term Care (LTC) insurers who were reinsuring with GE-ERAC showed us how much GE was losing each year. What we saw were exponentially growing losses that are going to bleed GE of additional cash such that GE is unlikely to become cash-flow positive in 2021 and beyond.

GE twice went out of its way to intimidate analysts on pages 5 and 12 of their 7 March 2019 insurance "Teach-In" where they blow smoke by saying, *"we are dependent on accurate and timely reporting from over 200 ceding companies covered by more than 1,000 reinsurance treaties."* While these statements are true, they were also deceiving because GE was including the life insurance, long-term disability and structured settlements portions of their insurance business to confuse and intimidate analysts from looking into their LTC Statutory Filings. Our analysis of GE's seven largest

reinsurance deals accounts for approximately 95%, maybe a tad more, of GE's total LTC reinsurance liabilities. We also analyzed GE's own reinsurance with failing reinsurer LifeCare. Only 8 of these 200 ceding companies matter for LTC purposes and they account for \$29 Billion in losses that GE still hasn't acknowledged or reserved for. If GE truly wanted to provide investors with transparency they could have easily have shown you these 8 reinsurance deals and the steadily growing losses for each, but they kept those hidden. Rest assured, our Whistleblower Report details each reinsurance deal in Appendix I where each deal's P&L is presented year by year, from 2013 through 2018, so that you can see those exponentially rising losses that GE doesn't want you to know about.

We paid to use the National Association of Insurance Commissioners (NAIC) and the AM Best databases, from which we obtained the SAP filings for the vast majority of LTC insurance carriers that GE is reinsuring. The three relevant forms, with all of the information needed to determine that GE is committing accounting fraud, are found in Forms 1 & 2 and Exhibit 6. We detail how we used each form, why, and provide the footnotes so that you can duplicate our work and see for yourself how GE is pulling the wool over investors' eyes. The eight carriers mentioned in the previous paragraph reported all of the LTC premiums taken in, policy claims paid out each year, along with their loss ratios and how the losses were apportioned between themselves and GE. That was all it took to figure out GE's scheme.

GE was able to hide its LTC liabilities for a long, long time because its actuaries are about as independent as KPMG, GE's auditor for the past 110 years, and the ratings agencies. All are getting paid by GE, so of course they'll never question GE's LTC reserves. That GE had to add \$15B to LTC reserves, in late 2017/early 2018, which shocked GE's long-suffering investors, shows how independent, competent and credible their external actuaries and auditors are.

We calculated GE should have taken a reserve hit as early as 2012, and certainly no later than 2015, but they waited until new management came in and booked what little reserve they could afford in late 2017/early 2018, a \$15 Billion commitment that they had to request a special exemption from the Kansas Insurance Department (KID) to spread over a 7-year period because, plainly put, GE isn't liquid right now and likely won't survive long enough to make their last few years of reserve payments anyway. GE no longer controls its destiny nor its cash flows, KID does, and that state's insurance commission will determine how much forbearance it receives when it comes to: 1) adding reserves, 2) dividend increases and 3) share buybacks.

GE's \$15 Billion LTC reserve hit was a nasty market surprise and it's about to get \$29 Billion worse. Read our analysis and then look at the transcripts from GE's 7 March 2019 "Insurance Teach-In" and ask yourself 3 questions: 1) who's being transparent – them or us? 2) who's showing you GE's reinsurance losses by insurance carrier by year, by dollar amount – them or us? and 3) whose accounting do you trust more – theirs or ours?

When you benchmark GE to a responsible insurance carrier using going concern accounting such as Prudential (PRU), GE needs \$18.5 Billion in additional reserves in order to be able to pay claims. We compare GE's LTC policies to Prudential and Unum, two insurers with similar pre-mid-2000's vintage LTC policies, but whose policies have much lower risk characteristics than GE's. Prudential's 2018 loss ratio on similar policies was 185% and they're reserving \$113,455 per policy while GE's loss ratios are several times higher and they're only reserving \$79,000 per policy. Just to match Prudential's level of reserves would require an immediate \$9.5 Billion increase in reserves.

Unfortunately for GE, the LTC policies they're reinsuring have much worse risk characteristics than PRU's and even \$113,455 in reserves per policy totaling \$9.5 Billion, would not be nearly enough. Here are the comparisons between the two:

1. GE's Premiums Per In-Force Life are only \$1,133 vs. PRU's \$2,723.
2. GE's Average Attained Age is 75 vs. PRU's 68.
3. GE's % of Policies not paying premiums is 26% vs. PRU's 2%.
4. GE provides Lifetime Benefits on 70% of its policies vs. PRU's 24%.
5. GE has no ability to raise premiums because it is only a reinsurer while PRU can and is able to file its own requests for rate increases with state departments of insurance.

Risk Factor # 1, GE is taking in only 41.6% of the premium dollars per policy (\$1,133/\$2,723). The present value of GE's \$1,590 premium shortfall (\$2,723-\$1,133) per policy vs PRU adds another \$3.6 Billion in additional required reserves.

Risk Factors # 2 - # 5 add another \$5.4 Billion in new required reserves. GE's benefits being paid out are much

higher since it's on the hook for lifetime benefits on 70% of its policies and its insureds are 7 years older than PRU's and far more likely to be filing claims in the very near term. Only 74% of GE's policies are still paying premiums vs 98% of PRU's. 7% of GE's LTC policies aren't paying premiums because those insureds have filed claims and are receiving policy benefits. What GE's "Teach -In" didn't explain is why the other 19% of their LTC policies aren't paying premiums. There's a lot of additional critical information that GE is withholding from public view which we've included in our report, so we encourage you to read it.

If the \$18.5 Billion in additional required reserves weren't bad enough, GE also has a \$10.5 Billion difference between its \$30.4 Billion in statutory reserves and its \$19.9 Billion of GAAP reserves. This \$10.5 Billion difference will lead to a \$10.5 Billion non-cash charge to earnings between now and the new insurance accounting rule change which goes into effect in 1QTR 2021. This will result in a devastating \$10.5 Billion hit to GE's already thin shareholder's equity cushion and put its credit rating and debt covenants at grave risk. Responsible insurance carriers such as PRU and Unum have already taken these charges against earnings in 2018 because they're using going concern accounting while GE is playing for time, praying for miracles and trying to avoid bankruptcy. To summarize, GE is hiding \$29 Billion in additional LTC losses from investors and our Whistleblower Report will walk you through the details using figures provided by eight of GE's LTC counter-parties. Either those eight companies are lying and reporting false data or GE is.

We will end our LTC section with two key questions for GE's management regarding LTC: 1) make your reinsurance agreements public and 2) provide your LTC actuarial assumptions.

#### **GE Is Hiding \$9.1 Billion in Baker Hughes Losses:**

GE originally structured its disastrous 2017 investment in Baker Hughes, which combined the two company's Oil and Gas businesses into a new entity, Baker Hughes, a GE Company (BHGE). GE held a 62.5% interest in BHGE and BHGE controlled the business. GE accounted for its holdings in BHGE as a Non-Controlling Interest, which was entirely consistent with the substance of the transaction and the nature of GE's investment in the newly formed entity.

In November 2018, that accounting treatment changed when GE announced its plans to exit its investment in BHGE, and sold 101.2 million BHGE shares via a secondary offering, which left it with a 50.4% ownership interest. GE booked a \$2.2 Billion pre-tax loss from that sale. GE improperly continued to account for its shares in BHGE as a Non-Controlling Interest in 2018, despite the fact that the substance of GE's BHGE's holdings was now strictly an investment, a clear violation of FASB Accounting Standards Codification 810-10-25-38A "Recognition – Variable Interest Entities" and FASB SFAC No. 8, BC3.26's "Substance over Form" Concept. However, if GE had treated it as an Investment, as accounting rules require, it would have incurred a \$9.1 billion loss. Maintaining a 50.4% interest (non-controlling interest threshold) in BHGE is a sham transaction with no business purpose done solely so that GE can create the false impression that GE has a reason to keep **\$9.1 billion** in losses off of its books in 2018.

#### **Why Didn't GE Disclose Its Working Capital of Minus \$20.3B and Its Current Ratio of .67?:**

The same \$52B of Baker Hughes assets and \$22B of revenues are reported on both GE's 2018 financial statements and BHGE's where in reality, only one entity, BHGE actually controls these assets and cash flows. Backing out BHGE's cash flow from operating activities (CFOA) reduces GE's 2018 CFOA from \$2.257B to a meager \$495M.

GE's 2018 year-ending working capital **was minus \$14.3B with BHGE and minus \$20.3B without!** Knowing this was critical information for investors, lenders, vendors, retirees, and regulators it was a willful omission on their part to not provide customary working capital reporting and disclosures in their 10-K. Do a word search on "working capital" and you will see GE spreads out its discussion of working capital over numerous pages of their 10-K and only discusses changes in working capital, but never gives you a true picture of how dire their financial position is. We provide you with our working capital schedules for GE both with and without BHGE on Slide 104.

We are saving GE's worst for last, because this is the last chapter in our report, immediately ahead of Chapter 11. GE's current ratio is a stunningly low .67 when you back out the Baker-Hughes numbers from GE's year-end balance sheet. What's impressive about GE's accounting is they offer very little transparency in their financial statements, which meant we had to calculate GE's current ratio for ourselves, which, of course, we did and you can see how we calculated it on Slide 105. A .67 current ratio is many things, but investment grade is not one of them. Do a word search for "current ratio" in GE's 2018 10-K and ask yourself why it's not there for GE's industrial business? Our final three questions are for

KPMG, GE's auditors for the past 110 years dating back to 1909: 1) What did you know? 2) When did you know it? and 3) Where's your "Going Concern Opinion?"

#### **How We Analyzed GE and Discovered the Fraud:**

I won't reveal every technique we used because every wannabe accounting fraudster out there is going to be reading this section closely looking at it as a "how not to get caught" primer. There's no point in making them harder to catch than they already are.

It took several months of hard work using dozens of publicly available sources. We read 2002-2018's Annual Reports and 10-K's, while modeling lots of different performance metrics and accounting entries. Seeing GE change their numbers without earnings restatements was alarming enough. What was worse, GE would change its reporting formats every 2-4 years to prevent analysts from being able to make comparisons across time horizons! In other words, GE went out of its way to make it impossible to analyze the performance of their business units. Why would a company do that?

We could only think of two reasons: 1) to conceal accounting fraud or 2) because they're so incompetent they're not capable of keeping proper books and records. I'm not sure which reason is worse because both are bad and each is a path to bankruptcy.

One technique used was what's called Sherlock Holmes' "dog that didn't bark method" of looking at what didn't appear on GE's financial statement but should have. That "missing dog" was everything between top line revenue and profit margin, in other words all of the many expenses it takes to run a legitimate business. GE would post revenue numbers for its business units and then give you their profits with no expenses listed between the top and bottom lines.

Other companies competing with GE, or in the case of Safran, GE's 50/50 joint-venture partner at jet engine manufacturer CFM, would report its expenses, R&D costs, tax credits, etc., while GE, for the same joint-venture would only report the top and bottom lines. What was most interesting here was that Safran acknowledged in their 2017 Registration Document (p. 50) that they were losing money on each LEAP engine produced and only hoped to cover their Cost of Goods Sold (COGS) by the end of the decade. So, if LEAP engines were over 51% of CFM's jet engine sales in 2018, and they didn't even cover the COGS on each engine sold, how did GE Aviation's free cash flow go up so much in 2018? Two answers come to mind: 1) GE Aviation is using gain on sale accounting using some sort of mark-to-model basis and/or 2) GE is fabricating its numbers. Keep in mind that GE was caught doing both by the SEC in August 2009 and lightly punished, committing over \$3.4 Billion in accounting fraud while GE's long-suffering shareholders paid \$50 Million in fines and management, KPMG, and the Audit Committee all got to keep their jobs. What lesson did GE's management learn? If you guessed, accounting fraud leads to bigger bonuses and no one gets fired and no one goes to jail, well, that's my guess too.

The analyst community fell for GE's accounting tricks hook, line and sinker by always priding themselves in coming up with methods to allocate GE's corporate overhead and expenses to the business units. The most common method analysts used was revenue-weighting corporate overhead and allocating those expenses in accordance to each business unit's percentage of total revenue. I call that "chasing rabbits," and when you do that, you're playing into the accounting fraudsters' hands. Anyone who's hunted rabbits knows you can't chase rabbits and expect to catch them, yet that's what analysts are attempting when they're allocating expenses and overhead to GE's business units. Instead analysts should have been asking GE why it wasn't allocating pension costs, corporate overhead and other expenses to its business units in an accurate and transparent manner.

One mantra I teach in my advanced forensic accounting seminars to Certified Fraud Examiners, Internal Auditors and Chartered Financial Analysts is, "*Listen to what is said and then look at what they do. Where there's a difference dig in, because that's where the fraud is.*" GE tells investors it owns a portfolio of operating companies and that it will buy and sell companies in order to assure its continued growth. Now look at what they do, they don't provide stand-alone financial statements listing each business units' expenses such that investors or outsiders interested in buying GE's businesses can properly value them. I believe this is a willful concealment to hide how poorly these units are really doing. It would be much easier to spin off units, sell units, and value units that kept stand-alone books and records, yet GE doesn't do that.

On a revenue-weighted basis during the 7-year period from 2012-2018, GE's industrial business units earned an average annual profit margin of 14.7%. But, GE on a consolidated basis only earned \$14.93 Billion on \$928.355 Billion of cumulative revenues over that same 7-year period for a 1.6% profit margin which is far below GE's 5.5% weighted

average cost of capital. Clearly something's amiss in these numbers because they don't pass the test of reasonableness. How can the industrial units be earning 14.7% while GE is only earning 1.6%? Sadly, the analyst community allowed GE to get away with not producing usable, transparent financial statements that might have prevented this fraud.

GE might have survived LTC if it had a competent CEO. Unfortunately, GE's CEO was Jeff "Two-Jet" Immelt, an executive who excelled at overpaying for value-destroying purchases such as Alstom and Baker Hughes, just in time for cyclical downturns. Faced with stagnating to declining revenues, GE engaged in financial engineering, vaporizing \$52.2 Billion in stock buybacks from 2012-2018, which was 3.5 times more than GE's earnings of only \$14.9 Billion over that same time period. GE also raised its dividend to unsustainably high levels, paying out \$54 Billion, which was 3.6 times GE's earnings, during that key seven-year period. That \$106.2 Billion unwisely spent on financial engineering to keep the bonus train running could and should have been used to: 1) pay for losses to wind-down GE Capital; 2) fund GE's new additional \$29 Billion in required LTC reserves; and 3) eliminate GE's \$27 Billion pension shortfall. Sadly, that \$106.2 Billion is gone forever and now GE is on the brink of insolvency. The majority of what's left inside of GE Capital's black box is very likely unsaleable unless GE is willing to pay billions to get someone to take these toxic liabilities off its hands.

#### **Clues Missed by Investors and Analysts:**

Unfortunately, most investors are not trained as Certified Fraud Examiners (CFE's) and have no idea of what forensic accounting analysis entails. The biggest clue that this is an Enronesque accounting fraud were the \$53.5 Billion in Negative Surprises in 2017 and 2018 which destroyed over \$130 Billion in market capitalization. There were two dividend cuts totaling \$8 Billion per year, \$15 Billion added to LTC reserves, a \$22 Billion goodwill writedown on Alstom, and an \$8.5 Billion Long Term Service Agreement (LTSA) restatement of 2016 and 2017 earnings. When you see that many large dollar adjustments in such a short time frame that's not house-cleaning, it's a red flag that the prior years' financial statements were false, internal controls are weak to non-existent, and there are a lot more cockroaches in the GE earnings' kitchen that you haven't seen yet. Our Whistleblower Report only details \$38 Billion in accounting fraud, but we know we didn't catch everything. Only GE's accounting department knows where the rest of the skeletons are buried.

One other key clue was watching over ten years of media interviews of GE executives. What stands out, when asked what went wrong with all of these acquisitions, asset sales, negative earnings surprises, surprise write-downs and dividend cuts, senior leadership of this company repeats the same message, "*we're not here to discuss the past, we're only going to discuss the future.*" This is no surprise – from people who have something to hide.

#### **Concluding Remarks:**

All information contained within our Whistleblower Report was obtained from publicly available sources, most of which cost nothing to procure such as annual reports, Society of Actuary Reports, and news articles. The only paid data sources used were the National Association of Insurance Commissioners (NAIC) and the AM Best databases.

Each slide is extensively footnoted so that you can see what source document and page number each piece of information used comes from. This will allow you to duplicate our work and determine whether or not you agree with our forensic analysis. We have also provided a listing of all source documents used at the end of our presentation for your use.

**This is a Whistleblower Report not Investment Research. We are not making any investment recommendation nor are we offering investment advice.**

I want to express my sympathy to the one million people who count on GE for either salaries, healthcare, or pensions. Make no mistake, GE's current and past employees are the victims here as are GE's lenders, vendors, and customers all of whom have to deal with the aftermath of an accounting fraud. The only winners are GE's fat cat executives who enriched themselves with undeserved bonuses as they drove this once proud beacon of American business into the ground. I encourage you to hold them accountable.

Thank you very much for taking the time to read our Whistleblower Report, we hope you find it informative.

Harry Markopolos, CFA®, CFE

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## **General Disclosures**

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The information compiled and analyzed in this Report was gathered using publicly available information and two paid subscription services. No Material Non-Public Information was obtained or utilized during the drafting of this Report. The Report does not purport to be, nor constitute, investment advice.

This Report has been made available to both the public and select Law Enforcement entities. Certain information in the Report has been made available to Law Enforcement entities only, and has been omitted from the publicly released version.

### **Potential for Compensation**

*Prior to the initial distribution of this Report on August 15, 2019, the Company entered into an agreement with a third-party entity to review an advanced copy of the Report in exchange for later-provided compensation. That compensation is based on a percentage of the profits resulting from the third-party entity's positions in the securities, derivatives, and other financial instruments of, and/or relating to, General Electric Company ("GE") (NYSE: GE). Those positions taken by the third-party entity are designed to generate profits should the price of GE securities decrease.*

*Prior to the initial distribution of this Report on August 15, 2019, the Company also submitted this Report to the U.S. Securities and Exchange Commission's Whistleblower Program and the U.S. Department of Justice's FIRREA Whistleblower Program. Both or either of those submissions may generate profits for the Company independent of the financial performance of GE and/or the securities, derivatives, and other financial instruments of, and/or relating to, GE.*

*Lastly, members of the Company are personally in possession of securities, derivatives, and/or other financial instruments of, and/or relating to, GE, which may generate profits should the price of GE securities decrease.*



## **GE Is Headed Toward Bankruptcy**

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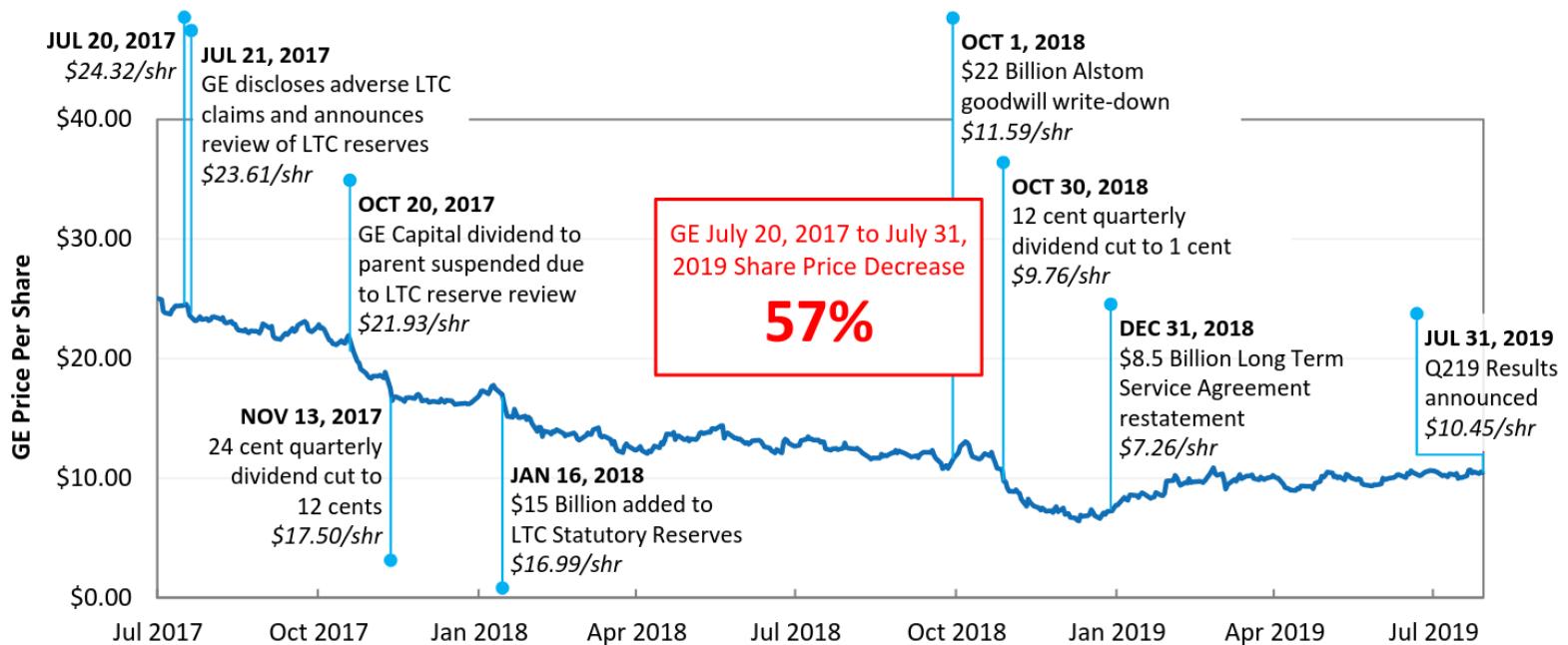
# What You Know: GE's \$53.5 Billion in Negative Surprises in 2017 & 2018

\$24.32 / shr	<b>July 21, 2017:</b> GE discloses <b>adverse LTC claims</b> and announces review of LTC reserves
\$21.70 / shr	<b>October 20, 2017:</b> GE Capital <b>dividend to parent suspended</b> due to LTC reserve review
= <b>(\$4.2B)</b> \$18.86 / shr	<b>November 13, 2017 :</b> 24 cent quarterly dividend cut to 12 cents (Common Shares Outstanding 12/31/17 = 8,680,571,000; Annualized Impact = <b>\$4.2 Billion</b> )
= <b>(\$19.2B)</b> \$17.51 / shr	<b>January 16, 2018:</b> <b>\$15 Billion</b> added to LTC Statutory Reserves
= <b>(\$41.2B)</b> \$10.82 / shr	<b>October 1, 2018:</b> <b>\$22 Billion</b> Alstom goodwill write-down
= <b>(\$45.0B)</b> \$10.69 / shr	<b>October 30, 2018 :</b> 12 cent quarterly dividend cut to 1 cent (Common Shares Outstanding 9/30/18 = 8,680,571,000: Annualized Impact = <b>\$3.8 Billion</b> )
= <b>(\$53.5B)</b> \$7.21 / shr	<b>December 31, 2018:</b> <b>\$8.5 Billion</b> Long Term Service Agreement restatement

Note: Per share prices are prior day's adjusted close



# \$53.5 Billion in Negative Accounting Surprises Destroyed Over \$130 Billion in Market Capitalization



Note: Per share prices are day's adjusted close

Source: Yahoo Finance GE Historical Data; Oct. 1, 2018, Yahoo Finance, "GE replaces CEO, writes down \$23 billion in goodwill" by Emily McCormick; Oct. 30, 2018, U.S. News, "GE Cuts Quarterly Dividend to 1 Cent" by Wayne Duggan; Jan. 16, 2018, CNBC, "GE shares dive after 'deeply disappointing' \$6.2 billion insurance portfolio charge" by Tae Kim



## What You Don't Know: GE Is Still Hiding \$38.1 Billion in Losses

= (\$9.1B)

**Due In 2018: \$9.1 Billion** non-cash loss not yet booked for disastrous BHGE acquisition (restatement of 2018 10-K)

= (\$27.6B)

**Due Now: \$18.5 Billion** in new cash needed for LTC Reserves

= (\$38.1B)

**Due by Q1 2021: \$10.5 Billion** non-cash loss taken to bring GAAP LTC Reserves in line with Statutory LTC Reserves



# Exposing GE's Accounting Fraud Reveals Little Cash and Almost No Balance Sheet



GE's 2018 Cash Flow from Operating Activities of \$495M is **not enough to support itself** once the fraudulent accounting treatment of Baker Hughes is revealed



GE's 2018 working capital was **NEGATIVE \$20B**



GE's true debt/equity ratio is 17:1 not 3:1 which will **undermine its credit status**



GE's current ratio is .67 which **raises going concern issues**

Note: The \$495M cash flow from operating activities and the \$20B 2018 working capital are related to GE's Core Industrial Businesses (Non-GE Capital)



**GE Is the Next Enron**

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## *The Enron Playbook*



- Fake revenues
- Fake earnings
- Hidden losses
- Opaque, unreadable financial statements
- Off-balance sheet entities / hidden debt
- Minimal and/or misleading disclosures
- Overuse of non-GAAP operating results



## GE Is the Next Enron

GE has been running a decades long accounting fraud by **only providing top line revenue and bottom line profits** for its business units and getting away with leaving out:

- Cost of Goods Sold
- SG&A
- R&D
- Corporate Overhead Allocations

To make it impossible to compare GE's numbers across multi-year time periods, **GE changes its Financial Statement reporting formats every few years.**

This is only detectable by reading at least 10 years' worth of 10-K's back to back. We read 17 years from 2002-2018 and that's how we spotted it.





## *The “GEnron” Playbook*

- Fake revenues
- Fake earnings
- Hidden \$29.0 billion in Long Term Care reserves on top of \$15 Billion already taken
- Opaque, unreadable financial statements
- Off-balance sheet entities / hidden debt
- Cookie jar reserves
- Profit margins fail the “Madoff Test”
- Accounting tricks





## GE Fails the Madoff Test

Returns Too Good to Be True



## GE's Consolidated Profit Margin Was 1.6% from 2012 to 2018

GE Earned \$14.938 Billion on \$928.355 Billion in Revenues

Year	GE Revenues	GE Net Income	Net Income Profit Margin %	Page(s) in 10-K
2012	\$147.359B	\$13.641B	9.3%	70
2013	\$146.045B	\$13.057B	8.9%	70
2014	\$148.589B	\$15.233B	10.3%	128
2015	\$117.386B	<b>\$(6.145B)</b>	<b>-5.2%</b>	128
2016	\$123.693B	\$8.176B	6.6%	132
2017	\$122.092B	<b>\$(6.222B)</b>	<b>-5.1%</b>	120
2018	\$123.191B	<b>\$(22.802B)</b>	<b>-18.5%</b>	95
<b>TOTALS</b>	<b>\$928.355B</b>	<b>\$14.938B</b>	<b>1.6%</b>	



**GE Has Not Earned Its 5.5% Weighted Cost of Capital and Has Destroyed Shareholder Value**

Source: 2012-2018 GE Statement of Earnings

13



# GE Fails the “Madoff Test”: Annual Profit Margins at GE’s Business Units Are Too Good to Be True

How Do These Profit Margins Add Up to a Consolidated 1.6% Profit Margin?

Year	Aviation	Energy Mgmt.	Healthcare	Lighting <sup>1</sup>	Oil & Gas	Power	Renewables	Transportation	Page(s) in 10-K
2012	18.7%	1.8%	16.0%	3.9%	12.6%	19.2%	N/A	18.4%	42
2013	19.8%	1.5%	16.7%	4.6%	12.8%	20.2%	N/A	19.8%	42
2014	20.7%	3.4%	16.7%	5.1%	13.8%	19.4%	N/A	20.0%	7,8,9,10
2015	22.3%	3.6%	16.3%	7.7%	14.8%	20.9%	6.9%	21.5%	39-60
2016	23.3%	N/A	17.3%	2.1%	10.8%	18.6%	6.4%	22.6%	11,12,13
2017	24.3%	N/A	18.0%	4.7%	1.3%	7.7%	7.1%	19.7%	6,7,8
2018	21.2%	N/A	18.7%	4.1%	4.6%	-3.0%	3.0%	16.2%	8 <sup>2</sup>

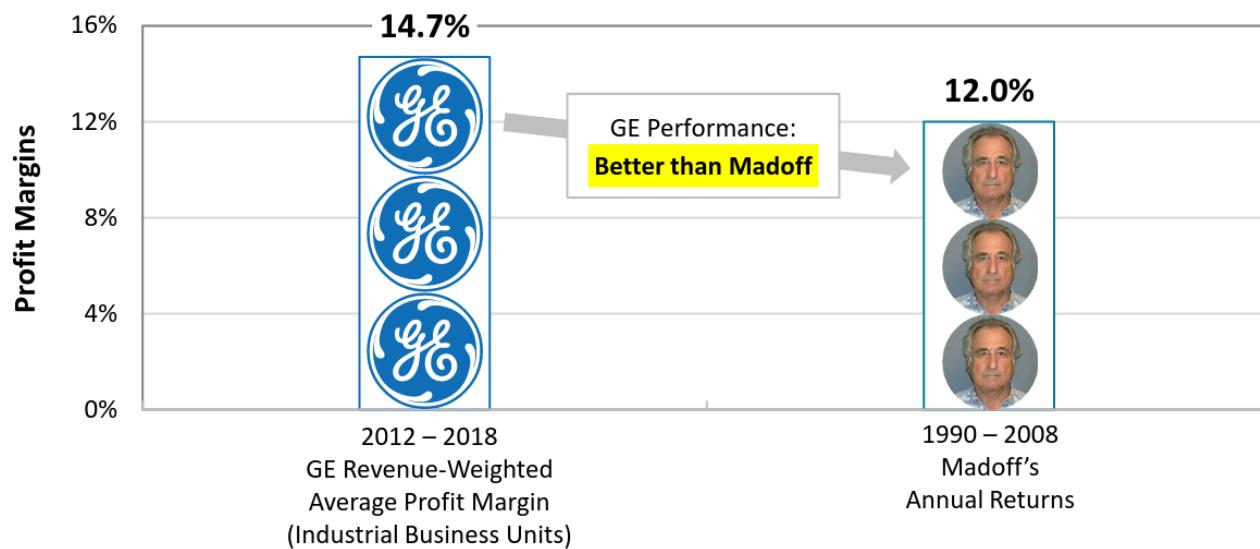
How does a 3% loss  
lead to a \$22B writedown???

Source: 2012-2018 GE 10-Ks, <sup>1</sup> 2018's GE Appliances is included as part of GE's Appliances & Lighting Unit from 2012-2015; <sup>2</sup> Profit Margins as originally reported in each year's 10-K & 2018 Annual Report p.8



# GE Fails the “Madoff Test”: Returns Too Good to Be True

GE Industrial Business Units' Revenue-Weighted Average Profit Margin of **14.7%** Is Better Than Madoff's **12%**



Source: 2012-2018 GE 10-Ks; Madoff Fund Annual Reports



# GE Fails the “Madoff Test”: Conclusion

If GE's 14.7% Profit Margins Were Real:

- 1** Where's the cash?
- 2** \$29.0 billion Long Term Care liabilities would be fully reserved
- 3** \$27.2 billion pension shortfall would be fully funded
- 4** GE wouldn't have a BBB+ credit rating and be on credit watch
- 5** GE dividends would be a lot higher than a penny per share 
- 6** GE shares would be trading at prices a lot higher than a shoe size 

**⚠ Conclusion: By Failing All of the Above Tests, the Reported Profit Margins Are Not True**



# Reasons for the Disconnect Between GE's Net Profit Margin and the Reported Profit Margins of Its Business Units

- 1 GE habitually **buys businesses high and sells low** leading to massive losses
- 2 GE capital is a **black box that spits out inexplicable gains and losses**
- 3 GE is **hiding expenses** just like the SEC caught them doing in the early 2000's
- 4 GE is **not properly allocating corporate overhead** in a transparent manner so we can determine what the real profit margins for business units are
- 5 GE is **baking its ledgers and cooking its books**
- 6 GE uses "**gain on sale**" accounting that shows great reported earnings in the present without the accompanying cash flow (Aviation, Power LTSAs)
- 7 GE reports great profit margins then **moves a company to non-operating status, sells it and books losses**

Source: 2012-2018 GE 10-K



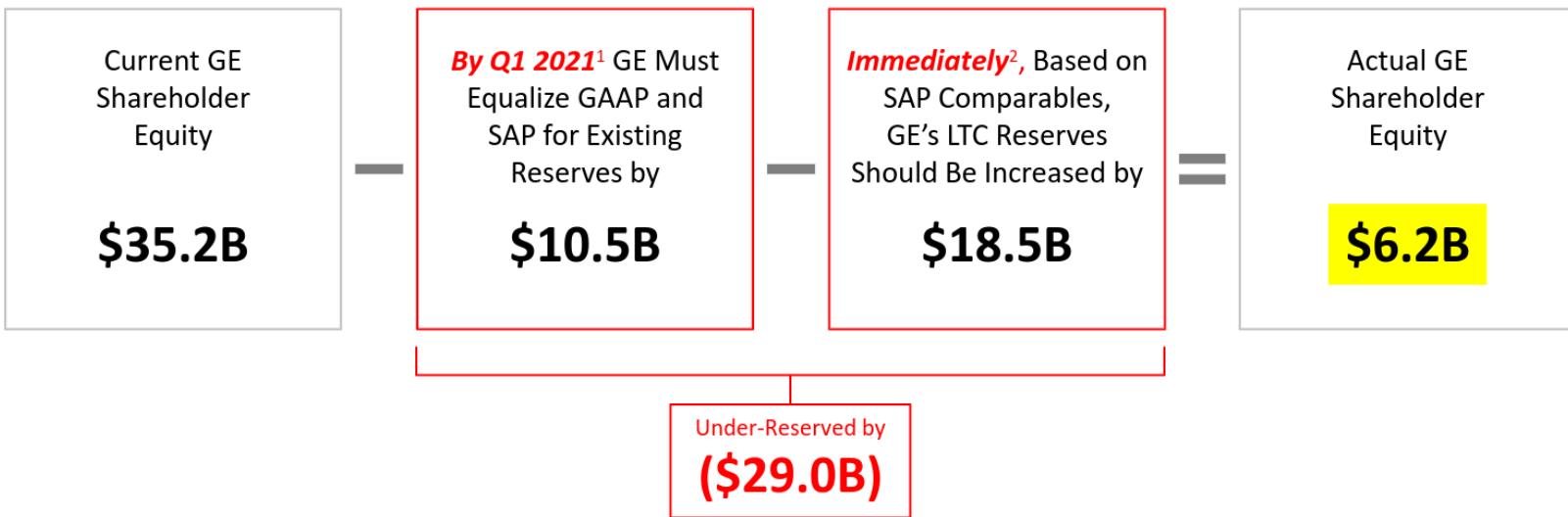
## **Long Term Care (LTC)**

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The \$29.0 Billion Loss That GE Is Hiding



# Correcting the Current \$29.0 Billion LTC Reserve Shortfall Will Wipe Out Most of GE's Equity



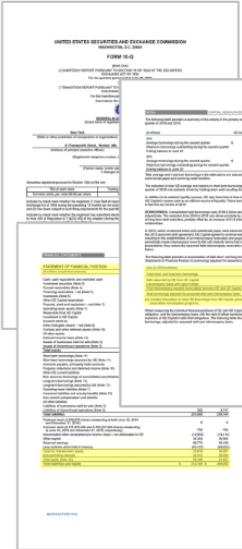
Note: Adjustments are pre-tax and based upon LTC data as of 12/31/2018

Source: March 31, 2019 GE 10-Q; <sup>1</sup>See FASB Accounting Standards Update, August 2018; See also, *To the Point: FASB changes how insurers measure and disclose liabilities for long-duration insurance contracts*, August 2018, Ernst & Young; <sup>2</sup>Practices for Preparing Health Contract Reserves, American Academy of Actuaries, September 2010, p. 11



# What Is GE's Real Debt to Equity Ratio? Is it the 3:1 That GE Claims or Is it 17:1?

June 30, 2019  
GE 10-Q



June 30, 2019 (In billions)	GE	GE Capital	Consolidated(a)
Total short- and long-term borrowings	\$ 66.8	\$ 40.0	\$ 105.8
Debt assumed by GE from GE Capital	(35.0)	35.0	—
Intercompany loans with right of offset	13.7	(13.7)	—
Total intercompany payable (receivable) between GE and GE Capital	(21.2)	21.2	—
Total borrowings adjusted for assumed debt and intercompany loans	\$ 45.6	\$ 61.2	\$ 105.8
(a) Included elimination of other GE borrowings from GE Capital, primarily related to timing of cash settlements associated with GE receivables monetization programs.			

STATEMENT OF FINANCIAL POSITION		General Electric Company and consolidated affiliates
(In millions, except share amounts)		June 30, 2019   December 31, 2018
...		(audited)
Total GE shareowners' equity	Current	35,816   30,981
Noncontrolling interests	Debt to Equity Ratio	20,312   20,500
Total equity (Note 15)		56,129   51,481
<b>Total liabilities and equity</b>	<b>3:1</b>	<b>312,109   \$ 309,585</b>

Source: June 30, 2019 GE 10-Q, pp. 23, 44



# GE's Real Debt to Equity Is 17:1 Once LTC Reserves Are Properly Accounted For!!!

With at 17:1 Debt to Equity Ratio, GE will likely default on its debt covenants and will likely have:

- **Debt payments accelerated** by creditors
- **Available credit disappears**
- **Credit rating lowered**
- **Immediate cash need** and no place to borrow
- Solvency problems leading to **Chapter 11**

	GE	GE Capital	Consolidated(a)
	\$ 66.8	\$ 40.0	\$ 105.8
	(35.0)	35.0	—
	13.7	(13.7)	—
and GE Capital	(21.2)	21.2	—
Company loans	\$ 45.6	\$ 61.2	\$ 105.8
Capital, primarily related to timing of cash settlements associated with GE			
General Electric Company and consolidated affiliates			
June 30, 2019		December 31, 2018	
(Unaudited)		(Audited)	
35,816		6,200	
20,312		30,981	
56,129		20,500	
312,109		\$ 51,481	
\$ 309,585		309,585	

Source: June 30, 2019 GE 10-Q, pp. 23, 44



# What Accounting Tricks Does GE Use to Hide a 17:1 Debt to Equity Problem?

1 GE uses a mismatch between Generally Accepted Accounting Principles (GAAP) and Statutory Accounting Principles (SAP) to keep \$10.5 billion in losses off its books

2 In Q1 2021, the new accounting rules will stop GE's financial reporting manipulation

3 Despite 2017's \$15 billion\* SAP LTC reserve adjustment, GE continues to use overly aggressive assumptions to understate LTC reserves by \$18.5 billion

4 The 2021 accounting rules will require \$18.5 billion immediate hit to earnings

5 GE has gotten away with under-reserving by not disclosing actuarial assumptions or reinsurance arrangements

\* - GE only disclosed it was making \$15 billion in capital contributions and not the statutory reserve adjustment. For the purposes of this analysis, the statutory reserve adjustment is assumed to be \$15 billion



## Detail of the Restatement of GE's GAAP and SAP LTC Reserves to Reflect Reserve Adjustments

	GAAP	SAP
<b>Gross Future Policy Benefit Reserves and Claim Reserves</b>	\$19.9B	\$30.4B
<b>Eliminate GAAP / SAP Reserve Mismatch</b>	\$10.5B	
<b>Reserves Reflecting New Accounting Rule</b>	\$30.4B	\$30.4B
<b>Additional SAP Reserve Adjustment</b>	\$18.5B	\$18.5B
<b>Adjusted LTC Reserves</b>	<b>\$48.9B</b>	<b>\$48.9B</b>

Source: March 7, 2019 GE "Insurance Teach-In" Transcript p. 9 and GE LTC "Teach-In" p. 6.



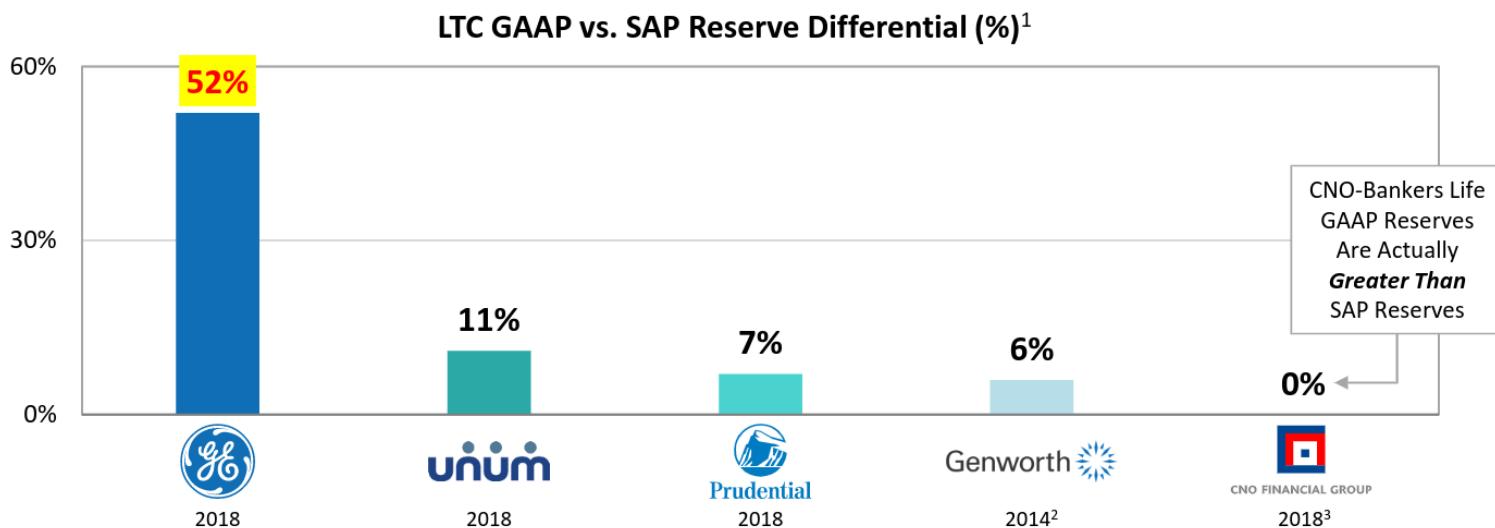
## **GAAP vs. SAP**

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GE Uses a GAAP/SAP LTC Reserve Mismatch to Create \$10.5 Billion in Phantom Equity



# GE's GAAP/SAP Accounting Trick Is a Red Flag When Compared to Peers



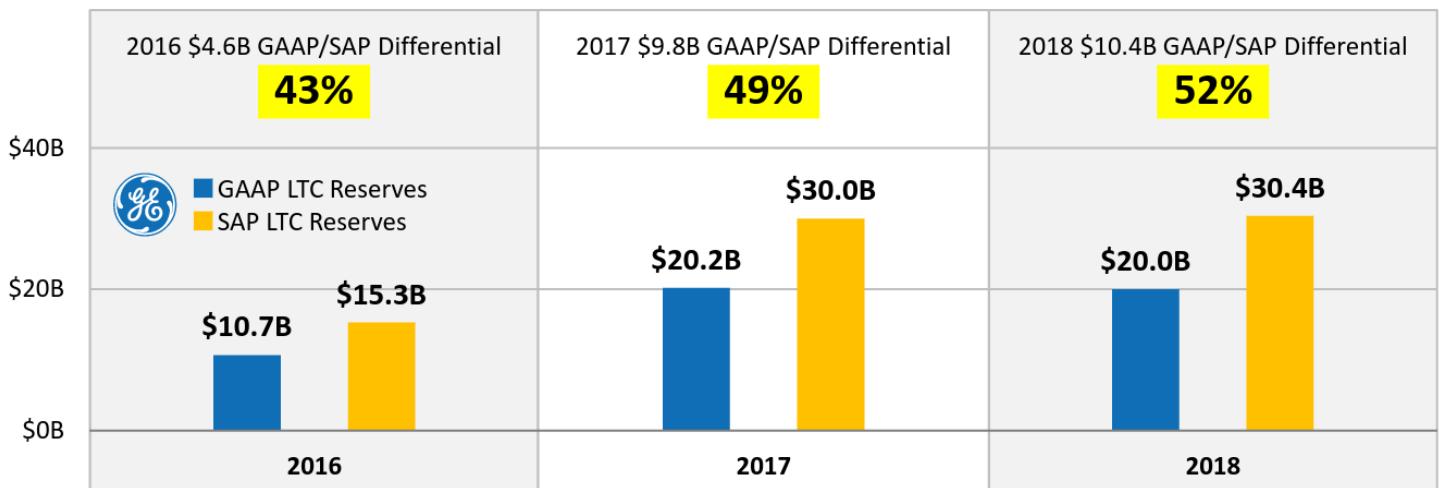
**GE's SAP/GAAP Reserve Mismatch, Which Hides \$10.5 Billion in Losses, Is Nearly 5 Times Unum's Reserve Differential and Nearly 8 Times Prudential's!**

Source: GE 10-K and GE-ERAC & GE-UFLIC Exhibit 6; CNO 2/13/19 Q4 2018 Presentation, Prudential 8/2/18 Q2 2018 Earnings Call Presentation p. 22, Unum Fourth Quarter 2018 Presentation p. 6, Genworth 11/6/14 LTC Claim Reserve Review Presentation p. 8; <sup>1</sup>(SAP Reserves – GAAP Reserves) / GAAP Reserves. <sup>2</sup> GAAP / SAP data available for Genworth most recently available in 2014, 2018, <sup>3</sup> Bankers Life only



# GE Is Increasing Its GAAP/SAP Differential to Keep Losses Off Its Books

GE's GAAP/SAP Reserve Mismatch Is Heading in the **Wrong Direction!**



**⚠ GE Reports Only \$8.9 Billion (GAAP) of the \$15 Billion (SAP) Reserve Adjustment in 2017**

Source: GE 10-K and GE-ERAC & GE-UFLIC Exhibit 6. calculation is (SAP Reserves – GAAP Reserves) / GAAP Reserves



# Accounting Rule Change Will Stop Misleading LTC Financial Reporting

## Rule Change Will Eliminate Opportunities to Create a GAAP/SAP Reserve Mismatch

August 15, 2018  
*Wall Street Journal*

### New Rules Look to Make Insurance Contracts More Transparent for Investors

From: [www.wsj.com/articles/new-rules-look-to-make-insurance-contracts-more-transparent-for-investors-1534341601](http://www.wsj.com/articles/new-rules-look-to-make-insurance-contracts-more-transparent-for-investors-1534341601)



The idea, Mr. Kroeker said, is to make sure investors get the most current information on the contracts' value. Insurance contracts can extend over decades, but often the assumptions that governed their value at the outset—life expectancy and the costs of long-term care, to name a couple—aren't updated.

The contracts' value doesn't stay current until and unless they become unprofitable for the insurers, and then they suffer a big hit to their value all at once, potentially blindsiding investors. As a result, the investors may not have a fully accurate idea of how much those contracts are worth under current conditions, Mr. Kroeker said ....

Insurers also will be required to use a standard discount rate to measure their liabilities. The rate will be pegged to the yield from high-quality bonds, which is lower than the discount rate many insurers use now—the rate they earn on their investment assets. A lower discount rate would increase the current value of the obligations on insurers' balance sheets.

Source: August 15, 2018, "New Rules Look to Make Insurance Contracts More Transparent for Investors" by Michael Rapoport, *Wall Street Journal* - [www.wsj.com/articles/new-rules-look-to-make-insurance-contracts-more-transparent-for-investors-1534341601](http://www.wsj.com/articles/new-rules-look-to-make-insurance-contracts-more-transparent-for-investors-1534341601)



# In 2018 Other Carriers Took Major Earnings Hits to Close the GAAP/SAP Differential; in 2017 GE Did the Opposite to Hide \$6.1 Billion in Losses

Other LTC Carriers Are Getting Ahead of the New Rule Change, GE Is Still Exploiting It

August 2, 2018

Prudential Q2 Earnings Call



**Prudential**

## 2Q18 Assumption Update

- Pre-tax impact<sup>(1)</sup>: -\$1.5 billion GAAP and -\$0.6 billion statutory

**2018 Reserve Adjustment**

\$600M SAP < \$1.5B GAAP

GAAP Losses Increased \$900M

September 2018

Unum LTC Reserve Analysis



**Unum**

- GAAP reserve charge of approximately \$590 million after-tax, or \$750 million pre-tax assuming a 21% tax rate
- Statutory impact of approximately \$200 million, pre-tax

**2018 Reserve Adjustment**

\$200M SAP < \$750M GAAP

GAAP Losses Increased \$550M

2017

GE Annual Report



**GE**

The test indicated a premium deficiency resulting in the unlocking of reserves and resetting of actuarial assumptions to current assumptions. This resulted in a \$9.5 billion charge to earnings, which included a \$0.4 billion impairment of deferred acquisition costs, a \$0.2 billion impairment of present value of future profits, and an \$8.9 billion increase in future policy benefit reserves. We commenced integrating these new assumptions into our systems and processes embedded in our framework of internal controls over financial reporting and expect to continue the integration in 2018.

**2017 Reserve Adjustment**

\$15B SAP > \$8.9B GAAP

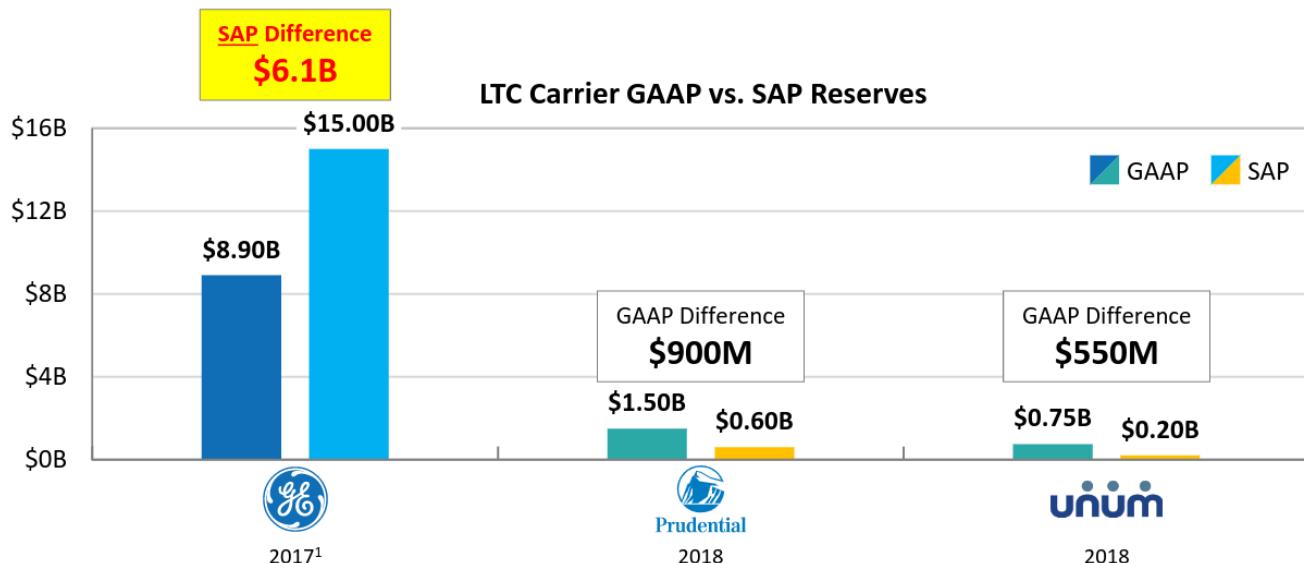
GAAP Losses Decreased by \$6.1B!!!

Source: Prudential Second Quarter Earnings Call, August 2, 2018, p. 13, Unum Long Term Care Reserve Analysis, September 2018, p. 9, GE 2017 10-K, p. 87.



# GE's GAAP/SAP Accounting Trick Did Not Make \$6.1 Billion in Losses Disappear; They Will Hit Earnings in Q1 2021 Due to New Accounting Rules

GE Used the Same Trick Before – Contract Accounting Rule Change's \$8.5 Billion Hit in 2018



Source: Prudential Second Quarter Earnings Call, August 2, 2018, p. 13, Unum Long Term Care Reserve Analysis, September 2018, p. 9, GE 2017 10-K, p. 87; <sup>1</sup>GE did not take an adjustment in 2018.



# New Rules Will Not Impact Prudential and Unum in 2021, But Will Destroy One Third of GE's Equity

GE's Accounting Tricks Will Not Change the Outcome – Only Delaying the Inevitable

August 2, 2018

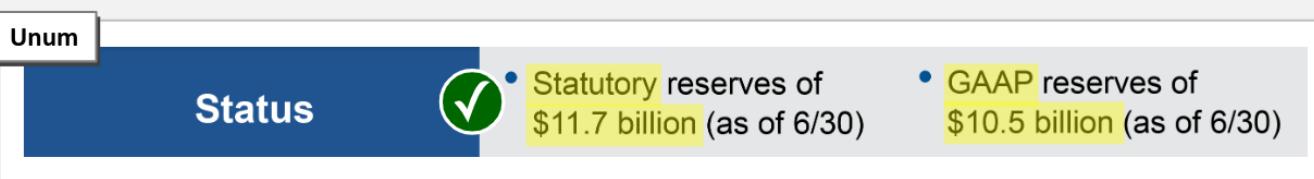
Prudential Q2 Earnings Call



Prudential		Individual	Group	Total
Balance Sheet	GAAP Reserves	\$ 4,746	\$ 1,818	\$ 6,564
	Statutory Reserves	\$ 4,956	\$ 2,066	\$ 7,022

September 2018

Unum LTC Reserve Analysis



March 7, 2019

GE "Insurance Teach-In"



GE	As of December 31, 2018 (Dollars in billions, except where noted)	ERAC	UFLIC	Total
Gross GAAP future policy benefit reserves and claim reserves		\$14.1	\$5.9	\$19.9
Gross statutory future policy benefit reserves and claim reserves <sup>-a)</sup>		\$23.2	\$7.2	\$30.4
<b>\$30.4 - \$19.9 = \$10.5</b>				

Source: Prudential Second Quarter Earnings Call, August 2, 2018, p. 22, Unum Long Term Care Reserve Analysis, September 2018, p. 6 and 9.



# GE Uses Accounting Tricks in 2018 to Hide \$1.9 Billion in Losses; New Rules Do Not Permit Use of Higher Discount Rate

## GE Continues to Push the Discount Rate Lever to Create Fake Earnings and Hide Losses

March 7, 2019: GE Insurance "Teach-In"

GAAP LRT Results	
\$82M pre-tax premium deficiency	
Key drivers:	(\$ in billions, pre-tax)
LTC lower morbidity improvement rate	\$ (1.2) ①
LTC higher projected utilization	(0.3) ②
LTC lower projected policy terminations	(0.2)
Life expected mortality (US/Canada)	(0.3)
LTC expected future premium rate increases	0.2
Higher estimated discount rate	1.9 ③

- ① Reduced to 1.25% for 12-20 year duration (0% thereafter) from 1.6% for 16-20 year duration
- ② Claim cost curves rebuilt in 2017 still appropriate ... assumptions updates largely driven by higher interest rates leading to higher inflation which increased projected utilization
- ③ Increased to 6.04% from 5.67% ... primarily related to updated portfolio reinvestment plan

March 7, 2019: GE Insurance Teach-In Transcript

**Charles Stephen Tusa, JP Morgan Chase & Co, Research Division - MD**

And you're saying that basically, all these things moving around were exactly almost 0 like-for-like with regards to the GAAP impact on your charge? Everything moving around was exactly 0, almost exactly 0.

**Bob Deutsch, GE Managing Director**

The math ~~is the math~~ <sup>not</sup>, but I can't stress enough the independence of the rigorous process we went through. Anthony's work was completed in November -- towards late November, well before we even started the actuarial component of the calculations. And so Anthony's movement was the 1.9% that you saw the morbidity improvement was the 1.2%. The fact that it all came out to \$82 million pretax is just the way the math fell out.

**Tim Kneeland, GE President and CEO North American Life and Health**

And I think to process, the key we talked about earlier, disciplined process really put us in a position where a very thorough review, step-by-step in every single assumption that we took, whether it was Anthony and the investment team in their discount rate, whether it was morbidity, morbidity improvement, mortality, all of the individual pieces went through a very strict process of challenges. As a matter of fact, 2 levels of challenges internally as well as external challenges in order to make sure that the assumptions that we relied upon were well vetted and that we are confident in them when we book those results.

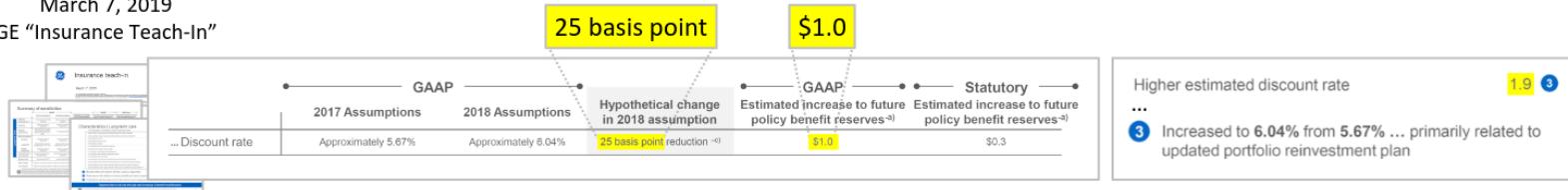
Source: March 7, 2019 GE "Insurance Teach-In" p. 9 and GE LTC "Teach-In" Transcript p. 16.



## 25 BPS = +\$1B When P&L Favorable; 25 BPS = -\$(333.3M) When P&L Unfavorable (Three Months Later!!!)

**March 7, 2019 GE Teach-In Math:** ~50 BPS Increase = \$1.9 Billion Reserve Decrease (~\$1B per 25 BPS)

March 7, 2019  
GE "Insurance Teach-In"



**June 30, 2019 GE 10-Q Math:** ~75 BPS Decrease = < \$1.0 Billion Reserve Increase (~\$333.3M per 25 BPS)

June 30, 2019  
GE 10-Q



For the reasons described above, a decline in market interest rates would not result in an equivalent decline in our discount rate assumption. Since our 2018 premium deficiency test, market interest rates have declined by approximately **75 basis points**. This will impact a component of our discount rate only, and holding all other assumptions constant, would have increased our future policy benefit reserves on a GAAP basis by less than **\$1.0 billion** (pre-tax).

Source: March 7, 2019 GE "Insurance Teach-In" pp. 9-10 and GE 10-Q, June 30, 2019, page 16.



# GE Creates a False Narrative During the LTC “Teach-In” That Actual LTC Reserves Could Fall Between the GAAP and Statutory Reserves

False Narrative Avoids Questions About the Adequacy of GE’s Statutory LTC Reserves

March 7, 2019

GE Teach-In Transcript

## Question by Nigel Edward, Coe Wolfe Research LLC – MD & Senior Research Analyst

Obviously, you've gone through the differences between statutory and GAAP reserve calculations. If the GAAP assumptions are closer to reality and imply that your statutory capital ratios will continue to improve, can we start thinking, at some point, about that \$9 billion coming down, if that is the case? Or should we consider \$9 billion locked and loaded and that's going to happen? Or could that come down if your assumptions are too conservative on statutory basis?

## Answer by Bob Deutsch, GE Managing Director

Well, if it turns out, I remember the tail here, it's incredibly long. **If it turns out that the GAAP assumptions are right, then that excess statutory reserve will move into policyholder surplus** at some point down the future and available for an upstream dividend, but that's a long way away. We're certainly anticipating the continued funding of that \$9 billion -- of the remaining \$9 billion over the next 5 years.

False



**GE Already Knows Its GAAP Assumptions Are Not Correct, Because the Rule Change Stops Their Tricks; GE’s Claim That “Excess Statutory Reserve Will Move into Policyholder Surplus” Is Not True**

Source: March 7, 2019 GE “Insurance Teach-In” Transcript, p.14



# Under Questioning, GE Reveals That Implementing the Accounting Rule Change Will Have a Material Impact on Its Financial Statements

The Material Impact Will Be the Reversal of GE's **\$10.5 Billion** GAAP/SAP Mismatch

March 7, 2019

GE Teach-In Transcript

## Question by Jeffrey Todd Sprague Vertical Research Partners, LLC – Founder and Managing Partner

And then secondly, on the accounting changes coming on a GAAP basis. I understand that won't affect your statutory reserves, but just analysis looking at kind of the grouping features that have been done historically, is there some insight to the health of your portfolio that will happen as a result of the change in the GAAP standard? Or is that already fully captured in, in all your other analysis?

## Answer by Bob Deutsch, GE Managing Director

No, it's certainly not fully captured. We are -- in fact, it's a very complex accounting standard, made more complex for a reinsurer. It depends on interest rates at the time of adoption. We are, in fact, studying it as we speak and really beyond commenting that it offers -- it materially will affect our financial statements, we really haven't said more. We have given you a sensitivity analysis to allow you to do the math, if you wish, in terms of what a change in interest rates might mean in the calculation.

Source: March 7, 2019 GE "Insurance Teach-In" Transcript, p.13; wsj.com/articles/new-rules-look-to-make-insurance-contracts-more-transparent-for-investors-1534341601



## **GE's Accounting Treatment of LTC**

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A History of Under-Reserving, Misrepresentations  
and Multi-Billion Dollar Earnings Hits

“The insurance business **failed to internally acknowledge worsening results over the years**, according to several former GE employees who said they have been interviewed by government lawyers .... [A Former GE Capital Employee] left after growing concerned that **senior executives in the division were changing numbers and their methodology without providing supporting evidence....”**

- *Wall Street Journal*

Source: November 30, 2018, *Wall Street Journal*, “In GE Probe, Ex-Staffers Say Insurance Risks Were Ignored” by Thomas Gryta and David Benoit



# GE's LTC "Teach-In" – Proof GE Continues to Hide Its LTC Problems

Minimal Transparency Allowed GE to Avoid Telling the Truth About Its LTC Problems



## Insurance teach-in

March 7, 2019

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS:  
This document contains "forward-looking statements" – that is, statements related to future events that by their nature address matters that are, to different  
may cause our actual future results to be materially different than those expressed in our forward-looking statements. See <http://www.ge.com/investor-relations/documents/forward-looking-statements.pdf> for a detailed discussion of factors that could cause actual results to differ from projected financial information that is based on current estimates and forecasts. Actual results could differ materially.

General Electric Capital Corporation ("GECC") was merged into GE in 2015 and our financial services business is now operated by GE Capital Global Hold and GECC as "GE Capital". We refer to the industrial businesses of the Company including GE Capital on an equity basis as "GE", "GE (ex-GE Capital)"  
GE's Investor Relations website at [www.ge.com/investor](http://www.ge.com/investor) and our corporate blog at [www.geperspectives.com](http://www.geperspectives.com), as well as GE's Facebook page and Twitter account including financial and other information for investors. GE encourages investors to visit these websites from time to time, as information is updated and new

!
Teach-In Uses  
Soviet Era  
Transparency

Today's agenda	Speakers	Content
<p><b>Joined NALH In May of 2018</b></p> <ul style="list-style-type: none"> <li>✓ Chief Actuary and CFO at Executive Risk, now part of Chubb</li> <li>✓ Chief Financial Officer at CNA</li> <li>✓ Chief Executive Officer at Ironshore, now part of Liberty Mutual</li> <li>✓ Chief Strategy Officer at Hamilton Insurance</li> </ul> <p><b>Bob Deutsch</b> Managing Director 35+ years</p>	<p><b>Joined NALH in November of 2018</b></p> <ul style="list-style-type: none"> <li>✓ 16 years in various leadership roles at Transamerica</li> <li>✓ Transamerica Long-Term Care leader for the last 8 years</li> </ul> <p><b>Tim Kneeland</b> Chief Executive Officer 35+ years</p>	<p><b>Joined NALH in October of 2018</b></p> <ul style="list-style-type: none"> <li>✓ Executive Vice President &amp; Chief Investment Officer at Validus</li> <li>✓ Chief Investment Officer at Universal American</li> </ul> <p><b>Anthony Grandolfo</b> Chief Investment Officer 25+ years</p>
<b>Moderated by Steve Winoker, VP of Investor Relations</b>		<b>Page(s)</b>
<ul style="list-style-type: none"> <li>• Key messages</li> <li>• History</li> <li>• Overview</li> <li>• Characteristics</li> <li>• Reserve adequacy process &amp; 2018 results</li> <li>• Summary of sensitivities</li> <li>• Review of selected assumptions</li> <li>• Wrap</li> </ul>	<ul style="list-style-type: none"> <li>3</li> <li>4</li> <li>5</li> <li>6-7</li> <li>8-9</li> <li>10</li> <li>11-14</li> <li>15</li> <li>2</li> </ul>	

Source: March 7, 2019 GE "Insurance Teach-In"

37



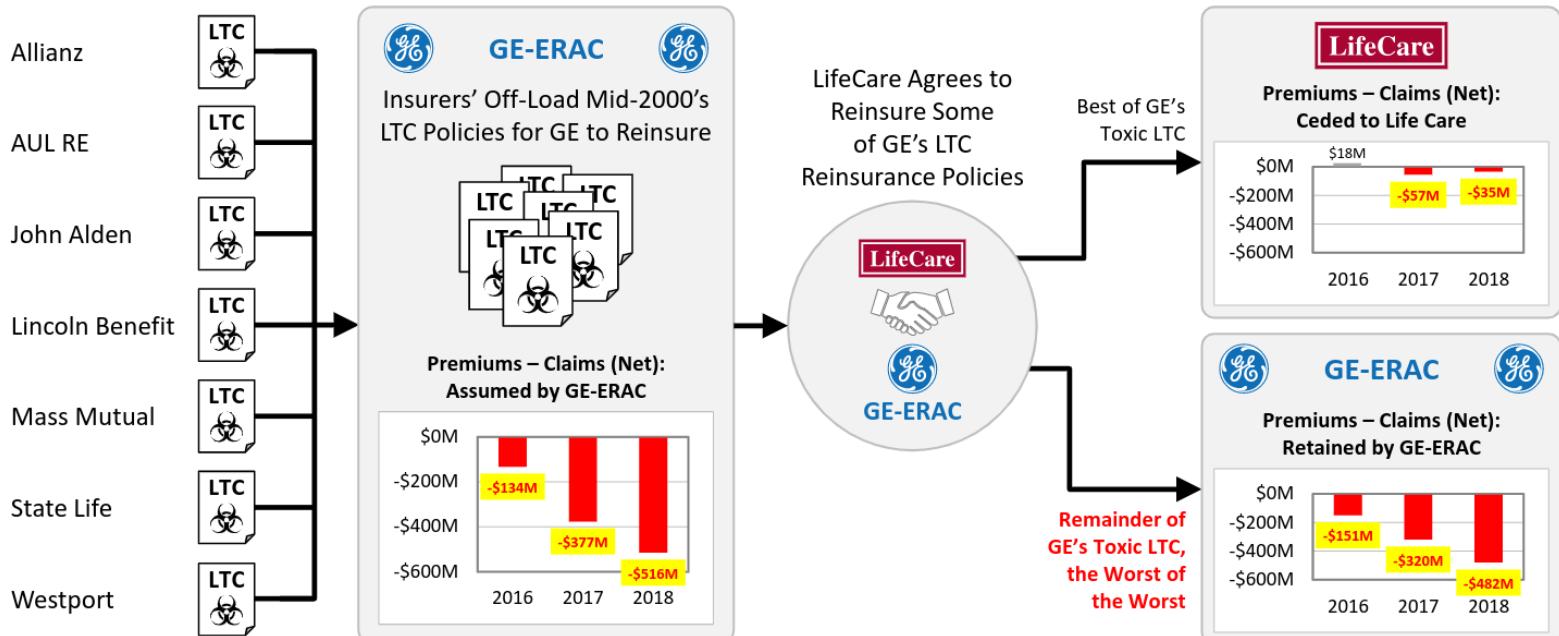
# Here Is What GE's “Teach-In” Did Not Teach

- 1 GE traded short-term LTC benefits for earnings, but now unsustainable losses are rolling in that **may destroy the company**
- 2 GE management **didn't know what it was doing**
- 3 GE reinsured primarily policies from the **worst era of the LTC market**
- 4 GE entered into some of the **worst, one-sided and unfavorable reinsurance agreements in the industry**
- 5 GE **holds unmarketable LTC** that it was unable to spin-off to Genworth or sell to Swiss RE
- 6 GE entered into one of the **worst retrocession agreements** with an under-capitalized reinsurer that cannot honor its reinsurance commitments – ultimately costing GE billions
- 7 GE failed to adequately reserve for LTC losses, used proceeds that should have gone to its carriers for a share buyback, and **now lacks the liquidity to fund even its existing under-stated reserves** – let alone the required additional reserves
- 8 GE **misled investors into thinking everything was fine with LTC** – despite having the knowledge that it retained the worst within the industry – until it blew up in 2017 with a massive (and insufficient) \$15B reserve adjustment



# GE Mortgaged Its Future by Reinsuring LTC Policies That Had Positive Near-Term Economics, But Are a Long-Term Financial Disaster

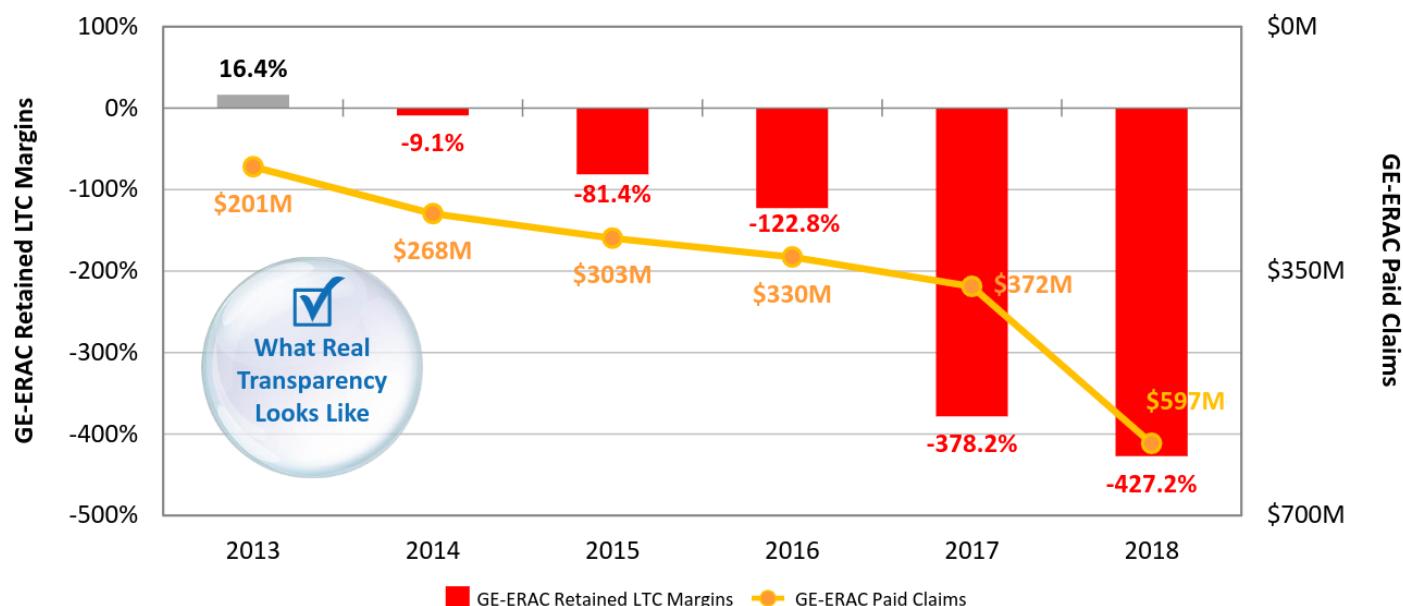
Reinsurance Deals Will Destroy Virtually All GE's Remaining Shareholder Equity





# Here's the Truth That GE's "Teach-In" Never Told You: Paid Claims and Losses Are Increasing at an Exponential Rate!

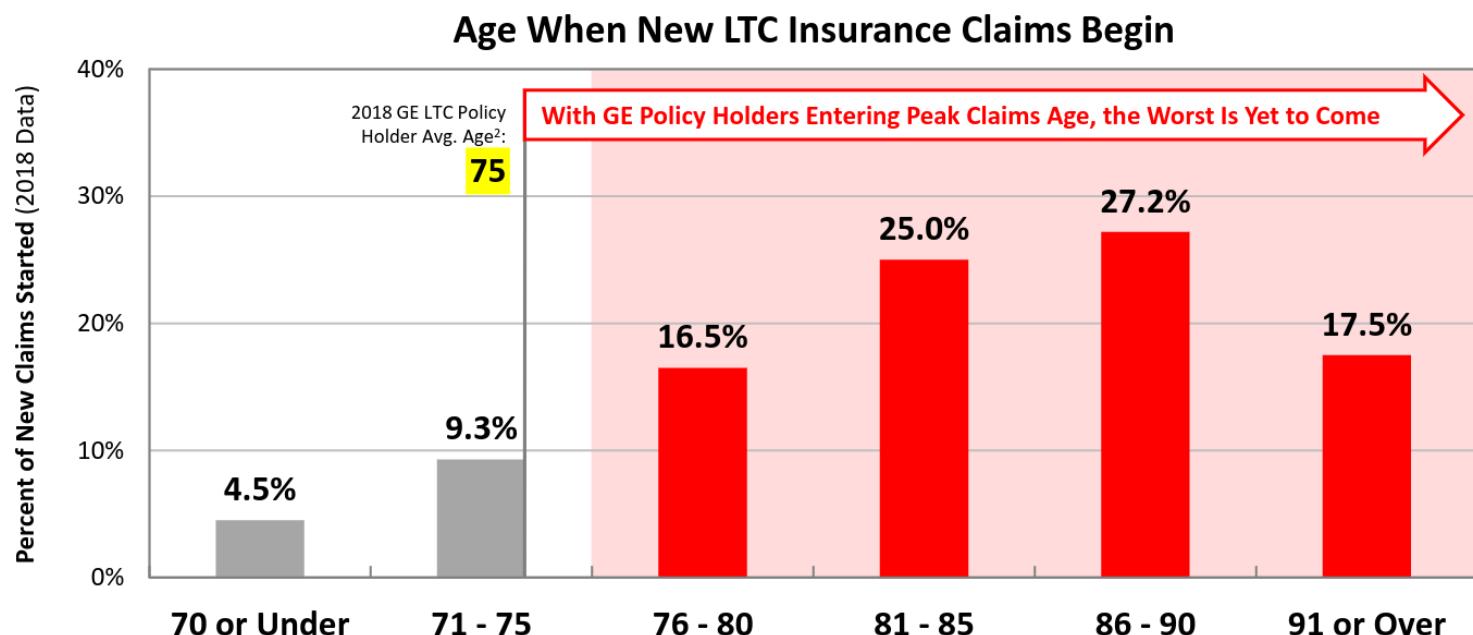
GE-ERAC's Paid Claims Increased a Staggering 60% in 2018



Source: GE-ERAC Statutory Annual Statements – Schedule H, Paid Claims GE-ERAC Statutory Annual Statements, Exhibit 6, Schedule H, (paid claims = incurred claims +/- change in claim reserves)



# GE's LTC Deterioration Is Going to Continue to Rapidly Accelerate: 86.2% of LTC Claims Are Yet to Be Filed<sup>1</sup>



Source: American Assoc. for Long-Term Care Insurance - [aaltci.org/long-term-care-insurance/learning-center/ltcfacts-2019.php](http://aaltci.org/long-term-care-insurance/learning-center/ltcfacts-2019.php) <sup>1</sup>AALTCL total from age 76 on; <sup>2</sup>March 7, 2019 GE LTC "Insurance Teach-In", p. 6



# GE's ERAC Insurance Unit Was Run by Inexperienced Executives

January 13, 2003

*Insurance Journal*

"ERC Faces an Uncertain Future"



GE-ERAC's CEOs would drop in from GE Lighting, Transportation, Plastics, Real Estate and Power without any insurance background and they wouldn't stay very long

"[GE-ERAC] can't seem to make money, even in a market that's seeing sharp premium increases"

"[F]or all the money they have, they haven't used it wisely ... one of the main reasons is a lack of experienced reinsurance talent managing it, especially at the top."

"[T]here is too much interference from other GE operations"

"Of the top 17 people listed as having primary responsibility for ERC's operations .... one waits until the sixth person listed ... and the seventh person ... to find an extensive insurance background"

"[GE-ERAC is] sitting on a bunch of long-tail liabilities; it doesn't appear to have an experienced team of reinsurance professionals running it, and it's changed focus too many times to have a thoroughly reliable base of clients to acquire."

Source: [insurancejournal.com/magazines/mag-features/2003/01/13/25420.htm](http://insurancejournal.com/magazines/mag-features/2003/01/13/25420.htm)



# GE Reinsured the Worst LTC Policies (Policies Prior to the Mid-2000's)

## The Vast Majority of GE's LTC Was Individual Policies from the Pre-Mid-2000's

May 2016, NAIC/CIPR

State of Long-Term Care Insurance



As required by state insurance laws, private LTCI policies were always sold as guaranteed renewable—they could only be cancelled for non-payment of premium—and as level-funded.

While the premium charged varied by age at purchase, once an individual purchased a policy, the premium was designed (although never guaranteed) to be level for life. Finally, almost all policies reimbursed the actual costs of care up to a daily benefit maximum.

The level-funded nature of the product persists to this day and poses unique challenges to insurers. Insurers can only adjust premiums subject to regulatory approval if experience is countering their pricing assumptions. Most insurers' LTCI policies issued before the mid-2000s have seen adverse experience when compared to their original pricing assumptions. Rising claims, low mortality and lower than expected lapses have led to higher prices often unaffordable to a large segment of the affected population. A number of insurers have also opted out of the market, leaving only a relatively few insurers to provide much needed LTCI products.

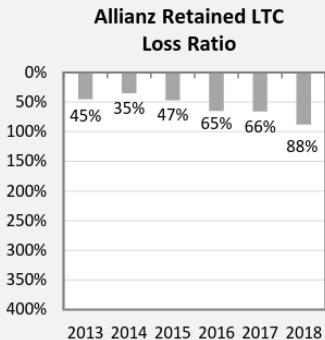
Source: NAIC – The State of Long-Term Care Insurance, May 2016, p. 3



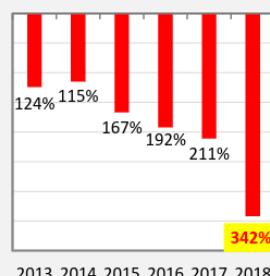
# ~95% of GE's Reinsurance Agreements Are Among the Worst in the LTC Market and Will Only Get Worse As LTC Policyholders Age

Each GE-ERAC Reinsurance Deal Shows Mounting Losses and Liability

GE Reinsurance Deal with



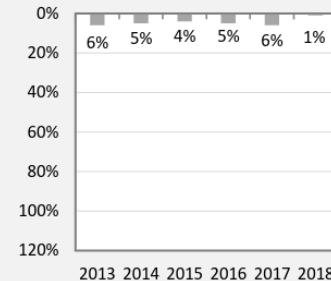
GE-ERAC Assumed LTC Loss Ratio



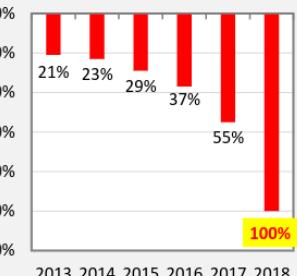
GE Reinsurance Deal with



Mass Mutual Retained LTC Loss Ratio



GE-ERAC Assumed LTC Loss Ratio



Allianz CFO refers to the LTC that GE-RERAC reinsured during a May 15, 2018 Earnings Call as “**very bad LTC**” that “**is completely reinsured**”<sup>1</sup>.

Mass Mutual keeps all the profits. GE assumes all the losses.  
This could be the worst LTC deal ever.

Source: See Appendix 1 for complete details of each reinsurance arrangement with respective carriers. <sup>1</sup>[www.spglobal.com/marketintelligence/en/news-insights/trending/q3iglbokev3g542zdbqya2](http://www.spglobal.com/marketintelligence/en/news-insights/trending/q3iglbokev3g542zdbqya2)

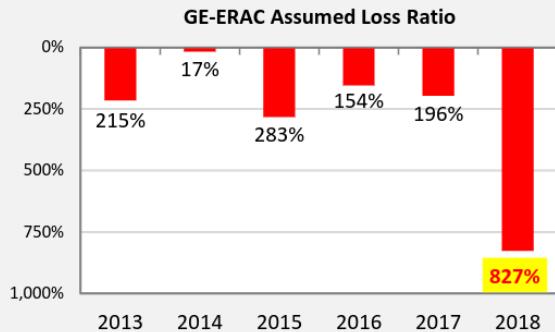


# ~95% of GE's Reinsurance Agreements Are Among the Worst in the LTC Market and Will Only Get Worse As LTC Policyholders Age

Each GE-ERAC Reinsurance Deal Shows Mounting Losses and Liability

GE Reinsurance Pass-Through P&C Carrier:

## WESTPORT

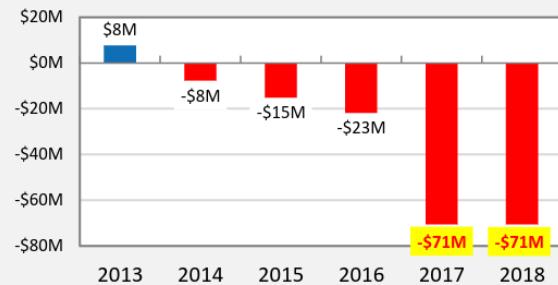


What Happened in 2018?  
What LTC is GE reinsuring? Is this really LTC?

GE Reinsurance with Pass-Through Carrier:



GE LTC Net (Premiums – Incurred Claims)



GE's is ultimately reinsuring LTC from an industry "Black Box" that pools tens of billions in exposure.

Source: See Appendix 1 for respective carriers.



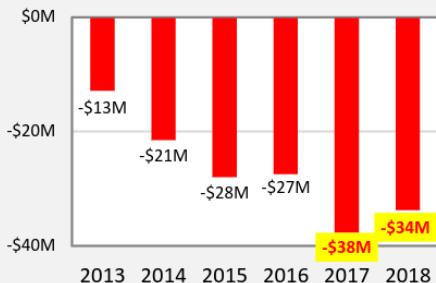
# ~95% of GE's Reinsurance Agreements Are Among the Worst in the LTC Market and Will Only Get Worse As LTC Policyholders Age

Each GE-ERAC Reinsurance Deal Shows Mounting Losses and Liability

GE Reinsurance Deal:



GE-ERAC Assumed LTC  
Net (Premiums – Claims)

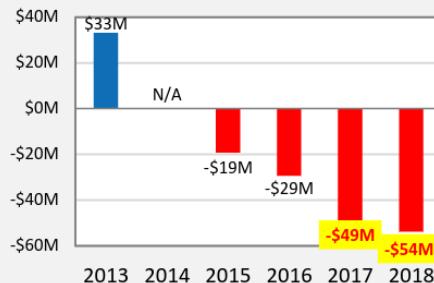


GE-ERAC's assumed 100% of John Alden's worst LTC Product.

GE Reinsurance Deal:



GE-ERAC Assumed LTC  
Net (Premiums – Claims)

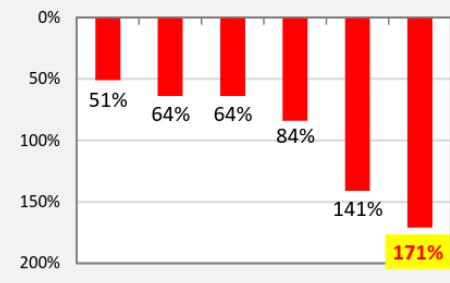


Losses are relatively low compared to other GE reinsurance deals, but will likely get worse.

GE Reinsurance Deal:



GE-ERAC Assumed LTC  
Loss Ratio



Losses are relatively low compared to other GE reinsurance deals, but will likely get worse.

Source: See Appendix 1 for respective carriers.



## The \$2.2 Billion LifeCare Fiasco

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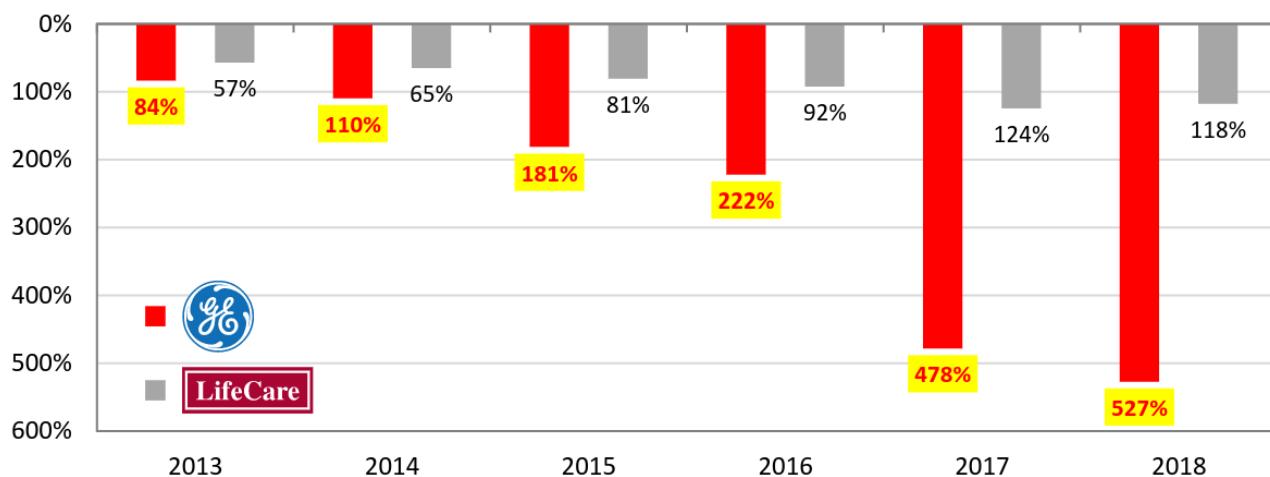
GE Off-Loaded Some of Its LTC Reinsurance to LifeCare, a Now Failed Insurance Carrier



# GE Off-Loaded the “Best of the Worst” LTC to LifeCare and Kept the “Worst of the Worst”

LifeCare Took a Very Bad Situation and Made It Much Worse

**Loss Ratio (GE vs. LifeCare)**



Source: GE-ERAC Statutory Annual Statements – Schedule H. Note LifeCare results include immaterial amount of reinsurance with other reinsurers.



# LifeCare Could Not Handle the “Best of the Worst” of GE-ERAC’s LTC

## LifeCare Was So Thinly Capitalized Its Failure Was Inevitable

LifeCare Assurance Company - Balance Sheet Summary						
	2013	2014	2015	2016	2017	2018
<b>Assets</b>						
Cash and Invested Assets	\$1,710,446,310	\$1,876,904,609	\$2,044,345,461	\$2,208,387,306	\$2,370,295,888	\$2,484,587,272
Other Assets	\$69,536,845	\$68,674,205	\$68,755,203	\$74,069,609	\$68,151,773	\$60,004,394
<b>Total Assets</b>	<b>\$1,779,983,155</b>	<b>\$1,945,578,814</b>	<b>\$2,113,100,664</b>	<b>\$2,282,456,915</b>	<b>\$2,438,447,661</b>	<b>\$2,544,591,666</b>
<b>Liabilities</b>						
Reserves	\$1,620,688,359	\$1,775,810,373	\$1,943,661,019	\$2,106,797,830	\$2,282,664,233	\$2,393,758,387
Other Liabilities	\$63,545,118	\$62,695,514	\$62,273,430	\$73,300,868	\$91,292,826	\$88,981,392
<b>Total Liabilities</b>	<b>\$1,684,233,477</b>	<b>\$1,838,505,887</b>	<b>\$2,005,934,449</b>	<b>\$2,180,098,698</b>	<b>\$2,373,957,059</b>	<b>\$2,482,739,779</b>
Capital and Surplus	\$95,749,678	\$107,072,927	\$107,166,215	\$102,358,217	\$64,490,602	\$61,851,887
<b>Total Liabilities and Surplus</b>	<b>\$1,779,983,155</b>	<b>\$1,945,578,814</b>	<b>\$2,113,100,664</b>	<b>\$2,282,456,915</b>	<b>\$2,438,447,661</b>	<b>\$2,544,591,666</b>
<b>Surplus / Reserves</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>	<b>5%</b>	<b>3%</b>	<b>3%</b>



**GE's LTC Risk Management Function Is Woefully Deficient, Selecting a Reinsurer with Almost No Surplus to Reinsure their LTC**

Source: LifeCare Assurance Company Statutory Annual Statements – pp. 2 & 3



# LifeCare's Reinsurance Failure Will Ultimately Cost GE \$2.2 Billion

2017

GE Annual Report

2018

GE Annual Report

We cede our insurance risk to third party reinsurers for a portion of our insurance contracts. As we are not relieved from primary obligation to policyholders or cedents, we record receivables that are estimated in a manner consistent with the future policy benefit reserves and claim reserves. Reserves ceded to reinsurers, net of allowance, were \$2.5 billion and \$2.0 billion at December 31, 2017 and 2016, respectively and are included in the caption "Other GE Capital receivables" on our consolidated Statement of Financial Position. In connection with our premium deficiency test in 2017, additions to reinsurance recoverables of \$2.4 billion were largely offset by an allowance for losses of \$2.2 billion based upon our assessment of collectability that would otherwise have reduced the earnings impact of the premium deficiency. The vast majority of our remaining net reinsurance recoverables are secured by assets held in a trust for which we are the beneficiary.

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Source: 2017 GE 10-K, p. 87; 2018 GE 10-K, p. 65



# GE-ERAC's Eroding Results Paint a Dire Picture of the Rapid Collapse of Its Retained LTC Reinsurance Business

**Summary of Premiums and Incurred Losses by GE-ERAC**

GE-ERAC assumes the worst LTC in the market

GE-ERAC cedes the "Best of the Worst" to LifeCare

GE-ERAC is left holding the "Worst of the Worst" in the market

	2013	2014	2015	2016	2017	2018
<b>Assumed by GE-ERAC</b>						
Written Premiums	417,002,660	417,853,139	366,526,076	352,387,120	317,050,982	305,922,572
Incurred Claims	288,736,483	358,760,413	440,101,010	485,973,473	694,205,826	822,014,624
Net	128,266,177	59,092,726	(73,574,934)	(133,586,353)	(377,154,844)	(516,092,052)
- Loss Ratio	69.2%	85.9%	120.1%	137.9%	219.0%	268.7%
<b>Ceded to LifeCare</b>						
Written Premiums	224,885,488	223,041,522	223,138,731	228,541,493	232,332,510	193,194,218
Incurred Claims	128,160,253	145,088,738	179,996,284	210,898,648	289,112,477	227,736,198
Net	96,725,235	77,952,784	43,142,447	17,642,845	(56,779,967)	(34,541,980)
- Loss Ratio	57.0%	65.1%	80.7%	92.3%	124.4%	117.9%
<b>Retained by GE-ERAC</b>						
Written Premiums	192,117,172	194,811,617	143,387,345	123,845,627	84,718,472	112,728,354
Incurred Claims	160,576,230	213,671,675	260,104,726	275,074,825	405,093,349	594,278,426
Net	31,540,942	(18,860,058)	(116,717,381)	(151,229,198)	(320,374,877)	(481,550,072)
- Loss Ratio	83.6%	109.7%	181.4%	222.1%	478.2%	527.2%

Note LifeCare results include immaterial amount of reinsurance with other reinsurers; "Assumed by GE-ERAC" is calculated based upon retained and ceded data

Source: GE-ERAC Statutory Annual Statements – Schedule H



## **GE's 2017 LTC Reserve Hit**

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A \$15 Billion Accounting Fraud



# GE's Official Story Is False; Reserve Adjustment Should Have Been Taken in 2012 and Certainly No Later Than 2015

2017  
GE Annual Report



During 2017, in response to elevated claim experience for a portion of our long-term care insurance contracts that was most pronounced for policyholders with higher attained ages, we initiated a comprehensive review of premium deficiency assumptions across all insurance products, which included reconstructing our future claim cost assumptions for long-term care contracts utilizing trends observed in our emerging experience for older claimant ages and later duration policies. Certain of our long-term care policyholders only recently started to reach the prime claim paying period and our new claim cost assumptions considered the emerging credibility of this claim data. In addition to the adverse impact from the revised future claim cost assumptions over a long-term horizon, our premium deficiency assumptions considered mortality, length of time a policy will remain in-force and both near-term and longer-term investment return expectations. Future investment yields estimated in 2017 were lower than in previous premium deficiency tests, primarily due to the effect of near term yields on approximately \$15 billion of future expected capital contributions. The test indicated a premium deficiency resulting in the unlocking of reserves and resetting of actuarial assumptions to current assumptions. This resulted in a \$9.5 billion charge to earnings, which included a \$0.4 billion impairment of deferred acquisition costs, a \$0.2 billion impairment of present value of future profits, and an \$8.9 billion increase in future policy benefit reserves.



**GE's Claim that "During 2017, in Response to Elevated Claim Experience ... [The Company] Initiated a Comprehensive Review" Leading to the \$15 Billion Reserve Adjustment Is Not True; GE Knew Elevated Claims Had Been Occurring Years Earlier**



## **GE's Activities to Delay the Reserve Adjustment and Hide Its LTC Problems from the Public Are Spelled Out in a Recent Class Action Lawsuit**

February 27, 2019

**Complaint:**

*Touchstone Strategic Trust, et al. vs. General Electric Co., et al.*

## **Genworth Spin Off:**

"When the Genworth transaction was announced in November 2003, Immelt stated on a conference call that GE was retaining **only a 'very stable' block of policies that were 'pric[ed] diligently' and provided 'safe earnings.'** However, GE did not make a strategic decision to retain its LTC block. According to a Bloomberg report published in 2018, the bankers that structured the spin-off, Goldman Sachs and Morgan Stanley, advised GE that it could not divest itself of its LTC liabilities in the Genworth transaction because they were **too risky. GE never disclosed this fact.**" - p. 3



#### **First Disclosure of Potential LTC Reserve Issues:**

"GE did not begin to disclose its true exposure to LTC until **July 21, 2017** when GE's CFO, Bornstein, announced that GE experienced adverse claims in its LTC portfolio and that GE would have to reassess the adequacy of its reserves. In January 2018, GE announced that it was increasing LTC reserves by \$8.9 billion, almost doubling them, and taking a related \$6.2 billion charge to earnings. GE further announced that it expected to make additional capital contributions of **\$15 billion** over the next seven years to address adverse claims experience." – p. 4

## **Additional Evidence GE Delayed Making LTC Reserve Adjustments:**

"On November 30, 2018, the Wall Street Journal reported that former GE employees interviewed by the SEC admitted that the 'insurance business failed to internally acknowledge worsening results over the years' and 'buried risks that ultimately kept the company from booking bigger reserves.' **At least one individual left the Company 'after growing concerned that senior executives in the division were changing numbers** and their methodology without providing supporting evidence.'" – pp. 4-5

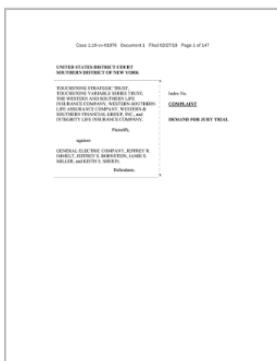


# GE's Activities to Delay the Reserve Adjustment and Hide Its LTC Problems from the Public Are Spelled Out in a Recent Class Action Lawsuit

February 27, 2019

Complaint:

Touchstone Strategic Trust, et al. vs. General Electric Co., et al.



## Manipulation of LTC Reserves:

"Plaintiffs in *Sjunde AP-Fonden v. General Electric Company*, No. 1:17-cv-08457- JMF interviewed a number of former GE employees who provided information that confirms the accuracy of the Wall Street Journal's report. For example, they relied on statements from an individual who was employed as a senior actuary at ERAC from 2006 to 2012, a senior insurance audit specialist at GE Capital Audit from 2012 to 2014, and a senior vice president at GE Capital Audit from 2014 through January 1, 2017. According to the class plaintiffs, **in the summer of 2014, this individual discovered in the course of an audit of ERAC that key assumptions used in LTC modeling were "stale by several years."** He also reported that prior and subsequent audits had identified serious issues with the models that were used by GE to set LTC reserves that were elevated in reports required to be provided to Defendants. These issues included use of **outdated assumptions and the failure to validate models.**" – p.34

## Ignoring and Delaying a Loss Recognition Event:

"The *Sjunde AP-Fonden* plaintiffs also obtained statements from an individual who worked at GE as an Actuarial Controller ERAC from July 2015 to September 2016. This individual indicated that ERAC management changed LTC reserve assumptions without justification. According to this individual, during loss recognition testing in the spring of 2016 his modeling showed that GE Capital had experienced a **"loss recognition event"** and would need hundreds of **millions of GAAP additional reserves.** When his superiors, Clark Ramsey ("Ramsey"), ERAC's chief actuary, and William Steilen, ERAC's CFO, learned of this, **they modified the way testing was done and took the position that there was actually a \$78 million surplus.** This individual was "very uncomfortable" because management was not supporting changes to modeling methodology." – p.34



# The History of GE's Delay of the \$15 Billion LTC Reserve Increase Provides Evidence of Accounting Fraud

GE-ERAC	2013	2014	2015	2016	2017	2018
<b>Active Life Reserve</b>						
Unearned Premiums	81,291,781	76,453,306	70,448,577	66,187,260	60,500,606	57,568,438
Additional Contract	5,770,769,071	6,132,735,646	6,453,015,588	6,764,088,378	7,061,828,732	7,210,809,203
Additional Actuarial	1,075,000,000	1,200,000,000	1,125,000,000	1,275,000,000	16,275,000,000	16,275,000,000
<b>Total</b>	<b>6,927,060,852</b>	<b>7,409,188,952</b>	<b>7,648,464,165</b>	<b>8,105,275,638</b>	<b>23,113,829,338</b>	<b>23,543,333,641</b>
Reinsurance Ceded	1,458,171,604	1,577,545,904	1,687,566,450	1,793,879,917	1,894,018,864	1,979,817,020
<b>Total (Net)</b>	<b>5,468,889,248</b>	<b>5,831,643,048</b>	<b>5,960,897,715</b>	<b>6,311,395,721</b>	<b>21,219,810,474</b>	<b>21,563,560,621</b>
<b>Claim Reserve</b>						
Present Value	885,466,644	975,554,486	1,112,778,451	1,269,609,112	1,591,668,001	1,816,736,871
Reinsurance Ceded	346,842,188	387,436,831	442,714,541	515,667,098	644,048,058	683,293,274
<b>Total (Net)</b>	<b>538,624,456</b>	<b>588,117,655</b>	<b>670,063,910</b>	<b>753,942,014</b>	<b>947,619,943</b>	<b>1,133,443,597</b>
<b>Totals (Net)</b>	<b>6,007,513,704</b>	<b>6,419,760,703</b>	<b>6,630,961,625</b>	<b>7,065,337,735</b>	<b>22,167,430,417</b>	<b>22,697,004,218</b>
<b>Claim Increases - \$ (Assumed)</b>						
Incurred Claims	288,736,483	358,760,413	440,101,010	486,873,473	694,205,826	822,014,622
Change in Reserve	87,331,820	90,087,842	137,223,965	156,830,661	322,058,889	225,068,870
Paid Claims	201,404,663	268,672,571	302,877,045	330,042,812	372,146,937	596,945,752
<b>Claim Increases - % (Assumed)</b>						
Incurred Claims		24%	23%	11%	43%	18%
Change in Reserve		3%	52%	14%	105%	-30%
Paid Claims		33%	13%	9%	13%	60%

## Timeline of Accounting Fraud

Note: Additional actuarial reserves for 2017 and 2018 have been adjusted to reflect the pro forma full impact of the \$15 billion reserve adjustment

Source: GE-ERAC statutory Annual Statements – Exhibit 6 and Schedule H



# The History of GE's Delay of the \$15 Billion LTC Reserve Increase Provides Evidence of Accounting Fraud

GE-ERAC	2013	2014	2015	2016	2017	2018
<b>Active Life Reserve</b>						
Unearned Premiums	81,291,781	76,453,306	70,448,577	66,187,260	60,500,606	57,568,438
Additional Contract	5,770,769,071	6,132,735,646	6,452,015,599	6,764,089,270	7,084,029,727	7,311,809,203
<b>Additional Actuarial</b>	<b>1,075,000,000</b>	<b>1,200,000,000</b>				
Total	6,927,060,852	7,409,188,952	7,810,506,193	8,103,273,850	8,113,026,550	8,325,333,641
Reinsurance Ceded	1,458,171,604	1,577,545,904	1,687,566,450	1,793,879,917	1,894,018,864	1,979,817,020
Total (Net)					474	21,563,560,621
Present Value					001	1,816,736,871
Reinsurance Ceded	346,842,188	387,436,831	442,714,541	515,667,098	644,048,058	683,293,274
Total (Net)	538,624,456	588,117,655	670,063,910	753,942,014	947,619,943	1,133,443,597
Totals (Net)	6,007,513,704	6,419,760,703	6,630,961,625	7,065,337,735	22,167,430,417	22,697,004,218
Incurred Claims	288,736,483	358,760,413	440,101,010	486,873,473	694,205,826	822,014,622
Change in Reserve	87,331,820	90,087,842	127,222,025	156,820,561	222,959,889	225,068,870
<b>Paid Claims</b>	<b>201,404,663</b>	<b>268,672,571</b>				596,945,752
Incurred Claims		24%	23%	11%	43%	18%
Change in Reserve		3%	52%	14%	105%	-30%
Paid Claims		33%	13%	9%	13%	60%



In 2014 Genworth took a **\$1.4B charge** on its LTC Reserves with less toxic LTC than GE.

**GE Reserves increase by \$125 Million**

## Timeline of Accounting Fraud

**2014:** GE ignores reserve impact of increase in paid claims, despite Genworth taking a \$1.4B reserve hit in 2014 with less toxic LTC.

Note: Additional actuarial reserves for 2017 and 2018 have been adjusted to reflect the pro forma full impact of the \$15 billion reserve adjustment

Source: GE-ERAC statutory Annual Statements – Exhibit 6 and Schedule H



# The History of GE's Delay of the \$15 Billion LTC Reserve Increase Provides Evidence of Accounting Fraud

GE-ERAC	2013	2014	2015	2016	2017	2018
<b>Active Life Reserve</b>						
Unearned Premiums	81,291,781	76,453,306	70,448,577	66,187,260	60,500,606	57,568,438
Additional Contract	5,770,769,071	6,132,735,646	6,453,015,588	6,764,000,270	7,004,020,737	7,310,000,207
<b>Additional Actuarial</b>	<b>1,075,000,000</b>	<b>1,200,000,000</b>	<b>1,125,000,000</b>			
Total	6,927,060,852	7,409,188,952	7,648,464,165	8,103,273,638	8,113,820,558	8,343,353,041
Reinsurance Ceded	1,458,171,604	1,577,545,904	1,687,566,450	1,793,879,917	1,894,018,864	1,979,817,020
Total (Net)						563,560,621
Present Value						316,736,871
Reinsurance Ceded	346,842,188	387,436,831	442,714,541	515,667,098	644,048,058	683,293,274
Total (Net)	538,624,456	588,117,655	670,063,910	753,942,014	947,619,943	1,133,443,597
Totals (Net)	6,007,513,704	6,419,760,703	6,630,961,625	7,065,337,735	22,167,430,417	22,697,004,218
Incurred Claims	288,736,483	358,760,413	440,101,010	486,873,473	694,205,826	822,014,622
Change in Reserve	87,331,820	90,087,842	137,223,965	156,820,561	323,950,899	375,950,970
<b>Paid Claims</b>	<b>201,404,663</b>	<b>268,672,571</b>	<b>302,877,045</b>			
Incurred Claims			24%	23%		
Change in Reserve			3%	52%		
Paid Claims			33%	13%		

**GE Reserves decrease by \$75 Million**



With rising claims experience in 2015, GE still does not substantially increase its active life reserves.

## Timeline of Accounting Fraud

● **2014:** GE ignores reserve impact of increase in paid claims, despite Genworth taking a \$1.4B reserve hit in 2014 with less toxic LTC.

● **2015:** Reserves decrease despite continued increases in paid and incurred claims. **How is this actuarially possible?**

**GE Paid Claims increase by 13%**

**GE Claim Reserves increase; GE fails to increase Active Life Reserves**

Note: Additional actuarial reserves for 2017 and 2018 have been adjusted to reflect the pro forma full impact of the \$15 billion reserve adjustment

Source: GE-ERAC statutory Annual Statements – Exhibit 6 and Schedule H



# The History of GE's Delay of the \$15 Billion LTC Reserve Increase Provides Evidence of Accounting Fraud

GE-ERAC	2013	2014	2015	2016	2017	2018
<b>Active Life Reserve</b>						
Unearned Premiums	81,291,781	76,453,306	70,448,577	66,187,260	60,500,606	57,568,438
Additional Contracts	5,770,760,971	5,122,725,646	6,453,015,588	6,764,088,378	7,061,828,732	7,210,809,203
<b>GE Reserves increase by \$100 Million</b>			<b>1,125,000,000</b>	<b>1,275,000,000</b>		
Total	5,851,058,752	5,127,450,921	7,648,464,165	8,105,275,638	23,113,829,338	23,543,333,641
Reinsurance Ceded	1,458,171,604	1,577,545,904	1,687,566,450	1,793,879,917	1,894,018,864	1,979,817,020
<b>Total (Net)</b>	<b>5,468,889,248</b>	<b>5,831,643,048</b>	<b>5,960,897,715</b>	<b>6,311,395,721</b>	<b>21,219,810,474</b>	<b>21,563,560,621</b>
<b>Present Value</b>						
Reinsurance Ceded					1,816,736,871	
<b>Total (Net)</b>					683,293,274	
Totals (Net)	6,007,513,704	6,419,760,703	6,630,961,625	7,065,337,735	22,167,430,417	22,697,004,218
Incurred Claims	288,736,483	358,760,413	440,101,010	486,873,473	694,205,826	822,014,622
Change in Reserve	-87,221,820	-90,087,842	137,223,965	156,830,661	322,058,889	225,068,870
<b>Paid Claims</b>	<b>GE Paid Claims increase by 9%</b>		<b>302,877,045</b>	<b>330,042,812</b>	372,146,937	596,945,752
Incurred Claims		24%	23%	11%	43%	18%
Change in Reserve		3%	52%	14%	105%	-30%
Paid Claims		33%	13%	9%	13%	60%



An additional year out from Genworth's \$1.4B reserve adjustment with claims experience continuing to increase, GE still does not take a major reserve increase.

## Timeline of Accounting Fraud

- **2014:** GE ignores reserve impact of increase in paid claims, despite Genworth taking a \$1.4B reserve hit in 2014 with less toxic LTC.
- **2015:** Reserves decrease despite continued increases in paid and incurred claims. How is this actuarially possible?
- **2016:** Minimal reserve adjustment despite fact that claim experience trend has emerged.

Note: Additional actuarial reserves for 2017 and 2018 have been adjusted to reflect the pro forma full impact of the \$15 billion reserve adjustment

Source: GE-ERAC statutory Annual Statements – Exhibit 6 and Schedule H



# The History of GE's Delay of the \$15 Billion LTC Reserve Increase Provides Evidence of Accounting Fraud

GE-ERAC	2013	2014	2015	2016	2017	2018
<b>Active Life Reserve</b>						
Unearned Premiums	81,291,781	76,453,306	70,448,577	66,187,260	60,500,606	57,568,438
Additional Contract	\$ 720,760,974	\$ 123,725,646	\$ 453,015,586	6,764,088,378	7,061,828,732	7,210,809,203
<b>Additional Actuaries</b>	<b>GE Reserves increase by \$15.0 Billion</b>			<b>1,275,000,000</b>	<b>16,275,000,000</b>	16,275,000,000
Total	8,927,000,632	7,485,188,552	7,040,406,195	8,105,275,638	23,113,829,338	23,543,333,641
Reinsurance Ceded	1,458,171,604	1,577,545,904	1,687,566,450	1,793,879,917	1,894,018,864	1,979,817,020
Total (Net)	5,468,889,248	5,831,643,048	5,960,897,715	6,311,395,721	21,219,810,474	21,563,560,621
Present Value	885,466,644	975,554,486	1,112,778,451	1,269,609,112	1,591,668,001	1,816,736,871
Reinsurance Ceded	346,842,188	387,436,831	442,714,541	515,667,098	644,048,058	683,293,274
Total (Net)	538,624,456	588,117,655	670,063,910	753,942,014	947,619,943	1,133,443,597
Totals (Net)	6,007,513,704	6,419,760,703	6,630,961,625	7,065,337,735	22,167,430,417	22,697,004,218
Incurred Claims	288,736,483	358,760,413	440,101,010	486,873,473	694,205,826	822,014,622
Change in Reserve	97,321,820	90,087,842	127,222,065	156,830,661	322,058,889	225,068,870
<b>Paid Claims</b>	<b>GE Paid Claims increase by 13%</b>			<b>330,042,812</b>	<b>372,146,937</b>	596,945,752
Incurred Claims		24%	23%	11%	43%	18%
Change in Reserve		3%	52%	14%	105%	-30%
Paid Claims		33%	13%	9%	13%	60%

## Timeline of Accounting Fraud

- **2014:** GE ignores reserve impact of increase in paid claims, despite Genworth taking a \$1.4B reserve hit in 2014 with less toxic LTC.
- **2015:** Reserves decrease despite continued increases in paid and incurred claims. How is this actuarially possible?
- **2016:** Minimal reserve adjustment despite fact that claim experience trend has emerged.
- **2017:** Belatedly, in response to elevated claim experience over the prior 4 years, GE conducted an LTC review that led to an insufficient \$15 billion reserve adjustment.

Note: Additional actuarial reserves for 2017 and 2018 have been adjusted to reflect the pro forma full impact of the \$15 billion reserve adjustment

Source: GE-ERAC statutory Annual Statements – Exhibit 6 and Schedule H



# The History of GE's Delay of the \$15 Billion LTC Reserve Increase Provides Evidence of Accounting Fraud

QUESTION: Why did GE, which knew it had the worst LTC in the market, wait until 2017 to make a \$15 billion reserve adjustment?

ANSWER: It allowed GE to divert **\$20 billion** from its 2016 sale of Synchrony for a \$20+ billion share buyback instead of funding the LTC reserve shortfall.

Year	GE Capital Dividends Paid to GE	GE Declared Dividends	GE Net Shares Repurchased
2012	-\$6.4B	-\$7.4B	\$-2.8B
2013	-\$6.0B	-\$8.1B	\$-8.0B
2014	-\$3.0B	-\$9.0B	\$-.03B
2015	-\$4.3B	-\$9.2B	\$-20.9B
2016	<b>-\$20.1B</b>	<b>2016: Synchrony sold for over \$20B</b>	-\$9.1B
2017	-\$4.0B	-\$7.7B	\$-1.9B
2018	--	-\$3.7B	\$1.0B
<b>TOTAL</b>	<b>-\$43.8B</b>	<b>-\$54.0B</b>	<b>-\$52.2B</b>

## Timeline of Accounting Fraud

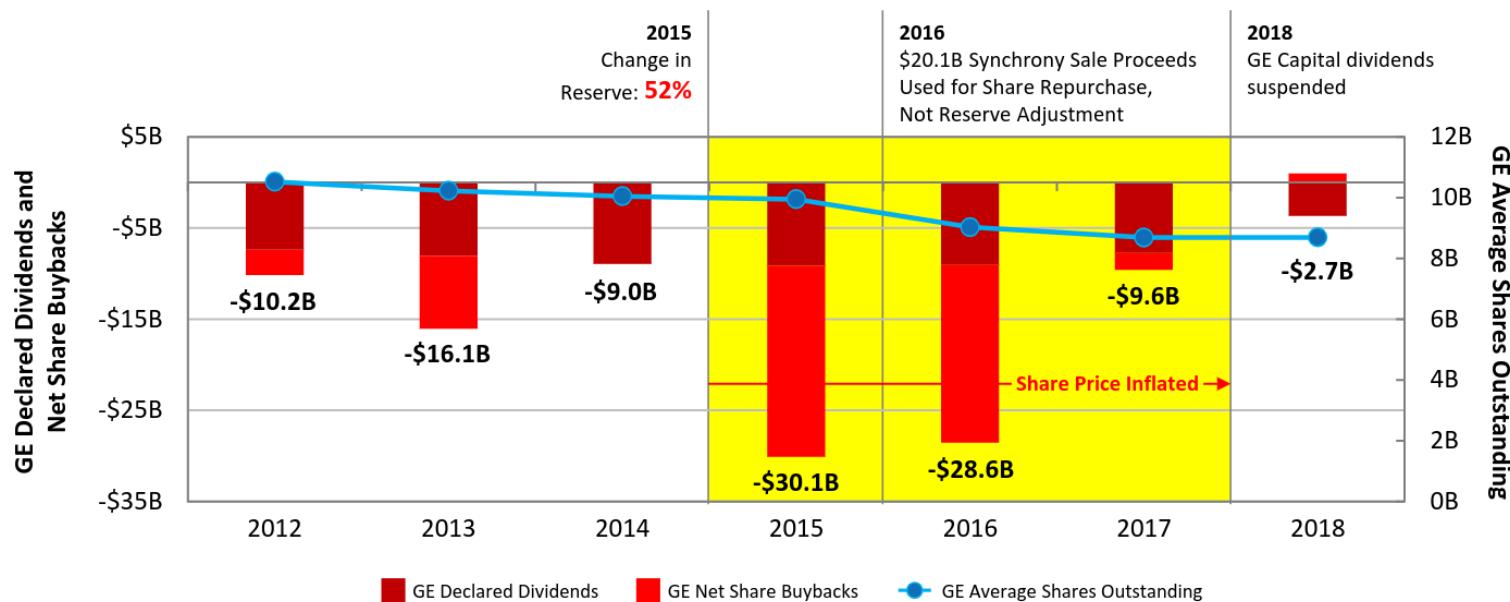
- 2014: GE ignores reserve impact of increase in paid claims, despite Genworth taking a \$1.4B reserve hit in 2014 with less toxic LTC.
- 2015: Reserves decrease despite continued increases in paid and incurred claims. How is this actuarially possible?
- 2016: Minimal reserve adjustment despite fact that claim experience trend has emerged.
- 2017: Belatedly, in response to elevated claim experience over the prior 4 years, GE conducted an LTC review that led to an insufficient \$15 billion reserve adjustment.
- 2017: GE had to ask the Kansas DOI for permission to **pay the \$15 billion over seven years, because it didn't have enough cash to pay it all at once**

Source: Annual Statements for respective years



# GE's Delay of the \$15 Billion Reserve Adjustment Allowed It to Buyback \$20.1 Billion in Shares Instead of Funding Capital Contributions to GE-ERAC

The Reserve Adjustment Delay Allowed a \$20.1 Billion Share Buyback to Occur in 2016



Source: GE Annual Statements



# GE's Delay of the \$15 Billion Reserve Adjustment Allowed It to Artificially Inflate Its Share Price by Hiding Problems with LTC

GE Shares Have Fallen 40.3% Since the Announcement of the \$15 Billion Reserve Adjustment<sup>1</sup>



Source: Yahoo Finance; <sup>1</sup> as of 7/31/19



## The SAP Reserve Catastrophe

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In Addition to 2017's \$15 Billion Reserve Adjustment, GE Has a Bigger \$18.5 Billion Reserve Adjustment Yet to Be Taken



# GE-ERAC Continues to Understate LTC Reserves to Create an Additional \$18.5 Billion of Phantom Equity

## Elements of GE-ERAC's Under-Reserving

	Total
<b>Reserve Benchmarking: Comparable “Policy Form Type” LTC</b>	\$9.5B
<b>Premium Shortfall: Discounted Cash Flow Analysis</b>	\$3.6B
<b>Risk Premium: GE-ERAC's Reinsurance Arrangements</b>	\$5.4B
<b>Under-Reserve Total</b>	<b>\$18.5B</b>

Note: Increasing these statutory LTC reserves will have a similar impact on GAAP LTC reserves.



# Reasons Why GE Has Been Able to Understate LTC Reserves by Tens of Billions of Dollars:

- 1 The industry-wide **lack of transparency** prevents detailed analysis of a carrier's LTC reserves or meaningful comparisons of LTC reserves across carriers
- 2 **Wide variability of LTC reserve levels** exist across the industry, due to **limited standardization of tables and assumptions**, so carriers can base key assumptions on subjective interpretations of "**company experience**"
- 3 Commonly used publicly available reserve data **commingles different types of LTC coverage** that have different economics and **prevents reserve benchmarking of similar LTC** – by type (group / individual) and vintage (pre mid 2000's / post mid 2000's)
- 4 The LTC industry has been in a **continuing state of evolution** due to changes in morbidity, mortality, lapse rates, health care costs, interest rates and LTC pricing making it difficult to find comparable **baseline results for reserve benchmarking**
- 5 The underlying actuarial reserving practices and inter-relationships are **highly complex**, which further **limits the usefulness of the minimal publicly available information** to analyze a carrier's LTC reserves
- 6 LTC reserves are estimated to be **50% understated** industry-wide making it **difficult to identify and quantify specific instances of under-reserving** due to the wide-spread and systemic nature of this problem
- 7 GE **fails to provide real transparency into its LTC reserving** and largely withholds any information that could raise questions about the adequacy of its existing reserve levels, for example not disclosing the results of its LTC business in its "Teach-In"
- 8 GE executives **promote false and misleading statements** that its LTC exposure is not a risk, that it is priced diligently and that it is a stable block of policies or portray bad news (26% of policies not paying premiums) as a positive

Source: <sup>1</sup>Society of Actuaries, [www.soa.org/Files/Pd/2014/annual.../2014-orlando-annual-mtg-102-23W.pdf](http://www.soa.org/Files/Pd/2014/annual.../2014-orlando-annual-mtg-102-23W.pdf)



# The Steps to Identify and Quantify GE's Current \$18.5 Billion in LTC Under-Reserving:

- 1 There are **disparate datasets of LTC information that can be assembled into a mosaic** that enables benchmarking of LTC reserve levels across different carriers
- 2 **Benchmarking GE-ERAC's LTC reserves**, which consist of individual pre mid 2000's policies, **requires the identification of similar LTC within carriers that sold a mix of LTC** – group and individual and pre mid 2000's and post mid 2000's.
- 3 Statutory financial statements provide information for **each LTC "Policy Form Type"**, including type of LTC coverage, dates sold, premiums, incurred claims, in-force policies, in-force lives and reported reserves; additional actuarial reserve data is also available
- 4 That information can be used to develop **per in-force life reserve metrics that can benchmark one carrier's reserves against others at the most granular level possible**, and, most importantly, **enables reserve benchmarking of similar LTC**
- 5 In addition to reserve benchmarking, GE-ERAC's LTC has so many unique issues and problems, it stands alone in the LTC industry, that it **requires additional reserve adjustments to address its specific risk factors**
- 6 Our analytical approach avoids **falling into the trap of trying to apply actuarial based analysis**, which is not possible due to lack of available information, and instead uses commonly accepted business analytical approaches
- 7 GE-ERAC's per in-force life reserves can be **benchmarked against conservatively reserved carriers' similar "Policy Form Type" LTC** (individual, pre-mid-2000's) to identify and quantify under-reserving
- 8 Reserves can be further adjusted to reflect GE-ERAC's unique situation by using **discounted cash flow analysis** and the assessment of **additional risk premiums**



# The Reserve Benchmarking Process Involves Gathering Specific Data Elements from Schedules within the Statutory Annual Reports

Per In-Force Life Reserve Metric Uses Data from Only Three Source Documents

**Form 1**

In-Force Lives Data

**Form 2**

Data by Policy Form Type

- LTC Reported Reserves – An Element of Active Life Reserves
- Type of LTC Coverage – Individual or Group
- Number of In-Force Policies
- Dates Policy Type Was Sold – Pre or Post Mid 2000's
- Results – Premiums, Incurred Claims and Loss Ratios

**Exhibit 6**

LTC Additional Actuarial Reserves – An Element of Active Life Reserves



# Source for the Number of In-Force Lives: Form 1

- Our reserve analytic metric is based upon the number of in-force lives. That information is only available in Form 1.
- The “Policy Form Type” data, which is the basis for most of our reserve analysis, comes from Form 2. That information includes only the number of in-force policies.
- The Prudential and Unum number of in-force lives and number of in-force policies are the same.

Prudential Form 1

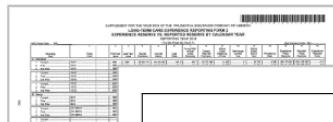
	1 Earned Premiums	2 Incurred Claims	3 Valuation Expected Incurred Claims	4 Actual to Expected Incurred Claims
A. Individual				
Comprehensive:				
1. Current	206,765,142	125,326,919	151,435,602	82.8
2. Prior	207,727,137	143,697,246	117,816,822	122.0
3. 2nd Prior	202,241,302	118,162,734	105,135,727	112.4
4. 3rd Prior	207,125,505	106,662,938	77,900,653	136.9
5. 4th Prior	207,660,574	82,264,225	70,325,896	117.0
6. 5th Prior	210,603,087	64,991,487	60,179,061	108.0
7. From Inception-to-Date	1,938,612,194	863,210,630	769,035,091	112.2
8. Total Inception-to-Date	2,618,110,728	1,102,700,516	XXX	XXX



## Source for “Policy Form Type” Data: Form 2

- Form 2 provides various types of information at the most granular level possible, by “Policy Form Type”.
- The Reported Reserves are one element of active life reserves, which correlates with additional contract reserves. This is developed specifically for each “Policy Form Type”.
- The only missing reserve data from Form 2 is the additional actuarial reserves, which is found on Exhibit 6.

Prudential Form 2



Reporting Year	1 Policy Form	2 First Year Issue	3 Last Year Issue	4 Earned Premiums	5 Incurred Claims	6 Loss Ratio	7 Annual Net/Annual Gross Premiums	8 Current Year Net Premiums
<b>A. Individual</b>								
1. Current	ILTC1	1999	2004	56,464,712	104,404,653	184.9	160.7	90,727,862
2. Prior	ILTC1	1999	2004	57,590,819	109,380,680	189.9	142.5	82,060,401
3. 2nd Prior	ILTC1	1999	2004	55,748,988	56,658,704	101.6	144.7	80,669,167



## Source for Additional Actuarial Reserves: Exhibit 6

- Additional actuarial reserves are another element of active life reserves. They capture the financial impact of reserve adjustments and are not required to be developed on a “Policy Form Type” basis.
- Additional actuarial reserves are added to the reported reserves by “Policy Form Type” based upon the proportion of each “Policy Form Type” reported reserves.
- The Per In-Force Life Reserve metric, used to benchmark reserves, reflects all elements of the active life reserves except for the unearned premium reserve, which is immaterial.

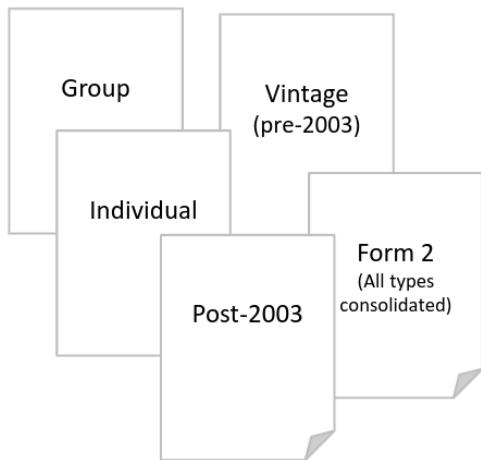
Prudential Exhibit 6

	1 Total	2 Group Accident and Health	3 Credit Accident and Health (Group and Individual)	4 Collectively Renewable	5 Non-Cancelable
<b>ACTIVE LIFE RESERVE</b>					
1. Unearned premium reserves	85,127,810	33,045,429	0	0	104,826
2. Additional contract reserves (a)	6,684,046,149	2,466,496,259	0	0	1,635,816
3. Additional actuarial reserves - Asset/Liability analysis	1,013,411,006	379,985,493	0	0	0
4. Reserve for future contingent benefits	0	0	0	0	0
5. Reserve for rate credits	0	0	0	0	0
6. Aggregate write-ins for reserves	0	0	0	0	0
7. Totals (Gross)	7,782,584,965	2,879,527,181	0	0	1,740,642
8. Reinsurance ceded	6,787,805	4,925,416	0	0	1,740,642
9. Totals (Net)	7,775,797,160	2,874,601,765	0	0	0

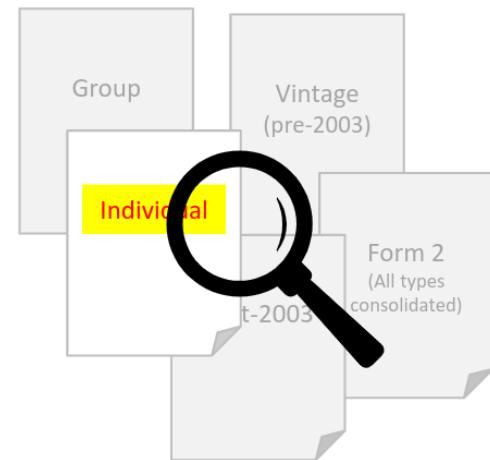


# Reserve Benchmarking Requires Separating Comparable LTC from the Commingled Data Reported by Carriers

LTC Carriers Report Reserves without Separating Policy Form Types



Policy Form Type Data Unbundles LTC Policies, Allowing for Proper Comparison





# Unbundling Prudential's Commingled LTC Reserves Provides An Example of How Our Analytical Approach Segments LTC Reserves

## Analysts Utilize Reserve Data That Commingles Different LTC Coverage That Is Not Comparable

(i.e. group, individual, old and new LTC is combined, preventing reserve comparisons of similar LTC)

Policy Form Type	Type	Start Year	End Year	2018		
				Lives In-Force End of Year	Total Active Life Reserves (except Unearned Premium)	Per In-Force Life Active Life Reserves
Prudential				207,320	7,632,201,654	36,814
???????	???????	???????	???????	???????	???????	???????
???????	???????	???????	???????	???????	???????	???????
???????	???????	???????	???????	???????	???????	???????
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???????	???????	???????	???????	???????	???????	???????

**Policy Form Type Data Unbundles LTC Data, Allowing Reserve Benchmarking of Similar LTC**  
 (GE-ERAC's LTC is individual pre-mid-2000's and Prudential's ILTC1 is the reserve benchmark)

Policy Form Type	Type	Start Year	End Year	2018		
				Lives In-Force End of Year	Total Active Life Reserves (except Unearned Premium)	Per In-Force Life Active Life Reserves
Prudential				207,320	7,632,201,654	36,814
GLTC	Group	1990	2012	134,186	2,842,307,660	21,182
ILTC1 *	Individual	1999	2004	20,733	2,352,255,611	113,455
ILTC2 *	Individual	2003	2011	12,256	951,837,566	77,663
ILTC3 *	Individual	2005	2012	38,436	1,448,752,951	37,693
ILTC4 *	Individual	2009	2012	1,531	32,247,659	21,063
LTC-PARP-5	Immaterial	1991	2011	178	4,800,206	26,967

Source: Prudential Insurance Company of America statutory Annual Statements – Form 2 and Exhibit 6

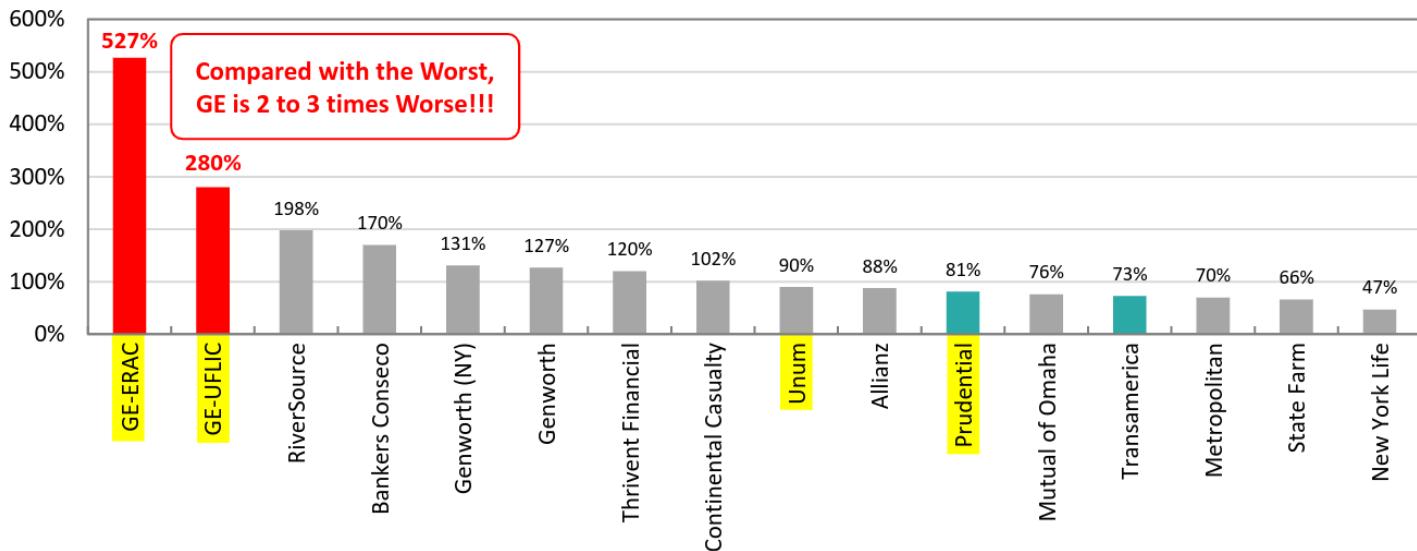
\* - Policy Form Types are after mid 2000's and have different economics and reserving. 73



# Loss Ratio Comparisons Show the Impact of GE Having the Worst LTC in the Market and the Need for It to Have the Highest Reserves

GE's Loss Ratios Reflect the Negative Impact of Unfavorable Reinsurance Arrangements

2018 LTC Loss Ratio (Incurred Claims/Premiums Written)



Source: Respective carrier 2018 Statutory Annual Statements, Schedule H, Part 1, except Unum, Long Term Care Analysis, September 2018, p. 17.



## Prudential and Unum Have the Most Conservatively Reserved Pre-Mid-2000's Individual LTC Coverage Among the Top Thirty LTC Carriers

Policy Form Type	Start Year	End Year	Premiums Earned	Incurred Claims	Loss Ratio	Inforce Count End of Year	Reported Policy Reserves	Additional Actuarial Reserves	Total Reserves (except Unearned Premium)	Per In-Force Life Reserves
<b>Prudential (2018)</b>										
GLTC	1990	2012	201,662,711	74,529,685	37%	134,186	2,462,322,167	379,985,493	2,842,307,660	21,182
ILTC1	1999	2004	56,464,712	104,404,653	185%	20,733	2,045,439,662	306,815,949	2,352,255,611	113,455
ILTC2	2003	2011	34,127,315	27,158,222	80%	12,256	827,684,840	124,152,726	951,837,566	77,663
ILTC3	2005	2012	111,768,814	18,290,922	16%	38,436	1,259,785,175	188,967,776	1,448,752,951	37,693
ILTC4	2009	2012	3,404,302	455,098	13%	1,531	28,041,443	4,206,216	32,247,659	21,063
<b>Unum (2018)</b>										
GLTC	1991	2012	17,373,279	3,296,042	19%	19,404	196,413,940	0	196,413,940	10,122
ILTC	1993	2009	47,298,799	171,764,431	363%	17,483	976,957,827	777,658,430	1,754,616,257	100,361
ILTC3	2003	2010	4,226,408	2,751,178	65%	1,616	60,502,861	48,160,277	108,663,138	67,242

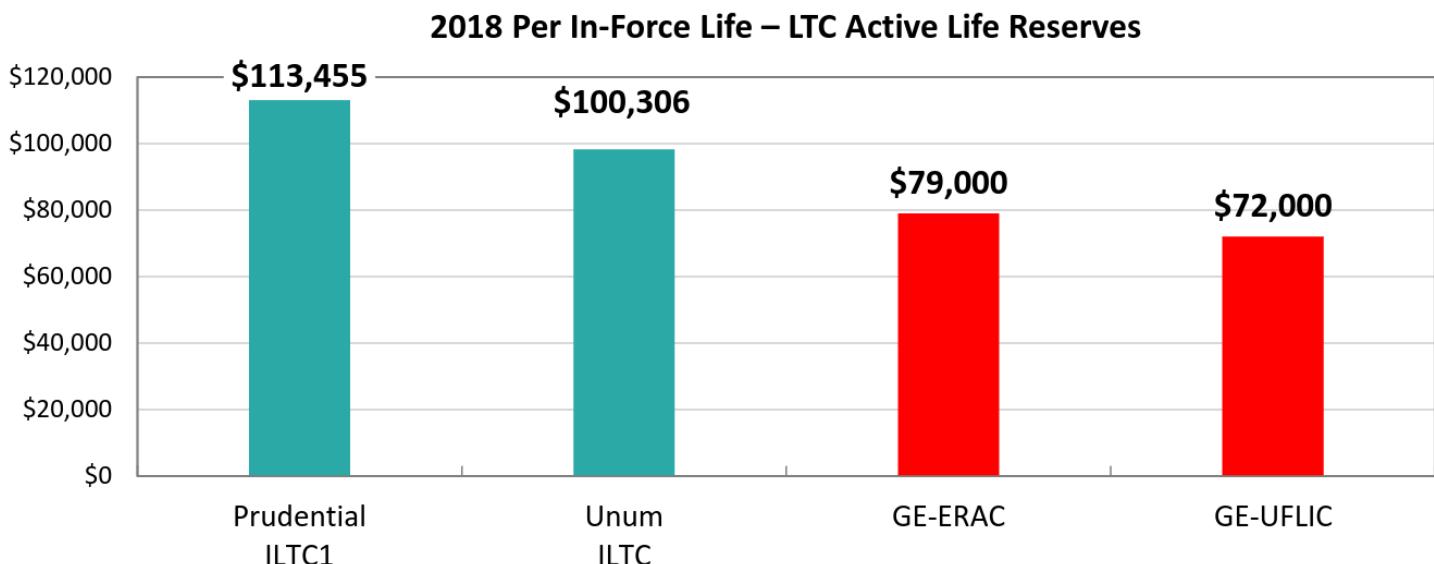
- The “Policy Form Types” most comparable to GE-ERAC’s LTC, individual policies originally underwritten prior to the mid 2000’s, are Prudential’s ILTC1 and Unum’s ILTC.
- Group policies (GLTC) and newer LTC policies, originally underwritten after the mid 2000’s, possess different economics and are not appropriate benchmarks.
- We reviewed “Policy Form Type Data” of the Top 30 LTC carriers to identify Prudential and Unum as reserve benchmarking candidates.

Source: Prudential 2018 Form 1, Form 2 and Exhibit 6; Unum 2018 Form 1, Form 2 and Exhibit 6



## Comparable LTC “Policy Form Types” from Prudential and Unum Provide the Best Reserve Benchmarks for GE-ERAC

Benchmarking Similar LTC Is the Only Viable Means of Assessing Reserve Levels



Source: Prudential and Unum, 2018 Statutory Annual Statements, Schedule H, Part 1, GE-ERAC and GE-UFLIC Teach-In, p. 6.



## Prudential Reserve Benchmarking: GE-ERAC Has a \$9.5B Reserve Shortfall Per In-Force Life

Prudential Has the Most Conservatively Reserved Individual Pre-Mid-2000's LTC

Carrier	Policy Type	In-Force Lives	Total Active Life Reserves	Reserve Per Life
GE-ERAC	Individual	270,000	\$21,183,377,641	\$78,457
Prudential – ILTC1	Individual	20,733	\$2,352,255,611	\$113,445
Reserve Difference vs. Prudential				\$34,998
<b>Estimated GE-ERAC Under-Reserving based on 270,000 In-Force Lives</b>				<b>\$9,449,382,454</b>
Unum – ILTC	Individual	17,483	1,754,616,257	\$100,306
Reserve Difference vs. Unum				\$21,849
<b>Estimated GE-ERAC Under-Reserving based on 270,000 In-Force Lives</b>				<b>\$5,899,230,000</b>

Source: GE-ERAC and Prudential statutory Annual Statements – Exhibit 6, Prudential Form 1 & 2, March 7, 2019 GE “Insurance Teach-In”, p. 6



# GE-ERAC Requires Additional Reserves Due to the Unique Loss Exposure Created by Its Unfavorable Reinsurance Arrangements

Chart Reflects Extreme Outlier Status Created by GE-ERAC's Reinsurance Deals

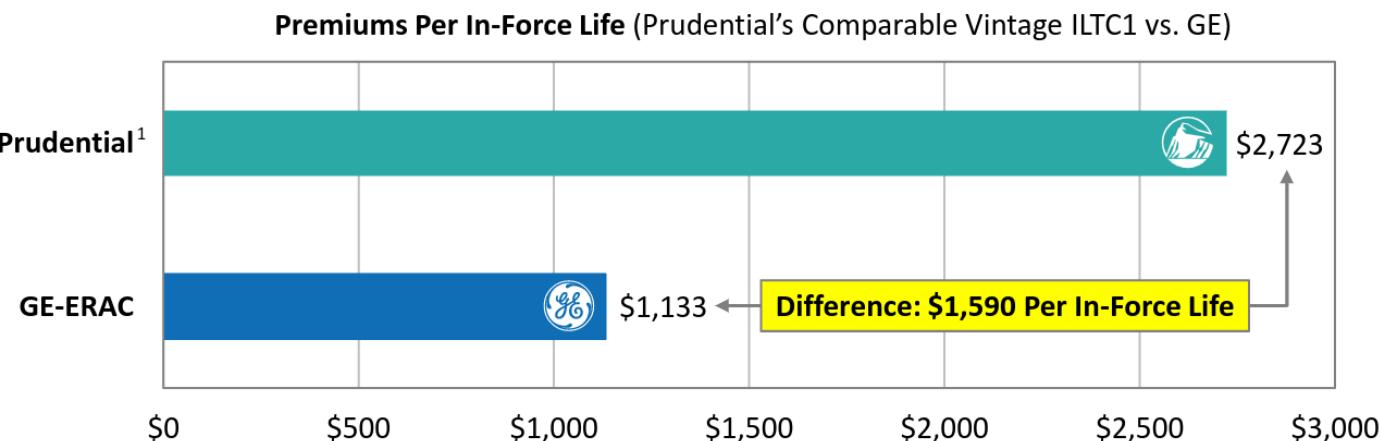
	GE-ERAC (All Individual Policy Types)	GE-UFLIC (All Individual Policy Types)	Unum (All Individual Policy Types)	Prudential (All Individual Policy Types)	Impact on LTC Economics (Assumes Similar Coverage)
Premiums Per In-Force Life	\$1,133	\$3,099	\$2,279	\$2,891	Lower Premiums Usually Require Higher Reserves
Average Attained Age	75	82	73	68	Older Attained Ages Usually Require Higher Reserves
Percentage Not Premium Paying	26%	17%	Unknown	2%	Non-Paying Policies Usually Require Higher Reserves
Lifetime Benefit Period	70%	35%	37%	24%	Higher Lifetime Benefits Usually Require Higher Reserves
Ability to Raise Premiums Unilaterally	No	No	Yes	Yes	Inability to Raise Premiums Usually Require Higher Reserves

Source: March 7, 2019 GE LTC "Insurance Teach-In", p. 6, GE-ERAC and GE-UFLIC Schedule H, Prudential Earnings Conference Call Presentation, August 2, 2018, p.22; Unum Long Term Care Reserve Analysis, September 2018, p. 7



# Discounted Cash Flow Analysis Addresses Reserve Shortfall Caused by GE-ERAC's Significantly Lower Premiums

Lower Premiums Are Caused by GE-ERAC's High Levels of Non-Paying Policies



**GE-ERAC's Unprecedented 26% of Policies Not Paying Premiums Is Not Addressed in Our Reserve Bench-Marking That Assumes GE-ERAC and Prudential's LTC Are Similar; GE-ERAC's Is Actually Much Worse**

Source: Prudential statutory Annual Statements – Form 2, March 7, 2019 GE “Insurance Teach-In”, p. 6, and Annual Statutory Statements, Schedule H; <sup>1</sup>ILTC1 Policy Types



# GE-ERAC's Per In-Force Life Premium Shortfall of \$1,590 Compared to Benchmark Prudential Has a Net Present Value of \$3.6 Billion

Discounted Cash Flow of Premium Shortfall Implies an Additional Reserve of \$3.6 Billion

Age	Remaining Lives	Lapse Rate	Remaining In-Force Lives	Premium Difference	Discount Factor	Present Value
76	99.3%	1.15%	265,041	\$ 421,415,849	0.9524	\$ 401,348,427
77	98.3%	1.15%	259,209	\$ 412,141,927	0.9070	\$ 373,824,877
78	96.9%	1.15%	252,495	\$ 401,466,730	0.8638	\$ 346,802,056
79	95.1%	1.15%	247,852	\$ 394,084,678	0.8227	\$ 324,214,440
80	92.9%	1.15%	242,196	\$ 385,091,922	0.7835	\$ 301,729,597
81	90.3%	1.15%	235,500	\$ 374,445,768	0.7462	\$ 279,417,197
82	87.4%	1.15%	227,722	\$ 362,077,826	0.7107	\$ 257,321,951
83	84.0%	1.15%	218,855	\$ 347,979,392	0.6768	\$ 235,526,150
84	80.1%	1.15%	208,915	\$ 332,175,335	0.6446	\$ 214,123,183
85	75.9%	1.15%	197,888	\$ 314,641,201	0.6139	\$ 193,162,403
86	71.0%	1.15%	185,213	\$ 294,488,738	0.5847	\$ 172,181,466
87	65.6%	1.15%	171,057	\$ 271,981,148	0.5568	\$ 151,449,280
88	59.7%	1.15%	155,636	\$ 247,460,799	0.5303	\$ 131,233,745
89	53.4%	1.15%	139,198	\$ 221,324,771	0.5051	\$ 111,784,049
90	46.8%	1.15%	122,092	\$ 194,125,993	0.4810	\$ 93,377,922
<b>Total</b>				<b>\$ 4,974,902,077</b>		<b>\$ 3,587,496,744</b>

Note: In-Force Life Premium Difference = \$1,590 (Prudential \$2,723 - GE-ERAC \$1,133); Discount Rate Assumption 4.5%

Source: Lapse Rate, March 7, 2019 GE "Insurance Teach-In", p. 10; Probability of Death, 2014 VBT MNS ANB



## GE-ERAC Has LTC Risk Factors That Do Not Exist at Other Carriers and Requires An Additional Reserve Adjustment of \$5.4 Billion

Unfavorable Reinsurance Arrangements Create Unique LTC Reserve Risks for GE-ERAC

	Total
<b>GE-ERAC Statutory Reserves</b>	\$23.2B
<b>Prudential Reserve Benchmarking</b>	\$9.5B
<b>Prudential Premium Benchmarking</b>	\$3.6B
<b>Total Estimated Reserves</b>	\$36.3B
<b>Unfavorable Reinsurance Deals - Risk Factor*</b>	15%
<b>Additional Reserves</b>	<b>\$5.4B</b>

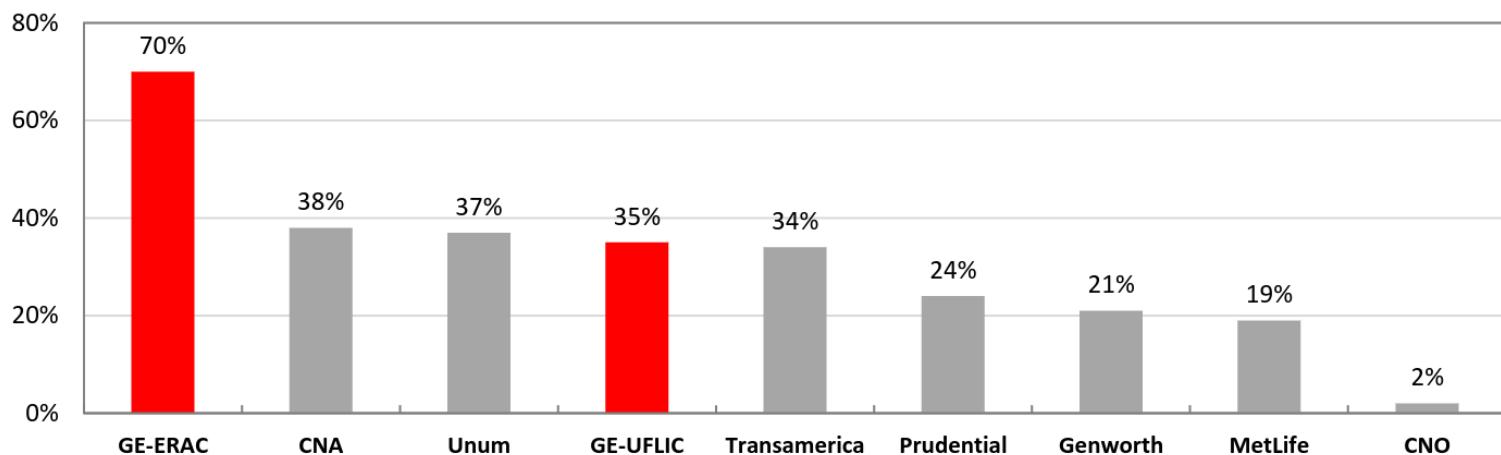
\* Reserves were increased 15% to account for additional risks specific to GE-ERAC



# One Example of the Additional Risks of GE-ERAC's LTC Is Its High Exposure to Lifetime Benefits

Increasing Incidents of Alzheimer's Disease that Require Extended Care Will Have Significant Impact on LTC Coverage with Lifetime Benefits

In-Force LTC Policies with Lifetime Benefits (as of Year-End 2018)



Source: S&P Global Article, Lifetime benefits included on majority of policies in GE's \$30.4B LTC book, Feb. 28, 2018; [www.spglobal.com/marketintelligence/en/news-insights/trending/EeCAspDrGVj0Lz7kMJZQ2w2](http://www.spglobal.com/marketintelligence/en/news-insights/trending/EeCAspDrGVj0Lz7kMJZQ2w2) 82



## GE's Future Cash Flow

The \$159 Billion Problem



## GE Can Never Dig Out from This Hole

Where Is the Cash Flow Coming from to Fund These “Known” Liabilities?

	Total
<b>Long and Short Term Debt</b>	\$107B
<b>Unfunded Pension Liabilities</b>	\$27B
<b>Unfunded LTC Liabilities</b>	\$25B
<b>Total</b>	<b>\$159B</b>

Note: See slide 79 for detail of unfunded LTC liabilities



## GE's Past and Present LTC Under-Reserving Has Created \$25 Billion in Current Unfunded LTC Liabilities

Unfunded LTC Liabilities = \$9.0 Billion Unpaid from GE's 2017 Reserve Adjustment + the Additional \$18.5 Billion for GE's Current SAP LTC Reserve Shortfall – \$2.5 Billion Funding from Viable LTC Reinsurance

	Total
<b>Existing Reserves (Amount GE Still Owes on 2017's \$15B Reserve Adjustment)</b>	\$9.0B
<b>Prudential Reserve Benchmarking</b>	\$9.5B
<b>Prudential Premium Benchmarking</b>	\$3.6B
<b>Additional Risks - Unfavorable Reinsurance</b>	\$5.4B
<b>Subtotal</b>	\$27.5B
<b>Less LifeCare Reinsurance Recoverable</b>	<b>\$-2.5B</b>
<b>Total Adjusted Reserves</b>	<b>\$25.0B</b>

Note: The \$10.5 Billion GAAP / SAP Mismatch represents the recognition of a GAAP loss, cash flow impact was already recognized in \$15 billion SAP reserve adjustment



# Best Case: Kansas Insurance Department Allows GE to Fund \$18.5 Billion in New Reserves Over Seven Years

GE's Plans to Achieve Positive Cash Flow from Operations in 2021 Is a Fairy Tale

	\$ in millions GE's Capital Contributions to GE-ERAC											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total	
Prior Reserve Adjustment - 2018	(\$3,400)	(\$1,900)	(\$1,940)	(\$1,940)	(\$1,940)	(\$1,940)	(\$1,940)				(\$15,000)	
New Reserve Adjustment - 2019				(\$3,400)	(\$2,467)	(\$2,467)	(\$2,467)	(\$2,467)	(\$2,467)	(\$2,467)	(\$18,500)	
Total	(\$3,400)	(\$1,900)	(\$1,940)	(\$5,340)	(\$4,407)	(\$4,407)	(\$4,407)	(\$2,467)	(\$2,467)	(\$2,467)	(\$33,500)	

Note: Assumes that the Kansas Department of Insurance agrees to permit GE-ERAC to spread the LTC reserve adjustment over a seven year period.



# Worst Case: Kansas Insurance Department Demands All \$18.5 Billion at Once

GE May Not Be Able to Survive 2021

	\$ in millions GE's Capital Contributions to GE-ERAC											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total	
Prior Reserve Adjustment - 2018	(\$3,400)	(\$1,900)	(\$1,940)	(\$1,940)	(\$1,940)	(\$1,940)	(\$1,940)				(\$15,000)	
New Reserve Adjustment - 2019				(\$18,500)							(\$18,500)	
Total	(\$3,400)	(\$1,900)	(\$1,940)	(\$20,440)	(\$1,940)	(\$1,940)	(\$1,940)				(\$33,500)	

Note: Assumes that the Kansas Department of Insurance does not agree to permit GE-ERAC to spread the LTC reserve adjustment over a seven year period.



## Long Term Care

---

Final Thoughts



# Where Else Is GE Hiding Losses and Faking Transparency??

## Proper Conduct after Massive Earnings Surprise

- Recognize Full Impact of the Loss

- Seek to Regain Trust of the Market

- Implement Accounting Policy Changes to Correct Problems

- Seek Prevention from Reoccurrence Through Review and Corrective Oversight

- Replace Management with Individuals Capable of Producing Beneficial Change

## GE's Conduct after Massive Earnings Surprise

- Report \$8.9B Loss on \$15B Reserve Adjustment, Then Avoid Additional \$1.9B Loss in 2018 by Increasing Discount Rate

- Continue Obfuscation of Financials to Befuddle the Market

- Disregard New Accounting Rules by Creating a \$10.5B GAAP/SAP Reserve Mismatch

- Knowingly Destroy One Third of 2021 Equity by Avoiding Current GAAP/SAP Adjustments

- Hire New Management that Continues GE's Historic Practice of Pushing Financial Problems on to Future Shareholders

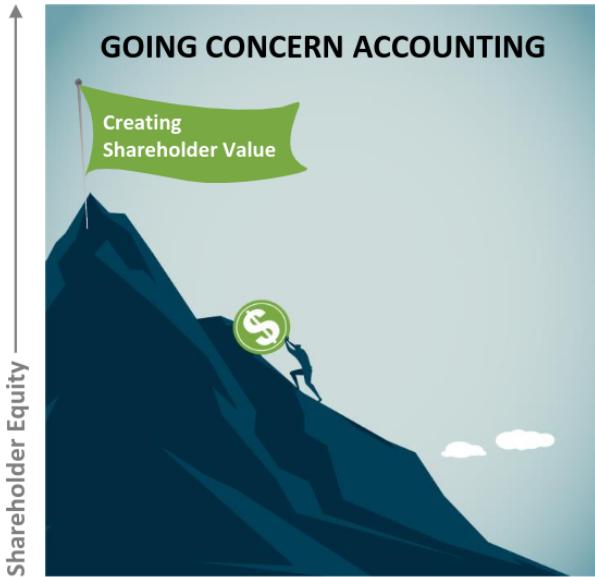


# How Is GE's Accounting Different Than Prudential and Other Carriers?



Prudential

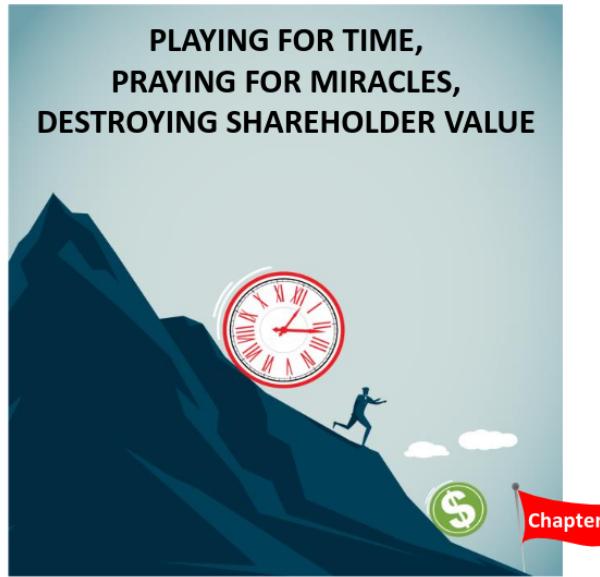
Prudential, Unum and Other  
Responsible Insurance Carriers



General Electric

PLAYING FOR TIME,  
PRAYING FOR MIRACLES,  
DESTROYING SHAREHOLDER VALUE

Shareholder Equity ↓





## The Baker Hughes Double Count

A \$9.1 Billion Accounting Fraud



# GE Avoids Taking a \$9.1 Billion Loss on Its Baker Hughes Investment by Fraudulently Failing to Report Its BHGE Holdings as an Investment

2018  
GE Annual Report



**Misleading Statement 1:**  
BHGE loss should have been  
*recognized in 2017/18*

**Misleading Statement 2:**  
GE should *never have*  
consolidated BHGE

Depending on the form and timing of our separation, and if BHGE's stock price remains below our current carrying value, we may recognize a significant loss in earnings. Based on BHGE's share price at January 31, 2019 of \$23.57 per share, the incremental loss upon deconsolidation by a sale of our interest would be approximately \$8,400 million.

**Misleading Statement 3:**  
GE should have *valued BHGE*  
*as of 12/31/18*, putting the  
loss at \$9.1B not \$8.4B

Source: GE 2018 10-K, p.139



# GE Engaged in Multiple GAAP Violations to Avoid Reporting BHGE as an Investment and Improperly Consolidated BHGE in Its Financials

September 2010  
FASB Report



Statement of Financial Accounting Concepts No. 8, Chapter 3: "Qualitative Characteristics of Useful Financial Information"

"Faithful representation" means that financial information represents the substance of an economic phenomenon rather than merely representing its legal form."

## GE Faithful Representation SFAC Violation:

- BHGE, a \$22 billion business, is being reported (consolidated) in its own financial statements and being reported again when GE consolidates the same results into its financial statements
- With the double count, GE inflates its financial results, misleading investors
- Furthermore, GE continued to consolidate BHGE after it announced in 2018 it was exiting the BHGE investment, meaning, in substance, it should have treated BHGE shares as nothing more than marketable securities held for resale

2018

GE Annual Report



Accounting Standards Codification 810-10-25-38: "Consolidation – Overall", "Recognition - Variable Interest Entities (VIE)"

"Only one reporting entity, if any, is expected to be identified as the primary beneficiary of a VIE ... A reporting entity has a controlling financial interest in a VIE and must consolidate the VIE if it has both power and benefits."

## GE Primary Beneficiary GAAP Violation:

- BHGE makes clear in its 10-K filing that it is the primary beneficiary of this VIE, which it cites as its reason for consolidating the \$22 billion business in its financial statements
- Consolidation of a VIE is limited to (at most) one entity: the primarily beneficiary, which in this case is BHGE

Source: FASB Statement of Financial Accounting Concepts No. 8, September 2010, pp.27-28 and December 2018, Ernst & Young, *Financial Reporting Developments: A Comprehensive Guide*, p.18



# GE Violated the FASB's Faithful Representation Financial Reporting Requirement with Its Baker Hughes "Double Count" Consolidation

A Single Business Enterprise Should Not Be Reported in Two Entities' Financial Statements

September 2010  
FASB Concept BC3.26



## Statement of Financial Accounting Concepts BC3.26:

Substance over form

BC3.26 Substance over form is not considered a separate component of faithful representation because it would be redundant. **Faithful representation means that financial information represents the substance of an economic phenomenon rather than merely representing its legal form.** Representing a legal form that differs from the economic substance of the underlying economic phenomenon could not result in a faithful representation.

GE Ignores the Financial Reporting Absurdity That BHGE Is Being Consolidated Twice

2018  
GE Annual Report



### CONSOLIDATED VARIABLE INTEREST ENTITIES

Our most significant consolidated VIE is a joint venture, BHGE LLC, which was formed as part of the Baker Hughes transaction. BHGE LLC owns the operating assets of GE Oil & Gas and Baker Hughes. BHGE LLC is a VIE as we hold an economic interest of approximately 50.4% in the partnership, but **we hold no voting or participating rights through our direct economic ownership.** BHGE LLC is a SEC Registrant with separate filing requirements and its separate financial information can be obtained from [www.sec.gov](http://www.sec.gov).

Source: GE 2018 10-K, p.149, FASB Statement of Financial Accounting Concepts No. 8, September 2010, p.27



# GE's Baker Hughes "Double Count" Consolidation Made Even Less Sense After GE Announced It Would Be Exiting the BHGE Investment

In Substance, the Remaining BHGE Shares Held by GE Are Nothing More than Marketable Securities Held for Resale, Which Should Not Be Consolidated But Reported at Fair Value

2018  
GE Annual Report



For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include:

- our success in executing and completing, including obtaining regulatory approvals and satisfying other closing conditions for, announced GE Industrial and GE Capital business or asset dispositions or other transactions, including the planned sale of our BioPharma business within our Healthcare segment and plans to exit our equity ownership positions in BHGE and Wabtec, the timing of closing for those transactions and the expected proceeds and benefits to GE;

Source: GE 2018 10-K, p.3, FASB Statement of Financial Accounting Concepts No. 8, September 2010, p.27



# GE's Plans to Exit the BHGE Investment Were Not Only Disclosed, They Are Currently Being Implemented

March 15, 2019

David Westin Interview of  
Larry Culp, Bloomberg

GE CEO Larry Culp on Power Division, Self-Help and Boeing: D&A

control. That's Paul's focus [financial strategy], and a whole host of changes, which I think suggest we have a number of choices in our accounting, and so back on our performance, we're going to be more aggressive.

Q: You are pursuing cash on power? What went wrong there? What's the situation?

A: Well, a couple of things. One, in the wake of the Baker Hughes acquisition, we inherited a couple of liabilities and project obligations with customers. Frankly, we're not going to take money from those customers. We're going to pay them what we owe them. We're going to make sure that we honor those liabilities. That's a business where we've seen demand for new gas turbines fall off over the last few years. So we've got to manage that cash flow. We've got to manage the capital that we've got to invest in lower demand levels. All of this together, the cash has got to go out. The numbers in 2018 were very good, but we've got to manage that cash flow. And so we've got to make sure that we don't waste the cash.

Q: You are in control of the disk with Baker, will there be an impairment through the income statement to be part of your P&L or will you just reduce one of the other income statement items?

A: 900 million of the projects, those are held on the balance sheet as assets. They are not held on the income statement. We've got to manage that cash flow. We've got to manage the capital that we've got to invest in the debt rating situation because there's more of a risk of those ratings that move based on some of the things that we've got to do.

Q: Is it a cash out or a P&L item when P&L goes up?

A: It's more the former, although due to deteriorating risk we have to place back the risk reduction down and in GE Capital's P&L only via the assessment of the risk of the underlying assets. We've got to manage that risk. We've got to manage the risk of the underlying assets that we've invested in the sub - it's difficult, called GE Finance. It's another source of cash that we've got to manage. So we've got to manage that risk reduction down and in GE Capital's P&L as well. So it's a P&L item.

Read: GE jet leasing unit's portfolio churn makes JPMorgan wary

Q: And the stock has reacted pretty well to what you had to say, even though you said you may lose some money in terms of cashflow. Do you anticipate a debt review? Are you worried about the debt-rating situation because there were some of those ratings that were based on some assumptions that don't seem to be right anymore.

Read: GE jet leasing unit's portfolio churn makes JPMorgan wary

A: It seems like investors understand that the deleveraging plan we have in place both for the industrial balance sheet and at GE Capital is well under way. We've announced the sale of our biopharma business. We'll see about \$20 billion in proceeds there. Our Baker Hughes stake -- one that we've earmarked for sale -- is worth, call it \$12 billion. Wabtec is another option we have. So we have about \$38 billion of resources to help us bring down the leverage on the industrial balance sheet. Similar opportunities and capital as we make GE Capital simpler. So we think that we're on a path to see our deleveraging goals through.

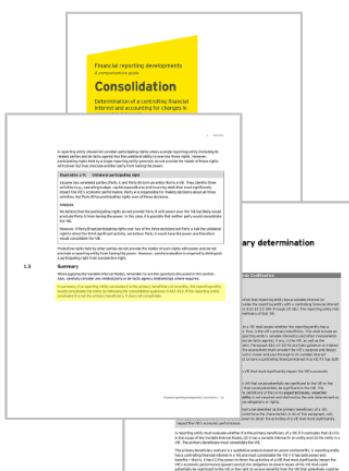
Source: bloomberg.com/news/articles/2019-03-15/ge-s-culp-on-power-division-self-help-and-boeing-q-a



# GAAP Rules Do Not Allow Two Companies (BHGE and GE) to Report One Company's (BHGE's) Results in Two SEC Filings (BHGE and GE)

December 2018

Ernst & Young, *Financial Reporting Developments: A Comprehensive Guide*



## FASB Accounting Standards Codification (ASC) 801-10-25-38A

A reporting entity shall be deemed to have a controlling financial interest in a VIE if it has both of the following characteristics:

- a. The power to direct the activities of a VIE that most significantly impact the VIE's economic performance
- b. The obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The quantitative approach described in the definitions of the terms **expected losses**, **expected residual returns**, and **expected variability** is not required and shall not be the sole determinant as to whether a reporting entity has these obligations or rights.

Only one reporting entity, if any, is expected to be identified as the primary beneficiary of a VIE. Although more than one reporting entity could have the characteristic in (b) of this paragraph, **only one reporting entity if any, will have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance.**

## EY Guidance on VIE Consolidation

In summary, **if a reporting entity concludes it is the primary beneficiary of an entity, the reporting entity would consolidate the entity by following the consolidation guidance in ASC 810. If the reporting entity concludes it is not the primary beneficiary, it does not consolidate.**

Source: December 2018, Ernst & Young, *Financial Reporting Developments: A Comprehensive Guide*, pp. 18, 187.



# BHGE Makes It Clear That It Exercises Full Control Over BHGE's Activities, But GE Ignores This Fact So It Can Consolidate BHGE

BHGE Has the Power to Direct BHGE Operations – GE Does Not –  
Therefore BHGE Consolidates

2018  
BHGE Annual Report



As of December 31, 2018, GE held approximately 50.4% of the economic interest and the Company held approximately 49.6% of the economic interest in BHGE LLC. Although we hold a minority economic interest in BHGE LLC, we conduct and exercise full control over all its activities, without the approval of any other member. Accordingly, we consolidate the financial results of BHGE LLC and report a noncontrolling interest in our consolidated and combined financial statements for the economic interest in BHGE LLC not held by us.

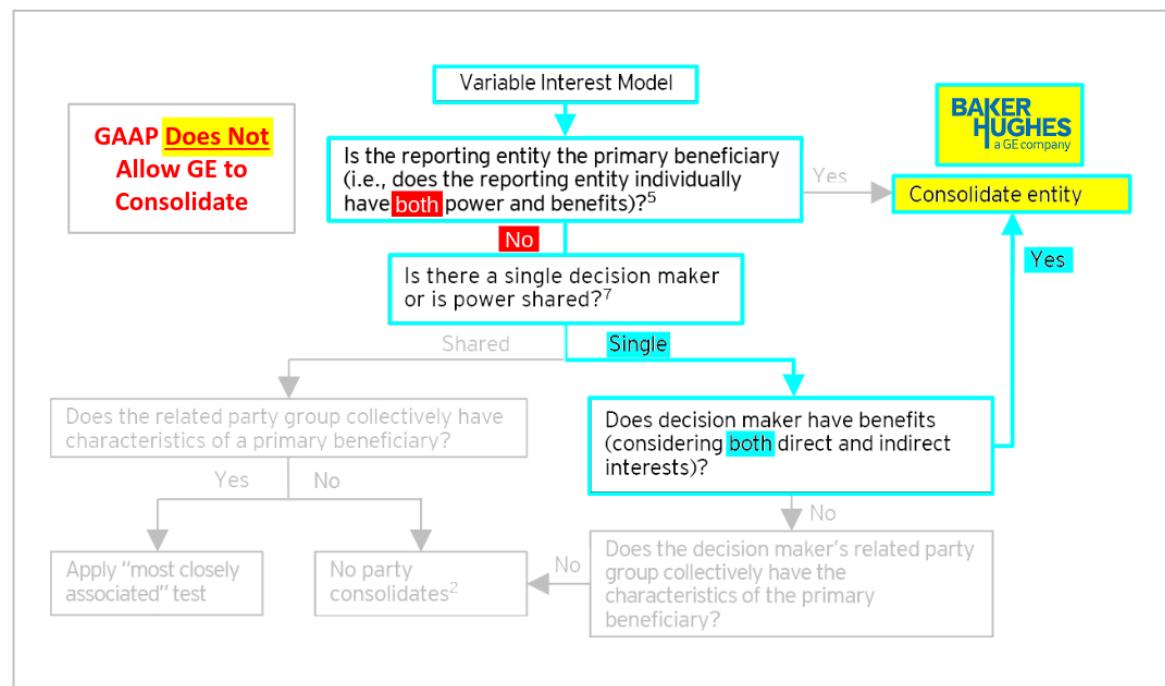
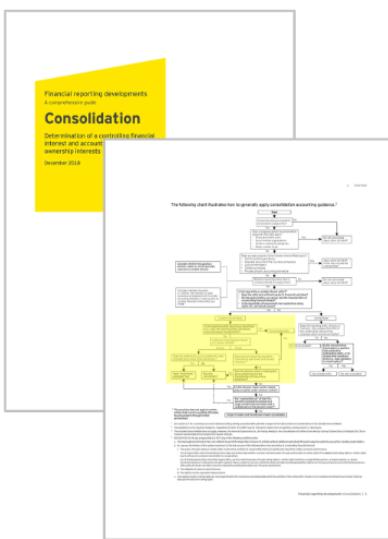
Source: BHGE 2018 10-K, p.1.



# GAAP Prevents Two Companies from Consolidating the Same VIE, If There Is No Single Decision-Maker, Neither Entity Can Consolidate

December 2018

Ernst & Young, *Financial Reporting Developments: A Comprehensive Guide*



Source: December 2018, Ernst & Young, *Financial Reporting Developments: A Comprehensive Guide*, p.18



# GE Must Restate Its 2018 10-K to Correct GAAP Violations, Account for BHGE as an Investment, and Recognize the \$9.1 Billion Loss

May 2015  
EY Center for  
Board Matters

The thumbnail shows the title 'Financial restatements: understanding differences and significance' at the top. Below it is a section titled 'What is a restatement?' which includes a bulleted list of points. At the bottom right of the thumbnail, there is a small yellow box labeled 'Big R restatements'.

## EY Says “Big R” Restatement Required:

When an error is material to prior period financial statements, a company is required to restate previously issued financial statements and correct the error (e.g., in a Form 10-K/A filing or, in some cases, the next Form 10-K filing). In such situations, the audit opinion also is revised to disclose the restatement and refers to the financial statement footnote that describes the error and related correction. This type of restatement is commonly known as a Big R restatement.

Because Big R restatements are material corrections to previously issued financial statements, investors will want to understand the nature of the error and the correction. There is a rebuttable presumption that a Big R restatement results from one or more material weaknesses in internal control. Thus disclosure of the Big R restatement frequently is accompanied by disclosure of a previously undetected material weakness in internal control over financial reporting.

- Note: the **\$9.1 billion** loss for the restatement would apply to the **12/31/18** financial statements
- BHGE's shares have risen since 12/31/18 financial statements and GE disclosed in its 10-Q that the loss would be **\$7.4 billion** as of **6/30/19**
- BHGE shares have increased from 6/30/19 and the loss as of **7/31/19** is estimated to be **\$7.2 billion**

Source: May 2015 EY Center for Board Matter, p.1.



## Questions for GE on How the \$9.1 Billion 2018 Restatement Will Impact the Following Areas of GE's Business:

- ? Will GE Violate Any Debt / Equity or Other Debt Covenants? If So, What Is the Total Dollar Value of the Affected Debt?
- ? Will GE Violate Any Covenants for the \$40.8 Billion of Available Credit Facilities? If So, What is the Total Dollar Value of the Affected Available Financing?
- ? Will GE Still Have Access to the Commercial Paper Market?
- ? Will GE Continue to Meet the Criteria for Its Current Credit Ratings?
- ? Are There Any Other Major Business Arrangements That Would Be Adversely Impacted?
- ? How did KPMG, which Audits GE and BHGE, Permit Both Companies to Consolidate BHGE?

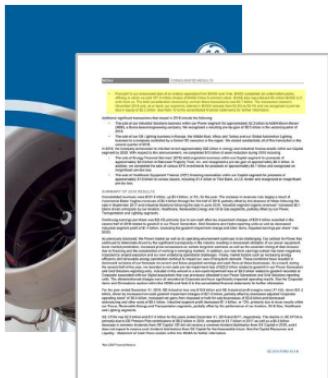


# The \$9.1 Billion 2018 Restatement Is in Addition to the \$2.2 Billion Loss GE Took When It Started to Exit Its BHGE's Investment

GAAP Violations Have Kept the \$9.1 Billion in Losses Off GE's Financial Statements

2018

GE Annual Report



Pursuant to our announced plan of an orderly separation from BHGE over time, BHGE completed an underwritten public offering in which we sold 101.2 million shares of BHGE Class A common stock. BHGE also repurchased 65 million BHGE LLC units from us. The total consideration received by us from these transactions was \$3.7 billion. The transaction closed in November 2018 and, as a result, our economic interest in BHGE reduced from 62.5% to 50.4% and we recognized a pre-tax loss in equity of \$2.2 billion. See Note 15 to the consolidated financial statements for further information.



**GE Ignored the Substance of the BHGE Investment and GAAP Rules to Continue to Account for It as a Non-Controlling Interest to Avoid \$9.1 Billion More in Losses. THIS IS FRAUD.**



## **GE Is Insolvent**

---

Industrial Businesses Have Working Capital  
Deficit of \$20 Billion



# GE Improperly Consolidated BHGE in Its Financial Statements to Hide a \$20 Billion Working Capital Crisis at Its Industrial Businesses

GE 2018 10-K  
Balance Sheet



BHGE 2018 10-K  
Balance Sheet



\$ in millions	GE 2018 10-K GE w/ BHGE	BHGE 2018 10-K BHGE	Pro Forma GE w/o BHGE
<b>Current Assets</b>			
Cash, cash equivalents and restricted cash(b)	\$20,528	\$3,723	\$16,805
Investment securities (Note 3)	514		514
Current receivables (Note 4)	15,418	5,969	9,449
Inventories (Note 5)	19,222	4,620	14,602
All other current assets	-	659	(659)
Total Current Assets	55,682	14,971	40,711
<b>Liabilities and equity</b>			
Short-term borrowings(d) (Note 11)	5,220	942	4,278
Short-term borrowings assumed by GE(c) (Note 11)	4,207		4,207
Accounts payable, principally trade accounts	22,972	4,025	18,947
Progress collections and deferred income (Note 10)	21,151	1,765	19,386
Dividends payable	95		95
Other GE current liabilities	16,345		16,345
All other current liabilities	-	2,288	(2,288)
Total Current Liabilities	69,990	9,020	60,970
Current Ratio	0.80	1.66	0.67
<b>Working Capital Surplus / (Deficit)</b>	<b>\$14,308</b>	<b>\$5,951</b>	<b>\$20,259</b>



**GE Has a \$20 Billion Working Capital Deficit!**

Source: GE 2018 10-K, p.99, BHGE 2018 10-K, p.55; <sup>1</sup>GE's Core Industrial Businesses (Non-GE Capital); Note: GE's Investment in BHGE is treated as a non-current asset.



# GE's Industrial Businesses Have a .67 Working Capital Ratio, But GE Fails to Disclose This Solvency Red Flag Anywhere in Its 10-K

GE's Financial Statements Do Not Segment Assets and Liabilities Into Current and Non-Current Classifications – So We Had To Do It

	Total
<b>Current Assets</b>	\$40.71B
<b>Current Liabilities</b>	\$60.97B
<b>Current Ratio</b>	.67



⚠ Does a .67 Current Ratio Support a BBB+ Credit Rating?

Source: See page 104

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# GE Improperly Consolidated BHGE in Its Financial Statements to Hide the Poor Operating Cash Flow Results of Its Industrial Businesses

GE 2018 10-K  
Statement of  
Cash Flows

Statement of Cash Flows
GE 2018 10-K Statement of Cash Flows

BHGE 2018 10-K  
Statements of  
Cash Flows

Statements of Cash Flows
BHGE 2018 10-K Statements of Cash Flows

\$ in millions	GE 2018 10-K GE w/ BHGE	BHGE 2018 10-K BHGE	Pro Forma GE w/o BHGE
<b>Cash Flows – Operating Activities</b>			
Net Earnings (Loss)	\$(22,931)	\$283	\$(23,214)
(Earnings) Loss from Discontinued Operations	1,726		1,726
<b>Adjustments to Reconcile Net Earnings (Loss) to Cash Provided from Operating Activities:</b>			
Depreciation and Amortization of Property, Plant and Equipment (Note 7)	3,433	1,486	1,947
Amortization of Intangible Assets	2,608		2,608
Goodwill Impairments (Note 8)	22,136		22,136
(Earnings) Loss from Continuing Operations Retained by GE Capital(b)	489		489
(Gains) Losses on Purchases and Sales of Business Interests (Note 18)	(1,294)	(171)	(1,123)
Principal Pension Plans Cost (Note 13)	4,260		4,260
Principal Pension Plans Employer Contributions (Note 13)	(6,283)		(6,283)
Other Postretirement Benefit Plans (Net) (Note 13)	(1,084)		(1,084)
Provision (Benefit) for Income Taxes (Note 14)	957	(249)	1,206
Cash Recovered (Paid) During the Year for Income Taxes	(1,803)		(1,803)
Decrease (Increase) in Contract And Other Deferred Assets	(92)	129	(221)
Decrease (Increase) in GE Current Receivables	(1,233)	(204)	(1,029)
Decrease (Increase) in Inventories	(941)	(339)	(602)
Increase (Decrease) in Accounts Payable	2,548	794	1,754
Increase (Decrease) in GE Progress Collections	(364)	(27)	(337)
All Other Operating Activities (Note 23)	125	60	65
Cash From (Used for) Operating Activities – Continuing Operations	2,257	1,762	495
<b>Cash from (Used for) Operating Activities – Discontinued Operations</b>			
<b>Cash from (Used for) Operating Activities</b>	<b>\$2,257</b>	<b>\$1,762</b>	<b>\$495</b>



**How Much Debt Can GE's Industrial Businesses<sup>1</sup> Service with Less Than \$500M in Operating Cash Flow?**

Source: GE 2018 10-K, p.101, BHGE 2018 10-K, p.57; <sup>1</sup>GE's Core Industrial Businesses (Non-GE Capital)



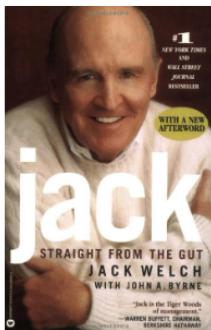
## **GE Has Long History of Accounting Fraud**

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# GE Has Met or Beat Analyst Consensus Earnings Every Quarter from 1995 – 2004<sup>1</sup>

*Jack: Straight from the Gut*  
by Jack Welch, Former GE CEO



“The response of our business leaders to the crises was **typical of the GE culture**. Even though the books had closed on the quarter, many immediately offered to pitch in to cover the Kidder gap. **Some said they could find an extra \$10 million, \$20 million, and even \$30 million** from their businesses to offset the surprise.” – *Straight from the Gut*, p.225



## GE: 24 Years of Accounting Fraud Dating Back to 1995

Source: <sup>1</sup> August 4, 2009 SEC v. General Electric Complaint, p.1; Welch, Jack, et al. *Jack: Straight from the Gut*. Grand Central Publishing, 2001



## Accounting Fraud Is Like Juggling Too Many Balls



With accounting fraud it's impossible to keep numbers straight, because there are too many lies to keep track of



It's always easy to remember the truth!



Accounting fraud is like using heroin, it's hard to pull the needle out once you're addicted!



GE's business units provide no transparency into expenses so its not possible to determine how much they really earn or how much free cash flow (if any) is generated

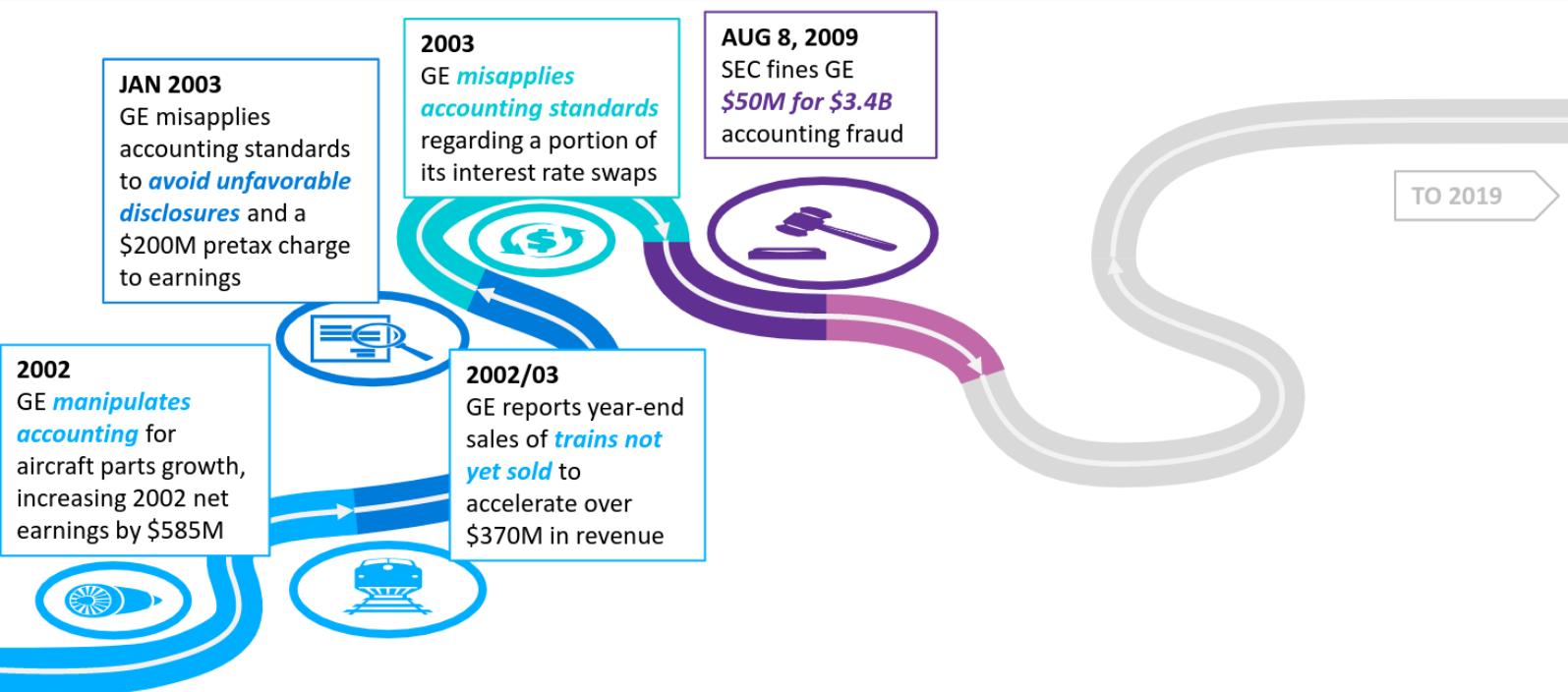
# GE Can't Remember All the Lies, Because There Are Too Many Balls in the Air



*The GE Juggler*



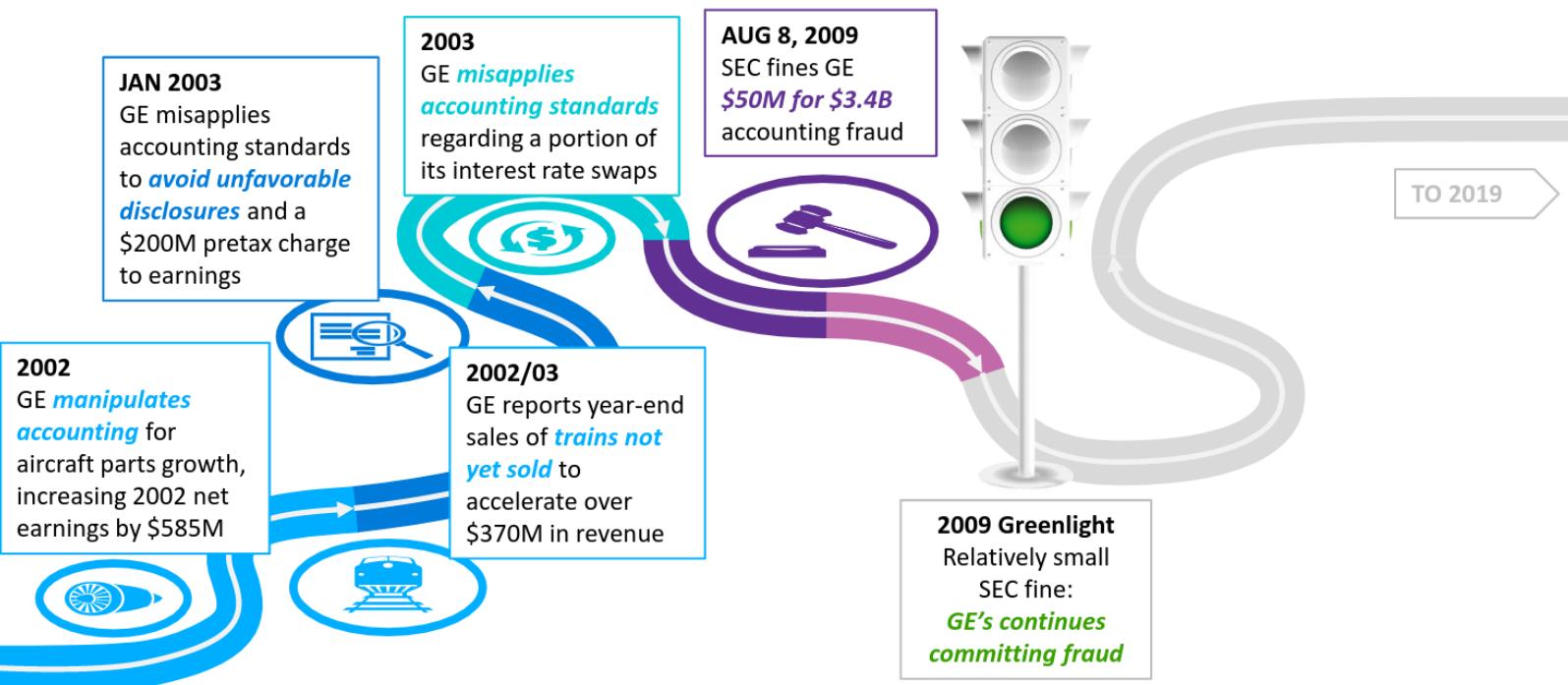
# The SEC's Small Fine Relative to GE's \$3.4 Billion Material Misrepresentation, Emboldened GE to Continue Committing Accounting Fraud



Source: August 4, 2009 SEC Litigation Release, "SEC Charges General Electric with Accounting Fraud"



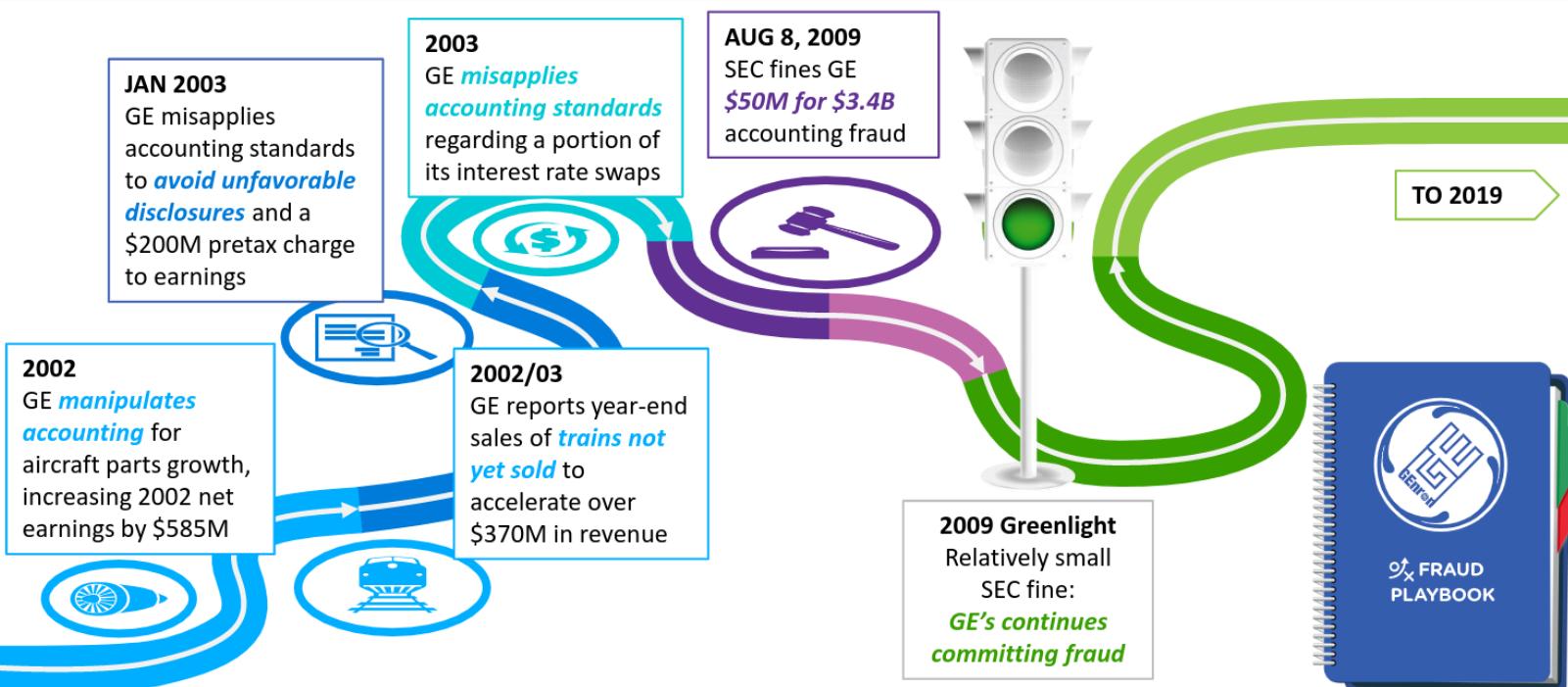
# The SEC's Small Fine Relative to GE's \$3.4 Billion Material Misrepresentation, Emboldened GE to Continue Committing Accounting Fraud



Source: August 4, 2009 SEC Litigation Release, "SEC Charges General Electric with Accounting Fraud"



# The SEC's Small Fine Relative to GE's \$3.4 Billion Material Misrepresentation, Emboldened GE to Continue Committing Accounting Fraud



Source: August 4, 2009 SEC Litigation Release, "SEC Charges General Electric with Accounting Fraud"



# GE Is Not Being Held Accountable

- 1 GE's 2002 to 2003 Fraud had 68:1 Reward to Risk Ratio (\$3.4B fraud vs. \$50M fine)
- 2 Accounting fraud leads to bigger bonuses!
- 3 No one got fired!
- 4 No one went to jail!
- 5 KPMG failed
- 6 GE's Audit Committee failed
- 7 Result: \$50M fine ***paid by shareholders*** and it will only get worse





# SEC Complaint

August 4, 2009  
SEC Complaint

**"Beginning in 1995 and continuing through the filing of the Form 10-K for the period ended December 31, 2004, GE met or exceeded final consensus analyst earnings per share ("EPS") expectations every quarter."** – Complaint at 1

"Because GE originally reported a fourth quarter 2002 net income figure of \$3,102 million, the improper change of methodology resulted in **GE overstating its fourth quarter 2002 net income by an estimated 5.4%**. In addition, the estimated pre-tax charge of approximately \$200 million that GE avoided by switching CP hedging methodologies **would have caused GE to miss its quarterly and annual consensus** EPS estimates by approximately 1.5 cents." – Complaint at 16

"[T]he restatement [of swaps with 'shortcut' designations] had the effect of increasing GE's 2003 reported net earnings in the first and second quarters by 9.6% (\$287 million) and 11.9% (\$450 million), and decreasing reported net earnings by 12.2% (\$446 million) in the third quarter. – Complaint at 18

"These [bridge financing] transactions accounted for 131 of the 191 locomotives purportedly sold by GETS in the fourth quarter of 2002 (68.6%); \$223 million of the \$717 million in reported quarterly GETS revenue (31.1%); and \$38 million of the \$134 million in reported GETS operating profit (28.4%). Inclusion of **these transactions significantly overstated the performance of the GETS business** in the fourth quarter of 2002, with GETS revenues and profits being overstated by 45.1% and 39.6% respectively." – Complaint at 21

Source: August 4, 2009 SEC Complaint - <https://www.sec.gov/news/press/2009/2009-178.htm>



# SEC Complaint

August 4, 2009  
SEC Complaint

"For the fourth quarter of 2003, the rail transactions accounted for 92 of the 215 locomotives purportedly sold (42.8%) by GETS; \$158 million of the \$857 million in GETS revenue (18.4%); and \$24 million of the \$168 million in GETS operating profit (14.3%). Inclusion of **these transactions significantly overstated the performance of the GETS business** in the fourth quarter of 2003, with GETS revenues and profits being overstated by 22.6% and 16.7%." – Complaint at 23

"First, GE removed sales of spare parts from a model used to account for sales of aircraft engines that resulted in an immediate \$844 million charge to revenue. Second, **to offset that charge and to avoid disclosure** of its original accounting, GE simultaneously made a second, related change to another accounting model. That second change did not comply with GAAP. GE's error improperly overstated GE's 2002 net earnings by approximately \$585 million." – Complaint at 24

"The creation of the \$156 million reserve also did not comply with GAAP. Under GAAP, even if it had been proper for GE to recognize the approximately \$1 billion in increased revenue and earnings, GE should either have (1) recognized the entire approximately \$1 billion in the first quarter and "trued up" the number in later quarters based on future analysis of the CSAs or (2) not recognized any gain on the switch until it had completed its analysis." - Complaint at 30

**"GE misled investors by reporting materially false and misleading results in its financial statements ... GE has agreed to pay a \$50 million penalty to settle the SEC's charges."**

– August 4, 2009 SEC Litigation Release, "SEC Charges General Electric With Accounting Fraud"



Source: August 4, 2009 SEC Complaint; August 4, 2009 SEC Litigation Release - - <https://www.sec.gov/news/press/2009/2009-178.htm>



## GE Aviation

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Overstated Performance



# GE Continues to Overstate and Misrepresent its Financials

March 14, 2019  
GE 2019 Earnings  
Conference Call Transcript



“Let’s start with a quick perspective on our performance over the last three years. As you know, Aviation has been a strong business for GE with good leverage, compounded annual growth rate and operating profit of 11% on 8% growth in revenue.”



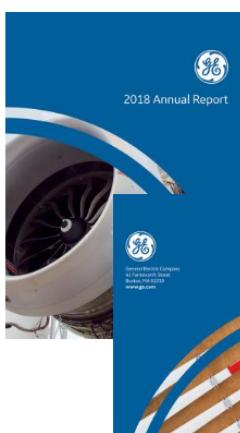
– David Leon Joyce, Vice-Chairman & CEO of GE Aviation at p. 8

Source: [ge.com/investor-relations/sites/default/files/ge\\_webcast\\_transcript\\_03142019.pdf](http://ge.com/investor-relations/sites/default/files/ge_webcast_transcript_03142019.pdf)



## CEO Joyce Overstates 3-Year Revenue CAGR As 8%; Actual CAGR Is Only 7.4%; Maybe That's a Rounding Error, But...

2018  
GE Annual Report



GE Annual Report Data			
Year	Aviation Revenue in \$	Aviation Profit in \$	Aviation Profit Margin %
2015	\$24.70B	\$5.50B	22.30%
2018	\$30.60B	\$6.50B	21.20%

3-Yr Revenue CAGR:  $[\$30.60B \div \$24.70B]^{1/3} = 1.0740 - 1 = 7.40\%$

operating profit of 11% on 8% growth in revenue.

— David Leon Joyce, Vice-Chairman & CEO of GE Aviation at p. 8



**Accuracy Is Key When You're Running a Business; It's Inexcusable and a Red Flag for Fraud  
When a CEO Does Not Know Revenue and Profit Numbers ...**



with  
nd

Source: 2015 – 2018 GE Annual Reports (2015 at p. 12, 2016 at p. 12, 2017 at p. 7, 2018 at p. 21-22)



# When CEO Joyce Overstates 3-Year Profit Margin CAGR As 11%, It's Not a Rounding Error; In Fact, It's Nearly Double the Actual Rate of 5.73%!

2018  
GE Annual Report



GE Annual Report Data			
Year	Aviation Revenue in \$	Aviation Profit in \$	Aviation Profit Margin %
2015	\$24.70B	\$5.50B	22.30%
2018	\$30.60B	\$6.50B	21.20%

$$\text{3-Yr Revenue CAGR: } [\$6.50B \div \$5.50B]^{1/3} = 1.05732 - 1 = \underline{\underline{5.73\%}}$$

operating profit of 11%

— David Leon Joyce, Vice-Chairman & CEO of GE Aviation at p. 8



**Everyone Can Easily Keep Track of the Truth, But It's Very Hard to Keep Track of Accounting Manipulation! It Is Likely That GE Is Either Committing Fraud, Is Incompetent or Both!**

Source: 2015 – 2018 GE Annual Reports (2015 at p. 12, 2016 at p. 12, 2017 at p. 7, 2018 at p. 21-22)



## **GE Power**

Under Federal Investigation



# Power Shenanigans: GE, Where Prior Years' Performance Does Not Remain the Same!

2016

GE Annual Report



	2016	2015
Revenues	\$26.8B	\$21.5B
Profits	\$5.0B	\$4.5B
Profit Margin	18.6%	20.9%

2017

GE Annual Report



	2017	2016
Revenues	\$36.0B	\$36.8B
Profits	\$2.8B	\$5.1B
Profit Margin	7.7%	13.8%

2016 revenues are up \$10.0B;  
2016 profits are up \$100M;  
2016 profit margin has  
**dropped from 18.6% to 13.8%**

2018

GE Annual Report



	2018	2017
Revenues	\$27.3B	\$34.9B
Profits	\$(0.8)B	\$1.9B
Profit Margin	-3.0%	5.6%

2017 revenues are down \$1.1B;  
2017 profits are down \$900M;  
2017 profit margin has  
**dropped from 7.7% to 5.6%**

Source: 2016 GE 10-K p. 31, 2017 GE 10-K pp. 15-16, 2018 10-K pp. 6, 11, 16



## GE Power: Accounting Tricks

GE Power reports 2018 profit margin of **-3.0%**; takes **\$22 billion loss** on goodwill during Q3

**-3.0% / -\$22B**



GE Power **provides no expenses**, preventing peer comparison



**SEC & USDOJ are investigating** GE's accounting





## GE Annual Reports

GE's Performance Numbers Change More Often Than the Wind 



# GE Admits to Making Less Profit Than Originally Reported in Prior 10-Ks, Revises Past Revenues and Records Material Past Losses in 2018 10-K

2018

GE Annual Report



"On January 1, 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers*, and the related amendments (ASC 606), which supersedes most previous GAAP revenue guidance.... As a result of the adoption of the standard, **we recorded significant changes in the timing of revenue recognition** and in the classification between revenues and costs."<sup>1</sup>

As Currently Reported in GE's Most Recent 10-Ks			
	GE Revenues	GE Net Income	Net Income % of Revenues
<b>2012<sup>2</sup></b>	112,587	13,641	12.1%
<b>2013<sup>3</sup></b>	113,245	13,057	11.5%
<b>2014<sup>4</sup></b>	117,184	15,233	13.0%
<b>2015<sup>5</sup></b>	117,386	(6,145)	-5.2%
<b>2016<sup>6</sup></b>	119,469	6,845	5.7%
<b>2017<sup>7</sup></b>	118,244	(8,920)	-7.5%
<b>2018<sup>8</sup></b>	121,614	(22,802)	-18.7%
<b>Totals</b>	<b>\$819,729</b>	<b>\$10,909</b>	<b>1.3%</b>

\$ in millions

As Originally Reported in Each Year's 10-K			
	GE Revenues	GE Net Income	Net Income % of Revenues
<b>2012<sup>9</sup></b>	147,359	13,641	9.3%
<b>2013<sup>10</sup></b>	146,045	13,057	8.9%
<b>2014<sup>11</sup></b>	148,589	15,233	10.3%
<b>2015<sup>12</sup></b>	117,386	(6,145)	-5.2%
<b>2016<sup>13</sup></b>	123,693	8,176	6.6%
<b>2017<sup>14</sup></b>	122,092	(6,222)	-5.1%
<b>2018<sup>15</sup></b>	121,614	(22,802)	-18.7%
<b>Totals</b>	<b>\$926,778</b>	<b>\$14,938</b>	<b>1.6%</b>

Variance
Corrected GE Net Income
--
--
--
--
<b>(\$1,331)</b>
<b>(\$2,698)</b>
--
<b>(\$4,029)</b>

Source: <sup>1</sup>2018 GE 10-K, p. 108; <sup>2</sup> 2014 Form 10-K, p.128; <sup>3</sup> 2015 Form 10-K, p.128; <sup>4</sup> 2016 Form 10-K, p.132; <sup>5</sup> 2017 Form 10-K, p.120; <sup>6</sup> 2018 Form 10-K, p.94; <sup>7</sup> 2018 Form 10-K, p.94; <sup>8</sup> 2018 Form 10-K, p.94; <sup>9</sup> 2012 Form 10-K, p.70; <sup>10</sup> 2013 Form 10-K, p.70; <sup>11</sup> 2014 Form 10-K, p.128; <sup>12</sup> 2015 Form 10-K, p.128; <sup>13</sup> 2016 Form 10-K, p.132; <sup>14</sup> 2017 Form 10-K, p.120; <sup>15</sup> 2018 Form 10-K, p.94



# Annual Report Comparison Shows Material Difference between GE's 2016 and 2017 Reported Segment Revenues

\$ in millions	2018 10-K, p. 13		2017 10-K, p. 26		Variance: 2018 vs. 2017 10-K	
	2017	2016	2017	2016	2017	2016
<b>Power</b>	34,878	35,835	35,990	36,795	(1,112)	(960)
<b>Renewable</b>	9,205	9,752	10,280	9,033	(1,075)	719
<b>Aviation</b>	27,013	26,240	27,375	26,261	(362)	(21)
<b>Oil &amp; Gas</b>	17,180	12,938	17,231	12,898	(51)	40
<b>Healthcare</b>	19,017	18,212	19,116	18,291	(99)	(79)
<b>Transportation</b>	3,935	4,585	4,178	4,713	(243)	(128)
<b>Lighting</b>	1,941	4,762	1,987	4,823	(46)	(61)
<b>Capital</b>	9,070	10,905	9,070	10,905	--	--
<b>Corporate &amp; Elimination</b>	(3,995)	(3,760)	(3,135)	(26)	(860)	(3,734)
<b>Consolidated Revenues</b>	<b>\$118,244</b>	<b>\$119,469</b>	<b>\$122,092</b>	<b>\$123,693</b>	<b>\$(3,848)</b>	<b>\$(4,224)</b>

2018

GE Annual Report



"On January 1, 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers*, and the related amendments (ASC 606), which supersedes most previous GAAP revenue guidance.... As a result of the adoption of the standard, we recorded significant changes in the timing of revenue recognition and in the classification between revenues and costs."<sup>1</sup>

Source: <sup>1</sup>2018 Form 10-K, p.94

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# Annual Report Comparison Shows Material Difference between GE's 2016 and 2017 Reported Segment Profit

\$ in millions	2018 10-K, p. 13		2017 10-K, p. 26		Variance: 2018 vs. 2017 10-K	
	2017	2016	2017	2016	2017	2016
Power	1,947	4,187	2,786	5,091	(839)	(904)
Renewable	583	631	727	576	(144)	55
Aviation	5,370	5,324	6,642	6,115	(1,272)	(791)
Oil & Gas	158	1,302	220	1,392	(62)	(90)
Healthcare	3,488	3,210	3,448	3,161	40	49
Transportation	641	966	824	1,064	(183)	(98)
Lighting	27	165	93	199	(66)	(34)
Capital	(6,765)	(1,251)	(6,765)	(1,251)	--	--
Total Segment Profit	5,449	14,534	7,975	\$16,347	(2,526)	(1,813)
Consolidated Net Earnings	<b>\$(8,920)</b>	<b>\$6,845</b>	<b>\$(6,223)</b>	<b>\$8,176</b>	<b>\$(2,697)</b>	<b>\$1,331</b>

2018

GE Annual Report



"On January 1, 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers*, and the related amendments (ASC 606), which supersedes most previous GAAP revenue guidance.... As a result of the adoption of the standard, we recorded significant changes in the timing of revenue recognition and in the classification between revenues and costs."<sup>1</sup>

Source: <sup>1</sup>2018 Form 10-K, p.94

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# Annual Report Comparison Shows Material Difference between GE's 2017 Reported Assets, Liabilities and Equity

\$ in millions	2018 10-K, p. 98		2017 10-K, p. 124	Variance: 2018 vs. 2017 10-K
	2018	2017	2017	2017
<b>Total Assets</b>	309,129	369,245	377,945	(8,700)
<b>Total Liabilities</b>	257,266	292,355	292,561	(206)
<b>Redeemable Non-Controlling Interest</b>	382	3,391	3,399	(8)
<b>Total Equity</b>	<b>\$51,481</b>	<b>\$73,498</b>	<b>\$81,986</b>	<b>\$(8,488)</b>

2018

GE Annual Report



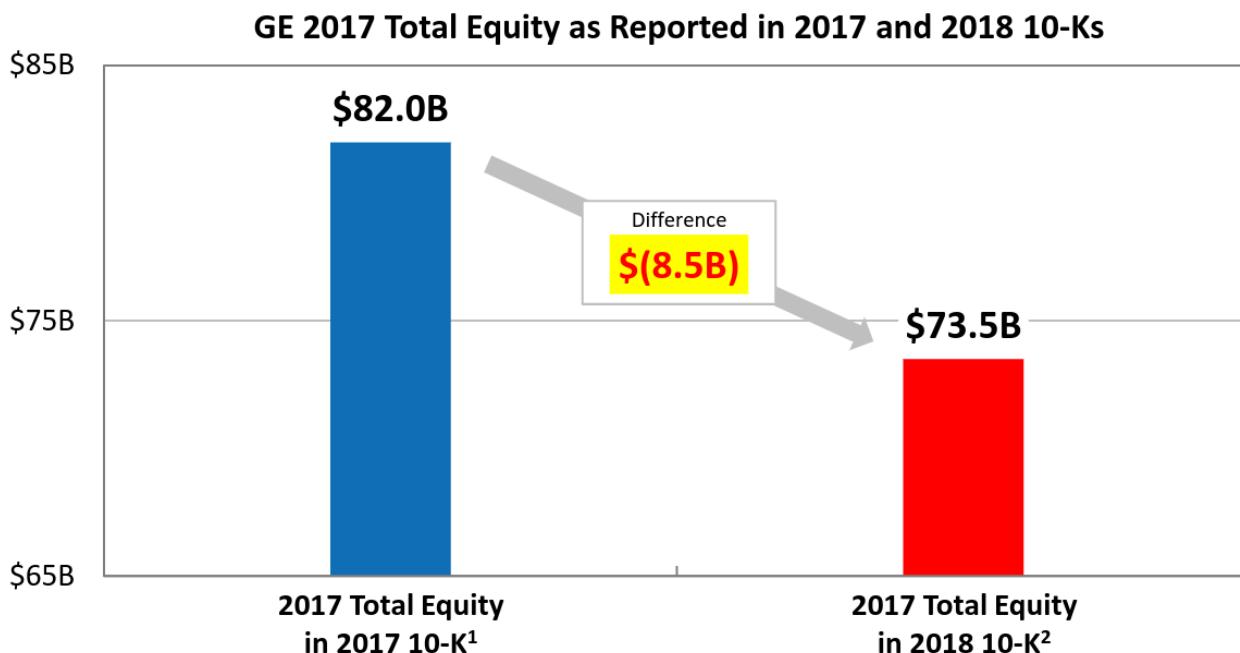
"On January 1, 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers*, and the related amendments (ASC 606), which supersedes most previous GAAP revenue guidance.... As a result of the adoption of the standard, we recorded significant changes in the timing of revenue recognition and in the classification between revenues and costs."<sup>1</sup>

Source: <sup>1</sup>2018 Form 10-K, p.94

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# Annual Report Comparison Shows Material Difference between GE's 2017 Reported Assets, Liabilities and Equity





# Annual Report Comparison Shows Material Differences Which Is an Indicator of Accounting Fraud



GE's revenues, earnings & equity accounts change direction more often than the wind



GE is incapable of producing accurate books & records



GE has material accounting control deficiencies



GE changes reporting formats every few years, making comparative analysis impossible



# Aircraft Engines

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## GE's Lack of Transparency



# GE Hides Its Expenses to Conceal Fraud

2018  
GE Annual Report



MD&A

SEGMENT OPERATIONS | AVIATION

## SEGMENT REVENUES (*In billions*)

### Revenues

Equipment	\$ 11.5
Services	19.1
Total(a)	\$ 30.6

## SEGMENT PROFIT AND PROFIT MARGIN (*Dollars in billions*)

Segment profit(b)	\$ 6.5
Segment profit margin	21.2%



**GE Business Units Report Only the Top and Bottom Line with Nothing in Between, Leaving Analysts No Way to Compare GE Performance vs. Industry Peers; There Is No Better Way to Hide Accounting Fraud!**

Source: GE 2018 10-K p. 22

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# GE 50/50 Engine JV Partner Safran Reports the Details That GE Does Not Reveal

2018  
Safran Reg. Document



## 2.1.3.1 Aerospace Propulsion

### Key figures (adjusted data)

	2018
Quantities delivered	
> CFM56 engines	1,044
> LEAP engines	1,118
(in € millions)	
Revenue	10,452
Recurring operating income	1,929
Profit from operations	1,898
Free cash flow	1,331
Acquisitions of property, plant and equipment	385
Research and development	
Self-funded R&D	(537)
% of revenue	5.1%
Research tax credit	58
Self-funded R&D after research tax credit	(479)
Capitalized expenditure	102
Amortization and impairment of R&D expenditure	(101)
Impact on profit from operations	(478)
% of revenue	4.6%
Headcount	24,536



**Safran's Detailed Reporting Demonstrates the Importance of Transparency in Public Filings; There Is No Better Way to Hide Accounting Fraud Than Providing Only Top and Bottom Line Financial Data As GE Does**

Source: 2018 Safran Registration Document p.57

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## Aircraft Leasing

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The Numbers Do Not Make Sense  
and Lack Industry Standard Disclosures



“I wouldn’t say what I saw was smoke, but there was enough concern that I decided to leave, because **I didn’t want to be there when there was smoke.”**

- Former GE Capital Employee

Source: November 30, 2018, *Wall Street Journal*, “In GE Probe, Ex-Staffers Say Insurance Risks Were Ignored” by Thomas Gryta and David Benoit - <https://www.wsj.com/articles/in-ge-probe-ex-staffers-say-insurance-risks-were-ignored-1543580971>



# Reasons to Doubt GE's Aircraft Leasing (GECAS) Profits

## Reason

#1

GECAS Is a Black Box with “Enronesque” Off-Balance Sheet Borrowings; GE Provides Us With Almost No Information Other Than This Unit Has “Great Earnings”; If That’s So Where Is the Accompanying Cash?

1

Why didn’t GE bother to post the profit margins for GECAS? Our guess is because no one would believe the percentages that we discovered were real given **GECAS is downsizing and has lower YOY revenues**

2

GECAS, a business unit with \$41.7B in assets **provides no details on how it earns money**, how costs are allocated or how Free Cash Flow (assuming it exists) is generated

3

More importantly, for it to have “reported profit margins” in the 24%-41% range, there must be lots of “Off Balance-Sheet Borrowings” which **calls into question GE’s BBB+ credit rating**

4

Our conclusion is that the GECAS profit margins, particularly 2017’s 41.2% profit margin, is nowhere close to the truth! **Why doesn’t GE tell us how this unit earned 41.2% in 2017?**



# Reasons to Doubt GE's Aircraft Leasing (GECAS) Profits

## Reason

#2

### LOOK OUT! Off-Balance Sheet Entities and Number of Planes Go Down, While Number of Engines Goes Up!

April 8, 2019

JP Morgan GE Research Report  
by Stephen Tusa CFA®, et al.



Lastly, turning to the influence from GECS and other factors, investors wonder why there would be a big disconnect between EBITDA of \$7.5 B and FCF of ~\$3 B including allocations, but we have seen a disconnect between EBITDA and FCF at GE before (Power), and we don't know why some assume this business is "ring fenced" from the rest of GE. Most notable is the relationship with GECAS and the CFM JV, as off-balance sheet mechanisms to deliver better earnings than cash (with the charge likely coming in the interest and other financial charges line). The impact from CFM moving parts is not disclosed, and we have little information about this important JV.

Additionally, we note that, starting in 2013 (same time the FCF disconnect started for Power), engines owned by GECAS were growing by 10%+, while aircraft owned went down until 4Q15, at which time the disclosure was no longer provided. With a fraction of the disclosure from pure play leasing companies, and the historical backdrop, it's reasonable to ask more questions around this relationship, especially when both are referred to as "crown jewels".

Table 49: Engines Owned Grew While Fleet Went Down at GECAS

Aircraft x-Helios	Engines	% Engines/Fleet
2013	39,605	1,975
2014	36,354	2,377
2015	35,231	2,654
2 year CAGR	-6%	16%

Source: Company reports.

Source: April 8, 2019 JP Morgan GE Research Report at 52-53

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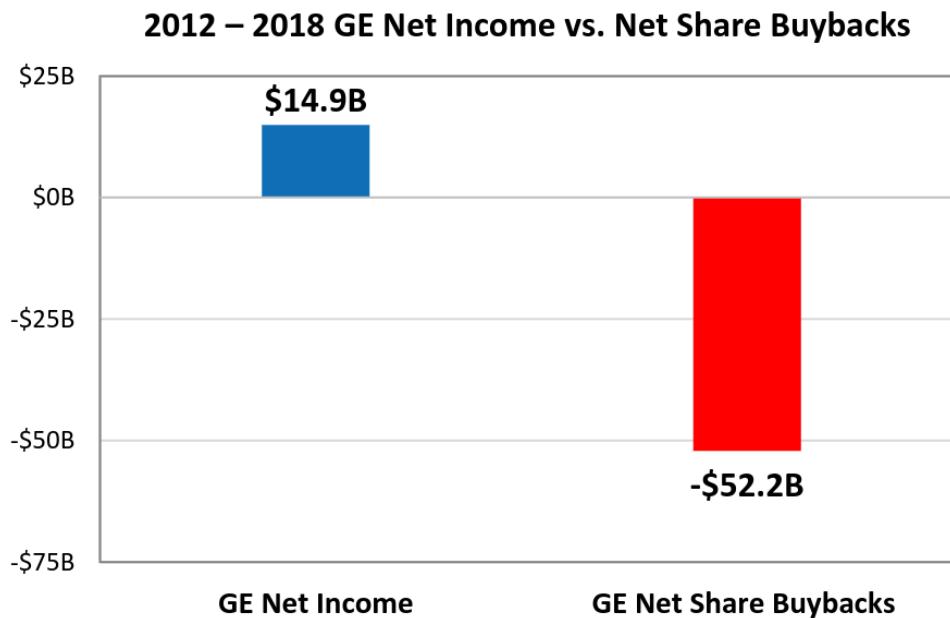
## Unjust Enrichment

GE Ignores Long Term Care and Pension Liabilities  
to Boost Share Price and Executive Bonuses





## GE Spent 3.5 Times More on Share Buybacks Than It Earned (2012-2018)



Source: 2012 – 2018 GE Statement of Earnings

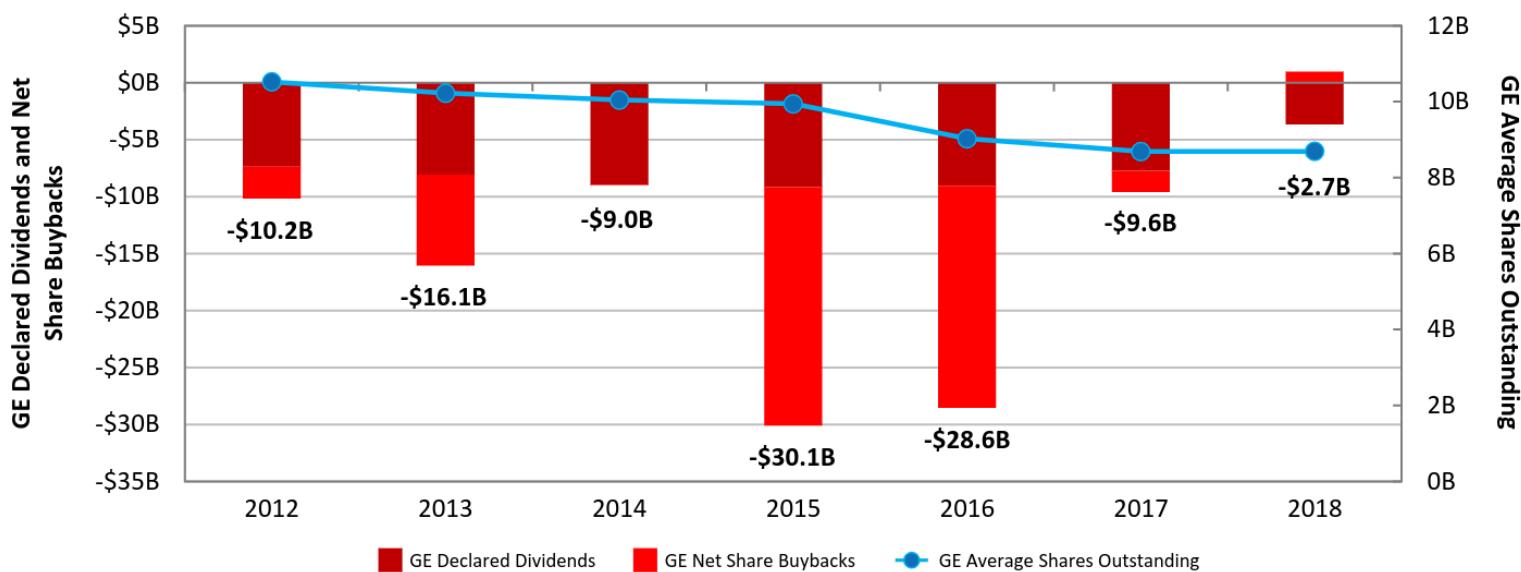
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# GE Spent 7.1 Times More Than It Earned to Prop Up Share Price Through Buybacks and Dividends



From 2012 to 2018 GE Spent **\$106.2 Billion** on Net Share Buybacks and Dividends



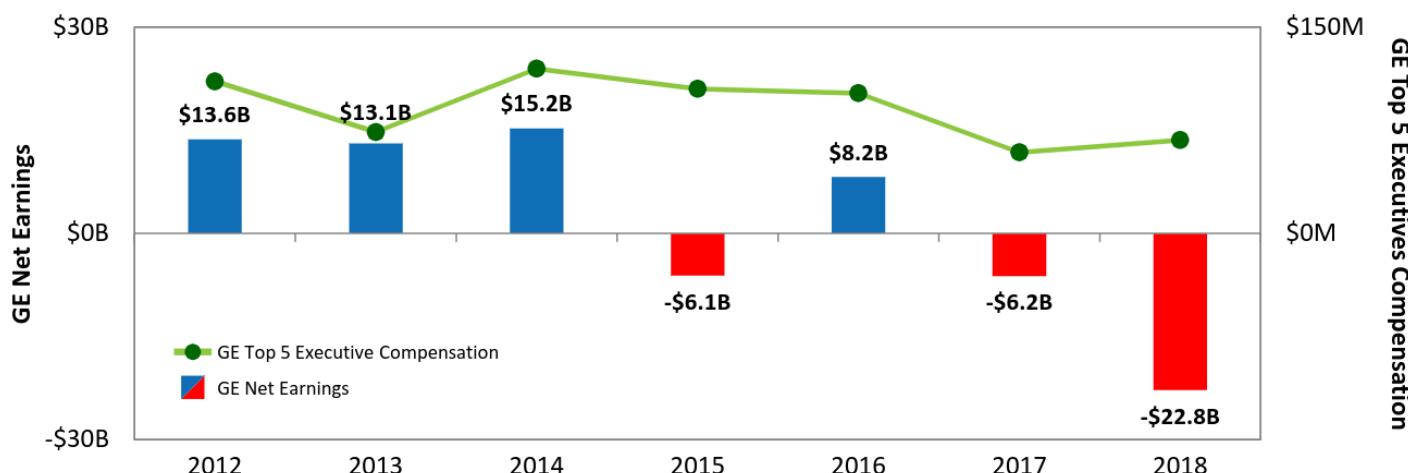
Source: 2012 10-K pp.61, 69, Note 26 Fin. Stmts., 69; 2013 10-K pp.62, 69, Note 25 Fin. Stmts., 69; 2014 10-K pp.79, 103, Note 26 Fin. Stmts., 103; 2015 10-K pp.105, 108, Note 25 Fin. Stmts., 108; 2016 10-K pp.113, 116, Note 26 Fin. Stmts., 116; 2017 10-K pp.102, 104, Note 22 Fin. Stmts., 104; 2018 10-K pp.76, 78, Note 23 Fin. Stmts., 98.<sup>1</sup> Market cap as of 4/25/19



# Despite Significant Financial Issues, GE Continues to Enrich Its Top Executives



The Top 5 GE Executives Enjoyed **\$637 Million** in Compensation from 2012-2018, Which Accounts for 4.25% of Net Income; No Bonuses Should Have Been Paid!



GE Top 5 Executives Compensation

● \$110.5M | \$73.6M | \$119.7M | \$105.0M | \$101.8M | \$58.8M | \$67.8M

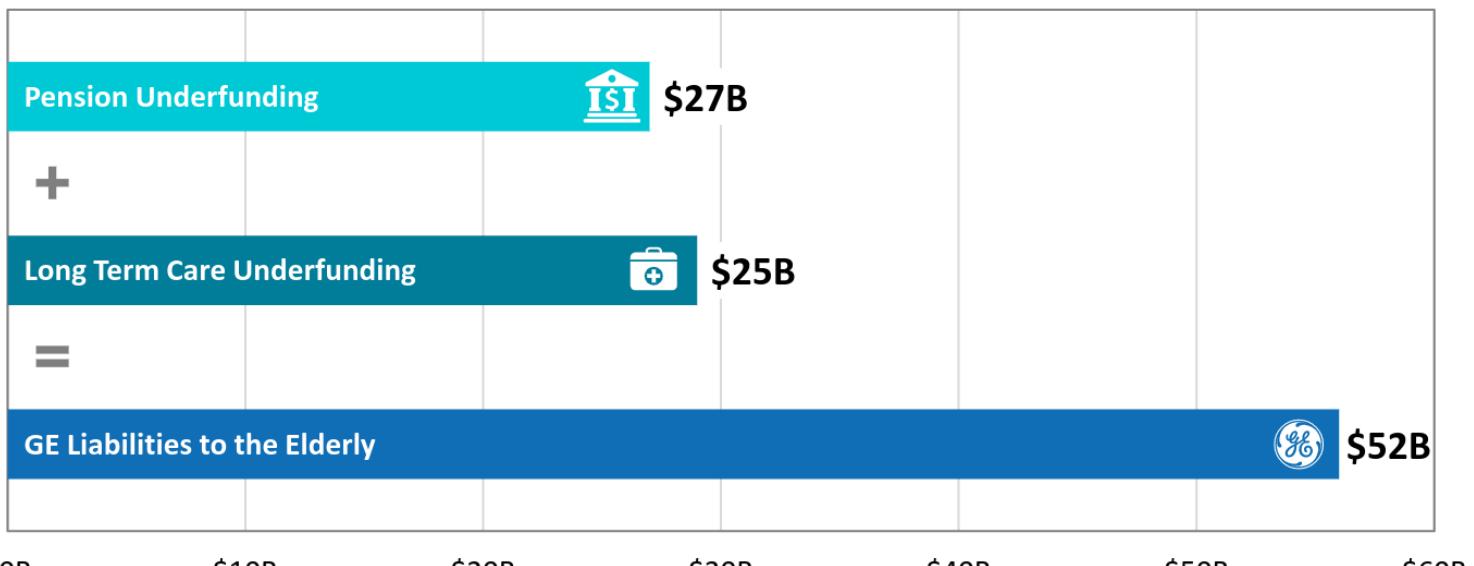
Source: 2012-2018 GE 10-K

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# Share Buybacks and Dividends Left GE Nearly Broke

GE Will Likely Default on Its Commitments to Retirees and the Elderly



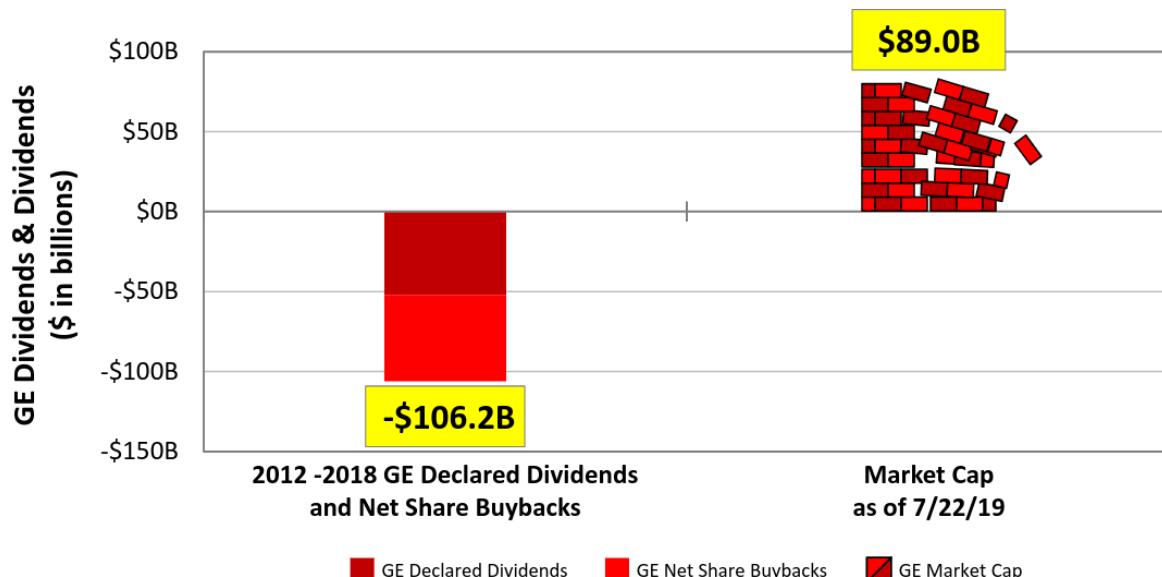
Note: Underfunding is based on GAAP basis; Cash impact of LTC under-reserving (see slide 79 for detail of unfunded LTC liabilities)

Source: 2012-2018 GE 10-K; [www.soa.org/Files/Pd/2014/annual.../2014-orlando-annual-mtg-102-23W.pdf](http://www.soa.org/Files/Pd/2014/annual.../2014-orlando-annual-mtg-102-23W.pdf)



# GE Vaporized \$106.2 Billion and Is Now One Recession Away from Bankruptcy

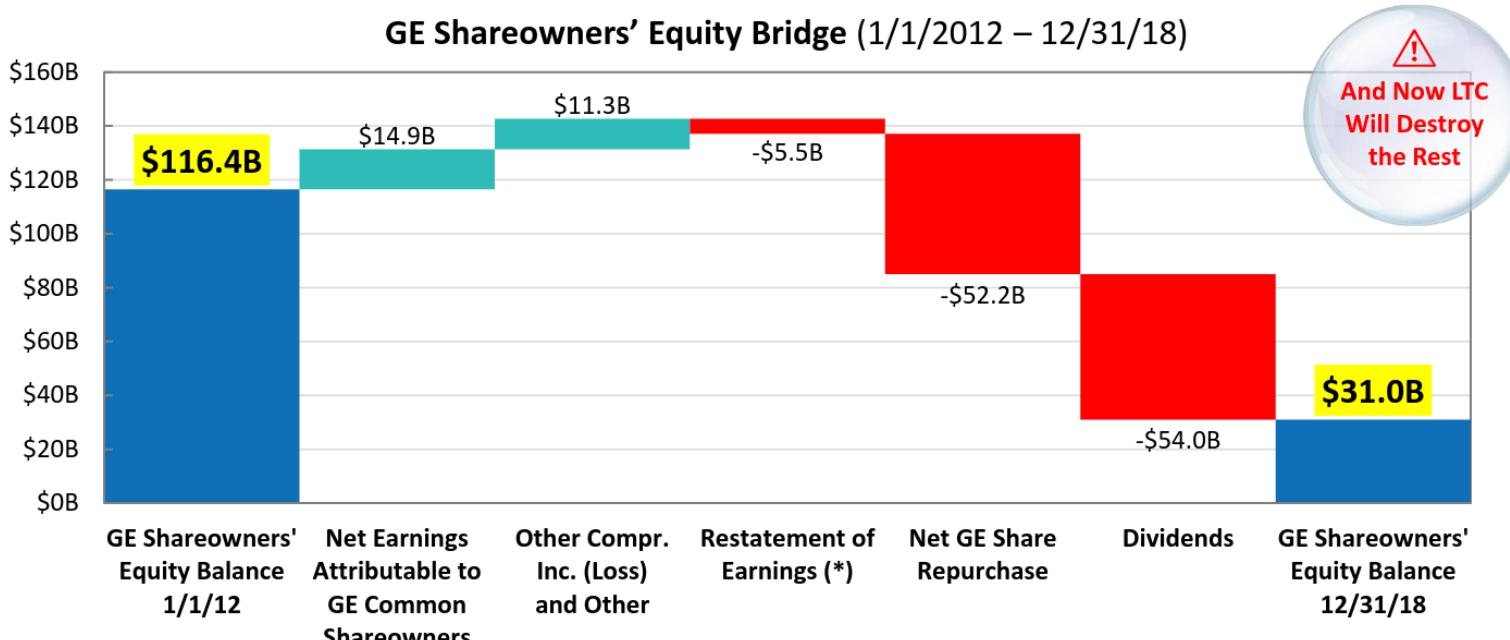
2012 to 2018 Net Share Buybacks and Dividends Exceed GE's Current Market Cap



Source: 2012 10-K pp.61, 69, Note 26 Fin. Stmts., 69; 2013 10-K pp.62, 69, Note 25 Fin. Stmts., 69; 2014 10-K pp.79, 103, Note 26 Fin. Stmts., 103; 2015 10-K pp.105, 108, Note 25 Fin. Stmts., 108; 2016 10-K pp.113, 116, Note 26 Fin. Stmts., 116; 2017 10-K pp.102, 104, Note 22 Fin. Stmts., 104; 2018 10-K pp.76, 78, Note 23 Fin. Stmts., 98



# GE Destroyed \$85.4 Billion in Shareholder Value in Only 7 Years!



Source: 2012 – 2018 GE 10-Ks; \*Includes changes in accounting



## FRAUD INVESTIGATORS

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Resumes



## **Harry Markopolos, CFA®, CFE**

Harry Markopolos received his B.A. in Business Administration from Loyola of Maryland and graduated from Boston College with a M.S. in Finance. He earned his Chartered Financial Analyst's designation in 1996 and his Certified Fraud Examiner's designation in 2008. From 2002-2003 he served as the Chairman of the CFA® Society of Boston. He has also served on the boards of directors of the Boston Chapter Global Association of Risk Professionals and Boston QWAFAEW, a quantitative finance lecture group.

### **Education**

#### **Loyola University of Maryland**

B.A. Business Administration

#### **Boston College**

M.S. Finance

### **Certifications**

#### **Chartered Financial Analyst (1996)**

#### **Certified Fraud Examiner (2008)**

### **Publications**

#### **No One Would Listen: A True Financial Thriller (2010)**

#### **Chasing Madoff**

(Film Adaptation, 2011)

He was an assistant portfolio manager for Darien Capital Management in Greenwich, CT for three years, leaving to become an equity derivatives portfolio manager for Rampart Investment Management Company in Boston. In 2002 he was promoted to Chief Investment Officer, but decided to leave the industry in August 2004 to pursue fraud investigations full-time against financial services companies who cheat investors. He brings CEO and CFO orchestrated multi-billion dollar white-collar fraud cases to the U.S. Department of Justice, the FBI and the Securities & Exchange Commission. The Madoff case was his first major investigation, which he started in early 2000, and he's been hooked ever since. His investigations have led to several arrests and several billion dollar plus Ponzi schemes being put into receivership. He was also involved in detecting and stopping foreign exchange back-dating frauds committed by the U.S. custody banks, saving investors billions in forex transaction costs each year. GE is his 9<sup>th</sup> case involving insurance companies committing fraud against policyholders.



## John McPherson

John McPherson received his B.A. in Business Administration from Loyola University of Maryland and received his M.B.A from the Fuqua School of Business at Duke University. Mr. McPherson has been a founding member of consulting practices at EY (1986) and Deloitte (1996). In 2001, he co-founded MMS Advisors, a boutique consulting group specializing in forensic accounting and the insurance industry.

### Education

**Loyola University of Maryland**  
B.A. Business Administration

**Duke University**  
Masters of Business  
Administration

### Certifications

**Inactive Certified Public  
Accountant (1986)**

Mr. McPherson has over 25 years of forensic accounting experience and has been involved in fraud investigations of numerous multi-billion dollar property and casualty and life insurance carriers. These investigations have addressed issues of reserve adequacy, related party transactions, manipulation of mortality data, cost of insurance overcharges, non-compliance with Generally Accepted Accounting Principles (GAAP), fraudulent reinsurance arrangements, misuse of reinsurance collateral, non-conforming investments and overstated investment valuations. For the past eighteen months, he has investigated under-reserving within the LTC industry.

Mr. McPherson insurance experience includes assisting with the development of an integrated life insurance and annuity policy underwriting and administration platform that was awarded Forbes Outstanding Outsourcing Partnership for 2007. He turned in the multi-billion Life Partners (NASD: LPHI) fraud which led to this publicly traded company's bankruptcy and expected investor recoveries of \$1.2 billion.



## **Appendix I**

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### **GE-ERAC Reinsurance Arrangements**

Note: Reinsurance agreements included in this section represent 96% of GE-ERAC's Schedule S LTC Reserves.



# Analyzing GE's Reinsurance Agreements Exposes Material Future Liabilities from Long Term Care Claims



After Reviewing ~95% of GE's Reinsurance Agreements, a Clear Picture of Massive Under-Reserving Emerges



*GE's  
Mysterious  
Reinsurance  
Deals*

Allianz

AMERICAN UNITED LIFE

John Alden

LINCOLN BENEFIT

::: MassMutual

THE STATE LIFE INSURANCE COMPANY

WESTPORT



# GE-ERAC's Reinsurance Deal with Allianz Is a Failure on Many Levels

GE-ERAC receives virtually **no current net premiums** from Allianz for **assuming net reserves exceeding \$2.7 billion**; This is one of the most one-sided reinsurance arrangements in the history of the LTC market.

GE-ERAC / Allianz Reinsurance Transactions						
	2013	2014	2015	2016	2017	2018
<b>Assumed by GE-ERAC from Allianz (Totals)</b>						
Premiums – Cash Inflows	56,729,454	59,414,700	59,442,077	57,714,491	55,578,475	53,609,688
Reserves – Future Cash Outflows	1,847,657,122	1,954,738,810	2,101,908,349	2,394,265,782	2,534,401,058	2,728,892,344
<b>Ceded from GE-ERAC to Allianz (Totals)</b>						
Premiums – Cash Inflows	22,646,755	25,685,440	27,432,718	32,550,628	34,633,877	39,663,582
Reserves – Future Cash Outflows	35,983,224	40,498,947	47,161,642	55,711,344	64,818,299	74,512,727
<b>Net LTC Reinsurance Assumed by GE-ERAC from Allianz (Totals)</b>						
Premiums – Cash Inflows	34,082,699	33,729,260	32,009,359	25,163,863	20,944,598	13,946,106
Reserves – Future Cash Outflows	1,811,673,898	1,914,239,863	2,054,746,707	2,338,554,438	2,469,582,759	2,654,379,617

Source: Assumed: Allianz Statutory Annual Statements - Schedule S, Ceded: Employers Reassurance Statutory Annual Statements - Schedule S



# GE-ERAC's Reinsurance Deal with Allianz Is a Failure on Many Levels

This is what one of the most one-sided LTC reinsurance arrangements looks like:

**Allianz kept its best LTC and off-loaded its worst LTC to GE-ERAC and Munich American Re; GE-ERAC then got the worst deal of the two reinsurers and is assuming 90% of the losses.**

Allianz Summary of Premiums and Incurred Losses						
	2013	2014	2015	2016	2017	2018
<b>Retained by Allianz</b>						
Written Premiums	130,711,489	138,067,973	140,883,029	144,315,555	146,849,331	153,102,423
Incurred Claims	(59,306,893)	(47,789,147)	(65,838,184)	(93,246,152)	(97,487,867)	(134,332,189)
Net	<b>71,404,596</b>	<b>90,278,826</b>	<b>75,044,845</b>	<b>51,069,403</b>	<b>49,361,464</b>	<b>18,770,234</b>
- Loss Ratio	45%	35%	47%	65%	66%	88%
<b>Ceded to GE-ERAC / Munich American Re</b>						
Written Premiums	76,768,106	80,337,996	80,204,824	77,588,562	75,041,234	72,662,994
Incurred Claims	(95,082,406)	(92,717,556)	(134,111,052)	(148,706,557)	(158,240,151)	(248,226,201)
Net	<b>(18,314,300)</b>	<b>(12,379,560)</b>	<b>(53,906,228)</b>	<b>(71,117,995)</b>	<b>(83,198,917)</b>	<b>(175,563,207)</b>
- Loss Ratio	<b>124%</b>	<b>115%</b>	<b>167%</b>	<b>192%</b>	<b>211%</b>	<b>342%</b>

Source: Allianz Statutory Annual Statements – Schedule H and Schedule S



# GE-ERAC's Deal With Mass Mutual May Become the Worst Ever

This could soon become the **worst reinsurance arrangement EVER** in LTC industry!!!

Mass Mutual kept LTC with over **\$100 million in increasing premiums with virtually no losses**  
and ceded to GE-ERAC LTC with **almost all of the losses and declining premiums**;  
The insured are much younger so this **will get far worse** as they enter prime claim paying ages.

Mass Mutual retains  
virtually no losses!!

	Mass Mutual Summary of Premiums and Incurred Losses					
	2013	2014	2015	2016	2017	2018
<b>Retained by Mass Mutual</b>						
Written Premiums	63,075,681	71,553,963	85,190,778	97,664,215	112,079,672	160,689,195
Incurred Claims	(3,515,242)	(3,502,406)	(3,197,059)	(4,693,190)	(6,629,794)	(2,270,427)
Net	<b>59,560,439</b>	<b>68,051,557</b>	<b>81,993,719</b>	<b>92,971,025</b>	<b>105,449,878</b>	<b>158,418,768</b>
- Loss Ratio	6%	5%	4%	5%	6%	1%
<b>Ceded to Employers Re / LifeCare</b>						
Written Premiums	141,939,445	137,603,508	127,643,297	122,943,528	119,063,149	83,337,277
Incurred Claims	(30,393,436)	(32,111,296)	(37,049,303)	(45,954,748)	(65,238,155)	(83,152,144)
Net	111,546,009	105,492,212	90,593,994	76,988,780	53,824,994	185,133
- Loss Ratio	<b>21%</b>	<b>23%</b>	<b>29%</b>	<b>37%</b>	<b>55%</b>	<b>100%</b>

Source: Mass Mutual Statutory Annual Statements – Schedule H and 2018 Schedule S



# GE-ERAC's Deal with Westport, Based Upon the Results, Does Not Appear to Involve LTC Reinsurance

Westport functions as a pass-through entity, assuming and ceding this LTC. The **point of origin for the LTC could not be identified**. The highly variable results are not consistent with LTC insurance. Could this be an undisclosed legacy liability related to Swiss Re's (Westport's parent company) 2006 purchase of GE's Employers Reinsurance subsidiary? If not, **what LTC is GE-ERAC reinsuring?**

Westport Summary of Premiums and Incurred Losses						
	2013	2014	2015	2016	2017	2018
<b>Retained by Westport</b>						
Written Premiums	-	-	-	-	-	-
Incurred Claims	-	-	-	-	-	-
Net	-	-	-	-	-	-
- Loss Ratio	n/a	n/a	n/a	n/a	n/a	n/a
<b>Ceded to Employers Re</b>						
Written Premiums	32,038,705	41,731,826	32,232,433	28,874,509	28,646,487	24,116,258
Incurred Claims	(68,959,892)	(7,146,109)	(91,165,817)	(44,528,307)	(56,169,673)	(199,456,001)
Net	(36,921,187)	34,585,717	(58,933,384)	(15,653,798)	(27,523,186)	(175,339,743)
- Loss Ratio	<b>215%</b>	<b>17%</b>	<b>283%</b>	<b>154%</b>	<b>196%</b>	<b>827%</b>

What Happened?

Source: Westport Statutory Annual Statements – Schedule H



# GE-ERAC's Deal with American United Life (AUL) Has Loss Exposure That Cannot Be Quantified

AUL functions as a pass-through entity, assuming and ceding this LTC, which comes from the American Long Term Care Reinsurance Group (ALTCRG). **The point of origin for this LTC also could not be identified.** The ALTCGR is the “**Black Box**” of the LTC Industry, and **pools tens of billions of dollars of LTC exposure**, but is very secretive and files no financial information with regulators; **What LTC loss exposure is GE-ERAC assuming** from ALTCGR through AUL? What is the origin point of this LTC?

American United Life Summary of Premiums and Incurred Losses						
	2013	2014	2015	2016	2017	2018
<b>Retained by AUL</b>						
Written Premiums	-	-	-	-	-	-
Incurred Claims	-	-	-	-	-	-
Net	-	-	-	-	-	-
- Loss Ratio	0%	0%	0%	0%	0%	0%
<b>Ceded to Employers Re</b>						
Written Premiums	59,885,496	57,779,718	54,996,057	52,668,325	50,370,187	49,213,251
Incurred Claims	(52,180,503)	(65,572,418)	(70,265,179)	(75,498,777)	(120,899,392)	(119,768,286)
Net	7,704,993	(7,792,700)	(15,269,122)	(22,830,452)	(70,529,205)	(70,555,035)
- Loss Ratio	87%	113%	128%	143%	240%	243%

Source: AUL Statutory Annual Statements – Schedule H



## GE-ERAC's Deal with John Alden Involves Very Bad LTC Coverage

GE-ERAC assumed 100% of a John Alden LTC product that is viewed as **one of the worst types of LTC offered in the market**; It was a poorly designed LTC product with easily accessible benefits paid directly to policyholders (not health care providers) and has minimal restrictions.

John Alden Summary of Premiums and Incurred Losses						
	2013	2014	2015	2016	2017	2018
<b>Retained by John Alden Life</b>						
Written Premiums	948,650	796,935	(33,968)	2,422	2,605	(8,753)
Incurred Claims	(591,818)	(299,762)	(133,719)	(2,866)	(10)	(27)
Net	356,832	497,173	(167,687)	(444)	2,595	(8,780)
- Loss Ratio	-62%	-38%	N/A	-118%	0%	0%
<b>Ceded to Employers Re</b>						
Written Premiums	11,732,718	11,128,930	11,254,024	10,404,029	10,083,813	9,649,584
Incurred Claims	(24,613,497)	(32,627,698)	(39,246,372)	(37,847,665)	(47,765,730)	(43,397,963)
Net	(12,880,779)	(21,498,768)	(27,992,348)	(27,443,636)	(37,681,917)	(33,748,379)
- Loss Ratio	<b>210%</b>	<b>293%</b>	<b>349%</b>	<b>364%</b>	<b>474%</b>	<b>450%</b>

Source: John Alden Statutory Annual Statements – Schedule H



# GE-ERAC's Deal with Lincoln Benefit Involves LTC Largely Consistent with Individual Policies from the Pre-Mid 2000's

The Results Will Deteriorate Further As Policyholders Enter Prime Claim Paying Ages.

Lincoln Benefit Summary of Premiums and Incurred Losses						
	2013	2014	2015	2016	2017	2018
<b>Retained by Lincoln Benefit</b>						
Written Premiums	-	n/a	59,648,230	5,544,234	3,639,022	1,712,671
Incurred Claims	-	n/a	-	-	-	-
Net	-	n/a	59,648,230	5,544,234	3,639,022	1,712,671
- Loss Ratio	0%	n/a	0%	0%	0%	0%
<b>Ceded to Employers Re</b>						
Written Premiums	79,333,230	n/a	51,029,876	53,381,699	54,389,391	55,277,338
Incurred Claims	(46,184,458)	n/a	(70,253,382)	(82,758,115)	(103,167,849)	(109,038,102)
Net	33,148,772	n/a	(19,223,506)	(29,376,416)	(48,778,458)	(53,760,764)
- Loss Ratio	<b>58%</b>	<b>n/a</b>	<b>138%</b>	<b>155%</b>	<b>190%</b>	<b>197%</b>

Source: Lincoln Benefit Statutory Annual Statements – Schedule H



## GE-ERAC's Deal with State Life Also Involves LTC Largely Consistent with Individual Policies from the Pre-Mid 2000's

The Results Will Deteriorate Further As Policyholders Enter Prime Claim Paying Ages.

State Life Summary of Premiums and Incurred Losses						
	2013	2014	2015	2016	2017	2018
<b>Retained by State Life</b>						
Premiums	10,027	7,037	6,440	5,973	4,631	3,883
Incurred Claims	(154,366)	(157,280)	(109,178)	(89,110)	(112,954)	(15,819)
Net	(144,339)	(150,243)	(102,738)	(83,137)	(108,323)	(11,936)
- Loss Ratio	Immaterial	Immaterial	Immaterial	Immaterial	Immaterial	Immaterial
<b>Ceded to Employers Re</b>						
Premiums	27,779,773	25,249,270	22,547,489	21,121,989	19,982,150	19,665,937
Incurred Claims	(14,186,726)	(16,111,108)	(14,418,086)	(17,838,415)	(28,167,219)	(33,554,982)
Net	13,593,047	9,138,162	8,129,403	3,283,574	(8,185,069)	(13,889,045)
- Loss Ratio	51%	64%	64%	84%	141%	171%

Source: State Life Statutory Annual Statements – Schedule H



## **Appendix II**

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Long Term Care: Overview of the Industry



## History of the LTC Market

- 1** Originally offered by a small number of carriers in the late 70's and early 80's for nursing home expenses
- 2** Experienced rapid growth in the 80's and 90's as more carriers entered the market and product offerings expanded to include assisted living and home care
- 3** The largest factor cited for entering the LTC market was sales; profitability was secondary
- 4** The policies have level premiums that build investments in the early years that can be liquidated decades later to fund the claims
- 5** The industry subsequently addressed many of these problems by introducing benefit caps, changing the accessibility of benefits and repricing coverage
- 6** While that improved LTC economics going forward, the legacy of toxic LTC and its related under-reserving still exists within the industry

Source: Society of Actuaries, 2014 Overview of the U.S. LTC Insurance Market

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## History of the LTC Market (cont'd)

**7** A PwC presentation to Society of Actuaries estimated that – industry-wide – the LTC was under-reserved by 50%; the majority of the reserve issues related to pre-2003 policies

**8** Most of pre-2003 policies were underwritten before the NAIC created the Long-Term Care Insurance Model Regulation in 2000, which is known as the “rate stability law”, in order to protect consumers

**9** Prior to the implementation of the rate stability law, actuaries did not have to verify that premiums were reasonably expected to be sustainable with no future premium increases.

**10** During this period, carriers could set unsustainably low premiums to generate revenue for years – decades – and then increase premiums as policyholders approached claim paying ages.

**11** Policyholders from this period are approaching prime claim paying ages and it is becoming increasingly difficult for carriers to ignore the industry-wide under-reserving.

Source: Society of Actuaries, 2014 Overview of the U.S. LTC Insurance Market

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# LTC Under-Reserving Causes

## Reasons Why LTC Turned into a Money-Losing Business

### Complex Product

(Even more than Life Insurance)



### Relatively New Product

(Started in Late 1970s)



### Wrong Assumptions

(Inaccurate for projections)



Source: April 10, 2017 Credit Suisse U.S. Life Insurance Sector Review; *Long-Term Care Insurance: The Society of Actuaries Pricing Project*; <sup>1</sup>November 2016, "Long-Term Care Insurance: The Society of Actuaries Pricing Project," at 12



## LTC Under-Reserving Causes (cont'd)

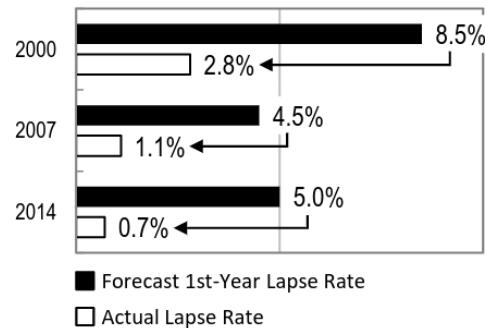
### Reasons Why LTC Turned into a Money-Losing Business

**High Policy Holder  
Retention Rate**  
(Fear of Medicaid & medical costs)

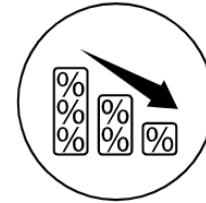


**Lapse Rates Much Lower  
Than Expected**

(Actuaries got assumptions wrong)



**Lower Interest Rates**  
(Forecasted invested premiums value derailed by global financial crises)



Source: April 10, 2017 Credit Suisse U.S. Life Insurance Sector Review; *Long-Term Care Insurance: The Society of Actuaries Pricing Project*; <sup>1</sup>November 2016, "Long-Term Care Insurance: The Society of Actuaries Pricing Project," at 12



## LTC Under-Reserving Causes (cont'd)

### Reasons Why LTC Turned into a Money-Losing Business

#### More Claims Than Forecast

(Life expectancy has continued to improve)

Pricing Year	Ultimate Mortality
2000	1994 GAM Life Expectancy Tables
2007	<b>10% lower</b> vs. 2000 assumptions
2014	<b>20% lower</b> vs. 2007 assumptions

#### Higher Incidences of Alzheimer's and Dementia

(Increased costs of care over longer periods than forecast)

Pricing Year	AA 80 Years	AA 90 Years	AA 100 Years
2000	Baseline	Baseline	Baseline
2007	+10%	+15%	+0%
2014	+15%	+15%	+25%

Source: April 10, 2017 Credit Suisse U.S. Life Insurance Sector Review; *Long-Term Care Insurance: The Society of Actuaries Pricing Project*; <sup>1</sup>November 2016, "Long-Term Care Insurance: The Society of Actuaries Pricing Project," at 11



## LTC Under-Reserving Causes (cont'd)

### Reasons Why LTC Turned into a Money-Losing Business

#### Non-Uniformity of Reserving Practices

(Certain carriers significantly understating reserves)

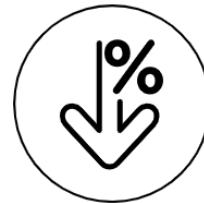


#### Healthcare Costs Rising Faster Than Expected

Pricing Year	Claim Costs
2000	Baseline
2007	54%
2014	54%

#### State Insurance Com.'s Loathe to Grant Rate Increases

(LTC marketed as level-premium, but losses necessitated rate increases)

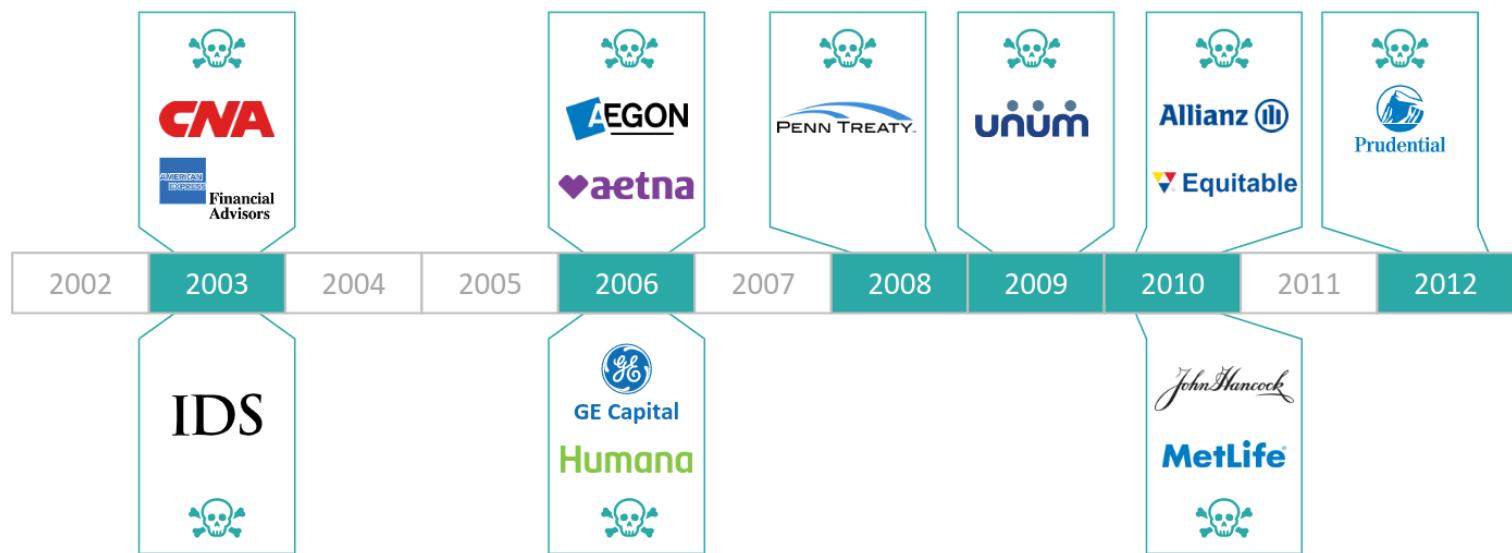


Source: April 10, 2017 Credit Suisse U.S. Life Insurance Sector Review; *Long-Term Care Insurance: The Society of Actuaries Pricing Project*; <sup>1</sup>November 2016, "Long-Term Care Insurance: The Society of Actuaries Pricing Project," at 11



## LTC Industry Casualties

Between 2003 and 2012 Major Carriers Abandon LTC Due to Poor Underwriting Results and Investor Concerns





## **Appendix III**

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### Resources

# Resources

<b>GE Annual Financial Reports:</b>	<b>62596 Union Fidelity Life (cont'd)</b>	<b>GE Reinsurance Counter Parties</b>	<b>60895 American United Life (cont'd)</b>	<b>65595 Lincoln Benefit Life (cont'd)</b>
GE 1997	62596.2015.Non-Key	<b>Statutory Financials:</b>	60895.2014.Non Key	65595.2012.Non Key
GE 1998	62596.2016.Key	<b>39845 Westport Ins Corp</b>	60895.2015.Key	65595.2013.Key
GE 1999	62596.2016.Non-Key	39845.2009.Non Key	60895.2015.Non Key	65595.2013.Non Key
GE 2000	62596.2017.Key	39845.2010.Non Key	60895.2016..Non Key	65595.2014.Key
GE 2001	62596.2017.Non-Key	39845.2011.Non Key	60895.2016.Key	65595.2014.Non Key
GE 2002	62596.2018.Key	39845.2012.Non Key	60895.2017.Key	65595.2015.Key
GE 2003	62596.2018.Non Key	39845.2013.Key	60895.2017.Non-Key	65595.2015.Non-Key
GE 2004	<b>68276 Employers Reassurance</b>	39845.2013.Non Key	60895.2018.Key	65595.2016.Key
GE 2005	68276.2009.Key	39845.2014.Key	60895.2018.Non Key	65595.2016.Non_key
GE 2007	68276.2009.Non Key	39845.2014.Non Key	<b>65080 John Alden Life</b>	65595.2017.Key
GE 2008	68276.2010.Key	39845.2015.Key	65080.2009.Key	65595.2017.Non-Key
GE 2009	68276.2010.Non Key	39845.2015.Non Key	65080.2009.Non Key	65595.2018.Key
GE 2010	68276.2011.Key	39845.2016.Key	65080.2010.Key	65595.2018.Non Key
GE 2011	68276.2011.Non Key	39845.2016.Non Key	65080.2010.Non Key	<b>65935 Mass Mutual Life</b>
GE 2012	68276.2012.Key	39845.2017.Key	65080.2011.Key	65935.2009.Key
GE 2013	68276.2012.Non Key	39845.2017.Non Key	65080.2011.Non Key	65935.2009.Non Key
GE 2014	68276.2013.Key	39845.2018.Key	65080.2012.Key	65935.2010.Key
GE 2015	68276.2013.Non Key	39845.2018.Non Key	65080.2013.Key	65935.2010.Non Key
GE 2016	68276.2014.Key	<b>Westport Subsidiaries</b>	65080.2013.Non Key	65935.2011.Key
GE 2017	68276.2014.Non Key	<b>Statutory Financials:</b>	65080.2014.Key	65935.2011.Non Key
GE 2018	68276.2015.Key	<b>29700 Westport</b>	65080.2014.Non Key	65935.2012.Key
<b>GE Insurance Carriers</b>	68276.2015.Non-Key	29700.2017.Key	65080.2015.Key	65935.2012.Non Key
<b>Statutory Financials:</b>	68276.2016.Key	29700.2017.Non Key	65080.2015.Non Key	65935.2013.Key
<b>62596 Union Fidelity Life</b>	68276.2016.Non_key	29874.2017.Key	65080.2016.Key	65935.2013.Non Key
62596.2009.Key	68276.2017.Key	29874.2017.Non Key	65080.2016.Non Key	65935.2014.Key
62596.2009.Non Key	68276.2017.Non-Key	34916.2017.Key	65080.2017.Key	65935.2014.Non Key
62596.2010.Key	68276.2018.Key	<b>60895 American United Life</b>	65080.2017.Non Key	65935.2015.Key
62596.2010.Non Key	68276.2018.Non Key	60895.2009.Key	65080.2018.Key	65935.2015.Non Key
62596.2011.Key	<b>GE Presentations 2019:</b>	60895.2009.Non Key	65080.2018.Non Key	65935.2016.Key
62596.2011.Non Key	GE_Capital_Insurance_Teach-	60895.2010.Key	<b>65595 Lincoln Benefit Life</b>	65935.2016.Non-Key
62596.2012.Key	In_Presentation	60895.2010.Non Key	65595.2009.Key	65935.2017.Key
62596.2012.Non Key	GE_Capital_Insurance_Teach-	60895.2011.Key	65595.2009.Non Key	65935.2017.Non-Key
62596.2013.Key	In_Transcript	60895.2011.Non Key	65595.2010.Key	65935.2018.Key
62596.2013.Non Key	ge_webcast_presentation_03142019	60895.2012.Key	65595.2010.Non Key	65935.2018.Non Key
62596.2014.Key	ge_webcast_supplemental_03142019	60895.2012.Non Key	<b>68195 Provident Life</b>	<b>68195 Provident Life</b>
62596.2014.Non Key	ge_webcast_transcript_03142019	60895.2013.Key	65595.2011.Key	68195.2009.Key
62596.2015.Key		60895.2013.Non Key	65595.2011.Non Key	68195.2009.Non Key
		60895.2014.Key	65595.2012.Key	

# Resources (cont'd)

<b>68195 Provident Life (cont'd)</b>	<b>90611 Allianz Life (cont'd)</b>	<b>Large LTC Providers – 2018</b>	<b>LTC GAAP STAT Benchmark</b>	<b>Additional Documents</b>
68195.2010.Key	90611.2012.Key	<b>Statutory Financials:</b>	<b>CNO</b>	Relevant GE 8-K's
68195.2010.Non Key	90611.2012.Non Key	20443.2018.Key	INV_PRES_Q4_2018_Final	2018 GE Quarterly Earnings Transcripts
68195.2011.Key	90611.2013.Key	20443.2018.Non Key	<b>Genworth</b>	3/7/19 GE 2019 Outlook Call
68195.2011.Non Key	90611.2013.Non Key	25178.2018.Key	GNW-LTC-Ins.-Claim-Reserve-Nov-6-2014	3/7/19 GE Insurance Teach-In Pres.
68195.2012.Key	90611.2014.Key	25178.2018.Non Key	<b>Prudential</b>	8/4/09 SEC v. General Electric Complaint
68195.2012.Non Key	90611.2014.Non Key	56014.2018.Key	Prudential Ins Co 10K _ Inv. Pres.	2010-2018 United Technologies 10-K's
68195.2018.Key	90611.2015.Key	56014.2018.Non Key	Pru 2Q18 Earnings Call Presentation	2010-2018 Rolls Royce Annual Reports
68195.2018.Non Key	90611.2015.Non-Key	65005.2018.Key	Prudential 2016 10K	2018 Annual Reports American, Delta,
<b>69116 The State Life Ins</b>	<b>90611.2016.Key</b>	65005.2018.Non Key	Prudential 2017 10K	JetBlue, Southwest & United
69116.2009.Key	90611.2016.Non_key	65838.2018.Key	Prudential 2018 10K	2017-2018 Air Lease Corp. Annual
69116.2009.Non Key	90611.2017.Key	65838.2018.Non Key	Prudential Ins Co Stats Key	Reports
69116.2010.Key	90611.2017.Non-Key	65978.2018.Key	68241.2016.LAN.PK.O.M.3257330	2018 Air Castle 10-K
69116.2010.Non Key	90611.2018.Key	65978.2018.Non Key	68241.2016.LAN.PK.O.S.3257389	2018 Fly Leasing Annual Report
69116.2010.Non Key	90611.2018.Non Key	66915.2018.Key	68241.2017.LAN.PK.O.M.3469629	9/10 Practices for Preparing Health
69116.2011.Key	<b>91898 LifeCare Assurance</b>	66915.2018.Non Key	68241.2017.LAN.PK.O.S.3469661	Contract Reserves, Am. Acad. of Actuaries
69116.2011.Non Key	91898.2009.Key	68241.2018.Key	68241.2018.LAN.PK.O.M.3666390	4/17 Credit Suisse U.S. Life Ins. Review
69116.2012.Key	91898.2009.Non Key	68241.2018.Non Key	68241.2018.LAN.PK.O.S.3666950	8/18 FASB Accounting Standards Update
69116.2012.Non Key	91898.2010.Key	68560.2018.Key	<b>Unum</b>	8/18 EY To the Point: FASB Changes ...
69116.2013.Key	91898.2010.Non Key	68560.2018.Non Key	Unum Stats Key _ Inv. Presentation	2/19 Touchstone v. GE Complaint
69116.2013.Non Key	91898.2011.Key	69000.2018.Key	62235.2016.LAN.PK.O.M.3246500	4/19 JP Morgan GE Research Report
69116.2014.Key	91898.2011.Non Key	69000.2018.Non Key	62235.2016.LAN.PK.O.S.3250919	2014 S.O.A. Overview of U.S. LTC
69116.2014.Non Key	91898.2012.Key	70025.2018.Key	62235.2017.LAN.PK.O.M.3458829	Probability of Death, VBT MNS ANB
69116.2015.Key	91898.2012.Non Key	70025.2018.Non Key	62235.2017.LAN.PK.O.S.3461370	9/18 FASB Statement of Financial
69116.2015.Non-Key	91898.2013.Key	71412.2018.Key	62235.2018.LAN.PK.O.M.3646953	Accounting Concepts No. 8
69116.2016.Key	91898.2013.Non Key	71412.2018.Non Key	62235.2018.LAN.PK.O.S.3648363	12/18 EY, Financial Reporting
69116.2016.Non-Key	91898.2013.Non Key	72990.2018.Key	64297.2016.LAN.PK.O.M.3246598	Developments: A Comprehensive Guide,
69116.2017.Key	91898.2014.Key	72990.2018.Non Key	64297.2016.LAN.PK.O.S.3251003	5/15 EY Center for Board Matters
69116.2017.Non-Key	91898.2014.Non Key	86231.2018.Key	64297.2017.LAN.PK.O.M.3458389	5/16 NAIC, The State of LTC Insurance
69116.2018.Key	91898.2015.Key	86231.2018.Non Key	64297.2017.LAN.PK.O.S.3461412	2018 Safran Registration Document
69116.2018.Non Key	91898.2015.Non Key	87726.2018.Key	64297.2018.LAN.PK.O.M.3646229	2017 BHGE 10-K
<b>90611 Allianz Life</b>	91898.2016.Key	87726.2018.Non Key	64297.2018.LAN.PK.O.S.3646300	2018 BHGE 10-K
90611.2009.Key	91898.2016.Non Key	93610.2018.Key	68195.2016.LAN.PK.A.M.3375587	
90611.2009.Non Key	91898.2017.Key	93610.2018.Non Key	68195.2016.LAN.PK.O.M.3246849	
90611.2010.Key	91898.2017.Non-Key		68195.2017.LAN.PK.O.M.3459769	
90611.2010.Non Key	91898.2018.Key		68195.2018.LAN.PK.O.M.3647184	
90611.2011.Key	91898.2018.Non Key		9/18 UNUM LTC Reserve Analysis Pres.	
90611.2011.Non Key				

