

Ally Financial Inc.
Form 10-Q
May 01, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2014, or

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

For the transition period from _____ to _____

Commission file number: 1-3754

ALLY FINANCIAL INC.

(Exact name of registrant as specified in its charter)

Delaware

38-0572512

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

200 Renaissance Center

P.O. Box 200, Detroit, Michigan

48265-2000

(Address of principal executive offices)

(Zip Code)

(866) 710-4623

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing for the past 90 days.

Yes ☒ No ☐

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for a shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

At April 30, 2014, the number of shares outstanding of the Registrant's common stock was 479,767,540 shares.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Statement of Comprehensive Income (unaudited)

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	Three months ended March 31,	
(\$ in millions)	2014	2013
Financing revenue and other interest income		
Interest and fees on finance receivables and loans	\$1,107	\$1,135
Interest on loans held-for-sale	—	16
Interest and dividends on available-for-sale investment securities	95	68
Interest-bearing cash	3	3
Operating leases	870	734
Total financing revenue and other interest income	2,075	1,956
Interest expense		
Interest on deposits	163	164
Interest on short-term borrowings	15	16
Interest on long-term debt	534	701
Total interest expense	712	881
Depreciation expense on operating lease assets	542	435
Net financing revenue	821	640
Other revenue		
Servicing fees	9	82
Servicing asset valuation and hedge activities, net	—	(201)
Total servicing income (loss), net	9	(119)
Insurance premiums and service revenue earned	241	259
Gain on mortgage and automotive loans, net	—	38
Loss on extinguishment of debt	(39)	—
Other gain on investments, net	43	51
Other income, net of losses	67	157
Total other revenue	321	386
Total net revenue	1,142	1,026
Provision for loan losses	137	131
Noninterest expense		
Compensation and benefits expense	254	285
Insurance losses and loss adjustment expenses	68	115
Other operating expenses	391	558
Total noninterest expense	713	958
Income (loss) from continuing operations before income tax expense (benefit)	292	(63)
Income tax expense (benefit) from continuing operations	94	(123)
Net income from continuing operations	198	60
Income from discontinued operations, net of tax	29	1,033
Net income	227	1,093
Other comprehensive income (loss), net of tax	92	(317)
Comprehensive income	\$319	\$776

Statement continues on the next page.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Statement of Comprehensive Income (unaudited)

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	Three months ended March 31,	
	2014	2013
(\$ in millions, except per share data)		
Net income attributable to common shareholders		
Net income from continuing operations	\$198	\$60
Preferred stock dividends — U.S. Department of the Treasury	—	(133)
Preferred stock dividends	(68)	(67)
Net income (loss) from continuing operations attributable to common shareholders	130	(140)
Income from discontinued operations, net of tax	29	1,033
Net income attributable to common shareholders	\$159	\$893
Basic weighted-average common shares outstanding	479,767,540	412,600,700
Diluted weighted-average common shares outstanding (a)	479,767,540	412,600,700
Basic earnings per common share		
Net income (loss) from continuing operations	\$0.27	\$(0.34)
Income from discontinued operations, net of tax	0.06	2.50
Net income	\$0.33	\$2.16
Diluted earnings per common share (a)		
Net income (loss) from continuing operations	\$0.27	\$(0.34)
Income from discontinued operations, net of tax	0.06	2.50
Net income	\$0.33	\$2.16

Due to the antidilutive effect of converting the Fixed Rate Cumulative Mandatorily Convertible Preferred Stock into common shares for the three months ended March 31, 2013 and the net loss from continuing operations (a) attributable to common shareholders for the three months ended March 31, 2013, net income (loss) from continuing operations attributable to common shareholders and basic weighted-average common shares outstanding were used to calculate basic and diluted earnings per share.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Balance Sheet (unaudited)

Ally Financial Inc. • Form 10-Q

(\$ in millions, except share data)	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents		
Noninterest-bearing	\$ 1,342	\$ 1,315
Interest-bearing	4,551	4,216
Total cash and cash equivalents	5,893	5,531
Investment securities	16,327	17,083
Loans held-for-sale, net (\$3 and \$16 fair value-elected)	43	35
Finance receivables and loans, net		
Finance receivables and loans, net (\$12 and \$1 fair value-elected)	99,624	100,328
Allowance for loan losses	(1,192)	(1,208)
Total finance receivables and loans, net	98,432	99,120
Investment in operating leases, net	18,187	17,680
Premiums receivable and other insurance assets	1,639	1,613
Other assets	7,390	9,589
Assets of operations held-for-sale	541	516
Total assets	\$ 148,452	\$ 151,167
Liabilities		
Deposit liabilities		
Noninterest-bearing	\$ 71	\$ 60
Interest-bearing	55,296	53,290
Total deposit liabilities	55,367	53,350
Short-term borrowings	5,163	8,545
Long-term debt	68,295	69,465
Interest payable	893	888
Unearned insurance premiums and service revenue	2,312	2,314
Accrued expenses and other liabilities	1,963	2,397
Total liabilities	133,993	136,959
Equity		
Common stock and paid-in capital (\$0.01 par value, shares authorized 479,811,490; issued and outstanding 479,767,540)	20,939	20,939
Preferred stock	1,255	1,255
Accumulated deficit	(7,551)	(7,710)
Accumulated other comprehensive loss	(184)	(276)
Total equity	14,459	14,208
Total liabilities and equity	\$ 148,452	\$ 151,167

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Balance Sheet (unaudited)

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The assets of consolidated variable interest entities, presented based upon the legal transfer of the underlying assets in order to reflect legal ownership, that can be used only to settle obligations of the consolidated variable interest entities and the liabilities of these entities for which creditors (or beneficial interest holders) do not have recourse to our general credit were as follows.

(\$ in millions)	March 31, 2014	December 31, 2013
Assets		
Finance receivables and loans, net		
Finance receivables and loans, net	\$31,849	\$32,265
Allowance for loan losses	(192)	(174)
Total finance receivables and loans, net	31,657	32,091
Investment in operating leases, net	7,036	4,620
Other assets	1,857	3,436
Total assets	\$40,550	\$40,147
Liabilities		
Short-term borrowings	\$250	\$250
Long-term debt	25,160	24,147
Accrued expenses and other liabilities	39	43
Total liabilities	\$25,449	\$24,440

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Statement of Changes in Equity (unaudited)

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(\$ in millions)	Common stock and paid-in capital	Mandatorily convertible preferred stock held by U.S. Department of the Treasury	Preferred stock	Accumulated deficit	Accumulated other comprehensive income (loss)	Total equity
Balance at January 1, 2013	\$19,668	\$5,685	\$1,255	\$(7,021)	) \$311	\$19,898
Net income				1,093		1,093
Preferred stock dividends — U.S. Department of the Treasury				(133)	)	(133)
Preferred stock dividends				(67)	)	(67)
Other comprehensive loss, net of tax					(317)	) (317)
Balance at March 31, 2013	\$19,668	\$5,685	\$1,255	\$(6,128)	) \$(6)	) \$20,474
Balance at January 1, 2014	\$20,939	\$—	\$1,255	\$(7,710)	) \$(276)	) \$14,208
Net income				227		227
Preferred stock dividends				(68)	)	(68)
Other comprehensive income, net of tax					92	92
Balance at March 31, 2014	\$20,939	\$—	\$1,255	\$(7,551)	) \$(184)	) \$14,459

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Statement of Cash Flows (unaudited)

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Three months ended March 31, (\$ in millions)	2014	2013
Operating activities		
Net income	\$227	\$1,093
Reconciliation of net income to net cash provided by operating activities		
Depreciation and amortization	738	657
Changes in fair value of mortgage servicing rights	—	90
Provision for loan losses	137	158
Gain on sale of loans, net	—	(38)
Net gain on investment securities	(43)	(53)
Loss on extinguishment of debt	39	—
Originations and purchases of loans held-for-sale	—	(5,759)
Proceeds from sales and repayments of loans held-for-sale	13	7,481
Impairment and settlement related to Residential Capital, LLC	(26)	—
Gain on sale of subsidiaries, net	—	(888)
Net change in		
Deferred income taxes	68	(116)
Interest payable	5	44
Other assets	191	1,329
Other liabilities	(368)	(1,259)
Other, net	(49)	(485)
Net cash provided by operating activities	932	2,254
Investing activities		
Purchases of available-for-sale securities	(907)	(4,626)
Proceeds from sales of available-for-sale securities	1,354	1,543
Proceeds from maturities and repayment of available-for-sale securities	592	1,604
Net decrease (increase) in finance receivables and loans	492	(42)
Purchases of operating lease assets	(2,360)	(2,352)
Disposals of operating lease assets	1,285	641
Proceeds from sale of business units, net (a)	—	2,829
Net change in restricted cash	1,580	1,067
Other, net	111	41
Net cash provided by investing activities	2,147	705

Statement continues on the next page.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Statement of Cash Flows (unaudited)

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Three months ended March 31, (\$ in millions)	2014	2013
Financing activities		
Net change in short-term borrowings	(3,384)	518
Net increase in deposits	2,017	2,360
Proceeds from issuance of long-term debt	9,402	4,253
Repayments of long-term debt	(10,683)	(11,445)
Dividends paid	(68)	(200)
Net cash used in financing activities	(2,716)	(4,514)
Effect of exchange-rate changes on cash and cash equivalents	(1)	67
Net increase (decrease) in cash and cash equivalents	362	(1,488)
Adjustment for change in cash and cash equivalents of operations held-for-sale (a) (b)	—	1,412
Cash and cash equivalents at beginning of year	5,531	7,513
Cash and cash equivalents at March 31,	\$5,893	\$7,437
Supplemental disclosures		
Cash paid for		
Interest	\$664	\$1,026
Income taxes	(6)	37
Other disclosures		
Proceeds from sales and repayments of mortgage loans held-for-investment originally designated as held-for-sale	7	10

(a) The amount at March 31, 2013, is net of cash and cash equivalents of \$905 million of business units at the time of disposition.

Cash flows of discontinued operations are reflected within operating, investing, and financing activities in the (b) Condensed Consolidated Statement of Cash Flows. The cash balance of these operations is reported as assets of operations held-for-sale on the Condensed Consolidated Balance Sheet.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Notes to Condensed Consolidated Financial Statements (unaudited)

Ally Financial Inc. • Form 10-Q

1. Description of Business, Basis of Presentation, and Changes in Significant Accounting Policies

Ally Financial Inc. (formerly GMAC Inc. and referred to herein as Ally, we, our, or us) is a leading, independent, diversified, financial services firm. Founded in 1919, we are a leading automotive financial services company with over 90 years of experience, providing a broad array of financial products and services to automotive dealers and their customers. We operate as a financial holding company and a bank holding company. Our banking subsidiary, Ally Bank, is an indirect wholly owned subsidiary of Ally Financial Inc. and a leading franchise in the growing direct (internet, telephone, mobile, and mail) banking market.

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and that affect income and expenses during the reporting period. In developing the estimates and assumptions, management uses all available evidence; however, actual results could differ.

The Condensed Consolidated Financial Statements at March 31, 2014, and for the three months ended March 31, 2014, and 2013, are unaudited but reflect all adjustments that are, in management's opinion, necessary for the fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements (and the related notes) included in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed on March 3, 2014, with the U.S. Securities and Exchange Commission (SEC). Initial Public Offering of Common Stock, Stock Split, and Changes in Number of Shares Authorized

In April 2014, we completed an initial public offering (IPO) of 95 million shares of common stock at \$25 per share. Proceeds from the offering amounted to \$2.4 billion, which were obtained by the U.S. Department of the Treasury (Treasury) as the single selling stockholder. In connection with the IPO, we effected a 310-for-one stock split on shares of our common stock, \$0.01 par value per share. Accordingly, all references in the Condensed Consolidated Financial Statements to share and per share amounts relating to common stock have been adjusted, on a retroactive basis, to recognize the 310-for-one stock split. In addition, on April 9, 2014, we increased the number of shares authorized for issuance of common stock to 1.1 billion and decreased the number of shares authorized for issuance of Series A Preferred Stock to approximately 41 million. The changes in the number of shares authorized will be reflected in the Condensed Consolidated Financial Statements in future reporting periods.

Significant Accounting Policies

Income Taxes

In calculating the provision for interim income taxes, in accordance with Accounting Standards Codification (ASC) 740, Income Taxes, we apply an estimated annual effective tax rate to year-to-date ordinary income. At the end of each interim period, we estimate the effective tax rate expected to be applicable for the full fiscal year. This method differs from that described in Note 1 to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K, which describes our annual significant income tax accounting policy and related methodology.

Recently Adopted Accounting Standards

Liabilities — Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (ASU 2013-04)

As of January 1, 2014, we adopted ASU 2013-04. The guidance within the ASU requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following: (a) The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The amendments were effective retrospectively for all arrangements within its scope. It further requires an entity to disclose the nature and amount of the obligation as well as other

information about those obligations. The adoption of this guidance did not have a material effect on our consolidated financial condition or results of operations.

Foreign Currency Matters — Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05)

As of January 1, 2014, we adopted ASU 2013-05. The guidance within the ASU closes diversity in practice in this area and requires a reporting entity that ceases to have a controlling financial interest, in a subsidiary or group of assets or a business, within a foreign entity to release any related Cumulative Translation Adjustment (CTA) into net income. The CTA should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For an equity method investment that is a foreign entity, a pro rata portion of the CTA should be released into net income upon a partial sale of such an investment. This ASU further clarifies that the sale of an investment in a foreign entity includes both events that result in the loss of a controlling financial interest in a foreign entity, irrespective of any retained investment, and events that result in step acquisition under which an acquirer obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. Under these circumstances, the CTA should be released into net income upon their occurrence. The amendments are to be applied prospectively for all transactions within its scope. Since the guidance is

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Notes to Condensed Consolidated Financial Statements (unaudited)

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prospective and we have previously sold or exited substantially all of our international businesses and released the related CTA upon those dispositions, the implementation will not have a material effect on our consolidated financial condition or results of operations.

Income Taxes — Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11)

As of January 1, 2014, we adopted ASU 2013-11. The guidance within the ASU closes diversity in practice and requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The guidance further includes an exception that if a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available to settle any additional income taxes that would result from the disallowance of a tax position at the reporting date or the tax law of the applicable jurisdiction does not require the entity to use them and the entity does not intend to use them, the unrecognized tax benefit for such purpose should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments are to be applied prospectively to all unrecognized tax benefits that exist at the effective date. The adoption of this guidance did not have a material effect to our consolidated financial condition or results of operations.

Investments — Accounting for Investments in Qualified Affordable Housing Projects (ASU 2014-01)

As of January 1, 2014, we adopted ASU 2014-01. The amendments in this ASU allow an entity to make an accounting policy election to account for investments in qualified affordable housing projects using a proportional amortization method, if certain conditions are met. Under the election, the entity would amortize the initial cost of the investment in proportion to the tax credits and other benefits received while recognizing the net investment performance in the statement of comprehensive income as a component of income tax expense. The amendments are to be applied retrospectively to all periods presented. We have elected to utilize the proportional amortization method for qualifying affordable housing investments and therefore will be presenting the amortization and tax impacts of such investments as a component income tax expense under the proportional amortization method. The adoption of this guidance did not have a material effect to our consolidated financial condition or results of operations.

Recently Issued Accounting Standards

Receivables — Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (ASU 2014-04)

In January 2014, the FASB issued ASU 2014-04. The amendments in this ASU clarify the timing for which an entity should reclassify a loan that has been foreclosed or where an in substance repossession has occurred to real estate owned. The guidance requires such reclassification to occur when the entity obtains legal title upon completion of foreclosure or the borrower conveys all interest in the residential real estate property to the entity to satisfy the loan through completion of a deed in lieu of foreclosure or similar legal agreement. In addition, the ASU clarifies that redemption rights of the borrower should be ignored for purposes of determining whether legal title has transferred. The amendments are effective for us beginning on January 1, 2015. The amendments can be applied using either a modified retrospective or prospective basis. Under the modified retrospective approach, the entity should record a cumulative-effect adjustment to residential consumer mortgage loans and residential real estate owned as of the beginning of the annual period for which the amendments are effective. Early adoption is permitted. Management is assessing the impact of the adoption of this guidance.

2. Discontinued and Held-for-sale Operations

Discontinued Operations

We classify operations as discontinued when operations and cash flows will be eliminated from our ongoing operations and we do not expect to retain any significant continuing involvement in their operations after the respective sale transactions. For all periods presented, the operating results for these discontinued operations have

been removed from continuing operations and presented separately as discontinued operations, net of tax, in the Condensed Consolidated Statement of Comprehensive Income. The Notes to the Condensed Consolidated Financial Statements have been adjusted to exclude discontinued operations unless otherwise noted.

Select Mortgage Operations

During the first quarter of 2013, the operations of ResCap were classified as discontinued.

Select Insurance Operations

During the second quarter of 2013, we sold our Mexican insurance business, ABA Seguros. During the first quarter of 2013, we completed the sale of our U.K.-based operations.

Select Automotive Finance Operations

During the fourth quarter of 2012, we committed to sell our automotive finance operations in Europe and Latin America to General Motors Financial Company, Inc. (GM Financial). On the same date, we entered into an agreement with GM Financial to acquire our 40% interest in a motor vehicle finance joint venture in China. During the second quarter of 2013, we completed the sale of our operations in Europe and the majority of Latin America. The transaction included European operations in Germany, the United Kingdom, Italy, Sweden, Switzerland, Austria, Belgium, France and the Netherlands, and Latin American operations in Mexico, Chile, and Colombia. On October 1,

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2013, we completed the sale of the remaining Latin American operations in Brazil. We expect to complete the sale of the joint venture in China during 2014. If required regulatory approvals related to this sale are not received by July 1, 2014, subject to certain limited exceptions, and if this date is not extended, either party would have the right to terminate the sale.

During the first quarter of 2013, we sold our Canadian automotive finance operations, Ally Credit Canada Limited and ResMor Trust.

Select Corporate and Other Operations

During the fourth quarter of 2012, we ceased operations at our Commercial Finance Group's European division and classified it as discontinued.

Select Financial Information

Select financial information of discontinued operations is summarized below. The pretax income or loss, including direct costs to transact a sale, includes any impairment recognized to present the operations at the lower-of-cost or fair value. Fair value was based on the estimated sales price, which could differ from the ultimate sales price due to price volatility, changing interest rates, changing foreign-currency rates, and future economic conditions.

(\$ in millions)	Three months ended March 31,	
	2014	2013
Select Mortgage operations		
Total net revenue	\$—	\$—
Pretax loss including direct costs to transact a sale (a) (b)	(2	) (20
Tax expense (c)	—	16
Select Insurance operations		
Total net revenue	\$—	\$148
Pretax income including direct costs to transact a sale (a)	—	28
Tax expense (c)	—	1
Select Automotive Finance operations		
Total net revenue	\$33	\$286
Pretax income including direct costs to transact a sale (a)	30	1,042
Tax benefit (c)	(1	) (1
Select Corporate and Other operations		
Total net revenue	\$—	\$—
Pretax loss	—	(1
Tax expense	—	—

(a)Includes certain treasury and other corporate activity recognized by Corporate and Other.

(b)Includes the results of ResCap.

(c)Includes certain income tax activity recognized by Corporate and Other.

Held-for-sale Operations

The assets of operations held-for-sale are summarized below.

March 31, 2014 (\$ in millions)	Select Automotive Finance operations (a)
Assets	
Other assets	\$541
Total assets	\$541
December 31, 2013	

Assets	
Other assets	\$516
Total assets	\$516
(a) Includes our joint venture in China that is being sold to GM Financial.	

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Notes to Condensed Consolidated Financial Statements (unaudited)

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3. Other Income, Net of Losses

Details of other income, net of losses, were as follows.

	Three months ended March 31,	
(\$ in millions)	2014	2013
Remarketing fees	\$28	\$20
Late charges and other administrative fees	23	23
Mortgage processing fees and other mortgage income	—	79
Other, net	16	35
Total other income, net of losses	\$67	\$157

4. Other Operating Expenses

Details of other operating expenses were as follows.

	Three months ended March 31,	
(\$ in millions)	2014	2013
Insurance commissions	\$90	\$92
Technology and communications	85	71
Advertising and marketing	29	35
Lease and loan administration	28	81
Professional services	28	48
Regulatory and licensing fees	27	33
Premises and equipment depreciation	19	20
Vehicle remarketing and repossession	18	14
Occupancy	11	11
State and local non-income taxes	10	10
Mortgage representation and warranty obligation, net	1	83
Other	45	60
Total other operating expenses	\$391	\$558

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Notes to Condensed Consolidated Financial Statements (unaudited)

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5. Investment Securities

Our portfolio of securities includes bonds, equity securities, asset- and mortgage-backed securities, interests in securitization trusts, and other investments. The cost, fair value, and gross unrealized gains and losses on available-for-sale securities were as follows.

(\$ in millions)	March 31, 2014				December 31, 2013			
	Amortized cost	Gross gains	unrealized losses	Fair value	Amortized cost	Gross gains	unrealized losses	Fair value
Available-for-sale securities								
Debt securities								
U.S. Treasury and federal agencies	\$1,293	\$1	\$(46)	) \$1,248	\$1,495	\$1	\$(69)	) \$1,427
U.S. States and political subdivisions	331	7	—	) 338	316	—	(1)	) 315
Foreign government	275	6	(1)	) 280	287	4	(3)	) 288
Mortgage-backed residential (a)	10,475	54	(285)	) 10,244	11,131	49	(398)	) 10,782
Mortgage-backed commercial	61	1	—	) 62	39	—	—	) 39
Asset-backed	2,121	15	(2)	) 2,134	2,207	15	(3)	) 2,219
Corporate debt	1,055	30	(2)	) 1,083	1,052	23	(6)	) 1,069
Total debt securities	15,611	114	(336)	) 15,389	16,527	92	(480)	) 16,139
Equity securities	915	46	(23)	) 938	898	74	(28)	) 944
Total available-for-sale securities (b)	\$16,526	\$160	\$(359)	) \$16,327	\$17,425	\$166	\$(508)	) \$17,083

(a) Residential mortgage-backed securities include agency-backed bonds totaling \$7,647 million and \$8,266 million at March 31, 2014, and December 31, 2013, respectively.

Certain entities related to our Insurance operations are required to deposit securities with state regulatory authorities. These deposited securities totaled \$15 million and \$15 million at March 31, 2014, and December 31, 2013, respectively.

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The maturity distribution of available-for-sale debt securities outstanding is summarized in the following tables.

Prepayments may cause actual maturities to differ from scheduled maturities.

	Total		Due in one year or less		Due after one year through five years		Due after five years through ten years		Due after ten years (a)	
(\$ in millions)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
March 31, 2014										
Fair value of available-for-sale debt securities (b)										
U.S. Treasury and federal agencies	\$1,248	1.3 %	\$9	3.0 %	\$573	1.2 %	\$666	1.4 %	\$—	— %
U.S. States and political subdivisions	338	3.4	42	1.9	10	1.2	103	2.7	183	4.3
Foreign government	280	2.8	29	2.9	90	2.5	160	3.0	1	2.8
Mortgage-backed residential	10,244	2.7	—	—	80	2.1	—	3.4	10,164	2.7
Mortgage-backed commercial	62	1.3	—	—	—	—	—	—	62	1.3
Asset-backed	2,134	2.0	76	2.4	1,456	1.9	432	2.0	170	2.6
Corporate debt	1,083	4.2	27	3.2	533	3.1	454	5.2	69	5.8
Total available-for-sale debt securities	\$15,389	2.6	\$183	2.5	\$2,742	1.9	\$1,815	2.6	\$10,649	2.7
Amortized cost of available-for-sale debt securities	\$15,611		\$182		\$2,729		\$1,828		\$10,872	
December 31, 2013										
Fair value of available-for-sale debt securities (b)										
U.S. Treasury and federal agencies	\$1,427	1.3 %	\$9	3.0 %	\$766	1.2 %	\$652	1.3 %	\$—	— %
U.S. States and political subdivisions	315	3.3	39	1.3	10	0.6	102	2.6	164	4.3
Foreign government	288	2.7	18	2.7	105	2.4	164	2.9	1	2.7
Mortgage-backed residential	10,782	2.7	—	—	90	2.1	3	4.2	10,689	2.7
Mortgage-backed commercial	39	1.3	—	—	—	—	—	—	39	1.3
Asset-backed	2,219	2.0	76	2.4	1,483	1.9	491	1.9	169	2.7
Corporate debt	1,069	4.1	24	3.4	547	3.0	430	5.3	68	5.7
Total available-for-sale debt securities	\$16,139	2.5	\$166	2.3	\$3,001	1.9	\$1,842	2.5	\$11,130	2.7
Amortized cost of available-for-sale debt securities	\$16,527		\$165		\$3,000		\$1,882		\$11,480	

(a) Investments with no stated maturities are included as contractual maturities of greater than 10 years. Actual maturities may differ due to call or prepayment options.

(b) Yields on tax-exempt obligations are computed on a tax-equivalent basis.

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The balances of cash equivalents were \$2.0 billion and \$2.4 billion at March 31, 2014, and December 31, 2013, respectively, and were composed primarily of money market accounts and short-term securities, including U.S. Treasury bills.

The following table presents gross gains and losses realized upon the sales of available-for-sale securities and other-than-temporary impairment.

(\$ in millions)	Three months ended March 31,	
	2014	2013
Gross realized gains	\$60	\$70
Gross realized losses	(7	) (11
Other-than-temporary impairment	(10) (8
Other gain on investments, net	\$43	\$51

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The following table presents interest and dividends on available-for-sale securities.

	Three months ended March 31,	
(\$ in millions)	2014	2013
Taxable interest	\$86	\$63
Taxable dividends	5	5
Interest and dividends exempt from U.S. federal income tax	4	—
Interest and dividends on available-for-sale securities	\$95	\$68

Certain available-for-sale securities were sold at a loss in 2014 and 2013 as a result of market conditions within these respective periods (e.g., change in market interest rates or a downgrade in the rating of a debt security). The table below summarizes available-for-sale securities in an unrealized loss position in accumulated other comprehensive income. Based on the methodology described below that was applied to these securities, we believe that the unrealized losses relate to factors other than credit losses in the current market environment. As of March 31, 2014, we did not have the intent to sell the debt securities with an unrealized loss position in accumulated other comprehensive income, and it is not more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. As of March 31, 2014, we had the ability and intent to hold equity securities with an unrealized loss position in accumulated other comprehensive income, and it is not more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. As a result, we believe that the securities with an unrealized loss position in accumulated other comprehensive income are not considered to be other-than-temporarily impaired at March 31, 2014. Refer to Note 1 to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K for additional information related to investment securities and our methodology for evaluating potential other-than-temporary impairments.

	March 31, 2014				December 31, 2013			
	Less than 12 months		12 months or longer		Less than 12 months		12 months or longer	
(\$ in millions)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Available-for-sale securities								
Debt securities								
U.S. Treasury and federal agencies	\$1,227	\$(46)	\$—	\$—	\$1,405	\$(69)	\$—	\$—
U.S. States and political subdivisions	24	—	—	—	212	(1)	—	—
Foreign government	40	(1)	—	—	114	(3)	—	—
Mortgage-backed	6,886	(263)	247	(22)	7,503	(388)	100	(10)
Asset-backed	387	(2)	—	—	407	(3)	1	—
Corporate debt	148	(2)	5	—	310	(6)	3	—
Total temporarily impaired debt securities	8,712	(314)	252	(22)	9,951	(470)	104	(10)
Temporarily impaired equity securities	280	(17)	57	(6)	167	(12)	100	(16)
Total temporarily impaired available-for-sale securities	\$8,992	\$(331)	\$309	\$(28)	\$10,118	\$(482)	\$204	\$(26)

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6. Finance Receivables and Loans, Net

The composition of finance receivables and loans, net, reported at carrying value before allowance for loan losses was as follows.

(\$ in millions)	March 31, 2014	December 31, 2013
Consumer automobile (a)	\$56,775	\$56,417
Consumer mortgage (b)(c)	8,138	8,444
Commercial		
Commercial and industrial		
Automobile	30,062	30,948
Other	1,727	1,664
Commercial Real Estate — Automobile	2,922	2,855
Total commercial	34,711	35,467
Total finance receivables and loans (d)	\$99,624	\$100,328

(a) Includes \$12 million and \$1 million of fair value adjustment for loans in hedge accounting relationships at March 31, 2014, and December 31, 2013, respectively. Refer to Note 19 for additional information.

(b) Includes interest-only mortgage loans of \$1.4 billion and \$1.5 billion at March 31, 2014, and December 31, 2013, respectively, the majority of which are expected to start principal amortization in 2015 or beyond.

(c) Includes consumer mortgages at a fair value of \$1 million at both March 31, 2014, and December 31, 2013, as a result of fair value option election.

(d) Totals are net of unearned income, unamortized premiums and discounts, and deferred fees and costs of \$504 million and \$595 million at March 31, 2014, and December 31, 2013, respectively.

The following tables present an analysis of the activity in the allowance for loan losses on finance receivables and loans.

Three months ended March 31, 2014 (\$ in millions)	Consumer automobile	Consumer mortgage	Commercial	Total
Allowance at January 1, 2014	\$673	\$389	\$146	\$1,208
Charge-offs	(180)	(15)	(1)	(196)
Recoveries	59	3	1	63
Net charge-offs	(121)	(12)	—	(133)
Provision for loan losses	163	(23)	(3)	137
Other	—	(21)	1	(20)
Allowance at March 31, 2014	\$715	\$333	\$144	\$1,192
Allowance for loan losses				
Individually evaluated for impairment	\$23	\$200	\$25	\$248
Collectively evaluated for impairment	692	133	119	944
Loans acquired with deteriorated credit quality	—	—	—	—
Finance receivables and loans at historical cost				
Ending balance	56,775	8,137	34,711	99,623
Individually evaluated for impairment	290	935	173	1,398
Collectively evaluated for impairment	56,480	7,202	34,538	98,220
Loans acquired with deteriorated credit quality	5	—	—	5

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Three months ended March 31, 2013 (\$ in millions)	Consumer automobile	Consumer mortgage	Commercial	Total
Allowance at January 1, 2013	\$575	\$452	\$143	\$1,170
Charge-offs	(142)	(24)	(1)	(167)
Recoveries	49	3	1	53
Net charge-offs	(93)	(21)	—	(114)
Provision for loan losses	107	20	4	131
Other	10	—	—	10
Allowance at March 31, 2013	\$599	\$451	\$147	\$1,197
Allowance for loan losses				
Individually evaluated for impairment	\$22	\$209	\$28	\$259
Collectively evaluated for impairment	575	242	119	936
Loans acquired with deteriorated credit quality	2	—	—	2
Finance receivables and loans at historical cost				
Ending balance	55,014	9,672	34,437	99,123
Individually evaluated for impairment	270	933	1,397	2,600
Collectively evaluated for impairment	54,722	8,739	33,040	96,501
Loans acquired with deteriorated credit quality	22	—	—	22

The following table presents information about significant sales of finance receivables and loans recorded at historical cost and transfers of finance receivables and loans from held-for-investment to held-for-sale.

(\$ in millions)	Three months ended March 31,	
	2014	2013
Consumer mortgage	\$40	\$—
Commercial	—	18
Total sales and transfers	\$40	\$18

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The following table presents an analysis of our past due finance receivables and loans, net, recorded at historical cost reported at carrying value before allowance for loan losses.

(\$ in millions)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total finance receivables and loans
March 31, 2014						
Consumer automobile	\$806	\$163	\$138	\$1,107	\$55,668	\$ 56,775
Consumer mortgage	59	26	115	200	7,937	8,137
Commercial						
Commercial and industrial						
Automobile	—	—	49	49	30,013	30,062
Other	—	—	—	—	1,727	1,727
Commercial real estate —						
Automobile	—	—	5	5	2,917	2,922
Total commercial	—	—	54	54	34,657	34,711
Total consumer and commercial	\$865	\$189	\$307	\$1,361	\$98,262	\$ 99,623
December 31, 2013						
Consumer automobile	\$1,145	\$255	\$157	\$1,557	\$54,860	\$ 56,417
Consumer mortgage	82	31	124	237	8,206	8,443
Commercial						
Commercial and industrial						
Automobile	—	—	36	36	30,912	30,948
Other	—	—	—	—	1,664	1,664
Commercial real estate —						
Automobile	—	—	6	6	2,849	2,855
Total commercial	—	—	42	42	35,425	35,467
Total consumer and commercial	\$1,227	\$286	\$323	\$1,836	\$98,491	\$ 100,327

The following table presents the carrying value before allowance for loan losses of our finance receivables and loans recorded at historical cost on nonaccrual status.

(\$ in millions)	March 31, 2014	December 31, 2013
Consumer automobile	\$329	\$329
Consumer mortgage	208	192
Commercial		
Commercial and industrial		
Automobile	92	116
Other	73	74
Commercial real estate — Automobile	8	14
Total commercial	173	204
Total consumer and commercial finance receivables and loans	\$710	\$725

Management performs a quarterly analysis of the consumer automobile, consumer mortgage, and commercial portfolios using a range of credit quality indicators to assess the adequacy of the allowance for loan losses based on historical and current trends. The tables below present the population of loans by quality indicators for our consumer automobile, consumer mortgage, and commercial portfolios.

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The following table presents performing and nonperforming credit quality indicators in accordance with our internal accounting policies for our consumer finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses. Nonperforming loans include finance receivables and loans on nonaccrual status when the principal or interest has been delinquent for 90 days or when full collection is determined not to be probable. Refer to Note 1 to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K for additional information.

(\$ in millions)	March 31, 2014			December 31, 2013		
	Performing	Nonperforming	Total	Performing	Nonperforming	Total
Consumer automobile	\$56,446	\$329	\$56,775	\$56,088	\$329	\$56,417
Consumer mortgage	7,929	208	8,137	8,251	192	8,443

The following table presents pass and criticized credit quality indicators based on regulatory definitions for our commercial finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses.

(\$ in millions)	March 31, 2014			December 31, 2013		
	Pass	Criticized (a)	Total	Pass	Criticized (a)	Total
Commercial						
Commercial and industrial						
Automobile	\$28,475	\$1,587	\$30,062	\$29,194	\$1,754	\$30,948
Other	1,439	288	1,727	1,388	276	1,664
Commercial real estate —						
Automobile	2,822	100	2,922	2,770	85	2,855
Total commercial	\$32,736	\$1,975	\$34,711	\$33,352	\$2,115	\$35,467

Includes loans classified as special mention, substandard, or doubtful. These classifications are based on regulatory (a) definitions and generally represent loans within our portfolio that have a higher default risk or have already defaulted.

Impaired Loans and Troubled Debt Restructurings**Impaired Loans**

Loans are considered impaired when we determine it is probable that we will be unable to collect all amounts due according to the terms of the loan agreement. For more information on our impaired finance receivables and loans, refer to Note 1 to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K.

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The following table presents information about our impaired finance receivables and loans recorded at historical cost.

(\$ in millions)	Unpaid principal balance	Carrying value before allowance	Impaired with no allowance	Impaired with an allowance	Allowance for impaired loans
March 31, 2014					
Consumer automobile	\$290	\$290	\$—	\$290	\$23
Consumer mortgage	940	935	127	808	200
Commercial					
Commercial and industrial					
Automobile	92	92	57	35	6
Other	73	73	—	73	19
Commercial real estate — Automobile	8	8	7	1	—
Total commercial	173	173	64	109	25
Total consumer and commercial finance receivables and loans	\$1,403	\$1,398	\$191	\$1,207	\$248
December 31, 2013					
Consumer automobile	\$281	\$281	\$—	\$281	\$23
Consumer mortgage	924	919	128	791	199
Commercial					
Commercial and industrial					
Automobile	116	116	57	59	7
Other	74	74	—	74	16
Commercial real estate — Automobile	14	14	9	5	3
Total commercial	204	204	66	138	26
Total consumer and commercial finance receivables and loans	\$1,409	\$1,404	\$194	\$1,210	\$248

The following table presents average balance and interest income for our impaired finance receivables and loans.

Three months ended March 31, (\$ in millions)	2014		2013	
	Average balance	Interest income	Average balance	Interest income
Consumer automobile	\$294	\$4	\$272	\$4
Consumer mortgage	928	8	879	8
Commercial				
Commercial and industrial				
Automobile	104	1	157	2
Other	74	—	57	—
Commercial real estate — Automobile	11	—	38	—
Total commercial	189	1	252	2
Total consumer and commercial finance receivables and loans	\$1,411	\$13	\$1,403	\$14

Troubled Debt Restructurings

Troubled Debt Restructurings (TDRs) are loan modifications where concessions were granted to borrowers experiencing financial difficulties. Numerous initiatives are in place to provide support to our mortgage customers in financial distress, including principal forgiveness, maturity extensions, delinquent interest capitalization, and changes to contractual interest rates. Additionally for automobile loans, we may offer several types of assistance to aid our customers, including extension of the loan maturity date and rewriting the loan terms. Total TDRs recorded at historical cost and reported at carrying value before allowance for loan losses were \$1.3 billion at both March 31,

2014, and December 31, 2013. Refer to Note 1 to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K for additional information.

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The following table presents information related to finance receivables and loans recorded at historical cost modified in connection with a TDR during the period.

Three months ended March 31, (\$ in millions)	2014			2013		
	Number of loans	Pre-modification carrying value before allowance	Post-modification carrying value before allowance	Number of loans	Pre-modification carrying value before allowance	Post-modification carrying value before allowance
Consumer automobile	5,359	\$ 84	\$ 71	5,285	\$ 79	\$ 68
Consumer mortgage	218	49	45	545	169	134
Commercial						
Commercial and industrial						
Automobile	3	23	23	4	25	25
Other	3	48	48	1	33	31
Commercial real estate —						
Automobile	—	—	—	3	11	11
Total commercial	6	71	71	8	69	67
Total consumer and commercial finance receivables and loans	5,583	\$ 204	\$ 187	5,838	\$ 317	\$ 269

The following table presents information about finance receivables and loans recorded at historical cost that have redefaulted during the reporting period and were within 12 months or less of being modified as a TDR. Redefault is when finance receivables and loans meet the requirements for evaluation under our charge-off policy (Refer to Note 1 to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K for additional information) except for commercial finance receivables and loans, where redefault is defined as 90 days past due.

Three months ended March 31, (\$ in millions)	2014			2013		
	Number of loans	Carrying value before allowance	Charge-off amount	Number of loans	Carrying value before allowance	Charge-off amount
Consumer automobile	1,614	\$ 20	\$ 10	1,333	\$ 16	\$ 8
Consumer mortgage	2	1	—	10	2	—
Commercial						
Commercial and industrial —						
Automobile	—	—	—	—	—	—
Commercial real estate — Automobile	—	—	—	—	—	—
Total commercial	—	—	—	—	—	—
Total consumer and commercial finance receivables and loans	1,616	\$ 21	\$ 10	1,343	\$ 18	\$ 8

At March 31, 2014, and December 31, 2013, commercial commitments to lend additional funds to debtors owing receivables whose terms had been modified in a TDR were \$4 million and \$26 million, respectively.

7. Investment in Operating Leases, Net

Investments in operating leases were as follows.

(\$ in millions)	March 31, 2014	December 31, 2013
Vehicles and other equipment	\$21,707	\$21,125
Accumulated depreciation	(3,520)	(3,445)
Investment in operating leases, net	\$18,187	\$17,680

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Depreciation expense on operating lease assets includes remarketing gains and losses recognized on the sale of operating lease assets. The following summarizes the components of depreciation expense on operating lease assets.

	Three months ended March 31,	
(\$ in millions)	2014	2013
Depreciation expense on operating lease assets (excluding remarketing gains)	\$651	