CLEARONE INC
Form 8-K
December 24, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K
CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934
Date of report (Date of earliest event reported): December 20, 2013

ClearOne, Inc.
(Exact name of registrant as specified in its charter)

Utah	001-33660	87-0398877
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

5225 Wiley Post Way, Suite 500, Salt Lake City, Utah	84116
(Address of principal executive offices)	(Zip Code)

(801) 975-7200
(Registrant’s telephone number, including area code)

Not applicable
(Former name or former address, if changed since last report)
Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communication pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events

On December 20, 2013 ClearOne, Inc. entered into an agreement to acquire the Spontania business of Spain-based Dialcom Networks, S.L. Under the terms of this agreement, ClearOne will pay €3.65 million in cash and will not assume any debt or cash. The acquisition is expected to close by the end of first quarter of 2014, subject to customary closing conditions, including applicable regulatory approvals. Spontania is a cloud-based group video conferencing software delivered to enterprise users on software as a service (SaaS) model. Spontania's features include presence and instant messaging, real time voice, video and advanced collaboration services, including capabilities for sharing presentations and media files. With this acquisition, assuming all approvals are obtained as expected, ClearOne expands its video conferencing offering to cater to different market needs with flexible deployment models.

SIGNATURES

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

CLEARONE, INC.

Date: December 24, 2013

By: /s/ Zee Hakimoglu
Zee Hakimoglu
President & Chief Executive Officer

;">

15
Provision for loan losses

102

141

28

302

361

16
Noninterest expense

Compensation and benefits expense

241

245

2

710

782

9

Insurance losses and loss adjustment expenses

97

85

(14)

353

346

(2)

Other operating expenses

404

432

6

1,213

1,393

13
Total noninterest expense

742

762

3

2,276

2,521

10
Income from continuing operations before income tax expense (benefit)

420

205

105

1,059

282

n/m
Income tax expense (benefit) from continuing operations

127

28

n/m

285

(55
)

n/m
Net income from continuing operations

$
293

$
177

66

$
774

$
337

130
n/m = not meaningful
We earned net income from continuing operations of $293 million and $774 million for the three months and nine months ended September 30, 2014, respectively, compared to $177 million and $337 million for the three months and nine months ended September 30, 2013, respectively. Net income from continuing operations for the three months and nine months ended September 30, 2014 was favorably impacted by lower funding costs resulting from the maturity and repayment of higher-cost debt, and lower original issue discount (OID) amortization expense related to bond maturities and normal monthly amortization. Additional favorability was due to our Mortgage operations, as results for the nine months ended September 30, 2013 were unfavorably impacted by the valuation of our mortgage servicing rights (MSRs) portfolio, which was sold during the second quarter of 2013. These items were partially offset by higher income tax expense primarily attributable to higher pretax earnings, higher depreciation expense related to higher lease asset balances as a result of strong lease origination volume, and higher weather-related losses at our Insurance operations.
Total financing revenue and other interest income increased $70 million and $284 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. These increases resulted primarily from an increase in operating lease revenue for our Automotive Finance operations driven primarily by higher lease asset balances resulting from strong origination volume and increases in lease remarketing gains driven by strong used vehicle prices and increased termination volume. These increases were partially offset by lower mortgage loan production as a result of the wind-down of our consumer held-for-sale portfolio and runoff of our

held-for-investment portfolio.
Interest expense decreased 15% and 17% for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013, primarily due to lower funding costs as a result of continued deposit growth, the repayment of higher-cost legacy debt, and a decrease in OID amortization expense.

75

Depreciation expense on operating lease assets increased $34 million and $151 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013, primarily due to higher lease asset balances resulting from strong lease origination volume, partially offset by higher lease remarketing gains driven by strong used vehicle prices and increased termination volume.

We earned net servicing income of $6 million and $22 million for the three months and nine months ended September 30, 2014, respectively, compared to net servicing income of $13 million and a net servicing loss of $99 million for the same periods in 2013. The decrease for the three months ended September 30, 2014, was primarily due to lower levels of off-balance sheet automotive retail serviced assets. The increase for the nine months ended September 30, 2014, was primarily due to the completed sales of our agency MSRs portfolio in the second quarter of 2013, partially offset by lower levels of off-balance sheet automotive retail serviced assets.

Gain on mortgage and automotive loans decreased $15 million and $46 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The decreases were primarily related to our decision to cease mortgage-lending production through our direct lending channel, and margins associated with government-sponsored refinancing programs, partially offset by the completed sale of a $40 million student lending portfolio during the second quarter of 2014.

Other gain on investments, net, increased $4 million and decreased $27 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The decrease for the nine months ended September 30, 2014, was primarily due to fewer sales of equity investments.

Other income, net of losses, decreased $15 million and $110 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The decreases were primarily due to lower fee income and net origination revenue related to our exit from consumer mortgage-lending production associated with government-sponsored refinancing programs, and unfavorable derivative activity as a result of changes in rates and their impact on economic hedge positions. These decreases were partially offset by higher remarketing fee income.

The provision for loan losses was $102 million and $302 million for the three months and nine months ended September 30, 2014, respectively, compared to $141 million and $361 million for the same periods in 2013. The decrease for the three months ended September 30, 2014, was primarily due to a reduction in credit losses relative to the previous expectations in our consumer automotive portfolio. The decrease for the nine months ended September 30, 2014, was driven by lower reserve requirements in our Mortgage operations as a result of the continued runoff of legacy mortgage assets, partially offset by growth in our consumer automotive portfolio and the continued execution of our underwriting strategy to originate consumer automotive assets across a broad credit spectrum.

Total noninterest expense decreased 3% and 10% for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The decreases were primarily due to the overall streamlining of the company from strategic actions, including our exit of all non-strategic mortgage-related activities and included lower broker fees from consumer mortgage-lending production associated with government-sponsored refinancing programs, and lower representation and warranty expense, partially offset by higher weather-related losses.

We recognized total income tax expense from continuing operations of $127 million and $285 million for the three months and nine months ended September 30, 2014, respectively, compared to income tax expense of $28 million and an income tax benefit of $55 million for the same periods in 2013. The increase in income tax expense for the three months ended September 30, 2014, compared to the same period in 2013, was driven primarily by tax expense attributable to higher pretax earnings. The increase in income tax expense for the nine months ended September 30, 2014, compared to the same period in 2013, was driven by tax expense attributable to higher pretax earnings and certain tax benefits recorded in the nine months ended September 30, 2013, which did not occur in the nine months ended September 30, 2014, related to the 2013 retroactive reinstatement of the active financing exception by the American Taxpayer Relief Act of 2012 and from a 2013 release of valuation allowance related to the measurement of foreign tax credit carryforwards anticipated to be utilized in the future.

In calculating the continuing operations provision for income taxes, we apply an estimated annual effective tax rate to year-to-date ordinary income on an interim basis. Refer to Note 1 to the Condensed Consolidated Financial Statements for further details.

Dealer Financial Services
Results for Dealer Financial Services are presented by reportable segment, which includes our Automotive Finance and Insurance operations.
Automotive Finance Operations
Results of Operations
The following table summarizes the operating results of our Automotive Finance operations excluding discontinued operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

	Three months ended September 30,			Nine months ended September 30,		
($ in millions)	2014	2013	Favorable/ (unfavorable) % change	2014	2013	Favorable/ (unfavorable) % change
Net financing revenue						
Consumer	$774	$763	1	$2,276	$2,242	2
Commercial	246	246	—	772	795	(3)
Operating leases	899	832	8	2,653	2,354	13
Other interest income	3	5	(40)	8	18	(56)
Total financing revenue and other interest income	1,922	1,846	4	5,709	5,409	6
Interest expense	523	531	2	1,555	1,610	3
Depreciation expense on operating lease assets	549	515	(7)	1,600	1,449	(10)
Net financing revenue	850	800	6	2,554	2,350	9
Other revenue						
Servicing fees	6	13	(54)	22	48	(54)
Gain on automotive loans, net	6	—	100	6	—	100
Other income	57	52	10	167	159	5
Total other revenue	69	65	6	195	207	(6)
Total net revenue	919	865	6	2,749	2,557	8
Provision for loan losses	109	150	27	367	350	(5)
Noninterest expense						
Compensation and benefits expense	112	110	(2)	341	327	(4)
Other operating expenses	283	266	(6)	826	816	(1)
Total noninterest expense	395	376	(5)	1,167	1,143	(2)
Income from continuing operations before income tax expense (benefit)	$415	$339	22	$1,215	$1,064	14
Total assets	$110,937	$108,609	2	$110,937	$108,609	2

Components of net operating lease revenue, included in amounts above, were as follows.

	Three months ended September 30,			Nine months ended September 30,		
($ in millions)	2014	2013	Favorable/ (unfavorable) % change	2014	2013	Favorable/ (unfavorable) % change
Net operating lease revenue						
Operating lease revenue	$899	$832	8	$2,653	$2,354	13
Depreciation expense						
	654	610	(7)	1,982	1,699	(17)

Depreciation expense on operating lease assets (excluding remarketing gains)						
Remarketing gains	(105)	(95)	11	(382)	(250)	53
Total depreciation expense on operating lease assets	549	515	(7)	1,600	1,449	(10)
Total net operating lease revenue	$350	$317	10	$1,053	$905	16

77

Our Automotive Finance operations earned income from continuing operations before income tax expense of $415 million and $1.2 billion for the three months and nine months ended September 30, 2014, respectively, compared to $339 million and $1.1 billion for the three months and nine months ended September 30, 2013, respectively. Results for the three months and nine months ended September 30, 2014 were favorably impacted primarily by higher operating lease revenue driven by continued growth in the operating lease portfolio, and increases in lease remarketing gains driven by strong used vehicles prices and increases in termination volumes. Lease terminations increased 115% and 119% for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. Additionally, results for the three months ended September 30, 2014, were favorably impacted by lower provision for loan losses due to a reduction in credit losses relative to previous expectations. The favorability for the three months and nine months ended September 30, 2014, was partially offset by higher depreciation expense on the growing operating lease portfolio and lower servicing fees.

Consumer financing revenue increased $11 million and $34 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The increases for the three months and nine months ended September 30, 2014, were primarily due to continued growth across all vehicle portfolios, partially offset by lower yields as a result of the competitive market environment for automotive financing. In addition, the increase for the nine months ended September 30, 2014, was partially offset by a decrease in the Chrysler new vehicle portfolio.

Commercial financing revenue remained flat at $246 million and decreased $23 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The decrease for the nine months ended September 30, 2014, was primarily due to lower yields as a result of sharply increased competition in the wholesale marketplace.

Net operating lease revenue increased 10% and 16% for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The increase was primarily due to higher lease asset balances resulting from strong origination volume and higher lease remarketing gains on increased termination volumes, despite the ongoing normalization of used vehicle prices during the quarter. We recognized gains of $105 million and $382 million for the three months and nine months ended September 30, 2014, respectively, compared to gains of $95 million and $250 million for the same periods in 2013. The increases in revenue and lease remarketing gains were partially offset by increases in depreciation expense due to higher lease asset balances resulting from strong lease origination volume.

Servicing fee income decreased $7 million and $26 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013, due to lower levels of off-balance sheet retail serviced assets.

Other income increased $5 million and $8 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The increases were primarily due to higher remarketing fee income driven by increased termination volume.

The provision for loan losses was $109 million and $367 million for the three months and nine months ended September 30, 2014, respectively, compared to $150 million and $350 million for the same periods in 2013. The decrease for the three months ended September 30, 2014, was primarily due to a reduction in credit losses relative to previous expectations. The increase for the nine months ended September 30, 2014, was primarily due to growth in our consumer automotive portfolio and the continued execution of our underwriting strategy to originate consumer assets across a broad credit spectrum.

Automotive Financing Volume

Consumer Automotive Financing Volume

The following tables summarize our new and used vehicle consumer financing volume, including lease, and our share of consumer sales in the United States.

	Consumer automotive financing volume		% Share of manufacturer consumer sales	
Three months ended September 30, (units in thousands)	2014	2013	2014	2013
GM new vehicles	181	167	31	28
Chrysler new vehicles	50	38	11	10
Other non-GM and non-Chrysler new vehicles	33	20		
Used vehicles	155	131		
Total consumer automotive financing volume	419	356		

	Consumer automotive financing volume		% Share of manufacturer consumer sales	
Nine months ended September 30, (units in thousands)	2014	2013	2014	2013
GM new vehicles	491	479	29	29
Chrysler new vehicles	129	167	10	16
Other non-GM and non-Chrysler new vehicles	86	60		
Used vehicles	448	382		
Total consumer automotive financing volume	1,154	1,088		

Consumer automotive financing volume increased during the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The increase for the three months ended September 30, 2014, was a result of an increase across all channels of vehicle originations. The increase for the nine months ended September 30, 2014, was primarily due to growth across all vehicle origination portfolios excluding the Chrysler new channel, which decreased as a result of the expiration of our operating agreement on April 30, 2013.

The following tables present the total U.S. consumer origination dollars and percentage mix by product type.

	Consumer automotive financing originations		% Share of Ally originations	
Three months ended September 30, ($ in millions)	2014	2013	2014	2013
GM new vehicles				
New retail standard	$1,910	$1,692	16	18
New retail subvented	1,805	1,050	15	11
Lease	2,391	2,527	20	26
Total GM new vehicle originations	6,106	5,269		
Chrysler new vehicles				
New retail standard	989	790	9	8
New retail subvented	—	—	—	—
Lease	477	275	4	3
Total Chrysler new vehicle originations	1,466	1,065		
Other new retail vehicles	917	620	8	6
Other lease	161	42	1	1
Used vehicles	3,168	2,591	27	27
Total consumer automotive financing originations	$11,818	$9,587		

79

	Consumer automotive financing originations		% Share of Ally originations	
Nine months ended September 30, ($ in millions)	2014	2013	2014	2013
GM new vehicles				
New retail standard	$5,385	$4,796	17	16
New retail subvented	3,526	3,596	11	12
Lease	7,431	6,561	23	23
Total GM new vehicle originations	16,342	14,953		
Chrysler new vehicles				
New retail standard	2,718	2,788	9	9
New retail subvented	—	390	—	1
Lease	1,099	1,651	4	6
Total Chrysler new vehicle originations	3,817	4,829		
Other new retail vehicles	2,375	1,722	7	6
Other lease	375	110	1	1
Used vehicles	9,041	7,539	28	26
Total consumer automotive financing originations	$31,950	$29,153		

Total consumer automotive financing originations increased $2.2 billion and $2.8 billion for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The increase for the three months ended September 30, 2014, was across all vehicle origination products, as well as select GM incentive programs we benefited from. Other new retail, other lease, and used vehicle originations increased 31% and 26% for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013 due to the continued strategic focus beyond the GM new and Chrysler new markets. The increase for the nine months ended September 30, 2014, was partially offset by a decrease in Chrysler new volume, primarily as a result of lower penetration after the expiration of our operating agreement on April 30, 2013.

For discussion of manufacturing marketing incentives, refer to our Annual Report on Form 10-K for the year ended December 31, 2013, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — Automotive Finance Operations.

Commercial Wholesale Financing Volume

The following tables summarize the average balances of our commercial wholesale floorplan finance receivables of new and used vehicles and share of dealer inventory in the United States.

	Average balance		% Share of manufacturer franchise dealer inventory	
Three months ended September 30, ($ in millions)	2014	2013	2014	2013
GM new vehicles (a)	$16,214	$14,545	63	67
Chrysler new vehicles (a)	7,209	6,166	44	49
Other non-GM and non-Chrysler new vehicles	2,851	2,530		
Used vehicles	3,165	2,947		
Total commercial wholesale finance receivables	$29,439	$26,188		

(a) Share of dealer inventory based on a 4-point average of dealer inventory (excludes in-transit units).

	Average balance		% Share of manufacturer franchise dealer inventory	

Nine months ended September 30, ($ in millions)	2014	2013	2014	2013
GM new vehicles (a)	$16,646	$15,418	64	67
Chrysler new vehicles (a)	7,607	6,681	45	52
Other non-GM and non-Chrysler new vehicles	2,972	2,562		
Used vehicles	3,050	3,003		
Total commercial wholesale finance receivables	$30,275	$27,664		

(a) Share of dealer inventory based on a 10-point average of dealer inventory (excludes in-transit units).

80

Commercial wholesale financing average volume increased during the three months and nine months ended September 30, 2014, compared to the same periods in 2013, primarily due to growing dealer inventories required to support increasing automotive industry sales. Wholesale penetration with GM and Chrysler decreased during the three months and nine months ended September 30, 2014, compared to the same periods in 2013, as a result of increased competition in the wholesale marketplace. These decreases in penetration were partially offset by increases in other non-GM and non-Chrysler volume.

Insurance Operations

Results of Operations

The following table summarizes the operating results of our Insurance operations excluding discontinued operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

	Three months ended September 30,			Nine months ended September 30,		
($ in millions)	2014	2013	Favorable/ (unfavorable) % change	2014	2013	Favorable/ (unfavorable) % change
Insurance premiums and other income						
Insurance premiums and service revenue earned	$246	$251	(2)	$736	$768	(4)
Investment income, net	53	55	(4)	150	190	(21)
Other income	4	3	33	10	11	(9)
Total insurance premiums and other income	303	309	(2)	896	969	(8)
Expense						
Insurance losses and loss adjustment expenses	97	85	(14)	353	346	(2)
Acquisition and underwriting expense						
Compensation and benefits expense	15	15	—	46	46	—
Insurance commissions expense	95	93	(2)	279	278	—
Other expenses	36	33	(9)	107	110	3
Total acquisition and underwriting expense	146	141	(4)	432	434	—
Total expense	243	226	(8)	785	780	(1)
Income from continuing operations before income tax expense (benefit)	$60	$83	(28)	$111	$189	(41)
Total assets	$7,178	$7,323	(2)	$7,178	$7,323	(2)
Insurance premiums and service revenue written	$265	$267	(1)	$775	$773	—
Combined ratio (a)	98.4 %	89.6 %		106.0 %	100.8 %	

(a) Management uses a combined ratio as a primary measure of underwriting profitability. Underwriting profitability is indicated by a combined ratio under 100% and is calculated as the sum of all incurred losses and expenses (excluding interest and income tax expense) divided by the total of premiums and service revenues earned and other fee income.

Our Insurance operations earned income from continuing operations before income tax expense of $60 million and $111 million for the three months and nine months ended September 30, 2014, respectively, compared to $83 million and $189 million for the three months and nine months ended September 30, 2013, respectively. The decrease for the three months ended September 30, 2014, was primarily due to higher weather-related losses, partially offset by lower non-weather losses in line with earned premium. The decrease for the nine months ended September 30, 2014, was primarily due to higher weather-related losses, partially offset by lower non-weather losses in line with earned premium, and lower realized investment gains.

Insurance premiums and service revenue earned was $246 million and $736 million for the three months and nine months ended September 30, 2014, respectively, compared to $251 million and $768 million for the same periods in 2013. The decreases were primarily due to the wind-down of our Canadian personal lines portfolio and slightly lower revenue on U.S. vehicle service products, partially offset by higher earned premium due to higher inventory levels in our wholesale business.

Investment income, net totaled $53 million and $150 million for the three months and nine months ended September 30, 2014, respectively, compared to $55 million and $190 million for the same periods in 2013. The decreases were primarily due to lower realized investment gains, partially offset by decreased other-than-temporary impairment.

Insurance losses and loss adjustment expenses totaled $97 million and $353 million for the three months and nine months ended September 30, 2014, respectively, compared to $85 million and $346 million for the same periods in 2013. The increases were primarily due to higher weather-related losses from severe hailstorms, particularly in the second quarter of 2014, partially offset by lower non-weather-related losses driven by the wind-down of the Canadian personal lines portfolio and lower losses in line with earned premium. This primarily drove the increases in the combined ratio to 98.4% and 106.0% during the three months and nine months ended September 30, 2014, respectively, compared to 89.6% and 100.8% for the three months and nine months ended September 30, 2013, respectively.

The following table shows premium and service revenue written by insurance product.

($ in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Vehicle service contracts				
New retail	$114	$114	$320	$328
Used retail	129	137	386	395
Reinsurance	(41)	(39)	(115)	(106)
Total vehicle service contracts	202	212	591	617
Wholesale	47	42	139	115
Other finance and insurance (a)	16	13	45	41
Total	$265	$267	$775	$773

(a) Other finance and insurance includes Guaranteed Automobile Protection (GAP) coverage, excess wear and tear, and other ancillary products.

Insurance premiums and service revenue written was $265 million and $775 million for the three months and nine months ended September 30, 2014, respectively, compared to $267 million and $773 million for the same periods in 2013. Insurance premiums and service revenue written decreased slightly for the three months ended September 30, 2014, primarily due to lower used volume on vehicle service contracts partially offset by higher wholesale premium driven by non-renewal of our catastrophic reinsurance policy. The slight increase for the nine months ended September 30, 2014, primarily resulted from higher wholesale premium, partially offset by lower vehicle service revenue driven by higher vehicle service reinsurance participation, lower used volume on vehicle service contracts, and an increase in lease originations, which do not translate into vehicle service contracts.

Cash and Investments

A significant aspect of our Insurance operations is the investment of proceeds from premiums and other revenue sources. We use these investments to satisfy our obligations related to future claims at the time these claims are settled. Our Insurance operations have an Investment Committee, which develops guidelines and strategies for these investments. The guidelines established by this committee reflect our risk tolerance, liquidity requirements, regulatory requirements, and rating agency considerations, among other factors.

The following table summarizes the composition of the cash and investment portfolio held at fair value by our Insurance operations.

($ in millions)	September 30, 2014	December 31, 2013
Cash		
Noninterest-bearing cash	$247	$ 166
Interest-bearing cash	1,222	810
Total cash	1,469	976
Available-for-sale securities		
Debt securities		
U.S. Treasury and federal agencies	407	568
U.S. States and political subdivisions	402	315
Foreign government	232	288
Mortgage-backed	1,049	1,102
Asset-backed	26	37
Corporate debt	983	1,069
Total debt securities	3,099	3,379
Equity securities	728	940

Total available-for-sale securities	3,827	4,319
Total cash and securities	$5,296	$5,295

83

Mortgage Operations

Results of Operations

The following table summarizes the operating results for our Mortgage operations excluding discontinued operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

	Three months ended September 30,			Nine months ended September 30,		
($ in millions)	2014	2013	Favorable/ (unfavorable) % change	2014	2013	Favorable/ (unfavorable) % change
Net financing revenue						
Total financing revenue and other interest income	$68	$83	(18)	$217	$298	(27)
Interest expense	59	70	16	182	236	23
Net financing revenue	9	13	(31)	35	62	(44)
Servicing fees	—	—	—	—	66	(100)
Servicing asset valuation and hedge activities, net	—	—	—	—	(213)	100
Total servicing loss, net	—	—	—	—	(147)	100
Gain on mortgage loans, net	—	15	(100)	6	52	(88)
Other income, net of losses	—	4	(100)	7	89	(92)
Total other revenue (loss)	—	19	(100)	13	(6)	n/m
Total net revenue	9	32	(72)	48	56	(14)
Provision for loan losses	(7)	(12)	(42)	(55)	14	n/m
Noninterest expense						
Compensation and benefits expense	3	7	57	9	35	74
Representation and warranty expense	—	22	100	1	103	99
Other operating expenses	16	19	16	52	155	66
Total noninterest expense	19	48	60	62	293	79
(Loss) income from continuing operations before income tax expense (benefit)	$(3)	$(4)	25	$41	$(251)	116
Total assets	$7,402	$8,562	(14)	$7,402	$8,562	(14)

n/m = not meaningful

Our Mortgage operations incurred a loss from continuing operations before income tax expense of $3 million and earned income of $41 million for the three months and nine months ended September 30, 2014, respectively, compared to incurring a loss from continuing operations before income tax expense of $4 million and $251 million for the three months and nine months ended September 30, 2013, respectively. Results for the three months ended September 30, 2014, were favorably impacted by lower noninterest expense, partially offset by lower reserve releases and decreases in gains on mortgage loans due to the exit of non-strategic mortgage-related activities. Favorability during the nine months ended September 30, 2014, was primarily the result of lower noninterest expense driven by our exit in 2013 of all non-strategic mortgage-related activities, including consumer mortgage-lending production associated with government-sponsored refinancing programs, and our agency MSR portfolio, as well as lower provision for loan losses. In addition, results for the nine months ended September 30, 2013, were unfavorably impacted by the valuation of our MSR portfolio, which was sold during the second quarter of 2013, as well as the representation and warranty expense associated with the portfolio.

Net financing revenue was $9 million and $35 million for the three months and nine months ended September 30, 2014, respectively, compared to $13 million and $62 million for the same periods in 2013. The decreases in net financing revenue were primarily due to the wind-down of our consumer held-for-sale portfolio and runoff of our held-for-investment portfolio, partially offset by lower interest expense as a result of lower funding costs.

We earned no net servicing income for the nine months ended September 30, 2014, compared to a net servicing loss of $147 million for the same period in 2013, due to the completed sales of our agency MSR portfolio during the second quarter of 2013.

The net gain on mortgage loans decreased $15 million and $46 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The decreases were primarily related to our decision to cease mortgage-lending production through our direct lending channel, and margins associated with government-sponsored refinancing programs. The decrease for the nine months ended September 30, 2014, was partially offset by the completed sale of a $40 million student lending portfolio during the second quarter of 2014.

Other income, net of losses, was $0 million and $7 million for the three months and nine months ended September 30, 2014, respectively, compared to $4 million and $89 million for the same periods in 2013. The decreases were primarily due to lower fee income and net origination revenue related to our exit from consumer mortgage-lending production associated with government-sponsored refinancing programs.

The provision for loan losses increased $5 million for the three months ended September 30, 2014, and decreased $69 million for the nine months ended September 30, 2014, compared to the same periods in 2013. The increase during the three months ended September 30, 2014, was primarily due to a smaller reserve release for mortgage assets when compared to the same period in 2013. The decrease during the nine months ended September 30, 2014, was primarily due to lower reserve requirements as a result of the continued runoff of legacy mortgage assets, lower net charge-offs in 2014, and improvements in home prices.

Total noninterest expense decreased $29 million and $231 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The decreases were primarily due to our exit of all non-strategic mortgage-related activities, and included lower broker fees from consumer mortgage-lending production associated with government-sponsored refinancing programs, lower compensation and benefits expense driven by the exit of our consumer held-for-sale portfolio strategies, and lower representation and warranty expense.

Corporate and Other

The following table summarizes the activities of Corporate and Other excluding discontinued operations for the periods shown. Corporate and Other primarily consists of Corporate Finance, centralized corporate treasury activities, such as management of the cash and corporate investment securities portfolios, short- and long-term debt, retail and brokered deposit liabilities, derivative instruments, the amortization of the discount associated with new debt issuances and bond exchanges, and the residual impacts of our corporate funds-transfer pricing (FTP) and treasury asset liability management (ALM) activities. Corporate and Other also includes certain equity investments, overhead that was previously allocated to operations that have since been sold or classified as discontinued operations, and reclassifications and eliminations between the reportable operating segments. Corporate Finance provides senior secured commercial-lending products to primarily U.S.-based middle market companies. Effective May 1, 2014, Corporate Finance was aligned under Ally Bank, allowing this business to have a more competitive source of funding.

	Three months ended September 30,			Nine months ended September 30,		
($ in millions)	2014	2013	Favorable/ (unfavorable) % change	2014	2013	Favorable/ (unfavorable) % change
Net financing revenue (loss)						
Total financing revenue and other interest income	$89	$79	13	$273	$203	34
Interest expense						
Original issue discount amortization	51	67	24	149	191	22
Other interest expense	24	104	77	184	462	60
Total interest expense	75	171	56	333	653	49
Net financing revenue (loss) (a)	14	(92)	115	(60)	(450)	87
Other revenue						
Loss on extinguishment of debt	—	(42)	100	(46)	(42)	(10)
Other gain on investments, net	6	—	n/m	22	3	n/m
Other income, net of losses	13	36	(64)	28	71	(61)
Total other revenue (loss)	19	(6)	n/m	4	32	(88)
Total net revenue (loss)	33	(98)	134	(56)	(418)	87
Provision for loan losses	—	3	100	(10)	(3)	n/m
Total noninterest expense (b)	85	112	24	262	305	14
Loss from continuing operations before income tax expense (benefit)	$(52)	$(213)	76	$(308)	$(720)	57
Total assets	$23,678	$26,062	(9)	$23,678	$26,062	(9)

n/m = not meaningful

(a) Refer to the table that follows for further details on the components of net financing revenue (loss).

(b) Includes a reduction of $172 million and $518 million for the three months and nine months ended September 30, 2014, respectively, and $181 million and $552 million for the three months and nine months ended September 30, 2013, respectively, related to the allocation of corporate overhead expenses to other segments. The receiving segments record their allocation of corporate overhead expense within other operating expense.

The following table summarizes the components of net financing activity for Corporate and Other.

($ in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Original issue discount amortization (a)	$(51)	$(67)	$(149)	$(191)
Net impact of the funds transfer pricing methodology				
Unallocated liquidity costs (b)	23	(67)	14	(291)
Funds-transfer pricing / cost of funds mismatch (c)	159	38	436	154
Unassigned equity costs (d)	(135)	(10)	(417)	(162)
Total net impact of the funds transfer pricing methodology	47	(39)	33	(299)
Other (including Corporate Finance net financing revenue)	18	14	56	40
Total net financing revenue (loss) for Corporate and Other	$14	$(92)	$(60)	$(450)
Outstanding original issue discount balance	$1,455	$1,656	$1,455	$1,656

(a) Amortization is included as interest on long-term debt in the Condensed Consolidated Statement of Comprehensive Income.

(b) Represents the unallocated cost of funding our cash and investment portfolio.

(c) Represents our methodology to assign funding costs to classes of assets and liabilities based on expected duration and the London Interbank Offered Rate (LIBOR) swap curve plus an assumed credit spread. Matching duration allocates interest income and interest expense to the reportable segments so the respective reportable segments results are insulated from interest rate risk. The balance above is the resulting benefit due to holding interest rate risk at Corporate and Other.

(d) Primarily represents the unassigned cost of maintaining required capital positions for certain of our regulated entities, primarily Ally Bank and Ally Insurance.

The following table presents the scheduled remaining amortization of original issue discount at September 30, 2014.

Year ended December 31, ($ in millions)	2014	2015	2016	2017	2018	2019 and thereafter (a)	Total
Original issue discount							
Outstanding balance	$1,415	$1,357	$1,289	$1,209	$1,116	$—	
Total amortization (b)	40	58	68	80	93	1,116	$1,455

(a) The maximum annual scheduled amortization for any individual year is $158 million in 2030.

(b) The amortization is included as interest on long-term debt on the Condensed Consolidated Statement of Comprehensive Income.

Corporate and Other incurred a loss from continuing operations before income tax expense of $52 million and $308 million for the three months and nine months ended September 30, 2014, respectively, compared to $213 million and $720 million for the three months and nine months ended September 30, 2013, respectively. The improvement in the loss from continuing operations before income tax expense for the three months and nine months ended September 30, 2014, respectively, was primarily due to lower funding costs as a result of maturity and repayment of high cost debt, as well as decreases in OID amortization expense related to bond maturities and normal monthly amortization, and decreases in noninterest expense as a result of the overall streamlining of the company from strategic actions. The improvement during the three months and nine months ended September 30, 2014, was partially offset by decreases in other income primarily due to unfavorable derivative activity as a result of changes in rates and their impact on economic hedge positions.

Corporate and Other also includes the results of Corporate Finance. Corporate Finance earned income from continuing operations before income tax expense of $18 million and $55 million for the three months and nine months ended September 30, 2014, respectively, compared to $5 million and $40 million for the three months and nine months

ended September 30, 2013, respectively. The increases were primarily due to higher net financing and other revenue primarily resulting from asset growth in the core business, as well as recoveries from previously charged-off exposures.

87

Cash and Investments

The following table summarizes the composition of the cash and securities portfolio held at fair value by Corporate and Other.

($ in millions)	September 30, 2014	December 31, 2013
Cash		
Noninterest-bearing cash	$1,045	$ 1,123
Interest-bearing cash	3,151	3,396
Total cash	4,196	4,519
Available-for-sale securities		
Debt securities		
U.S. Treasury and federal agencies	879	859
Mortgage-backed	10,047	9,718
Asset-backed	1,961	2,183
Total debt securities	12,887	12,760
Equity securities	—	4
Total available-for-sale securities	12,887	12,764
Total cash and securities	$17,083	$ 17,283

Risk Management

Managing the risk/reward trade-off is a fundamental component of operating our businesses. Our risk management program is overseen by the Ally Board of Directors (the Board), various risk committees, the executive leadership team, and our associates. The Risk and Compliance Committee of the Board, together with the Board, sets the risk appetite across our company while the risk committees, executive leadership team, and our associates identify and monitor potential risks and manage those risks to be within our risk appetite. Ally's primary risks include credit, lease residual, market, operational, insurance/underwriting, and liquidity. For more information on our risk management process, refer to the Risk Management MD&A section of our 2013 Annual Report on Form 10-K.

Loan and Lease Exposure

The following table summarizes the exposures from our loan and lease activities.

($ in millions)	September 30, 2014	December 31, 2013
Finance receivables and loans		
Dealer Financial Services	$90,167	$90,220
Mortgage operations	7,595	8,444
Corporate and Other	1,756	1,664
Total finance receivables and loans	99,518	100,328
Held-for-sale loans		
Dealer Financial Services	—	—
Mortgage operations	3	16
Corporate and Other	—	19
Total held-for-sale loans	3	35
Total on-balance sheet loans	$99,521	$100,363
Off-balance sheet securitized loans		
Dealer Financial Services	$2,032	$899
Mortgage operations	—	—
Corporate and Other	—	—
Total off-balance sheet securitized loans	$2,032	$899
Operating lease assets		
Dealer Financial Services	$19,341	$17,680
Mortgage operations	—	—
Corporate and Other	—	—
Total operating lease assets	$19,341	$17,680
Serviced loans and leases		
Dealer Financial Services	$112,801	$111,589
Mortgage operations (a)	7,533	8,333
Corporate and Other	1,210	1,498
Total serviced loans and leases	$121,544	$121,420

(a) Represents primary mortgage loan-servicing portfolio only, which includes on-balance sheet loans of $7.5 billion and $8.3 billion at September 30, 2014, and December 31, 2013, respectively.

The risks inherent in our loan and lease exposures are largely driven by changes in the overall economy, used vehicle and housing price levels, unemployment levels, and their impact to our borrowers. The potential financial statement impact of these exposures varies depending on the accounting classification and future expected disposition strategy. We retain the majority of our automobile loans as they complement our core business model, but we do sell loans from time to time on an opportunistic basis. We ultimately manage the associated risks based on the underlying economics of the exposure.

89

Credit Risk Management

Credit risk is defined as the potential failure to receive payments when due from an obligor in accordance with contractual obligations. Therefore, credit risk is a major source of potential economic loss to us. Credit risk is monitored by several groups and functions throughout the organization, including enterprise and line of business committees and the Enterprise Risk Management organization. Together they oversee the credit decisioning and management processes, and monitor credit risk exposures to ensure they are managed in a safe-and-sound manner and are within our risk appetite. In addition, our Loan Review Group provides an independent assessment of the quality of our credit portfolios and credit risk management practices, and directly reports its findings to the Risk and Compliance Committee of the Board on a regular basis.

To mitigate risk, we have implemented specific policies and practices across all lines of business, utilizing both qualitative and quantitative analyses. This reflects our commitment to maintain an independent and ongoing assessment of credit risk and credit quality. Our policies require an objective and timely assessment of the overall quality of the consumer and commercial loan and lease portfolios. This includes the identification of relevant trends that affect the collectability of the portfolios, segments of the portfolios that are potential problem areas, loans and leases with potential credit weaknesses, as well as stress testing and the assessment of the adequacy of internal credit risk policies and procedures to monitor compliance with relevant laws and regulations. In addition, we maintain limits and underwriting policies that reflect our risk appetite.

We manage credit risk based on the risk profile of the borrower, the source of repayment, the underlying collateral, and current market conditions. We monitor the credit risk profile of individual borrowers and the aggregate portfolio of borrowers either within a designated geographic region or a particular product or industry segment. We perform ongoing analyses of the consumer automobile, consumer mortgage, and commercial portfolios using a range of indicators to assess the adequacy of the allowance based on historical and current trends. Refer to Note 6 to the Condensed Consolidated Financial Statements for additional information.

Additionally, we utilize numerous collection strategies to mitigate loss and provide ongoing support to customers in financial distress. For automobile loans, we work with customers when they become delinquent on their monthly payment. In lieu of repossessing their vehicle, we may offer several types of assistance to aid our customers based on their willingness and ability to repay their loan. Loss mitigation may include extension of the loan maturity date and rewriting the loan terms. For mortgage loans, as part of our participation in certain governmental programs, we offer mortgage loan modifications to qualified borrowers. 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.

Furthermore, we manage our counterparty credit exposure based on the risk profile of the counterparty. Within our policies, we have established standards and requirements for managing counterparty risk exposures in a safe-and-sound manner. Counterparty credit risk is derived from multiple exposure types, including derivatives, securities trading, securities financing transactions, financial futures, cash balances (e.g., due from depository institutions, restricted accounts, and cash equivalents), and investment in debt securities. For more information on Derivative Counterparty Credit Risk, refer to Note 19 to the Condensed Consolidated Financial Statements.

During the three months and nine months ended September 30, 2014, the U.S. economy resumed expansion after severe winter weather earlier in the year. Labor market conditions improved further during the period, with nonfarm payrolls increasing by an average of 224,000 per month and the unemployment rate averaging 6.1%. Within the U.S. automotive market, new vehicle sales were stronger quarter to quarter at a Seasonally Adjusted Annual Rate of 16.7 million. We continue to be cautious with the economic outlook given continued weak global economic growth, heightened geo-political risks, and expected higher interest rates as the Federal Reserve normalizes monetary policy.

On-balance Sheet Portfolio

Our on-balance sheet portfolio includes both finance receivables and loans and held-for-sale loans. At September 30, 2014, this primarily included $90.2 billion of automobile finance receivables and loans and $7.6 billion of mortgage

finance receivables and loans. Within our on-balance sheet portfolio, we have elected to account for certain mortgage loans at fair value. Changes in the fair value of loans are classified as gain on mortgage and automotive loans, net, in the Condensed Consolidated Statement of Comprehensive Income. During 2013, we sold our mortgage business lending operations, completed the sales of agency MSRs, and exited the correspondent and direct lending channels. Our ongoing Mortgage operations are limited to the management of our held-for-investment mortgage portfolio. During the third quarter, we continued to execute bulk purchases of mortgage loans, as this activity is a focus of our ongoing Mortgage operations as a part of treasury asset liability management (ALM) activities.

90

The following table presents our total on-balance sheet consumer and commercial finance receivables and loans reported at carrying value before allowance for loan losses.

	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
($ in millions)	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Consumer						
Finance receivables and loans						
Loans at historical cost	$66,269	$64,860	$548	$521	$—	$1
Loans at fair value	1	1	—	—	—	—
Total finance receivables and loans	66,270	64,861	548	521	—	1
Loans held-for-sale	3	16	2	9	—	—
Total consumer loans	66,273	64,877	550	530	—	1
Commercial						
Finance receivables and loans						
Loans at historical cost	33,248	35,467	73	204	—	—
Loans held for sale	—	19	—	—	—	—
Total commercial loans	33,248	35,486	73	204	—	—
Total on-balance sheet loans	$99,521	$100,363	$623	$734	$—	$1

(a) Includes nonaccrual troubled debt restructured loans (TDRs) of $283 million and $312 million at September 30, 2014, and December 31, 2013, respectively.

(b) Generally, loans that are 90 days past due and still accruing represent loans with government guarantees. There were no troubled debt restructured loans classified as 90 days past due and still accruing at September 30, 2014 and December 31, 2013.

Total on-balance sheet loans outstanding at September 30, 2014, decreased $842 million to $99.5 billion from December 31, 2013, reflecting a decrease of $2.2 billion in the commercial portfolio, partially offset by an increase of $1.4 billion in the consumer portfolio. The decrease in commercial on-balance sheet loans outstanding was primarily driven by seasonality of dealer inventories, as well as the continued competitive environment across the automotive lending market. The increase in consumer on-balance sheet loans was primarily driven by automobile originations, which outpaced portfolio runoff.

Total TDRs outstanding at September 30, 2014, decreased $29 million from December 31, 2013, as we continue our loss mitigation efforts on consumer and commercial loans including continued foreclosure prevention and participation in a variety of government-sponsored refinancing programs. Refer to Note 6 to the Condensed Consolidated Financial Statements for additional information.

Total nonperforming loans at September 30, 2014, decreased $111 million to $623 million from December 31, 2013, reflecting a decrease of $131 million of commercial nonperforming loans, partially offset by an increase of $20 million of consumer nonperforming loans. The decrease in total nonperforming loans from December 31, 2013 was driven, in part, by the successful rehabilitation of certain accounts within the commercial automobile portfolio. 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 included in our 2013 Annual Report on Form 10-K for additional information.

91

The following table includes consumer and commercial net charge-offs from finance receivables and loans at historical cost and related ratios reported at carrying value before allowance for loan losses.

	Three months ended September 30,				Nine months ended September 30,			
	Net charge-offs (recoveries)		Net charge-off ratios (a)		Net charge-offs (recoveries)		Net charge-off ratios (a)	
($ in millions)	2014	2013	2014	2013	2014	2013	2014	2013
Consumer								
Finance receivables and loans at historical cost	$149	$126	0.9 %	0.8 %	$373	$346	0.8 %	0.7 %
Commercial								
Finance receivables and loans at historical cost	—	—	—	—	(6)	(3)	—	—
Total finance receivables and loans at historical cost	$149	$126	0.6 %	0.5 %	$367	$343	0.5 %	0.5 %

(a) Net charge-off ratios are calculated as net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the period for each loan category.

Net charge-offs were $149 million and $367 million for the three months and nine months ended September 30, 2014, respectively, compared to $126 million and $343 million for the three months and nine months ended September 30, 2013, respectively. The increase during the three months and nine months ended September 30, 2014, was driven primarily by the change in our portfolio mix as we continued the execution of our underwriting strategy to originate consumer automotive assets across a broad credit spectrum. Loans held-for-sale are accounted for at the lower-of-cost or fair value and, therefore, we do not record charge-offs.

The Consumer Credit Portfolio and Commercial Credit Portfolio discussions that follow relate to consumer and commercial finance receivables and loans recorded at historical cost. Finance receivables and loans recorded at historical cost have an associated allowance for loan losses. Finance receivables and loans measured at fair value were excluded from these discussions since those exposures are not accounted for within our allowance for loan losses.

Consumer Credit Portfolio

During the three months and nine months ended September 30, 2014, the credit performance of the consumer portfolio remained strong and reflects the continued execution of our underwriting strategy to originate consumer automotive assets across a broad credit spectrum to include used, nonprime, extended term, non-GM, non-Chrysler, and non-subvented. For information on our consumer credit risk practices and policies regarding delinquencies, nonperforming status, and charge-offs, refer to Note 1 to the Consolidated Financial Statements included in our 2013 Annual Report on Form 10-K.

The following table includes consumer finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses.

	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
($ in millions)	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Consumer automobile (c)	$58,675	$56,417	$355	$329	$—	$—
Consumer mortgage	7,594	8,443	193	192	—	1
Total consumer finance receivables and loans	$66,269	$64,860	$548	$521	$—	$1

(a) Includes nonaccrual troubled debt restructured loans of $222 million and $237 million at September 30, 2014, and December 31, 2013, respectively.

(b)

There were no troubled debt restructured loans classified as 90 days past due and still accruing at both September 30, 2014, and December 31, 2013.

(c) Includes $16 million and $1 million of fair value adjustment for loans in hedge accounting relationships at September 30, 2014 and December 31, 2013, respectively. Refer to Note 19 to the Condensed Consolidated Financial Statements for additional information.

Total consumer outstanding finance receivables and loans increased $1.4 billion at September 30, 2014 compared with December 31, 2013. This increase was related to our automobile consumer loan originations, which outpaced portfolio runoff. This increase was partially offset by the continued runoff of legacy mortgage assets.

Total consumer nonperforming finance receivables and loans at September 30, 2014 increased $27 million to $548 million from December 31, 2013. Nonperforming consumer automobile finance receivables and loans increased primarily due to growth in our consumer automobile portfolio, as well as, the changes in our portfolio mix as we continued the execution of our underwriting strategy to expand our originations across a broader credit spectrum. Refer to Note 6 to the Condensed Consolidated Financial Statements for additional information. Nonperforming consumer finance receivables and loans as a percentage of total outstanding consumer finance receivables and loans remained flat at 0.8% at both September 30, 2014 and December 31, 2013.

Consumer automotive loans accruing and past due 30 days or more increased $13 million to $1.3 billion at September 30, 2014, compared with December 31, 2013.

The following table includes consumer net charge-offs from finance receivables and loans at historical cost and related ratios reported at carrying value before allowance for loan losses.

	Three months ended September 30,				Nine months ended September 30,			
	Net charge-offs		Net charge-off ratios (a)		Net charge-offs		Net charge-off ratios (a)	
($ in millions)	2014	2013	2014	2013	2014	2013	2014	2013
Consumer automobile	$137	$115	0.9 %	0.8 %	$341	$288	0.8 %	0.7 %
Consumer mortgage	12	11	0.6	0.5	32	58	0.5	0.8
Total consumer finance receivables and loans	$149	$126	0.9 %	0.8 %	$373	$346	0.8 %	0.7 %

(a) Net charge-off ratios are calculated as net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the period for each loan category.

Our net charge-offs from total consumer automobile finance receivables and loans were $137 million and $341 million for the three months and nine months ended September 30, 2014, respectively, compared to $115 million and $288 million for the three months and nine months ended September 30, 2013, respectively. The increase during the three months and nine months ended September 30, 2014, was driven primarily by the change in our portfolio mix as we continued the execution of our underwriting strategy to originate consumer automotive assets across a broad credit spectrum, as well as growth in our consumer automobile portfolio.

Our net charge-offs from total consumer mortgage receivables and loans were $12 million and $32 million for the three months and nine months ended September 30, 2014, respectively, compared to $11 million and $58 million for the same periods in 2013. The decrease during the nine months ended September 30, 2014 was driven by continued runoff of legacy mortgage assets and improvements in home prices.

The following table summarizes the unpaid principal balance of total consumer loan originations for the periods shown. Total consumer loan originations include loans classified as finance receivables and loans and loans held-for-sale during the period.

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2014	2013	2014	2013
Consumer automobile	$8,789	$6,744	$23,045	$20,832
Consumer mortgage	—	—	—	6,804
Total consumer loan originations	$8,789	$6,744	$23,045	$27,636

Total automobile-originated loans increased $2.0 billion and $2.2 billion for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The increase during the three months ended September 30, 2014, was across all channels of vehicle originations. The increase during the nine months ended September 30, 2014, was primarily due to increased used, non-GM, non-Chrysler, and GM vehicle originations. Total mortgage-originated loans decreased $6.8 billion for the nine months ended September 30, 2014. The decline in loan production was driven by our strategic exit from the direct lending channel and our decision announced on April 17, 2013 to exit the correspondent lending channel and cease production of any new jumbo mortgage loans at that time.

Consumer loan originations retained on-balance sheet as held-for-investment were $8.8 billion and $23.0 billion for the three months and nine months ended September 30, 2014, respectively, compared to $6.7 billion and $21.6 billion for the three months and nine months ended September 30, 2013, respectively. The increase during the three months ended September 30, 2014, was across all channels of vehicle originations. The increase during the nine months ended September 30, 2014, was primarily due to increased used, non-GM, non-Chrysler, and GM vehicle originations.

93

The following table shows the percentage of total consumer finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses by state concentration. Total automobile loans were $58.7 billion and $56.4 billion at September 30, 2014, and December 31, 2013, respectively. Total mortgage and home equity loans were $7.6 billion and $8.4 billion at September 30, 2014 and December 31, 2013, respectively.

	September 30, 2014 (a)		December 31, 2013	
	Automobile	Mortgage	Automobile	Mortgage
Texas	13.5 %	5.5 %	13.2 %	5.8 %
California	6.1	29.4	5.8	29.5
Florida	7.2	3.7	7.0	3.6
Pennsylvania	5.3	1.6	5.3	1.7
Illinois	4.4	4.3	4.4	4.4
Michigan	4.0	3.9	4.4	3.9
Georgia	4.1	2.1	4.0	2.1
New York	4.0	1.8	4.3	1.9
Ohio	4.0	0.7	4.0	0.7
North Carolina	3.5	1.9	3.4	1.9
Other United States	43.9	45.1	44.2	44.5
Total consumer loans	100.0 %	100.0 %	100.0 %	100.0 %

(a) Presentation is in descending order as a percentage of total consumer finance receivables and loans at September 30, 2014.

We monitor our consumer loan portfolio for concentration risk across the geographies in which we lend. The highest concentrations of loans in the United States are in Texas and California, which represented an aggregate of 21.2% and 21.1% of our total outstanding consumer finance receivables and loans at September 30, 2014, and December 31, 2013, respectively.

Concentrations in our Mortgage operations are closely monitored given the volatility of the housing markets. Our consumer mortgage loan concentrations in California, Florida, and Michigan receive particular attention as the real estate value depreciation in these states has been amongst the most severe.

Repossessed and Foreclosed Assets

We classify an asset as repossessed or foreclosed (included in Other Assets on the Condensed Consolidated Balance Sheet) when physical possession of the collateral is taken. We dispose of the acquired collateral in a timely fashion in accordance with regulatory requirements. For more information on repossessed and foreclosed assets, refer to Note 1 to the Consolidated Financial Statements included in our 2013 Annual Report on Form 10-K.

Repossessed assets in our Automotive Finance operations at September 30, 2014 decreased $9 million to $92 million from December 31, 2013. Foreclosed mortgage assets at September 30, 2014, decreased $1 million to $9 million from December 31, 2013.

Commercial Credit Portfolio

During the three months and nine months ended September 30, 2014, the credit performance of the commercial portfolio remained strong, as nonperforming finance receivables and loans improved and no net charge-offs were realized for the period. For information on our commercial credit risk practices and policies regarding delinquencies, nonperforming status, and charge-offs, refer to Note 1 to the Consolidated Financial Statements included in our 2013 Annual Report on Form 10-K.

The following table includes total commercial finance receivables and loans reported at carrying value before allowance for loan losses.

($ in millions)	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Commercial and industrial						
Automobile	$28,453	$30,948	$21	$116	$—	$—
Other (c)	1,756	1,664	51	74	—	—
Commercial real estate — Automobile	3,039	2,855	1	14	—	—
Total commercial finance receivables and loans	$33,248	$35,467	$73	$204	$—	$—

(a) Includes nonaccrual troubled debt restructured loans of $61 million and $75 million at September 30, 2014, and December 31, 2013, respectively.
(b) There were no troubled debt restructured loans classified as 90 days past due and still accruing at September 30, 2014 and December 31, 2013.
(c) Other commercial primarily includes senior secured commercial lending.

Total commercial finance receivables and loans outstanding decreased $2.2 billion from December 31, 2013, to $33.2 billion at September 30, 2014. The commercial and industrial finance receivables and loans outstanding decreased $2.4 billion primarily due to the seasonal fluctuations in floorplan assets and the continued competitive environment across the automotive lending market. This decrease was partially offset by the increase within Other, representing the corporate finance portfolio, as the growth continues in line with our business strategy.

Total commercial nonperforming finance receivables and loans were $73 million at September 30, 2014, reflecting a decrease of $131 million when compared to December 31, 2013. The decrease was primarily driven by the successful rehabilitation or liquidation of certain nonperforming accounts and fewer accounts deteriorating into nonperforming status within the commercial automobile portfolio. Total nonperforming commercial finance receivables and loans as a percentage of outstanding commercial finance receivables and loans decreased to 0.2% as of September 30, 2014, from 0.6% as of December 31, 2013.

The following table includes total commercial net charge-offs from finance receivables and loans at historical cost and related ratios reported at carrying value before allowance for loan losses.

($ in millions)	Three months ended September 30, Net charge-offs (recoveries)		Net charge-off ratios (a)		Nine months ended September 30, Net charge-offs (recoveries)		Net charge-off ratios (a)	
	2014	2013	2014	2013	2014	2013	2014	2013
Commercial and industrial								
Automobile	$—	$—	— %	— %	$1	$—	— %	— %
Other	—	—	—	—	(7)	(3)	(0.5)	(0.2)
Commercial real estate — Automobile	—	—	—	—	—	—	—	—
Total commercial finance receivables and loans	$—	$—	— %	— %	$(6)	$(3)	— %	— %

(a) Net charge-off ratios are calculated as net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the period for each loan category.

Our net charge-offs from commercial finance receivables and loans resulted in no net charge-offs and $6 million of recoveries for the three months and nine months ended September 30, 2014, compared to no net charge-offs and $3

million of recoveries for the three months and nine months ended September 30, 2013. The increase in recoveries for the nine months ended September 30, 2014, was primarily due to our continued efforts to resolve previously charged-off exposures.

Commercial Real Estate

The commercial real estate portfolio consists of finance receivables and loans issued primarily to automotive dealers. Commercial real estate finance receivables and loans were $3.0 billion and $2.9 billion at September 30, 2014 and December 31, 2013, respectively.

The following table presents the percentage of total commercial real estate finance receivables and loans by geographic region. These finance receivables and loans are reported at carrying value before allowance for loan losses.

	September 30, 2014		December 31, 2013	
Geographic region				
Texas	13.7	%	13.2	%
Florida	12.7		12.6	
Michigan	10.4		11.6	
California	9.0		9.2	
North Carolina	4.0		4.1	
New York	3.9		4.5	
Virginia	3.7		3.8	
Pennsylvania	3.4		3.3	
Georgia	3.4		3.1	
Illinois	2.7		2.5	
Other United States	33.1		32.1	
Total commercial real estate finance receivables and loans	100.0	%	100.0	%

Commercial Criticized Exposure

Finance receivables and loans classified as special mention, substandard, or doubtful are deemed criticized. These classifications are based on regulatory definitions and generally represent finance receivables and loans within our portfolio that have a higher default risk or have already defaulted. These finance receivables and loans require additional monitoring and review including specific actions to mitigate our potential loss.

The following table presents the percentage of total commercial criticized finance receivables and loans by industry concentrations. These finance receivables and loans within our automobile and corporate finance portfolios are reported at carrying value before allowance for loan losses.

	September 30, 2014		December 31, 2013	
Industry				
Automotive	90.6	%	91.4	%
Health/Medical	2.4		1.6	
Services	1.7		2.5	
Other	5.3		4.5	
Total commercial criticized finance receivables and loans	100.0	%	100.0	%

Total criticized exposures decreased $185 million from December 31, 2013 to $1.9 billion at September 30, 2014, primarily due to our continued efforts to resolve criticized loans.

Allowance for Loan Losses

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

Three months ended September 30, 2014 ($ in millions)	Consumer automobile	Consumer mortgage	Total consumer	Commercial	Total
Allowance at July 1, 2014	$729	$302	$1,031	$140	$1,171
Charge-offs	(188)	(13)	(201)	—	(201)
Recoveries	51	1	52	—	52
Net charge-offs	(137)	(12)	(149)	—	(149)
Provision for loan losses	112	(7)	105	(3)	102
Other	(11)	—	(11)	—	(11)
Allowance at September 30, 2014	$693	$283	$976	$137	$1,113
Allowance for loan losses to finance receivables and loans outstanding at September 30, 2014 (a)	1.2%	3.7%	1.5%	0.4%	1.1%
Net charge-offs to average finance receivables and loans outstanding at September 30, 2014 (a)	0.9%	0.6%	0.9%	—%	0.6%
Allowance for loan losses to total nonperforming finance receivables and loans at September 30, 2014 (a)	194.8%	147.0%	178.0%	187.9%	179.2%
Ratio of allowance for loan losses to annualized net charge-offs at September 30, 2014	1.3	6.0	1.6	n/m	1.9

n/m = not meaningful

(a) Coverage percentages are based on the allowance for loan losses related to finance receivables and loans excluding those loans held at fair value as a percentage of the unpaid principal balance, net of premiums and discounts.

Three months ended September 30, 2013 ($ in millions)	Consumer automobile	Consumer mortgage	Total consumer	Commercial	Total
Allowance at July 1, 2013	$610	$431	$1,041	$142	$1,183
Charge-offs	(168)	(16)	(184)	—	(184)
Recoveries	53	5	58	—	58
Net charge-offs	(115)	(11)	(126)	—	(126)
Provision for loan losses	156	(12)	144	(3)	141
Other	—	(1)	(1)	1	—
Allowance at September 30, 2013	$651	$407	$1,058	$140	$1,198
Allowance for loan losses to finance receivables and loans outstanding at September 30, 2013 (a)	1.2%	4.6%	1.6%	0.5%	1.3%
Net charge-offs to average finance receivables and loans outstanding at September 30, 2013 (a)	0.8%	0.5%	0.8%	—%	0.5%
Allowance for loan losses to total nonperforming finance receivables and loans at September 30, 2013 (a)	212.7%	180.4%	199.0%	55.7%	153.0%
	1.4	9.4	2.1	n/m	2.4

Ratio of allowance for loan losses to annualized net charge-offs at September 30, 2013

n/m = not meaningful

(a) Coverage percentages are based on the allowance for loan losses related to finance receivables and loans excluding those loans held at fair value as a percentage of the unpaid principal balance, net of premiums and discounts.

97

Nine months ended September 30, 2014 ($ in millions)	Consumer automobile	Consumer mortgage	Total consumer	Commercial	Total
Allowance at January 1, 2014	$673	$389	$1,062	$146	$1,208
Charge-offs	(511)	(38)	(549)	(5)	(554)
Recoveries	170	6	176	11	187
Net charge-offs	(341)	(32)	(373)	6	(367)
Provision for loan losses	372	(55)	317	(15)	302
Other	(11)	(19)	(30)	—	(30)
Allowance at September 30, 2014	$693	$283	$976	$137	$1,113
Allowance for loan losses to finance receivables and loans outstanding at September 30, 2014 (a)	1.2 %	3.7 %	1.5 %	0.4 %	1.1 %
Net charge-offs to average finance receivables and loans outstanding at September 30, 2014 (a)	0.8 %	0.5 %	0.8 %	— %	0.5 %
Allowance for loan losses to total nonperforming finance receivables and loans at September 30, 2014 (a)	194.8 %	147.0 %	178.0 %	187.9 %	179.2 %
Ratio of allowance for loan losses to net charge-offs at September 30, 2014	1.5	6.8	2.0	(16.7)	2.3

(a) Coverage percentages are based on the allowance for loan losses related to finance receivables and loans excluding those loans held at fair value as a percentage of the unpaid principal balance, net of premiums and discounts.

Nine months ended September 30, 2013 ($ in millions)	Consumer automobile	Consumer mortgage	Total consumer	Commercial	Total
Allowance at January 1, 2013	$575	$452	$1,027	$143	$1,170
Charge-offs	(443)	(71)	(514)	(3)	(517)
Recoveries	155	13	168	6	174
Net charge-offs	(288)	(58)	(346)	3	(343)
Provision for loan losses	355	14	369	(8)	361
Other	9	(1)	8	2	10
Allowance at September 30, 2013	$651	$407	$1,058	$140	$1,198
Allowance for loan losses to finance receivables and loans outstanding at September 30, 2013 (a)	1.2 %	4.6 %	1.6 %	0.5 %	1.3 %
Net charge-offs to average finance receivables and loans outstanding at September 30, 2013 (a)	0.7 %	0.8 %	0.7 %	— %	0.5 %
Allowance for loan losses to total nonperforming finance receivables and loans at September 30, 2013 (a)	212.7 %	180.4 %	199.0 %	55.7 %	153.0 %
Ratio of allowance for loan losses to net charge-offs at September 30, 2013	1.7	5.3	2.3	(30.1)	2.6

(a) Coverage percentages are based on the allowance for loan losses related to finance receivables and loans excluding those loans held at fair value as a percentage of the unpaid principal balance, net of premiums and discounts.

The allowance for consumer loan losses at September 30, 2014, declined $82 million compared to September 30, 2013. The decrease was primarily due to lower reserve requirements within our Mortgage operations as a result of

continued runoff of legacy mortgage assets. The decrease was partially offset by growth in our consumer automotive portfolio and the continued execution of our underwriting strategy to originate consumer automotive assets across a broad credit spectrum.

The allowance for commercial loan losses declined $3 million at September 30, 2014, compared to September 30, 2013, primarily as a result of improved portfolio performance.

Allowance for Loan Losses by Type

The following table summarizes the allocation of the allowance for loan losses by product type.

	2014			2013		
September 30, ($ in millions)	Allowance for loan losses	Allowance as a % of loans outstanding	Allowance as a % of allowance for loan losses	Allowance for loan losses	Allowance as a % of loans outstanding	Allowance as a % of allowance for loan losses
Consumer						
Consumer automobile	$693	1.2 %	62.3 %	$651	1.2 %	54.3 %
Consumer mortgage	283	3.7	25.4	407	4.6	34.0
Total consumer loans	976	1.5	87.7	1,058	1.6	88.3
Commercial						
Commercial and industrial						
Automobile	59	0.2	5.3	56	0.2	4.7
Other	47	2.7	4.2	50	3.1	4.2
Commercial real estate — Automobile	31	1.0	2.8	34	1.2	2.8
Total commercial loans	137	0.4	12.3	140	0.5	11.7
Total allowance for loan losses	$1,113	1.1 %	100.0 %	$1,198	1.3 %	100.0 %

Provision for Loan Losses

The following table summarizes the provision for loan losses by product type.

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2014	2013	2014	2013
Consumer				
Consumer automobile	$112	$156	$372	$355
Consumer mortgage	(7)	(12)	(55)	14
Total consumer loans	105	144	317	369
Commercial				
Commercial and industrial				
Automobile	(3)	(3)	(6)	1
Other	—	3	(10)	(3)
Commercial real estate — Automobile	—	(3)	1	(6)
Total commercial loans	(3)	(3)	(15)	(8)
Total provision for loan losses	$102	$141	$302	$361

The provision for consumer loan losses decreased $39 million and $52 million for the three months and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The decreases were primarily due to a reduction in credit losses relative to the previous expectations in our consumer automobile portfolio, as well as the continued runoff of legacy mortgage assets. For the nine months ended September 30, 2014, the decrease was partially offset by growth in our consumer automobile portfolio and the continued execution of our underwriting strategy to originate consumer automotive assets across a broad credit spectrum.

Provision for commercial loan losses was flat for the three months ended September 30, 2014, compared to the same period in 2013. For the nine months ended September 30, 2014, provision for commercial loan losses decreased $7 million compared to the same period in 2013. This decrease was largely driven by recoveries of previously

charged-off exposures.

Lease Residual Risk Management

We are exposed to residual risk on vehicles in the consumer lease portfolio. This lease residual risk represents the possibility that the actual proceeds realized upon the sale of returned vehicles will be lower than the projection of these values used in establishing the pricing at lease inception. The factors that have material impact on lease residual risk include accuracy of assumptions used for residual value forecasting, the execution of remarketing strategies, manufacturer marketing programs, and the stability of the used vehicle market. For additional information on our valuation of automobile lease assets and residuals, refer to the Critical Accounting Estimates — Valuation of Automobile Lease Assets and Residuals section within the MD&A included in our 2013 Annual Report on Form 10-K.

The following table summarizes the volume of Ally lease terminations and average gain per vehicle in the United States over recent periods. The actual gain per vehicle on lease terminations varies based upon the type of vehicle.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Off-lease vehicles remarketed (in units)	79,280	36,811	225,424	102,894
Average gain per vehicle ($ per unit)	$1,327	$2,571	$1,698	$2,426

The number of off-lease vehicles remarketed during the three months and nine months ended September 30, 2014, more than doubled as compared to the same periods in 2013, reflecting growth in lease originations from 2010-2012 after curtailing lease originations in 2008-2009 as a result of the economic downturn. However, the number of off-lease vehicles remarketed during the three months ended September 30, 2014, decreased 7% compared to the three months ended June 30, 2014, as termination volumes moderated from the second quarter. We expect lease termination volumes to continue to remain near the levels experienced during the three months ended September 30, 2014, although actual termination volumes may vary in the future from forecasted volumes due to factors such as new lease originations and automotive manufacturer lease pull-ahead programs.

Average gain per vehicle decreased for the three months and nine months ended September 30, 2014, compared to the same periods in 2013, primarily as a result of normalizing trends for used vehicle prices. This trend is expected to continue. For more information on our Investment in Operating Leases, refer to Note 7 to the Condensed Consolidated Financial Statements, and Note 1 to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K.

Market Risk

Our automotive financing, mortgage, and insurance activities give rise to market risk representing the potential loss in the fair value of assets or liabilities and earnings caused by movements in market variables, such as interest rates, foreign-exchange rates, equity prices, market perceptions of credit risk, and other market fluctuations that affect the value of securities, assets held-for-sale, and operating leases. We are exposed to interest rate risk arising from changes in interest rates related to financing, investing, and cash management activities. More specifically, we have entered into contracts to provide financing and to retain various assets related to securitization activities all of which are exposed in varying degrees to changes in value due to movements in interest rates. Interest rate risk arises from the mismatch between assets and the related liabilities used for funding. We enter into various financial instruments, including derivatives, to maintain the desired level of exposure to the risk of interest rate and other fluctuations. Refer to Note 19 to the Condensed Consolidated Financial Statements for further information.

We are also exposed to some foreign-currency risk arising from foreign-currency denominated assets and liabilities. We enter into hedges to mitigate foreign exchange risk.

We also have exposure to equity price risk, primarily in our Insurance operations, which invests in equity securities that are subject to price risk influenced by capital market movements. We enter into equity options to economically hedge our exposure to the equity markets.

Although the diversity of our activities from our complementary lines of business may partially mitigate market risk, we also actively manage this risk. We maintain risk management control systems to monitor interest rates, foreign-currency exchange rates, equity price risks, and any of their related hedge positions. Positions are monitored using a variety of analytical techniques including market value, sensitivity analysis, and value at risk models.

Net Financing Revenue Sensitivity Analysis

Interest rate risk represents our most significant exposure to market risk. We actively monitor the level of exposure so that movements in interest rates do not adversely affect future earnings. We use net financing revenue sensitivity analysis as our primary metric to measure and manage the interest rate sensitivities of our financial instruments.

We prepare forward-looking forecasts of net financing revenue, which take into consideration anticipated future business growth, asset/liability positioning, and interest rates based on the implied forward curve. Simulations are used to assess changes in net financing revenue in multiple interest rates scenarios relative to the baseline forecast.

The changes in net financing revenue relative to the baseline are defined as the sensitivity. Our simulation incorporates contractual cash flows and repricing characteristics for all assets, liabilities and off-balance sheet exposures and incorporates the effects of changing interest rates on the prepayment and attrition rates of certain assets and liabilities. The analysis is highly dependent upon a variety of assumptions including the repricing characteristics of deposits with non-contractual maturities. Our simulation does not assume any specific future actions are taken to mitigate the impacts of changing interest rates.

The net financing revenue sensitivity tests measure the potential change in our pretax net financing revenue over the following twelve months. A number of alternative rate scenarios are tested, including immediate parallel shocks to the forward yield curve, nonparallel shocks to the forward yield curve, and stresses to certain term points on the yield curve in isolation to capture and monitor a number of risk types.

100

Our twelve-month pretax net financing revenue sensitivity based on the forward-curve was as follows.

Instantaneous Change in Interest Rates as of ($ in millions)	September 30, 2014	December 31, 2013
Parallel rate shifts (relative to the base forward-curve)		
-100 basis points	$75	$53
+100 basis points	(164)	(127)
+200 basis points	(252)	(176)

Ally remains moderately liability sensitive as our simulation models assume liabilities will initially re-price faster than assets. A material portion of the current interest rate exposure is driven by rate index floors on certain commercial loans that limit interest income increases until the related rate index rises above the level of the floor. In addition, we enter into receive-fixed interest rate swaps designated as fair value hedges of certain fixed-rate liabilities including legacy unsecured debt. These swaps continue to generate positive financing revenue in the current interest rate environment, but add to our liability sensitive position. The size, maturity and mix of our hedging activities change frequently as we adjust our broader asset and liability management objectives.

The future re-pricing behavior of deposit liabilities, particularly non-maturity deposits, remains a significant driver of interest rate sensitivity. The sustained low interest rate environment increases the uncertainty of assumptions for deposit re-pricing relationships to market interest rates. Our simulation models assume deposit interest expense increases significantly in rising rate environments. We believe our deposits will ultimately be less sensitive to interest rate changes which will reduce our overall exposure to rising rates.

The adverse change in upward shock scenarios has increased slightly since December 31, 2013. The increase is driven by additional growth in variable rate liabilities. The positive impact of downward rate shocks is somewhat muted by the current low interest rate environment, which limits absolute declines in short-term rates in a shock scenario.

Liquidity Management, Funding, and Regulatory Capital

Overview

The purpose of liquidity management is to ensure our ability to meet loan and lease demand, debt maturities, deposit withdrawals, and other cash commitments under both normal operating conditions as well as periods of economic or financial stress. Our primary objective is to maintain cost-effective, stable and diverse sources of funding capable of sustaining the organization throughout all market cycles. Sources of funding include both retail and brokered deposits and secured and unsecured market-based funding across various maturity, interest rate, and investor profiles. Additional liquidity is available through a pool of unencumbered highly liquid securities, borrowing facilities, repurchase agreements, as well as funding programs supported by the Federal Reserve and the Federal Home Loan Bank of Pittsburgh (FHLB).

We define liquidity risk as the risk that an institution's financial condition or overall safety and soundness is adversely affected by an inability, or perceived inability, to meet its financial obligations, and to withstand unforeseen liquidity stress events. Liquidity risk can arise from a variety of institution specific or market-related events that could have a negative impact on cash flows available to the organization. Effective management of liquidity risk helps ensure an organization's preparedness to meet uncertain cash flow obligations caused by unanticipated events. The ability of financial institutions to manage liquidity needs and contingent funding exposures has proven essential to their solvency.

The Asset-Liability Committee (ALCO) is chaired by the Corporate Treasurer and is responsible for monitoring Ally's liquidity position, funding strategies and plans, contingency funding plans, and counterparty credit exposure arising from financial transactions. Corporate Treasury is responsible for managing the liquidity positions of Ally within prudent operating guidelines and targets approved by ALCO and the Risk and Compliance Committee of the Ally Financial Board of Directors. We manage liquidity risk at the parent company, Ally Bank, and consolidated levels. The parent company and Ally Bank prepare periodic forecasts depicting anticipated funding needs and sources of funds with oversight and monitoring by the Liquidity Risk group within Corporate Treasury. Corporate Treasury executes our funding strategies and manages liquidity under baseline economic projections as well as more severe economic stressed environments.

We use multiple measures to frame the level of liquidity risk, manage the liquidity position, or identify related trends such as early warning indicators. These measures include coverage ratios that measure the sufficiency of the liquidity portfolio and stability ratios that measure longer-term structural liquidity. In addition, we have established internal management routines designed to review all aspects of liquidity and funding plans, evaluate the adequacy of liquidity buffers, review stress testing results, and assist senior management in the execution of its structured strategy and risk management accountabilities.

We maintain available liquidity in the form of cash, unencumbered highly liquid securities, and available credit facility capacity that, taken together, allows us to operate and to meet our contractual and contingent obligations in the event of market-wide disruptions and enterprise-specific events. We maintain available liquidity at various entities and consider regulatory restrictions and tax implications that may limit our ability to transfer funds across entities. At September 30, 2014, we maintained $11.4 billion of total available parent company liquidity and $7.5 billion of total available liquidity at Ally Bank. Parent company liquidity is defined as our consolidated operations less Ally Bank and the regulated subsidiaries of Ally Insurance's holding company. To optimize cash between entities, the parent company lends cash to Ally Bank on occasion under an intercompany loan agreement. At September 30, 2014, $1.3 billion was outstanding under the intercompany loan agreement. Amounts outstanding are repayable to the parent company upon demand, subject to five days notice. As a result, this amount is included in the parent company available liquidity and excluded from the available liquidity at Ally Bank.

Regulatory Developments

In September 2014, the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve (FRB), and Federal Deposit Insurance Corporation approved a final rule titled “Liquidity Coverage Ratio: Liquidity Risk

Measurement Standards" (LCR). The LCR is the U.S. implementation of the Liquidity Coverage Ratio standard established by the Basel Committee on Banking Supervision. The LCR generally measures liquidity by the ratio of a bank's unencumbered high-quality assets to its total net cash outflows over a 30 calendar-day time horizon under a standardized liquidity stress scenario specified by supervisors. The LCR applies to banking organizations with total consolidated assets of $250 billion or more or total consolidated on-balance sheet foreign exposures of $10 billion or more, and their subsidiary depository institutions with $10 billion or more of total consolidated assets.

A simpler, less stringent LCR requirement (Modified LCR) applies to depository institution holding companies with $50 billion or more in total consolidated assets that are not covered by the LCR. The Modified LCR requires depository institution holding companies to calculate their Modified LCR on a monthly basis beginning January 1, 2016, subject to a transition period (phased-in implementation with a minimum ratio of 90% in 2016 and 100% in 2017 and beyond). Because Ally's total assets are less than $250 billion but greater than $50 billion, and because it has immaterial foreign exposure, Ally is expected to be subject to the requirements of the Modified LCR. Ally expects to meet the requirements of the Modified LCR within the required timeframes.

In October 2014, U.S. regulatory agencies adopted risk retention rules that require sponsors of asset-backed securitizations, such as Ally, to retain not less than five percent of the credit risk of the assets collateralizing asset-backed securitizations. Ally Bank has complied with the FDIC's Safe Harbor Rule, implemented in 2011, requiring it to retain five percent risk retention in retail automotive loan and lease securitizations. Ally intends to comply with the new risk retention rules for automobile loan securitizations, which become effective two years after the date of publication in the Federal Register.

Funding Strategy

Liquidity and ongoing profitability are largely dependent on our timely and cost-effective access to retail deposits and funding in different segments of the capital markets. Our funding strategy largely focuses on the development of diversified funding sources across a broad investor base to meet all our liquidity needs throughout different market cycles, including periods of financial distress. These funding sources include capital market based unsecured debt, unsecured retail term notes, public and private asset-backed securitizations, committed credit facilities, brokered deposits, and retail deposits. We also supplement these sources with a modest amount of short-term borrowings, including Demand Notes, and repurchase agreements. The diversity of our funding sources enhances funding flexibility, limits dependence on any one source, and results in a more cost-effective funding strategy over the long term. We evaluate funding markets on an ongoing basis to achieve an appropriate balance of unsecured and secured funding sources and the maturity profiles of both. In addition, we further distinguish our funding strategy between Ally Bank funding and parent company (nonbank) funding.

We diversify Ally Bank's overall funding in order to reduce reliance on any one source of funding and to achieve a well-balanced funding portfolio across a spectrum of risk, duration, and cost of funds characteristics. We have been focused on optimizing our funding sources, in particular at Ally Bank by growing retail deposits, expanding public and private securitization programs, maintaining a prudent maturity profile of our brokered deposit portfolio while not exceeding a $10.0 billion portfolio, maintaining repurchase agreements, and continuing to access funds from the Federal Home Loan Banks.

We have been directing certain assets originated in the United States to Ally Bank in order to reduce and minimize our parent company exposures and funding requirements and to utilize our growing consumer deposit-taking capabilities. This has allowed us to use bank funding for a wider array of our automotive finance assets and to provide a sustainable long-term funding channel for the business, while also improving the cost of funds for the enterprise.

Ally Bank

Ally Bank raises deposits directly from customers through the direct banking channel via the internet, over the telephone, and through mobile applications, and through the mail. These deposits provide our Automotive Finance, Mortgage, and Corporate Finance operations with a stable and low-cost funding source. At September 30, 2014, Ally Bank had $56.5 billion of total external deposits, including $46.7 billion of retail deposits.

At September 30, 2014, Ally Bank maintained cash liquidity of $2.2 billion and unencumbered highly liquid U.S. federal government and U.S. agency securities of $6.1 billion. In addition, at September 30, 2014, Ally Bank had unused capacity in committed secured funding facilities of $0.5 billion. Our ability to access unused capacity depends on having eligible assets to collateralize the incremental funding and, in some instances, the execution of interest rate hedges. To optimize cash between entities, the parent company lends cash to Ally Bank on occasion under an intercompany loan agreement. Amounts outstanding on this loan are repayable to the parent company upon demand, subject to five days notice. Ally Bank had total available liquidity of $7.5 billion at September 30, 2014, excluding the intercompany loan of $1.3 billion.

Optimizing bank funding continues to be a key part of our long-term liquidity strategy. We have made significant progress in migrating asset originations to Ally Bank and growing our retail deposit base since becoming a bank holding company in December 2008. Effective May 1, 2014, assets of $1.5 billion from our Corporate Finance operations were contributed to Ally Bank, allowing this business to have a more competitive source of funding. Retail deposit growth is key to further reducing our cost of funds and decreasing our reliance on the capital markets. We believe deposits provide a stable, low-cost source of funds that are less sensitive to interest rate changes, market volatility, or changes in our credit ratings when compared to other funding sources. We have continued to expand our deposit gathering efforts through our direct and indirect marketing channels. Current retail product offerings consist of a variety of products including certificates of deposits (CDs), savings accounts, money market accounts, IRA deposit products, as well as an interest checking product. In addition, we utilize brokered deposits, which are obtained through third-party intermediaries. In the first nine months of 2014 the deposit base at Ally Bank grew $3.6 billion, ending the

quarter at $56.5 billion from $52.9 billion at December 31, 2013. The growth in deposits has been attributable to our retail deposit portfolio, particularly within our savings and money market accounts. Strong retention rates continue to contribute to our growth in retail deposits. Refer to Note 11 to the Condensed Consolidated Financial Statements for a summary of deposit funding by type.
The following table shows Ally Bank's number of accounts and deposit balances by type as of the end of each quarter since 2013.

($ in millions)	3rd Quarter 2014	2nd Quarter 2014	1st Quarter 2014	4th Quarter 2013	3rd Quarter 2013	2nd Quarter 2013	1st Quarter 2013
Number of retail accounts	1,698,585	1,641,327	1,589,441	1,509,354	1,451,026	1,389,577	1,334,483
Deposits							
Retail	$46,718	$45,934	$45,193	$43,172	$41,691	$39,859	$38,770
Brokered	9,692	9,684	9,683	9,678	9,724	9,552	9,877
Other	73	75	70	60	66	72	844
Total deposits	$56,483	$55,693	$54,946	$52,910	$51,481	$49,483	$49,491

In addition to building a larger deposit base, we continue to remain active in the securitization markets to finance our Ally Bank automotive loan portfolios. During the third quarter of 2014, Ally Bank completed two term securitization transactions backed by dealer

floorplan and retail automotive loans that raised $2.5 billion, and included a $1.6 billion off-balance sheet securitization. Securitization has proven to be a reliable and cost-effective funding source. Additionally, for retail automotive loans and lease notes, the term structure of the transaction locks in funding for a specified pool of loans and leases for the life of the underlying asset creating an effective tool for managing interest rate and liquidity risk.
We manage the execution risk arising from secured funding by maintaining a diverse investor base and maintaining capacity in our committed secured facilities. At September 30, 2014, Ally Bank had exclusive access to a $3.5 billion syndicated facility that can fund automotive retail, lease and dealer floorplan loans. In March 2014, this facility was increased and renewed by a syndicate of nineteen lenders and extended until June 2015. At September 30, 2014, the amount outstanding under this facility was $3.0 billion. Our ability to access the unused capacity in the secured facility depends on the availability of eligible assets to collateralize the incremental funding and, in some instances, on the execution of interest rate hedges.
Ally Bank also has access to funding through advances with the FHLB of Pittsburgh. These advances are primarily secured by consumer and commercial mortgage finance receivables and loans. As of September 30, 2014, Ally Bank had pledged $10.7 billion of assets and investment securities to the FHLB resulting in $5.8 billion in total funding capacity with $4.3 billion of debt outstanding.
In addition, Ally Bank has access to repurchase agreements. A repurchase agreement is a transaction in which the firm sells financial instruments to a buyer, typically in exchange for cash, and simultaneously enters into an agreement to repurchase the same or substantially the same financial instruments from the buyer at a stated price plus accrued interest at a future date. The financial instruments sold in repurchase agreements typically include U.S. government and federal agency, and investment-grade sovereign obligations. As of September 30, 2014, Ally Bank had $579 million of debt outstanding under repurchase agreements.
Additionally, Ally Bank has access to the Federal Reserve Bank Discount Window and can borrow funds to meet short-term liquidity demands. However, the Federal Reserve Bank is not a primary source of funding for day-to-day business. Instead, it is a liquidity source that can be accessed in stressed environments or periods of market disruption. Ally Bank has assets pledged and restricted as collateral to the Federal Reserve Bank totaling $3.3 billion. Ally Bank had no debt outstanding with the Federal Reserve as of September 30, 2014.
Parent Company (Nonbank) Funding
At September 30, 2014, the parent company maintained liquid cash and equivalents in the amount of $2.9 billion as well as unencumbered highly liquid U.S. federal government and U.S. agency securities of $2.7 billion that can be used to obtain funding through repurchase agreements with third parties or through outright sales. At September 30, 2014, the parent company had no debt outstanding under repurchase agreements. In addition, at September 30, 2014, the parent company had available liquidity from unused capacity in committed credit facilities of $4.5 billion. Parent company liquidity is defined as our consolidated operations less Ally Bank and the regulated subsidiaries of Ally Insurance's holding company. Our ability to access unused capacity in secured facilities depends on the availability of eligible assets to collateralize the incremental funding and, in some instances, on the execution of interest rate hedges.
Funding sources at the parent company generally consist of long-term unsecured debt, unsecured retail term notes, committed credit facilities, and asset-backed securitizations. To optimize cash between entities, the parent company lends cash to Ally Bank on occasion under an intercompany loan agreement. Amounts outstanding on this loan are repayable to the parent company upon demand, subject to five days notice. The parent company had total available liquidity of $11.4 billion at September 30, 2014, which included the intercompany loan of $1.3 billion.
In the third quarter of 2014, we completed a dual-tranche transaction through the unsecured debt capital markets for $1.0 billion. In October, Ally Financial Inc. completed a tender offer to buy back $750 million of its long-dated high-coupon debt. We expect to record a loss of approximately $160 million on extinguishment of debt in the fourth quarter related to this transaction. We expect to continue accessing these markets on an opportunistic basis.
In addition, we have short-term and long-term unsecured debt outstanding from retail term note programs. These programs generally consist of callable fixed-rate instruments with fixed-maturity dates. There were $0.3 billion and

$1.8 billion of retail term notes outstanding at September 30, 2014, and December 31, 2013, respectively. The decline is due to the redemption of $1.6 billion of high-coupon callable retail notes in the first quarter as part of a liability management strategy to continue to improve Ally’s cost of funds.

We also obtain unsecured funding from the sale of floating-rate demand notes under our Demand Notes program. The holder has the option to require us to redeem these notes at any time without restriction. Demand Notes outstanding were $3.4 billion at September 30, 2014, compared to $3.2 billion at December 31, 2013. Refer to Note 12 and Note 13 to the Condensed Consolidated Financial Statements for additional information about our outstanding short-term borrowings and long-term unsecured debt, respectively.

Secured funding continues to be a significant source of financing at the parent company. The total capacity in our committed funding facilities is provided by banks and other financial institutions through private transactions. The committed secured funding facilities can be revolving in nature and allow for additional funding during the commitment period, or they can be amortizing and not allow for any further funding after the closing date. At September 30, 2014, $17.4 billion of our $19.1 billion of committed capacity was revolving. Our revolving facilities generally have an original tenor ranging from 364 days to two years. As of September 30, 2014, we had $15.1 billion of committed funding capacity from revolving facilities with a remaining tenor greater than 364 days. The parent company's largest facility is an $8.0 billion revolving syndicated credit facility secured by automotive receivables. In March 2014, we reduced and renewed this facility until March 2016. In the event this facility is not renewed at maturity, the outstanding debt will be repaid over time as the underlying collateral amortizes. At September 30, 2014, there was $7.2 billion outstanding under this facility. In addition to our syndicated revolving credit facility, we also maintain various bilateral and multilateral secured credit facilities that fund our Automotive Finance operations. These are primarily private securitization facilities that fund a specific pool of automotive assets.

During the third quarter of 2014, the parent company raised $676 million through a public securitization transaction comprised of non-prime retail automotive loan collateral.

At September 30, 2014, the parent company maintained exclusive access to $19.1 billion of committed secured credit facilities in the U.S. with outstanding debt of $14.6 billion including $0.9 billion in automotive assets funded through forward purchase commitments.

Recent Funding Developments

During the first nine months of 2014, we completed secured funding transactions, unsecured funding transactions, and renewed key existing funding facilities totaling $29.7 billion as we accessed both the public and private markets. Key funding highlights from January 1, 2014 to date were as follows:

- Ally Financial Inc. renewed, increased and/or extended $15.6 billion in U.S. credit facilities. The automotive credit facility renewal amount includes the March 2014 refinancing of $11.5 billion in credit facilities at both the parent company and Ally Bank with a syndicate of nineteen lenders. The $11.5 billion capacity is secured by retail, lease, and dealer floorplan automotive assets and is allocated to two separate facilities; one is an $8.0 billion facility maturing in March 2016, which is available to the parent company, while the other is a $3.5 billion facility available to Ally Bank maturing in June 2015.
- Ally Financial Inc. restructured two amortizing private U.S. credit facilities to enhance the efficiency of transactions. This resulted in $0.7 billion of additional funding.
- Ally Financial Inc. continued to access the public and private term asset-backed securitization markets completing eleven U.S. transactions through September 30, 2014, that raised $11.1 billion, with $8.4 billion and $2.7 billion raised by Ally Bank and the parent company, respectively.
- Ally Financial Inc. accessed the unsecured debt capital markets and raised nearly $2.3 billion.
- Ally Financial Inc. called $2.2 billion of high coupon, callable debt.
- In October 2014, Ally Financial Inc. completed a tender offer to buy back $750 million of its long-dated high-coupon debt.
- In October 2014, Ally Bank raised $1.1 billion through a public securitization backed by lease notes.

Funding Sources

The following table summarizes debt and other sources of funding and the amount outstanding under each category for the periods shown.

($ in millions)	Bank	Parent	Total	%
September 30, 2014				
Secured financings	$24,420	$20,707	$45,127	35
Institutional term debt	—	23,329	23,329	18
Retail debt programs (a)	—	3,684	3,684	3
Total debt (b)	24,420	47,720	72,140	56
Deposits (c)	56,483	368	56,851	44
Total on-balance sheet funding	$80,903	$48,088	$128,991	100
December 31, 2013				
Secured financings	$27,818	$19,776	$47,594	36
Institutional term debt	—	24,936	24,936	19
Retail debt programs (a)	—	5,035	5,035	4
Total debt (b)	27,818	49,747	77,565	59
Deposits (c)	52,910	440	53,350	41
Total on-balance sheet funding	$80,728	$50,187	$130,915	100

(a) Includes $0.3 billion and $1.8 billion of Retail Term Notes at September 30, 2014 and December 31, 2013, respectively.

(b) Excludes fair value adjustment as described in Note 22 to the Condensed Consolidated Financial Statements.

(c) Bank deposits include retail, brokered, and other deposits. Parent deposits include dealer deposits. Intercompany deposits are not included.

As a result of our funding strategy to shift originations to Ally Bank and grow the retail deposit base, the proportion of funding provided by retail deposits and Ally Bank has increased in 2014 from 2013 levels. Refer to Note 13 to the Condensed Consolidated Financial Statements for a summary of the scheduled maturity of long-term debt at September 30, 2014.

Committed Funding Facilities

($ in millions)	Outstanding September 30, 2014	Outstanding December 31, 2013	Unused Capacity (a) September 30, 2014	Unused Capacity (a) December 31, 2013	Total Capacity September 30, 2014	Total Capacity December 31, 2013
Bank funding						
Secured	$3,000	$2,750	$500	$250	$3,500	$3,000
Parent funding						
Secured (b)	14,613	15,159	4,517	6,497	19,130	21,656
Total committed facilities	$17,613	$17,909	$5,017	$6,747	$22,630	$24,656

(a) Funding from committed secured facilities is available on request in the event excess collateral resides in certain facilities or is available to the extent incremental collateral is available and contributed to the facilities.
(b) Includes the secured facility of Corporate Finance at December 31, 2013.

Cash Flows

Net cash provided by operating activities was $2.5 billion for the nine months ended September 30, 2014, compared to $4.4 billion for the same period in 2013. The decrease in net cash provided by operating activities was primarily due to a decrease in net cash inflows from sales and repayment of loans held-for-sale. During the nine months ended September 30, 2013, proceeds from sales and repayments of loans held-for-sale exceeded cash outflows from new originations and purchases of such loans by $2.4 billion. During the nine months ended September 30, 2014, this activity resulted in a net cash inflow of $0.1 billion, reflecting our decrease in mortgage loan origination activities.

Net cash provided by investing activities was $5 million for the nine months ended September 30, 2014, compared to $3.5 billion for the same period in 2013. The decrease in net cash provided from investing activities was primarily due to a $6.9 billion decrease in cash proceeds from the sale of international businesses. Also contributing to the decrease was a $2.5 billion decrease in net cash provided by finance receivables and loans and a decrease of $0.9 billion from the prior year sale of mortgage servicing rights. These decreases were partially offset by a $4.9 billion increase in net cash provided by sales, maturities and repayment of available-for-sale securities, net of purchases and a $1.9 billion decrease in net cash outflows from operating lease activity, primarily due to an increase in cash received from lease disposals.

Net cash used in financing activities for the nine months ended September 30, 2014, totaled $2.3 billion, compared to $10.9 billion in the same period in 2013. Cash used to repay long-term debt exceeded cash generated from long-term debt issuances by $2.3 billion for the nine months ended September 30, 2014. During the nine months ended September 30, 2013, cash used to repay debt exceeded cash from long-term debt issuances by $13.4 billion, as cash generated from the sale of international businesses was used in part to repay debt. Partially offsetting the decrease in cash used in financing activities was a $2.4 billion increase in cash provided by short-term borrowings and a $0.6 billion decrease in cash provided by deposits for the nine months ended September 30, 2014, when compared to the same period a year ago.

Capital Planning and Stress Tests

As a bank holding company with $50 billion or more of consolidated assets, Ally is required to conduct periodic stress tests and submit a proposed capital plan to the Board of Governors of the Federal Reserve System (FRB) every January, which the FRB must take action on by the following March. The proposed capital plan must include a description of all planned capital actions over a nine-quarter planning horizon. The proposed capital plan must also include a discussion of how Ally will maintain capital above the minimum regulatory capital ratios and above a Tier 1 common equity-to-total risk-weighted assets ratio of 5 percent, and serve as a source of strength to Ally Bank. The FRB must approve Ally's proposed capital plan before Ally may take any proposed capital action.

In November 2013, the FRB issued instructions for the 2014 Comprehensive Capital Analysis and Review (CCAR) and the 2014 supervisory stress test scenarios. On January 6, 2014, Ally and Ally Bank submitted the 2014 capital plan and stress tests as required by the rules and the 2014 CCAR instructions, and in March 2014, the FRB indicated

that it did not object to our 2014 capital plan. On July 7, 2014, in accordance with the requirements of the Dodd-Frank Act, Ally submitted to the FRB its results of a mid-year stress test conducted under multiple macroeconomic scenarios. Ally disclosed the results of the most severe scenario in September in accordance with regulatory requirements. On October 17, 2014 the FRB issued a final rule that modifies the capital plan rule and stress testing requirements. The final rule adjusts when bank holding companies must submit their capital plans to the FRB. For CCAR 2015, the bank holding companies are required to submit capital plans on or before January 5, 2015, unchanged from prior years. Beginning in 2016, bank holding companies will be required to submit their capital plans to the Federal Reserve on or before April 5.

In addition, each January, Ally Bank must conduct a stress test and submit the results to the FDIC.

Regulatory Capital

Refer to Note 18 to the Condensed Consolidated Financial Statements.

Credit Ratings

The cost and availability of unsecured financing are influenced by credit ratings, which are intended to be an indicator of the creditworthiness of a particular company, security, or obligation. Lower ratings result in higher borrowing costs and reduced access to capital

markets. This is particularly true for certain institutional investors whose investment guidelines require investment-grade ratings on term debt and the two highest rating categories for short-term debt (particularly money market investors).

Nationally recognized statistical rating organizations rate substantially all our debt. The following table summarizes our current ratings and outlook by the respective nationally recognized rating agencies.

Rating agency	Short-term	Senior debt	Outlook	Date of last action
Fitch	B	BB+	Stable	April 1, 2014 (a)
Moody’s	Not Prime	B1	Positive	July 14, 2014 (b)
S&P	B	BB	Stable	December 12, 2013 (c)
DBRS	R-4	BB	Positive	September 17, 2014 (d)

(a) Fitch upgraded our senior debt rating to BB+ from BB and affirmed our short term rating of B on April 1, 2014.

(b) Moody's affirmed our corporate family rating of Ba3, senior debt rating of B1, and short term rating of Not Prime and changed the outlook to Positive on July 14, 2014.

(c) Standard & Poor's upgraded our senior debt rating to BB from B+ and upgraded our short term rating to B from C on December 12, 2013.

(d) DBRS confirmed our senior debt rating of BB, confirmed our short term rating of R-4, and changed the trend on Ally's senior debt to Positive on September 17, 2014.

Off-balance Sheet Arrangements

Refer to Note 8 to the Condensed Consolidated Financial Statements.

Purchase Obligations

Certain of the structures related to whole-loan sales, securitization transactions, and other off-balance sheet activities contain provisions that are standard in the whole-loan sale and securitization markets where we may (or, in certain limited circumstances, are obligated to) purchase specific assets from entities. Our obligations are as follows.

Loan Repurchases and Obligations Related to Loan Sales

Ally Bank, within our Mortgage operations, previously sold loans that took the form of securitizations guaranteed by Fannie Mae and Freddie Mac; and in connection with these securitizations, provided certain representations and warranties related to the ownership of the loans, validity of liens securing the loans, and compliance with the criteria for the inclusion in the transaction. These representations and warranties may require Ally Bank to repurchase certain loans, indemnify the investor for incurred losses, or otherwise make the investor whole. For the three months and nine months ended September 30, 2014, Ally Bank received minimal repurchase claims. The representation and warranty reserve was $37 million and $45 million at September 30, 2014 and December 31, 2013, respectively.

Critical Accounting Estimates

We identified critical accounting estimates that, as a result of judgments, uncertainties, uniqueness, and complexities of the underlying accounting standards and operations involved could result in material changes to our financial condition, results of operations, or cash flows under different conditions or using different assumptions.

Our most critical accounting estimates are as follows.

- Allowance for loan losses
- Valuation of automobile lease assets and residuals
- Fair value of financial instruments
- Legal and regulatory reserves
- Loan repurchase and obligations related to loan sales
- Determination of provision for income taxes

There have been no significant changes in the methodologies and processes used in developing these estimates from what was described in our 2013 Annual Report on Form 10-K.

Refer to Note 1 to the Condensed Consolidated Financial Statements for further discussion regarding the methodology used in calculating the provision for income taxes for interim financial reporting.

107

Statistical Table

The accompanying supplemental information should be read in conjunction with the more detailed information, including our Condensed Consolidated Financial Statements and the notes thereto, which appears elsewhere in this Quarterly Report.

Net Interest Margin Table

The following table presents an analysis of net interest margin excluding discontinued operations for the periods shown.

	2014			2013			(Decrease) increase due to (a)		
Three months ended September 30, ($ in millions)	Average balance (b)	Interest income/ interest expense	Yield/ rate	Average balance (b)	Interest income/ interest expense	Yield/ rate	Volume	Yield/rate	Total
Assets									
Interest-bearing cash and cash equivalents	$3,867	$2	0.21 %	$7,150	$3	0.17 %	$(2)	$ 1	$(1)
Investment securities (c)	16,182	88	2.16	15,724	79	1.99	2	7	9
Loans held-for-sale, net	3	—	—	67	—	—	—	—	—
Finance receivables and loans, net (d) (g)	100,089	1,114	4.42	94,999	1,119	4.67	59	(64)	(5)
Investment in operating leases, net (e)	19,114	350	7.26	16,744	317	7.51	43	(10)	33
Total interest-earning assets	139,255	1,554	4.43	134,684	1,518	4.47	102	(66)	36
Noninterest-bearing cash and cash equivalents	1,688			1,546					
Other assets (f)	10,323			15,463					
Allowance for loan losses	(1,174)			(1,197)					
Total assets	$150,092			$150,496					
Liabilities									
Interest-bearing deposit liabilities	$56,301	$166	1.17 %	$50,886	$163	1.27 %	$16	$ (13)	$3
Short-term borrowings	6,187	12	0.77	4,505	15	1.32	4	(7)	(3)
Long-term debt (g) (h) (i)	67,687	493	2.89	63,333	609	3.81	40	(156)	(116)
Total interest-bearing liabilities (g) (h) (j)	130,175	671	2.05	118,724	787	2.63	60	(176)	(116)
Noninterest-bearing deposit liabilities	75			67					
Total funding sources (h) (k)	130,250	671	2.04	118,791	787	2.63			
Other liabilities (l)	4,856			12,664					
Total liabilities	135,106			131,455					
Total equity	14,986			19,041					
Total liabilities and equity	$150,092			$150,496					
Net financing revenue		$883			$731		$42	$ 110	$152
Net interest spread (m)			2.38 %			1.84 %			

Net interest spread excluding original issue discount (m)	2.55 %	2.09 %
Net interest spread excluding original issue discount and including noninterest-bearing deposit liabilities (m)	2.55 %	2.09 %
Net yield on interest-earning assets (n)	2.52 %	2.15 %
Net yield on interest-earning assets excluding original issue discount (n)	2.65 %	2.34 %

(a) Changes in interest not solely due to volume or yield/rate are allocated in proportion to the absolute dollar amount of change in volume and yield/rate.

(b) Average balances are calculated using a combination of monthly and daily average methodologies.

(c) Excludes equity investments with an average balance of $793 million and $995 million at September 30, 2014 and 2013, respectively, and related income on equity investments of $6 million during the three months ended September 30, 2014 and 2013, respectively. Yields on available-for-sale debt securities are based on fair value as opposed to historical cost.

(d) Nonperforming finance receivables and loans are included in the average balances. For information on our accounting policies regarding nonperforming status, refer to Note 1 to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K.

(e) Includes gains on sale of $105 million and $95 million during the three months ended September 30, 2014 and 2013, respectively. Excluding these gains on sale, the annualized yield would be 5.09% and 5.26% at September 30, 2014 and 2013, respectively.

(f) Includes average balances of assets of discontinued operations.

(g) Includes the effects of derivative financial instruments designated as hedges.

(h) Average balance includes $1,411 million and $1,631 million related to original issue discount at September 30, 2014 and 2013, respectively. Interest expense includes original issue discount amortization of $47 million and $64 million during the three months ended September 30, 2014 and 2013, respectively.

(i) Excluding original issue discount the rate on long-term debt was 2.56% and 3.33% at September 30, 2014 and 2013, respectively.

(j) Excluding original issue discount the rate on total interest-bearing liabilities was 1.88% and 2.38% at September 30, 2014 and 2013, respectively.

(k) Excluding original issue discount the rate on total funding sources was 1.88% and 2.38% at September 30, 2014 and 2013, respectively.

(l) Includes average balances of liabilities of discontinued operations.

(m) Net interest spread represents the difference between the rate on total interest-earning assets and the rate on total interest-bearing liabilities.

(n) Net yield on interest-earning assets represents net financing revenue as a percentage of total interest-earning assets.

	2014			2013			(Decrease) increase due to (a)		
Nine months ended September 30, ($ in millions)	Average balance (b)	Interest income/ interest expense	Yield/ rate	Average balance (b)	Interest income/ interest expense	Yield/ rate	Volume	Yield/rate	Total
Assets									
Interest-bearing cash and cash equivalents	$4,339	$6	0.18 %	$6,582	$8	0.16 %	$(3)	$ 1	$(2)
Investment securities (c)	15,826	264	2.23	14,748	210	1.90	16	38	54
Loans held-for-sale, net	13	1	10.28	790	19	3.22	(32)	14	(18)
Finance receivables and loans, net (d) (g)	99,769	3,345	4.48	97,202	3,393	4.67	88	(136)	(48)
Investment in operating leases, net (e)	18,556	1,053	7.59	15,528	905	7.79	173	(25)	148
Total interest-earning assets	138,503	4,669	4.51	134,850	4,535	4.50	242	(108)	134
Noninterest-bearing cash and cash equivalents	1,560			1,732					
Other assets (f)	11,167			23,340					
Allowance for loan losses	(1,193)			(1,188)					
Total assets	$150,037			$158,734					
Liabilities									
Interest-bearing deposit liabilities	$55,361	$495	1.20 %	$49,476	$489	1.32 %	$56	$ (50)	$6
Short-term borrowings	6,325	40	0.85	4,383	47	1.43	16	(23)	(7)
Long-term debt (g) (h) (i)	68,143	1,576	3.09	66,853	2,013	4.03	38	(475)	(437)
Total interest-bearing liabilities (g) (h) (j)	129,829	2,111	2.17	120,712	2,549	2.82	110	(548)	(438)
Noninterest-bearing deposit liabilities	69			677					
Total funding sources (h) (k)	129,898	2,111	2.17	121,389	2,549	2.81			
Other liabilities (l)	5,484			17,696					
Total liabilities	135,382			139,085					
Total equity	14,655			19,649					
Total liabilities and equity	$150,037			$158,734					
Net financing revenue		$2,558			$1,986		$132	$ 440	$572
Net interest spread (m)			2.34 %			1.68 %			
Net interest spread excluding original issue discount (m)			2.50 %			1.91 %			
Net interest spread excluding original issue discount and including noninterest-bearing deposit liabilities (m)			2.50 %			1.93 %			
			2.47 %			1.97 %			

Net yield on interest-earning assets (n)		
Net yield on interest-earning assets excluding original issue discount (n)	2.60 %	2.15 %

(a) Changes in interest not solely due to volume or yield/rate are allocated in proportion to the absolute dollar amount of change in volume and yield/rate.

(b) Average balances are calculated using a combination of monthly and daily average methodologies.

(c) Excludes equity investments with an average balance of $868 million and $1,011 million at September 30, 2014 and 2013, respectively. Excludes income on equity investments of $18 million and $19 million during the nine months ended September 30, 2014 and 2013, respectively. Yields on available-for-sale debt securities are based on fair value as opposed to historical cost.

(d) Nonperforming finance receivables and loans are included in the average balances. For information on our accounting policies regarding nonperforming status, refer to Note 1 to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K.

(e) Includes gains on sale of $382 million and $250 million during the nine months ended September 30, 2014 and 2013, respectively. Excluding these gains on sale, the annualized yield would be 4.83% and 5.64% at September 30, 2014 and 2013, respectively.

(f) Includes average balances of assets of discontinued operations.

(g) Includes the effects of derivative financial instruments designated as hedges.

(h) Average balance includes $1,462 million and $1,692 million related to original issue discount at September 30, 2014 and 2013, respectively. Interest expense includes original issue discount amortization of $137 million and $182 million during the nine months ended September 30, 2014 and 2013, respectively.

(i) Excluding original issue discount the rate on long-term debt was 2.76% and 3.57% at September 30, 2014 and 2013, respectively.

(j) Excluding original issue discount the rate on total interest-bearing liabilities was 2.01% and 2.59% at September 30, 2014 and 2013, respectively.

(k) Excluding original issue discount the rate on total funding sources was 2.01% and 2.57% at September 30, 2014 and 2013, respectively.

(l) Includes average balances of liabilities of discontinued operations.

(m) Net interest spread represents the difference between the rate on total interest-earning assets and the rate on total interest-bearing liabilities.

(n) Net yield on interest-earning assets represents net financing revenue as a percentage of total interest-earning assets.

Recently Issued Accounting Standards

Refer to Note 1 to the Condensed Consolidated Financial Statements.

Forward-looking Statements

The foregoing Management’s Discussion and Analysis of Financial Condition and Results of Operations and other portions of this Form 10-Q contain various forward-looking statements within the meaning of applicable federal securities laws, including the Private Securities Litigation Reform Act of 1995, that are based upon our current expectations and assumptions concerning future events that are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated.

The words “expect,” “anticipate,” “estimate,” “forecast,” “initiative,” “objective,” “plan,” “goal,” “project,” “outlook,” “priorit “intend,” “evaluate,” “pursue,” “seek,” “may,” “would,” “could,” “should,” “believe,” “potential,” “continue,” or the negative o words or similar expressions is intended to identify forward-looking statements. All statements herein, other than statements of historical fact, including without limitation statements about future events and financial performance, are forward-looking statements that involve certain risks and uncertainties.

While these statements represent our current judgment on what the future may hold, and we believe these judgments are reasonable, these statements are not guarantees of any events or financial results, and Ally's actual results may differ materially due to numerous important factors that are described in the most recent reports on SEC Forms 10-K and 10-Q for Ally, each of which may be revised or supplemented in subsequent reports filed with the SEC. Such factors include, among others, the following: maintaining the mutually beneficial relationship between Ally and General Motors ("GM"), and Ally and Chrysler Group LLC ("Chrysler"); our ability to maintain relationships with automotive dealers; our ability to realize the anticipated benefits associated with being a financial holding company, and the significant regulation and restrictions that we are subject to; the potential for deterioration in the residual value of off-lease vehicles; disruptions in the market in which we fund our operations, with resulting negative impact on our liquidity; changes in our accounting assumptions that may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings; changes in the credit ratings of Ally, Chrysler, or GM; changes in economic conditions, currency exchange rates or political stability in the markets in which we operate; and changes in the existing or the adoption of new laws, regulations, policies or other activities of governments, agencies and similar organizations (including as a result of the Dodd-Frank Act and Basel III).

Use of the term “loans” describes products associated with direct and indirect lending activities of Ally’s global operations. The specific products include retail installment sales contracts, loans, lines of credit, leases or other financing products. The term “originate” refers to Ally’s purchase, acquisition, or direct origination of various “loan” products.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to the Market Risk sections of Item 2, Management's Discussion and Analysis.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), designed to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized, and reported within the specified time periods. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer evaluated, with the participation of our management, the effectiveness of our disclosure controls and procedures and concluded that our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Our management, including our Principal Executive Officer and Principal Financial Officer, does not expect that our disclosure controls or our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Ally have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Table of Contents
PART II — OTHER INFORMATION
Ally Financial Inc. • Form 10-Q

Item 1. Legal Proceedings
Refer to Note 26 to the Condensed Consolidated Financial Statements (incorporated herein by reference) for a discussion related to our legal proceedings, which supplements the discussion of legal proceedings set forth in Note 29 to our 2013 Annual Report on Form 10-K.
Item 1A. Risk Factors
There have been no material changes to the Risk Factors described in our 2013 Annual Report on Form 10-K and subsequent quarterly reports on Form 10-Q for the three months ended March 31, 2014, and the three months and six months ended June 30, 2014.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Repurchases Under Share-Based Incentive Plans
The following table presents repurchases of our common stock, by month, for the three months ended September 30, 2014. All repurchases reflected below include only shares of common stock that were withheld to cover income taxes owed by participants in our share-based incentive plans.

Three months ended September 30, 2014	Total number of shares repurchased	Weighted-average price paid per share
July 2014	1,188	$24.06
August 2014	20,987	23.92
September 2014	131	23.45
Total	22,306	$23.92

Item 3. Defaults upon Senior Securities
None.
Item 4. Mine Safety Disclosures
Not applicable.
Item 5. Other Information
None.
Item 6. Exhibits
The exhibits listed on the accompanying Index of Exhibits are filed as a part of this report. This Index is incorporated herein by reference.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 31st day of October, 2014.

Ally Financial Inc.
(Registrant)

/S/ CHRISTOPHER A. HALMY
Christopher A. Halmy
Chief Financial Officer

/S/ DAVID J. DEBRUNNER
David J. DeBrunner
Vice President, Chief Accounting Officer, and
Corporate Controller

Table of Contents

Ally Financial Inc. • Form 10-Q

INDEX OF EXHIBITS

Exhibit	Description	Method of Filing
12	Computation of Ratio of Earnings to Fixed Charges	Filed herewith.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)	Filed herewith.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)	Filed herewith.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350	Filed herewith.
101	Interactive Data File	Filed herewith.