Ally Financial Inc.
Form 10-Q
November 02, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016, or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-3754
ALLY FINANCIAL INC.
(Exact name of registrant as specified in its charter)

Delaware	38-0572512
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Ally Detroit Center
500 Woodward Ave.
Floor 10, Detroit, Michigan
48226
(Address of principal executive offices)
(Zip Code)
(866) 710-4623
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for a shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
At October 31, 2016, the number of shares outstanding of the Registrant's common stock was 471,597,537 shares.

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Item 1. Financial Statements
Condensed Consolidated Statement of Comprehensive Income (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2016	2015	2016	2015
Financing revenue and other interest income				
Interest and fees on finance receivables and loans	$1,307	$1,166	$3,807	$3,358
Interest on loans held-for-sale	—	2	—	40
Interest and dividends on investment securities	101	102	302	283
Interest on cash and cash equivalents	3	2	10	6
Operating leases	649	830	2,119	2,586
Total financing revenue and other interest income	2,060	2,102	6,238	6,273
Interest expense				
Interest on deposits	212	181	608	530
Interest on short-term borrowings	14	13	39	36
Interest on long-term debt	430	410	1,308	1,258
Total interest expense	656	604	1,955	1,824
Depreciation expense on operating lease assets	408	528	1,352	1,713
Net financing revenue	996	970	2,931	2,736
Other revenue				
Insurance premiums and service revenue earned	238	236	704	706
(Loss) gain on mortgage and automotive loans, net	—	(2)	4	45
Loss on extinguishment of debt	—	—	(4)	(354)
Other gain on investments, net	52	6	145	106
Other income, net of losses	98	92	289	283
Total other revenue	388	332	1,138	786
Total net revenue	1,384	1,302	4,069	3,522
Provision for loan losses	258	211	650	467
Noninterest expense				
Compensation and benefits expense	248	235	742	726
Insurance losses and loss adjustment expenses	69	61	287	239
Other operating expenses	418	378	1,189	1,128
Total noninterest expense	735	674	2,218	2,093
Income from continuing operations before income tax expense	391	417	1,201	962
Income tax expense from continuing operations	130	144	336	341
Net income from continuing operations	261	273	865	621
(Loss) income from discontinued operations, net of tax	(52)	(5)	(46)	405
Net income	209	268	819	1,026
Other comprehensive (loss) income, net of tax	(4)	61	262	(56)
Comprehensive income	$205	$329	$1,081	$970

Statement continues on the next page.
The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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(in dollars) (a)	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
Basic earnings per common share				
Net income (loss) from continuing operations	$0.54	$0.49	$1.73	$(1.52)
(Loss) income from discontinued operations, net of tax	(0.11)	(0.01)	(0.10)	0.84
Net income (loss)	$0.43	$0.48	$1.63	$(0.68)
Diluted earnings per common share				
Net income (loss) from continuing operations	$0.54	$0.49	$1.72	$(1.52)
(Loss) income from discontinued operations, net of tax	(0.11)	(0.01)	(0.10)	0.84
Net income (loss)	$0.43	$0.47	$1.63	$(0.68)
Cash dividends per common share	$0.08	$—	$0.08	$—

(a) Figures in the table may not recalculate exactly due to rounding. Earnings per share is calculated based on unrounded numbers.

Refer to Note 18 for additional earnings per share information, including the impact of preferred stock dividends recognized in connection with the partial redemption of the Series G Preferred Stock and the repurchase of the Series A Preferred Stock for the three months and nine months ended September 30, 2015. The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Balance Sheet (unaudited)
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($ in millions, except share data)	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents		
Noninterest-bearing	$ 1,779	$ 2,148
Interest-bearing	2,510	4,232
Total cash and cash equivalents	4,289	6,380
Available-for-sale securities (refer to Note 6 for discussion of investment securities pledged as collateral)	17,701	17,157
Held-to-maturity securities	649	—
Loans held-for-sale, net	56	105
Finance receivables and loans, net		
Finance receivables and loans, net of unearned income	114,959	111,600
Allowance for loan losses	(1,134)	(1,054)
Total finance receivables and loans, net	113,825	110,546
Investment in operating leases, net	12,689	16,271
Premiums receivable and other insurance assets	1,881	1,801
Other assets	6,307	6,321
Total assets	$ 157,397	$ 158,581
Liabilities		
Deposit liabilities		
Noninterest-bearing	$ 101	$ 89
Interest-bearing	75,643	66,389
Total deposit liabilities	75,744	66,478
Short-term borrowings	6,434	8,101
Long-term debt	56,836	66,234
Interest payable	462	350
Unearned insurance premiums and service revenue	2,493	2,434
Accrued expenses and other liabilities	1,798	1,545
Total liabilities	143,767	145,142
Contingencies (refer to Note 26)		
Equity		
Common stock and paid-in capital ($0.01 par value, shares authorized 1,100,000,000; issued 485,431,852 and 482,790,696; and outstanding 475,469,882 and 481,980,111)	21,149	21,100
Preferred stock	—	696
Accumulated deficit	(7,361)	(8,110)
Accumulated other comprehensive income (loss)	31	(231)
Treasury stock, at cost (9,961,970 and 810,585 shares)	(189)	(16)
Total equity	13,630	13,439
Total liabilities and equity	$ 157,397	$ 158,581

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

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

($ in millions)	September 30, 2016	December 31, 2015
Assets		
Finance receivables and loans, net		
Finance receivables and loans, net of unearned income	$ 26,009	$ 27,929
Allowance for loan losses	(193)	(196)
Total finance receivables and loans, net	25,816	27,733
Investment in operating leases, net	2,337	4,791
Other assets	1,189	1,624
Total assets	$ 29,342	$ 34,148
Liabilities		
Long-term debt	$ 15,985	$ 20,267
Accrued expenses and other liabilities	14	22
Total liabilities	$ 15,999	$ 20,289

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Condensed Consolidated Statement of Changes in Equity (unaudited)
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($ in millions)	Common stock and paid-in capital	Preferred stock	Accumulated deficit	Accumulated other comprehensive (loss) income	Treasury stock	Total equity
Balance at January 1, 2015	$ 21,038	$ 1,255	$ (6,828)	$ (66)	$ —	$ 15,399
Net income			1,026			1,026
Preferred stock dividends			(1,356) (a)			(1,356)
Series A preferred stock repurchase		(325)				(325)
Series G preferred stock redemption		(117)				(117)
Share-based compensation	44					44
Other comprehensive loss				(56)		(56)
Share repurchases related to employee stock-based compensation awards					(16)	(16)
Balance at September 30, 2015	$ 21,082	$ 813	$ (7,158)	$ (122)	$ (16)	$ 14,599
Balance at January 1, 2016	$ 21,100	$ 696	$ (8,110)	$ (231)	$ (16)	$ 13,439
Net income			819			819
Preferred stock dividends			(30)			(30)
Series A preferred stock redemption		(696)				(696)
Share-based compensation	49					49
Other comprehensive income				262		262
Common stock repurchases (b)					(173)	(173)
Common stock dividend			(40)			(40)
Balance at September 30, 2016	$ 21,149	$ —	$ (7,361)	$ 31	$ (189)	$ 13,630

(a) Preferred stock dividends include $1,193 million recognized in connection with the partial redemption of the Series G Preferred Stock and the repurchase of the Series A Preferred Stock. These dividends represent an additional return to preferred shareholders calculated as the excess consideration paid over the carrying amount derecognized.
(b) Includes shares repurchased related to employee stock-based compensation awards.

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

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Condensed Consolidated Statement of Cash Flows (unaudited)
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Nine months ended September 30, ($ in millions)	2016	2015
Operating activities		
Net income	$ 819	$ 1,026
Reconciliation of net income to net cash provided by operating activities		
Depreciation and amortization	1,807	2,130
Provision for loan losses	650	467
Gain on mortgage and automotive loans, net	(4)	(45)
Other gain on investments, net	(145)	(106)
Loss on extinguishment of debt	4	354
Originations and purchases of loans held-for-sale	(141)	(1,594)
Proceeds from sales and repayments of loans originated as held-for-sale	184	1,580
Gain on sale of subsidiaries, net	—	(452)
Net change in		
Deferred income taxes	322	406
Interest payable	112	(40)
Other assets	16	528
Other liabilities	(65)	(212)
Other, net	30	(72)
Net cash provided by operating activities	3,589	3,970
Investing activities		
Purchases of available-for-sale securities	(11,027)	(10,011)
Proceeds from sales of available-for-sale securities	8,546	4,408
Proceeds from maturities and repayment of available-for-sale securities	2,411	3,141
Purchases of held-to-maturity securities	(650)	—
Net increase in finance receivables and loans	(8,308)	(9,175)
Proceeds from sales of finance receivables and loans originated as held-for-investment	4,221	2,665
Purchases of operating lease assets	(2,360)	(3,423)
Disposals of operating lease assets	4,631	3,855
Acquisitions, net of cash acquired	(309)	—
Proceeds from sale of business unit, net (a)	—	1,049
Net change in restricted cash	622	489
Net change in nonmarketable equity investments	(401)	(42)
Other, net	(157)	25
Net cash used in investing activities	(2,781)	(7,019)

Statement continues on the next page.

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

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Condensed Consolidated Statement of Cash Flows (unaudited)
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Nine months ended September 30, ($ in millions)	2016	2015
Financing activities		
Net change in short-term borrowings	(1,673)	(1,692)
Net increase in deposits	9,240	5,797
Proceeds from issuance of long-term debt	11,229	23,866
Repayments of long-term debt	(20,758)	(23,454)
Repurchase and redemption of preferred stock	(696)	(442)
Repurchase of common stock	(173)	(16)
Dividends paid	(70)	(1,356)
Net cash (used in) provided by financing activities	(2,901)	2,703
Effect of exchange-rate changes on cash and cash equivalents	2	(3)
Net decrease in cash and cash equivalents	(2,091)	(349)
Cash and cash equivalents at beginning of year	6,380	5,576
Cash and cash equivalents at September 30,	$4,289	$5,227
Supplemental disclosures		
Cash paid for		
Interest	$1,860	$1,825
Income taxes	16	95
Noncash items		
Finance receivables and loans transferred to loans held-for-sale	4,231	777
Other disclosures		
Proceeds from sales and repayments of mortgage loans held-for-investment originally designated as held-for-sale	28	61

(a) Cash flows of discontinued operations are reflected within operating, investing, and financing activities in the Condensed Consolidated Statement of Cash Flows.

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

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

Ally Financial Inc. (referred to herein as Ally, Parent, we, our, or us) is a leading digital financial services company offering financial products for consumers, businesses, automotive dealers and corporate clients. Founded in 1919, we have over 95 years of experience providing a broad array of financial products and services. We operate as a financial holding company (FHC) and a bank holding company (BHC). Our banking subsidiary, Ally Bank, is an award-winning online bank, and an indirect, wholly-owned subsidiary of Ally Financial Inc. with a distinct brand and relentless focus on customers, offering a variety of deposit and other banking products.

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

The Condensed Consolidated Financial Statements at September 30, 2016, and for the three months and nine months ended September 30, 2016, and 2015, are unaudited but reflect all adjustments that are, in management’s opinion, necessary for the fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature, except for within the Condensed Consolidated Statement of Cash Flows and related disclosures in Note 25 to the Condensed Consolidated Financial Statements, where an immaterial amount related to the repurchase of common stock for the period ended September 30, 2015, was reclassified from operating activities to financing activities to appropriately present the prior period amounts.

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements (and the related Notes) included in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed on February 24, 2016, with the U.S. Securities and Exchange Commission (SEC), as amended by the Current Report on Form 8-K filed with the SEC on May 5, 2016 (referred to herein as the Annual Consolidated Financial Statements).

Change in Reportable Segments

As a result of a change in how management views and operates our business, during the first quarter of 2016, we made changes in the composition of our operating segments. Financial information related to our Corporate Finance business is presented as a separate reportable segment. Previously, all such activity was included in Corporate and Other. Additionally, only the activity of our ongoing bulk acquisitions of mortgage loans and other originations and refinancing is presented in Mortgage Finance operations. The activity related to the management of our legacy mortgage portfolio is included in Corporate and Other. Our other operating segments, Automotive Finance operations and Insurance operations, were unchanged. Amounts for 2015 have been adjusted to conform to the current management view. In connection with the change in operating segments, we defined additional classes of finance receivables and loans: Mortgage Finance and Mortgage — Legacy. Mortgage Finance includes consumer mortgage loans from our ongoing mortgage operations and Mortgage — Legacy includes consumer mortgage loans originated prior to 2009.

Significant Accounting Policies

Business Combinations

We account for our business acquisitions using the acquisition method of accounting. Under this method we generally record the initial carrying values of purchased assets, including identifiable intangible assets, and assumed liabilities at fair value on the acquisition date. We recognize goodwill when the acquisition price is greater than the fair value of the net assets acquired, including identifiable intangible assets. The initial fair value of recognized assets and liabilities are subject to refinement during the measurement period, a period up to one year after the closing date of an acquisition, as information relative to closing date fair values becomes available. Costs directly related to business combinations are recorded as expenses as they are incurred.

Goodwill and Other Intangibles

Goodwill and intangible assets, net of accumulated amortization, are reported in other assets.

Our intangible assets primarily consist of acquired customer relationships and developed technology, and are amortized using a straight line methodology over their estimated useful lives. We review intangible assets for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If it is determined the carrying amount of the asset is not recoverable, an impairment charge is recorded. Refer to Note 2 for further discussion on intangible assets.

Goodwill represents the excess of the cost of an acquisition over the fair value of net assets acquired, including identifiable intangibles. We allocate goodwill to applicable reporting units based on the relative fair value of other net assets allocated to those reporting units at the time of the acquisition. In the event we restructure our business, we may reallocate goodwill. We test goodwill for impairment annually, or more frequently if events and changes in circumstances indicate that it is more likely than not that impairment exists. Our annual goodwill impairment test is performed as of August 31 of each year. In certain situations, we may perform a qualitative assessment to test goodwill for impairment. We may also decide to bypass the qualitative assessment and perform a quantitative assessment. If we perform the qualitative assessment to test goodwill for impairment and conclude that it is more likely than not that the reporting unit’s fair value is greater than its carrying value, then the quantitative assessment is not required. However, if we perform the qualitative assessment and determine that is it more likely than not that a reporting unit's fair value is less than its carrying value, then we must perform the quantitative assessment. The quantitative assessment uses a two-step process. The first step of the assessment requires us to compare the fair value of each of the reporting units to their respective carrying value. The fair value of the reporting units in our quantitative assessment is determined based on various analyses including discounted cash flow projections using assumptions a market participant would use. If the carrying value is less than the fair value, no impairment exists, and the second step does not need to be completed. If the carrying value is higher than the fair value or there is an indication that impairment may exist, a second step must be performed where we determine the implied value of goodwill based on the individual fair values of the reporting unit's assets and liabilities, including unrecognized intangibles, to compute the amount of the impairment. Refer to Note 2 for further discussion on goodwill.

Income Taxes

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

Investments

Our portfolio of investments includes various debt and marketable equity securities and nonmarketable equity investments. Debt and marketable equity securities are classified based on management's intent to sell or hold the security. We classify debt securities as held-to-maturity only when we have both the intent and ability to hold the securities to maturity. We classify debt and marketable equity securities as trading when the securities are acquired for the purpose of selling or holding them for a short period of time. Securities not classified as either held-to-maturity or trading are classified as available-for-sale.

Our debt and marketable equity securities include government securities, corporate bonds, asset-backed securities (ABS), mortgage-backed securities (MBS), equity securities and other investments. Our portfolio includes securities classified as available-for-sale and held-to-maturity. Our available-for-sale securities are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income or loss and are subject to impairment. Our held-to-maturity securities are carried at amortized cost and are subject to impairment.

We amortize premiums and discounts on debt securities as an adjustment to investment yield generally over the stated maturity of the security. For ABS and MBS where prepayments can be reasonably estimated, amortization is adjusted for expected prepayments.

Additionally, we assess our debt and marketable equity securities for potential other-than-temporary impairment. We employ a methodology that considers available evidence in evaluating potential other-than-temporary impairment of our debt and marketable equity securities classified as available-for-sale and held-to-maturity. If the cost of an investment exceeds its fair value, we evaluate, among other factors, the magnitude and duration of the decline in fair value. We also evaluate the financial health of and business outlook for the issuer, the performance of the underlying assets for interests in securitized assets, and, for securities classified as available-for-sale, our intent and ability to hold the investment through recovery of its amortized cost basis.

Once a decline in fair value of a debt security is determined to be other-than-temporary, an impairment charge for the credit component is recorded to other gain (loss) on investments, net, in our Consolidated Statement of Income, and a new cost basis in the investment is established. The noncredit loss component of a debt security is recorded in other comprehensive income (loss) when we do not intend to sell the security and it is not more likely than not that we will have to sell the security prior to the security's anticipated recovery. The credit and noncredit loss components are recorded in earnings when we intend to sell the security or it is more likely than not that we will have to sell the security prior to the security's anticipated recovery. Unrealized losses that we have determined to be other-than-temporary on equity securities are recorded to other gain (loss) on investments, net in our Consolidated Statement of Income. Subsequent increases and decreases to the fair value of available-for-sale debt and equity securities are included in other comprehensive income (loss), so long as they are not attributable to another other-than-temporary impairment.

Realized gains and losses on investment securities are reported in other gain (loss) on investments, net, and are determined using the specific identification method. For information on our debt and marketable equity securities, refer to Note 6.

In addition to our investments in debt and marketable equity securities, we hold equity positions in other entities. These positions include Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock held to meet regulatory requirements, other equity investments that are not publicly traded and do not have a readily determinable fair value, equity investments in low income housing tax credits, and Community Reinvestment Act (CRA) equity investments. Our investments in FHLB and FRB stock and other equity investments are accounted for using the cost method of accounting. Our low income housing tax credit investments are accounted for using the proportionate amortization method of accounting for qualified affordable housing investments. Our CRA investments are accounted for using the equity method of accounting. Our FHLB and FRB stock and other equity investments carried at cost are included in nonmarketable equity investments in other assets. Our investments in low income housing tax credits and CRA are also included in other assets. As conditions warrant, we review our investments carried at cost for impairment and will adjust the carrying value of the investment if it is deemed to be impaired. No impairment was recognized in 2016 or 2015. For more information on our nonmarketable equity investments, refer to Note 22.

Refer to Note 1 to the Annual Consolidated Financial Statements regarding additional significant accounting policies.

Recently Adopted Accounting Standards

Consolidation — Amendments to the Consolidation Analysis (ASU 2015-02)

As of January 1, 2016, we adopted ASU (Accounting Standards Update) 2015-02. The amendments in this update modify the requirements of consolidation with respect to entities that are or are similar in nature to limited partnerships or are variable interest entities (VIEs). For entities that are or are similar to limited partnerships, the guidance clarifies the evaluation of kick-out rights, removes the presumption that the general partner will consolidate and generally states that such entities will be presumed to be VIEs unless proven otherwise. For VIEs, the guidance modifies the analysis related to the evaluation of servicing fees, excludes servicing fees that are deemed commensurate with the level of service required from the determination of the primary beneficiary and clarifies certain considerations related to the consolidation analysis when performing a related party assessment. The amendments in this guidance did not impact our historical VIE and consolidation conclusions. No adjustments to our consolidated financial statements were required as a result of the adoption of this guidance.

Recently Issued Accounting Standards

Revenue from Contracts with Customers (ASU 2014-09) and Revenue from Contracts with Customers — Deferral of the Effective Date (ASU 2015-14)

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09. The purpose of this guidance is to streamline and consolidate existing revenue recognition principles in GAAP and to converge revenue recognition principles with International Financial Reporting Standards (IFRS). The core principle of the amendments is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for those goods or services. The amendments include a five step process for consideration of the main principle, guidance on the accounting treatment for costs associated with a contract, and disclosure requirements related to the revenue process. As originally issued, the amendments in ASU 2014-09 were to be effective beginning on January 1, 2017. However, in August 2015, the FASB issued ASU 2015-14, which deferred the effective date of the guidance until January 1, 2018, and permitted early adoption as of the original effective date in ASU 2014-09. The FASB created a transition resource group to work with stakeholders and clarify the new guidance as necessary. The FASB has issued and is anticipating issuing additional ASUs to provide clarifying guidance and implementation support for ASU 2014-09. Management will consider these additional ASUs when assessing the overall impact of ASU 2014-09. The amendments to the revenue recognition principles can be applied on adoption either through a full retrospective application or on a modified basis with a cumulative effect adjustment on the date of initial adoption with certain practical expedients. Management has determined certain contractual arrangements are in scope of this guidance and is reviewing those in scope in order to determine the impact of the adoption of this guidance.

Financial Instruments — Recognition and Measurement of Financial Assets (ASU 2016-01)

In January 2016, the FASB issued ASU 2016-01. The amendments in this update modify the requirements related to the measurement of certain financial instruments in the statement of financial condition and results of operation. For equity investments (other than investments accounted for using the equity method), entities must measure such instruments at fair value with changes in fair value recognized in net income. Changes in fair value for available-for-sale equity securities will no longer be recognized through other comprehensive income. Reporting entities may continue to elect to measure equity investments that do not have a readily determinable fair value at cost with adjustments for impairment and observable changes in price. In addition, for a liability (other than a derivative liability) that an entity measures at fair value, any change in fair value related to the instrument-specific credit risk, that is the entity’s own-credit, should be presented separately in other comprehensive income and not as a component of net income. The amendments are effective on January 1, 2018, with early adoption permitted solely for the provisions pertaining to instrument-specific credit risk for liabilities measured at fair value. The amendments must be applied on a modified retrospective basis with a cumulative effect adjustment as of the beginning of the fiscal year of initial adoption. Management is currently evaluating the impact of the amendments. However, we do expect additional volatility in our consolidated results of operations as a result of the requirement to measure equity investments at fair value with changes in the fair value recognized in net income upon adoption.

Leases (ASU 2016-02)

In February 2016, the FASB issued ASU 2016-02. The amendments in this update primarily replace the existing accounting requirements for operating leases for lessees. Lessee accounting requirements for finance leases and lessor accounting requirements for both operating leases and sales type and direct financing leases (both of which were previously referred to as capital leases) are largely unchanged. The amendments require the lessee of an operating lease to record a balance sheet gross-up upon lease commencement by recognizing a right-to-use asset and lease liability equal to the present value of the lease payments. The right-to-use asset and lease liability should be derecognized in a manner that effectively yields a straight line lease expense over the lease term. In addition to the changes to the lessee operating lease accounting requirements, the amendments also change the types of costs that can be capitalized related to a lease agreement for both lessees and lessors for all types of leases. The amendments also require additional disclosures for all lease types for both lessees and lessors. The amendments are effective on January 1, 2019, with early adoption permitted. The amendments must be applied on a modified retrospective basis with a cumulative adjustment to the beginning of the earliest fiscal year presented in the financial statements in the period of adoption. Management is currently evaluating the impact of these amendments. Upon adoption, we expect to record a gross up in our consolidated statement of financial position upon adoption reflecting our right-to-use asset and lease liability for our operating leases where we are the lessee (for example, our facility leases). We are currently reviewing our operating lease contracts where we are the lessee to determine the impact of the gross up and the changes to capitalizable costs. We are also reviewing our leases where we are the lessor to determine the impact of the changes to capitalizable costs.

Stock Compensation — Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)

In March 2016, the FASB issued ASU 2016-09. The amendments in this update include changes to several aspects of share-based payment accounting. The amendments allow for an entity wide accounting policy election to either account for forfeitures as they occur or estimate the number of awards that are expected to vest. The amendments modify the tax withholding requirements to allow entities to withhold an amount up to the employee's maximum individual statutory tax rates without resulting in a liability classification of the award as opposed to limiting the withholding to the minimum statutory tax rates. The amendments require that all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized in income tax expense or benefit in the income statement in the period in which they occur. The amendments also address the classification and presentation of certain items on the cash flow statement. The amendments are effective on January 1, 2017, with early adoption permitted. The transition method varies depending on the specific amendment. We do not believe these amendments will have a material impact to the financial statements.

Financial Instruments — Credit Losses (ASU 2016-13)

In June 2016, the FASB issued ASU 2016-13. The amendments in this update introduce a new accounting model to measure credit losses for financial assets measured at amortized cost. Credit losses for financial assets measured at amortized cost should be determined based on the total current expected credit losses over the life of the financial asset or group of financial assets. In effect, the financial asset or group of financial assets should be presented at the net amount expected to be collected. Credit losses will no longer be measured as they are incurred for financial assets measured at amortized cost. The amendments also modify the accounting for available-for-sale debt securities whereby credit losses will be recorded through an allowance for credit losses rather than a write-down to the security's cost basis, which allows for reversals of credit losses when estimated credit losses decline. Credit losses for available-for-sale debt securities should be measured in a manner similar to current GAAP. The amendments are effective on January 1, 2020, with early adoption permitted as of January 1, 2019. The amendments must be applied using a modified retrospective approach with a cumulative-effect adjustment through retained earnings as of the beginning of the fiscal year upon adoption. The new accounting model for credit losses represents a significant departure from existing GAAP, which will increase the allowance for credit losses with a resulting negative adjustment to retained earnings. Management is currently evaluating the impact of the amendments.

2. Acquisitions

On June 1, 2016, we acquired 100% of the equity of TradeKing Group, Inc. (TradeKing), a digital wealth management company with an online broker/dealer, digital portfolio management platform, and educational content. for $298 million in cash. TradeKing will operate as a wholly owned subsidiary of Ally. The addition of brokerage and wealth management is a natural extension of our online banking franchise, creating a full suite of financial products for savings and investments. We applied the acquisition method of accounting to this transaction, which generally requires the initial recognition of assets acquired, including identifiable intangible assets, and liabilities assumed at their respective fair value. Goodwill is recognized as the excess of the acquisition price after the recognition of the net assets, including the identifiable intangible assets. Beginning in June 2016, financial information related to TradeKing is included within Corporate and Other.

The following table summarizes the allocation of cash consideration paid for TradeKing and the amounts of the identifiable assets acquired and liabilities assumed recognized at the acquisition date.

($ in millions)	
Purchase price	
Cash consideration	$298
Allocation of purchase price to net assets acquired	
Intangible assets (a)	82
Cash and short-term investments (b)	50
Other assets	14

Deferred tax asset, net	4
Employee compensation and benefits	(41)
Other liabilities	(4)
Goodwill	$193

(a) We recorded $3 million of amortization on these intangible assets during both the three and nine months ended September 30, 2016.

(b) Includes $40 million in cash proceeds from the acquisition transaction in order to pay employee compensation and benefits that vested upon acquisition as a result of the change in control.

The goodwill of $193 million arising from the acquisition consists largely of expected growth of the business as we leverage the Ally brand and our marketing capabilities to scale the acquired technology platform and expand the suite of financial products we offer to our existing growing customer base. None of the goodwill recognized is expected to be deductible for income tax purposes. Refer to Note 11 for a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period.

On August 1, 2016, we acquired assets from Blue Yield, an online automotive lender exchange, as we continue to expand our automotive finance offerings to include a direct-to-consumer model. We completed the acquisition for $28 million of total consideration. As a result of the purchase, we recognized $20 million of goodwill within Automotive Finance operations.

3. Discontinued Operations

Prior to the adoption of ASU 2014-08, which was prospectively applied only to newly identified disposals that qualify as discontinued operations beginning after January 1, 2015, we have classified operations as discontinued when operations and cash flows will be eliminated from our ongoing operations and we do not expect to retain any significant continuing involvement in their operations after the respective sale or disposal transactions. For all periods presented, the operating results for these discontinued operations have been removed from continuing operations and presented separately as discontinued operations, net of tax, in the Condensed Consolidated Statement of Comprehensive Income. The Notes to the Condensed Consolidated Financial Statements have been adjusted to exclude discontinued operations unless otherwise noted.

Select Automotive Finance Operations

During the fourth quarter of 2012 we entered into an agreement with General Motors Financial Company Inc. (GMF) to sell our 40% interest in a motor vehicle finance joint venture in China. On January 2, 2015, the sale of our interest in the motor vehicle finance joint venture in China was completed and an after-tax gain of approximately $400 million was recorded. The tax expense included in this gain was reduced by the release of the valuation allowance on our capital loss carryforward deferred tax asset that was utilized to offset capital gains stemming from this sale. The remaining activity relates to previous discontinued operations for which we continue to have minimal residual costs.

Other Operations

Other operations relate to previous discontinued operations for which we continue to have wind-down, legal, and minimal operational costs. Refer to Note 26 to the Condensed Consolidated Financial Statements, titled Contingencies and Other Risks, for additional discussion.

Select Financial Information

Select financial information of discontinued operations is summarized below. The pretax income or loss includes direct costs to transact a sale.

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2016	2015	2016	2015
Select Automotive Finance operations				
Pretax (loss) income (a)	$(5)	$(1)	$(5)	$452
Tax expense (b)	2	3	2	68
Other operations				
Pretax (loss) income	$(41)	$(1)	$(39)	$19
Tax expense (benefit)	4	—	—	(2)

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

4. Other Income, Net of Losses

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

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2016	2015	2016	2015
Remarketing fees	$ 26	$ 25	$79	$78

Late charges and other administrative fees	25	23	72	66
Servicing fees	18	12	49	32
Income from equity-method investments	3	11	14	48
Other, net	26	21	75	59
Total other income, net of losses	$ 98	$ 92	$289	$283

5. Other Operating Expenses

Details of other operating expenses were as follows.

($ in millions)	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
Insurance commissions	$99	$95	$290	$283
Technology and communications	70	65	203	198
Lease and loan administration	34	31	100	92
Advertising and marketing	27	26	75	80
Professional services	25	23	75	68
Vehicle remarketing and repossession	24	20	70	56
Regulatory and licensing fees	26	18	68	59
Premises and equipment depreciation	19	20	61	62
Occupancy	13	13	38	38
Non-income taxes	10	11	27	26
Other	71	56	182	166
Total other operating expenses	$418	$378	$1,189	$1,128

6. Investment Securities

Our portfolio of securities includes bonds, equity securities, asset- and mortgage-backed securities, and other investments. The cost, fair value, and gross unrealized gains and losses on investment securities were as follows.

	September 30, 2016				December 31, 2015			
($ in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities								
Debt securities								
U.S. Treasury and federal agencies	$316	$ 5	$ —	$321	$1,760	$ —	$ (19)	$1,741
U.S. States and political subdivisions	740	26	(3)	763	693	24	(1)	716
Foreign government	170	10	—	180	169	8	—	177
Mortgage-backed residential (a)	11,992	180	(29)	12,143	10,459	52	(145)	10,366
Mortgage-backed commercial	526	1	(3)	524	486	—	(5)	481
Asset-backed	1,563	8	(1)	1,570	1,762	1	(8)	1,755
Corporate debt	1,597	36	(3)	1,630	1,213	8	(17)	1,204
Total debt securities (b) (c)	16,904	266	(39)	17,131	16,542	93	(195)	16,440
Equity securities	631	2	(63)	570	808	3	(94)	717
Total available-for-sale securities	$17,535	$ 268	$ (102)	$17,701	$17,350	$ 96	$ (289)	$17,157
Total held-to-maturity securities (d)	$649	$ 10	$ (1)	$658	$—	$ —	$ —	$—

(a) Residential mortgage-backed securities include agency-backed bonds totaling $9,772 million and $7,544 million at September 30, 2016, and December 31, 2015, respectively.

(b) Certain entities related to our Insurance operations are required to deposit securities with state regulatory authorities. These deposited securities totaled $15 million and $14 million at September 30, 2016, and December 31, 2015.

(c) Investment securities with a fair value of $635 million and $2,506 million at September 30, 2016, and December 31, 2015, were pledged to secure advances from the FHLB, short-term borrowings or repurchase agreements and for other purposes as required by contractual obligation or law. Under these agreements, Ally has granted the counterparty the right to sell or pledge $635 million and $745 million of the underlying investment securities at September 30, 2016, and December 31, 2015, respectively.

(d) Held-to-maturity securities are recorded at amortized cost and consist of agency-backed residential mortgage-backed debt securities for liquidity purposes.

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The maturity distribution of investment securities outstanding is summarized in the following tables. Call or prepayment options may cause actual maturities to differ from contractual maturities.

	Total		Due in one year or less		Due after one year through five years		Due after five years through ten years		Due after ten years	
($ in millions)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
September 30, 2016										
Fair value of available-for-sale debt securities (a)										
U.S. Treasury and federal agencies	$321	1.7 %	$2	4.3 %	$10	1.7 %	$309	1.7 %	$—	— %
U.S. States and political subdivisions	763	3.1	115	2.4	24	2.4	143	3.0	481	3.4
Foreign government	180	2.6	—	—	73	2.9	107	2.5	—	—
Mortgage-backed residential	12,143	2.9	—	—	—	—	34	2.5	12,109	2.9
Mortgage-backed commercial	524	2.4	—	—	—	—	3	2.8	521	2.4
Asset-backed	1,570	2.7	—	—	1,059	2.6	300	3.3	211	2.5
Corporate debt	1,630	2.9	50	2.3	949	2.6	591	3.2	40	4.7
Total available-for-sale debt securities	$17,131	2.9	$167	2.4	$2,115	2.6	$1,487	2.8	$13,362	2.9
Amortized cost of available-for-sale debt securities	$16,904		$168		$2,093		$1,449		$13,194	
Amortized cost of held-to-maturity securities	$649	2.9 %	$—	— %	$—	— %	$—	— %	$649	2.9 %
December 31, 2015										
Fair value of available-for-sale debt securities (a)										
U.S. Treasury and federal agencies	$1,741	1.8 %	$6	5.1 %	$510	1.2 %	$1,225	2.1 %	$—	— %
U.S. States and political subdivisions	716	3.2	86	1.3	37	2.2	141	2.8	452	3.7
Foreign government	177	2.6	9	1.9	77	2.8	91	2.6	—	—
Mortgage-backed residential	10,366	2.9	—	—	33	2.1	36	2.5	10,297	2.9
Mortgage-backed commercial	481	2.0	—	—	—	—	3	2.7	478	2.0
Asset-backed	1,755	2.3	6	1.4	1,027	2.1	518	2.6	204	2.2
Corporate debt	1,204	2.9	50	3.0	713	2.5	410	3.4	31	5.4
Total available-for-sale debt securities	$16,440	2.7	$157	2.0	$2,397	2.1	$2,424	2.5	$11,462	2.9
Amortized cost of available-for-sale debt securities	$16,542		$156		$2,404		$2,436		$11,546	

(a) Yield is calculated using the effective yield of each security at the end of the period, weighted based on the market value. The effective yield considers the contractual coupon and amortized cost, and excludes expected capital gains and losses.

The balances of cash equivalents were $0.8 billion and $1.0 billion at September 30, 2016, and December 31, 2015, respectively, and were composed primarily of money market accounts and short-term securities, including U.S. Treasury bills.

The following table presents interest and dividends on investment securities.

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2016	2015	2016	2015
Taxable interest	$93	$90	$276	$252
Taxable dividends	4	7	13	18
Interest and dividends exempt from U.S. federal income tax	4	5	13	13

Interest and dividends on investment securities	$101	$102	$302	$283

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

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2016	2015	2016	2015
Gross realized gains	$ 52	$ 28	$ 146	$ 134
Gross realized losses (a)	—	(11)	(1)	(14)
Other-than-temporary impairment	—	(11)	—	(14)
Other gain on investments, net	$ 52	$ 6	$ 145	$ 106

(a) Certain available-for-sale securities were sold at a loss in 2016 and 2015 as a result of changing conditions within these respective periods (e.g., a downgrade in the rating of a debt security). Any such sales were made in accordance with our risk management policies and practices.

The table below summarizes available-for-sale securities in an unrealized loss position in accumulated other comprehensive income. Based on the assessment of whether such losses were deemed to be other-than-temporary, we believe that the unrealized losses are not indicative of an other-than-temporary impairment of these securities. As of September 30, 2016, we did not have the intent to sell the debt securities with an unrealized loss position in accumulated other comprehensive income, it is not more likely than not that we will be required to sell these securities before recovery of their amortized cost basis, and we expect to recover the entire amortized cost basis of the securities. As of September 30, 2016, we had the ability and intent to hold equity securities with an unrealized loss position in accumulated other comprehensive income, and it is not more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. As a result, we believe that the securities with an unrealized loss position in accumulated other comprehensive income are not considered to be other-than-temporarily impaired at September 30, 2016. Refer to Note 1 for additional information related to investment securities and our methodology for evaluating potential other-than-temporary impairments.

	September 30, 2016				December 31, 2015			
	Less than 12 months		12 months or longer		Less than 12 months		12 months or longer	
($ in millions)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Available-for-sale securities								
Debt securities								
U.S. Treasury and federal agencies	$ —	$ —	$ —	$ —	$ 1,553	$ (17)	$ 173	$ (2)
U.S. States and political subdivisions	254	(2)	11	(1)	179	(1)	—	—
Foreign government	—							