

WE WILL SUCCEED.



want to know how we're addressing the
wondering what we'll do to succeed in a
2005 was an extremely difficult year for GM,
We have a strong plan. We're making the tough
and productivity. Our cars and trucks are
capabilities more and more. Our people
We will succeed. Here's why:





FRITZ HENDERSON
Vice Chairman and
Chief Financial Officer

BOB LUTZ
Vice Chairman, Global
Product Development

RICK WAGONER
Chairman and
Chief Executive Officer

JOHN DEVINE
Vice Chairman

DEAR STOCKHOLDERS:

2005 was one of the most difficult years in General Motors' 98-year history.

It was the year in which GM's two fundamental weaknesses in the U.S. market were fully exposed: our huge legacy cost burden, and our inability to adjust structural costs in line with falling revenue.

The challenges we cited in this space a year ago – global over-capacity, falling prices, rising health-care costs, higher fuel prices, global competition – intensified and significantly weakened our business. The result was a loss of \$3.4 billion, excluding special items, and a reported loss of \$10.6 billion, on revenues of \$192.6 billion.

Obviously, that is unsustainable. Though we are confident that GM has time and sufficient cash to see itself through a turnaround, I want you to know that we are working diligently to get things moving in the right direction – quickly.

Essentially, we are changing our business model to deal with the larger phenomenon of globalization and the competition it has brought to the U.S. economy. We already have made some significant moves to improve our competitiveness in the long term. We need to do more – and we will.

FINANCIAL REPORTING

We also have a renewed commitment to excellence and transparency in our financial reporting. The recent discovery of prior-year accounting errors has been extremely disappointing and embarrassing to all of us.

Credibility is paramount, for GM as a company and for me personally. While I will not offer excuses, I do apologize on behalf of our management team, and assure you that we will strive to deserve your trust. The fact is that errors were made, and we can't change that. What we have done is disclose our mistakes and work as diligently as we can to fix them.

We are moving aggressively to strengthen our internal accounting resources. Going forward, we will do our best to re-establish the ground that we have lost, as we restore GM's reputation for financial accuracy and transparency.

SECOND HIGHEST SALES IN GM'S HISTORY

Outside North America, it was a relatively good year.

Global industry vehicle sales set another record, and we're forecasting a record again this year – almost 66 million units, which would be up about 1 million units from last year. GM had its second highest sales volume globally last year, with nearly 9.2 million vehicles sold.

GM scored three significant "firsts" last year: More than half of GM's sales globally came outside the United States; in the Asia Pacific region, GM sold more than 1 million vehicles; and GM, along with our joint venture partner, became the No. 1 car manufacturer in China, the world's fastest-growing market.

Our success in China is evidence that where the playing field is even, GM can compete aggressively with the best and win.

GM also experienced significant growth in our Latin America, Africa and the Middle East region, with sales up 20 percent on the strength of our Chevrolet brand. GM set sales records in Chile, Ecuador, Venezuela, South Africa and the Middle East as we marked the eighth consecutive year of sales leadership in the region.

In the tough European market, our turnaround remained on track. GM Europe cut its losses significantly based on good consumer acceptance of our new vehicles and strong progress on our cost-restructuring initiatives. We expect continued improvement in 2006 as we launch an all-new Opel Corsa and continue to expand the Chevrolet brand.

But most of the news about GM last year was focused on our North American operations, as we dealt with a dramatically changing competitive environment.

We addressed softer demand and our growing inventory in the first half with production cuts and our successful campaign that offered consumers the same prices that GM employees pay. Fuel prices increased sharply through the year, reducing demand for some of our highest-profit trucks, and tilting our sales mix more toward lower-margin cars. The devastation of Hurricane Katrina also had an impact, both on fuel prices nationally and on vehicle sales.

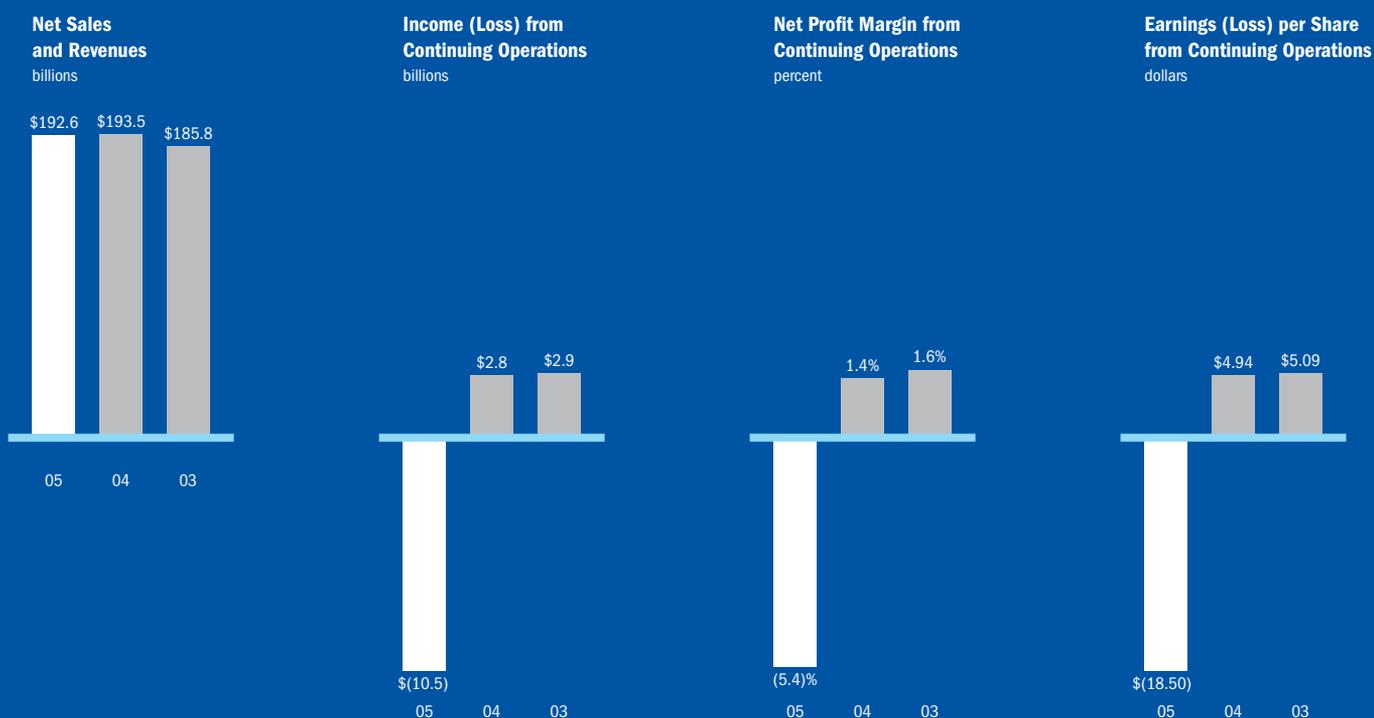
With our inventories now at manageable levels and several high-volume cars and trucks being launched this year, we expect our

FINANCIAL HIGHLIGHTS

(Dollars in millions, except per share amounts) Years ended December 31,

	2005	2004	2003
Total net sales and revenues	\$192,604	\$193,517	\$185,837
Worldwide production (units in thousands)	9,051	9,098	8,246
Income (loss) from continuing operations	\$ (10,458)	\$ 2,804	\$ 2,899
(Loss) from discontinued operations	–	–	\$ (219)
Gain on sale of discontinued operations	–	–	\$ 1,179
Cumulative effect of accounting change	(109)	–	–
Net income (loss)	\$ (10,567)	\$ 2,804	\$ 3,859
Net profit margin from continuing operations	(5.4)%	1.4%	1.6%
Diluted earnings (loss) per share attributable to \$1-2/3 par value common stock			
Continuing operations	\$ (18.50)	\$ 4.94	\$ 5.09
Net income	\$ (18.69)	\$ 4.94	\$ 7.20
Income adjusted to exclude Hughes Electronics and special items⁽¹⁾			
Income (loss)	\$ (3,354)	\$ 3,629	\$ 3,234
Diluted earnings (loss) per share attributable to \$1-2/3 par value common stock	\$ (5.93)	\$ 6.40	\$ 5.69
Book value per share of \$1-2/3 par value common stock	\$ 25.81	\$ 48.41	\$ 44.31
Number of \$1-2/3 par value common stock shares outstanding as of December 31 (in millions)	565	565	562

(1) A reconciliation of adjusted amounts to amounts determined in accordance with accounting principles generally accepted in the United States may be found at www.gm.com/company/investor_information/, Earnings Releases, Financial Highlights.



results in GM North America to improve. But while significant progress has been made, we continue to focus on addressing the challenge of our long-term, structural issues in the United States.

GM'S LEGACY CHALLENGE

The weight of history on our results has been significant.

GM has been in business for nearly a century, and in the last four decades, our business has undergone tremendous structural change. Vastly improved productivity, greater reliance on suppliers, and large growth in the number of competitors in our largest market have all had an impact. But while GM today is a far leaner, more productive automaker, we still carry a significant financial burden of the past.

Consider that in 1962, we employed 605,000 people around the world. Of those, 464,000 were in the United States, where we sold 4.2 million cars and trucks. With only two major competitors, GM reached a record U.S. market share of 51 percent.

Fast-forward to 2005: GM employed 335,000 employees worldwide. Of those, 141,000 were in the United States, where we sold 4.5 million cars and trucks. While last year we competed against 11 major automakers from around the world, GM still led the market with a 26 percent share.

Over those 43 years, new technologies and downsizing resulted in a much leaner GM, producing more vehicles with far fewer employees. But the growth of our retiree population exploded in those decades, leaving GM today with the financial weight of outsized "legacy costs" for health care and pensions.

The chart below illustrates the scope of this obligation.

	1962	2005
U.S. Employees	464,000	141,000
Hourly Pension Plan*	31,351	337,588
Salaried Pension Plan*	8,885	115,762
Total Health Plan Recipients**	1,360,000	1,075,000

Stated another way, for every active GM employee in the United States last year, GM supported 3.2 retirees and surviving spouses. Back in 1962, the employee/retiree ratio was reverse: GM had 11.5 active employees for every retiree or surviving spouse in our pension plans.

GM's health-care bill in 2005 – for every U.S. employee, dependant, retiree and surviving spouse – totaled \$5.3 billion. No other company

in the world has that kind of health-care obligation. Today we compete mostly against foreign-owned companies whose governments cover much of their employee and retiree health-care and pension costs.

OUR NORTH AMERICA TURNAROUND PLAN

In 2005, we laid out and began to aggressively implement a four-point turnaround plan aimed at strengthening our competitive position and achieving strong business results for years to come. The four elements of our plan are:

- Keep raising the bar in the execution of great cars and trucks.
- Revitalize our sales and marketing strategy.
- Significantly improve our cost competitiveness.
- Address our health-care and pension legacy cost burden.

The last two points of the plan led to some difficult and painful decisions that involved sacrifice from virtually everyone with a stake in GM's future:

- We announced plans to cease production at 12 U.S. plants by 2008, and reduce our manufacturing workforce by 30,000 positions.
- By working together with the leadership of the United Auto Workers, we reached an historic agreement that is expected to reduce our retiree health-care obligations by about \$15 billion.
- GM and the UAW, along with our former parts-making subsidiary, Delphi Corp., reached an agreement to reduce significantly the number of hourly employees in the United States through an accelerated attrition program.
- We announced that GM will cap the company's contribution to salaried retiree health-care costs at the end of this year, reducing that obligation by almost \$5 billion.
- We announced plans to significantly modify pension benefits for our salaried and executive employees, to further reduce GM's financial risk and cost.
- We voluntarily reduced salaries of our top executives – including 50 percent for me. Our Board of Directors also reduced their compensation by 50 percent.
- We reduced our dividend by 50 percent.

* Number of U.S. retirees and surviving spouses who received pension plan benefits

**Est. number of U.S. employees, dependants, retirees and surviving spouses covered by health benefits

Combined with our target to reduce net material costs by \$1 billion, these actions are expected to result in annual cost reductions totaling \$7 billion on a running rate basis by the end of this year, with \$4 billion of that reduction to be realized during this calendar year. That's a huge move – and it's needed.

It is important to note here that these cost reductions will *not* affect our aggressive product development plans. We continue to invest heavily in new cars and trucks, recognizing that only successful new products will put GM back on a path toward sustained profitability and growth.

The plant actions are designed to reduce GM North America's assembly capacity by about 1 million units by the end of 2008, in addition to the previously implemented reduction of 1 million units between 2002 and 2005. This should bring GM to 100 percent or more capacity utilization by 2008.

In addition, GM's U.S. salaried workforce (including contract staff) has been reduced 33 percent since 2000, or an average annual rate of about 7 percent. We expect to continue to reduce our salaried staffing levels at approximately this rate in 2006, bringing our cumulative reduction to 38 percent from 2000 levels.

There's more work to be done to reduce costs in the months ahead – with our union partners, our employees and our suppliers. But, clearly, we are addressing the global cost-competitiveness challenge.

GROWING GLOBAL REVENUE

As important as our cost-reduction efforts are, we know that's only half of the equation to return GM to profitability. We're also gaining traction on the other half of the equation: growing revenue around the world.

Despite our financial challenges, we actually increased our capital expenditures by about \$1 billion to a total of \$8 billion last year. Nearly all of that was invested in new products. We plan to maintain a heavy commitment to spending on new products and technologies this year.

We also continue to make progress toward our goal of globally integrating our product development, engineering, manufacturing and planning organizations. In doing so, we are starting to realize the economies of scale that a company the size of GM should.

We are leveraging all the skills of our design and engineering staff to provide more and better products to support each of our brands, while basing them on significantly fewer global vehicle architectures. Our integrated product development approach also is designed to reduce product lifecycles, increase productivity and improve quality.

At the same time, we are absolutely committed to trend-setting design for all of our brands around the world.

The evidence of that commitment is already on the road: The Pontiac Solstice (on the cover), Opel Astra, HUMMER H3, Chevy HHR, Saturn SKY, Buick Lucerne and Cadillac Escalade are all great examples of our design talent. The Chevy Camaro and Saab Aero X concept cars have been among the hits of this year's auto show circuit.

Even some of our toughest critics now acknowledge the excellent craftsmanship, features, innovations and design built into our newest cars and trucks. Our challenge is to get that word out to consumers who may not have considered a GM brand in the past.

We're also continuing to make significant progress in quality. In last year's well-respected J.D. Power Initial Quality Study, the top three auto assembly plants in North America were GM plants. Buick and Cadillac both placed among the study's top five brands, ahead of such well-known brands as Honda, Acura, Nissan, Infiniti, Mercedes-Benz and, yes, Toyota.

We won't be satisfied until all our brands are high on that list. But there is no disputing that the quality of GM's cars and trucks has improved significantly over the past decade.

GM TECHNOLOGY & FUEL EFFICIENCY

We continue to put significant resources into technology, particularly in improving fuel efficiency. This is an area where we have a good story to tell:

- GM offers more products in the United States with an EPA highway rating of 30 miles or more per gallon of fuel than any other automaker.
- GM is a leader in flexible-fuel vehicle production and sales, with more than 1.5 million flex-fuel vehicles already on the road. We have nine models that are E85-capable, which allows these vehicles to run on ethanol fuel. And, we have plans to add more than 400,000 E85-capable vehicles to our fleet in 2006.
- In addition to our very successful GM Hybrid Bus, which improves fuel economy by as much as 60 percent, we introduced a light hybrid system on our full-size pickup trucks two years ago, which we'll offer in all 50 states this year.
- We'll introduce a highly efficient, low-cost hybrid system on the Saturn VUE Green Line – a hybrid SUV that will cost less than \$23,000.

- Next year, we'll offer our next-generation, two-mode hybrid system on our large sport utilities, starting with the Chevy Tahoe and GMC Yukon. This is a sophisticated hybrid powertrain derived from the system we use in our transit buses. We are developing it in partnership with DaimlerChrysler and BMW, and we're convinced it will become the industry standard for hybrids. With our partners sharing development costs and spreading them over a larger volume of products, we expect significant savings.

While these are great solutions to help reduce emissions and improve fuel economy over the near-term, we continue to commit significant resources in the development of hydrogen fuel cells. We realize that there's no shortage of skeptics of hydrogen propulsion. But we've been working hard at perfecting this technology for years, and we're making significant progress toward our goal of manufacturing a commercially viable fuel-cell vehicle.

Another example of GM innovation is OnStar, the in-vehicle safety, security and information service that no other automaker has been able to match. OnStar continues to add to its long list of services that delight GM owners, such as OnStar Vehicle Diagnostics, which runs regular diagnostic checks on your car or truck and sends you an e-mail with the results.

REVITALIZING SALES AND MARKETING

Another key element of our plan to grow revenue is revitalizing our sales and marketing strategy. We're putting great emphasis on building and differentiating each of our automotive brands around the world, and accelerating our drive for consistent, world-class distribution networks.

In the U.S. market, we're renewing our focus on major metropolitan markets, like Miami, Los Angeles and New York, where we have underperformed in recent years.

Earlier this year, we announced an unprecedented reduction in sticker prices in the United States – an average of \$1,300 per vehicle, affecting most of our cars and trucks. It was the biggest step yet in our strategy of fewer incentives and lower prices every day.

The lower prices have given consumers a compelling reason to try our new vehicles, and it's working.

PENDING ISSUES

As this report was going to print, GM was exploring the possible sale of a controlling interest in our financial services subsidiary, GMAC,

with the goal of strengthening its credit rating and renewing its access to low-cost financing. If this occurs, we would plan to retain GMAC's strategic support of our automotive business by retaining a significant interest in GMAC, and implementing a long-term operating agreement to continue to provide these services to GM dealers and customers.

GM also was involved in important discussions with Delphi Corp. and the United Auto Workers on issues surrounding Delphi's Chapter 11 restructuring. We are pursuing an agreement in the best interests of GM and its stockholders, and that enables Delphi to continue as an important supplier to GM.

THE CHALLENGES AHEAD

We recognize that our stockholders have shared the pain as GM has struggled over the past year. We appreciate your patience and advice, and we are committed to making your investment in General Motors a profitable one.

Transforming GM to compete in this new global economy is a daunting task. But it also provides us with an opportunity to lead this great company into a new era of growth and success in providing the world with innovation in transportation. Our leadership team and our employees around the world are energized by this challenge.

By taking the necessary measures today to reduce our cost structure and grow our revenue, we are doing exactly what is needed to position GM for success. Outside North America, we are well-positioned to take advantage of our industry's future growth opportunities.

I am confident that we'll emerge from these challenging times stronger, smarter, and a better global competitor.

We will succeed.



Rick Wagoner

Chairman and Chief Executive Officer
Detroit, Michigan

We have the plan.

We are in the midst of a product-led turnaround.

We will continue to accelerate the development and introduction of great cars and trucks. We will leverage our global presence to grow our business around the world.

We have the drive.

In 2006, our focus and plan are clear – turn around our North American business and build on the gains we’ve made in our three other regions of the world.

In Europe, the restructuring plan remains on track and we’re looking forward to continued expansion of our product portfolio.

In Asia Pacific, we will further grow our strong position in China. Through GM Daewoo in Korea, we will leverage its exceptional, low-cost product development capability globally.

We also expect to further grow our profitable sales in the Middle East, to see more growth in South Africa, and a return to profitability for GM do Brasil.

A rapid North American turnaround is critical for GM’s overall success. Our plan is simple and straightforward – strengthen our competitive position and achieve strong business results for years to come. The foundation of any strong turnaround is compelling new products.

GM introduced 26 cars and trucks around the world in 2005 – including

the highly acclaimed Pontiac Solstice, the popular Opel Astra and the globe-trotting Chevrolet Aveo. The pace of new product introductions will accelerate in 2006, when we introduce nearly 35 more new vehicles. The men and women of GM have the knowledge, passion for the automobile and the drive to succeed.

Great cars and trucks are fundamental to everything we do at GM. It’s what we’re all about.



“A world of insight
drives new ideas
faster.”

VICKI VLACHAKIS

Design Manager, Advanced Design,
GM Global Design Center, California



EYE-CATCHING DESIGN.

Pontiac Solstice Dynamic design, strong value. The Pontiac Solstice roadster signals a bold new direction for the Pontiac brand – captivating, performance-oriented vehicles.

Customers want an automobile to meet more than rational needs. Automobiles also need to satisfy consumer desires. As vehicle quality, reliability, safety and efficiency approach virtual parity, the great differentiator is design. Cars and trucks must make an immediate emotional connection with customers. In addition to compelling, eye-catching exteriors, interiors must be home to rich materials, fine craftsmanship and keen attention to detail.

At GM, we are focused on what will make the difference...what will make the customer fall in love. Design has been elevated in importance as we renew and strengthen our commitment to building beautiful cars and trucks that resonate with customers.



DRIVING RESULTS.



Opel's product revitalization is an important element of GM's turnaround in the European market. GM is proving its vehicle design and performance. From Astra to Vectra to Zafira and the high-performance OPC variants, Opel is sparking emotions and setting standards in driving dynamics and vehicle design. The exterior design of a vehicle reels in potential buyers to take a closer look. The interior is the element that seals the deal. GM is focused on designing and executing world-class vehicles. Inside, the materials chosen to create the cabin ambience are pleasing to the touch and delight the eyes. Just as important is achieving tight fits to reach best-in-class status. Design, engineering and manufacturing are all working together, around the globe, to hit the target with quality measures and customers.





Cadillac BLS



Design globally, sell locally. Cadillac BLS represents an important step in increasing the reach of GM's global luxury brand and in tailoring global vehicles to meet regional demands. Customers in places such as Europe and Asia desire the luxury and status that a Cadillac affords – yet in a package more conducive to their specific driving needs and tastes. In response, GM designers and engineers translated the appointments synonymous with Cadillac into a package fitting customer demands. So far, response has been favorable in the well-established European market as well as the growing Asian market.



The 2006 Cadillac STS-V epitomizes Cadillac's power and performance along with V-series siblings XLR-V and CTS-V.



IT'S ALL IN THE DETAILS.

“GM’s potential in the Asia Pacific region is strong.”

WEI SHEN
Manager, Cadillac Brand
Character and China
Marketing



CAPTIVATING CUSTOMERS.



Chevrolet HHR has become one of the hottest vehicles in the United States, captivating customers and critics. Importantly, the HHR is attracting younger customers and selling well in markets where GM cars have typically underperformed, such as the West Coast and Texas. In 2005, Chevrolet regained the title as best-selling brand in the United States for the first time since 1986. Strong market performance exhibited by the HHR as well as the Buick LaCrosse, HUMMER H3, and Cadillac STS and DTS is integral to strengthening GM's position in North America.





NESSIM AZAR
Dealer Principal,
Carrera Chevrolet, Brazil

Chevrolet, GM's global foundation brand, is setting an important base for GM's multi-brand strategy. The multi-brand strategy is supported by our global footprint and product development capabilities, allowing us to leverage, differentiate and deploy individual brands in ways that are relevant regionally and locally, and in select cases, globally. In 2005, Chevrolet sold more than 4.3 million vehicles worldwide, delivering one out of every 15 vehicles purchased. Cadillac, our flagship brand, is doing well in its home market and is quickly expanding its global presence. Saab and HUMMER are broadening their product lines to grow additional sales in key global markets. Additionally, Buick, Pontiac, GMC, Saturn, Holden, Opel, Vauxhall and GM Daewoo provide strong, region-specific offerings. GM's energetic and knowledgeable dealers and salespeople support these vehicle brands everywhere in the world.

“This is a car for
the whole world
to drive.”

CREATING GLOBAL BRANDS.



Aveo is a shining star in traditional Chevrolet markets such as the United States, China and South America. Aveo also has made a strong entrance into Europe, a new market for Chevrolet.

BUILDING WHAT THE DRIVER WANTS.



Strong brands are the building blocks to winning in the marketplace. GM is working hard to refresh its entire product portfolio and strengthen its brands in their respective markets. Like the Saturn SKY roadster that debuted in spring 2006, the AURA blends dynamic design with a sophisticated cabin and spirited performance. These vehicles are examples of what we're doing on a broad scale to attract customers. Revitalizing GM's North American product lineup is one piece of the puzzle that, when complete, will help generate a turnaround in our largest market.

The interior of the Saturn AURA combines sophisticated elegance with plenty of passenger comfort and a sense of craftsmanship and affluence.





“StabiliTrak technology.
Yukon power
and style.”

REAL INNOVATION ON THE ROAD.

BRIDGET O'BRIEN-MITCHELL
Safety Performance Engineer,
Global Product Development



GMC Yukon Denali has a new look – inside and out – as part of an all-new lineup of full-size SUVs, an automotive segment in which GM maintained more than 60 percent of large utility sales and nearly 50 percent of large luxury utility deliveries in 2005. Comprehensively redesigned, the GMC Yukon, Chevrolet Tahoe and Cadillac Escalade incorporate new powertrain, chassis, safety and interior systems. These integrated systems are captured within refined, distinctly designed packages that lead the segment in performance, safety, efficiency and capability. GM's new full-size SUVs offer more power and better fuel economy than the vehicles they replace – vehicles that were already the segment leaders in fuel economy. The product development team worked hard to integrate features that would stand out from the competition, yet in meaningful applications. StabiliTrak®, which provides drivers with a greater ability to control their vehicle during difficult driving conditions, is one technological innovation that drivers will find as standard safety equipment, making driving more predictable in the face of an unpredictable Mother Nature.

Chevrolet Captiva

The all-new Captiva takes Chevrolet's European product offensive to a new level. Tailored to European roads and customer requirements, Captiva is Chevy's first diesel-powered compact SUV and the first model in its European lineup to offer electronic stability control.



A RIDE FOR EVERYONE.

HUMMER H3

The HUMMER H3 is taking the brand into new destinations around the world and attracting new customers to GM. In fact, the HUMMER brand has the highest conquest rate in the corporation – approximately 60 percent of buyers are new to GM. The H3, HUMMER's newest nameplate, is at home strolling along the Champs-Élysées in Paris, navigating the Austrian Alps and touring the savannahs of South Africa.



Buick Lucerne

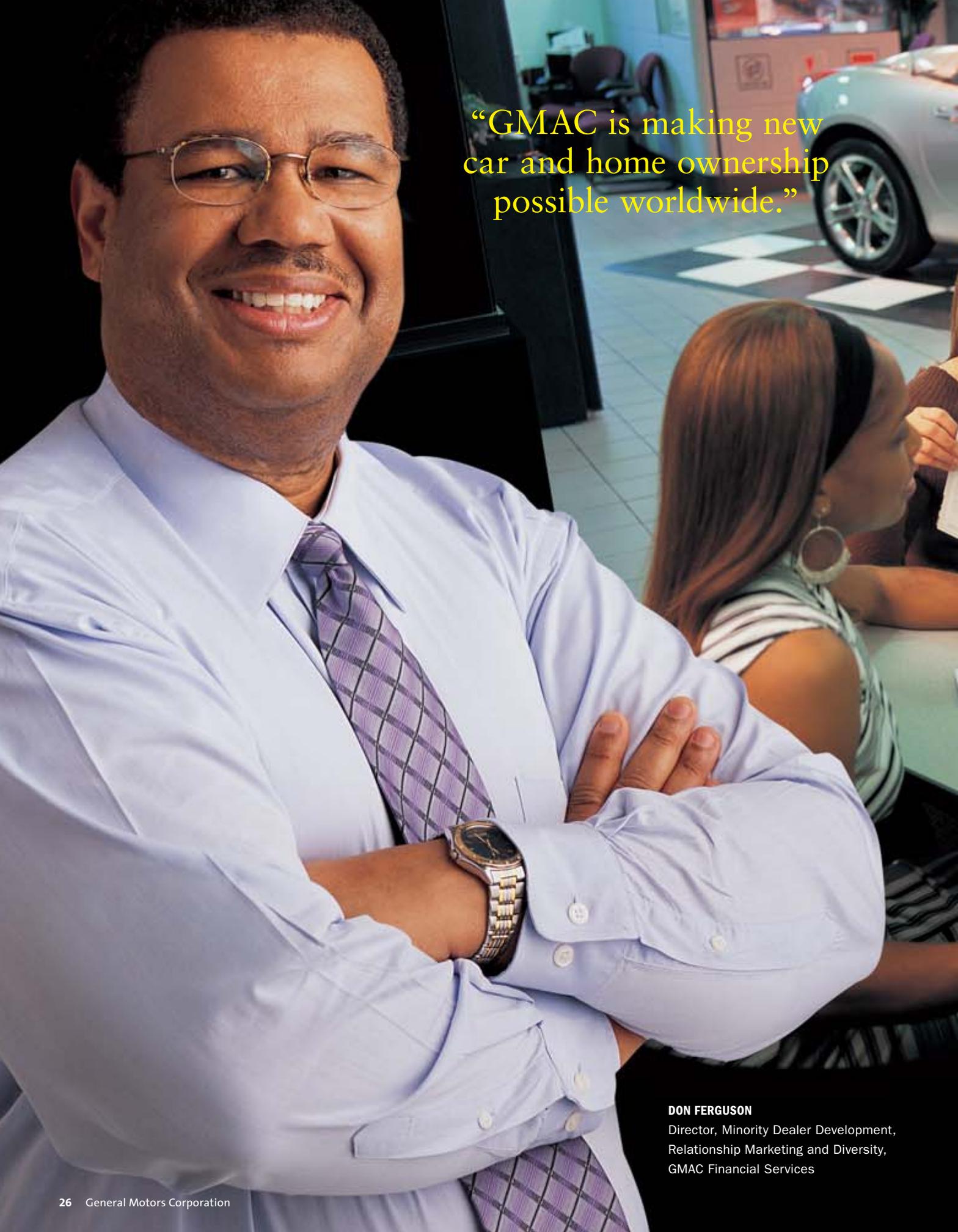
With the 2006 Lucerne, Buick's complete lineup is all-new since 2002, and if sales are an indication, customers are endorsing the renewal of this premium marque.



Saab

Powered by bioethanol, this vehicle delivers more power and torque than its gasoline counterpart - in addition to greater environmental performance. Environmental consciousness and behind-the-wheel excitement can peacefully coexist.



A man with glasses and a mustache, wearing a light blue dress shirt and a purple patterned tie, stands with his arms crossed and a friendly smile. He is in a car dealership, with a woman in a striped top visible in the background. A silver car is partially visible in the upper right.

“GMAC is making new
car and home ownership
possible worldwide.”

DON FERGUSON

Director, Minority Dealer Development,
Relationship Marketing and Diversity,
GMAC Financial Services



DREAMS COME TRUE WORLDWIDE.

GMAC was created in 1919 to provide wholesale and retail financing to GM dealers for their customers. Since then, GMAC has grown its portfolio to become a leading diversified financial services provider with a vision to become a premier global finance company. Critically important, GMAC has developed the business strengths to realize that vision. With a leadership position in each of its major lines of operations, GMAC has grown its global footprint and now operates in more than 40 countries worldwide. In addition to GMAC's tremendous asset origination capability, world-class servicing expertise and risk management strength, is the innovative and nimble style that has come to define GMAC and make it a significant contributor to GM's bottom line.

Leading efficiency. GM is committed to increasing fuel economy and reducing emissions, and is an industry leader in applying fuel-saving advanced technologies to high-volume production vehicles. Right now, in the United States, GM offers more models than any other automaker that get EPA-rated highway mileage of 30 miles per gallon or more. GM also has more fuel-efficient cars and trucks across more vehicle segments in the United States than any other automaker. Category for category, power for power and payload for payload, GM compares favorably with any automaker.

GM is also at the forefront of hybrid and renewable-fuel-capable vehicles. The Chevrolet Silverado and GMC Sierra extended and crew cabs are the world's first hybrid pickup trucks, and we have a number of other new hybrids on the way - Saturn VUE Green Line, Chevrolet Malibu and Tahoe, GMC Yukon and Cadillac Escalade. In addition, the 1.5 million GM vehicles capable of using E85 fuel today will be joined by an additional 400,000 vehicles in 2006, furthering GM's commitment to apply advanced fuel-saving technologies where the most fuel savings can be realized.



Chevrolet Aveo, Chevrolet Cobalt, Pontiac G6, Saab 9-3 Sport Sedan, Saturn ION, Pontiac Vibe, Saab SportCombi, Chevrolet Malibu, Chevrolet Monte Carlo, Pontiac Grand Prix, Buick LaCrosse, Chevrolet Impala, Chevrolet Malibu Maxx, Chevrolet HHR

“GM offers more vehicles
that achieve 30 miles
per gallon or better
on the highway.”



PAVING THE WAY IN FUEL ECONOMY.

ROGER CLARK

Engineering Manager,
Global Energy, Drive Quality
and Environment



You've got mail... Hundreds of thousands of vehicles are sending their owners e-mails. OnStar's most recent offering - Vehicle Diagnostics - is an "Only GM" service that automatically performs hundreds of diagnostic checks on several of a vehicle's key operating systems and sends customers monthly reports by e-mail. Since its introduction, more than 800,000 participants have received an OnStar Vehicle Diagnostics e-mail directly from their vehicle. About every 30 days a simple report is sent to update drivers on the status of their engine, transmission, air bag, antilock brake and OnStar systems. OnStar delivers relevant technologies that really matter to customers. Starting with core safety services such as roadside assistance, emergency services and route support, the technology has evolved to include features such as Advanced Automatic Crash Notification, Hands Free Calling and the most recent offering, OnStar Vehicle Diagnostics.



INNOVATIVE MAINTENANCE.

Reply Reply All Forward Print Attachments Follow Up

To: Julie Swartz
 Cc:
 Sent: 3/5/2006
 Subject: As requested, your OnStar Vehicle Diagnostics report

OnStar
 HOME PLANS & SERVICES RENEW SUBSCRIPTION PRIVACY POLICY

OnStar Vehicle Diagnostics for your 2006 Chevrolet Impala as of 3/5/2006

Welcome! We're glad you chose to enroll in the OnStar Vehicle Diagnostics service, exclusively for OnStar-equipped GM vehicles. This is the first of the e-mail reports you'll receive about every 30 days to help you keep your vehicle ready for the road. Your top-line checkup results are accompanied by a green, yellow, or red symbol indicating any necessary action. For more detailed information, just click as shown.

 Pictured: 2006 Impala SS
 VIN: 2G1WDS8C069100000

✔ **No Issues Found**
⚠ **Action Suggested**
❗ **Immediate Attention**

DIAGNOSTIC INFORMATION	NOTIFICATION INFORMATION
<p>Engine and/or Transmission System</p> <ul style="list-style-type: none"> Diagnostic: Completed. • No action needed. More information 	<p>OnStar Subscription</p> <ul style="list-style-type: none"> Account Number: 123-4567-890 Safe & Sound Plan Expires 12/14/06 Renew Subscription
<p>Air Bag System</p> <ul style="list-style-type: none"> Diagnostic: Completed. • No action needed. More information 	<p>Hands-Free Calling</p> <ul style="list-style-type: none"> Vehicle phone #: 313.555.0000 72 minutes remaining Good until: 2/21/07 More information
<p>Antilock Braking System</p> <ul style="list-style-type: none"> Diagnostic: Completed. • No action needed. More information 	<p>XM Satellite Radio</p> <ul style="list-style-type: none"> Trial period ends: 3/14/06 Radio ID number: 12345678 Your trial is almost over. To subscribe now, click here
<p>OnStar System</p> <ul style="list-style-type: none"> Diagnostic: Completed. • No action needed. More information 	
MAINTENANCE INFORMATION	DEALER INFORMATION
<p>Remaining Oil Life: 15%</p> <ul style="list-style-type: none"> Schedule a visit with your GM dealer as soon as possible. More information 	<p>Hometown Chevrolet 1234 Main Street Anytown, USA 12345 (555)123-1234</p>
<p>Mileage: 7,438</p> <ul style="list-style-type: none"> No mileage-based service required at this time. More information 	

As always, if you have questions about this report or [OnStar Vehicle Diagnostics](#), please call 1.888.4.ONSTAR (1.888.466.7827) or push the blue OnStar button in your vehicle.

Since its introduction 10 years ago, OnStar by GM remains focused on delivering unique and compelling safety, security and peace of mind services to a subscriber base that grew to nearly 4 million in 2005.

By the end of 2007, OnStar's innovative technology will be standard equipment on nearly all retail GM vehicles sold in the United States and Canada.



CREATING A CLEANER WORLD.

“We are working hard to improve the air quality in our communities.”

GM's hybrid-powered bus is a tangible result of GM's commitment to applying hybrid technology to the highest-fuel-consuming vehicles on the road. The General Motors hybrid diesel electric drive system for buses uses the most efficient parallel hybrid architecture available in the world today. In early 2006, there were more than 380 GM hybrid-equipped buses operating in 29 cities in the United States and Canada, with more than 216 buses scheduled for delivery.

These buses deliver significantly better fuel economy than their traditional counterparts and produce up to 60 percent fewer oxides of nitrogen emissions and up to 90 percent fewer particulate, hydrocarbon and carbon monoxide emissions.

To put the potential impact of this innovative technology into perspective, if the United States had just 1,000 GM hybrid-powered buses operating in major cities, the cumulative savings would be more than 1.5 million gallons of fuel annually.



CRISTINA LEDEZMA
Hybrid Bus Propulsion
Systems Engineer



AWARD-RECOGNIZED QUALITY.

“We are driving
quality and productivity
even further.”

REGGIE MCARTHUR

Team Leader, Cradle Line,
Detroit-Hamtramck Assembly Plant,
Manufacturer of Buick Lucerne and
Cadillac DTS



Gold Plant Quality Award
North and South America,
J.D. Power and Associates
Initial Quality Study. Oshawa
Plant No. 2. Home of the
Buick Century, Buick LaCrosse
and Pontiac Grand Prix.*



Silver Plant Quality Award
North and South America,
J.D. Power and Associates
Initial Quality Study. Oshawa
Plant No. 1. Home of the
Chevrolet Impala and
Chevrolet Monte Carlo.



Bronze Plant Quality Award
North and South America,
J.D. Power and Associates
Initial Quality Study.
Hamtramck, Mich. Home of
the Buick LeSabre, Cadillac
DeVille and Pontiac Bonneville.*

Lasting quality.

Consumers are looking for lasting quality when choosing their next car or truck. Having an appealing exterior is nice, but equally as important is what is underneath. After all, what good is a great-looking vehicle that seats them in a service waiting room more than behind the wheel? That is why restoring confidence in quality is just as important as design in rebuilding our brands. But perception lags reality. GM vehicles place high in quality rankings such as J.D. Power and Associates, ABIAUTO and *AutoBild*. The challenge is to bridge the gap between perception and reality. GM's performance has steadily and consistently improved. We are focused on providing our customers with the best quality experience over the lifetime of GM ownership. And, we're getting there...one vehicle at a time.

General Motors Corp. – Oshawa No. 2, Ontario (Car), was the highest-ranked plant in North/South America; Oshawa No. 1, Ontario, was the second-ranked plant; and Hamtramck, Mich., was the third-ranked plant in North/South America among plants producing vehicles for the U.S. market. J.D. Power and Associates 2005 Initial Quality Study.SM Study based on a total of 62,251 U.S. consumer responses indicating owner-reported problems during the first 90 days of ownership. www.jdpower.com.

* Vehicles produced during the study period.



Chevrolet Camaro Concept



Buick Enclave Concept



Saab Aero-X Concept

“The future will bring
a whole new driving
experience.”



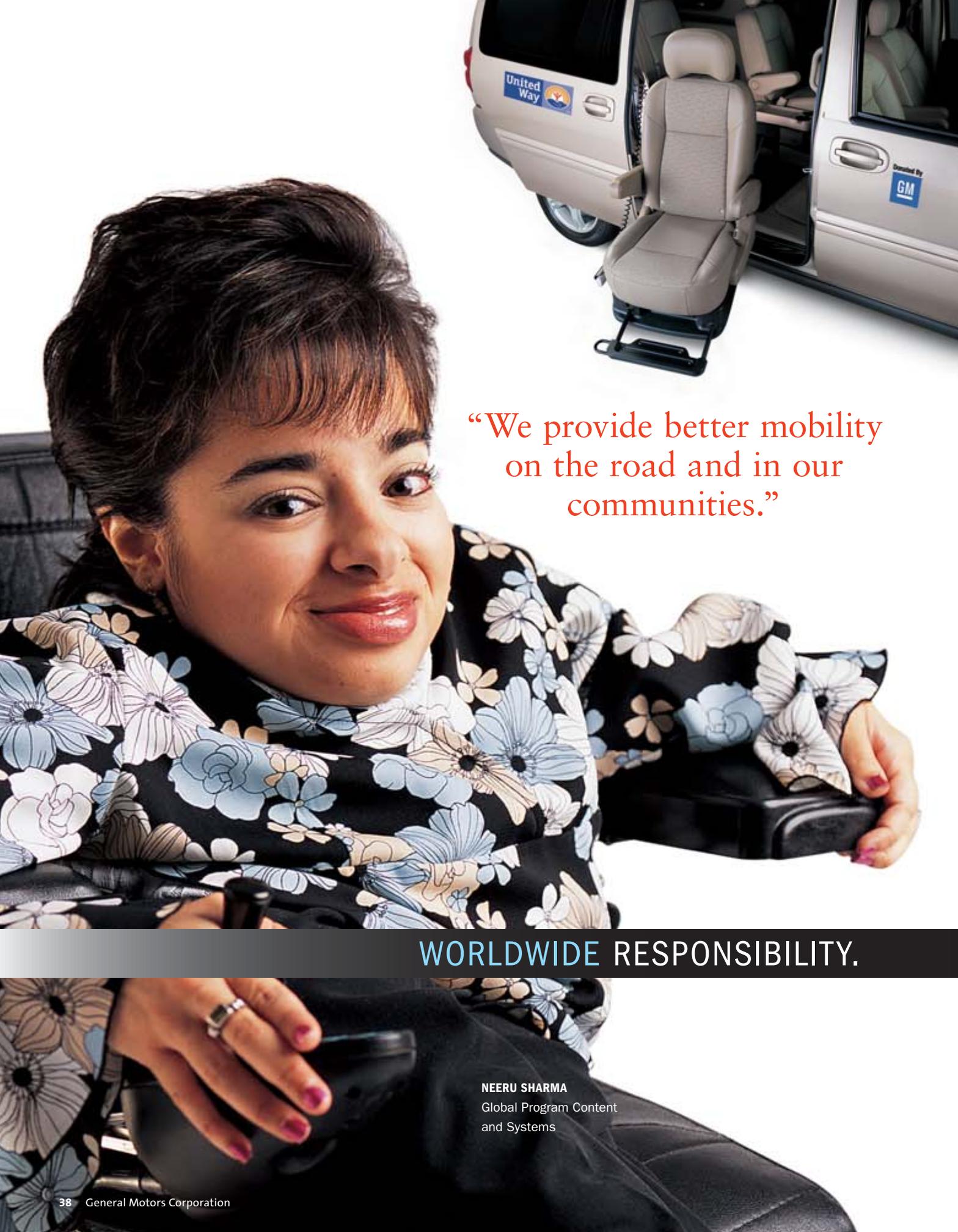
GM Sequel Concept

What's next in automotive design and technology? One way to find out is by looking at concept vehicles. From a modern interpretation of a classic, such as the Chevrolet Camaro, to an evolution in a brand's look and lineup, such as the Buick Enclave, to a peek into the future design direction of Saab, to envisioning the future of how automobiles are powered, such as the GM Sequel, automotive concepts treat consumers and industry watchers to a glimpse of the future. Success in the global vehicle market depends on building great cars and trucks. Making sure that every vehicle we design, engineer, manufacture and sell is better than the last...and is leading its segment. And even then, it's not enough. The target is always moving. The market is always changing. And, we help shape the ever-changing automotive landscape. In fact, GM is helping to reinvent the automobile with fuel cells and hydrogen. We believe the best way to minimize the impact of our cars and trucks on the environment is to produce vehicles with zero emissions. Moving to a renewable energy pathway like hydrogen also will allow us to sustain worldwide automotive growth that could increase production by 100 million vehicles annually with no negative impact on the environment.



SHAPING THE FUTURE.

HOLGER DAUM
Engineering Manager,
Fuel Cell Research and
Development, GM Europe



“We provide better mobility on the road and in our communities.”

WORLDWIDE RESPONSIBILITY.

NEERU SHARMA
Global Program Content
and Systems



GM reaches out

to communities worldwide with programs aligned around a single concept: mobility. Quite simply, we believe our cars and trucks can help our charitable partners do their work even better. So we design our donations to match our partners' needs with the unique capabilities GM vehicles deliver. For United Way, that means

providing selected local agencies with Chevrolet Uplander vans to help them transport residents. Thanks to a creative suggestion by GM's employee affinity group for people with disabilities, these vans are equipped with GM's exclusive "Sit-N-Lift" motorized passenger seat, which helps United Way agencies provide services to an even broader group of community residents. For the American Red Cross, a long-time GM partner, that means donating a fleet of HUMMERs to help local Red Cross chapters respond to emergencies. Through this partnership, GM and HUMMER will donate a total of 72 OnStar-equipped HUMMER H1, H2 and H3 models through 2010. In South Africa, GM's donation of trucks and utility vehicles is helping Dream for Africa, a nonprofit children's aid organization, transport volunteers and equipment to remote locations. And the donation GM is making to the Centers for Disease Control (CDC) will provide the reliable transportation needed to deliver workers and supplies to remote areas of emerging disease globally. With mobility as the driving force, GM is balancing society's needs with the benefits of our capable cars and trucks.



GM AT A GLANCE



Great products are the cornerstone to success in the automotive marketplace. The same great products have to fulfill a consumer need. At GM, we are committed to bring to market cars and trucks that satisfy the demands of today's increasingly discriminating customers. Customers ultimately purchase the collective efforts of a team of people. Behind the scenes, this team develops and shepherds technologies into relevant applications. These new technologies ultimately help make driving safer, more enjoyable, more accessible and yes, even cleaner.



HUMMER



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Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

GM is primarily engaged in automotive production and marketing and financing and insurance operations. GM designs, manufactures, and markets vehicles worldwide, having its largest operating presence in North America. GM's finance and insurance operations primarily relate to General Motors Acceptance Corporation (GMAC), a wholly owned subsidiary of GM, which provides a broad range of financial services, including automotive finance and mortgage products and services.

AUTOMOTIVE INDUSTRY

In 2005, global industry vehicle sales to retail and fleet customers were 64.7 million units, representing a 3.7% increase over 2004. We expect industry sales to be between 65.5 million and 66 million units in 2006. GM's worldwide vehicle sales for 2005 were 9.2 million units compared to 9.0 million units in 2004. This represents a global market share of 14.2% for 2005, down slightly from GM's 2004 global market share of 14.4%. In 2005, GM posted market share gains in three of its four automotive regions, with the exception of GM North America (GMNA) where GM's market share declined. Over the past five years, the global automotive industry has experienced consistent year-to-year increases, growing approximately 13% from 2001 to 2005. Much of this growth is attributable to the continued development of emerging markets such as China.

In the United States, where GM has its largest presence, 2005 industry vehicle sales totaled 17.5 million units, representing a slight increase from the 2004 U.S. sales level of 17.3 million units. While the U.S. industry has experienced annual sales volumes of approximately 17 million units for the past eight years, management believes that competition among automotive manufacturers involving price, incentive promotions, and financing offers has been a very important factor in maintaining this level of industry sales. GM's market share in the United States was 25.9% for 2005, down from 27.2% in 2004, due in part to declines in sales of full-size utilities, mid-sized utilities and mid-sized cars.

The overall U.S. industry-wide proportion of light trucks as a percentage of total U.S. vehicle sales has continued to increase over the past several decades. Light trucks include all pickups, vans, utilities, and cross over utilities derived from car platforms. In 1981, light trucks accounted for only 19% of the overall U.S. vehicle market. By 1999, light trucks had surpassed cars to take over 50% of the market for the first time. Despite the negative influence of fuel prices, in 2005 light trucks, including the growing segment of cross over vehicles, still accounted for 56% of the U.S. vehicle market, compared to 56% and 55% respectively in 2004 and 2003.

FINANCIAL RESULTS

GM's consolidated net sales and revenues fell to \$192.6 billion in 2005 from \$193.5 billion in 2004. GM incurred a consolidated net loss in 2005 of \$10.6 billion, compared to net income of \$2.8 billion in 2004. The unfavorable results were driven primarily by losses at GMNA. GMAC's net income in 2005 declined to \$2.4 billion, compared to \$3.0 billion in 2004.

GM's results of operations in 2005 were most significantly affected by the following trends and significant events:

GMNA market share and product mix – While industry-wide North American vehicle sales grew slightly, GMNA's vehicle production declined 7% in 2005 to 4.9 million units due in part to GM's efforts to reduce high dealer inventory levels, and its market share decreased by 1.2 percentage points. Compounding this decline in volumes was the effect of unfavorable product mix, whereby GM had fewer sales of higher margin large trucks and large cars, due to a combination of volatility of consumer demand and the anticipated introduction of new truck models to replace products at the end of their lifecycles.

Delphi Chapter 11 proceedings – For the fourth quarter of 2005, GM recorded a charge of \$5.5 billion (\$3.6 billion after tax) as an estimate of contingent exposures relating to the Chapter 11 filing of Delphi Corporation (Delphi), including under the benefit guarantees for certain former GM U.S. employees who transferred to Delphi in connection with its 1999 spin-off from GM. GM believes that

the range of these contingent exposures is between \$5.5 billion and \$12 billion, with amounts near the low end of the range considered more possible than amounts near the high end of the range assuming an agreement is reached among GM, Delphi, and Delphi's unions. These views reflect GM's current assessment that it is unlikely that a Chapter 11 process will result in both a termination of Delphi's pension plan and complete elimination of its OPEB plans.

GMNA restructuring and global asset impairments – As a result of the North American manufacturing restructuring actions announced in November 2005, GM recorded an after-tax charge of \$1.7 billion. This charge includes \$1.2 billion associated with the employees and \$455 million for the non-cash write-down of property, plants and equipment that we currently believe are likely to be impacted by the actions. The employee costs represent our best estimate of the wage and benefits costs that we will incur for qualified employees under the JOBS bank provisions of the current labor agreement through the date of its expiration in September 2007, plus estimated costs to be paid thereafter. We have been discussing these provisions with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) in an effort to develop an agreed upon accelerated attrition program that, among other things, would not require or entitle participants to also be eligible for the JOBS bank. As part of these discussions, on March 22, 2006, GM, Delphi and the UAW reached a tentative agreement intended to reduce the number of U.S. hourly employees through an accelerated attrition program. The agreement is subject to approval by the bankruptcy court of Delphi's participation in the agreement. If so approved, the agreement will provide for a combination of early retirement programs and other incentives designed to help reduce employment levels at GM, which may have the effect of reducing the number of employees that are or will be in the JOBS bank. This attrition program is expected to result in additional charges being recorded in 2006 as employees at locations that were not included in the North American manufacturing restructuring actions announced in November 2005 agree to participate. Under the agreement, GM and the UAW also agreed to discuss other options to address remaining surplus people at specific locations and all areas in which GM and the UAW can work together to close GM's competitive gap with its foreign competition and reduce GM's structural costs.

In addition, GM's results reflect the write-down of the Corporation's investment in Fuji Heavy Industries, Ltd. (FHI) of \$717 million after tax (considering the original impairment of \$788 million and a gain on sale of \$71 million due to the appreciation of the stock following the write-down). Furthermore, GM recorded after-tax charges of \$872 million for plant and facility asset impairments within its automotive regions.

Health-care cost escalation – Health care in the United States is one of our biggest competitive challenges, and if we do not make progress on structurally fixing this issue, it could be a long-term threat to our company. In 2005, GM was challenged with the compound impact of escalating health-care cost rates and falling discount rates used to determine future health-care liabilities. As a result of these factors, in 2005, GM's U.S. other postretirement employee benefits (OPEB) expense, consisting of retiree health care and life insurance, increased to \$5.3 billion, an increase of more than \$1 billion from 2004.

STRATEGY

The size of GM's 2005 loss, most of which related to its North American operations, clearly demonstrates the need for significant changes in GM's business model. A large part of these losses arise from GM's huge legacy cost burden and the difficulty of adjusting structural costs in line with falling revenue. Legacy costs are primarily related to the cost of benefits provided to retired employees and their dependents, and costs associated with employees and their dependents of businesses divested by GM. Structural costs are those costs that do not vary with production and include all costs other than material, freight, and policy and warranty costs. Structural costs include, among other things, the cost of unionized employees.

Overview (continued)

The top priority for GM is to return its North American operations to profitability and positive cash flow as soon as possible. GM has been systematically and aggressively implementing its four-point turnaround plan for GMNA's business. The four elements of this plan include:

- Product Excellence – continue to raise the bar in the execution of great cars and trucks
- Revitalize Sales and Marketing Strategy – offer customers the best value in the industry
- Accelerate Cost Reductions and Quality Improvements – improve GM's cost position and reduce our breakeven point in response to an intensely competitive environment
- Address Health Care Burden – reduce legacy cost disadvantages

To date GM has been focusing on restructuring its operations, and has already taken a number of steps to improve its performance in a more competitive global environment. A key driver of these efforts is the globalization of our principal business functions, including more aggressive engineering, product development, manufacturing and purchasing. In addition, we backed up our commitment to great cars and trucks by raising our related capital expenditures in 2005, and we intend to maintain this commitment going forward. We are endeavoring to revitalize our sales and marketing strategy to more clearly focus customer recognition on our brands, align our distribution channels, and refocus our marketing efforts on the quality of our cars and trucks and the value they offer in price, features and performance.

In the health-care area, GM announced in October 2005 a historic agreement with the UAW that will, among other things, reduce its health-care obligations for retired hourly employees. In February 2006, GM announced it would increase the U.S. salaried workforce's participation in the cost of health care, capping GM's contributions to salaried retiree health care at the level of 2006 expenditures. In March 2006, GM announced the details of its plan to substantially alter the pension benefits for current U.S. salaried employees, under which GM will freeze accrued benefits in the current plan and implement a reduced defined benefit plan for some salaried employees and a new defined contribution plan for the other salaried employees.

As mentioned above, GM announced a North American restructuring plan in November 2005 that will impact multiple manufacturing facilities. This GMNA restructuring initiative will reduce excess capacity by one million units and will reduce manufacturing employment levels by approximately 30,000 employees. As a result of this initiative and other cost reduction actions, we currently expect to reduce structural costs in North America by an average of \$7 billion per year on a running rate basis by the end of 2006 and to reduce net material costs by \$1 billion in 2006. We expect \$4 billion of the structural cost reduction to be realized during calendar year 2006. Further information about these matters may be found in the GM North American Restructuring Plan discussion starting on page 49. GM's objective is to reduce its global structural costs to 25% of automotive revenue by 2010, down from its current level of approximately 34%. In order to achieve this objective, we need to go beyond the GMNA turnaround plan and accomplish capacity rationalization and other efficiency measures on a global basis.

Our management believes that the four elements of the GMNA turnaround plan, as well as global benchmarking of best competitive practices for major automotive processes and GM's economy of scale, make this 25% global structural cost reduction target a realistic objective. We believe that managing our business on a global, functional basis will enable us to leverage product development spending, consolidate our brand structure, share best practices throughout the Corporation, and optimize our manufacturing, supply and engineering footprint. Accomplishing this structural cost reduction is critical to GM's future success.

In addition to the GMNA turnaround activities, GM plans to continue to address other important strategic issues, including:

- The bankruptcy of our largest supplier, Delphi. This situation presents significant risks to GM, including disruption in the supply of automotive systems, components, and parts, GM receiving only a portion of amounts owed by Delphi to GM, and obligations in excess of amounts recognized by GM in 2005 in connection with benefit guarantees. This situation also presents opportunities for GM, including reducing, over the long term, the significant cost penalty GM incurs in obtaining parts from Delphi, as well as improving the quality of systems, components and parts GM procures from Delphi as a result of the restructuring of Delphi through the Chapter 11 process.
- The pursuit of a possible sale of a controlling interest in GMAC with the goal of delinking GMAC's credit rating from GM's credit rating and renewing GMAC's access to low cost financing, and the exploration of strategic and structural alternatives for ResCap.
- Negotiations with the UAW in connection with the expiration of our collective bargaining agreement in September 2007.
- Restructuring initiatives in other areas, including Brazil, Europe, and Australia.

GM believes that it has sufficient balance sheet strength to fund its short- and medium-term cash needs and implement its four-point turnaround plan and other strategic objectives under reasonably foreseeable circumstances. Over the long term, we believe that GM's ability to meet its capital requirements will primarily depend on its successful execution of its four-point turnaround plan and the return of its North American operations to profitability and positive cash flow, and its ability to execute the globalization of its principal business functions.

As of December 31, 2005, GM's Automotive and Other operations had cash, marketable securities, and readily available assets of the Voluntary Employees' Beneficiary Association (VEBA) trust totaling \$20.4 billion, and its debt is principally long-term. We note that our cash balance varies from time to time during the calendar year and, in particular, our cash balance is generally materially lower during the third quarter as a result of product changeovers and the annual shutdown of our North American manufacturing facilities for approximately two weeks during that period. GMAC continues to maintain adequate liquidity with cash reserve balances at December 31, 2005 of \$19.7 billion, including \$4.2 billion in marketable securities with maturities greater than 90 days. In addition, GM has recently implemented a number of cost-cutting and cash-saving initiatives intended to help maintain adequate liquidity, including the recent reduction of its quarterly dividend from \$0.50 per share to \$0.25 per share. Nevertheless, there are significant risks to GM's liquidity position, including the possibility of an extended labor dispute at Delphi, any inability to access (or amend or replace) our existing standby bank credit facility, any claims that may be successfully asserted against GM under various financing agreements in view of GM's recent restatement of its prior financial statements, the further deterioration in GMAC's credit rating leading to a higher cost of capital, the failure to improve our competitive position through the 2007 labor negotiations, and the payment to Delphi employees of any amounts incremental to previously announced charges for contingent exposures relating to Delphi's Chapter 11 filing. The occurrence of any one or a combination of these events could severely threaten our liquidity position and threaten the successful implementation of our turnaround plan.

There is uncertainty regarding our future earnings given the potential that some of these matters have to affect our earnings, both positively and negatively. We put our four-point turnaround plan in place in 2005, and we have a tremendous sense of urgency in executing the elements of the plan to the highest degree possible in 2006 and the coming years.

Overview (continued)

BUSINESS ENVIRONMENT

GM views the following factors, many of which are important to the execution of GMNA's four-point turnaround plan, as the most significant drivers of its near term financial results:

- Continued demand for GM's most profitable products and the maintenance of a strong product mix;
- The introduction of innovative new products on a timely cadence, through the integration of global architectures, engineering, and procurement efforts;
- The implementation of measures for reducing structural costs, offsetting legacy and health-care burdens;
- Maintenance of sufficient balance sheet strength and liquidity; and
- Other factors affecting GM's Financing and Insurance Operations (FIO) reportable operating segment results, including interest rates, credit ratings, and demand for mortgage financing.

In addition to these drivers, the most significant risks to the execution of our business strategy and improved financial performance are discussed under "Risk Factors" included in GM's Form 10-K.

BASIS OF PRESENTATION

This management's discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the GMAC Annual Report on Form 10-K for the period ended December 31, 2005, filed separately with the SEC. GMAC's MD&A is included in this Annual Report. All earnings per share amounts included in the MD&A are reported on a fully diluted basis.

GM presents separate supplemental financial information for its reportable operating segments: Automotive and Other Operations (Auto & Other) and Financing and Insurance Operations (FIO).

GM's Auto & Other reportable operating segment consists of:

- GM's four automotive regions: GM North America (GMNA), GM Europe (GME), GM Latin America/Africa/Mid-East (GMLAAM), and GM Asia Pacific (GMAP), which constitute GM Automotive (GMA); and
- Other, which includes the elimination of intersegment transactions, certain non-segment specific revenues and expenditures, including legacy costs related to postretirement benefits for certain Delphi and other retirees, and certain corporate activities.

GM's FIO reportable operating segment consists of GMAC and Other Financing, which includes financing entities that are not consolidated by GMAC.

The disaggregated financial results for GMA have been prepared using a management approach, which is consistent with the basis and manner in which GM management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. In this regard, certain common expenses were allocated among regions less precisely than would be required for stand-alone financial information prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial results represent the historical information used by management for internal decision-making purposes; therefore, other data prepared to represent the way in which the business will operate in the future, or data prepared in accordance with GAAP, may be materially different.

Consistent with industry practice, our market share information includes estimates of sales in certain countries where public reporting is not legally required or otherwise available on a consistent basis.

Results of Operations

CONSOLIDATED RESULTS

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
Consolidated:			
Total net sales and revenues	\$192,604	\$193,517	\$185,837
Income (loss) from continuing operations before cumulative effect of accounting change	\$ (10,458)	\$ 2,804	\$ 2,899
Net income	\$ (10,567)	\$ 2,804	\$ 3,859
Net margin from continuing operations	(5.4)%	1.4%	1.6%
Automotive and Other Operations:			
Total net sales and revenues	\$158,221	\$161,545	\$155,831
Income (loss) from continuing operations before cumulative effect of accounting change	\$ (12,816)	\$ (145)	\$ 137
Net income (loss)	\$ (12,925)	\$ (145)	\$ 1,097
Financing and Insurance Operations:			
Total revenues	\$ 34,383	\$ 31,972	\$ 30,006
Net income	\$ 2,358	\$ 2,949	\$ 2,762

Total net sales and revenues decreased in 2005, compared with 2004, primarily due to decreased GMNA revenue of \$9.8 billion, largely offset by increases in GMLAAM and GMAP revenue of \$3.0 billion and \$3.9 billion respectively, and increases at GMAC of \$2.8 billion. Total net sales and revenues increased in 2004, compared with 2003, due to increases in GMA revenue of \$6.6 billion, including increases in GMLAAM and GME revenue of \$3.4 billion and \$3.3 billion respectively, and increases in GMAC revenue of \$1.8 billion.

Net income decreased \$13.4 billion in 2005, compared to 2004, primarily driven by losses at GMNA due largely to unfavorable volume and product mix, restructuring charges, and charges for asset impairments. All other automotive regions also incurred losses in 2005. The GME loss was primarily driven by restructuring charges, offset partially by improved operating performance. The GMLAAM loss was largely attributable to a full valuation allowance taken against GM do Brasil's deferred tax assets. The GMAP loss was mainly due to the write down of GM's investment in FHI, as described above. GMAC's net income declined to \$2.4 billion, from \$3.0 billion in 2004, primarily due to goodwill impairment charges.

In 2004, income from continuing operations decreased \$95 million to \$2.8 billion, compared to 2003. Automotive results improved by \$614 million due to improvement at GMNA, a strong recovery at GMLAAM, and record income at GMAP, more than offsetting increased losses at GME. Other Operations' 2004 results include an after-tax charge of \$886 million related to the February 2005 settlement reached between GM and Fiat S.p.A. (Fiat) to terminate the Master Agreement (including the Put Option) and settle various disputes between the two companies. GMAC earned a record \$3.0 billion net income, due to higher financing and insurance income.

2005 results included:

- Consolidated net loss of \$10.6 billion, or \$18.69 per share;
- Losses at all automotive regions;
- Charge recognized for announced GMNA restructuring plan;
- Charge recognized for contingent exposures relating to Delphi's Chapter 11 filing, including under the benefit guarantees;
- Strong performance at GMAC despite challenging environment;
- Strong year-end cash position; and
- Favorable returns on pension assets, resulting in U.S. Hourly and Salaried plans being overfunded on a Statement of Financial Accounting Standards No. 87 basis by approximately \$6 billion.

Results of Operations (continued)

More detailed discussions on the results of operations for the automotive regions, other operations, and GMAC can be found in the following sections.

GM AUTOMOTIVE AND OTHER OPERATIONS FINANCIAL REVIEW

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
Auto & Other:			
Total net sales and revenues	\$158,221	\$161,545	\$155,831
Income (loss) from continuing operations before cumulative effect of accounting change	\$ (12,816)	\$ (145)	\$ 137
(Loss) from discontinued operations	—	—	(219)
Gain on sale of discontinued operations	—	—	1,179
Cumulative effect of accounting change	(109)	—	—
Net income (loss)	\$ (12,925)	\$ (145)	\$ 1,097
GMA net income (loss) by region:			
GMNA	\$ (8,239)	\$ 1,409	\$ 879
GME	(1,198)	(925)	(466)
GMLAAM	(571)	60	(329)
GMAP	(220)	730	576
Net income (loss)	\$ (10,228)	\$ 1,274	\$ 660
Net margin	(6.4)%	0.8%	0.4%
GM global automotive market share	14.2%	14.4%	14.6%
Other:			
Income (loss) from continuing operations	\$ (2,697)	\$ (1,419)	\$ (523)
(Loss) from discontinued operations	—	—	(219)
Gain on sale of discontinued operations	—	—	1,179
Net income (loss)	\$ (2,697)	\$ (1,419)	\$ 437

The decrease in 2005 total net sales and revenues, compared with 2004, resulted from decreased GMNA revenue of \$9.8 billion, primarily from lower production and unfavorable product mix, largely offset by significant increases at GMLAAM and GMAP amounting to \$3.0 billion and \$3.9 billion respectively. The increase in 2004 total net sales and revenues, compared with 2003, was largely due to higher wholesale volumes at GMLAAM and GME and continued growth at GMAP, partially offset by lower GMNA revenue. GM's global market share was 14.2% and 14.4% for the years 2005 and 2004, respectively. GMNA posted a 1.2 percentage point decline in market share largely as a result of sales declines within the large sport utility and pickup, mid sized utility and mid sized car segments. Market share gains were recognized in the other three automotive regions.

GMA's 2005 net income decreased \$11.5 billion compared with 2004. Each automotive region sustained a net loss for 2005, with volume and mix unfavorable overall. In addition, the restructuring charge at GMNA noted above, other restructuring charges at GME and GMAP, and asset impairments at all regions contributed to the poor results for the year. GMA's 2004 net income increased \$614 million compared with 2003. GMNA's income increased due to material cost savings and favorable tax items, partially offset by decreased production and negative mix. GMAP and GMLAAM both improved over 2003, while GME's loss for 2004 increased due to continued price pressure and unfavorable exchange rates.

See discussion of Other Operations' results below.

GM AUTOMOTIVE REGIONAL RESULTS

GM NORTH AMERICA

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
GMNA:			
Total net sales and revenues	\$104,755	\$114,545	\$116,310
Net income (loss)	\$ (8,239)	\$ 1,409	\$ 879
Net margin	(7.9)%	1.2%	0.8%
(Volume in thousands)			
Production volume			
Cars	1,834	1,997	2,184
Trucks	3,022	3,223	3,277
Total GMNA	4,856	5,220	5,461
Vehicle unit sales			
Industry - North America	20,542	20,282	19,842
GM as a percentage of industry	25.5%	26.7%	27.4%
Industry - U.S.	17,455	17,302	16,970
GM as a percentage of industry	25.9%	27.2%	28.0%
GM cars	22.6%	24.9%	25.7%
GM trucks	28.5%	29.0%	30.0%

North American industry vehicle unit sales increased 1.3% to 20.5 million units during 2005, and we expect unit sales to be relatively flat in 2006. Despite slight industry growth, GMNA's production declined 7.0% to 4.9 million units as a result of the decreased market share of 1.2 percentage points along with a significant reduction of dealer inventories by approximately 200,000 units. GMNA ended the year with a market share of 25.5% for 2005, compared to 26.7% for 2004.

During 2005, industry vehicle unit sales in the United States increased to 17.5 million units, while GM's U.S. market share decreased by 1.3 percentage points due to sales declines in segments where GM has high volume such as large sport utilities, mid sized utilities and mid sized cars. GM ended the year with a U.S. market share of 25.9% for 2005, versus 27.2% for 2004. GM's U.S. car market share declined by 2.3 percentage points to 22.6%, while U.S. truck market share for the year was 28.5%, down 0.5 percentage point. Truck sales represented 61% of GM's total U.S. vehicle unit sales in 2005, up slightly from 60% in 2004.

Net loss from GMNA totaled \$8.2 billion in 2005, compared to income of \$1.4 billion and \$879 million in 2004 and 2003, respectively. The deterioration in 2005 was due in part to various operating factors, including:

- Unfavorable product mix, which adversely affected net income by approximately \$2.2 billion due primarily to reduced demand for GMNA's large utility vehicles which were reaching the end of their product life cycle, as well as declines in sales of higher margin large cars;
- Production volume decreases of 7% attributable to GMNA market share decline and a significant reduction in dealer inventories, accounted for a decrease in net income of approximately \$2.1 billion;
- Unfavorable material costs after factoring in the cost of government mandated product improvements accounted for a decrease in net income of approximately \$700 million;
- Increased health-care expenses primarily due to the recognition of OPEB net actuarial losses, which are caused by escalating health care cost trends, and falling discount rates in the U.S., accounted for a decrease in net income of approximately \$600 million. These 2005 health care cost increases do not reflect new health care initiatives with the UAW and salaried employees and retirees, which will benefit subsequent years; and
- Advertising and sales promotion cost increases, accounting for a decrease in net income of \$500 million due to further efforts to increase product awareness.

Results of Operations (continued)

In addition to the above items, GMNA recognized a fourth quarter 2005 restructuring charge of \$1.7 billion, after tax, as a result of the GMNA restructuring initiatives announced in the fourth quarter of 2005 (refer also to subsequent discussion in Key Factors Affecting Future Results). These initiatives represent a critical step towards reducing structural costs given the high-cost manufacturing environment in the United States. The charge of \$1.7 billion included \$455 million, after tax, for the non-cash writedown of property, plants and equipment, comprised of \$362 million for production facilities still in service at December 31, 2005, as well as other product specific assets of \$93 million. The charge also included \$1.2 billion, after tax, for employee costs, representing our best estimate of the wage and benefits costs that we will incur for qualified employees under the JOBS bank provisions of the current labor agreement through the date of its expiration in September 2007, plus estimated costs expected to be paid thereafter. Approximately 17,500 employees were affected and included in the restructuring charge. We have been discussing these provisions with the UAW in an effort to develop an agreed upon accelerated attrition program by which we can reduce the number of employees that are and will be in the JOBS bank in a cost effective manner. As part of these discussions, on March 22, 2006, GM, Delphi and the UAW reached a tentative agreement intended to reduce the number of U.S. hourly employees through an accelerated attrition program. The agreement is subject to approval by the bankruptcy court of Delphi's participation in the agreement. If so approved, the agreement will provide for a combination of early retirement programs and other incentives designed to help reduce employment levels at GM, which may have the effect of reducing the number of employees that are or will be in the JOBS bank. This attrition program is expected to result in additional charges being recorded in 2006 as employees at locations that were not included in the North American manufacturing restructuring actions announced in November 2005 agree to participate. Under the agreement, GM and the UAW also agreed to discuss other options to address remaining surplus people at specific locations and all areas in which GM and the UAW can work together to close GM's competitive gap with its foreign competition and reduce GM's structural costs.

In 2005, GMNA also recognized after-tax impairment charges of \$552 million. In the first quarter, GMNA recorded \$84 million for the write-down to fair market value of various production facility assets (\$82 million) and product specific assets (\$2 million) in connection with the cessation of production at a Lansing, Michigan assembly plant. In the third quarter of 2005, as part of the business planning cycle, the carrying value of long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, were compared to the projected cash flows. Based on this review, GMNA concluded that certain product-specific assets, as well as certain office and production facilities, were not recoverable. Accordingly, in the third quarter of 2005 GMNA recorded an after-tax impairment charge of \$468 million for assets still in service, comprised of \$421 million of product-specific assets, and \$47 million related to certain office and production facilities.

The increase in GMNA's 2004 net income from 2003 was due in part to the effects of material cost savings and structural cost savings, partially offset by lower volume and unfavorable product mix. Additionally, 2004 net income includes the effect of GM's contribution of approximately 11 million shares of XM Satellite Radio Holdings Inc. (XM) common stock to GM's VEBA, which resulted in an after-tax gain to GMNA of \$118 million. GMNA recognized tax benefits in 2004 of \$540 million primarily as the result of U.S. and Mexico tax legislation and Canadian capital loss carryforwards, as well as a benefit related to the settlement of various prior year tax matters in the U.S. In addition, in the third quarter of 2004 GM completed its periodic review of products liability reserves, which comprehend all products liability exposure. This review resulted in an after-tax reduction to these reserves of approximately \$250 million, in order to appropriately reflect the current level of exposure.

During 2003, GMNA incurred charges of \$448 million, after tax, related to the October 2003 contract with the UAW, which provided for lump-sum payments and vehicle discount vouchers for retirees. In addition, GMNA adjusted a previously established reserve for idled workers, primarily related to the Janesville, Wisconsin plant, resulting in \$103 million of net income, after tax. Also, GMNA

incurred various structural cost adjustments, asset impairment and other charges, favorable interest income from settlements of prior year tax matters, and income related to the market valuation of XM warrants. These items netted to approximately \$90 million of income for the year.

In the fourth quarter of 2004, GM announced plans to close its assembly plant in Baltimore, Maryland, with approximately 1,000 employees, and to lay off approximately 950 employees at GM's assembly plant in Linden, New Jersey. In connection with these actions, GMNA recognized after-tax charges totaling \$78 million in 2004 for impairment of production facilities. In addition, GMNA incurred after-tax charges in 2004 of \$55 million for impairment of facilities not related to these actions, and \$63 million for impairments of other product-specific assets. There were no employee idling or separation costs in conjunction with these impairments, since at the time it was believed employees would be redeployed.

In the fourth quarter of 2005, GMNA announced a four-point turnaround plan focused on improving results, and addressing factors contributing to the loss items described above. The top priority for the Corporation is to return GMNA's operations to profitability and positive cash flow as soon as possible, via the systematic and aggressive implementation of our four-point turnaround plan. This plan is discussed in detail in the GM North American Restructuring Plan section of Key Factors Affecting Future Results found on page 49.

GM EUROPE

(Dollars in millions)	Years ended December 31,		
	2005	2004	2003
GME total net sales and revenues	\$31,719	\$30,820	\$27,478
GME net (loss)	\$ (1,198)	\$ (925)	\$ (466)
GME net margin	(3.8)%	(3.0)%	(1.7)%
(Volume in thousands)			
Production volume ⁽¹⁾	1,858	1,829	1,818
Vehicle unit sales			
Industry	20,970	20,763	19,588
GM as a percentage of industry	9.5%	9.4%	9.3%
GM market share - Germany	10.8%	10.6%	10.4%
GM market share - United Kingdom	14.7%	13.9%	13.7%

(1) 2004 and 2005 calendar years include GM-Avtovaz joint venture production

Industry vehicle unit sales in Europe increased slightly in 2005, by 1.0% over 2004, and GME's total market share increased slightly to 9.5% from 9.4%. European industry vehicle unit sales are expected to be relatively flat in 2006. In the two largest markets in Europe, GM continued to increase market share: market share was 10.8% in Germany, a 0.2 percentage point increase over 2004; and in the United Kingdom market share was 14.7%, an increase of 0.8 percentage point over 2004.

Net loss from GME totaled \$1.2 billion, \$925 million, and \$466 million, in 2005, 2004, and 2003, respectively. The increase in GME's loss in 2005 over 2004 was due in part to the following factors:

- Restructuring charges totaling \$673 million in connection with the restructuring plan announced in the fourth quarter of 2004, as well as costs related to the dissolution of GM's powertrain and purchasing joint ventures with Fiat. The restructuring plan involves a reduction in workforce of up to 12,000 through 2007, largely in manufacturing operations in Germany. In December 2004, GM reached agreement with various labor unions in Europe on a framework for the restructuring plan. The charges in 2005 related to the separation of approximately 7,500 people. No charge was recognized in 2004 because the agreements were not yet finalized.
- Favorable material cost, structural costs, and product mix, which more than offset pricing and volume declines, resulting in an almost \$370 million improvement in year over year performance.

In addition to the above items, GME recorded charges for impairment of product specific assets of \$176 million and \$234 million in 2005 and 2004, respectively. These charges were identified as part of the business planning cycles in the

Results of Operations (continued)

third quarter of 2005 and the fourth quarter of 2004, during which the carrying value of long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, was determined to exceed the projected cash flows.

The increase in GME's loss in 2004 over 2003 was primarily due to continued negative pricing and unfavorable exchange rates with respect to the weakening of the U.S. dollar compared to the euro and Swedish krona, partially offset by favorable volume and mix, material cost savings and reduced structural costs. In addition, in 2004 GME's net loss included an after-tax charge of \$234 million for the impairment of various product-specific assets.

We have implemented a GME turnaround plan, which remains on track, and we expect to see more progress in 2006. In addition to the continued implementation of our significant cost reduction initiatives, we expect to benefit from the introduction of new products such as the Opel Corsa and will continue to focus on the rollout of our multibrand strategy and particularly efforts to expand the Chevrolet brand.

GM LATIN AMERICA/AFRICA/MID-EAST

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
GMLAAM total net sales and revenues	\$11,745	\$8,792	\$5,387
GMLAAM net income (loss)	\$ (571)	\$ 60	\$ (329)
GMLAAM net margin	(4.9)%	0.7%	(6.1)%
(Volume in thousands)			
Production volume	775	716	547
Vehicle unit sales			
Industry	4,980	4,225	3,626
GM as a percentage of industry	17.7%	17.5%	16.1%
GM market share - Brazil	21.3%	23.1%	23.3%

Improving economic conditions in Latin America resulted in significant industry growth in 2005, with the markets in Venezuela and Argentina increasing by approximately 70% and 34%, respectively. Brazil's market grew more than 8% in 2005 compared to 10% in 2004. In addition, the South Africa market grew more than 25% in 2005 compared to 20% in 2004. We anticipate regional industry sales will show slower growth during 2006; however, growth should still remain positive. GMLAAM improved its regional market share by 0.2 percentage points to 17.7% in 2005 with a 19% increase in vehicle unit sales, to 881 thousand from 738 thousand in 2004.

In 2005, GMLAAM net sales and revenues improved by approximately 34% or about \$3.0 billion compared to 2004. Improved volume and mix contributed \$1.8 billion while favorable exchange rates and pricing contributed \$0.9 billion and \$0.3 billion, respectively. The 2004 increase in net sales and revenues of 63% or \$3.4 billion over 2003 results is attributable to volume and mix related improvements of \$1.7 billion, acquisition of the remaining interest in Delta Motors totaling \$1.0 billion, and favorable exchange rates and pricing of \$0.2 billion and \$0.5 billion, respectively.

Net (loss) income from GMLAAM totaled \$(571) million, \$60 million, and \$(329) million in 2005, 2004, and 2003, respectively. The deterioration in GMLAAM's 2005 results compared to 2004 was due in part to the following factors:

- A full valuation allowance charge of \$617 million taken against GM do Brasil's deferred tax assets as it was determined that it is more likely than not that deferred taxes in GM's Brazilian operations would not be realized; and
- Volume, product mix, and pricing improvements which exceeded losses from unfavorable exchange rate changes, primarily with respect to the Brazilian real, by approximately \$40 million from 2004 to 2005.

In addition to the above items, the 2005 results include third quarter impairment charges of \$99 million for assets still in service, determined by comparing projected cash flows to the book value of specific product-related assets and production facilities. Charges included \$52 million, after tax, for

product-specific assets, and \$47 million, after tax, for production facilities. Unusually strong South American currencies have impacted the profitability of GMLAAM's export business. Management's decision to adjust export volumes resulted in lower future cash flows triggering the impairment charge.

In 2004, favorable volume and mix and positive pricing, partially offset by increased material and structural costs, drove improved results. In 2003, GMLAAM incurred asset impairment charges and unfavorable exchange effects, which were partially offset by net price increases.

Effective January 1, 2004, GM increased its ownership of Delta Motor Co. in South Africa to 100%, from 49% previously, moving from the equity method of accounting to full consolidation. The company is now known as General Motors South Africa.

Our focus for GMLAAM in 2006 is to continue to leverage our position in South Africa, accelerate our turnaround program in Brazil, and build on our strong performance in the Middle East and Andean region countries.

GM ASIA PACIFIC

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
GMAP total net sales and revenues	\$10,893	\$6,978	\$5,338
GMAP net income (loss)	\$ (220)	\$ 730	\$ 576
GMAP net margin	(2.0)%	10.5%	10.8%
(Volume in thousands)			
Production volume ⁽¹⁾	1,562	1,333	420
Vehicle unit sales			
Industry	18,240	17,156	15,919
GM as a percentage of industry	5.8%	5.2%	4.9%
GM market share - Australia	17.8%	19.4%	20.4%
GM market share - China	11.2%	9.4%	8.5%

(1) 2004 and 2005 calendar years include GM Daewoo and Wuling joint venture production

Industry vehicle unit sales in the Asia Pacific region increased approximately 6.3% in 2005, to 18.2 million units, from 17.2 million units in 2004. This reflects slower growth in China than in previous years, where vehicle unit sales increased 13.2% to 5.9 million units in 2005, from 5.2 million units in 2004. During 2004 industry vehicle unit sales in China increased 15% over 2003 levels. We anticipate that the Asia Pacific region will remain the fastest growing automotive region in 2006, continuing its role as a real catalyst for growth in automotive sales globally. GMAP increased its vehicle unit sales (including GM Daewoo Auto & Technology Company (GM Daewoo, formerly referred to as GM-DAT) and China affiliates) in the Asia Pacific region by 20% in the period, to 1.1 million units from 887 thousand in 2004. GMAP's 2005 market share was 5.8%, compared to 5.2% in 2004. GMAP's market share in China increased 1.8 percentage points to 11.2% in 2005, and China was GM's second largest market for 2005.

Net income (loss) from GMAP totaled \$(220) million, \$730 million, and \$576 million, in 2005, 2004, and 2003, respectively. The deterioration in GMAP's 2005 results compared to 2004 was due in part to the following factors:

- Write-down of GM's investment in FHI in the second quarter for \$788 million, after-tax, as a result of FHI's declining financial performance and the downward adjustments in their business plan in May 2005. This writedown was partially offset in the fourth quarter, when GM completed the sale of its investment in the common stock of FHI and recorded a gain of \$71 million (after tax) due to the appreciation of the fair value of such stock after June 30, 2005, the date of the FHI impairment charge; and
- Volume and product mix at GM Holden in Australia, as well as reduced equity income from higher costs associated with GM's growth initiatives in China, were partially offset by favorable results from GM Daewoo, resulting in a decrease in net income of approximately \$200 million from 2004 to 2005.

In addition to the above items, in the third quarter of 2005 GMAP recognized asset impairment charges of \$45 million, after tax, for assets still in service at GM Holden, determined by comparing projected cash flows to the book value of assets. The charges were comprised of \$23 million for product-specific assets

Results of Operations (continued)

and \$22 million related to production facilities. In the fourth quarter of 2005, GMAP recognized \$38 million of separation costs associated with restructuring activities that resulted in the idling of approximately 1,200 employees.

The increase in GMAP's 2004 net income over 2003 was due to improved results at equity investees in Japan and GM Daewoo, as well as improved earnings at GM operations in Thailand and India, partially offset by reduced income at GM Holden.

In 2006, GMAP will continue to take advantage of the strong position and growth in China, leverage its capabilities at GM Daewoo, and execute the turnaround at GM's Holden unit.

OTHER OPERATIONS

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
Other:			
Total net sales, revenues, and eliminations	\$ (891)	\$ 410	\$ 1,318
Income (loss) from continuing operations	\$ (2,697)	\$ (1,419)	\$ (523)
(Loss) from discontinued operations	—	—	(219)
Gain from sale of discontinued operations	—	—	1,179
Net income (loss)	\$ (2,697)	\$ (1,419)	\$ 437

Other Operations' net loss increased \$1.3 billion in 2005 compared to 2004. The 2005 total net loss is primarily due to the impact of Delphi benefit guarantee charges offset by favorable income tax items. In the fourth quarter of 2005, an after-tax charge of \$3.6 billion was recorded pertaining to the contingent exposures relating to Delphi's Chapter 11 filing, including under the benefit guarantees (see subsequent discussion in Factors Affecting Future Results).

Income tax expense in 2005 is allocated to GM's automotive regions based on tax rates used by management for evaluating their performance. Tax benefits realized in excess of those assigned to GMA are allocated to Other Operations, which totaled \$1.6 billion in 2005.

In December 2004, GM wrote off the remaining balance of its investment in Fiat Auto Holdings B.V. (FAH), to Other Operations' cost of sales, resulting in an after-tax charge of \$136 million. On February 13, 2005, GM and Fiat reached a settlement agreement whereby GM paid Fiat approximately \$2.0 billion, returned its 10% equity interest in FAH to terminate the Master Agreement (including the Put Option) entered into in March 2000, settle various disputes related thereto, and acquire an interest in key strategic diesel engine assets and other important rights with respect to diesel engine technology and know-how. The settlement agreement resulted in a pre-tax charge to earnings of approximately \$1.4 billion (\$886 million after tax or \$1.56 per fully diluted share). Since the underlying events and disputes giving rise to GM's and Fiat's agreement to settle these disputes and terminate the Master Agreement (including the Put Option) existed at December 31, 2004, GM recognized this charge in the fourth quarter of 2004. This charge was recorded in cost of sales and other expenses in Other Operations.

Other Operations' results include after-tax legacy costs of \$477 million and \$402 million for 2005 and 2004, respectively, related to employee benefit costs of divested businesses, primarily Delphi, for which GM has retained responsibility.

DISCONTINUED OPERATIONS

In December 2003, GM split off Hughes by distributing Hughes common stock to the holders of GM Class H common stock in exchange for all the outstanding shares of GM Class H common stock. Simultaneously, GM sold its 19.8% retained economic interest in Hughes to The News Corporation Ltd. (News Corporation) in exchange for cash and News Corporation Preferred American Depositary Shares.

As of the completion of these transactions on December 22, 2003, the results of operations, cash flows, and the assets and liabilities of Hughes were classified as discontinued operations for all periods through such date presented in GM's consolidated financial statements. The transactions resulted in an after-tax gain of approximately \$1.2 billion classified as gain on sale of discontinued

operations in GM's consolidated statement of income for the year ended December 31, 2003. See Note 2 to the Consolidated Financial Statements for further discussion.

GMAC FINANCIAL REVIEW

GMAC's net income was \$2.4 billion, \$3.0 billion, and \$2.7 billion for 2005, 2004, and 2003 respectively.

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
Financing operations	\$ 627	\$ 1,430	\$ 1,391
Mortgage operations	1,345	1,186	1,175
Insurance operations	411	352	162
Net income	\$ 2,383	\$ 2,968	\$ 2,728

Net income from financing operations totaled \$0.6 billion, \$1.4 billion, and \$1.4 billion in 2005, 2004, and 2003, respectively. The decrease in 2005 net income over 2004 was primarily due to goodwill impairment charges of \$439 million, after tax, relating primarily to goodwill recognized in connection with the acquisition of GMAC's commercial finance business, as well as lower net interest margins as a result of increased borrowing costs due to widening spreads and higher market interest rates. The decline in net interest margins was somewhat mitigated by lower consumer credit provisions, primarily as a result of lower asset levels, and the effect of improved used vehicle prices on terminating leases. The increase in 2004 net income over 2003 reflects improvement in earnings from international operations, lower credit loss provisions, improved vehicle remarketing results in North America and favorable tax items, partially offset by lower net interest margins.

Net income from mortgage operations totaled \$1.3 billion, \$1.2 billion, and \$1.2 billion in 2005, 2004, and 2003, respectively. The increase in 2005 net income reflects increases in both the residential and commercial mortgage operations. GMAC's residential mortgage businesses benefited from increased loan production, favorable credit experience, improved mortgage servicing results and gains on sales of mortgages. GMAC Commercial Mortgage also experienced an increase in earnings compared to 2004 largely due to record loan origination volume, higher gains on sales of loans and increases in fee and investment income. In 2004, U.S. residential mortgage industry volumes declined by approximately 30% compared to 2003. However, despite the lower industry volumes, mortgage operations achieved market share gains, asset growth, improved mortgage servicing results and an increase in fee-based revenue in 2004 compared to 2003.

Net income from insurance operations totaled a record \$411 million in 2005, and \$352 million and \$162 million in 2004 and 2003, respectively. The increase in 2005 reflects a combination of strong results achieved through increased premium revenue, higher capital gains, and improved investment portfolio performance. In addition, GMAC Insurance maintained a strong investment portfolio, with a market value of \$7.7 billion at December 31, 2005, including net unrealized gains of \$573 million. At December 31, 2004, the investment portfolio was valued at \$7.3 billion, with net unrealized gains of \$563 million.

As previously announced in October 2005, GM is pursuing the sale of a controlling interest in GMAC, with the goal of delinking GMAC's credit rating from GM's credit rating and renewing its access to low-cost financing. GM is currently in discussions with potential interested parties, and the process is ongoing. On March 23, 2006, GMAC completed the previously announced sale of a controlling interest in GMAC Commercial Mortgage.

Key Factors Affecting Future Results

The following discussion identifies the key factors, known events, and trends that could affect our future results.

GM NORTH AMERICA RESTRUCTURING PLAN

The size of GM's 2005 loss, most of which is related to GMNA, clearly demonstrates the need for significant changes in GM's business model. A large part of those losses arises from GM's legacy cost burden and the fixed nature of much of its cost base.

Key Factors Affecting Future Results *(continued)*

In response to these cost burdens, GM has been intently focusing, especially over the past year, on restructuring its operations to succeed in a more competitive global environment. GM has been systematically and aggressively implementing a four-point turnaround plan for GMNA's business. The following is an update of the key elements of these plans and actions to date.

Product excellence – GMNA is keeping an intense focus on improving both revenue and contribution margin. Contribution margin is our revenues less material, freight, policy and warranty costs. GMNA increased capital spending by approximately \$400 million in 2005 in support of new car and truck programs, despite financial pressures. GM anticipates total capital spending on product development in 2006 of \$8.7 billion, of which \$5.7 billion will be devoted to GMNA. The execution of new product introductions continues to be a major emphasis, as shown by the success of new entries such as the Chevrolet Cobalt, Impala, and HHR, the Hummer H3, Pontiac G6 and Solstice, Buick Lucerne, and Cadillac STS and DTS. Starting in 2006, GM will rapidly revitalize its product portfolio over the next two years with new full-sized sport utility vehicles and pick-up trucks, additional cross over vehicles, and a significantly expanded line up for Saturn. In 2006, approximately 29% of GMNA's sales volume is expected to come from recently launched cars and trucks, as well as upcoming launch vehicles such as the Chevrolet Tahoe, Saturn Sky, GMC Yukon, Cadillac Escalade, and Saturn Aura. By 2007, GM expects more than 30% of GM's sales volumes to come from these new vehicles. GMNA is reallocating capital and engineering to support more fuel-efficient vehicles, including hybrid vehicles in the United States, and is increasing production of active fuel management engines and six-speed transmissions. GM is also undertaking a major initiative in alternate fuels through sustainable technologies such as ethanol/gasoline blended (E85) FlexFuel vehicles. During 2006, GM will offer nine E85 FlexFuel models, bringing an additional 400,000 E85 FlexFuel vehicles into its fleet.

Revitalize sales and marketing strategy – In January 2006, GM announced that it significantly lowered manufacturer's suggested retail prices on vehicles accounting for about 80% of its automotive sales volume. This included every Chevrolet, Buick, and GMC model, as well as most Pontiac cars and trucks. This is the next step in GM's "Total Value Promise" initiative in GMNA to emphasize the value it offers to consumers.

Clarifying, focusing, and differentiating the role of each North American brand continues to be an important goal. GM also continues to implement a more orderly and consistent alignment of its distribution system, especially among Pontiac, Buick, and GMC dealers. In addition, GM believes that its increased advertising in support of new products and its specific marketing initiatives to improve GM's sales performance in certain major metropolitan markets will support growing GMNA's business.

Accelerate cost reductions and quality improvements – GM announced in November 2005 a significant move to reduce its structural costs in the manufacturing area. These plans include the cessation of operations at nine assembly, stamping, and powertrain facilities and three Service and Parts Operations facilities by 2008, and a reduction in manufacturing employment levels of approximately 30,000. GM expects that these actions, together with other efficiency and productivity initiatives, will result in efficiency and productivity gains and reduce excess capacity by one million units annually. This is in addition to the one million-unit annual reduction in assembly capacity that has been achieved over the 2002 to 2005 period.

In addition, we have been in discussions with the UAW in an effort to develop an agreed upon accelerated attrition program by which we can reduce the number of employees that are and will be in the JOBS bank in a cost effective manner. As part of these discussions, on March 22, 2006, GM, Delphi and the UAW reached a tentative agreement intended to reduce the number of U.S. hourly employees through an accelerated attrition program. The agreement is subject to approval by the bankruptcy court of Delphi's participation in the agreement. If so approved, the agreement will provide for a combination of early retirement programs and other incentives designed to help reduce employment levels at GM, which may have the effect of reducing the number of employees that are or will be in the JOBS bank. Under the agreement, GM and the UAW also agreed to discuss other

options to address remaining surplus people at specific locations and all areas in which GM and the UAW can work together to close GM's competitive gap with its foreign competition and reduce GM's structural costs. Further, GM's management believes it is very important to negotiate a more competitive collective bargaining agreement with the UAW in 2007.

On February 7, 2006, GM announced its intention to substantially alter the pension benefits for current U.S. salaried employees. On March 7, 2006, GM announced the details of this plan, under which GM will freeze accrued benefits in the current plan, and implement a new benefit structure for future accruals, which will include a reduced defined benefit plan for some salaried employees and a new defined contribution plan for the other salaried employees. These pension plan changes will not affect current retirees or surviving spouses who are drawing benefits from the Salaried Retirement Program.

Reducing material costs, by far the largest cost item in the aggregate, remains a critical part of GMNA's overall cost reduction plans. Despite higher commodity prices and troubled supplier situations, GMNA is targeting for 2006 a net reduction of \$1 billion, prior to factoring in the cost of government mandated product improvements. GM believes that its utilization of the most competitive supply sources and its improvements to its global processes for product development are two major opportunities to reduce material costs.

GMNA is also seeking cost efficiencies in most other areas of the business including engineering, advertising, salaried employment levels, and indirect material costs. Engineering will seek to reduce development costs through the use of common vehicle architectures that can be used on a global basis. Advertising will seek more efficient and focused spending in line with brand focus. In 2006, salaried headcount levels are expected to continue to decline. Our headcount reduction efforts have resulted in a 30% reduction to salaried headcount over the past five years.

Address health-care burden – Addressing the legacy cost burden of health care for employees and retirees in the United States is one of the critical challenges facing the Corporation.

In October 2005, GM and the UAW reached a tentative agreement to reduce GM's health-care costs significantly while maintaining a high level of health-care benefits for its hourly employees and retirees in the United States. In December 2005, GM, the UAW and a class of hourly retirees finalized that agreement, which is subject to court approval, and submitted it for court approval.

The agreement is projected to reduce GM's retiree health-care (OPEB) liabilities by about \$15 billion, or 25% of the Corporation's hourly health-care liability, reduce GM's annual employee health-care expense by about \$3 billion on a pre-tax basis during a seven-year amortization period, and result in cash flow savings estimated to be about \$1 billion a year, after the agreement is fully implemented. The agreement will remain in effect until September 2011, after which either GM or the UAW may cancel the agreement upon 90 days written notice. Similarly, GM's contractual obligations to provide UAW hourly retiree health-care benefits extends to September 2011 and will continue thereafter unless terminated by GM or the UAW. This essentially means that the matters covered by this agreement will continue in effect for UAW retirees beyond the expiration of GM's current collective bargaining agreement in September 2007.

The agreement also commits GM to make contributions to a new independent Defined Contribution Voluntary Employees' Beneficiary Association (DC VEBA) that will be used to mitigate the effect of reduced GM health-care coverage on individual UAW hourly retirees. The new independent DC VEBA will be partially funded by GM contributions of \$1 billion in each of three years, currently expected to be 2006, 2007 and 2011. GM will also make future contributions subject to provisions of the tentative agreement referencing profit sharing payments, wage deferral payments, increases in value of GM \$1 2/3 par value common stock, and dividend payments. In addition, generally speaking, under the terms of the agreement, UAW retirees are responsible for annual increases in health-care benefit costs up to 3% and GM is responsible for increases in excess thereof.

Although GM continues to believe that it can lawfully make changes to retiree health-care benefits, GM and the UAW agreed as part of their tentative settlement to seek court approval. The agreement was finalized by GM, the UAW and a class of hourly retirees in December 2005 and submitted to a court for approval. GM is awaiting a final determination on the agreement by the court.

Key Factors Affecting Future Results (continued)

GM is also increasing the U.S. salaried workforce's participation in the cost of health care. On February 7, 2006, GM announced that it will cap its contributions to salaried retiree health care at the level of its 2006 expenditures. The cap will take effect beginning January 1, 2007. This affects those employees and retirees who are eligible for the salaried post-retirement health-care benefit, their surviving spouses, and their eligible dependents. Salaried employees who were hired after January 1, 1993, are not eligible for retiree health-care benefits, so they are not affected by these changes. When average costs exceed established limits following 2006, additional plan changes that affect cost-sharing features of program coverage will occur, effective with the start of the next calendar year. Program changes may include, but are not limited to, higher monthly contributions, deductibles, coinsurance, out-of-pocket maximums, and prescription drug payments. Plan changes may be implemented in medical, dental, vision, and prescription drug plans.

GM currently expects to remeasure its OPEB liability for the revised health-care benefits for salaried retirees, which become effective in January 2007. The remeasurement is expected to result in a reduction of this liability of approximately \$4.8 billion. The benefit associated with the reduction in the OPEB liability is expected to be amortized and reduce expenses at an annual pre-tax rate of \$900 million for approximately eight years and have a favorable effect on GM's 2006 pre-tax earnings estimated to be approximately \$500 million. The majority of the OPEB liability reduction and related expense would accrue to GM's North American automotive operations. Cash savings will be limited initially, but GM expects that annual cash savings from this action will grow to about \$200 million within five years, and continue to increase after that.

These expected health-care cost-reduction results exclude any possible effect from the Delphi situation discussed below. GM is committed to meeting the challenges and opportunities related to the Delphi bankruptcy, and will work as constructively as possible with Delphi to support their objective of emerging from bankruptcy as a viable ongoing business.

Expected cost reduction in North America – Based on the GMNA restructuring initiatives, in late 2005 we set a target of reducing structural costs in North America by \$6 billion on a running rate basis by the end of 2006 and reducing net material costs by \$1 billion in 2006. Running rate basis refers to the annualized cost savings into the foreseeable future anticipated to result from cost savings actions when fully implemented. Largely due to additional cost-reduction actions in the areas of U.S. salaried retiree health care and U.S. salaried employee pension benefits, we now expect to reduce structural costs in North America by an average of \$7 billion on a running rate basis by the end of 2006. We expect \$4 billion of the structural cost reduction to be realized during calendar year 2006. The \$7 billion average reduction on a running rate basis takes into account the unfavorable impact on structural costs of \$1 billion contributions that we have committed to make to a new DC VEBA in each of 2006, 2007, and 2011 in order to mitigate the effect of reduced GM health care coverage on individual UAW hourly retirees.

The expected annual structural cost reductions consist of:

- Approximately \$3 billion related to the UAW health-care agreement. The \$3 billion is comprised of approximately \$1 billion principally related to OPEB service and interest costs expected to be realized each year during the six-year term of the agreement and approximately \$2 billion which results from the amortization of a \$15 billion gain related to the agreement over approximately a seven-year period, which coincides with the remaining service life of active employees. The annual savings will be allocated approximately 80% to GMNA and 20% to the corporate sector.
- Approximately \$2 billion based on the capacity utilization and other manufacturing initiatives; and
- Approximately \$2 billion based on additional productivity and cost efficiencies in other areas of the business, including engineering, advertising and salaried employment levels and benefits.

Execution of our four-point turnaround plan is critical to our success. Although a substantial portion of the cost savings arising from the UAW health-care agreement will be amortized over the six- and seven-year periods described above, GM expects to pursue other initiatives that will enable it to continue to achieve structural cost reductions in excess of this annual running rate beyond that date. GM believes that it has sufficient balance sheet strength to finance the four-point turnaround plan under reasonably foreseeable circumstances. Nevertheless, there are significant risks to GM's liquidity position, including the possibility of an extended labor dispute at Delphi, any inability to access (or amend or replace) our existing standby bank credit facility, any claims that may be successfully asserted against GM under various financing agreements in view of GM's recent restatement of its prior financial statements, the further deterioration in GMAC's credit rating leading to a higher cost of capital, the failure to improve our competitive position through the 2007 labor negotiations, and the payment to Delphi employees of any amounts incremental to previously announced charges for contingent exposures related to Delphi's Chapter 11 filing. Further information about our liquidity can be found in the Liquidity and Capital Resources section below.

DELPHI BANKRUPTCY

On October 8, 2005, Delphi filed a petition for Chapter 11 proceedings under the United States Bankruptcy Code for itself and many of its U.S. subsidiaries. GM expects no immediate effect on its global automotive operations as a result of Delphi's action. Delphi is GM's largest supplier of automotive systems, components and parts, and GM is Delphi's largest customer.

GM will continue to work constructively in the court proceedings with Delphi, Delphi's unions, and other participants in Delphi's restructuring process. GM's goal is to pursue outcomes that are in the best interests of GM and its stockholders, and that enable Delphi to continue as an important supplier to GM.

Delphi has indicated to GM that it expects no disruption in its ability to supply GM with the systems, components and parts it needs as Delphi pursues a restructuring plan under the Chapter 11 process. Although the challenges faced by Delphi during its restructuring process could create operating and financial risks for GM, that process is also expected to present opportunities for GM. These opportunities include reducing, over the long term, the significant cost penalty GM incurs in obtaining parts from Delphi, as well as improving the quality of systems, components and parts GM procures from Delphi as a result of the restructuring of Delphi through the Chapter 11 process. However, there can be no assurance that GM will be able to realize any benefits.

There is a risk that Delphi or one or more of its affiliates may reject or threaten to reject individual contracts with GM, either for the purpose of exiting specific lines of business or in an attempt to increase the price GM pays for certain parts and components. As a result, GM might be materially adversely affected by disruption in the supply of automotive systems, components and parts that could force the suspension of production at GM assembly facilities.

In addition, various financial obligations Delphi has to GM as of the date of Delphi's Chapter 11 filing, including the \$951 million payable for amounts that Delphi owed to GM relating to Delphi employees who were formerly GM employees and subsequently transferred back to GM as job openings became available to them under certain employee "flowback" arrangements as of the date of Delphi's filing for Chapter 11, may be subject to compromise in the bankruptcy proceedings, which may result in GM receiving payment of only a portion of the face amount owed by Delphi.

GM will seek to minimize this risk by protecting our right of setoff against the \$1.15 billion we owed to Delphi as of the date of its Chapter 11 filing. A procedure for determining setoff claims has been put in place by the bankruptcy court. However, the extent to which these obligations are covered by our right to setoff may be subject to dispute by Delphi, the creditors committee, or Delphi's other creditors, and limitation by the court. GM cannot provide any assurance that it will be able to fully or partially setoff such amounts. However, to date setoffs of approximately \$52.5 million have been agreed to by Delphi and taken by GM. Although GM believes that it is probable that it will be able to collect all of the amounts due from Delphi, the financial impact of a substantial compromise of our right of setoff could have a material adverse impact on our financial position.

Key Factors Affecting Future Results (continued)

In connection with GM's spin-off of Delphi in 1999, GM entered into separate agreements with the UAW, the International Union of Electrical Workers and the United Steel Workers. In each of these three agreements (Benefit Guarantee Agreement(s)), GM provided contingent benefit guarantees to make payments for limited pension and OPEB expenses to certain former GM U.S. hourly employees who transferred to Delphi as part of the spin-off and meet the eligibility requirements for such payments (Covered Employees).

Each Benefit Guarantee Agreement contains separate benefit guarantees relating to pension, post-retirement health care and life insurance benefits. These limited benefit guarantees each have separate triggering events that initiate potential GM liability if Delphi fails to provide the corresponding benefit at the required level. Therefore, it is possible that GM could incur liability under one of the guarantees (e.g., pension) without triggering the other guarantees (e.g., post-retirement health care or life insurance). In addition, with respect to pension benefits, GM's obligation under the pension benefit guarantees only arises to the extent that the combination of pension benefits provided by Delphi and the Pension Benefit Guaranty Corporation (PBGC) falls short of the amounts GM has guaranteed.

The Chapter 11 filing by Delphi does not by itself trigger any of the benefit guarantees. In addition, the benefit guarantees expire on October 18, 2007 if not previously triggered by Delphi's failure to pay the specified benefits. If a benefit guarantee is triggered before its expiration date, GM's obligation could extend for the lives of affected Covered Employees, subject to the applicable terms of the pertinent benefit plans or other relevant agreements.

The benefit guarantees do not obligate GM to guarantee any benefits for Delphi retirees in excess of the levels of corresponding benefits GM provides at any given time to GM's own hourly retirees. Accordingly, if any of the benefits GM provides to its hourly retirees are reduced, there would be a similar reduction in GM's obligations under the corresponding benefit guarantee.

A separate agreement between GM and Delphi requires Delphi to indemnify GM if and to the extent GM makes payments under the benefit guarantees to the UAW employees or retirees. GM received a notice from Delphi, dated October 8, 2005, that it was more likely than not that GM would become obligated to provide benefits pursuant to the benefit guarantees to the UAW employees or retirees. The notice stated that Delphi was unable at that time to estimate the timing and scope of any benefits GM might be required to provide under those benefit guarantees. Any recovery by GM under indemnity claims against Delphi might be subject to partial or complete discharge in the Delphi reorganization proceeding. As a result, GM's claims for indemnity may not be paid in full.

As part of the discussion to attain GM's tentative health-care agreement with the UAW, GM provided former GM employees who became Delphi employees the potential to earn up to seven years of credited service for purposes of eligibility for certain health-care benefits under the GM/UAW benefit guarantee agreement.

On March 22, 2006, GM, Delphi and the UAW reached a tentative agreement intended to reduce the number of U.S. hourly employees at GM and Delphi through an accelerated attrition program. The agreement is subject to approval by the bankruptcy court of Delphi's participation in the agreement. If so approved, the agreement will provide for a combination of early retirement programs and other incentives designed to help reduce employment levels at both GM and Delphi. The agreement also calls for the flowback of 5,000 UAW-represented Delphi employees to GM by September 2007 (subject to extension). Eligible UAW-represented Delphi employees may elect to retire from Delphi or flow back to GM and retire. Under the agreement, GM has agreed to assume the financial obligations relating to the lump sum payments to be made to eligible Delphi U.S. hourly employees accepting normal or voluntary retirement incentives and certain post-retirement employee benefit obligations relating to Delphi employees who flow back to GM under the agreement. GM believes that the agreement will enhance the prospects for GM, the UAW and Delphi to reach a broad-based consensual resolution of issues relating to the Delphi restructuring. However, GM cannot provide any assurance that the bankruptcy court will approve of Delphi's participation in the agreement (and if such approval is not obtained, GM and the UAW will have no obligations under the agreement) or that enough employees will agree to participate in the attrition program to reduce employment levels at Delphi sufficient to provide the benefits we anticipate.

GM believes that it is probable that it has incurred a contingent liability due to Delphi's Chapter 11 filing. GM believes that the range of the contingent exposures is between \$5.5 billion and \$12 billion, with amounts near the low end of the range considered more possible than amounts near the high end of the range assuming an agreement is reached among GM, Delphi, and Delphi's unions. As a result, GM established a reserve of \$5.5 billion (\$3.6 billion after tax) as a non-cash charge in the fourth quarter of 2005. These views reflect GM's current assessment that it is unlikely that a Chapter 11 process will result in both a termination of Delphi's pension plan and complete elimination of its OPEB plans. The amount of this charge may change, depending on the result of discussions among GM, Delphi, and Delphi's unions, and other factors. GM is currently unable to estimate the amount of additional charges, if any, which may arise from Delphi's Chapter 11 filing. A consensual agreement to resolve the Delphi matter may cause GM to incur additional costs in exchange for benefits that would accrue to GM over time.

With respect to the possible cash flow effect on GM related to its ability to make either pension or OPEB payments, if any are required under the benefit guarantees, GM would expect to make such payments from ongoing operating cash flow and financings. Such payments, if any, are not expected to have a material effect on GM's cash flows in the short-term. However, if payable, these payments would be likely to increase over time, and could have a material effect on GM's liquidity in coming years. (For reference, Delphi's 2004 Form 10-K reported that its total cash outlay for OPEB for 2004 was \$226 million, which included \$154 million for both hourly and salaried retirees, the latter of whom are not covered under the benefit guarantees, plus \$72 million in payments to GM for certain former Delphi hourly employees that flowed back to retire from GM). If benefits to Delphi's U.S. hourly employees under Delphi's pension plan are reduced or terminated, the resulting effect on GM cash flows in future years due to the Benefit Guarantee Agreements is currently not reasonably estimable.

GMAC STRATEGIC ALTERNATIVES

On October 17, 2005, GM announced that it is exploring the possible sale of a controlling interest in GMAC, with the goal of delinking GMAC's credit rating from GM's credit rating and renewing its access to low-cost financing. Although any transaction involving GMAC would reduce our interest in the earnings of GMAC, it is expected that the financial effects of that reduction would be offset by the value of any consideration we receive from a purchaser. We are working to finalize a transaction as rapidly as we can. Structuring a GMAC transaction is a complex endeavor and we cannot predict whether any transaction with respect to GMAC will occur, the terms of any transaction, the identity of any purchaser, or whether and over what period a transaction could achieve the principal strategic goals. Even if we do not complete a transaction involving GMAC, management believes that GMAC will be able to maintain the necessary liquidity to support GM vehicle sales with its vehicle financing activities in 2006.

A sale of a controlling interest in GMAC would trigger a need to reassess the valuation attributable to the interest we sell and the interest we retain in GMAC. Even if we do not sell a controlling interest in GMAC, we will continue to reassess the value of GMAC on a periodic basis.

GMAC also announced that it will continue to evaluate strategic and structural alternatives to help ensure that its residential mortgage business, Residential Capital Corp. (ResCap), retains its investment grade credit ratings.

HEALTH-CARE LIQUIDITY MATTERS

In recent years, GM has paid its OPEB expenditures from operating cash flow, which reduces GM's liquidity and cash flow from operations. GM's OPEB spending was \$4.3 billion in 2005, up \$0.5 billion from 2004. GM's total cash spending for health care in 2005 was \$5.5 billion, up approximately \$0.1 billion from 2004 spending levels. However, GM has VEBA and 401(h) trusts with assets totaling \$19.1 billion in value as of December 31, 2005 that could be used to reimburse GM for its OPEB expenditures under certain circumstances. During each of the second and third quarters of 2005, GM withdrew \$1 billion from its VEBA trust as a reimbursement for its retiree health care payments and life insurance costs. On October 3, 2005, GM withdrew an additional \$1 billion from the VEBA and in December withdrew \$121 million from the hourly VEBA and \$55 million from the salaried VEBA. GM withdrew \$1 billion from the hourly

Key Factors Affecting Future Results (continued)

VEBA trust on February 1, 2006 and March 1, 2006, respectively. On a quarter-by-quarter basis, GM will evaluate the need for additional withdrawals as the cost of health care continues to adversely affect GM's liquidity. GM's OPEB liabilities also negatively affect GM's credit ratings, which are discussed in the "Status of Debt Ratings" section below.

Because of the importance of OPEB liabilities to GM's financial condition, GM management is pursuing an aggressive strategy on several fronts to mitigate the continued growth of these liabilities. These efforts include public policy initiatives, improvements to the health-care delivery system, enhanced consumer awareness of the effect of health-care choices and increased cost sharing with salaried and hourly employees. GM's turnaround plan and future prospects could be materially adversely affected unless substantial progress is made on its health-care cost issues in the future.

INVESTIGATIONS

GM has been cooperating with the government in connection with a number of investigations, including investigations concerning pension and OPEB and certain transactions between GM and Delphi.

The Securities and Exchange Commission (SEC) has issued subpoenas to GM in connection with various matters involving GM that it has under investigation. These matters include GM's financial reporting concerning pension and OPEB, certain transactions between GM and Delphi, supplier price reductions or credits, and any obligation GM may have to fund pension and OPEB costs in connection with Delphi's proceedings under Chapter 11 of the U.S. Bankruptcy Code. In addition, the SEC recently issued a subpoena in connection with an investigation of our transactions in precious metal raw materials used in our automotive manufacturing operations, and a federal grand jury recently issued a subpoena in connection with supplier credits.

Separately, SEC and federal grand jury subpoenas have been served on GMAC entities in connection with industry wide investigations into practices in the insurance industry relating to loss mitigation insurance products such as finite risk insurance.

Restatements

GM has concluded an internal review of credits received from suppliers and the appropriateness of its accounting treatment for them during the years 2000 through 2005. The review indicated that GM erroneously recognized some supplier credits as income in the year in which they were received, when it should have instead amortized them over the future periods to which they were attributable. Upon completion of this review, GM filed revised periodic reports with the SEC in which GM restated its financial statements for these and other errors identified in all periods presented in those reports. The restated financial statements presented in those reports corrected the erroneous accounting for supplier credits, transactions between GM and Delphi, OPEB, pension, transactions involving precious metals, classifications of cash flows at ResCap, and other matters requiring out-of-period adjustments.

Certain financing agreements to which GM is a party contain customary covenants and representations with respect to the delivery and certification of financial statements, which generally require that those financial statements be materially accurate when delivered. As a result of GM's recent restatement of its financial statements, it is possible that the counterparties under certain of those financing agreements may assert that GM is no longer entitled to the benefits under the agreements or that a default has occurred with regard to the financial statements which GM provided and which GM has now restated. These agreements consist principally of obligations in connection with sale/lease back transactions and other lease obligations and do not include GM's public debt indentures. Although GM has certain legal rights (such as the ability to cure) with respect to certain claims that could be asserted and there may be economic disincentives for third parties to raise certain claims to the extent they have them, there can be no assurance that one or more counterparties will not attempt to declare a default or exercise such rights or remedies as they may deem available, which could include acceleration, termination or other remedies, and the

amounts involved could be material. To date, GM has not received any notices of any declaration of default or similar action from any such other counterparty, and GM continues to make required payments and satisfy other obligations under these agreements.

Liquidity and Capital Resources

AUTOMOTIVE AND OTHER OPERATIONS

AVAILABLE LIQUIDITY

GM believes it has sufficient liquidity, balance sheet strength and financial flexibility to meet its capital requirements over the short and medium-term under reasonably foreseeable circumstances. Over the long term, we believe that GM's ability to meet its capital requirements will primarily depend on the successful execution of its four-point turnaround plan and the return of its North American operations to profitability and positive cash flow, and its ability to execute the globalization of its principal business functions. GM Auto & Other's available liquidity includes its cash balances, marketable securities and readily-available assets of its VEBA trusts. At December 31, 2005, GM Auto & Other's available liquidity was \$20.4 billion compared with \$23.3 billion at December 31, 2004. In March 2006, GM sold approximately 17% of Suzuki's common stock for approximately \$2.0 billion in cash, and continues to hold approximately 3.7% of Suzuki's common stock. The amount of GM's consolidated cash and marketable securities is subject to intra-month and seasonal fluctuations and includes balances held by various GM business units and subsidiaries worldwide that are needed to fund their operations.

	Years ended December 31,		
(Dollars in billions)	2005	2004	2003
Cash and cash equivalents	\$15.2	\$13.1	\$14.4
Other marketable securities	1.4	6.7	9.1
Readily-available assets of VEBA trusts	3.8	3.5	3.5
Available Liquidity	\$20.4	\$23.3	\$27.0

In addition to the readily-available portion of GM's VEBA trusts included in available liquidity, GM expects to have access to significant additional assets in its VEBA trusts over time to fund its future OPEB plan costs. Total assets in the VEBA trusts approximated \$19.1 billion at December 31, 2005 versus \$20.0 billion at December 31, 2004. The decline in these balances was primarily driven by \$3.2 billion of withdrawals during 2005, partially offset by favorable asset returns during the year.

GM also has a \$5.6 billion unsecured line of credit under a standby facility with a syndicate of banks that terminates in June 2008. GM has not previously drawn on this credit facility or its predecessor facilities and believes that it has sufficient liquidity over the short and medium term without drawing on this facility. GM believes that it has a good faith basis on which to make a borrowing request under this credit facility. However, in view of GM's recent restatement of its prior financial statements, there is substantial uncertainty as to whether the bank syndicate would be required to honor such a request, and therefore there is a high risk that GM would not be able to borrow under this facility. GM believes that this matter is unlikely to be tested because GM has no current need or intention to draw on the existing facility. Moreover, GM is currently exploring the possibility of amending or replacing the existing facility with new terms that would, among other things, resolve any uncertainty regarding GM's ability to borrow thereunder. There can be no assurance that GM will be successful in negotiating an amendment or replacement of the existing credit line or, if so, as to the amount, terms or conditions of any such amended or replacement facility.

GM believes that issues also may arise from its recent restatement of its prior financial statements under various financing agreements, which consist principally of obligations in connection with sale/leaseback transactions and other lease obligations and do not include GM's public debt indentures, as to which GM is a party. GM has evaluated the effect of its restatement under these agreements, including its legal rights (such as its ability to cure) with respect to any claims that could be asserted. While the amounts that might be subject to possible claims of acceleration, termination or other remedies under some or all of

Liquidity and Capital Resources (continued)

these agreements are uncertain, GM currently believes such amounts would likely not exceed approximately \$3 billion. In addition, there may be economic disincentives for third parties to raise such claims to the extent they have them. GM believes that it has sufficient liquidity over the short and medium term, regardless of the resolution of these matters.

GM also has an additional \$0.3 billion in undrawn committed facilities with various maturities and undrawn uncommitted lines of credit of \$0.7 billion. In addition, GM's consolidated affiliates with non-GM minority shareholders, primarily GM Daewoo, have a combined \$1.5 billion in undrawn committed facilities. Other potential sources of liquidity could include the acceleration of additional dividends from GMAC and the sale of non-core assets.

Cash flow – The decrease in available liquidity to \$20.4 billion at December 31, 2005 from \$23.3 billion at December 31, 2004 was primarily a result of GM Auto & Other's negative operating cash flow and the significant capital expenditures required to support the business, partially offset by withdrawals from GM's VEBA trusts for its OPEB plans for reimbursement of retiree healthcare and life insurance benefits, cash dividends received from GMAC and net cash received and consolidated as part of transactions related to equity interests in affiliates.

For the year ended December 31, 2005, Auto & Other's operating cash flow was breakeven, principally driven by the \$(12.8) billion net loss from continuing operations before cumulative effect of accounting change. That result compares with operating cash flow of \$1.2 billion and a net loss from continuing operations of \$(145) million in 2004. In addition to the significant net loss, 2005 operating cash flow was unfavorably impacted by approximately \$1.8 billion of cash payments made by GM to Fiat to terminate the Master Agreement and settle various disputes related thereto (GM paid a total of approximately \$2.0 billion as a result of the Fiat settlement, approximately \$1.8 billion of which was classified as operating cash flow, while approximately \$200 million, primarily related to the purchase of certain assets, was classified as investing cash flow), and by approximately \$802 million of cash costs related to the GME restructuring initiative. During 2005, GM withdrew \$3.2 billion from its VEBA trusts for its OPEB plans for reimbursement of retiree health care and life insurance benefits provided to eligible plan participants, improving operating cash flow by \$3.2 billion.

Investments in marketable securities primarily consist of purchases, sales and maturities of highly-liquid corporate, U.S. government, U.S. government agency and mortgage-backed debt securities used for cash management purposes. During 2005, GM acquired approximately \$2.6 billion of marketable securities while sales and maturities of marketable securities were approximately \$7.7 billion.

Capital expenditures were a significant use of investing cash in 2005. Capital expenditures were \$7.9 billion, up from \$7.3 billion in 2004 primarily as a result of significant investment in GMNA required to support new product launches. Favorable investing cash flows included \$2.5 billion of dividends from GMAC, up from \$1.5 billion in 2004, \$1.4 billion of cash acquired (net of investment) as a result of investment activity, and \$846 million of proceeds from the sale of business units/equity investments. The \$1.4 billion of cash acquired (net of investment) as a result of investment activity in 2005 was driven primarily by GM's acquisition in 2005 of a majority interest in GM Daewoo, which resulted in GM consolidating GM Daewoo's cash balance of approximately \$1.6 billion (net of \$70 million cash paid by GM to acquire the additional 6.3% interest in GM Daewoo). Proceeds from the sale of business units/equity investments was primarily driven by GM's sale of its interest in FHI, for which GM received approximately \$800 million. In March 2006, GM sold its interest in Suzuki common stock for approximately \$2.0 billion in cash. In 2006, GM anticipates total capital spending on product development, including GM's full-size pickup trucks, in 2006 of \$8.7 billion, of which \$5.7 billion will be devoted to GMNA. We maintain a commitment to product development, but our substantial legacy costs give us less available cash to invest relative to some of our competitors.

Debt – GM Auto & Other's total debt at December 31, 2005 was \$32.5 billion, of which \$1.5 billion was classified as short-term and \$31.0 billion was classified as long-term. At December 31, 2004, total debt was \$32.5 billion, of which \$2.1 billion was short-term and \$30.4 billion was long-term.

Separate to the \$1.5 billion of short-term debt, near-term North American term debt maturities include up to approximately \$1.2 billion in 2007, primarily related to approximately \$1.2 billion of convertible debentures that may be put to GM for cash settlement in March 2007, and approximately \$1.3 billion of various maturities in 2008.

In order to provide financial flexibility to GM and its suppliers, GM maintains a trade payables program through GMACCF. The GMACCF program was implemented in the second quarter of 2005, replacing a larger program that GM maintained with General Electric Capital Corporation. Under the GMACCF program, GMAC Commercial Finance (GMACCF) pays participating GM suppliers the amount due to them from GM in advance of their contractual original due dates. In exchange for the early payment, these suppliers accept a discounted payment. On the original due date of the payables, GM pays GMACCF the full amount. At December 31, 2005, GM owed approximately \$0.3 billion to GMACCF under the program, which amount is included in the balances of net payable to FIO and net receivable from Auto & Other in GM's Supplemental Information to the Consolidated Balance Sheets, and is eliminated in GM's Consolidated Balance Sheets.

Net liquidity – Net liquidity, calculated as cash, marketable securities, and \$3.8 billion (\$3.5 billion at December 31, 2004) of readily-available assets of the VEBA trust less the total of loans payable and long-term debt, was a negative \$12.1 billion at December 31, 2005, compared with a negative \$9.2 billion at December 31, 2004.

FINANCING AND INSURANCE OPERATIONS

GMAC's consolidated assets totaled \$320.5 billion at December 31, 2005, down 1.2% from \$324.2 billion at December 31, 2004, which decrease was primarily attributable to a decrease in consumer finance receivables, primarily due to lower automotive finance receivables as a result of an increase in whole loan sales.

Consistent with the reduction in assets, GMAC's total debt decreased to \$253.2 billion at December 31, 2005 (excluding Commercial Mortgage debt of \$4.3 billion, which has been reclassified as held for sale), compared to \$267.8 billion at December 31, 2004 and \$239.4 billion at December 31, 2003. GMAC's 2005 year-end ratio of total debt to total stockholder's equity was 11.9:1 compared to 12.0:1 at December 31, 2004. GMAC's liquidity, as well as its ability to profit from ongoing activity, is in large part dependent upon its timely access to capital and the costs associated with raising funds in different segments of the capital markets. Part of GMAC's strategy in managing liquidity risk has been to develop diversified funding sources across a global investor base. As an important part of its overall funding and liquidity strategy, GMAC maintains substantial bank lines of credit. These bank lines of credit, which totaled \$47.0 billion at December 31, 2005, provide "back-up" liquidity and represent additional funding sources, if required.

GMAC currently has a \$3.0 billion syndicated line of credit committed through June 2006, \$4.4 billion committed through June 2008, and committed and uncommitted lines of credit of \$3.6 billion and \$11.0 billion, respectively. In addition, at December 31, 2005, New Center Asset Trust (NCAT) had an \$18.5 billion committed liquidity facility. NCAT is a special purpose entity administered by GMAC for the purpose of funding assets as part of GMAC's securitization funding programs. This entity funds the purchase of assets through the issuance of asset-backed commercial paper and represents an important source of liquidity to GMAC. At December 31, 2005, NCAT had commercial paper outstanding of \$10.9 billion, which is not consolidated in the Corporation's Consolidated Balance Sheet. In addition, GMAC has \$126.8 billion in committed and uncommitted secured funding facilities with third-parties, including commitments with third-party asset-backed commercial paper conduits, as well as forward flow sale agreements with third-parties and repurchase facilities. This includes five year commitments that GMAC has entered into in 2005 with remaining capacity to sell up to \$64 billion of retail automotive receivables to third party purchasers through 2010. The unused portion of these committed and uncommitted facilities totaled \$87.7 billion at December 31, 2005.

Liquidity and Capital Resources *(continued)*

STATUS OF DEBT RATINGS

Standard & Poor's, Moody's, and Fitch currently rate GM's and GMAC's credit at non-investment grade. Dominion Bond Rating Services (DBRS) rates GM's credit at non-investment grade and maintains an investment grade rating for GMAC. All major rating agencies rate ResCap at investment grade. The following table summarizes GM's, GMAC's and ResCap's credit ratings as of March 27, 2006:

	GM	GMAC	ResCap	GM	GMAC	ResCap	GM	GMAC	ResCap
Rating Agency	Senior Debt			Commercial Paper			Outlook		
DBRS	B (High)	BBB (Low)	BBB	R-3 (Mid)	R-2 (Low)	R-2 (Mid)	Negative	Developing	Developing
Fitch	B	BB	BBB-	Withdrawn	B	F3	Rating Watch Negative	Evolving	Evolving
Moody's	B2	Ba1	Baa3	Not Prime	Not Prime	P3	Review for Possible Downgrade	Review for Possible Downgrade	Review for Possible Downgrade
S&P	B	BB	BBB-	B-3	B-1	A-3	Negative	Developing	Developing

While GM experienced limited access to the capital markets in 2005 as a result of deterioration in its credit ratings, it was able to utilize available liquidity to meet its capital requirements. Similarly, due to the downgrade of its unsecured debt to non-investment grade, GMAC's access to the unsecured capital markets was limited. GMAC was able to meet its capital requirements by accessing alternative funding sources, with a focus on secured funding and automotive whole loan sales. In addition, GMAC has been able to diversify its unsecured funding through the formation of ResCap, which in 2005 issued \$5.25 billion in unsecured debt to investors.

Each of Standard and Poor's, Moody's, Fitch, and DBRS has recently downgraded GM's senior debt ratings.

On October 10, 2005, Moody's placed GM's Ba2 and GMAC's Ba1 senior unsecured ratings under review for a possible downgrade. On October 17, 2005, Moody's announced a change in GMAC's and ResCap's review status to "direction uncertain" from "review for a possible downgrade." In addition, Moody's placed GMAC's Non-Prime short-term rating on review for possible upgrade. On November 1, 2005, Moody's downgraded GM's long-term credit rating from Ba2 to B1 with a negative outlook. GMAC's rating, at Ba1, and ResCap's at Baa3, were left under review with direction uncertain. Moody's affirmed the ratings of these entities on both November 21, 2005, and January 19, 2006. On February 21, 2006, Moody's downgraded GM's senior unsecured debt to B2 with a negative outlook from B1 under review for a possible downgrade. On March 16, 2006, Moody's placed the senior unsecured ratings of GM, GMAC and ResCap under review for a possible downgrade. At the same time, Moody's changed the review status of ResCap's short-term P-3 ratings to review for possible downgrade from direction uncertain.

On October 3, 2005, Standard and Poor's placed the ratings of GM, GMAC, and ResCap on CreditWatch with negative implications. On October 10, 2005, Standard and Poor's downgraded GM's long-term corporate credit rating from BB, CreditWatch with negative implications to BB minus CreditWatch with negative implications and, at the same time, downgraded GM's short-term rating from B-1 CreditWatch with negative implications to B-2 CreditWatch with negative implications. The ratings for GMAC and ResCap were left at BB and BBB minus, respectively. The outlook for GMAC and ResCap remained on CreditWatch, but the implications on both entities were changed to "developing" from "negative." On December 12, 2005, Standard and Poor's resolved GM's issuer credit rating by downgrading the rating from BB minus, CreditWatch with negative implications to B, outlook negative, and downgraded GM's short-term ratings from B-2, CreditWatch with negative implications to B-3 outlook negative. GM's ratings were removed from Creditwatch. The long-term ratings of GMAC and ResCap were unchanged at BB and BBB minus, respectively, both under CreditWatch with developing implications. GMAC's and ResCap's short-term ratings remained unchanged at B-1 and A-3 respectively, both under CreditWatch with developing implications.

On October 17, 2005 Fitch affirmed GM's senior debt credit rating of BB and placed the ratings of GMAC and ResCap on Rating Watch Evolving with a rating of BB and BBB-minus, respectively. On November 9, 2005, Fitch downgraded GM's senior unsecured ratings from BB to B-plus, Rating Watch Negative,

leaving the ratings of GMAC and Rescap unchanged. GM's short-term rating was withdrawn. GMAC's and ResCap's short-term ratings were left at B and F-3, respectively (both on Rating Watch Evolving). Fitch affirmed the ratings of GM, GMAC, and ResCap on February 7, 2006. On March 1, 2006, Fitch downgraded GM's senior unsecured rating from B+ to B. Fitch maintained the rating watch negative outlook for GM's ratings.

On October 11, 2005, DBRS placed the ratings of GMAC and ResCap under review with developing implications. On October 14, 2005, DBRS downgraded GM's long-term debt to BB with negative trends and confirmed GM's commercial paper rating of R-3 (high), also with negative trends. On December 16, 2005, DBRS downgraded GM's long-term debt to B (high) and GM's short-term rating to R-3 (mid), both with negative trends.

While the aforementioned ratings actions have increased borrowing costs and limited access to unsecured debt markets, these outcomes have been mitigated by actions taken by GM and GMAC over the past few years to focus on an increased use of liquidity sources other than institutional unsecured markets that are not directly affected by ratings on unsecured debt, including secured funding sources beyond traditional asset classes and geographical markets, automotive whole loan sales, and use of bank and conduit facilities. Further reductions of GM's and/or GMAC's credit ratings could increase the possibility of additional terms and conditions contained in any new or replacement financing arrangements. As a result of specific funding actions taken over the past few years, management believes that GM and GMAC will continue to have access to sufficient capital to meet the Corporation's ongoing funding needs over the short and medium-term. Notwithstanding the foregoing, management believes that the current ratings situation and outlook increase the level of risk for achieving the Corporation's funding strategy and GMAC's ability to sustain current level of asset originations over the long-term. In addition, the ratings situation and outlook increase the importance of successfully executing the Corporation's plans for improvement of operating results. Management continuously assesses these matters and is seeking to mitigate the increased risk by exploring whether actions could be taken that would provide a basis for rating agencies to evaluate GMAC's financial performance in order to provide GMAC with ratings independent of those assigned to GM. On October 17, 2005, GM made an announcement that it is exploring the possible sale of a controlling interest in GMAC, with the goal of delinking GMAC's credit rating from GM's credit rating and renewing its access to low-cost financing. There can be no assurance that any such actions, if taken, would be successful in achieving a delinking of GMAC's credit rating from GM's credit rating by the rating agencies.

In addition, GMAC has been able to diversify its unsecured funding through the formation of ResCap. ResCap, which was formed as the holding company of GMAC's residential mortgage businesses, successfully achieved an investment grade rating (independent from GMAC) and issued \$4 billion of unsecured debt in the second quarter of 2005. Following the bond offering, in July 2005, ResCap closed a \$3.5 billion syndication of its bank facilities consisting of a \$1.75 billion syndicated term loan, \$0.9 billion syndicated line of credit committed through July 2008 and a \$0.9 billion syndicated line of credit committed

Liquidity and Capital Resources (continued)

through July 2006. In addition, in the fourth quarter of 2005, ResCap filed a \$12 billion shelf registration statement in order to offer senior and/or subordinated debt securities and has issued \$3 billion (\$1.75 billion issued in February 2006) in unsecured debt to investors, with a portion of the proceeds from the notes used to repay a portion of intercompany borrowings. These facilities are intended to be used primarily for general corporate and working capital purposes, as well as to repay affiliate borrowings, thus providing additional liquidity.

LINE OF CREDIT BETWEEN GM AND GMAC

GM has a \$4 billion revolving line of credit from GMAC that expires in September 2006. This credit line is used for general operating and seasonal working capital purposes and to reduce external liquidity requirements, given the differences in the timing of GM's and GMAC's peak funding requirements. The maximum amount outstanding on this line during the year was \$3.3 billion with no amounts outstanding on this line at December 31, 2005. Interest is payable on amounts advanced under the arrangements based on market interest rates, adjusted to reflect the credit rating of GM or GMAC in its capacity as borrower. In addition to this line of credit, GMAC had a similar line of credit with GM that allowed GMAC to draw up to \$6 billion. This arrangement expired in December 2005 and was not renewed.

PENSION AND OTHER POSTRETIREMENT BENEFITS

Plans covering represented employees generally provide benefits of negotiated, stated amounts for each year of service as well as significant supplemental benefits for employees who retire with 30 years of service before normal retirement age.

GM's policy with respect to its qualified pension plans is to contribute annually not less than the minimum required by applicable law and regulation, or to directly pay benefit payments where appropriate. As of December 31, 2005, all legal funding requirements had been met. GM made contributions to its pension plans as follows (dollars in millions):

	2005	2004	2003
U.S. hourly and salaried	\$ —	\$ —	\$18,504
Other U.S.	125	117	117
Non-U.S.	708	802	442

In 2006, GM does not have any contributions due for its U.S. hourly pension plan. In February 2006, GM contributed \$1.7 million into its U.S. salaried pension plan. This contribution was a required contribution on behalf of GM employees who were former participants in the Saturn PCR plan, which was merged into the GM salaried pension plan in 2005. GM does not expect to make any additional contributions into the salaried pension plan in 2006. GM expects to contribute or pay benefits of approximately \$100 million to its other U.S. pension plan and \$500 million to its primary non-U.S. pension plans, which include GM Canada Limited, Adam Opel and Vauxhall, in 2006.

GM's U.S. hourly and salaried pension plans are overfunded by \$7.5 billion in 2005 and \$1.6 billion in 2004. This increase was primarily attributable to strong actual asset returns of approximately 13% in 2005. The non-U.S. pension plans are underfunded. The deficit for non-U.S. pension benefits increased from approximately \$9 billion at the end of 2004 to \$10.7 billion at the end of 2005. This increase was primarily due to declines in discount rates in various countries that GM sponsors plans.

GM also maintains hourly and salaried benefit plans that provide postretirement medical, dental, vision and life insurance to most U.S. retirees and eligible dependents. Certain of the non-U.S. subsidiaries have postretirement benefit plans, although most participants are covered by government sponsored or administered programs. GM's U.S. OPEB plan was underfunded by \$62.1 billion in 2005 and \$53.8 billion in 2004. GM's non-U.S. OPEB plans were underfunded by \$3.8 billion in 2005 and \$3.7 billion in 2004.

In 2005, GM withdrew a total of \$3.2 billion from plan assets of its VEBA trusts for its OPEB plans for reimbursement of retiree healthcare and life insurance benefits provided to eligible plan participants. In 2004, GM contributed a

total of \$9 billion to its U.S. OPEB plans, primarily U.S. hourly and salaried VEBA for OPEB plan accounts. GM withdrew \$1 billion from its VEBA trust on each of February 1, 2006 and March 1, 2006.

The following benefit payments, which reflect estimated future employee services, as appropriate, are expected to be paid (dollars in millions):

	Pension Benefits		Other Benefits		Non-U.S. Other Benefits	
	U.S. Plans	Primary Non-U.S. Plans	Gross Benefit Payments	Gross Medicare Part D Receipts	Gross Benefit Payments	Gross Medicare Part D Receipts
2006	\$ 6,794	\$ 834	\$ 4,337	\$ 181	\$128	\$ —
2007	6,693	865	4,637	271	137	—
2008	6,728	905	4,916	301	147	—
2009	6,744	940	5,163	328	157	—
2010	6,754	979	5,383	353	167	—
2011-2015	33,517	5,443	29,187	2,116	993	—

OFF-BALANCE SHEET ARRANGEMENTS

GM and GMAC use off-balance sheet arrangements where the economics and sound business principles warrant their use. GM's principal use of off-balance sheet arrangements occurs in connection with the securitization and sale of financial assets generated or acquired in the ordinary course of business by GMAC and its subsidiaries and, to a lesser extent, by GM. The assets securitized and sold by GMAC and its subsidiaries consist principally of mortgages, and wholesale and retail loans secured by vehicles sold through GM's dealer network. The assets sold by GM consist principally of trade receivables.

In addition, GM leases real estate and equipment from various off-balance sheet entities that have been established to facilitate the financing of those assets for GM by nationally prominent lessors that GM believes are creditworthy. These assets consist principally of office buildings, warehouses, and machinery and equipment. The use of such entities allows the parties providing the financing to isolate particular assets in a single entity and thereby syndicate the financing to multiple third parties. This is a conventional financing technique used to lower the cost of borrowing and, thus, the lease cost to a lessee such as GM. There is a well-established market in which institutions participate in the financing of such property through their purchase of ownership interests in these entities and each is owned by institutions that are independent of, and not affiliated with, GM. GM believes that no officers, directors or employees of GM, GMAC, or their affiliates hold any direct or indirect equity interests in such entities.

The amounts outstanding in off-balance sheet facilities used by GM in its FIO reportable segment have increased over the past few years as GMAC continues to use securitization transactions that, while similar in legal structure to off-balance sheet securitizations, are accounted for as secured financings and are recorded as receivables and debt on the balance sheet.

Assets in off-balance sheet entities were as follows (dollars in millions):

	December 31	
	2005	2004
Automotive and Other Operations		
Assets leased under operating leases	\$ 2,430	\$ 2,553
Trade receivables sold ⁽¹⁾	708	1,210
Total	\$ 3,138	\$ 3,763
Financing and Insurance Operations		
Receivables sold or securitized:		
– Mortgage loans	\$ 99,084	\$ 79,043
– Retail finance receivables	6,014	5,615
– Wholesale finance receivables	21,421	21,291
Total	\$126,519	\$105,949

(1) In addition, trade receivables sold to GMAC were \$525 million as of December 31, 2005 and \$549 million as of December 31, 2004.

Liquidity and Capital Resources *(continued)*

CONTRACTUAL OBLIGATIONS AND OTHER LONG-TERM LIABILITIES

GM has the following minimum commitments under contractual obligations, including purchase obligations, as defined by the SEC. A "purchase obligation" is defined as an agreement to purchase goods or services that is enforceable and legally binding on GM and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Other long-term liabilities are defined as long-term liabilities that are reflected on GM's balance sheet under GAAP. Based on this definition, the tables below include only those contracts which include fixed or minimum obligations. It does not include normal purchases, which are made in the ordinary course of business.

The following table provides aggregated information about our Auto & Other segment's outstanding contractual obligations and other long-term liabilities as of December 31, 2005.

AUTOMOTIVE AND OTHER OPERATIONS

<i>(Dollars in millions)</i>	Payments Due by Period				Total
	2006	2007-2008	2009-2010	2011 and After	
Debt	\$ 1,519	\$ 2,847	\$ 589	\$ 27,648	\$32,603
Capital lease obligations	174	597	251	573	1,595
Operating lease obligations	630	1,472	895	1,323	4,320
Contractual commitments for capital expenditures	745	15	—	—	760
Other contractual commitments:					
Postretirement benefits ⁽¹⁾	3,517	3,827	—	—	7,344
Less: VEBA assets ⁽²⁾	(3,517)	(3,827)	—	—	(7,344)
Net	—	—	—	—	—
Material	1,079	1,676	1,262	332	4,349
Information technology ⁽³⁾	333	179	4	1	517
Marketing	1,647	634	429	115	2,825
Facilities	201	227	178	445	1,051
Rental car repurchases	8,347	—	—	—	8,347
Policy, product warranty and recall campaigns liability	4,480	4,123	482	43	9,128
Total contractual commitments	\$19,155	\$11,770	\$ 4,090	\$30,480	\$65,495
Remaining balance postretirement benefits	\$ 767	\$ 5,438	\$10,189	\$61,203	\$77,597
Less: VEBA assets ⁽²⁾	(767)	(5,438)	(5,557)	—	(11,762)
Net	\$ —	\$ —	\$ 4,632	\$61,203	\$65,835

Long-term debt payable beyond one year at December 31, 2005 includes scheduled maturities as follows: 2007 - \$1 billion; 2008 - \$1.9 billion; 2009 - \$0.4 billion; 2010 - \$0.2 billion; 2011 and after - \$27.6 billion. Included in the long-term debt payable beyond one year are certain convertible debentures of approximately \$1.2 billion that may be put to GM for cash settlement in March 2007, ahead of its scheduled maturity after 2011.

(1) Amounts include postretirement benefits under the current contractual labor agreements in North America. The remainder of the estimated liability, for benefits beyond the current labor agreement and for essentially all salaried employees, is classified under remaining balance of postretirement benefits.

(2) Total VEBA assets were allocated based on projected spending requirements. Amount includes \$1.0 billion VEBA withdrawal and \$0.2 billion VEBA withdrawal in the fourth quarter of 2005.

(3) Does not reflect the effect of the January 2006 agreements with information technology providers.

The combined U.S. hourly and salaried pension plans were \$7.5 billion overfunded on a Statement of Financial Accounting Standards No. 87 basis at year-end 2005. As a result, and under normal conditions, GM does not expect to make any contribution to its U.S. hourly and salaried pension plans for the foreseeable future.

The following table provides aggregated information about our FIO segments outstanding contractual obligations and other long-term liabilities as of December 31, 2005.

FINANCING AND INSURANCE OPERATIONS

<i>(Dollars in millions)</i>	Payments Due by Period				Total
	2006	2007-2008	2009-2010	2011 and After	
Debt	\$ 82,054	\$59,512	\$18,801	\$ 93,386	\$253,753
Operating lease obligations	201	304	161	158	824
Mortgage purchase and sale commitments	24,619	3,463	—	70	28,152
Lending commitments	18,500	2,213	669	4,493	25,875
Commitments to remit excess cash flows on certain loan portfolios	—	—	—	4,305	4,305
Commitments to sell retail automotive receivables	9,000	12,000	12,000	—	33,000
Commitments to provide capital to equity method investees	553	90	107	287	1,037
Purchase obligations	150	77	13	—	240
Total contractual commitments	\$135,077	\$77,659	\$31,751	\$102,699	\$347,186

Book Value per Share

Book value per share represents the net assets of the Corporation divided by the number of outstanding shares and was determined based on the liquidation rights of the common stockholders. Book value per share of GM \$1 2/3 par value common stock decreased to \$25.81 at December 31, 2005, from \$48.41 at December 31, 2004.

Book value per share is a meaningful financial measure for GM, as it provides investors an objective metric based on GAAP that can be compared to similar metrics for competitors and other industry participants. The book value per share can vary significantly from the trading price of common stock since the latter is driven by investor expectations about a variety of factors, including the present value of future cash flows, which may or may not warrant financial statement recognition under GAAP.

As of December 31, 2005, GM's book value per share was significantly higher than the trading price of its \$1 2/3 par value common stock. GM believes that this difference is driven mainly by marketplace uncertainty surrounding future events at GM, such as those matters discussed at "Risk Factors" included in GM's Form 10-K.

We also believe the fact that GM's book value exceeds the recent trading price of its \$1 2/3 par value common stock is a potential indicator of impairment. Presently, none of these uncertainties warrant modification to the amounts reflected in GM's consolidated financial statements.

Dividends

Dividends may be paid on our \$1 2/3 par value common stock only when, as, and if declared by GM's Board of Directors in its sole discretion out of amounts available for dividends under applicable law. At December 31, 2005, the amount of our capital surplus plus retained earnings on a GAAP basis was about \$17.6 billion. Under Delaware law, our board may declare dividends only to the extent of our statutory "surplus" (which is defined as total assets minus total liabilities, in each case at fair market value, minus statutory capital), or if there is no such surplus, out of our net profits for the then current and/or immediately preceding fiscal year.

GM's policy is to distribute dividends on its \$1 2/3 par value common stock based on the outlook and indicated capital needs of the business. Cash dividends per share of GM \$1 2/3 par value common stock were \$2.00 in 2005, 2004, and 2003. At the February 6, 2006 meeting of the GM Board of Directors, the board approved the reduction of the quarterly dividend on GM \$1 2/3 par value common stock from \$0.50 per share to \$0.25 per share, effective for the first quarter of 2006, which was paid on March 10, 2006 to holders of record as of February 16, 2006.

Employment and Payrolls

	at December 31,		
Worldwide employment (in thousands)	2005	2004	2003
GMNA	173	181	190
GME ⁽¹⁾	63	61	62
GMLAAM	31	29	23
GMAP ⁽²⁾	31	15	14
GMAC	34	34	32
Other	3	4	5
Total employees	335	324	326
Worldwide payrolls excluding benefits (in billions)	\$ 21.5	\$ 21.5	\$ 20.9
U.S. hourly payrolls excluding benefits (in billions) ⁽³⁾	\$ 8.0	\$ 8.7	\$ 8.9
Average labor cost per active hour worked U.S. hourly ⁽⁴⁾	\$81.18	\$73.73	\$78.39

(1) 2005 includes approximately 7,000 employees added from a former powertrain joint venture with Fiat.

(2) 2005 includes approximately 13,000 employees added as the result of the consolidation of GM Daewoo.

(3) Includes employees "at work" (excludes laid-off employees receiving benefits).

(4) Includes U.S. hourly wages and benefits divided by the number of hours worked.

Critical Accounting Estimates

Accounting policies are integral to understanding this MD&A. The consolidated financial statements of GM are prepared in conformity with GAAP, which requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. GM's accounting policies are described in Note 1 to the Consolidated Financial Statements. Critical accounting estimates are described in this section. An accounting estimate is considered critical if: the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made; different estimates reasonably could have been used; or if changes in the estimate that would have a material impact on the Corporation's financial condition or results of operations are reasonably likely to occur from period to period. Management believes that the accounting estimates employed are appropriate and resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustments to these balances in future periods. The Corporation has discussed the development, selection and disclosures of these critical accounting estimates with the Audit Committee of GM's Board of Directors, and the Audit Committee has reviewed the Corporation's disclosures relating to these estimates.

Pension and Other Postretirement Employee Benefits (OPEB) – Pension and OPEB costs and liabilities are dependent on assumptions used in calculating such amounts. The primary assumptions include factors such as discount rates, health care cost trend rates, expected return on plan assets, mortality rates, retirement rates, and rate of compensation increase, discussed below:

- **Discount rates.** For 2005, our discount rates are based on creating a hypothetical portfolio of high quality bonds (rated AA by a recognized rating agency) for which the timing and amount of cash inflows approximates the estimated outflows of the defined benefit plan.
- **Health care cost trend rate.** Our health-care cost trend rate is based on historical retiree cost data, near term health care outlook, including appropriate cost control measures implemented by GM, and industry benchmarks and surveys.
- **Expected return on plan assets.** Our expected return on plan assets is derived from detailed periodic studies, which include a review of asset allocation strategies, anticipated future long-term performance of individual asset classes, risk and correlations for each of the asset classes that comprise the fund's asset mix, and recent and long-term historical performance.
- **Mortality rates.** Mortality rates are based on actual and projected plan experience.
- **Retirement rates.** Retirement rates are based on actual and projected plan experience.
- **Rate of compensation increase.** The rate of compensation increase for final pay plans reflects our long-term actual experience and our outlook, including contractually agreed upon wage rate increases for represented hourly employees.

In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect GM's pension and other postretirement obligations and future expense. As of December 31, 2005, GM had unrecognized actuarial losses of \$32.1 billion for its U.S. and non U.S. pension plans, and \$32.3 billion for its U.S. and non U.S. OPEB plans. These balances were accumulated by differences in actual experience compared to original assumptions accumulated over several years, in particular, the general trend of lower discount rates, driven by interest rate environments, as well as escalating health care cost trend rates. GM amortizes these amounts over the future working lives of the plan participants, accordingly higher levels of unrecognized actuarial losses will have unfavorable impacts on reported pension and OPEB expense.

Critical Accounting Estimates (continued)

The recognized net actuarial losses component of total U.S. and non U.S. pension and OPEB expense for 2005, 2004, and 2003 was \$4.7 billion, \$3.2 billion, and \$2.7 billion, respectively. The increases to the total recognized net actuarial losses for U.S. and non U.S. pension and OPEB expense in 2005, 2004, and 2003 were \$1.4 billion, \$0.6 billion, and \$1.5 billion, respectively. The balance sheet classification of these unrecognized losses is the subject of a current FASB project.

GM has established for its U.S. pension plans a discount rate of 5.70% for year-end 2005, which represents a 10 basis point increase from the 5.60% discount rate used at year-end 2004. GM's U.S. pre-tax pension expense is forecasted to decrease from approximately \$1.3 billion in 2005, excluding curtailments and settlements, to approximately \$0.6 billion in 2006 due to the approximately 13% actual return on plan assets in 2005.

The following information illustrates the sensitivity to a change in certain assumptions for U.S. pension plans (as of December 31, 2005 the projected benefit obligation (PBO) for U.S. pension plans was \$89 billion and the minimum pension liability charged to equity with respect to U.S. pension plans was \$109 million net of tax):

Change in Assumption	Effect on 2006 Pre-Tax Pension Expense	Effect on December 31, 2005 PBO
25 basis point decrease in discount rate	+\$150 million	+\$2.3 billion
25 basis point increase in discount rate	-\$160 million	-\$2.2 billion
25 basis point decrease in expected return on assets	+\$220 million	—
25 basis point increase in expected return on assets	-\$220 million	—

GM's U.S. hourly pension plans generally provide covered U.S. hourly employees with pension benefits of negotiated, flat dollar amounts for each year of credited service earned by an individual employee. Formulas providing for such stated amounts are contained in the prevailing labor contract. Consistent with GAAP, the 2005 pre-tax pension expense and December 31, 2005 PBO do not comprehend any future benefit increases beyond the amounts stated in the currently prevailing contract that expires in September 2007. The current cycle for negotiating new labor contracts is every four years. There is no past practice of maintaining a consistent level of benefit increases or decreases from one contract to the next. However, the following data illustrates the sensitivity of pension expense and PBO to hypothetical assumed changes in future basic benefits. A 1% increase in the basic benefit for U.S. hourly employees would result in a \$140 million increase in 2006 pre-tax pension expense and a \$660 million increase in the December 31, 2005 PBO. A 1% decrease in the same benefit would result in a \$130 million decrease in 2006 pre-tax pension expense and a \$610 million decrease in the December 31, 2005 PBO.

These changes in assumptions would have no effect on GM's funding requirements. In addition, at December 31, 2005, a 25 basis point decrease in the discount rate would decrease stockholders' equity by \$19.5 million, net of tax; a 25 basis point increase in the discount rate would increase stockholders' equity by \$19.5 million, net of tax. The impact of greater than a 25 basis point decrease/increase in discount rate would not be proportional to the first 25 basis point decrease/increase in the discount rate.

GM has established for its U.S. OPEB plans a discount rate of 5.45% for year-end 2005, which represents a 30 basis point reduction from the 5.75% discount rate used at year-end 2004.

The following table illustrates the sensitivity to a change in the discount rate assumption related to GM's U.S. OPEB plans (the U.S. accumulated postretirement benefit obligation (APBO) was a significant portion of GM's worldwide APBO of \$84.9 billion as of December 31, 2005):

Change in Assumption	Effect on 2006 Pre-Tax OPEB Expense	Effect on December 31, 2005 APBO
25 basis point decrease in discount rate	+\$220 million	+\$2.6 billion
25 basis point increase in discount rate	-\$230 million	-\$2.4 billion

GM assumes a 10% initial U.S. health-care cost trend rate for the 2006 calendar year and a 5.0% ultimate U.S. health-care cost trend rate projected for calendar year 2012 and beyond as of December 31, 2005. A one percentage point increase in the assumed U.S. health care trend rates for all periods would have increased the U.S. APBO by \$9.3 billion at December 31, 2005, and the aggregate service and interest cost components of non-pension postretirement benefit expense for 2005 by \$629 million. A one-percentage point decrease would have decreased the U.S. APBO by \$7.7 billion and the aggregate service and interest cost components of non-pension postretirement benefit expense for 2005 by \$516 million.

The above sensitivities reflect the effect of changing one assumption at a time. It should be noted that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear.

In recent years, GM estimated the discount rate for its U.S. pension and OPEB obligations by reference to Moody's AA Index, Citibank Salomon Smith Barney's above-median curve, and Watson Wyatt's bond-matching model as well as benchmarking.

Beginning with 2005 year-end valuations, GM estimates the discount rate for its U.S. pension and OPEB obligations using an iterative process based on a hypothetical investment in a portfolio of high-quality bonds and a hypothetical reinvestment of the proceeds of such bonds upon maturity (at forward rates derived from a yield curve) until its U.S. pension and OPEB obligations are fully defeased. GM incorporates this reinvestment component into its methodology because it is not feasible, in light of the magnitude and time horizon over which its U.S. pension and OPEB obligations extend, to accomplish full defeasance through direct cash flows from an actual set of bonds selected at any given measurement date. This improved methodology, considered a change in estimate, was developed during 2005 and was adopted because it was deemed superior to the previously available algorithms for estimating assumed discount rates. In particular, this approach permits a better match of future cash outflows related to benefit payments with future cash inflows associated with bond coupons and maturities in the hypothetical described above.

GM's discount rate estimation under this iterative process involves four steps:

First, GM identifies a bond universe that consists of all AA-rated or higher bonds with an amount outstanding greater than \$25 million. GM excludes from this universe all callable and convertible bonds, mortgage-backed and asset-backed securities and bonds with a negative credit watch. The bond universe data, including amounts outstanding, market prices, credit ratings and other relevant data, is obtained from Bloomberg.

Second, GM creates a defeasance portfolio from the bond universe by selecting a set of bonds that would yield cash flows (through coupons, maturation and reinvestment) that are sufficient to defease its U.S. pension and OPEB obligations. Reinvestments are assumed to occur at forward rates calculated using a yield curve developed with the following methodology. For years during which the bond universe has a sufficient number of bonds, the yield curve is based on the yields of such bonds. For future years, when the bond universe does not have a sufficient number of bonds, the yield curve is extrapolated as follows:

- GM computes the spread between the yield curve and the swap curve (a market-based curve),
- To extrapolate the yield curve for the period beginning after the last year where substantial bonds are available in the bond universe and ending in year 50, GM adds the spread to the swap curve, which is observable over 50 years, and
- To extrapolate the yield curve beyond the 50th year, GM assumes that the last one-year forward rate on the yield curve (at the 49th year) remains constant for the remaining years.

Third, GM determines the market value of the defeasance portfolio using the actual initial market value of the bonds selected as part of the defeasance portfolio.

Critical Accounting Estimates (continued)

Fourth, GM computes the internal rate of return (IRR) of the defeasance portfolio based on its market value as of the measurement date and the final net cash flows from the coupons, maturations and reinvestments. GM uses this IRR as the discount rate for its U.S. pension and OPEB obligations.

Beginning with 2005 year-end valuations, GM rounds its discount rates for its U.S. pensions and U.S. OPEB plans to the nearest 0.05 percentage point, rather than to the nearest 0.25 percentage point as in prior years.

Using this new methodology, GM has established for its U.S. pension plans and U.S. OPEB plans discount rates of 5.70% and 5.45%, respectively, for year-end 2005.

Sales allowances – At the later of the time of sale or the time an incentive is announced to dealers (applies to vehicles sold by GM and in dealer inventory), GM records as a reduction of revenue the estimated impact of sales allowances in the form of dealer and customer incentives. There may be numerous types of incentives available at any particular time. Some factors used in estimating the cost of incentives include the volume of vehicles that will be affected by the incentive programs offered by product and the rate of customer acceptance of any incentive program. If the actual number of affected vehicles differs from this estimate, or if a different mix of incentives is actually paid, the sales allowances could be affected.

Policy and warranty – Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of warranty claims. Management actively studies trends of warranty claims and takes action to improve vehicle quality and minimize warranty claims. See Note 16 to the Consolidated Financial Statements for the effect of retroactive adjustments to the liability for pre-existing warranties.

Impairment of long-lived assets – GM periodically reviews the carrying value of its long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, and assets to be disposed of when events and circumstances warrant such a review. This review is performed using estimates of future cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value.

Postemployment benefits – Costs to idle, consolidate or close facilities and provide postemployment benefits to employees on an other than temporary basis are accrued based on management's best estimate of the wage and benefits costs that will be incurred for qualified employees under the JOBS bank provisions of the current labor agreement through the date of its expiration in September 2007, plus estimated costs expected to be paid thereafter. These estimates include a 45% and 9% projected level of acceptance of normal and early retirement offers, respectively, made pursuant to the current labor agreement. Costs related to the idling of employees that are expected to be temporary are expensed as incurred. GM reviews the adequacy and continuing need for these liabilities on an annual basis in conjunction with its year-end production and labor forecasts. Furthermore, GM reviews the reasonableness of these liabilities on a quarterly basis.

Allowance for credit losses – The allowance for credit losses is management's estimate of incurred losses in GMAC's consumer and commercial finance receivable and loan portfolios held for investment. Management periodically performs detailed reviews of these portfolios to determine if impairment has occurred and to assess the estimated realizable value of collateral where applicable and the adequacy of the allowance for credit losses, based on historical and current trends and other factors affecting credit quality losses. Determination of the allowance for credit losses requires management to exercise significant judgment about the timing, frequency, and severity of credit losses, which could materially affect the provision for credit losses and therefore, net income.

Investments in operating leases – GMAC's investments in its leasing portfolio represent an estimate of the realizable values of the assets which is based on the residual value established at contract inception. GMAC establishes residual values at contract inception by using independently published residual value guides. Management reviews residual values periodically to determine that recorded amounts are appropriate and the operating lease assets have not been impaired. GMAC actively manages the remarketing of off-lease vehicles to maximize the realization of their value. Changes in the value of the residuals or other external factors impacting GMAC's future ability to market the vehicles under prevailing market conditions may impact the realization of residual values. For example, a change in the estimated realizable value of 1% on the U.S. operating lease portfolio could result in a cumulative after-tax earnings impact of \$41 million as of December 31, 2005, to be recognized over the remaining term of the lease portfolio.

Mortgage servicing rights – The Corporation capitalizes mortgage servicing rights, which represents the capitalized value associated with the right to receive future cash flows in connection with the servicing of mortgage loans. Because residential mortgage loans typically contain a prepayment option, borrowers often elect to prepay their mortgages, refinancing at lower rates during declining interest rate environments. As such, the market value of residential mortgage servicing rights is very sensitive to changes in interest rates, and tends to decline as market interest rates decline and increase as interest rates rise.

The Corporation capitalizes the cost of originated mortgage servicing rights based upon the relative fair market value of the underlying mortgage loans and mortgage servicing rights at the time of sale or securitization of the underlying mortgage loan. Purchased mortgage servicing rights are capitalized at cost (which approximates the fair market value of such assets) and assumed mortgage servicing rights are recorded at fair market value as of the date the servicing obligation is assumed. The carrying value of mortgage servicing rights is dependent upon whether the asset is hedged or not. Mortgage servicing rights that are hedged with derivatives which receive hedge accounting treatment, as prescribed by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," are carried at fair value. Changes in fair value are recognized in current period earnings, generally offset by changes in the fair value of the underlying derivative, if the changes in the value of the asset and derivative are highly correlated. The majority of mortgage servicing rights are hedged as part of the Corporation's risk management program. Mortgage servicing rights that do not receive hedge accounting treatment are carried at lower of cost or fair value.

Accounting for derivatives and other fair value measurements – The Corporation uses derivatives in the normal course of business to manage its exposure to fluctuations in commodity prices and interest and foreign currency rates. The Corporation accounts for its derivatives on the Consolidated Balance Sheet as assets or liabilities at fair value in accordance with SFAS No. 133. Such accounting is complex and requires significant judgments and estimates involved in the estimating of fair values in the absence of quoted market prices.

We use estimates and various assumptions in determining the fair value of many of our assets, including retained interests and securitizations of loans and contracts, mortgage servicing rights, and other investments which do not have an established market value or are not publicly traded. It is difficult to determine the accuracy of our estimates and assumptions, and our actual experience may differ materially from these estimates and assumptions. A material difference between our estimates and assumptions and our actual experience may materially adversely affect the cash flow, profitability, financial condition and business prospects of our finance, mortgage, and insurance operations.

New Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123R), requiring companies to record share-based payment transactions as compensation expense at fair market value. SFAS No. 123R further defines the concept of fair market value as it relates to such arrangements. Based on SEC guidance issued in Staff Accounting Bulletin (SAB) 107 in April 2005, the provisions of this statement will be effective for GM as of January 1, 2006. The Corporation began expensing the fair market value of newly granted stock options and other stock based compensation awards to employees pursuant to SFAS No. 123 in 2003; therefore this statement is not expected to have a material effect on GM's consolidated financial position or results of operations.

In December 2005, the FASB released FASB Staff Position (FSP) SFAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards," which provides a practical transition election related to accounting for the tax effects of share-based payment awards to employees. The Corporation is currently reviewing the transition alternatives and will elect the appropriate alternative within one year of the adoption of SFAS 123(R).

In April 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," requiring retrospective application as the required method for reporting a change in accounting principle, unless impracticable or a pronouncement includes specific transition provisions. This statement also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This statement carries forward the guidance in APB Opinion No. 20, "Accounting Changes," for the reporting of the correction of an error and a change in accounting estimate. This statement is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005.

Forward-Looking Statements

In this report, in reports subsequently filed by GM with the SEC on Form 10-Q and filed or furnished on Form 8-K, and in related comments by management of GM, our use of the words "expect," "anticipate," "estimate," "forecast," "initiative," "objective," "plan," "goal," "project," "outlook," "priorities," "target," "intend," "evaluate," "pursue," "seek," "may," "would," "could," "should," "believe," "potential," "continue," "designed," "impact," or the negative of any of those words or similar expressions is intended to identify forward-looking statements. All statements in subsequent reports which GM may file with the SEC on Form 10-Q and filed or furnished on Form 8-K, 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 when made, these statements are not guarantees of any events or financial results, and GM's actual results may differ materially due to numerous important factors that may be revised or supplemented in subsequent reports on SEC Forms 10-Q and 8-K. Such factors include, among others, the following:

- The ability of GM to realize production efficiencies, to achieve reductions in costs as a result of the turnaround restructuring and health care cost reductions and to implement capital expenditures at levels and times planned by management;
- The pace of product introductions;
- Market acceptance of the Corporation's new products;
- Significant changes in the competitive environment and the effect of competition in the Corporation's markets, including on the Corporation's pricing policies;

- Our ability to maintain adequate liquidity and financing sources and an appropriate level of debt;
- Restrictions on GMAC's and ResCap's ability to pay dividends and prepay subordinated debt obligations to us;
- Changes in the existing, or the adoption of new, laws, regulations, policies or other activities of governments, agencies and similar organizations where such actions may affect the production, licensing, distribution or sale of our products, the cost thereof or applicable tax rates;
- Costs and risks associated with litigation;
- The final results of investigations and inquiries by the SEC;
- Changes in our accounting principles, or their application or interpretation, and our ability to make estimates and the assumptions underlying the estimates, including the range of estimates for the Delphi pension benefit guarantees, which could result in an impact on earnings;
- Changes in relations with unions and employees/retirees and the legal interpretations of the agreements with those unions with regard to employees/retirees;
- Negotiations and bankruptcy court actions with respect to Delphi's obligations to GM, negotiations with respect to GM's obligations under the pension benefit guarantees to Delphi employees, and GM's ability to recover any indemnity claims against Delphi;
- Labor strikes or work stoppages at GM or its key suppliers such as Delphi or financial difficulties at GM's key suppliers such as Delphi;
- Additional credit rating downgrades and the effects thereof;
- The effect of a potential sale or other extraordinary transaction involving GMAC on the results of GM's and GMAC's operations and liquidity;
- Other factors affecting financing and insurance operating segments' results of operations and financial condition such as credit ratings, adequate access to the market, changes in the residual value of off-lease vehicles, changes in U.S. government-sponsored mortgage programs or disruptions in the markets in which our mortgage subsidiaries operate, and changes in our contractual servicing rights;
- Shortages of and price increases for fuel; and
- Changes in economic conditions, commodity prices, currency exchange rates or political stability in the markets in which we operate.

In addition, GMAC's actual results may differ materially due to numerous important factors that are described in GMAC's most recent report on SEC Form 10-K, which may be revised or supplemented in subsequent reports on SEC Forms 10-Q and 8-K. Such factors include, among others, the following:

- The ability of GM to complete a transaction regarding a controlling interest in GMAC while maintaining a significant stake in GMAC, securing separate credit ratings and low cost funding to sustain growth for GMAC and ResCap, and maintaining the mutually beneficial relationship between GMAC and GM;
- Significant changes in the competitive environment and the effect of competition in the Corporation's markets, including on the Corporation's pricing policies;
- Our ability to maintain adequate financing sources;
- Our ability to maintain an appropriate level of debt;
- The profitability and financial condition of GM, including changes in production or sales of GM vehicles, risks based on GM's contingent benefit guarantees and the possibility of labor strikes or work stoppages at GM or at key suppliers such as Delphi;

Forward-Looking Statements *(continued)*

- Funding obligations under GM and its subsidiaries' qualified U.S. defined benefits pension plans;
- Restrictions on ResCap's ability to pay dividends and prepay subordinated debt obligations to us;
- Changes in the residual value of off-lease vehicles;
- Changes in U.S. government-sponsored mortgage programs or disruptions in the markets in which our mortgage subsidiaries operate;
- Changes in our contractual servicing rights;
- Costs and risks associated with litigation;
- 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 GMAC or GM;
- The threat of natural calamities;
- 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.

Investors are cautioned not to place undue reliance on forward-looking statements. GM undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, future events or other such factors that affect the subject of these statements, except where expressly required by law.

Quantitative and Qualitative Disclosures About Market Risk

GM, through various market risk sensitive instruments, is exposed to market risk from changes in foreign currency exchange rates, interest rates, and certain commodity and equity security prices. GM enters into a variety of foreign exchange, interest rate, and commodity forward contracts and options, primarily to maintain the desired level of exposure arising from these risks. A risk management control system is utilized to monitor foreign exchange, interest rate, commodity and equity price risks, and related hedge positions.

A discussion of GM's accounting policies for derivative financial instruments is included in Note 1 to the GM Consolidated Financial Statements. Further information on GM's exposure to market risk is included in Notes 22 and 23 to the Consolidated Financial Statements.

The following analyses provide quantitative information regarding GM's exposure to foreign currency exchange rate risk, interest rate risk, and commodity and equity price risk. GM uses a model to evaluate the sensitivity of the fair value of financial instruments with exposure to market risk that assumes instantaneous, parallel shifts in exchange rates, interest rate yield curves, and commodity and equity prices. For options and instruments with nonlinear returns, models appropriate to the instrument are utilized to determine the impact of market shifts. There are certain shortcomings inherent in the sensitivity analyses presented, primarily due to the assumption that exchange rates change in a parallel fashion and that interest rates change instantaneously. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled.

Foreign exchange rate risk – GM has foreign currency exposures related to buying, selling, and financing in currencies other than the local currencies in which it operates. More specifically, GM is exposed to foreign currency risk related to the uncertainty to which future earnings or asset and liability values are exposed as the result of operating cash flows and various financial instruments that are denominated in foreign currencies. At December 31, 2005, the net fair value asset of financial instruments with exposure to foreign currency risk was approximately \$6.8 billion compared to a net fair value liability of \$5.8 billion at December 31, 2004. The potential loss in fair value for such financial instruments from a 10% adverse change in quoted foreign currency exchange rates would be approximately \$1.2 billion for 2005 and 2004.

Interest rate risk – GM is subject to market risk from exposure to changes in interest rates due to its financing, investing, and cash management activities. More specifically, the Corporation is exposed to interest rate risk associated with long-term debt and contracts to provide commercial and retail financing, retained mortgage servicing rights, and retained assets related to mortgage securitizations. In addition, GM is exposed to prepayment risk associated with its capitalized mortgage servicing rights and its retained assets related to securitization activities. This risk is managed with U.S. Treasury options and futures, exposing GM to basis risk since the derivative instruments do not have identical characteristics to the underlying mortgage servicing rights. At December 31, 2005 and 2004, the net fair value liability of financial instruments held for purposes other than trading with exposure to interest rate risk was approximately \$41.9 billion and \$51.1 billion, respectively. The potential loss in fair value resulting from a 10% adverse shift in quoted interest rates would be approximately \$3.0 billion for 2005 and 2004. At December 31, 2005 and 2004, the net fair value asset of financial instruments held for trading purposes with exposure to interest rate risk was approximately \$4.6 billion and \$3.5 billion, respectively. The potential loss in fair value resulting from a 10% adverse shift in quoted interest rates would be approximately \$127 million and \$33 million for 2005 and 2004, respectively. This analysis excludes GM's operating lease portfolio. A fair value change in the debt that funds this portfolio would potentially have a different impact on the fair value of the portfolio itself. As such, the overall effect to the fair value of financial instruments from a hypothetical change in interest rates may be overstated.

Commodity price risk – GM is exposed to changes in prices of commodities used in its automotive business, primarily associated with various non-ferrous metals used in the manufacturing of automotive components. GM enters into commodity forward and option contracts to offset such exposure. At December 31, 2005 and 2004 the net fair value asset of such contracts was approximately \$610 million and \$431 million, respectively. The potential loss in fair value resulting from a 10% adverse change in the underlying commodity prices would be approximately \$241 million and \$264 million for 2005 and 2004, respectively. This amount excludes the offsetting impact of the price risk inherent in the physical purchase of the underlying commodities.

Equity price risk – GM is exposed to changes in prices of various available-for-sale equity securities in which it invests. At December 31, 2005 and 2004, the fair value of such investments was approximately \$2.8 billion and \$2.6 billion, respectively. The potential loss in fair value resulting from a 10% adverse change in equity prices would be approximately \$280 million and \$258 million for 2005 and 2004, respectively.

Overview

GMAC is a leading global financial services firm with approximately \$320 billion of assets and operations in 43 countries. Founded in 1919 as a wholly owned subsidiary of General Motors Corporation, GMAC was originally established to provide GM dealers with the automotive financing necessary for the dealers to acquire and maintain vehicle inventories and to provide retail customers the means by which to finance vehicle purchases through GM dealers. Our products and services have expanded beyond automotive financing as we currently operate in three primary lines of business – Financing, Mortgage and Insurance. Refer to the separate business operations discussions in this MD&A for a description of our business activities and results of operations.

Operating Summary

Net income for our businesses is summarized as follows:

(Dollars in millions)	Years ended December 31,	
	2005	2004
Financing ^(a)	\$ 666	\$1,476
Mortgage ^(b)	1,311	1,108
Insurance	417	329
Net income	\$2,394	\$2,913
Return on average equity	10.6%	13.3%

(a) Includes our North America and International automotive finance reporting segments, separately identified in Note 23 to GMAC's consolidated financial statements in its Form 10-K, as well as our Commercial Finance Group operating segment.

(b) Includes our GMAC Residential, GMAC-RFC and GMAC Commercial Mortgage reporting segments, separately identified in Note 23 to GMAC's consolidated financial statements in its Form 10-K.

We earned \$2.4 billion in 2005, down \$0.5 billion from record earnings of \$2.9 billion earned in 2004. Earnings include non-cash goodwill impairment charges of \$439 million (after-tax), which were recognized in the fourth quarter of 2005. The charges relate predominately to our Commercial Finance operating segment and primarily to the goodwill recognized in connection with the 1999 acquisition of the majority of this business. Excluding these impairment charges, which management considers to be non-recurring, we earned \$2.8 billion. Earnings were driven by record results in our mortgage and insurance operations. Strong earnings were achieved despite a difficult environment that included higher market interest rates, a series of credit rating actions and the significant impact of Hurricane Katrina. We continue to maintain adequate liquidity, with cash reserve balances at December 31, 2005, of \$20 billion, comprised of \$15.8 billion in cash and cash equivalents and \$4.2 billion invested in marketable securities. We continue to provide global support for the marketing of GM vehicles, as well as to provide a significant source of cash flow to GM through the payment of a \$2.5 billion dividend in 2005, including \$1 billion paid in the fourth quarter.

Results for our Financing operations, excluding goodwill impairment charges of \$398 million (after-tax), were \$1,064 million, down \$412 million from \$1,476 million earned in 2004. The decrease is primarily related to lower net interest margins as a result of increased borrowing costs due to widening credit spreads and a flattening yield curve. The decline in net interest margins was somewhat mitigated by lower consumer credit provisions, primarily as a result of lower asset levels and the impact of improved used vehicle prices on terminating leases.

Our Mortgage operations earned a record \$1,352 million, excluding goodwill impairment charges of \$41 million (after-tax), an increase of 22% from \$1,108 million earned in 2004, reflecting increases in both our residential and commercial mortgage operations. Our residential mortgage businesses benefited from increased loan production, favorable credit experience, improved mortgage servicing results and gains on sales of mortgages. GMAC Commercial Mortgage also experienced an increase in earnings as compared to the prior year largely due to record loan origination volume, higher gains on sales of loans and increases in fee and investment income.

Our Insurance operations generated record net income of \$417 million in 2005, up \$88 million from the previous record of \$329 million earned in 2004. The increase reflects a combination of strong results achieved through increased premium revenue, lower incurred losses, higher capital gains and improved investment portfolio performance. In addition, GMAC Insurance maintained a strong investment portfolio, with a market value of \$7.7 billion at December 31, 2005, including net unrealized gains of \$573 million (after-tax).

Our consolidated earnings for the fourth quarter of 2005 were \$614 million, excluding goodwill impairment charges, representing a \$69 million decline from 2004 fourth quarter earnings of \$683 million. For the fourth quarter, net income from our Financing operations was \$260 million, excluding goodwill impairment charges, down from \$323 million earned in the fourth quarter of 2004. Our Mortgage operations earned \$221 million, excluding goodwill impairment charges, down from \$292 million earned in the fourth quarter of 2004. Our Insurance operations had record net income of \$133 million in the fourth quarter of 2005, up significantly from the \$68 million earned in the fourth quarter of 2004.

Outlook

With operating earnings of \$2.8 billion, dividends of \$2.5 billion and a cash reserve balance of \$20 billion, we have been able to achieve our primary objectives of providing support for GM vehicle sales while also generating attractive returns and maintaining sufficient liquidity. Our 2005 performance was accomplished in a difficult environment with our credit ratings downgraded to below investment grade and continued increases in short-term rates with the resulting flattening of the yield curve. We were able to achieve these strong results through continued emphasis on a diversified business model, as well as the continued evolution of our funding strategy. Management expects that many of the challenges experienced in 2005 will continue into 2006, possibly increasing in intensity. We believe that we are strategically positioned to address these challenges through continued initiatives to diversify both revenue and funding sources and leveraging our origination capability. However, we expect 2006 to be a much more challenging year. The following summarizes the key business issues that will be important focus areas in 2006:

- Potential sale of GMAC** – In the fourth quarter of 2005, GM announced that it is exploring options to further enhance our liquidity position and our ability to support GM/GMAC synergies. GM stated that GM is exploring the possible sale of a controlling interest in GMAC to a strategic partner while also continuing to evaluate strategic and structural alternatives to help ensure that its residential mortgage business, Residential Capital Corporation (ResCap), retains its investment grade rating. GM is currently in discussions with potential interested parties, and the process is ongoing. As this process continues, and recognizing there is some uncertainty, management is preparing for a number of potential outcomes with the focus on generating attractive returns, supporting GM vehicle sales and maintaining sufficient liquidity. Refer also to Risks Related to Our Controlling Stockholder in GMAC's Form 10-K.
- Funding and liquidity** – Our ability to adequately fund our operations at attractive rates is a key component of our future profitability. We have experienced a series of credit rating actions resulting in the downgrade of our credit ratings to below investment grade. The negative actions were due primarily to concerns regarding the financial outlook of GM related to its overall market position in the automotive industry and its burdensome health care obligations. As a result, our unsecured borrowing spreads have widened significantly over the past several years, impacting our overall cost of borrowings, as well as significantly reducing our net interest margins. In addition, these downgrades have limited our access to traditional unsecured funding sources, which has caused us to shift our funding to more secured sources, expand our banking activities and restructure our Mortgage operations, enabling ResCap to issue public debt that carries a rating separate from our rating. Despite these challenges, we have continued to meet funding demands and maintain a strong liquidity profile. Refer to the Funding and Liquidity section in this MD&A for further discussion.

Outlook (continued)

- **Residential mortgage market** – Despite relatively stable overall U.S. residential mortgage industry volume in 2005, as compared to 2004, our Mortgage operations posted strong results. Our residential mortgage operations have benefited from market share gains, which helped to mitigate the impact of flat industry volumes. However, an increasingly competitive pricing environment has resulted in lower margins in 2005, as compared to 2004. Management expects this trend to continue in 2006 as pricing pressures continue. However, the impact of declines in U.S. industry volume is largely expected to be mitigated through increased market share, increased fee-based income (which is less sensitive to origination volume) and international growth.
- **Consumer and commercial credit risk** – We are exposed to credit risk on the portfolio of consumer automotive finance receivables and residential mortgage loans held for sale and held for investment, as well as on the interests retained from our securitization activities of these asset classes. In addition, we are exposed to credit risk from various commercial portfolios, including wholesale financing to individual dealers or dealer groups, asset-based lending and equipment and inventory financing, as well as construction and

commercial property lending. Credit losses in our consumer and commercial portfolios are influenced by general business and economic conditions of the industries and countries in which we operate. We actively manage our credit risk and believe that as of December 31, 2005, we are adequately reserved for potential losses incurred in the portfolios. However, a negative change in economic factors (particularly in the U.S. economy) could adversely impact our future earnings. As many of our credit exposures are collateralized by vehicles and homes, the severity of losses is particularly sensitive to a decline in used vehicle and residential home prices. In addition, the overall frequency of losses would be negatively influenced by an increase in macro-economic factors, such as unemployment rates and bankruptcy filings (both consumer and commercial).

- **Rising market interest rates** – Historically, our earnings have been negatively impacted by rising interest rates, which management expects to continue in 2006. In particular, for our automotive financing operations, a flattening yield curve with debt repricing faster than earning assets negatively impacts our net financing margins. A flattening of the yield curve also impacts our mortgage operations from both a funding perspective (similar to our automotive finance business) as well as the value of mortgage servicing rights, which we manage through an active hedging program. Refer to the Market Risk section of this MD&A for further discussion.

Business Overview

We are a leading diversified global financial services company that has been in business since 1919. Today, we provide automotive finance, commercial finance, insurance, mortgage and real estate products and services in 43 countries.

We organize our business into three lines of business operations, which include Financing, Mortgage and Insurance. The following table reflects the primary products and services offered by each of our lines of businesses.

GMAC

Financing Operations	Mortgage Operations	Insurance Operations
Consumer Financing Automotive Retail Contracts and Leases Commercial Financing Automotive Dealer Financing Automotive Fleet Financing Full-Service Leasing Asset Based Lending Equipment Finance Structured Finance Factoring	Residential Real Estate Finance Residential Mortgage Banking Warehouse Lending Other Real Estate Finance and Related Activities Residential Construction Finance Residential Equity Model Home Finance Residential Real Estate Services Real Estate Brokerage Services Relocation Services Commercial Mortgage Banking	Personal Lines Physical Damage and Liability Insurance for Vehicles Homeowners Insurance Other Consumer Products Extended Service Contracts Commercial Products Automotive Dealer Inventory Insurance Property and Casualty Reinsurance

Financing Operations

We are one of the world's largest automotive financing companies with operations in 39 countries. Our automotive finance business extends automotive financing services primarily to franchised GM dealers and their customers through two operating segments, which include our North American Automotive Finance Operations and our International Automotive Finance Operations. In addition, through our commercial financing operations, we provide commercial financing and factoring to businesses in various industries. Net income, including a non-cash goodwill impairment charge, from our financing operations totaled \$666 million, which accounted for approximately 28% of our net income in 2005.

Through our Financing operations, we:

- Provide consumer automotive financing products and services, including purchasing or originating, selling and securitizing automotive retail contracts and leases with retail customers primarily from GM and GM-affiliated dealers and performing service activities such as collection and processing activities related to those contracts;

- Provide automotive dealer financing products and services, including financing the purchases of new and used vehicles by dealers, making loans or revolving lending facilities for other purposes to dealers, selling and securitizing automotive dealer receivables and loans, and servicing and monitoring such financing;
- Provide fleet financing to automotive dealers and others, which finances their purchase of vehicles that they lease or rent to others;
- Provide full service individual leasing and fleet leasing products, including maintenance, fleet and accident management services as well as fuel programs, short-term vehicle rental and title and licensing services;
- Provide asset-based lending, equipment finance, structured finance and factoring services to companies in the apparel, textile, automotive supplier and other industries; and
- Hold a portfolio of automotive retail contracts, leases and automotive dealer finance receivables for investment and retained interests from our securitization activities.

Mortgage Operations

We are a leading real estate finance company with two of our mortgage segments, GMAC Residential and GMAC-RFC, providing residential real estate products and services. Net income from the operations of GMAC Residential and GMAC-RFC together totaled \$1,021 million, which accounted for approximately 43% of our net income in 2005. In addition, we offer commercial mortgage products and services through our third mortgage segment GMAC Commercial Mortgage. On March 23, 2006, we completed the sale of 78% of our equity in GMAC Commercial Mortgage. Please refer to Note 25 of our consolidated financial statements for further details. At December 31, 2005, the assets and liabilities of our Commercial Mortgage reporting segment have been classified as held for sale separately in our consolidated balance sheet. Net income from operations at GMAC Commercial Mortgage totaled \$290 million, which accounted for 12% of our net income in 2005.

Through our Mortgage operations, we:

- Originate, purchase, sell and securitize residential and commercial mortgage loans primarily in the United States, as well as internationally;
- Provide primary and master servicing to investors in our residential mortgage loans and securitizations;
- Provide collateralized lines of credit, which we refer to as warehouse lending facilities, to other originators of residential mortgage loans both in the United States and Mexico;
- Hold a portfolio of residential mortgage loans for investment and retained interests from our securitization activities;
- Provide bundled real estate services, including real estate brokerage services, full service relocation services, mortgage closing services and settlement services; and
- Provide specialty financing and equity capital to residential land developers and homebuilders, resort and time share developers and health care providers.

Insurance Operations

We insure and reinsure automobile service contracts, personal automobile insurance coverages (ranging from preferred to non-standard risk) and selected commercial insurance coverages. Net income from our insurance operations totaled \$417 million, which accounted for approximately 17% of our net income in 2005.

Through our Insurance operations, we:

- Provide automotive extended-service and maintenance contracts through auto dealers, primarily GM dealers, in the United States and Canada and similar products outside of the United States;
- Provide dealer inventory insurance and other insurance products to dealers;
- Offer property/casualty reinsurance programs primarily to regional direct insurance companies in the U.S.;
- Offer vehicle and home insurance through a number of distribution channels, including independent agents, affinity groups and the internet and outside of the U.S. through auto dealerships, primarily GM dealers; and
- Invest proceeds from premiums and other revenue sources in an investment portfolio from which claim payments are made as claims are settled.

Financing Operations

Our Financing operations offer a wide range of financial services and products (directly and indirectly) to retail automotive consumers, automotive dealerships and other commercial businesses. Our Financing operations are comprised of two separate reporting segments – North American Automotive Finance Operations and International Automotive Finance Operations – and one reporting operating segment – Commercial Finance Group. The products and services offered by our Financing operations include the purchase of retail installment sales contracts and leases, extension of term loans, dealer floor plan financing and other lines of credit to dealers, fleet leasing and factoring of receivables. While most of our operations focus on prime financing to and through GM or GM affiliated dealers, our Nuvel operation, which is part of our North American Automotive Finance Operations, focuses on non-prime automotive financing to GM-affiliated and non-GM dealers. Our Nuvel operation also provides private-label automotive financing. In addition, our Financing operations utilize asset securitization and whole loan sales as a critical component of our diversified funding strategy. The Funding and Liquidity and the Off-Balance Sheet Arrangements sections of this MD&A provide additional information about the securitization and whole loan sales activities of our Financing operations.

Industry and Competition

The consumer automotive finance market is one of the largest consumer finance segments in the United States. The industry is generally segmented according to the type of vehicle sold (new versus used) and the buyer's credit characteristics (prime, non-prime or sub-prime). In 2005, we purchased or originated \$63.0 billion of consumer automotive retail or lease contracts.

The consumer automotive finance business is largely dependent on new vehicle sales volumes, manufacturers' promotions and the overall macroeconomic environment. Competition tends to intensify when vehicle production decreases. Because of our relationship with GM, our penetration of GM volumes generally increases when GM uses subvented financing rates as a part of its promotion program.

The consumer automotive finance business is highly competitive. We face intense competition from large suppliers of consumer automotive finance, which include captive automotive finance companies, large national banks and consumer finance companies. In addition, we face competition from smaller suppliers, including regional banks, savings and loans associations and specialized providers, such as local credit unions. Some of our competitors which are larger than us have access to significant capital and resources. Smaller suppliers often have a dominant position in a specific region or niche segment, such as used vehicle finance or nonprime customers.

Commercial financing competitors are primarily comprised of other manufacturers' affiliated finance companies, independent commercial finance companies and national and regional banks. Refer to Risk Factors – Risks Related to Our Business – The worldwide financial services industry is highly competitive for further discussion in GMAC's Form 10-K.

Consumer Automotive Financing

We provide two basic types of financing for new and used vehicles: retail automotive contracts and automotive lease contracts. In most cases, we purchase retail contracts and leases for new and used vehicles from GM-affiliated dealers when the vehicles are purchased by consumers. In a number of markets outside the United States, we are a direct lender to the consumer. Our consumer automotive financing operations generate revenue through lease payments or

Consumer Automotive Financing *(continued)*

finance charges and fees paid by customers on the retail contracts and leases. In connection with lease contracts, we also recognize a gain or loss on the remarketing of the vehicle. For purposes of discussion in this Financing operations section of this MD&A, the loans related to our automotive lending activities are referred to as retail contracts. The following discussion centers on our operations in the United States, which are generally reflective of our global business practices; however, certain countries have unique statutory or regulatory requirements that impact business practices. The effects of such requirements are not significant to our consolidated financial condition, results of operations or cash flows.

The amount we pay a dealer for a retail contract is based on the negotiated purchase price of the vehicle plus any other products such as extended service contracts less any vehicle trade-in value and any down payment from the consumer. Under the retail contract, the consumer is obligated to make payments in an amount equal to the purchase price of the vehicle (less any trade-in or down payment) plus finance charges at a rate negotiated between the consumer and the dealer. In addition, the consumer is also responsible for charges related to past due payments. When the contract is purchased by us, it is normal business practice for the dealer to retain some portion of the finance charge as income for the dealership, such that some of the finance charges that the consumer pays are paid to us and the remainder is paid to the dealer. Our agreements with dealers place a limit on the amount of the finance charges that they are entitled to retain. While we do not own the vehicles we finance through retail contracts, we hold a perfected security interest in those vehicles.

With respect to consumer leasing, we purchase leases (and the associated vehicles) from dealerships. The purchase prices of the consumer leases are based on the negotiated price for the vehicle, less any vehicle trade-in and down payment from the consumer. Under the lease, the consumer is obligated to make payments in amounts equal to the amount by which the negotiated purchase price of the vehicle (less any trade-in value and any down payment) exceeds the projected residual value (including rate support) of the vehicle at lease termination,

plus lease charges. The consumer is also responsible for charges for past due payments, excess mileage and excessive wear and tear. When the lease contract is entered into, we estimate the residual value of the leased vehicle at lease termination. We base our determination of the projected residual values on a guide published by an independent publisher of vehicle residual values, which is stated as a percentage of the manufacturer's suggested retail price. These projected values may be upwardly adjusted as a marketing incentive, if GM considers an above-market residual appropriate to encourage consumers to lease vehicles, or for a low mileage lease program. Our standard leasing plan, SmartLease, requires a regular monthly payment by the consumer. We also offer an alternative leasing plan, SmartLease Plus, which requires one up-front payment of all lease amounts at the time the consumer takes possession of the vehicle.

In addition to the SmartLease plans, we offer the SmartBuy plan through dealerships to consumers. SmartBuy combines certain features of a lease contract with that of a traditional retail contract. Under the SmartBuy plan, the customer pays regular monthly payments that are generally lower than would otherwise be owed under a traditional retail contract. At the end of the contract, the customer has several options, including keeping the vehicle by making a final balloon payment or returning the vehicle to us and paying a disposal fee plus any applicable excess wear and excess mileage charges. Unlike a lease contract, during the course of the SmartBuy contract, the customer owns the vehicle and we hold a perfected security interest in the vehicle.

With respect to all financed vehicles, whether subject to a retail contract or a lease contract, we require that property damage insurance be maintained by the consumer. In addition, on lease contracts we require that bodily injury and comprehensive and collision insurance be maintained by the consumer.

Consumer automotive finance retail revenue accounted for \$6.5 billion, \$6.8 billion and \$6.6 billion of our revenue in 2005, 2004 and 2003, respectively.

The following table summarizes our new vehicle consumer financing volume and share of GM retail sales in markets where we operate.

	Years ended December 31,						
	2005	GMAC Volume			Share of GM Retail Sales		
(Units in thousands)		2005	2004	2003	2005	2004	2003
GM vehicles							
North America							
Retail contracts	984	1,396	1,430	27%	36%	35%	
Leases	574	489	418	15%	13%	10%	
Total North America	1,558	1,885	1,848	42%	49%	45%	
International (retail contracts and leases)	527	534	415	26%	30%	34%	
Total GM units financed	2,085	2,419	2,263	36%	43%	42%	
Non-GM units financed	72	74	85				
Total consumer automotive financing volume	2,157	2,493	2,348				

Consumer Automotive Financing (continued)

GENERAL MOTORS MARKETING INCENTIVES

General Motors may elect to sponsor incentive programs (on both retail contracts and leases) by supporting financing rates below standard market rates at which we purchase retail contracts. Such marketing incentives are also referred to as rate support or subvention. When General Motors utilizes these marketing incentives, it pays us the present value of the difference between the customer rate and our standard rates, which we defer and recognize as a yield adjustment over the life of the contract.

GM may also provide incentives, referred to as residual support, on leases. As previously mentioned, we bear the risk of loss to the extent that the value of a leased vehicle upon remarketing is below the projected residual value of the vehicle at the time the lease contract is signed. However, these projected values may be upwardly adjusted as a marketing incentive if General Motors considers an above-market residual appropriate to encourage consumers to lease vehicles. Such residual support by GM results in a lower monthly lease payment by the consumer. General Motors reimburses us to the extent remarketing sales proceeds are less than the residual value set forth in the lease contract at lease termination. In addition to GM residual support, in some cases, GMAC may provide residual support on leases to further encourage consumers to lease certain vehicles.

In addition to the residual support arrangement, GM shares in residual risk on all off-lease vehicles sold by auction. We and GM share a portion of the loss when resale proceeds fall below the contract residual values on vehicles sold at auction. GM reimburses us for a portion of the difference between proceeds and the contract residual value (up to a specified limit).

Under what we refer to as pull ahead programs, consumers are encouraged to terminate leases early in conjunction with the acquisition of a new GM vehicle. As part of these programs, we waive the customer's remaining payment obligation and, under most programs, GM compensates us for the foregone revenue from the waived payments. Additionally, since these programs generally accelerate our remarketing of the vehicle, the sale proceeds are typically higher than otherwise would have been realized had the vehicle been remarketed at lease contract maturity. The reimbursement from GM for the foregone payments is, therefore, reduced by the amount of this benefit.

The following table summarizes the percentage of our annual retail contracts and lease volume that includes GM-sponsored rate and residual incentives.

	Years ended December 31,		
	2005	2004	2003
North America	78%	63%	78%
International	53%	58%	60%

Our consumer financing volume and penetration levels are significantly impacted by the nature, timing, and extent of GM's use of rate, residual and other financing incentives for marketing purposes on consumer retail contracts and leases. Late in 2004 and through the early part of 2005, GM reduced its use of special rate financing programs and utilized marketing programs that provided up-front cash incentives to customers that use us to finance their purchase of a new GM vehicle. As a result, our North American penetration levels were positively impacted in the first quarter of 2005 as compared to 2004. However, GM's Employee Discount for Everyone marketing program, that was introduced in June 2005 and ran through September 2005, had a negative impact on our penetration levels. Although GM benefited from an increase in sales, our penetration levels decreased as the program did not provide consumers with additional incentives to finance with us. As such, our penetration levels in 2005 were lower than what was experienced in 2004. In our International Automotive Finance Operations consumer penetration levels declined as compared to 2004, primarily as a result of a reduction in GM incentives on new vehicles in Brazil during the year, as well as the inclusion of GM vehicle sales in China in the penetration calculation, where we only recently commenced operations.

CONSUMER CREDIT APPROVAL

Before purchasing a retail contract or lease from the dealer, we perform a credit review based on information provided by the dealer. As part of this process we evaluate, among other things, the following factors:

- the consumer's credit history, including any prior experience with us;
- the asset value of the vehicle and the amount of equity (down payment) in the vehicle; and
- the term of the retail contract or lease.

We use a proprietary credit scoring system to support this credit approval process and to manage the credit quality of the portfolio. Credit scoring is used to differentiate credit applicants in terms of expected default rates, enabling us to better evaluate credit applications for approval and to tailor the pricing and financing structure based on this assessment of credit risk. Our credit scoring models are periodically reviewed and updated based on historical information and current trends. However, these actions by management do not eliminate credit risk. Improper evaluations of contracts for purchase and changes in the applicant's financial condition subsequent to approval could negatively affect the quality of our receivables portfolio, resulting in credit losses.

Upon successful completion of our credit underwriting process, we purchase the retail financing contract or lease from the dealer.

SERVICING

For a number of years, we have been consolidating our servicing centers in the United States in order to create a stand-alone servicing entity. This stand-alone servicing entity is our consolidated subsidiary, Semperian, Inc. (formerly Accutel, Inc.). In accordance with our policies and procedures, Semperian performs our servicing activities for U.S. retail contracts and consumer automotive leases from centers located throughout the United States. Our servicing activities consist of collecting and processing customer payments, responding to customer inquiries, initiating contact with customers who are delinquent, maintaining a perfected security interest in the financed vehicle and monitoring physical damage insurance coverage of the vehicle. In the event that a customer fails to comply with the terms of the retail contract or lease, we, after satisfying local legal requirements, are generally able to repossess and dispose of the vehicle.

Our customers have the option to remit payments based on monthly billing statements, coupon books or electronic funds transfers. Customer payments are processed by regional third-party processing centers that electronically transfer payment data to customers' accounts. We also utilize regional customer service centers to handle customer questions or requests for changes of address, payoff quotes, copies of contracts and other requests.

Collection activity is typically initiated when a customer becomes 10 days past due. Accounts 10 days past due receive a reminder notice. When an account is approximately 15 days or more past due, but less than 48 days past due, attempts are made to contact the customer and make payment arrangements. Once an account becomes 48 days past due, one of our specialized collection centers begins collection follow-up, with the objective of tracking the account more closely and making appropriate decisions regarding repossession of the vehicle.

During the collection process, we may offer a payment extension to a customer experiencing temporary financial difficulty, enabling the customer to delay monthly payments for 30, 60 or 90 days, thereby deferring the maturity date of the contract by such period of delay. Extensions granted to a customer typically do not exceed 90 days in the aggregate over any twelve-month period or 180 days in aggregate over the life of the contract. If the customer's financial difficulty is not temporary, and management believes the customer could continue to make payments at a lower payment amount, we may offer to rewrite the remaining obligation, extending the term and lowering the monthly payment obligation. Extensions and rewrites are techniques that help mitigate financial loss in those cases where management believes that the customer will recover from financial

Consumer Automotive Financing (continued)

difficulty and resume regularly scheduled payments, or can fulfill the obligation with lower payments over a longer period of time. Before offering an extension or rewrite, collection personnel evaluate and take into account the capacity of the customer to meet the revised payment terms. While the granting of an extension could delay the eventual charge-off of an account, typically we are able to repossess and sell the related collateral, thereby mitigating the loss. As an indication of the effectiveness of our consumer credit practices, of the total amount outstanding in the United States traditional retail and lease portfolios as of December 31, 2002, only 7.4% of the extended or rewritten accounts were subsequently charged off, through December 31, 2005. A three-year period was utilized for this analysis as this approximates the weighted average remaining term of the portfolio. As of December 31, 2005, 5.8% of the total amount of accounts outstanding in the portfolio had been granted an extension or were rewritten.

Subject to legal considerations, we will normally begin repossession activity once an account becomes 60 days past due. Repossession may occur earlier if management determines that the customer is unwilling to pay, the vehicle is in danger of being damaged or hidden or if the customer voluntarily surrenders the vehicle. Repossessions are handled by approved third-party repossession firms. Normally, the customer is given a period of time to redeem the vehicle by paying off the account or bringing the account current. If the vehicle is not redeemed, it is sold at auction. If the proceeds are not sufficient to cover the unpaid balance, any accrued interest, unpaid finance charges and allowable expenses, the resulting deficiency is charged-off. Regional asset recovery centers pursue collections on accounts that have been charged-off, including those accounts that have been repossessed and skip accounts where the vehicle cannot be located.

We have historically serviced retail contracts and leases in our managed portfolio and will continue to do so in the future through our new subsidiary, Semperian. We have, however, a new focus of selling the retail contracts (on a whole loan basis) we purchase or underwrite. With respect to retail and lease contracts we sell, we retain the right to service such retail contracts and leases and earn a servicing fee for such servicing functions. As of December 31, 2005 and 2004, our total consumer automotive serviced portfolio was \$124.1 billion and \$131.4 billion, respectively. Our consumer automotive managed portfolio was \$108.4 billion and \$124.2 billion in 2005 and 2004.

CONSUMER CREDIT RISK MANAGEMENT

Credit losses in our consumer automotive retail contract and lease portfolio are influenced by general business and economic conditions, such as unemployment rates, bankruptcy filings and used vehicle prices. We analyze credit losses according to frequency (i.e., the number of contracts that default) and severity (i.e., the dollar magnitude of loss per occurrence of default). We manage credit risk through our contract purchase policy, credit review process (including our proprietary credit scoring system) and servicing capabilities.

In general, the credit quality of the off-balance sheet portfolio is representative of our overall managed consumer automotive retail contract portfolio. However, the process of creating a pool of retail finance receivables for securitization or sale typically involves excluding retail contracts that are greater than 30 days delinquent at such time. In addition, the process involves selecting from a pool of receivables that are currently outstanding and, therefore, represent "seasoned" contracts. A seasoned portfolio that excludes delinquent contracts historically results in better credit performance in the managed portfolio than in the on-balance sheet portfolio of retail finance receivables. In addition, the current off-balance sheet transactions are comprised mainly of subvented rate retail finance receivables, which generally attract higher quality customers (which would otherwise be cash purchasers) than customers typically associated with non-subvented receivables.

The managed portfolio includes retail receivables held on-balance sheet for investment and receivables securitized and sold that we continue to service and have a continued involvement in (i.e., in which we retain an interest or risk of loss in the underlying receivables), but excludes securitized and sold finance receivables that we continue to service but have no other continuing involvement (serviced-only portfolio). We believe that the disclosure of the credit experience of the managed portfolio presents a more complete presentation of our credit exposure because the managed basis reflects not only on-balance sheet receivables, but also securitized assets as to which we retain a risk of loss in the underlying assets (typically in the form of a subordinated retained interest).

The following tables summarize pertinent loss experience in the managed and on-balance sheet consumer automotive retail contract portfolio. Consistent with the presentation in our Consolidated Balance Sheet, retail contracts presented in the table represent the principal balance of the finance receivable discounted for any unearned rate support received from GM.

	Years ended December 31,						
	Average Retail Assets	Annual Charge-offs, Net of Recoveries ^(a)			Net Charge-off Rate		
(Dollars in millions)	2005	2005	2004	2003	2005	2004	2003
Managed							
North America	\$73,927	\$735	\$ 912	\$ 912	0.99%	1.10%	1.07%
International	14,769	132	130	216	0.89%	0.94%	1.78%
Total managed	\$88,696	\$867	\$1,042	\$1,128	0.98%	1.08%	1.16%
On-balance sheet							
North America	\$68,353	\$719	\$ 890	\$ 857	1.05%	1.18%	1.18%
International	14,769	132	130	216	0.89%	0.94%	1.78%
Total on-balance sheet	\$83,122	\$851	\$1,020	\$1,073	1.02%	1.14%	1.26%

(a) Net charge-offs exclude amounts related to the lump-sum payments on balloon finance contracts. These amounts totaled \$1, \$31 and \$117 for the years ended December 31, 2005, 2004 and 2003 respectively.

Consumer Automotive Financing (continued)

The following table summarizes pertinent delinquency experience in the consumer automotive retail contract portfolio.

	Percent of Retail Contracts 30 Days or More Past Due ^(a)			
	Managed		On-Balance Sheet	
	2005	2004	2005	2004
North America	2.21%	2.11%	2.37%	2.30%
International	2.68%	2.82%	2.68%	2.82%
Total	2.33%	2.28%	2.46%	2.44%

(a) Past due contracts are calculated on the basis of the average number of contracts delinquent during a month and exclude accounts in bankruptcy.

In addition to the preceding loss and delinquency data, the following table summarizes bankruptcies and repossession information for the United States consumer automotive retail contract portfolio (which represents approximately 65% of our on-balance sheet consumer automotive retail contract portfolio):

	Years ended December 31,			
	Managed		On-Balance Sheet	
	2005	2004	2005	2004
Average retail contracts in bankruptcy (in units) ^(a)	102,858	89,358	98,744	83,509
Bankruptcies as a percent of average number of contracts outstanding	2.27%	1.75%	2.35%	1.83%
Retail contract repossessions (in units)	101,546	110,787	98,838	106,738
Repossessions as a percent of average number of contracts outstanding	2.24%	2.17%	2.35%	2.34%

(a) Average retail contracts in bankruptcy are calculated using the yearly average of the month end bankruptcies.

Our allowance for credit losses is intended to cover management's estimate of incurred losses in the portfolio (refer to the Critical Accounting Estimates section of this MD&A and Note 1 to GMAC's consolidated financial statements in its Form 10-K for further discussion). The following table summarizes activity related to the consumer allowance for credit losses for our Financing operations.

	Years ended December 31,	
	2005	2004
(Dollars in millions)		
Allowance at beginning of year	\$ 2,035	\$ 2,084
Provision for credit losses	443	978
Charge-offs		
Domestic	(839)	(1,010)
Foreign	(192)	(224)
Total charge-offs	(1,031)	(1,234)
Recoveries		
Domestic	131	102
Foreign	48	81
Total recoveries	179	183
Net charge-offs	(852)	(1,051)
Impacts of foreign currency translation	(12)	20
Securitization activity	4	4
Allowance at end of year	\$ 1,618	\$ 2,035
Allowance coverage ^(a)	2.26%	2.19%

(a) Represents the related allowance for credit losses as a percentage of total on-balance sheet consumer automotive retail contracts.

Our consumer automotive leases are operating leases and, therefore, exhibit different loss performance as compared to consumer automotive retail contracts. Credit losses on the operating lease portfolio are not as significant as losses on retail contracts because lease losses are limited to past due payments, late charges and fees for excess mileage and excessive wear and tear. Since some of these fees are not assessed until the vehicle is returned, credit losses on the lease portfolio are correlated with lease termination volume. As further described in the Critical Accounting Estimates section of this MD&A, credit risk is considered within the overall depreciation rate and the resulting net carrying value of the operating lease asset. North American operating lease accounts past due over 30 days represented 1.33% and 1.59% of the total portfolio at December 31, 2005 and 2004, respectively.

Credit fundamentals in our consumer automotive portfolio remain stable, with a slight deterioration in delinquencies and an improvement in consumer credit loss rates and loss severity, as compared to 2004. The decrease in loss severity is illustrated by a reduction in the average loss incurred per new vehicle repossessed in the United States traditional portfolio, which declined from \$7,993 in 2004 to \$7,825 in 2005. The decline in loss severity is attributable to the strengthening in the used vehicle market resulting from a lower supply of used vehicles. The increase in delinquency trends in the North American portfolio is the result of lower on-balance sheet prime retail asset levels, primarily as a result of an increase in whole loan sales, the negative impact of accounts affected by Hurricane Katrina and moderate weakening in the credit quality of the portfolio, as compared to recent years. Conversely, delinquency trends in the International portfolio have shown an improvement since 2004 as a result of a change in the mix of new and used retail contracts in the portfolio, as well as a significant improvement in the credit performance in certain international countries.

Consumer credit loss rates in North America decreased in 2005 as compared to 2004. The decrease is reflective of the improvement in severity. The increase in the number of bankruptcies in the U.S. portfolio in 2005 is due to the change in bankruptcy law effective October 17, 2005, which makes it more difficult for some U.S. consumers to qualify for certain protections previously afforded to bankruptcy debtors. New bankruptcy filings in our U.S. portfolio increased dramatically in October, prior to the change in law, and decreased sharply in November and December.

The allowance for credit losses as a percentage of the total on-balance sheet consumer portfolio remained stable in comparison to December 2004 as the consumer allowance year over year decreased along with automotive retail asset levels.

REMARKETING AND SALES OF LEASED VEHICLES

In a consumer lease, we assume ownership of the vehicle from the dealer. Neither the consumer nor the dealer is responsible for the value of the vehicle at the time of lease termination. Typically, the vehicle is returned to us for remarketing through an auction. We generally bear the risk of loss to the extent that the value of a leased vehicle upon remarketing is below the projected residual value determined at the time the lease contract is signed. However, General Motors shares this risk with us in certain circumstances as described previously at General Motors Marketing Incentives.

Consumer Automotive Financing (continued)

When vehicles are not purchased by customers or the receiving dealer at lease termination, we regain possession of the leased vehicles from the customers and sell the vehicles, primarily through physical and internet auctions. The following table summarizes our methods of vehicle sales in the United States at lease termination, stated as a percentage of total lease vehicle disposals.

	Years ended December 31,		
	2005	2004	2003
Auction			
Physical	42%	43%	43%
Internet	39%	39%	35%
Sale to dealer	12%	12%	18%
Other (including option exercised by lessee)	7%	6%	4%

We primarily sell our off-lease vehicles through:

- **Physical auctions** – We dispose of approximately half of our off-lease vehicles not purchased at termination by the lease consumer or dealer, through traditional official General Motors-sponsored auctions. We are responsible for handling decisions at the auction, including arranging for inspections, authorizing repairs and reconditioning and determining whether bids received at auction should be accepted.
- **Internet auctions** – We offer off-lease vehicles to GM dealers and affiliates through a proprietary internet site (SmartAuction). This internet sales program was established in 2000 to increase the net sales proceeds from off-lease vehicles by reducing the time between vehicle return and ultimate disposition, which in turn would reduce holding costs, and broaden the number of prospective buyers, thereby maximizing proceeds. We maintain the internet auction site, set the pricing floors on vehicles and administer the auction process. We earn a service fee for every sale. Remarketing fee revenue, primarily generated through SmartAuction, was \$63.5 million, \$57.6 million and \$50.8 million as of December 31, 2005, 2004 and 2003, respectively. The internet sales program has increased significantly since inception and was the remarketing channel for nearly half of our 2005 off-lease vehicles disposed of through auction in the United States.

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 following factors most significantly influence lease residual risk:

- **Used vehicle market** – We are at risk due to changes in used vehicle prices. General economic conditions, off-lease vehicle supply and new vehicle market prices (of both GM and other manufacturers) most heavily influence used vehicle prices.
- **Initial residual value projections** – As previously discussed, we establish residual values at lease inception by consulting independently published guides. These values are projections of expected values in the future (typically between two and four years) based on current assumptions for the respective make and model. Actual realized values often differ.
- **Remarketing abilities** – Our ability to efficiently process and effectively market off-lease vehicles impacts the disposal costs and the proceeds realized from vehicle sales.

- **General Motors vehicle and marketing programs** – GM influences lease residual results in the following ways:

- GM provides support to us for certain residual deficiencies.
- The brand image and consumer preference of GM products impact residual risk, as our lease portfolio consists primarily of GM vehicles.
- GM marketing programs that may influence the used vehicle market for GM vehicles, through programs such as incentives on new vehicles, programs designed to encourage lessees to terminate their leases early in conjunction with the acquisition of a new GM vehicle (referred to as pull ahead programs) and special rate used vehicle programs.

The following table summarizes the volume of lease terminations and the average sales proceeds on 36-month scheduled lease terminations in the United States for the years indicated. 36 month terminations represent approximately 69% of our total terminations in 2005.

	Years ended December 31,		
	2005	2004	2003
Off-lease vehicles remarketed (in units)	283,480	413,621	610,575
Sales proceeds on scheduled lease terminations (36-month) (\$ per unit)	\$14,392	\$14,182	\$13,313

Our off-lease vehicle remarketing results improved in 2005, as compared to the past few years, primarily as a result of a decline in the volume of vehicles coming off-lease and the fact that the underlying contractual residual values (on the current portfolio) were lower than the residuals established on prior years' volume. Additionally, we have continued aggressive use of the internet in disposing of off-lease vehicles. This initiative has improved efficiency, reduced costs and ultimately increased the net proceeds on the sale of off-lease vehicles. In 2006, continued improvement in remarketing results is expected as off-lease vehicle supply will continue to decline and the favorable effect of lower contractual residual values continues.

In recent years, the percentage of lease contracts terminated prior to the scheduled maturity date has increased primarily due to GM-sponsored pull ahead programs. Under these marketing programs, consumers are encouraged to terminate leases early in conjunction with the acquisition of a new GM vehicle. The sales proceeds per vehicle on scheduled lease terminations in the preceding table does not include the effect of payments related to the pull ahead programs.

Commercial Financing

AUTOMOTIVE WHOLESALE DEALER FINANCING

One of the most important aspects of our financing operations is supporting the sale of GM vehicles through wholesale or floor plan financing, primarily to finance purchases by dealers of new and used vehicles manufactured or distributed by General Motors and, less often, other vehicle manufacturers, prior to sale or lease to the ultimate customer. Wholesale financing represents the largest portion of our commercial financing business, and is the primary source of funding for GM dealers' purchases of new and used vehicles. In 2005, we financed 6 million new GM vehicles (representing an 82% share of GM sales to dealers). In addition, we financed approximately 180,000 new non-GM vehicles. The following discussion centers on our operations in the United States, which are generally reflective of our global business practices; however, certain countries have unique statutory or regulatory requirements that impact business practices. The effects of such requirements are not significant to our consolidated financial condition, results of operations or cash flows.

Commercial Financing (continued)

Wholesale credit is arranged through lines of credit extended to individual dealers. In general, each wholesale credit line is secured by all vehicles owned by the dealer and, in some instances, by other assets owned by the dealer or the dealer's personal guarantee. The amount we advance to dealers is equal to 100% of the wholesale invoice price of new vehicles, which includes destination and other miscellaneous charges and, with respect to vehicles manufactured by General Motors and other motor vehicle manufacturers, a price rebate, known as a holdback, from the manufacturer to the dealer in varying amounts stated as a percentage of the invoice price. The advances are made to dealers on the date that the financed vehicles are estimated to be delivered and at the same time interest begins to accrue. Interest on wholesale financing is generally payable

monthly. Most wholesale financing is structured to yield interest at a floating rate indexed to the Prime Rate. The rate for a particular dealer is based on, among other things, competitive factors, the amount and status of the dealer's creditworthiness and various incentive programs.

Under the terms of the credit agreement with the dealer, we may demand payment of interest and principal on wholesale credit lines at any time. However, unless we terminate the credit line or the dealer defaults, we generally require payment of the principal amount financed for a vehicle upon its sale or lease by the dealer to the customer. Ordinarily, a dealer has between one and five days, based on risk and exposure of the account, to satisfy the obligation.

Wholesale financing accounted for \$1,120 million, \$1,103 million and \$878 million of our revenues in 2005, 2004 and 2003, respectively.

The following table summarizes our wholesale financing of new vehicles and share of GM sales to dealers in markets where we operate.

	Years ended December 31,					
	GMAC Volume			Shares of GM Sales to Dealers		
(Thousands of units)	2005	2004	2003	2005	2004	2003
GM vehicles						
North America	3,798	4,153	4,225	80%	81%	80%
International	2,462	2,207	1,892	84%	86%	96%
Total GM vehicles	6,260	6,360	6,117	82%	83%	84%
Non-GM vehicles	180	198	195			
Total wholesale volume	6,440	6,558	6,312			

Our wholesale financing continues to be the primary funding source for GM dealer inventories, as 2005 penetration levels in North America remained relatively consistent with 2004 levels, and continue to reflect traditionally strong levels. The decrease in our share of GM sales to dealers for the International portfolio is primarily due to including China and Chevrolet/Daewoo, which has a comparably lower level of financings as a percentage of GM sales to dealers than other GM brands.

CREDIT APPROVAL

Prior to establishing a wholesale line of credit, we perform a credit analysis of the dealer. During this analysis, we:

- review credit reports, financial statements and may obtain bank references;
- evaluate the dealer's marketing capabilities;
- evaluate the dealer's financial condition; and
- assess the dealer's operations and management.

Based on this analysis, we may approve the issuance of a credit line and determine the appropriate size. The credit lines represent guidelines, not limits. Therefore, the dealers may exceed them on occasion, an example being a dealer exceeding sales targets contemplated in the credit approval process. Generally, the size of the credit line is intended to be an amount sufficient to finance a 60-90 day supply of new vehicles and a 30-60 day supply of used vehicles. Our credit guidelines ordinarily require that advances to finance used vehicles be approved on a unit by unit basis.

SERVICING AND MONITORING

We service all of the wholesale credit lines in our portfolio as well as the wholesale finance receivables that we have securitized. A statement setting forth billing and account information is prepared by us and distributed on a monthly basis to each dealer. Interest and other non-principal charges are billed in arrears and are required to be paid immediately upon receipt of the monthly billing statement. Dealers remit payments directly to a GMAC office, typically within geographic proximity to the dealer.

Dealers are assigned a credit category based on various factors, including capital sufficiency, financial outlook and credit history. The credit category impacts the amount of the line of credit, the determination of further advances and the management of the account. We monitor the level of borrowing under each dealer's account daily. When a dealer's balance exceeds the credit line, we may temporarily suspend the granting of additional credit or increase the dealer's credit line, following evaluation and analysis of the dealer's financial condition and the cause of the excess.

Our personnel periodically inspect and verify the existence of dealer vehicle inventories. The timing of the verifications varies and no advance notice is given to the dealer. Among other things, verifications are intended to determine dealer compliance with the financing agreement and confirm the status of our collateral.

Commercial Financing (continued)

OTHER COMMERCIAL FINANCING

We provide other forms of commercial financing for the automotive industry as well as for companies in other industries. The following describes our other financing markets and products:

- **Automotive dealer term loans** – We make loans to dealers to finance other aspects of the dealership business. These loans are typically secured by real estate, other dealership assets and occasionally the personal guarantees of the individual owner of the dealership. Automotive dealer loans comprised 2% of our Financing operations' assets as of December 31, 2005 consistent with 2004.
- **Automotive fleet financing** – Dealers, their affiliates and other companies may obtain financing to buy vehicles, which they lease or rent to others. These transactions represent our fleet financing activities. We generally have a security interest in these vehicles and in the rental payments. However, competitive factors may occasionally limit the security interest in this collateral. Automotive fleet financing comprised less than 1% of our Financing operations' assets as of December 31, 2005 consistent with 2004.
- **Full service leasing products** – We offer full service individual and fleet leasing products in Europe, Mexico, Australia and New Zealand. In addition to financing the vehicles, we offer maintenance, fleet and accident management services, as well as fuel programs, short-term vehicle rental and title and licensing services. Full service leasing products comprised 1% of our Financing operations' assets as of December 31, 2005 consistent with 2004.
- **Specialty lending** – Through our commercial finance operations, we provide asset-based lending, equipment finance, structured finance and factoring services in the United States, the United Kingdom and Canada to companies in the apparel, textile, automotive supplier and other industries. Assets related to our specialty lending activities comprised 3% of our Financing operations' assets as of December 31, 2005 consistent with 2004.

COMMERCIAL CREDIT RISK MANAGEMENT

Our credit risk on the commercial portfolio is markedly different than that of our consumer portfolio. Whereas the consumer portfolio represents a homogeneous pool of retail contracts and leases that exhibit fairly predictable and stable loss patterns, the commercial portfolio exposures are less predictable. In general, the credit risk of the commercial portfolio is tied to overall economic conditions in the countries in which we operate. Further, our credit exposure is concentrated in automotive dealerships (primarily GM dealerships), as approximately 66% of the Financing operations' commercial loan portfolio is related to this industry. Occasionally, GM provides payment guarantees on certain commercial loans and receivables we have outstanding. As of December 31, 2005, approximately \$934 million in commercial loans and receivables were covered by a GM guarantee.

Credit risk is managed and guided by policies and procedures that are designed to ensure that risks are accurately assessed, properly approved and continuously monitored. Our individual business units approve significant transactions and are responsible for credit risk assessments (including the evaluation of the adequacy of the collateral). Our individual business units also 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. Corporate approval is required for transactions exceeding business unit approval limits. Credit risk monitoring is supplemented at the corporate portfolio level through a periodic review performed by our Chief Credit Officer.

To date, the only commercial receivables that have been securitized and accounted for as off-balance sheet transactions represent wholesale lines of credit extended to automotive dealerships, which historically experience low losses. Since only wholesale accounts have historically been securitized, the amount of losses on our managed portfolio is substantially the same as our on-balance sheet portfolio. As a result, only the on-balance sheet commercial portfolio credit experience is presented in the following table:

	Years ended December 31,						
	Total Loans		Impaired Loans ^(a)		Average Loans		Annual Charge-offs, Net of Recoveries
(Dollars in millions)	2005	2005	2004	2005	2005	2004	2003
Wholesale	\$20,574	\$299	\$ 534	\$23,403	\$ 4	\$ 2	\$ 5
		1.45%	1.91%		0.02%	0.01%	0.02%
Other commercial financing	10,412	475	664	11,450	33	71	194
		4.56%	5.52%		0.29%	0.59%	1.41%
Total on-balance sheet	\$30,986	\$774	\$1,198	\$34,853	\$37	\$73	\$199
		2.50%	3.00%		0.11%	0.18%	0.53%

(a) Includes loans where it is probable that we will be unable to collect all amounts due according to the terms of the loan.

Net losses on the wholesale portfolio in 2005 remained at traditionally low levels. Charge-offs in the commercial portfolio decreased as compared to 2004 resulting from a lower amount of charge-offs at our Commercial Finance Group (included in other commercial financing in the preceding table). Impaired loans in the wholesale commercial loan portfolio have also decreased in comparison to December 2004 levels as a result of a decrease in the amounts outstanding in

the wholesale lines of credit for certain dealer accounts. In addition, impaired loans have also declined in the other commercial financing portfolio since December 2004. The decrease in allowance coverage for commercial credit losses is consistent with the lower level of charge-offs and a lower amount of loans specifically identified as impaired.

Commercial Financing (continued)

Our allowance for credit losses is intended to cover management's estimate of incurred losses in the portfolio (refer to the Critical Accounting Estimates section of this MD&A and Note 1 to GMAC's consolidated financial statements in its Form 10-K for further discussion). The following table summarizes activity related to the commercial allowance for credit losses for our Financing operations.

(Dollars in millions)	Years ended December 31,	
	2005	2004
Allowance at beginning of year	\$322	\$391
Provision for credit losses	(24)	(3)
Charge-offs		
Domestic	(37)	(75)
Foreign	(13)	(7)
Total charge-offs	(50)	(82)
Recoveries		
Domestic	9	6
Foreign	4	3
Total recoveries	13	9
Net charge-offs	(37)	(73)
Impacts of foreign currency translation	(14)	6
Securitization activity	(2)	1
Allowance at end of year	\$245	\$322

Results of Operations

The following table summarizes the operating results of our Financing operations for the periods indicated. The amounts presented are before the elimination of balances and transactions with our other operating segments.

(Dollars in millions)	Years ended December 31,			
	2005	2004	Change	%
Revenue				
Consumer	\$ 6,540	\$ 6,796	\$ (256)	(4)
Commercial	1,805	1,686	119	7
Operating leases	7,037	6,566	471	7
Total financing revenue	15,382	15,048	334	2
Interest and discount expense	(9,039)	(7,175)	(1,864)	(26)
Provision for credit losses	(419)	(975)	556	57
Net financing revenue	5,924	6,898	(974)	(14)
Other income	3,440	2,827	613	22
Depreciation expense on operating leases	(5,244)	(4,828)	(416)	(9)
Noninterest expense	(2,528)	(2,818)	290	10
Goodwill impairment	(648)	—	(648)	—
Income tax expense	(278)	(603)	325	54
Net income	\$666	\$1,476	(\$810)	(55)
Total assets	\$194,236	\$225,565	\$(31,329)	(14)

Financing operations earned \$666 million, including non-cash goodwill impairment charges of \$398 million (after-tax) relating to our Commercial Finance operating segment. Excluding the goodwill impairment charges, operating income for our Financing operations was \$1,064 million, a decrease of 28% in comparison to 2004. Operating income decreased primarily due to lower net interest margins as a result of higher borrowing costs. The decline in net interest

margins was slightly offset by lower consumer credit provisions, primarily as a result of lower asset levels and the impact of improved used vehicle prices on terminating leases. Net income from International operations remained strong at \$408 million in 2005, as compared to \$415 million earned in 2004, despite a decrease in net interest margins.

Total financing revenue increased 2% as compared to 2004. The commercial portfolio benefited from an increase in market interest rates as the majority of the portfolio is of a floating rate nature. Operating lease revenue increased year over year as the size of the operating lease portfolio increased by approximately 20% since December 2004. The increase in the portfolio is reflective of GM's shift of some marketing incentives to consumer leases from retail contracts late in 2004.

The increase in interest and discount expense of \$1,864 million is consistent with the overall increase in market interest rates during the year, but also reflective of the widening of our corporate credit spreads as we experienced a series of credit rating actions during the year. The impact of the increased spreads will continue to affect results, as our lower cost debt matures, leaving debt borrowed at higher spreads on the books. Refer to the Funding and Liquidity section of this MD&A for further discussion.

Despite the impact of Hurricane Katrina, the provision for credit losses decreased by 57% in 2005, resulting from a combination of lower consumer asset levels primarily due to an increase in whole loan sales, improved loss performance on retail contracts and improved performance on the non-automotive commercial portfolio. Refer to the Credit Risk discussion within this Financing Operations Section of the MD&A for further discussion.

During the fourth quarter we recognized a non-cash goodwill impairment charge of \$398 million (after-tax). The charge relates to our Commercial Finance Group operating segment and, in particular, primarily to the goodwill recognized in connection with the 1999 acquisition of The Bank of New York's commercial finance business. These charges resulted from annual impairment tests required to be made for all of our reporting units in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142).

Mortgage Operations

Our Mortgage operations are comprised of three separate operating and reporting segments: GMAC Residential Holding Corp. (GMAC Residential), GMAC-RFC Holding Corp. (GMAC-RFC) and GMAC Commercial Holding Corp. (GMAC Commercial Mortgage). The principal activities of the three segments involve the origination, purchase, servicing, sale and securitization of consumer (i.e., residential) and commercial mortgage loans and other mortgage related products (e.g., real estate services). Typically, mortgage loans are originated and sold to investors in the secondary market, including securitization sales.

In March 2005, we transferred ownership of GMAC Residential and GMAC-RFC to a newly formed wholly owned subsidiary holding company ResCap. For additional information please refer to ResCap's annual report on Form 10-K for the period ended December 31, 2005, filed separately with the SEC, which report is not deemed incorporated into any of our filings under the Securities Act or the Exchange Act. As part of this transfer of ownership, certain agreements were put in place between us and ResCap that restrict ResCap's ability to declare dividends or prepay subordinated indebtedness owed to us. While we believe that the restructuring of these operations and the agreements between us and ResCap will allow ResCap to access more attractive sources of capital, the agreements limit our ability to return funds for dividends and debt payments.

On August 3, 2005, we announced that we had entered into a definitive agreement to sell a majority equity interest in our commercial mortgage subsidiary, GMAC Commercial Mortgage, to an investor group comprised of Kohlberg Kravis Roberts & Co., Five Mile Capital Partners and Goldman Sachs Capital

Mortgage Operations (continued)

Partners. GMAC Commercial Mortgage provides a variety of financing products and services, including permanent, interim, mezzanine and construction lending, as well as equity capital and has a servicing portfolio of approximately \$276 billion. On March 23, 2006, we completed the sale of 78% of our equity in GMAC Commercial Mortgage. Please refer to Note 25 to GMAC's consolidated financial statements in its Form 10-K for further details.

Industry and Competition

Our Mortgage operations primarily operate in the residential real estate finance industry. The U.S. residential mortgage market has been a growth market for the last several decades. This growth has been driven by a variety of factors including low interest rates, increasing rates of homeownership, greater access to mortgage financing, the development of an efficient secondary market, home price appreciation and the tax advantage of mortgage debt compared to other forms of consumer debt. Origination of residential mortgage loans has expanded rapidly in recent years as a result of historically low interest rates, but slowed in 2004 as interest rates rose. In 2005, approximately \$2.8 trillion in residential mortgage loans were funded in the U.S., consistent with 2004 levels and below the \$3.8 trillion in 2003.

Prime credit quality mortgage loans are the largest component of the residential mortgage market in the U.S. with loans conforming to the underwriting standards of Fannie Mae and Freddie Mac, Veterans' Administration-guaranteed loans and loans insured by the Federal Housing Administration representing a significant portion of all U.S. residential mortgage production. Prime credit quality loans that do not conform to the underwriting standards of the government-sponsored enterprises because their original principal amounts exceeded Fannie Mae or Freddie Mac limits or they otherwise did not meet the relevant documentation or property requirements represent a growing portion of the residential mortgage market. Home equity mortgage loans, which are typically mortgage loans secured by a second (or more junior) lien on the underlying property, continue to grow in significance within the U.S. residential real estate finance industry.

The development of an efficient secondary market for residential mortgage loans, including the securitization market, has played an important role in the growth of the residential real estate finance industry. Mortgage-backed and mortgage-related asset-backed securities are issued by private sector issuers as well as by government-sponsored enterprises, primarily Fannie Mae and Freddie Mac.

An important source of capital for the residential real estate finance industry is warehouse lending. These facilities provide funding to mortgage loan originators until the loans are sold to investors in the secondary mortgage loan market.

The global mortgage markets, particularly in Europe, are less mature than the U.S. mortgage market. The historic lack of available sources of liquidity make these markets a potential opportunity for growth. As a result, many of our competitors have recently entered the global mortgage markets.

Our mortgage business operates in a highly competitive environment and faces significant competition from commercial banks, savings institutions, mortgage companies and other financial institutions. In addition, our Mortgage operations earnings are subject to volatility due to seasonality inherent in the mortgage banking industry and volatility in interest rate markets.

U.S. Residential Real Estate Finance

Through our activities at GMAC Residential and GMAC-RFC, we are one of the largest residential mortgage producers and servicers in the U.S., producing approximately \$159 billion in residential mortgage loans in 2005 and servicing approximately \$355 billion in residential mortgage loans as of December 31, 2005. We are also one of the largest non-agency issuers of mortgage-backed and mortgage-related asset-backed securities in the United States, issuing approximately \$56.7 billion of these securities in 2005. The principal activities of our U.S. residential real estate finance business include originating, purchasing, selling and securitizing residential mortgage loans, servicing residential mortgage loans for ourselves and others, providing warehouse financing to residential mortgage loan originators and correspondent lenders to originate residential mortgage loans, creating a portfolio of mortgage loans and retained interests from our securitization activities, conducting limited banking activities through GMAC Bank and providing real estate closing services.

Our GMAC Residential segment comprises the portion of our residential real estate finance operations in the U.S. with a greater focus on the direct origination of mortgage loans primarily with consumers of prime credit quality. Most of these loans conform to the underwriting requirements of the Federal National Mortgage Association, which is commonly referred to as Fannie Mae, and the Federal Home Loan Mortgage Corporation, which is commonly referred to as Freddie Mac. Our GMAC-RFC segment comprises the portion of our residential real estate finance operations in the U.S. with a greater focus on the purchase of mortgage loans in the secondary market and the origination of loans through mortgage brokers. Mortgage loans produced in this segment cover a broad spectrum of the credit scale and generally do not conform to the underwriting standards of Fannie Mae or Freddie Mac.

We originate and acquire mortgage loans that generally fall into one of the following five categories:

- **Prime conforming mortgage loans** – These are prime credit quality first-lien mortgage loans secured by single-family residences that meet or conform to the underwriting standards established by Fannie Mae or Freddie Mac for inclusion in their guaranteed mortgage securities programs.
- **Prime non-conforming mortgage loans** – These are prime credit quality first-lien mortgage loans secured by single-family residences that either (1) do not conform to the underwriting standards established by Fannie Mae or Freddie Mac, because they have original principal amounts exceeding Fannie Mae and Freddie Mac limits (\$359,650 in 2005 and \$333,700 in 2004), which are commonly referred to as jumbo mortgage loans, or (2) have alternative documentation requirements and property or credit-related features (e.g., higher loan-to-value or debt-to-income ratios), but are otherwise considered prime credit quality due to other compensating factors.
- **Government mortgage loans** – These are first-lien mortgage loans secured by single-family residences that are insured by the Federal Housing Administration or guaranteed by the Veterans Administration.
- **Nonprime mortgage loans** – These are first-lien and certain junior lien mortgage loans secured by single-family residences, made to individuals with credit profiles that do not qualify for a prime loan, have credit-related features that fall outside the parameters of traditional prime mortgage products or have performance characteristics that otherwise expose us to comparatively higher risk of loss.
- **Prime second-lien mortgage loans** – These are open- and closed-end mortgage loans secured by a second or more junior lien on single-family residences, which include home equity mortgage loans.

U.S. Residential Real Estate Finance *(continued)*

Our products are offered to customers through the following origination channels:

- **Direct lending network** – Our direct lending network consists of retail branches, internet and telephone-based operations. Our retail network targets customers desiring face-to-face service. Typical referral sources are realtors, homebuilders, credit unions, small banks and affinity groups.
- **Mortgage brokerage network** – We also originate residential mortgage loans through mortgage brokers. Loans sourced by mortgage brokers are funded by us and generally closed in our name. When originating loans through mortgage brokers, the mortgage broker's role is to identify the applicant, assist in completing the loan application, gather necessary information and documents and serve as our liaison with the borrower through the lending process. We review and underwrite the application submitted by the mortgage broker, approve or deny the application, set the interest rate and other terms of the loan and, upon acceptance by the borrower and satisfaction of all conditions required by us, fund the loan. We qualify and approve all mortgage brokers who generate mortgage loans for us, and we continually monitor their performance.
- **Correspondent lender and other secondary market purchases** – Loans purchased from correspondent lenders are originated or purchased by the correspondent lenders and subsequently sold to us. As with our mortgage brokerage network, we approve any correspondent lenders that participate in our loan purchase programs.

We also purchase pools of residential mortgage loans from entities other than correspondent lenders, which we refer to as bulk purchases. These purchases are generally made from large financial institutions. In connection with these purchases, we typically conduct due diligence on all or a sampling of the mortgage pool and use our underwriting technology to determine if the loans meet the underwriting requirements of our loan programs.

UNDERWRITING STANDARDS

All mortgage loans that we originate and most of the mortgage loans we purchase are subject to our underwriting guidelines and loan origination standards. When originating mortgage loans directly through our retail branches, or by internet or telephone, or indirectly through mortgage brokers, we follow established lending policies and procedures that require consideration of a variety of factors, including:

- the borrower's capacity to repay the loan;
- the borrower's credit history;
- the relative size and characteristics of the proposed loan; and
- the amount of equity in the borrower's property (as measured by the borrower's loan-to-value ratio).

Our underwriting standards have been designed to produce loans that meet the credit needs and profiles of our borrowers, thereby creating more consistent performance characteristics for investors in our loans. When purchasing mortgage loans from correspondent lenders, we either re-underwrite the loan prior to purchase or delegate underwriting responsibility to the correspondent lender originating the mortgage loan.

To further ensure consistency and efficiency, much of our underwriting analysis is conducted through the use of automated underwriting technology. We also conduct a variety of quality control procedures and periodic audits to ensure compliance with our origination standards, including our responsible lending standards and legal requirements. Although many of these procedures

involve manual reviews of loans, we seek to leverage our technology in further developing our quality control procedures. For example, we have programmed many of our compliance standards into our loan origination systems and continue to use and develop automated compliance technology to mitigate regulatory risk.

SALE AND SECURITIZATION OF ASSETS

We sell most of the mortgage loans we originate or purchase. In 2005, we sold \$149.6 billion in mortgage loans. We typically sell our Prime Conforming Mortgage Loans in sales that take the form of securitizations guaranteed by Fannie Mae or Freddie Mac, and we typically sell our Government Mortgage Loans in securitizations guaranteed by the Government National Mortgage Association, or Ginnie Mae. In 2005, we sold \$50.6 billion of mortgage loans to government-sponsored enterprises, or 34% of the total loans we sold, and \$99.0 billion to other investors through whole loan sales and securitizations, including both on-balance sheet and off-balance sheet securitizations. We recognized gains on the sale and securitizations of loans of \$1,201 million, \$788 million and \$2,155 million in 2005, 2004 and 2003, respectively. We hold the mortgage loans that we do not sell and the securities and subordinated interests that we retain in our securitizations as part of our investment portfolio. Our sale and securitization activities include developing asset sale or retention strategies, conducting pricing and hedging activities and coordinating the execution of whole loan sales and securitizations.

In addition to cash we receive in exchange for the mortgage loans we sell to the securitization trust, we often retain interests in the securitization trust as partial payment for the loans and generally hold these retained interests in our investment portfolio. These retained interests may take the form of mortgage-backed or mortgage-related asset-backed securities (including senior and subordinated interests), interest-only, principal-only, investment grade, non-investment grade or unrated securities.

SERVICING ACTIVITIES

Although we sell most of the residential mortgage loans that we produce, we generally retain the rights to service these loans. The mortgage servicing rights we retain consist of primary and master servicing rights. Primary servicing rights represent our right to service certain mortgage loans originated or purchased and later sold on a servicing-retained basis through our securitization activities and whole loan sales, as well as primary servicing rights we purchase from other mortgage industry participants. When we act as primary servicer, we collect and remit mortgage loan payments, respond to borrower inquiries, account for principal and interest, hold custodial and escrow funds for payment of property taxes and insurance premiums, counsel or otherwise work with delinquent borrowers, supervise foreclosures and property dispositions and generally administer the loans. Master servicing rights represent our right to service mortgage-backed and mortgage-related asset-backed securities and whole loan packages sold to investors. When we act as master servicer, we collect mortgage loan payments from primary servicers and distribute those funds to investors in mortgage-backed and mortgage-related asset-backed securities and whole loan packages. Key services in this regard include loan accounting, claims administration, oversight of primary servicers, loss mitigation, bond administration, cash flow waterfall calculations, investor reporting and tax reporting compliance. In return for performing primary and master servicing functions, we receive servicing fees equal to a specified percentage of the outstanding principal balance of the loans being serviced and may also be entitled to other forms of servicing compensation, such as late payment fees or prepayment penalties. Our servicing compensation also includes interest income, or the float earned on collections that are deposited in various custodial accounts between their receipt and our distribution of the funds to investors.

The value of our mortgage servicing rights is sensitive to changes in interest rates and other factors (see further discussion in the Critical Accounting Estimates section of this MD&A). We have developed and implemented an economic hedge program to, among other things, mitigate the overall risk of impairment loss due to a change in the fair value of our mortgage servicing

U.S. Residential Real Estate Finance (continued)

rights. In accordance with this economic hedge program, we designate hedged risk as the change in the total fair value of our capitalized mortgage servicing rights. The success or failure of this economic hedging program may have a material effect on our results of operations.

WAREHOUSE LENDING

We are one of the largest providers of warehouse lending facilities to correspondent lenders and other mortgage originators in the United States. These facilities enable those lenders and originators to finance residential mortgage loans until they are sold in the secondary mortgage loan market. We provide warehouse lending facilities for a full complement of residential mortgage loans, including mortgage loans that we acquire through our correspondent lenders. Advances under our warehouse lending facilities are generally fully collateralized by the underlying mortgage loans and bear interest at variable rates. As of December 31, 2005, we had total warehouse line of credit commitments of approximately \$17.8 billion, against which we had advances outstanding of approximately \$9.0 billion. We purchased approximately 15% of the mortgage loans financed by our warehouse lending facilities in 2005.

OTHER REAL ESTATE FINANCE AND RELATED ACTIVITIES

We are a specialty lender in residential construction finance, residential equity, model home finance, resort finance and health capital. The residential construction finance, residential equity and model home finance businesses all provide capital to residential land developers and homebuilders to finance residential real estate projects for sale, using a variety of capital structures. The resort finance business provides debt capital to resort and timeshare developers and the health capital business provides debt capital to health care providers, primarily in the health care services sector. The success of this business is dependent upon strong underwriting, servicing and risk management capabilities. We have historically retained and serviced most of the specialty loans and investments that we originate. We generated \$403 million in revenue in 2005 from these specialty lending activities.

We also provide bundled real estate services to consumers, including real estate brokerage services, full service relocation services, mortgage closing services and settlement services. Through GMAC Bank, which commenced operations in North America in August 2001, GMAC Residential offers a variety of personal investment products to its customers, including consumer deposits, consumer loans and other investment services. GMAC Bank also provides collateral pool certification and collateral document custodial services to third-party customers. With more than \$4.1 billion in customer deposits at December 31, 2005, GMAC Bank provides access to additional funding sources. We provide real estate brokerage and full-service relocation to consumers as well as real estate closing services, such as obtaining flood and tax certifications, appraisals, credit reports and title insurance.

Outside the United States, our mortgage operations in the United Kingdom, The Netherlands, Germany, Canada and Mexico provide us with geographic diversity. We originate, acquire, sell and securitize residential mortgage loans in those jurisdictions. We have the largest international presence among our competitors and we are one of the top originators of mortgage loans in the United Kingdom. We generated \$783 and \$269 million in revenue and income, respectively, in 2005 from our international mortgage business.

Commercial Mortgage

Commercial mortgage products are offered primarily through GMAC Commercial Mortgage. GMAC Commercial Mortgage performs a number of domestic and international commercial mortgage banking activities, including originating, financing, servicing and selling commercial mortgage loans, as well as issuing, purchasing and selling commercial mortgage-backed securities.

The lending activities of GMAC Commercial Mortgage include long-term, interim and construction financing for commercial real estate projects and specialized financing products for customers in the health care and hospitality industries. GMAC Commercial Mortgage also performs investment advisory services for third-party institutional investors, such as life insurance companies and public and private pension funds. In addition, through its wholly owned subsidiary, GMAC Commercial Holding Capital Markets Corp (a registered broker-dealer and member of the National Association of Securities Dealers, Inc.), GMAC Commercial Mortgage is engaged in the business of underwriting, private placement, trading and selling of various securities, including tax exempt municipal securities. Finally, GMAC Commercial Mortgage is involved in direct and indirect real estate investment, tax credit syndication activities and asset management services. At December 31, 2005, GMAC Commercial Mortgage provided services through 105 offices in the United States and had operations in Europe, Asia, Canada and Mexico.

Through GMAC Commercial Mortgage Bank, which commenced operations in April 2003, GMAC Commercial Mortgage offers commercial and multifamily mortgage loans and ultimately sells the loans in the secondary market or to an affiliate for final sale or securitization. With approximately \$3.5 billion in time deposits at December 31, 2005, GMAC Commercial Mortgage Bank provides access to additional funding sources.

Mortgage Loan Production, Sales and Servicing

The following summarizes mortgage loan production for the periods indicated.

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
Consumer:			
Principal amount by product type:			
Prime conforming	\$ 50,047	\$ 45,593	\$ 89,259
Prime non-conforming	55,811	43,473	38,093
Government	4,251	4,834	4,929
Nonprime	35,874	27,880	29,763
Prime second-lien	13,079	11,247	9,176
Total U.S. production	159,062	133,027	171,220
International	16,539	14,013	7,999
Total	\$ 175,601	\$ 147,040	\$ 179,219
Principal amount by origination channel:			
Retail and direct channels	\$ 36,325	\$ 34,221	\$ 60,292
Correspondent and broker channels	122,737	98,806	110,928
Total U.S. production	159,062	133,027	171,220
International	16,539	14,013	7,999
Total	\$ 175,601	\$ 147,040	\$ 179,219
Number of loans (in units):			
Retail and direct channels	288,273	282,503	482,270
Correspondent and broker channels	686,887	645,030	729,914
Total U.S. production	975,160	927,533	1,212,184
International	85,970	75,969	47,805
Total	1,061,130	1,003,502	1,259,989
Commercial:			
Principal amount	\$ 29,921	\$ 22,646	\$ 23,719
Number of loans (in units)	2,520	2,356	2,262

Mortgage Loan Production, Sales and Servicing (continued)

The following summarizes the Mortgage operations servicing portfolio for the periods indicated.

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
Consumer:			
Principal amount by product type:			
Prime conforming	\$ 186,405	\$ 165,577	\$ 153,693
Prime non-conforming	76,980	55,585	43,951
Government	18,098	18,328	17,594
Nonprime	56,373	51,139	45,747
Prime second-lien	17,073	13,718	9,522
Total U.S. production	354,929	304,347	270,507
International	23,711	19,438	11,721
Total	\$ 378,640	\$ 323,785	\$ 282,228
Principal amount by investor composition:			
Agency	43%	49%	54%
Private investor	51%	46%	41%
Owned and other	6%	5%	5%
Number of loans (in units)	2,965,048	2,769,094	2,610,905
Average loan size (\$ per loan)	\$ 129,001	\$ 117,749	\$ 107,592
Weighted average service fee (basis points)	37	38	32
Commercial:			
Principal by investor composition:			
Agency	\$ 24,560	\$ 21,061	\$ 19,363
Private investor	240,103	217,280	223,024
Owned and other	11,307	9,113	8,877
Total	\$ 275,970	\$ 247,454	\$ 251,264
Number of loans (in units)	59,994	62,065	66,478
Average loan size (\$ per loan)	\$4,599,960	\$3,987,014	\$3,779,656
Weighted average service fee (basis points)	6	6	7

Credit Risk Management

As previously discussed, we often sell mortgage loans to third parties in the secondary market subsequent to origination or purchase. While loans are held in mortgage inventory prior to sale in the secondary market, we are exposed to credit losses on the loans. In addition, we bear credit risk through investments in subordinate loan participations or other subordinated interests related to certain consumer and commercial mortgage loans sold to third parties through securitizations. Management estimates credit losses for mortgage loans held for sale and subordinate loan participations and records a valuation allowance when losses are considered probable and estimable. The valuation allowance is included as a component of the fair value and carrying amount of mortgage loans held for sale. As previously discussed, certain loans that are sold in the secondary market are subject to recourse in the event of borrower default. Management closely monitors historical experience, borrower payment activity, current economic trends and other risk factors, and establishes an allowance for foreclosure losses that it believes is sufficient to cover incurred foreclosure losses in the portfolio.

We periodically acquire or originate certain finance receivables and loans held for investment purposes. Additionally, certain loans held as collateral for securitization transactions (treated as financings) are also classified as mortgage loans held for investment. We have the intent and ability to hold these finance receivables and loans for the foreseeable future. We bear all or a material portion of the risk of credit loss on finance receivables and loans held for investment throughout the holding period. Credit risk on finance receivables and mortgage loans held for investment is managed and guided by policies and procedures that are designed to ensure that risks are accurately assessed, properly approved and continuously monitored. In particular, we use risk-based loan pricing and appropriate underwriting policies and loan-collection methods to manage credit risk. Management closely monitors historical experience, borrower payment activity, current economic trends and other risk factors, and establishes an allowance for credit losses which is considered sufficient to cover incurred credit losses in the portfolio of loans held for investment.

In addition to credit exposure on the mortgage loans held for sale and held for investment portfolios, we also bear credit risk related to investments in certain asset- and mortgage-backed securities, which are carried at estimated fair value (or at amortized cost for those classified as held to maturity) in GMAC's consolidated balance sheet. Typically, our non-investment grade and unrated asset- and mortgage-backed securities provide credit support and are subordinate to the higher-rated senior certificates in a securitization transaction. We hold a substantial portion of the first loss position associated with collateral related to securitized mortgages, collateralized debt obligations and tax-exempt bonds totaling \$15.6 billion, \$3.6 billion and \$1.1 billion, respectively, at December 31, 2005.

We are also exposed to risk of default by banks and financial institutions that are counterparties to derivative financial instruments. These counterparties are typically rated single A or above. This credit risk is managed by limiting the maximum exposure to any individual counterparty and, in some instances, holding collateral, such as cash deposited by the counterparty.

CONSUMER CREDIT

The following table summarizes the nonperforming assets in our on-balance sheet held for sale and held for investment residential mortgage loan portfolios for each of the periods presented. Nonperforming assets are nonaccrual loans, foreclosed assets and restructured loans. Mortgage loans are generally placed on nonaccrual status when they are 60 days or more past due, or when the timely collection of the principal of the loan, in whole or in part, is doubtful. Management's classification of a loan as nonaccrual does not necessarily indicate that the principal of the loan is uncollectible in whole or in part. In certain cases, borrowers make payments to bring their loans contractually current and, in all cases, our mortgage loans are collateralized by residential real estate. As a result, our experience has been that any amount of ultimate loss is substantially less than the unpaid balance of a nonperforming loan.

	Years ended December 31,	
(Dollars in millions)	2005	2004
Nonperforming loans:		
Prime conforming	\$ 10	\$ 17
Prime non-conforming	361	198
Government	—	26
Nonprime ^(a)	5,731	4,327
Prime second-lien	85	46
Total nonperforming loans	6,187	4,614
Foreclosed assets	501	456
Total nonperforming assets	\$6,688	\$5,070
As a % of total loan portfolio	9.70%	8.79%

(a) Includes \$374 and \$909 for 2005 and 2004, respectively, of loans that were purchased as distressed assets, and as such, were considered nonperforming at the time of purchase.

Credit Risk Management (continued)

The following table summarizes the delinquency information for our mortgage loans held for investment portfolio:

	December 31,			
	2005		2004	
(Dollars in millions)	Amount	Percent of Total	Amount	Percent of Total
Current	\$56,576	83.3%	\$48,815	86.3%
Past due				
30 to 59 days	4,773	7.0%	3,348	5.9%
60 to 89 days	1,528	2.2%	1,133	2.0%
90 days or more	2,258	3.3%	1,043	1.8%
Foreclosures pending	1,356	2.0%	1,280	2.3%
Bankruptcies	1,520	2.2%	984	1.7%
Total unpaid principal balances	68,011		56,603	
Net premiums	948		1,105	
Total	\$68,959		\$57,708	

Our allowance for credit losses is intended to cover management's estimate of incurred losses in the portfolio (refer to the Critical Accounting Estimates section of this MD&A and Note 1 to GMAC's consolidated financial statements in its Form 10-K for further discussion). The following table summarizes the activity related to the consumer allowance for credit losses for our Mortgage operations.

	Years ended December 31,	
	2005	2004
(Dollars in millions)		
Allowance at beginning of year	\$ 916	\$449
Provision for credit losses	574	957
Charge-offs		
Domestic	(463)	(459)
Foreign	(2)	(45)
Total charge-offs	(465)	(504)
Recoveries Domestic	37	10
Net charge-offs	(428)	(494)
Impacts of foreign currency translation	3	—
Securitization activity	—	4
Allowance at end of year	\$1,065	\$916
Allowance coverage ^(a)	1.54%	1.59%

(a) Represents the related allowance for credit losses as a percentage of total on-balance sheet residential mortgage loans.

Our Residential mortgage operations continue to experience increases in non-performing loans and delinquencies as the overall consumer mortgage portfolio continues to season. Credit seasoning of the portfolio refers to the loss pattern that occurs within a pool of mortgage loans as they age. Historical data indicates that loss events generally increase during the first two-to- three years after origination, and thereafter stabilize at a more consistent level. Credit seasoning can vary depending on a variety of factors, including the product mix within the portfolio. The growth and seasoning of the consumer mortgage portfolio is impacted by the use of securitization transactions accounted for as secured financings. Starting in 2001, we structured many of our securitization transactions as secured financings as opposed to our historical use of off-balance sheet transactions. As a result, our on-balance sheet mortgage portfolio has become more seasoned. In addition to the credit seasoning of the portfolio, the level of

non-performing loans and delinquencies has also been negatively impacted by specific accounts effected by Hurricane Katrina. During 2005, a provision of \$47 million was recorded for mortgage loans held for investment for customers impacted by Hurricane Katrina.

While underlying delinquencies and nonaccrual loans have increased, the provision for credit losses declined in 2005 as compared to the prior year as the rate of increase was less in 2005 than in 2004. In addition, the provision benefited from favorable loss severity and frequency as compared to previous estimates primarily due to the favorable impact of home price appreciation.

CREDIT CONCENTRATIONS

We originate and purchase mortgage loans that have contractual features that may increase our exposure to credit risk and thereby result in a concentration of credit risk. These mortgage loans include loans that may subject borrowers to significant future payment increases, create the potential for negative amortization of the principal balance or result in high loan-to-value ratios. These loan products include interest only mortgages, option adjustable rate mortgages, high loan-to-value mortgage loans and teaser rate mortgages. Our total loan production related to these products and our combined exposure related to these products recorded in finance receivables and loans and loans held for sale for the years ended and as of December 31, 2005 and 2004 is summarized as follows:

	Loan Production for the Year		Unpaid Principal as of December 31,	
	2005	2004	2005	2004
(Dollars in millions)				
Interest only mortgages	\$43,298	\$15,782	\$19,361	\$8,375
Option adjustable rate mortgages	5,077	6	1,114	12
High loan-to-value (100% or more) mortgages	6,610	9,473	13,364	15,076
Below market initial rate (teaser) mortgages	537	638	411	704
Mezzanine loans (characterized by high LTV, IO payments, and deferred interest)	65	216	154	142

- **Interest-only mortgages** – Allow interest-only payments for a fixed period of time. At the end of the interest-only period, the loan payment includes principal payments and increases significantly. The borrower's new payment once the loan becomes amortizing (i.e., includes principal payments) will be greater than if the borrower had been making principal payments since the origination of the loan.
- **Option adjustable rate mortgages** – Permit a variety of repayment options. The repayment options include minimum, interest-only, fully amortizing 30-year and fully amortizing 15-year payments. The minimum payment option sets the monthly payment at the initial interest rate for the first year of the loan. The interest rate resets after the first year, but the borrower can continue to make the minimum payment. The interest-only option sets the monthly payment at the amount of interest due on the loan. If the interest-only option payment would be less than the minimum payment, the interest-only option is not available to the borrower. Under the fully amortizing 30-year and 15-year payment options, the borrower's monthly payment is set based on the interest rate, loan balance and remaining loan term.
- **High loan-to-value mortgages** – Defined as first-lien loans with loan-to-value ratios in excess of 100%, or second-lien loans that when combined with the underlying first-lien mortgage loan result in a loan-to-value ratio in excess of 100%.

Credit Risk Management (continued)

- **Below market rate mortgages** – Contain contractual features that limit the initial interest rate to a below market interest rate for a specified time period with an increase to a market interest rate in a future period. The increase to the market interest rate could result in a significant increase in the borrower's monthly payment amount.
- **Mezzanine loans** – Represents a hybrid of debt and equity financing. Mezzanine financing is typically used to finance the expansion of existing companies, and it is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies.

All of the mortgage loans we originate and most of the mortgages we purchase (including the higher risk loans in the preceding table), are subject to our underwriting guidelines and loan origination standards. This includes guidelines and standards that we have tailored for these products and include a variety of factors, including the borrower's capacity to repay the loan, their credit history and the characteristics of the loan, including certain characteristics summarized in the table that may increase our credit risk. When we purchase mortgage loans from correspondent lenders, we either re-underwrite the loan prior to purchase or delegate underwriting responsibility to the correspondent originating the loan. We believe our underwriting procedures adequately consider the unique risks which may come from these products. We conduct a variety of quality control procedures and periodic audits to ensure compliance with our origination standards, including our criteria for lending and legal requirements. We leverage technology in performing both our underwriting process and our quality control procedures.

COMMERCIAL CREDIT

The primary commercial credit exposures come from our commercial mortgage operations as well as the warehouse and construction lending activities of our residential mortgage operations. Commercial mortgage loans are primarily offered through GMAC Commercial Mortgage. At GMAC Commercial Mortgage, credit risk primarily arises from direct and indirect relationships with borrowers who may default and potentially cause us to incur a loss if we are unable to collect amounts due through loss mitigation strategies. The portion of the allowance for estimated losses on commercial mortgage loans not specifically identified for impairment is based on periodic reviews and analysis of the total portfolio and considers past loan experience, the current credit composition of the total portfolio, historical credit migration, property type diversification, default and loss severity statistics and other relevant factors.

The amount of impaired loans in GMAC Commercial Mortgage's on-balance sheet held for investment and held for sale commercial loan portfolios amounted to \$144 million and \$208 million at December 31, 2005 and 2004, respectively. Interest income is not recorded on impaired loans. The reduction in impaired loans from December 31, 2004 to December 31, 2005 is the result of the resolution of certain assets in the portfolio as of December 31, 2004. Actual net charge-offs in GMAC Commercial Mortgage's on-balance sheet held for investment commercial loan portfolio remained low with \$15 million recognized in 2005 and \$1 million recognized in 2004.

Our residential mortgage operations have commercial credit exposure through warehouse and construction lending related activities. The following table summarizes the nonperforming assets and net charge-offs in GMAC Residential and GMAC-RFC on-balance sheet held for investment lending receivables portfolio for each of the periods presented. Non-performing lending receivables are nonaccrual loans, foreclosed assets and restructured loans. Lending receivables are

generally placed on nonaccrual status when they are 90 days or more past due or when timely collection of the principal of the loan, in whole or in part, is doubtful. Management's classification of a receivable as nonaccrual does not necessarily indicate that the principal amount of the loan is uncollectible in whole or in part.

	Years ended December 31,	
(Dollars in millions)	2005	2004
Nonperforming lending receivables:		
Warehouse	\$42	\$ 5
Construction	8	–
Other	17	2
Total nonperforming lending receivables	67	7
Foreclosed assets	5	8
Total nonperforming lending assets	\$72	\$15
As a % of total lending receivables portfolio	0.54%	0.16%

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
Charge-offs (recoveries)			
Lending receivables:			
Warehouse	\$1	\$ (3)	\$(16)
Construction	2	19	3
Other	4	–	8
Total net charge-offs	\$7	\$16	\$(5)

Our allowance for credit losses is intended to cover management's estimate of incurred losses in the portfolio (refer to the Critical Accounting Estimates section of this MD&A and Note 1 to GMAC's consolidated financial statements in its Form 10-K for further discussion). The allowance for credit losses of the on-balance sheet commercial mortgage loan and mortgage lending receivables portfolios was \$216 million and \$149 million at December 31, 2005 and 2004, respectively.

Results of Operations

Net income for our Mortgage operations is summarized as follows:

	Years ended December 31,	
(Dollars in millions)	2005	2004
GMAC Residential	\$ 300	\$ 275
GMAC-RFC	715	629
GMAC Commercial Mortgage	290	204
Other ^(a)	6	–
Net Income	\$1,311	\$1,108

(a) Represents certain corporate activities of ResCap, reflected in Other as described in Note 23 to GMAC's consolidated financial statements in its Form 10-K.

Our Mortgage operations earned a record \$1,352 million, excluding goodwill impairment charges of \$41 million (after-tax), an increase of 22% from the \$1,108 earned in 2004. These record results reflect increases in both residential and commercial loan production, favorable credit provision, improved mortgage servicing results and higher gains on sales of mortgages. The following describes the results of operations for each of our three mortgage reporting segments, GMAC Residential, GMAC-RFC and GMAC Commercial Mortgage.

Results of Operations (continued)

GMAC RESIDENTIAL

The following table summarizes the operating results for GMAC Residential for the periods indicated. The amounts presented are before the elimination of balances and transactions with our other operating segments.

(Dollars in millions)	Years ended December 31,			
	2005	2004	Change	%
Revenue				
Total financing revenue	\$ 712	\$ 534	\$ 178	33
Interest and discount expense	(674)	(272)	(402)	(148)
Provision for credit losses	(3)	5	(8)	(160)
Net financing revenue	35	267	(232)	(87)
Mortgage servicing fees	973	867	106	12
MSR amortization and impairment	(539)	(775)	236	30
MSR risk management activities	93	211	(118)	(56)
Net loan servicing income	527	303	224	74
Gains on sale of loans	448	492	(44)	(9)
Other income	933	662	271	41
Noninterest expense	(1,421)	(1,223)	(198)	(16)
Income tax expense	(222)	(226)	4	2
Net income	\$ 300	\$ 275	\$ 25	9
Investment securities	\$ 3,187	\$ 1,735	\$ 1,452	84
Loans held for sale	7,425	6,520	905	14
Loans held for investment, net	7,641	2,372	5,269	222
Mortgage servicing rights, net	3,056	2,683	373	14
Other assets	1,960	1,925	35	2
Total assets	\$23,269	\$15,235	\$8,034	53

GMAC Residential earned \$300 million, representing an increase over the \$275 million earned in the prior year. GMAC Residential's earnings benefited from improved servicing results and higher origination volumes despite increased funding costs and lower industry margins. Production increased despite a relatively flat U.S. residential mortgage market as GMAC Residential continued to increase market share in the U.S.

Total financing revenue increased due to higher asset levels (primarily loans held for investment) as GMAC Residential continued to expand the use of GMAC Bank. The increases in total financing revenue was more than offset by increases in short-term interest rates and the resulting increase in interest and discount expense. Despite increases in loan production volume, GMAC Residential experienced a decline in gains on sale of loans reflecting the impact of lower industry pricing margins.

Net servicing results were favorable as a result of increased mortgage servicing fees due to growth in GMAC Residential's servicing portfolio in 2005 as compared to 2004. In addition, net servicing income benefited from a reduction in amortization and impairment due to the favorable impact of slower than expected prepayments consistent with observed trends in the portfolio and rising interest rates.

The increase in other income at GMAC Residential relates to interest earned on investments in U.S. Treasury securities, which we utilize as economic hedges for our mortgage servicing rights asset. Noninterest expense was higher as compared to the prior year primarily due to an increase in salaries and commissions related to an increase in loan production and employees and occupancy costs due to opening new locations.

GMAC-RFC

The following table summarizes the operating results for GMAC-RFC for the periods indicated. The amounts presented are before the elimination of balances and transactions with our other operating segments.

(Dollars in millions)	Years ended December 31,			
	2005	2004	Change	%
Revenue				
Total financing revenue	\$ 4,514	\$ 4,300	\$ 214	5
Interest and discount expense	(3,185)	(2,133)	(1,052)	(49)
Provision for credit losses	(623)	(983)	360	37
Net financing revenue	706	1,184	(478)	(40)
Mortgage servicing fees	446	429	17	4
MSR amortization and impairment	(223)	(240)	17	7
MSR risk management activities	(33)	31	(64)	(206)
Net loan servicing income	190	220	(30)	(14)
Gains on sale of loans	588	198	390	197
Other income	795	552	243	44
Noninterest expense	(1,183)	(1,148)	(35)	(3)
Income tax expense	(381)	(377)	(4)	(1)
Net income	\$ 715	\$ 629	\$ 86	14
Investment securities	\$ 1,782	\$ 2,229	(447)	(20)
Loans held for sale	12,135	7,496	4,639	62
Loans held for investment, net	73,653	63,779	9,874	15
Mortgage servicing rights, net	959	683	276	40
Other assets	5,143	4,519	624	14
Total assets	\$93,672	\$78,706	\$14,966	19

GMAC-RFC earned \$715 million in 2005, representing an increase from the \$629 million earned in 2004. Valuation gains on the investment portfolio, favorable trends in credit loss provisions and higher gains on sales of loans mitigated the negative impacts of lower net interest margins and losses related to Hurricane Katrina.

GMAC-RFC's results were negatively impacted by an increase in interest and discount expense as a result of an increase in short-term interest rates. However, the increase in interest and discount expense was partially offset by a favorable change in the provision for credit losses. The lower provision for loan loss is primarily due to favorable loss severity and frequency of loss as compared to previous estimates primarily resulting from the effects of home price appreciation. Additionally, despite higher delinquency and non-accrual balances in 2005 when compared to 2004, the rate of increase in delinquency and non-accrual balances during 2005 has slowed from the prior year which results in a lower provision expense. Finally, we repurchased significantly fewer loans from gain-on-sale securitization transactions due to credit performance in 2005 when compared to 2004 resulting in lower provision requirements for these loans. These positive impacts on the provision for credit losses were partially offset by the higher provision required for Hurricane Katrina.

Net loan servicing income remained relatively flat as the favorable impact of higher mortgage servicing fees and lower MSR amortization and impairment was offset slightly by negative hedging results. The increase in gains on sales of loans at GMAC-RFC is due to higher overall loan production and the increased volume of off-balance sheet securitizations versus on-balance sheet secured financings. The increase in other income in 2005 is primarily related to the favorable net impact on the valuation of retained interests from updating estimates of future credit losses resulting from favorable credit loss experience and favorable changes in market rates, offset by the reduction in valuation of residual assets affected by Hurricane Katrina. In addition, other income includes an increase in other investment income, primarily related to certain equity investments.

Results of Operations (continued)

GMAC COMMERCIAL MORTGAGE

The following table summarizes the operating results for GMAC Commercial Mortgage for the periods indicated. The amounts presented are before the elimination of balances and transactions with our other operating segments.

	Years ended December 31,			
(Dollars in millions)	2005	2004	Change	%
Revenue				
Total financing revenue	\$ 710	\$ 461	\$ 249	54
Interest and discount expense	(598)	(377)	(221)	(59)
Provision for credit losses	(40)	—	(40)	—
Net financing revenue	72	84	(12)	(14)
Mortgage servicing fees	195	196	(1)	—
MSR amortization	(108)	(97)	(11)	(11)
Net loan servicing income	87	99	(12)	(12)
Gains on sale of loans	164	98	66	67
Other income	1,032	817	215	26
Noninterest expense	(894)	(823)	(71)	(9)
Goodwill impairment	(64)	—	(64)	—
Income tax expense	(107)	(71)	(36)	(51)
Net income	\$ 290	\$ 204	\$ 86	42
Investment securities	\$ 2,295	\$ 2,119	\$ 176	8
Loans held for sale	9,019	5,918	3,101	52
Loans held for investment, net	2,990	3,776	(786)	(21)
Mortgage servicing rights, net	632	524	108	21
Other assets	4,094	3,333	761	23
Total assets	\$19,030	\$15,670	\$3,360	21

GMAC Commercial Mortgage earned \$290 million in 2005, up from the \$204 million in net income in 2004. Higher earnings resulted from record loan production and higher asset levels and were achieved despite goodwill impairment charges of \$41 million (after-tax).

Net financing revenue was \$72 million, down slightly from \$84 million in 2004. Increases in loan production and asset levels resulted in higher financing revenue which was offset by higher interest expense and higher provision for credit losses. The increase in credit loss provision was due to specific reserves taken on certain impaired loans.

The increase in gains on sales of loans was primarily due to negative credit-related adjustments recognized in 2004. Other income was favorably impacted by higher gains on certain real estate equity investment sales in 2005, as well as higher investment income and mortgage processing fees. Goodwill charges related to impairment at our affordable housing partnership business. Noninterest expenses also increased primarily due to a higher level of compensation expense.

Insurance Operations

Industry and Competition

We operate in a highly competitive environment and face significant competition from insurance carriers, reinsurers, third-party administrators, brokers and other insurance-related companies. Competitors in the property and casualty markets in which we operate consist of large multiline companies and smaller specialty carriers. Our competitors sell directly to customers through the mail or the internet, or use agency sales forces. None of the companies in this market, including us, holds a dominant overall position in these markets.

Through our insurance operations, we provide automobile and homeowners insurance, automobile mechanical protection, reinsurance and commercial insurance. We primarily operate in the United States; however, we also have operations in the United Kingdom, Canada, Mexico, Europe and Latin America.

Factors affecting our personal lines business include overall demographic trends that impact the volume of vehicle owners requiring insurance policies, as well as claims behavior. Since the business is highly regulated in the U.S. by state insurance agencies and primarily by national regulators outside the U.S. differentiation is largely a function of price and service quality. In addition to pricing policies, profitability is a function of claims costs as well as investment income. Although the industry does not experience seasonal trends, it can be negatively impacted by extraordinary weather conditions that can affect frequency and severity of automobile claims.

The Insurance Operations are subject to market pressures which can result in price erosion in personal auto and commercial insurance. In addition, future performance can be impacted by extraordinary weather that can affect frequency and severity of automobile and other contract claims.

While we expect that contract volumes will grow, we are unable to predict if market pricing pressures will not adversely impact future performance.

Our automotive extended service contract business is dependent on new vehicle sales and market penetration.

On January 4, 2006, our Insurance operations purchased MEEMIC Insurance Company, a Michigan-based seller of automotive and homeowner's insurance to educators, for \$325 million. This acquisition was completed for several strategic reasons, including:

- opportunity to leverage MEEMIC's business model in other states.
- provide access to a successful, hybrid affinity-tailored distribution mechanism that we can leverage with our existing affinity groups.

We believe that this acquisition will be complementary to our existing Insurance operations.

Extended Service Contracts

We are a leading provider of automotive extended service contracts with mechanical breakdown and maintenance coverages. Our automotive extended service contracts offer vehicle owners and lessees mechanical repair protection and roadside assistance for new and used vehicles beyond the manufacturer's new vehicle warranty. These extended service contracts are marketed through automobile dealerships, on a direct response basis and through independent agents in the U.S. and Canada. The extended service contracts cover virtually all vehicle makes and models; however, our flagship extended service contract product is the General Motors Protection Plan. A significant portion of our overall vehicle service contracts is through the General Motors Protection Plan and cover vehicles manufactured by General Motors and its subsidiaries.

Other Consumer Products

We underwrite and market nonstandard, standard and preferred risk physical damage and liability insurance coverages for passenger automobiles, motorcycles, recreational vehicles and commercial automobiles through independent agency, direct response and internet channels. Additionally, we market private-label insurance through a long-term agency relationship with Homesite Insurance, a national provider of home insurance products. We currently operate in 48 states and the District of Columbia in the United States, with a significant amount of our business written in California, Florida, Michigan, New York and North Carolina.

As of December 31, 2005, we had approximately 1.7 million personal lines policy holders. Our personal lines policies are offered on a direct response basis through affinity groups, worksite programs, the internet and through an extensive network of independent agencies. As an example, a significant number (approximately 420,000 as of December 31, 2005) of our policyholders are GM or GM-related persons. Through our relationship with GM, we utilize direct response and internet channels to reach GM's current employees and retirees, as well as their families and GM dealers and suppliers and their families. We have similar programs that utilize relationships with affinity groups. In addition, we reach a broader market of customers through independent agents and internet channels.

Other Consumer Products *(continued)*

While we underwrite most of the personal lines products we offer, we do not underwrite the homeowners insurance offered through the GMAC Insurance Homeowners Program. The GMAC Insurance Homeowners Program was formed in 2000 through a long-term agency relationship between GMAC Insurance and Homesite Insurance, a national provider of home insurance products. The relationship provides for Homesite Insurance to be the exclusive underwriter of homeowners insurance for our direct auto and home insurance customer base, with Homesite Insurance assuming all underwriting risk and administration responsibilities. We receive a commission based on the policies written through this program.

ABA Seguros, one of Mexico's largest automobile insurers is a subsidiary of GMAC Insurance. ABA Seguros underwrites personal automobile insurance and certain commercial business coverages exclusively in Mexico. In Europe, selected motor insurance risks are assumed by us through programs with Vauxhall, Opel and SAAB vehicle owner relationships. We also sell auto insurance in Ontario and Quebec, Canada.

Our other products include Guaranteed Asset Protection (GAP) Insurance, which allows the recovery of a specified economic loss beyond the insured value. Internationally, our U.K. based Car Care Plan subsidiary sells GAP products and provides automotive extended service contracts to customers via direct and dealer distribution channels, and is a leader in the extended service contract market in Europe. Car Care Plan also operates in Mexico, Brazil and Australia.

Commercial Products

We provide commercial insurance, primarily covering dealers' wholesale vehicle inventory, and reinsurance products. Internationally, ABA Seguros provides certain commercial business insurance exclusively in Mexico.

We are a market leader with respect to wholesale vehicle inventory insurance. Our wholesale vehicle inventory insurance provides physical damage protection for dealers' floorplan vehicles. It includes coverage for both GMAC and non-GMAC financed inventory and is available in the U.S. to virtually all new car franchise dealerships.

We also conduct reinsurance operations primarily in the United States market through our subsidiary, GMAC RE, which underwrites diverse property and casualty risks. Reinsurance coverage is primarily insurance for insurance companies, designed to stabilize their results, protect against unforeseen events and facilitate business growth. We primarily provide reinsurance through broker treaties and direct treaties with other insurers, but we also provide facultative reinsurance. Facultative reinsurance allows the reinsured party the option of submitting individual risks and allows the reinsurer the option of accepting or declining individual risks.

Underwriting and Risk Management

We determine the premium rates for our insurance policies and pricing for our extended service contracts based upon an analysis of expected losses using historical experience and anticipated future trends. For example, in pricing our extended service contracts, we make assumptions as to the price of replacement parts and repair labor rates in the future.

In underwriting our insurance policies and extended service contracts, we assess the particular risk involved and determine the acceptability of the risk as well as the categorization of the risk for appropriate pricing. We base our determination of the risk on various assumptions, including, with respect to extended service contracts, assumptions regarding the quality of the vehicles produced and new model introductions.

In some instances, ceded reinsurance is used to reduce the risk associated with volatile businesses such as catastrophe risk in United States dealer floor plan businesses or smaller businesses such as Canadian automobile or European dealer floor plan insurance. In 2005, we ceded approximately 11% of our personal lines insurance premiums to government managed pools of risk.

Our personal lines business is covered by traditional catastrophe protection, aggregate stop loss protection and an extension of catastrophe coverage for hurricane events. In addition, loss control techniques such as hail nets or monitoring storm paths to assist dealers in preparing for severe weather help to mitigate loss potential.

We mitigate losses by the active management of claim settlement activities using experienced claims personnel and the evaluation of current period reported claims. Losses for these events may be compared to prior claims experience, expected claims or loss expenses from similar incidents to assess the reasonableness of incurred losses.

Loss Reserves

In accordance with industry and accounting practices and applicable insurance laws and regulatory requirements, we maintain reserves for both reported losses and losses incurred but not reported, as well as loss adjustment expenses. These reserves are based on various estimates and assumptions and are maintained both for business written on a current basis and policies written and fully earned in prior years, to the extent that there continues to be outstanding and open claims in the process of resolution (refer to the Critical Accounting Estimates section of this MD&A and Note 1 to GMAC's consolidated financial statements in its Form 10-K for further discussion). The estimated values of our prior reported loss reserves and changes to the estimated values are routinely monitored by credentialed actuaries. Our reserve estimates are regularly reviewed by management. However, since this analysis requires a high degree of judgment, the ultimate liability may differ from the amount estimated.

Regulatory Matters

As previously disclosed on a Form 8-K filed October 27, 2005, SEC and federal grand jury subpoenas have been served on our entities in connections with industry-wide investigations into practices in the insurance industry relating to loss mitigation insurance products such as finite risk insurance. We are cooperating with the investigation.

Investments

A significant aspect of our insurance operations is the investment of proceeds from premiums and other revenue sources. We will use these investments to satisfy our obligations with respect to future claims at the time such claims are settled. Investment securities are classified as available for sale and carried at fair value. Holding period losses on investment securities that are considered by management to be other than temporary are recognized in earnings, through a write-down in the carrying value to the current fair value of the investment. Unrealized gains or losses (excluding other than temporary impairments) are included in other comprehensive income, a component of shareholder's equity. Fair value of fixed income and equity securities is based upon quoted market prices where available.

Our Insurance operations have a Finance Committee, which develops guidelines and strategies for these investments. The guidelines established by this finance committee reflect our risk tolerance, liquidity requirements, regulatory requirements and rating agencies considerations, among other factors. Our investment portfolio is managed by General Motors Asset Management (GMAM). GMAM directly manages certain portions of our insurance investment portfolio and selects, oversees and evaluates specialty asset managers in other areas.

As of December 31, 2005, we had a total insurance investment portfolio with a market value of \$7,663 million. Approximately \$5,301 million of this amount was invested in fixed income securities and approximately \$2,362 of this amount was invested in equity securities.

Financial Strength Ratings

Substantially all of our U.S. insurance operations have a Financial Strength Rating (FSR) and an Issuer Credit Rating (ICR) from A. M. Best Company. The FSR is intended to be an indicator of the ability of the insurance company to meet its senior most obligations to Policyholders. Lower ratings generally result in fewer opportunities to write business as insureds, particularly large commercial insureds and insurance companies purchasing reinsurance, have guidelines requiring high FSR ratings.

On May 10, 2005, A. M. Best downgraded the FSR of our U.S. insurance companies to A- and revised the outlook to negative and on October 14, 2005, indicated the rating was under review with negative implications. These latest actions are a result of concerns over the financial strength of GM and the possible sale of a controlling interest in us to a strategic partner.

Results of Operations

The following table summarizes the operating results of GMAC Insurance for the periods indicated. The amounts presented are before the elimination of balances and transactions with our other operating segments.

(Dollars in millions)	Years ended December 31,			
	2005	2004	Change	%
Revenue				
Insurance premiums and service revenue earned	\$ 3,729	\$ 3,502	\$227	6
Investment income	408	345	63	18
Other income	122	136	(14)	(10)
Total revenue	4,259	3,983	276	7
Insurance losses and loss adjustment expenses	(2,355)	(2,371)	16	1
Acquisition and underwriting expense	(1,186)	(1,043)	(143)	(14)
Premium tax and other expense	(86)	(83)	(3)	(4)
Income before income taxes	632	486	146	30
Income tax expense	(215)	(157)	(58)	(37)
Net income	\$ 417	\$ 329	\$ 88	27
Total assets	\$12,624	\$11,744	\$880	7
Insurance premiums and service revenue written	\$ 4,039	\$ 3,956	\$ 83	2
Combined ratio^(a)	93.6%	95.7%		

(a) Management uses combined ratio as a primary measure of underwriting profitability, with its components measured using accounting principles generally accepted in the United States of America. Underwriting profitability is indicated by a combined ratio under 100% and is calculated as the sum of all reported losses and expenses (excluding interest and income tax expense) divided by the total of premiums and service revenues earned and other income.

Our Insurance operations generated record net income of \$417 million in 2005, up \$88 million or 27% over the previous record earnings in 2004 of \$329 million. The higher net income is evidenced by a decrease in the combined ratio to 93.6% from the prior year of 95.7%, primarily driven by lower incurred losses. The increase reflects a combination of strong results achieved through increased premium revenue, higher capital gains and improved investment portfolio performance. The favorable impact of these items during 2005 was partially mitigated by increased acquisition and underwriting expenses and higher income taxes, commensurate with increased volumes and revenues.

The 6% increase over the prior year insurance premiums and service revenue earned was driven by business growth across our major product lines (domestic and international). Our personal lines operations experienced higher volumes in a highly competitive market, partly driven by the acquisition of several fleet contracts in Mexico. In addition, automotive extended service contracts experienced volume growth, with strong growth outside of the traditional General Motors Protection Plan. Increased earnings were also driven by multi-year extended service contracts and the GAP product written in prior years entering higher earning rate periods. This was partially offset by lower revenues for the auto dealer physical damage product due to lower dealer inventories.

The increase in investment income was attributable to higher interest and dividends from a larger portfolio balance through the majority of the year, as well as a higher yield on the fixed income portfolio. In addition, a higher amount of capital gains was realized in comparison to 2004. Certain securities were liquidated in December 2005 in anticipation of the acquisition of MEEIC Insurance Company, completed on January 4, 2006 with a purchase price of \$325 million (refer to Note 25 to GMAC's consolidated financial statements in its Form 10-K).

Critical Accounting Estimates

Accounting policies are integral to understanding our Management's Discussion and Analysis of Financial Condition and Results of Operations. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make certain judgments and assumptions, based on information available at the time of the financial statements in determining accounting estimates used in the preparation of such statements. Our significant accounting policies are described in Note 1 to GMAC's consolidated financial statements in its Form 10-K; critical accounting estimates are described in this section. Accounting estimates are considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the accounting estimate was made and if different estimates reasonably could have been used in the reporting period, or changes in the accounting estimate are reasonably likely to occur from period to period that would have a material impact on our financial condition, results of operations, or cash flows. Our management has discussed the development, selection and disclosure of these critical accounting estimates with the Management Audit Committee of the Board of Directors and the Management Audit Committee has reviewed our disclosure relating to these estimates.

Determination of the Allowance for Credit Losses

The allowance for credit losses is management's estimate of incurred losses in our consumer and commercial finance receivable and loan portfolios held for investment. Management periodically performs detailed reviews of these portfolios to determine if impairment has occurred and to assess the adequacy of the allowance for credit losses, based on historical and current trends and other factors affecting credit losses. Additions to the allowance for credit losses are charged to current period earnings through the provision for credit losses; amounts determined to be uncollectible are charged directly against the allowance for credit losses, while amounts recovered on previously charged-off accounts increase the allowance. Determination of the allowance for credit losses requires management to exercise significant judgment about the timing, frequency and severity of credit losses which could materially affect the provision for credit losses and, therefore, net income. The methodology for determining the amount of the allowance differs for consumer and commercial portfolios.

The consumer portfolios consist of smaller-balance, homogeneous contracts and loans, divided into two broad categories – automotive retail contracts and residential mortgage loans. Each of these portfolios is further divided by our

Determination of the Allowance for Credit Losses *(continued)*

business units into several pools (based on contract type, underlying collateral, geographic location, etc.), which are collectively evaluated for impairment. Due to the homogenous nature of the portfolios, the allowance for credit losses is based on the aggregated characteristics of the portfolio. The allowance for credit losses is established through a process that begins with estimates of incurred losses in each pool based upon various statistical analyses, including migration analysis, in which historical loss experience believed by management to be indicative of the current environment is applied to the portfolio to estimate incurred losses. In addition, management considers the overall portfolio size and other portfolio indicators (i.e., delinquencies, portfolio credit quality, etc.) as well as general economic and business trends that management believes are relevant to estimating incurred losses.

The commercial loan portfolio is comprised of larger-balance, non-homogeneous exposures within both our Financing and Mortgage operations. These loans are evaluated individually and are risk-rated based upon borrower, collateral and industry-specific information that management believes is relevant to determining the occurrence of a loss event and measuring impairment. Management establishes specific allowances for commercial loans determined to be individually impaired. The allowance for credit losses is estimated by management based upon the borrower's overall financial condition, financial resources, payment history, and, when applicable, the estimated realizable value of any collateral. In addition to the specific allowances for impaired loans, we maintain allowances that are based on a collective evaluation for impairment of certain commercial portfolios. These allowances are based on historical loss experience, concentrations, current economic conditions and performance trends within specific geographic and portfolio segments.

The determination of the allowance for credit losses is influenced by numerous assumptions. The critical assumptions underlying the allowance for credit losses include: (1) segmentation of loan pools based on common risk characteristics, (2) identification and estimation of portfolio indicators and other factors that management believes are key to estimating incurred credit losses, and (3) evaluation by management of borrower, collateral and geographic information. Management monitors the adequacy of the allowance for credit losses and makes adjustments as the assumptions in the underlying analyses change to reflect an estimate of incurred credit losses as of the reporting date, based upon the best information available at that time.

Management has consistently applied the estimation methodologies discussed herein for each of the three years in the period ended December 31, 2005. At December 31, 2005, the allowance for credit losses was \$3.1 billion compared to \$3.4 billion at December 31, 2004. The provision for credit losses was \$1.1 billion for the year ended December 31, 2005, as compared to \$2.0 billion for 2004 and \$1.7 billion for 2003. Our allowance for credit losses and the provision for credit losses decreased primarily due to a decrease in finance receivables and loans as a result of an increase in whole loan sales, improved loss performance on our consumer portfolio and improved performance on the non-automotive commercial portfolio at our Financing operations.

The \$3.1 billion allowance established for credit losses as of December 31, 2005, represents management's estimate of incurred credit losses in the portfolios based on assumptions management believes are reasonably likely to occur. However, since this analysis involves a high degree of judgment, the actual level of credit losses will vary depending on actual experiences in relation to these assumptions. Accordingly, management estimates a range of reasonably possible incurred credit losses within the consumer and commercial portfolios. Management maintains an allowance for credit losses that it believes represents the best estimate of the most likely outcome within that range.

Valuation of Automotive Lease Residuals

Our Financing operations have significant investments in vehicles in our operating lease portfolio. In accounting for operating leases, management must make a determination at the beginning of the lease of the estimated realizable value (i.e., residual value) of the vehicle at the end of the lease. Residual value represents an estimate of the market value of the vehicle at the end of the lease term, which typically ranges from two to four years. We establish residual values at contract inception by using independently published residual values (as further described in the Lease Residual Risk discussion within the Financing operations section of this MD&A). The customer is obligated to make payments during the term of the lease down to contract residual. However, since the customer is not obligated to purchase the vehicle at the end of the contract, we are exposed to a risk of loss to the extent that the value of the vehicle is below the residual value estimated at contract inception. Management periodically performs a detailed review of the estimated realizable value of leased vehicles to assess the appropriateness of the carrying value of lease assets.

To account for residual risk, we depreciate automotive operating lease assets to estimated realizable value at the end of the lease on a straight-line basis over the lease term. The estimated realizable value is initially based on the residual value established at contract inception. Over the life of the lease, management evaluates the adequacy of the estimate of the realizable value and may make adjustments to the extent the expected value of the vehicle at lease termination changes. Any such adjustments would result in a change in the depreciation rate of the lease asset, thereby impacting the carrying value of the operating lease asset. Overall business conditions (including the used vehicle market), our remarketing abilities and GM's vehicle and marketing programs may cause management to adjust initial residual projections (as further described in the Lease Residual Risk Management discussion in the Financing operations section of this MD&A). In addition to estimating the residual value at lease termination, we must also evaluate the current value of the operating lease assets and test for the impairment to the extent necessary in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). Impairment is determined to exist if the undiscounted expected future cash flows (including the expected residual value) are lower than the carrying value of the asset.

Our depreciation methodology on operating lease assets considers management's expectation of the value of the vehicles upon lease termination, which is based on numerous assumptions and factors influencing used automotive vehicle values. The critical assumptions underlying the estimated carrying value of automotive lease assets include: (1) estimated market value information obtained and used by management in estimating residual values, (2) proper identification and estimation of business conditions, (3) our remarketing abilities, and (4) GM's vehicle and marketing programs. Changes in these assumptions could have a significant impact on the value of the lease residuals. For example, a change in the estimated realizable value of 1% on the U.S. operating lease portfolio could result in a cumulative after-tax earnings impact of \$41 million as of December 31, 2005, to be recognized over the remaining term of the lease portfolio. This example does not reflect the myriad of the variables and the impact caused through their interaction, but provides an indication of the magnitude that assumption changes can have on our operating results.

Management has consistently applied the estimation methodology described herein for each of the three years in the period ended December 31, 2005. Our net investment in operating leases totaled \$31.2 billion (net of accumulated depreciation of \$8.2 billion) at December 31, 2005, as compared to \$26.1 billion (net of accumulated depreciation of \$7.3 billion) at December 31, 2004. Depreciation expense for the year ended December 31, 2005, was \$5.2 billion, as compared to \$4.8 billion for 2004 and 2003. During the year, we did not make any material adjustments to the assumptions underlying the automotive

Valuation of Automotive Lease Residuals *(continued)*

operating lease depreciation methodology. The average per unit net sales proceeds on the sale of scheduled off-lease vehicles on 36-month leases in the United States increased to \$14,392 for the year ended December 31, 2005, from \$14,182 in 2004, and \$13,313 in 2003. The improvement in remarketing performance is the result of a decline in the supply of off-lease vehicles and the fact that the underlying contractual residual values (on the current portfolio) were lower than the residual values on prior years' volume (further described in the Lease Residual Risk Management discussion in the Financing operations section of this MD&A).

Valuation of Mortgage Servicing Rights

Mortgage servicing rights represent the capitalized value associated with the right to receive future cash flows in connection with the servicing of mortgage loans. Mortgage servicing rights constitute a significant source of value derived from originating or acquiring mortgage loans. Because residential mortgage loans typically contain a prepayment option, borrowers often elect to prepay their mortgages, refinancing at lower rates during declining interest rate environments. When this occurs, the stream of cash flows generated from servicing is terminated. As such, the market value of residential mortgage servicing rights is very sensitive to changes in interest rates, and tends to decline as market interest rates decline and increase as interest rates rise. Commercial mortgage loans typically restrict prepayment or contain prepayment penalties; therefore, prepayment activity is minimal. As such, commercial mortgage servicing rights are not dependent on prepayment assumptions and are generally not interest rate sensitive. We do not consider commercial mortgage servicing rights valuation a critical accounting estimate and therefore, the following discussion will focus on residential mortgage servicing rights.

We capitalize originated mortgage servicing rights based upon the relative fair market value of the servicing rights inherent in the underlying mortgage loans at the time the loans are sold or securitized. Purchased mortgage servicing rights are capitalized at cost (which approximates the fair market value of such assets) and assumed mortgage servicing rights are recorded at fair market value as of the date the servicing obligation is assumed. The carrying value of mortgage servicing rights is dependent upon whether the asset is hedged or not. Mortgage servicing rights that are hedged with derivatives which receive hedge accounting treatment, as prescribed by Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133), are carried at fair value. Changes in fair value are recognized in current period earnings, generally offset by changes in the fair value of the underlying derivative, if the changes in the value of the asset and derivative are highly correlated. The majority of our mortgage servicing rights are hedged as part of our risk management program. Mortgage servicing rights that are not hedged are carried at the lower of cost or fair value.

Accounting principles generally accepted in the United States of America require that the value of mortgage servicing rights be determined based upon market transactions for comparable servicing assets, or in the absence of representative trade information, based upon other available market evidence and modeled market expectations of the present value of future estimated net cash flows that market participants would expect to be derived from servicing. When benchmark transaction data is not available, management relies on estimates of the timing and magnitude of cash inflows and outflows to derive an expected net cash flow stream, and then discounts this stream using an appropriate market discount rate. Servicing cash flows primarily include servicing fees, float income and late fees, less operating costs to service the loans. Cash flows are derived based on internal operating assumptions which management believes would be used by market participants, combined with market-based assumptions

for loan prepayment rates, interest rates, required yields and discount rates. Management considers the best available information and exercises significant judgment in estimating and assuming values for key variables in the modeling and discounting process.

Our approach to estimating the fair value of mortgage servicing rights relies upon internal operating assumptions that we believe market participants would use, such as our specific cost to service a loan and other related cash flows, combined with market-based assumptions for interest rates, discount rates, anticipated yields and loan prepayment speed. Key assumptions utilized in the valuation approach are described as follows:

- **Prepayments** – The most significant driver of mortgage servicing rights value is actual and anticipated portfolio prepayment behavior. Prepayment speed represents the rate at which borrowers repay the mortgage loans prior to scheduled maturity. When mortgage loans are paid or expected to be paid sooner than originally estimated, the expected future cash flows associated with servicing the loans are reduced. Our models project residential mortgage loan payoffs using prepayment models developed by third-party vendors and measures model performance by comparing prepayment predictions against actual portfolio prepayments for the entire portfolio and by product type.
- **Discount rate** – In computing the fair value of mortgage servicing rights, the cash flows are discounted at an appropriate risk adjusted rate. We generally establish a discount rate on the basis of an appropriate option adjusted spread margin by evaluating the leverage-adjusted spread needed to generate an acceptable return on the mortgage servicing rights asset. The option adjusted spread margin is added to a cost of funds assumption to derive the asset yield. This is similar in nature to deriving a discount rate assumption based upon a required risk premium added to a risk-free rate.
- **Base mortgage rate** – The base mortgage rate is intended to represent the current market rate for originated mortgage loans. It is a key component in estimating prepayment speeds because the difference between the current base mortgage rate and the borrower's loan rate is an indication of an individual borrower's incentive (i.e., likelihood) to refinance. The base mortgage rate assumption is developed separately for each product based on an analysis of the relationship between the risk-free interest rate and mortgage rates over time.
- **Cost to service** – The cost to service is the expected annual expense required by a market participant to service the loans in the portfolio. In general, cost to service assumptions are derived by dividing the sum of all expenses related to servicing loans by the number of loans serviced. The assumptions used to estimate cost to service include all default-related costs such as foreclosure, delinquency, loss mitigation and bankruptcy costs.
- **Volatility** – The volatility assumption utilized in the valuation model is intended to place a band around the potential interest rate movements from one period to the next. In order to perform the valuation, an implied volatility assumption for the mortgage servicing rights is used. Implied volatility is defined as the expected volatility implied from the prices at which options on interest rate swaps, or swaptions, are trading. The volatility assumption is updated monthly for the change in implied swaption volatility during the period, adjusted by the ratio of historical mortgage to swaption volatility.

To ensure that our mortgage servicing rights valuation process results in a fair value that approximates fair values assumed by other market participants in accordance with GAAP, we consider available market and third-party data in arriving at our final estimate of value. We periodically perform a series of reasonableness tests as management deems appropriate, including the following:
- At a detailed level, reconciliation of actual monthly cash flows to those projected in the mortgage servicing rights valuation. Based upon the results of this reconciliation, we assess the need to modify the individual assumptions used in the monthly valuation. For 2005 actual servicing cash flows differed from modeled cash flows by an immaterial amount.

Valuation of Mortgage Servicing Rights (continued)

- Comparison of forecast operations results for the next twelve month period to net income projected per the discounted cash flow forecast.
- Review and comparison of recent bulk acquisition activity. Market trades are evaluated for reliability and relevancy and then considered, as appropriate, by evaluating our estimate of fair value of each significant deal to the traded price. Currently, there is a lack of comparable transactions between willing buyers and sellers in the bulk acquisition market, which are the best indicators of fair value. However, management continues to monitor and track market activity on an ongoing basis.
- Review and comparison of recent flow servicing trades. As with bulk servicing trades, there are distinct reasons why fair values of flow market transactions will differ from our fair value estimate. Some reasons include age/seasoning of product, perceived profit margin/discount assumed by aggregators, economy of scale benefits and cross-sell benefits. However, management continues to monitor and track market activity on an ongoing basis.
- Comparison of our fair value price/multiples to peer fair value price/multiples quoted in external surveys produced by third parties.

We generally expect our valuation to be within a reasonable range of that implied by each reasonableness test. In the event that management deems the valuation has exceeded these reasonableness tests, we may adjust the mortgage servicing rights valuation accordingly. Mortgage servicing rights are included as an asset in GMAC's consolidated balance sheet, with changes in the estimated fair value of mortgage servicing rights included as a component of Mortgage banking income in GMAC's consolidated statement of income. At December 31, 2005, we had \$4.6 billion outstanding in mortgage servicing rights, including \$0.6 billion at GMAC Commercial Mortgage, as compared to \$3.9 billion at December 31, 2004. Amortization and impairment of \$0.9 billion, \$1.1 billion, and \$2.0 billion were recognized in 2005, 2004 and 2003, respectively. The decrease in amortization and impairment is the result of an increase in market interest rates in 2005, as compared to the volatile interest rate environment in 2004, resulting in a decrease in actual and expected prepayments.

We evaluate mortgage servicing rights for impairment by stratifying our portfolio on the basis of the predominant risk characteristics (loan type and interest rate). To the extent that the carrying value of an individual stratum exceeds its estimated fair value, the mortgage servicing rights asset is considered to be impaired. Impairment that is considered to be temporary is recognized through the establishment of (or an increase in) a valuation allowance, with a corresponding unfavorable effect on earnings. If it is later determined that all or a portion of the temporary impairment no longer exists for a particular stratum, the valuation allowance is reduced, with a favorable effect on earnings.

We perform an evaluation of the mortgage servicing rights asset to determine the amount of the valuation allowance unlikely to be recovered through future interest rate increases. Based on the results of these evaluations, we recognized other than temporary impairment on the mortgage servicing rights asset of \$55 million in 2005. This amount was based on a statistical analysis of historical changes in mortgage and other market interest rates to determine the amount of mortgage servicing rights asset value increase with only a remote probability of occurring. The \$55 million in other than temporary impairment was reflected by a reduction in both the gross carrying value of the mortgage servicing rights asset and the corresponding valuation allowance. The reduction to the valuation allowance related to the other than temporary impairment reduces the maximum potential future increase to the mortgage servicing rights carrying value (under lower of cost or market accounting). However, the recognition of other than temporary impairment has no impact on the net carrying value of the asset or on earnings.

The assumptions used in modeling expected future cash flows of mortgage servicing rights have a significant impact on the fair value of mortgage servicing rights and potentially a corresponding impact to earnings. For example, a 10% increase in the constant prepayment assumptions would have negatively impacted the fair value of the residential mortgage servicing rights asset by \$183 million or approximately 5% as of December 31, 2005. This sensitivity is hypothetical and is designed to highlight the magnitude a change in assumptions could have. The calculation assumes that a change in the constant prepayment assumption would not impact other modeling assumptions. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. In addition, the factors that may cause a change in the prepayment assumption may also positively or negatively impact other areas (i.e., decreasing interest rates while increasing prepayments would likely have a positive impact on mortgage loan production volume and gains recognized on the sale of mortgage loans).

At December 31, 2005, based upon the market information obtained, we determined that our mortgage servicing rights valuations and assumptions were reasonable and consistent with what an independent market participant would use to value the asset.

Valuation of Interests in Securitized Assets

When we securitize automotive retail contracts, wholesale finance receivables, mortgage loans and mortgage-backed securities, we typically retain an interest in the sold assets. These interests may take the form of asset- and mortgage-backed securities (including senior and subordinated interests), interest-only, principal-only, investment grade, non-investment grade, or unrated securities. We retain an interest in these transactions to provide a form of credit enhancement for the more highly rated securities, or because it is more economical to hold these interests as opposed to selling. In addition to the primary securitization activities, our mortgage operations purchase mortgage-backed securities, interest-only strips and other interests in securitized mortgage assets. In particular, we have mortgage broker-dealer operations that are in the business of underwriting, private placement, trading and selling of various mortgage-backed securities. As a result of these activities, we may hold investments (primarily with the intent to sell or securitize) in mortgage-backed securities similar to those retained by us in securitization activities. Interests in securitized assets are accounted for as investments in debt securities pursuant to Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). Our estimate of the fair value of these interests requires management to exercise significant judgment about the timing and amount of future cash flows of the securities.

Interests in securitized assets that are classified as trading or available for sale are valued on the basis of external dealer quotes, where available. External quotes are not available for a significant portion of these assets (approximately 70% to 80%), given the relative illiquidity of such assets in the market. In these circumstances, valuations are based on internally-developed models, which consider recent market transactions, experience with similar securities, current business conditions, analysis of the underlying collateral and third-party market information, as available. In conjunction with the performance of such valuations, management determined that the assumptions and the resulting valuations of asset- and mortgage-backed securities were reasonable and consistent with what an independent market participant would use to value the positions. In addition, we have certain interests in securitized assets (approximating \$92 million) that are classified as held to maturity. Investments classified as held to maturity are carried at amortized cost and are periodically reviewed for impairment. At December 31, 2005 and 2004, the total interests in securitized assets approximated \$5.0 billion and \$5.4 billion, respectively.

Valuation of Interests in Securitized Assets *(continued)*

Estimating the fair value of these securities requires management to make certain assumptions based upon current market information. The following describes the significant assumptions impacting future cash flow, and therefore the valuation of these assets.

- **Prepayment speeds** – Prepayment speeds are primarily impacted by changes in interest rates. As interest rates rise, prepayment speeds generally slow and as interest rates decrease, prepayment speeds generally accelerate. Similar to mortgage servicing rights, estimated prepayment speeds significantly impact the valuation of our residential mortgage-backed securities because increases in actual and expected prepayment speed significantly reduce expected cash flows from these securities. For certain securities, management is able to obtain market information from parties involved in the distribution of such securities to estimate prepayment speeds. In other cases, management estimates prepayment speeds based upon historical and expected future prepayment rates. In comparison to residential mortgage-backed securities, prepayment speeds on the automotive asset-backed securities are not as volatile and do not have as significant an earnings impact due to the relative short contractual term of the underlying receivables and the fact that many of these receivables have below-market contractual rates due to GM-sponsored special rate incentive programs.
- **Credit losses** – Expected credit losses on assets underlying the asset- and mortgage-backed securities also significantly impact the estimated fair value of the related residual interests we retain. Credit losses can be impacted by many economic variables including unemployment, housing valuation and regional factors. The type of loan product and the interest rate environment are also key variables impacting the credit loss assumptions. For certain securities, market information for similar investments is available to estimate credit losses and collateral defaults (e.g., dealer-quoted credit spreads). For other securities, future credit losses are estimated using internally- developed credit loss models, which generate indicative credit losses on the basis of our historical credit loss frequency and severity.
- **Discount rate** – Discount rate assumptions are primarily impacted by changes in the assessed risk on the sold assets or similar assets and market interest rate movements. Discount rate assumptions are determined using data obtained from market participants, where available, or based on current relevant treasury rates plus a risk-adjusted spread, based on analysis of historical spreads on similar types of securities.
- **Interest rates** – Estimates of interest rates on variable- and adjustable-rate contracts are based on spreads over the applicable benchmark interest rate using market-based yield curves. The movement in interest rates can have a significant impact on the valuation of retained interests in floating-rate securities.

Asset- and mortgage-backed securities are included as a component of investment securities in GMAC's consolidated balance sheet in its Form 10-K. Changes in the fair value of asset- and mortgage-backed securities held for trading are included as a component of investment income in GMAC's consolidated statement of income in its Form 10-K. For the year ended December 31, 2005, net increases in the fair value of asset- and mortgage-backed securities held for trading totaled \$131 million, compared to net increases of \$35 million for the year ended December 31, 2004. The changes in the fair value of asset- and mortgage-backed securities available for sale is recorded in other comprehensive income, a component of shareholder's equity in GMAC's consolidated balance sheet in its Form 10-K. In the event that management determines that other than temporary impairment should be recognized related to asset- and mortgage-backed securities available for sale, such amounts are recognized in investment

income in GMAC's consolidated statement of income in its Form 10-K. We recognized \$16 million, \$12 million, and \$57 million in other than temporary impairment on interests in securitized assets for the years ended 2005, 2004 and 2003, respectively.

Similar to mortgage servicing rights, changes in model assumptions can have a significant impact on the carrying value of interests in securitized assets. Note 8 to GMAC's consolidated financial statements in its Form 10-K summarizes the impact on the fair value due to a change in key assumptions for the significant categories of interests in securitized assets as of December 31, 2005. The processes and assumptions used to determine the fair value of interest in securitized assets have been consistently applied and are considered by management to result in a valuation that fairly states the assets and which is not inconsistent with what a market participant would use to value the positions.

Determination of Reserves for Insurance Losses and Loss Adjustment Expenses

Our Insurance operations include an array of insurance underwriting, including personal lines, automotive extended service contracts, assumed reinsurance and commercial coverages, that creates a liability for unpaid losses incurred (which is further described in the Insurance operations section of this MD&A). The reserve for insurance losses and loss adjustment expenses represents an estimate of our liability for the unpaid cost of insured events that have occurred as of a point in time. More specifically, it represents the accumulation of estimates for reported losses and an estimate for losses incurred but not reported, including claims adjustment expenses.

The techniques and methods we use in estimating insurance loss reserves are generally consistent with prior years and are based on a variety of methodologies. GMAC Insurance's claim personnel estimate reported losses based on individual case information or average payments for categories of claims. An estimate for current incurred but not reported claims is also recorded based on the expected loss ratio for a particular product which also considers significant events that might change the expected loss ratio, such as severe weather events and the estimates for reported claims. These estimates of the reserves are reviewed regularly by the product line management, by actuarial and accounting staffs and ultimately by senior management.

GMAC Insurance's actuaries assess reserves for each business at the lowest meaningful level of homogeneous data within each type of insurance, such as general or product liability and auto physical damage. The purpose of these assessments is to confirm the reasonableness of the reserves carried by each of the individual subsidiaries and product lines, and thereby, the insurance operations overall carried reserves. The selection of an actuarial methodology is judgmental and depends on variables such as the type of insurance, its expected payout pattern and the manner in which claims are processed. Special characteristics such as deductibles, reinsurance recoverable, or special policy provisions are considered in the reserve estimation process. Estimates for salvage and subrogation recoverable are recognized at the time losses are incurred and netted against the provision for losses. Our reserves include a liability for the related costs that are expected to be incurred in connection with settling and paying the claim. These loss adjustment expenses are generally established as a percentage of loss reserves. Our reserve process considers the actuarially indicated reserves based on prior patterns of claim incurrence and payment as well as the degree of incremental volatility associated with the underlying risks for the types of insurance and represents management's best estimate of the ultimate liability. Since the reserves are based on estimates, the ultimate liability may be more or less than our reserves. Any necessary adjustments, which may be significant, are included in earnings in the period in which they are deemed necessary. Such changes may be material to the results of the operations and financial condition and could occur in a future period.

Determination of Reserves for Insurance Losses and Loss Adjustment Expenses (continued)

Our determination of the appropriate reserves for insurance losses and loss adjustment expense for significant business components is based on numerous assumptions that vary based on the underlying business and related exposure:

- Personal auto** – Auto insurance losses are principally a function of the number of occurrences (i.e., accidents or thefts) and the severity (e.g., the ultimate cost of settling the claim) for each occurrence. The number of incidents is generally driven by the demographics and other indicators or predictors of loss experience of the insured customer base, including geographic location, number of miles driven, age, sex, type and cost of vehicle and types of coverage selected. The severity of each claim, within the limits of the insurance purchased, is generally random and settles to an average over a book of business, assuming a broad distribution of risks. Changes in the severity of claims have an impact on the reserves established at a point in time. Changes in bodily injury claim severity are driven primarily by inflation in the medical sector of the economy. Changes in auto physical damage claim severity are caused primarily by inflation in auto repair costs, auto parts prices and used car prices. However, changes in the level of the severity of claims paid may not necessarily match or track changes in the rate of inflation in these various sectors of the economy.
- Extended service contracts** – Extended service contract losses in the U.S. and abroad are generally reported and settled quickly through dealership service departments, resulting in a relatively small balance of outstanding claims at any point in time relative to the volume of claims processed annually. Mechanical service contract claims are primarily comprised of parts and labor for repair, or replacement of the affected components or systems. Changes in the cost of replacement parts and labor rates will impact the cost of settling claims. Considering the short time frame between a claim being incurred and paid, changes in key assumptions (e.g., part prices, labor rates) will have a minimal impact on the loss reserve as of a point in time. The loss reserve amount is influenced by the estimate of the lag between vehicles being repaired at dealerships and the claim being reported by the dealership.
- Assumed reinsurance** – The assumed reinsurance losses generally are from contracts with regional insurers and facultative excess of loss agreements with national writers within the United States and personal auto in Europe. The reserve analysis is performed at a group level. A group can be an individual contract or a group of similar contracts, depending mostly upon contract size and the type of business being insured and coverages provided. Some considerations that can impact reserve estimates are changes in claim severity (e.g., building costs, auto repair costs, wage inflation, medical costs) as well as changes in the legal and regulatory environment.

At December 31, 2005 and 2004, our reserve for insurance losses and loss adjustment expenses totaled \$2.5 billion. Insurance losses and loss adjustment expenses totaled \$2.4 billion for the years ended December 31, 2005 and 2004 and was a slight increase from \$2.3 billion in 2003. As of December 31, 2005, we concluded that our insurance loss reserves were reasonable and appropriate based on the assumptions and data used in determining the estimate. However, as insurance liabilities are based on estimates, the actual claims ultimately paid may vary from such estimates.

Funding and Liquidity

Funding Sources and Strategy

Our liquidity and our ongoing profitability is, in large part, dependent upon our timely access to capital and the costs associated with raising funds in different segments of the capital markets. Over the past several years, our funding strategy has focused on the development of diversified funding sources across a global investor base, both public and private and, as appropriate, the extension of debt maturities. In addition, we maintain a large cash reserve (\$20 billion at December 31, 2005) including certain marketable securities that can be utilized

to meet our obligations in the event of any market disruption. As part of our cash management strategy, from time to time we repurchase previously issued debt but do so in a manner that does not compromise overall liquidity. This multifaceted strategy, combined with a continuous prefunding of requirements, is designed to enhance our ability to meet our obligations.

The diversity of our funding sources enhances funding flexibility, limits dependence on any one source of funds and results in a more cost effective strategy over the longer term. In developing this approach, management considers market conditions, prevailing interest rates, liquidity needs and the desired maturity profile of our liabilities. This strategy has helped us maintain liquidity during periods of weakness in the capital markets, changes in our business or changes in our credit ratings. Despite our diverse funding sources and strategies, our ability to maintain liquidity may be affected by certain risk factors (see Risk Factors described in Item 1A, in GMAC's Form 10-K).

The following table summarizes outstanding debt by funding source, including Commercial Mortgage, which has been classified as reporting segment held for sale in GMAC's consolidated balance sheet in its Form 10-K, for the periods indicated:

	December 31,	
	Outstanding	
(Dollars in millions)	2005	2004
Commercial paper	\$ 524	\$ 8,395
Institutional term debt	83,076	105,894
Retail debt programs	34,482	38,706
Secured financings	124,657	91,957
Bank loans and other	15,979	22,734
Total debt ^(a)	258,718	267,686
Customer deposits ^(b)	11,013	5,755
Off-balance sheet securitizations: ^(c)		
Retail finance receivables	3,165	5,057
Wholesale loans	20,724	20,978
Mortgage loans	91,860	65,829
Total funding	385,480	365,305
Less: cash reserves ^(d)	(19,976)	(22,718)
Net funding	\$365,504	\$342,587
Leverage ratio per covenant ^(e)	7.5:1	8.6:1
Funding Commitments (\$ in billions)		
Bank liquidity facilities ^(f)	\$ 47.0	\$ 59.4
Secured funding facilities ^(g)	\$ 126.8	\$ 59.3

(a) Excludes fair value adjustment as described in Note 13 to GMAC consolidated financial statements in its Form 10-K.

(b) Includes consumer and commercial bank deposits and dealer wholesale deposits.

(c) Represents net funding from securitizations of retail and wholesale automotive receivables and mortgage loans accounted for as sales further described in Note 8 to GMAC consolidated financial statements in its Form 10-K.

(d) Includes \$15.8 cash and cash equivalents and \$4.2 invested in marketable securities at December 31, 2005.

(e) As described in Note 13 to GMAC's consolidated financial statements in its Form 10-K, our liquidity facilities and certain other funding facilities contain a leverage ratio covenant of 11.0:1, which excludes from debt, securitization transactions that are accounted for on-balance sheet as secured financings (totaling \$94,346 and \$75,230 at December 31, 2005 and December 31, 2004, respectively). Our debt to equity ratio was 11.9:1 and 12.0:1, at December 31, 2005 and December 31, 2004, respectively, as determined by accounting principles generally accepted in the United States of America, which was the former basis for the leverage ratio covenant.

(f) Represents both committed and uncommitted bank liquidity facilities. Refer to Note 13 to GMAC's consolidated financial statements in its Form 10-K for details.

(g) Represents both committed and uncommitted secured funding facilities. Includes commitments with third-party asset-backed commercial paper conduits as well as forward flow sale agreements with third parties and repurchase facilities. Refer to Note 13 to GMAC's consolidated financial statements in its Form 10-K for details.

In the second and third quarters of 2005, our unsecured debt ratings (excluding ResCap) were lowered to a non-investment grade rating by three of the four nationally recognized rating agencies that rate us (refer to the discussion in this section on Credit Ratings of this MD&A for further information). These

Funding Sources and Strategy (continued)

downgrades were a continuation of a series of credit rating actions over the past few years caused by concerns as to the financial outlook of GM, including its overall market position in the automotive industry and its burdensome health care obligations, as well as the uncertainty surrounding the auto parts supplier Delphi and its impact on GM's financial condition. As a result of these rating actions, our unsecured credit spreads widened to unprecedented levels in 2005. In anticipation of, and as a result of, these credit rating actions, we modified our diversified funding strategy to focus on secured funding and automotive whole loan sales. These funding sources are generally not directly affected by ratings on unsecured debt and therefore offer both stability in spread and access to the market. In 2005, secured funding and whole loan sales represented 90% of our U.S. automotive term funding in comparison to 46% in 2004. The increased use of whole loan sales is part of the migration to an originate and sell model for the U.S. automotive finance business. In 2005, we executed \$15 billion in full risk transfer transactions, predominately whole loan sales, and entered into two long-term commitment arrangements. Under these commitment arrangements, we are obligated to sell \$33 billion in retail automotive receivables with commitments from third parties to purchase up to \$64 billion over the next five years.

In addition, through our banking activities in our mortgage and automotive operations, bank deposits (certificates of deposits and brokered deposits) have become an important funding source for us. We have also been able to diversify our unsecured funding through the formation of ResCap. ResCap, a direct wholly owned subsidiary, was formed as the holding company of our residential mortgage businesses and in the second quarter of 2005 successfully achieved an investment grade rating (separate from GMAC) and issued \$4 billion of unsecured debt. Following the bond offering, ResCap closed a \$3.5 billion syndication of its bank facilities in July 2005. This syndication consisted of a \$1.75 billion syndicated term loan, an \$875 million syndicated line of credit committed through July 2008 and an \$875 million syndicated line of credit committed through July 2006. In addition, in the fourth quarter of 2005 ResCap filed a \$12 billion shelf registration statement in order to offer senior and/or subordinated debt securities and has issued \$3 billion (including \$1.75 billion issued in February 2006) in unsecured debt to investors with a portion of the proceeds from the notes used to repay a portion of intercompany borrowings. These facilities are intended to be used primarily for general corporate and working capital purposes, as well as to repay affiliate borrowings, thus providing additional liquidity.

As previously disclosed, on March 23, 2006, we completed the sale of 78% of our equity in GMAC Commercial Mortgage. Under the terms of the transaction, we received \$8.8 billion at closing which is comprised of sale proceeds and repayment of intercompany debt, thereby increasing our liquidity position and reducing the amount of funding required. Please refer to Note 25 to GMAC's consolidated financial statements in its Form 10-K for further details.

The change of focus in the funding strategy has allowed us to maintain adequate access to capital and a sufficient liquidity position despite reductions in and limited access to traditional unsecured funding sources (i.e., commercial paper, term debt, bank loans and lines of credit) due to the deterioration in our unsecured credit rating. Unsecured sources most impacted by the reduction in our credit rating have been our commercial paper programs, the term debt markets, certain bank loan arrangements primarily in Mortgage and International Automotive operations, as well as Fannie Mae custodial borrowing arrangements at GMAC Residential.

A further reduction of our credit ratings could increase borrowing costs and further constrain our access to unsecured debt markets, including capital markets for retail debt. In addition, a further reduction of our credit ratings could increase the possibility of additional terms and conditions contained in any new or replacement financing arrangements as well as impacting elements of certain existing secured borrowing arrangements. However, our funding strategy has increased our focus on expanding and developing diversified secured funding sources and increased use of automotive whole loan sales that are not directly impacted by ratings on our unsecured debt.

With limited access to traditional unsecured funding sources, management will continue to diversify and expand our use of asset-backed funding and we believe that our funding strategy will provide sufficient access to the capital

markets to meet our short-and medium-term funding needs. Notwithstanding the foregoing, management believes that the current ratings situation and outlook increases the level of risk to our long-term ability to sustain the current level of asset originations. Management continuously assesses this matter and is seeking to mitigate the increased risk by exploring whether actions could be taken that would provide a basis for rating agencies to evaluate our financial performance in order to provide us with ratings separate of those assigned to GM. On October 17, 2005, GM made an announcement that it is exploring the possible sale of a controlling interest in us to a strategic partner, with the goal of strengthening our credit grade rating and renewing our access to low-cost financing. Currently, Moody's, DBRS, Fitch and Standard & Poor's assign a different credit rating to us than they do to GM, with all four agencies having outlooks on our rating as evolving, developing or possible downgrade. There can be no assurance that any such actions by GM or us would be taken or that such actions, if taken, would be successful in achieving or maintaining, in some cases, a split rating from the rating agencies.

As described in Footnote 1 to GMAC's consolidated financial statements and in the Supplementary Financial Data in GMAC's Form 10-K, we have restated our consolidated statement of cash flows for the specified periods, which resulted in certain reclassifications between operating and investing cash flows. These restatements have no effect on our financial condition or results of operations and we believe that the restatements will not adversely affect our outstanding indebtedness or our ability to access our liquidity facilities in any material respects. While it is possible that a lender could attempt to impose additional conditions or challenge our access to certain of our liquidity facilities citing these cash flow restatements, we believe that any such challenge would be unsuccessful.

Credit Ratings

The cost and availability of unsecured financing is influenced by credit ratings, which are intended to be an indicator of the creditworthiness of a particular company, security, or obligation. Lower ratings generally result in higher borrowing costs as well as reduced access to capital markets. This is particularly true for certain term debt institutional investors whose investment guidelines require investment grade term ratings and for short-term institutional investors (money market investors in particular) whose investment guidelines require the two highest rating categories for short-term debt. Substantially all of our debt has been rated by nationally recognized statistical rating organizations. Concerns over the competitive and financial strength of GM, including how it will fund its burdensome health care liabilities and uncertainties at Delphi, have resulted in a series of credit rating actions, which commenced late in 2001. In the second and third quarters of 2005, Standard & Poor's, Fitch and Moody's downgraded GMAC's (excluding ResCap) senior debt to a non-investment grade rating with DBRS continuing to maintain an investment grade rating on our senior debt. On October 3, 2005, Standard & Poor's placed our ratings on CreditWatch with negative implications. Subsequently, on October 10, 2005, Standard & Poor's affirmed the CreditWatch for our ratings but the implications changed from negative to developing which means that the ratings could be raised or lowered. On October 10, 2005, Moody's placed our senior unsecured ratings under review for a possible downgrade and on October 17, 2005, Moody's announced a change in the review status to direction uncertain from review for possible downgrade. In addition, Moody's placed our Non-Prime short term rating on review for possible upgrade. On March 16, 2006, Moody's placed our unsecured ratings under review for a possible downgrade following GM's announcement that it would delay filing its annual report on Form 10-K with the SEC. On October 17, 2005, Fitch placed our ratings on Rating Watch Evolving. On October 11, 2005, DBRS placed our ratings under review with developing implications and affirmed the review status on October 17, 2005. These latest ratings actions are a result of GM's announcement on October 17 that it is exploring the possible sale of a controlling interest in us to a strategic partner. On March 16, 2006, Moody's placed our senior unsecured ratings under review for a possible downgrade following GM's announcement that it will delay filing its annual report on Form 10-K with the SEC.

Credit Ratings (continued)

The following table summarizes our current ratings, outlook and the date of last rating or outlook change by the respective nationally recognized rating agencies.

Rating Agency	Commercial Paper	Senior Debt	Outlook	Date of Last Action
Fitch	B	BB	Evolving Possible	September 26, 2005 ^(a)
Moody's	Not-Prime	Ba1	downgrade	August 24, 2005 ^(b)
S&P	B-1	BB	Developing	May 5, 2005 ^(c)
DBRS	R-2 (low)	BBB (low)	Developing	August 2, 2005 ^(d)

(a) Fitch downgraded our senior debt to BB from BB+, affirmed the commercial paper rating of B, and on October 17, 2005, placed the ratings on Rating Watch Evolving.

(b) Moody's lowered our senior debt to Ba1 from Baa2, downgraded the commercial paper rating to Not-Prime from Prime-2, on October 17, 2005, changed the review status of the long-term debt ratings to direction uncertain and on March 16, 2006 changed the review status of the senior debt ratings to possible downgrade.

(c) Standard & Poor's downgraded our senior debt to BB from BBB-, downgraded the commercial paper rating to B-1 from A-3, and on October 10, 2005, changed the outlook to CreditWatch with developing implications.

(d) DBRS downgraded our senior debt to BBB (low) from BBB, downgraded the commercial paper rating to R-2 (low) from R-2 (middle), and on October 11, 2005, placed the ratings under review with developing implications and affirmed the review status on October 17, 2005.

In addition, ResCap, our indirect wholly owned subsidiary, has investment grade ratings (separate from GMAC) from the nationally recognized rating agencies. The following table summarizes ResCap's current ratings, outlook and the date of the last rating or outlook change by the respective agency.

Rating Agency	Commercial Paper	Senior Debt	Outlook	Date of Last Action
Fitch	F3	BBB-	Evolving Possible	September 26, 2005 ^(a)
Moody's	P3	Baa3	downgrade	August 24, 2005 ^(b)
S&P	A-3	BBB-	Developing	June 9, 2005 ^(c)
DBRS	R-2 (middle)	BBB	Developing	June 9, 2005 ^(d)

(a) Fitch downgraded the senior debt of ResCap to BBB- from BBB, downgraded the commercial paper rating to F3 from F2, and on October 17, 2005, placed the ratings on Rating Watch Evolving.

(b) Moody's downgraded the senior debt of ResCap to Baa3 from Baa2, downgraded the commercial paper rating to P3 from P2, on October 17, 2005, changed the review status of the long-term debt ratings to direction uncertain and on March 16, 2006 changed the review status of the senior debt ratings to possible downgrade.

(c) Standard & Poor's initial ratings for ResCap were assigned, and on October 10, 2005, S&P changed the outlook to CreditWatch with developing implications.

(d) DBRS initial ratings for ResCap were assigned, and on October 11, 2005, DBRS placed the ratings under review with developing implications and affirmed the review status on October 17, 2005.

Derivative Financial Instruments

In managing the interest rate and foreign exchange exposures of a multinational finance company, we utilize a variety of interest rate and currency derivative financial instruments. As an end user of these financial instruments, we are in a better position to expand our investor base and to minimize our funding costs, enhancing our ability to offer attractive, competitive financing rates to our customers. Our derivative financial instruments consist primarily of interest rate swaps, futures and options, currency swaps, and forwards used to hedge related assets or funding obligations. The use of these instruments is further described in Note 16 to GMAC's consolidated financial statements in its Form 10-K.

Derivative financial instruments involve, to varying degrees, elements of credit risk in the event a counterparty should default, and market risk, as the instruments are subject to rate and price fluctuations. Credit risk is managed through periodic monitoring and approval of financially sound counterparties and through limiting the potential credit exposures to individual counterparties to predetermined exposure limits. Market risk is inherently limited by the fact that the instruments are used for risk management purposes only, and therefore, generally designated as hedges of assets or liabilities. Market risk is also managed on an

ongoing basis by monitoring the fair value of each financial instrument position and further by measuring and monitoring the volatility of such positions, as further described in the Market Risk section of this MD&A.

Off-Balance Sheet Arrangements

We use off-balance sheet entities as an integral part of our operating and funding activities. The arrangements include the use of qualifying special purpose entities (QSPEs) and variable interest entities (VIEs) for securitization transactions, mortgage warehouse facilities and other mortgage-related funding programs. The majority of our off-balance sheet arrangements consist of securitization transactions similar to those used by many other financial institutions.

The following table summarizes assets carried off-balance sheet in these entities.

(Dollars in billions)	December 31,	
	2005	2004
Securitization^(a)		
Retail finance receivables	\$ 6.0	\$ 5.6
Wholesale loans	21.4	21.3
Mortgage loans	93.7	71.2
Collateralized debt obligations ^(b)	3.5	3.3
Tax-exempt related securities	1.1	1.1
Total securitization	125.7	102.5
Other off-balance sheet activities		
Mortgage warehouse	0.6	0.3
Other mortgage	0.2	3.5
Total off-balance sheet activities	\$126.5	\$106.3

(a) Includes only securitizations accounted for as sales under SFAS 140, as further described in Note 8 to GMAC's consolidated financial statements in its Form 10-K.

(b) Includes securitization of mortgage-backed securities, some of which are backed by securitized mortgage loans as reflected in the above table.

Securitization

As part of our ongoing operations and overall funding and liquidity strategy, we securitize consumer automotive finance retail contracts, wholesale loans, mortgage loans, commercial mortgage securities, asset-backed securities, real estate investment trust debt and tax-exempt related securities. Securitization of assets allows us to diversify funding sources by enabling us to convert assets into cash earlier than what would have occurred in the normal course of business and to support the core activities of our Financing and Mortgage operations relative to originating and purchasing loans. Termination of our securitization activities would reduce funding sources for both our Financing and Mortgage operations and disrupt the core mortgage banking activity, adversely impacting our operating profit. As an example, an insolvency event for our parent would curtail our ability to utilize certain of our automotive wholesale loan securitization structures as a source of funding in the future.

Information regarding our securitization program is further described in Note 8 to GMAC's consolidated financial statements in its Form 10-K. As part of this program, assets are generally sold to our bankruptcy-remote subsidiaries. These bankruptcy-remote subsidiaries are separate legal entities that assume the risk and reward of ownership of the receivables. Neither we nor these subsidiaries are responsible for the other entities' debts, and the assets of the subsidiaries are not available to satisfy the claims of us or our creditors. In turn, the bankruptcy-remote subsidiaries establish separate trusts to which they transfer the assets in exchange for the proceeds from the sale of asset- or mortgage-backed securities issued by the trust. The trusts' activities are generally limited to acquiring the assets, issuing asset- or mortgage-backed securities, making payments on the securities and periodically reporting to the investors. Due to the nature of the assets held by the trusts and the limited nature of each trust's activities, most trusts are QSPEs in accordance with Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). In accordance with SFAS 140,

Securitization (continued)

assets and liabilities of the QSPEs are generally not consolidated in GMAC's consolidated balance sheet in its Form 10-K and therefore, we account for the transfer of assets into the QSPE as a sale.

Certain of our securitization transactions, while similar in legal structure to the transactions described in the foregoing (i.e., the assets are legally sold to a bankruptcy-remote subsidiary), do not meet the isolation and control criteria of SFAS 140 and, are therefore, accounted for as secured financings. As secured financings, the underlying automotive finance retail contracts or mortgage loans remain in GMAC's consolidated balance sheet in its Form 10-K with the corresponding obligation (consisting of the debt securities issued) reflected as debt. We recognize income on the finance receivables and loans, and interest expense on the securities issued in the securitization and provide for credit losses as incurred over the life of the securitization. Approximately \$98.7 billion and \$81.1 billion of finance receivables, automotive leases and loans were related to secured financings at December 31, 2005 and 2004, respectively. Refer to Note 13 to GMAC's consolidated financial statements in its Form 10-K for further discussion.

The increase in the amount of mortgage loans carried in off-balance sheet facilities since December 2004, reflects GMAC-RFC's increased use of securitization transactions accounted for as sales versus those accounted for as secured financings in order to take advantage of certain market conditions which make it more economical to securitize a portion of the credit risk on nonprime and home equity products than to retain them on-balance sheet.

As part of our securitization program, we typically agree to service the transferred assets for a fee and we may earn other related ongoing income. We may also retain a portion of senior and subordinated interests issued by the trusts; for transactions accounted for as sales, these interests are reported as investment securities in GMAC's consolidated balance sheet in its Form 10-K and are disclosed in Note 6 to GMAC's consolidated financial statements in its Form 10-K. Subordinate interests typically provide credit support to the more highly rated senior interests in a securitization transaction and may be subject to all or a portion of the first loss position related to the sold assets. The amount of the fees earned and the levels of retained interests that we maintain are disclosed in Note 8 to GMAC's consolidated financial statements in its Form 10-K.

We also purchase derivative financial instruments in order to facilitate securitization activities, as further described in Note 16 to GMAC's consolidated financial statements in its Form 10-K.

Our exposure related to the securitization trusts is generally limited to cash reserves held for the benefit of investors in the trusts' retained interests and certain purchase obligations. The trusts have a limited life and generally terminate upon final distribution of amounts owed to investors or upon exercise by us, as servicer, of its cleanup call option when the servicing of the sold contracts becomes burdensome. In addition, the trusts do not invest in our equity or any of our affiliates. In certain transactions, limited recourse provisions exist that allow holders of the asset- or mortgage-backed securities to put those securities back to us.

Our tax-exempt related securitizations include GMAC Commercial Mortgage's tender option bond (TOB) and tax exempt conduit (TEC) programs. Under either program, we acquire long-term bonds, deposit them into a QSPE (TOB or TEC Trust), securitize them with a put option and resell the newly created short-term notes or certificates to third-party investors. The put option generally allows the holder of the short-term notes or certificates to put back its interest to the liquidity bank or remarketing agent for cash at any time (TOB) or upon failed remarketing (TEC). We are not obligated to repurchase or redeem the short-term notes or certificates before maturity. However, should the remarketing agent be unable to remarket the short-term notes or certificates, the Trustee would liquidate the TOB or TEC Trust assets, which could result in losses to us.

We generally do not guarantee any securities issued by the trusts. However, we have guaranteed repayment of principal and interest associated with certain commercial mortgage securitization transactions. We typically have also retained an investment related to such securitizations that is subordinate to the guarantees. Guarantee losses would be incurred in the event that losses on the underlying collateral exceed our subordinated investment (see Note 24 to

GMAC's consolidated financial statements in its Form 10-K and the Guarantees section in this MD&A for further information). Expiration dates range from 2006 through the expected life of the asset pool.

We have also entered into agreements to provide credit loss protection for certain high loan-to-value (HLTV) mortgage loan securitization transactions. We are required to perform on our guaranty obligation when the security credit enhancements are exhausted and losses are passed through to investors. The guarantees terminate the first calendar month during which the security aggregate note amount is reduced to zero (see Note 24 to GMAC's consolidated financial statements in its Form 10-K and the Guarantees section in this MD&A for further information).

Other Off-Balance Sheet Activities

We also use other off-balance sheet entities for operational and liquidity purposes, which are in addition to the securitization activities that are part of the transfer and servicing of financial assets under SFAS 140 (as described in the previous section). The purposes and activities of these entities vary, with some entities classified as QSPEs under SFAS 140 and others, whose activities are not sufficiently limited to meet the QSPE criteria of SFAS 140, considered to be VIEs and accounted for in accordance with FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R).

We may also act as a counterparty in derivative financial instruments with these entities to facilitate transactions. Although representing effective risk management techniques, these derivative financial instrument positions do not qualify for hedge accounting treatment as the assets or liabilities that are economically hedged are carried off-balance sheet. As such, these derivative financial instruments are reported in GMAC's consolidated balance sheet in its Form 10-K at fair value, with valuation adjustments reflected in GMAC's consolidated statement of income in its Form 10-K on a current period basis and are disclosed in Note 16 to GMAC's consolidated financial statements in its Form 10-K. Included in our derivative financial instrument positions are credit basis swaps held by third-party banks covering \$0 and \$183 million in mortgage loans at December 31, 2005 and 2004, respectively.

We do not guarantee debt issued in connection with any of our off-balance sheet facilities, nor guarantee liquidity support (to the extent applicable) that is provided by third-party banks. Further, there are limited recourse provisions that would permit holders to put debt obligations back to us. In the event that liquidity banks fail to renew their commitment (which commitments may be subject to periodic renewal) and we are unable to find replacement liquidity support or alternative financing, the outstanding commercial paper would be paid with loans from participating banks, and proceeds from the underlying assets would be used to repay the banks. Finally, none of these entities related to our off-balance sheet facilities owns stock in us or any of our affiliates.

Our more significant off-balance sheet entities are described as follows:

- **Interests in real estate partnerships** – Our Mortgage operations syndicate investments in real estate partnerships to unaffiliated investors and, in certain partnerships, guarantee the timely payment of a specified return to those investors. Returns to investors in the partnerships we syndicate are derived from tax credits and tax losses generated by underlying operating partnership entities that develop, own and operate affordable housing properties throughout the United States. We have variable interests in the underlying operating partnerships (primarily in the form of limited partnership interests) where we are not the primary beneficiary of and, as a result, are not required to consolidate these entities under FIN 46R. Assets outstanding in these partnerships approximated \$6.5 billion at December 31, 2005. Our maximum exposure to loss related to these partnerships is \$682 million.
- **New Center Asset Trust (NCAT)** – NCAT is a QSPE that was established for the purpose of purchasing and holding privately issued asset-backed securities created in our automotive finance asset securitization program, as previously described. NCAT funds the activity through the issuance of asset-backed commercial paper. NCAT acquires the asset-backed securities from special purpose trusts established by our limited purpose bankruptcy-remote subsidiaries. As of December 31, 2005, NCAT had \$10.9 billion in asset-backed

Other Off-Balance Sheet Activities (continued)

securities, which were fully supported by commercial paper. We act as administrator of NCAT to provide for the administration of the trust.

NCAT maintains a \$18.5 billion revolving credit agreement characterized as a liquidity and receivables purchase facility to support its issuance of commercial paper (see Note 13 to GMAC's consolidated financial statements in its Form 10-K). The assets underlying the NCAT securities are retail finance receivables, wholesale loans and operating leases that are securitized as a part of our automotive finance funding strategies. As such, the \$10.9 billion of NCAT securities outstanding at December 31, 2005, are considered in the non-mortgage securitization amounts presented in the table on page 88.

Purchase Obligations and Options

Certain of the structures related to securitization transactions and other off-balance sheet activities contain provisions, which are standard in the securitization industry, where we may (or, in limited circumstances, are obligated to) purchase specific assets from the entities. Our purchase obligations relating to off-balance sheet transactions are as follows:

- **Representations and warranties obligations** – In connection with certain asset sales and securitization transactions, we typically deliver standard representations and warranties to the purchaser regarding the characteristics of the underlying transferred assets. These representations and warranties conform to specific guidelines, which are customary in securitization transactions. These clauses are intended to ensure that the terms and conditions of the sales contracts are met upon transfer of the assets. Prior to any sale or securitization transaction, we perform due diligence with respect to the assets to be included in the sale to ensure that they meet the purchaser's requirements, as expressed in the representations and warranties. Due to these procedures, we believe that the potential for loss under these arrangements is remote. Accordingly, no liability is reflected in GMAC's consolidated balance sheet in its Form 10-K related to these potential obligations. The maximum potential amount of future payments we could be required to make would be equal to the current balances of all assets subject to such securitization or sale activities. We do not monitor the total value of assets historically transferred to securitization vehicles or through other asset sales. Therefore, we are unable to develop an estimate of the maximum payout under these representations and warranties.

Representations and warranties made by us in off-balance sheet arrangements relate to the required characteristics of the receivables (e.g., contains customary and enforceable provisions, is secured by an enforceable lien, has an original term of no less than x months and no greater than y months, etc.) as of the initial sale date. Purchasers rely on these representations and warranties, which are common in the securitization industry, when purchasing the receivables. In connection with mortgage assets, it is common industry practice to include assets in a sale of mortgage loans before we have physically received all of the original loan documentation from a closing agent, recording office, or third-party register. In these cases, the loan origination process is completed through the disbursement of cash and the settlement process with the consumer; however, all of the loan documentation may not have been received by us and, in some cases, delivered to custodians that hold them for investors. When the documentation process is not yet complete, a representation is given that documents will be delivered within a specified number of days after the initial sale date.

Loans for which there are trailing or defective legal documents generally perform as well as loans without such administrative complications. Such loans merely fail to conform to the requirements of a particular sale. Upon discovery of a breach of a representation, the loans are either corrected in a manner conforming to the provisions of the sale agreement, replaced with a similar mortgage loan that conforms to the provisions, or investors are made whole by us through the purchase of the mortgage loan at a price determined by the related transaction documents, consistent with industry practice.

We purchased \$29 million in mortgage assets and \$0 of automotive receivables under these provisions in 2005 and \$564 million of mortgage assets and \$1 million of automotive receivables under these provisions in 2004. The majority of purchases under representations and warranties occurring in 2005 and 2004 resulted from the inability to deliver underlying mortgage documents within a specified number of days after the initial sale date. The remaining purchases occurred due to a variety of non-conformities (typically related to clerical errors discovered after sale in the post-closing review).

- **Administrator or servicer actions** – In our capacity as servicer, we covenant, in certain automotive securitization transaction documents, that we will not amend or modify certain characteristics of any receivable after the initial sale date (e.g., amount financed, annual percentage rate, etc.). In addition, we are required to service sold receivables in the same manner in which we service owned receivables. In servicing our owned receivables, we may make changes to the underlying contracts at the request of the borrower, for example, because of errors made in the origination process or in order to prevent imminent default as a result of temporary economic hardship (e.g., borrower requested deferrals or extensions). When we would otherwise modify an owned receivable in accordance with customary servicing practices, therefore, we are required to modify a sold and serviced receivable, also in accordance with customary servicing procedures. If the modification is not otherwise permitted by the securitization transaction documents, we are required to purchase such serviced receivable that has been sold. We purchased \$76 million and \$75 million in automotive receivables under these provisions in 2005 and 2004, respectively.
- **Limited recourse obligations** – Under certain commercial mortgage facilities, there are eligibility criteria relating to the post-sale delinquency status of an asset and the length of time permitted between the date of sale to the mortgage warehouse facility and the ultimate date of securitization. If these criteria are not met, the beneficial interest holder may have the option to put the affected assets back to one of our consolidated bankruptcy-remote affiliates, based on terms provided in the facilities' legal documentation. We purchased \$0 and \$212 million of commercial mortgage assets under these provisions in 2005 and 2004, respectively.

Our purchase options relating to off-balance sheet transactions are as follows:

- **Asset performance conditional calls** – In our mortgage off-balance sheet transactions, we typically retain the option (but not an obligation) to purchase specific assets that become delinquent beyond a specified period of time, as set forth in the transaction legal documents (typically 90 days). We report affected assets when the purchase option becomes exercisable. Assets are purchased after the option becomes exercisable when it is in our best economic interest to do so. We purchased \$364 million and \$137 million of mortgage assets under these provisions in 2005 and 2004, respectively.
- **Third-party purchase calls** – Unrelated third parties acquire mortgage assets through the exercise of third-party purchase call options. Prior to September 30, 2004, at the point when the third-party agreed to purchase affected assets, we recorded the assets in GMAC's consolidated balance sheet in its Form 10-K and became obligated to exercise the call, deliver the mortgages to the purchaser and to deliver the purchasers' funds for the benefit of holders of beneficial interests which were supported by the affected mortgage loans. Sale treatment was previously recognized under paragraph 9 of SFAS 140 for the transactions to which these calls apply. This third-party purchase call was exercised on approximately \$8.5 billion and \$30.3 billion of mortgage assets in 2005 and 2004, respectively. Effective September 30, 2004, we modified our accounting treatment for assets transferred subject to a third-party purchase call (refer to Note 1 to GMAC's consolidated financial statements in its Form 10-K for further details).

Purchase Obligations and Options (continued)

- Cleanup calls** – In accordance with SFAS 140, we retain a cleanup call option in securitization transactions that allows the servicer to purchase the remaining transferred financial assets, once such assets or beneficial interests reach a minimal level and the cost of servicing those assets or beneficial interests become burdensome in relation to the benefits of servicing (defined as a specified percentage of the original principal balance). We purchased \$2.9 billion and \$4.1 billion in assets under these cleanup call provisions in 2005 and in 2004, respectively.

When purchases of assets from off-balance sheet facilities occur, either as a result of an obligation to do so, or upon us obtaining the ability to acquire sold assets through an option, any resulting purchase is executed in accordance with the legal terms in the facility or specific transaction documents. In most cases, we record no net gain or loss as the provisions for the purchase of specific assets in automotive receivables and mortgage asset transactions state that the purchase price is equal to the unpaid principal balance (i.e., par value) of the receivable, plus any accrued interest thereon. An exception relates to cleanup calls, which may result in a net gain or loss. In these cases, we record assets when the option to purchase is exercisable, as determined by the legal documentation. Any difference between the purchase price and amounts paid to discharge third-party beneficial interests is remitted to us through the recovery on the related retained interest. Any resulting gain or loss is recognized upon the exercise of a cleanup call option.

Guarantees

We have entered into arrangements that contingently require payments to non-consolidated third parties that are defined as guarantees. The following table summarizes primary categories of guarantees, with further qualitative and quantitative information in Note 24 to GMAC's consolidated financial statements in its Form 10-K:

	December 31, 2005	
(Dollars in millions)	Maximum Liability	Carrying Value of Liability
Securitizations and sales	\$2,318	\$20
Agency loan program	6,196	–
Agency/construction lending	847	2
Guarantees for repayment of third-party debt	393	–
Repurchase guarantees	256	–
Standby letters of credit	135	3
Other guarantees	108	3

- Agency loan program** – Our Mortgage operations deliver loans to certain agencies that allow streamlined loan processing and limited documentation requirements. In the event any loans delivered under these programs reach a specified delinquency status, we may be required to provide certain documentation or, in some cases, repurchase the loan or indemnify the investor for any losses sustained.
- Securitizations and sales** – Under certain mortgage securitization and sales transactions, we have agreed to guarantee specific amounts depending on the performance of the underlying assets. In particular, these guarantees relate to particular commercial mortgage securitizations, agency loans sold with recourse, high loan-to-value securitizations, and sales of mortgage-related securities.
- Agency/construction lending** – We guarantee the repayment of principal and interest on certain construction loans and on long-term fixed rate agency loans.
- Guarantees for repayment of third-party debt** – Under certain arrangements, we guarantee the repayment of third-party debt obligations in the case of default. Some of these guarantees are collateralized by letters of credit.
- Repurchase guarantees** – We have issued guarantees to buyers of certain mortgage loans whereby in the event that a closing condition or document deficiency is identified by an investor after the closing, we may be required to indemnify the investor in the event the loan becomes delinquent.
- Standby letters of credit** – Letters of credit are issued by our Financing and Mortgage operations that represent irrevocable guarantees of payment of specified financial obligations of a client and which are generally collateralized by assets.

In addition to these guarantees, we have standard indemnification clauses in some of our funding arrangements that would require us to pay lenders for increased costs due to certain changes in laws or regulations. Furthermore, our Mortgage operations sponsor certain agents who originate mortgage loans under government programs and we have guaranteed uninsured losses resulting from the actions of the agents. As the nature of these exposures is unpredictable and not probable, management is not able to estimate a liability for the guarantees in these arrangements.

Aggregate Contractual Obligations

The following table provides aggregated information about our outstanding contractual obligations, including Commercial Mortgage, as of December 31, 2005, that are disclosed elsewhere in GMAC's consolidated financial statements in its Form 10-K.

	December 31 2005,				
	Payments Due by Period				
(Dollars in millions)	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Description of obligation:					
Debt					
Unsecured ^(a)	\$134,591	\$ 43,546	\$38,118	\$16,400	\$ 36,527
Secured	124,657	42,932	21,902	2,433	57,390
Mortgage purchase and sale commitments	28,152	24,619	3,463	–	70
Lending commitments	25,875	18,500	2,213	669	4,493
Commitments to remit excess cash flows on certain loan portfolios	4,305	–	–	–	4,305
Commitments to sell retail automotive receivables	33,000	9,000	12,000	12,000	–
Lease commitments	824	201	304	161	158
Commitments to provide capital to equity method investees	1,037	553	90	107	287
Purchase obligations	231	141	77	13	–
Total	\$352,672	\$139,492	\$78,167	\$31,783	\$103,230

(a) Amount reflects the remaining principal obligation and excludes fair value adjustment of \$2 and unamortized discount of \$530.

Aggregate Contractual Obligations (continued)

The foregoing table does not include our reserves for insurance losses and loss adjustment expenses, which total \$2.5 billion as of December 31, 2005. While payments due on insurance losses are considered contractual obligations because they relate to insurance policies issued by us, the ultimate amount to be paid for an insurance loss is an estimate, subject to significant uncertainty. Furthermore, the timing on payment is also uncertain; however, the majority of the balance is expected to be paid out in less than five years.

The following provides a description of the items summarized in the preceding table of contractual obligations:

- **Debt** – Amounts represent the scheduled maturity of debt at December 31, 2005, assuming that no early redemptions occur. For debt issuances without a stated maturity date (i.e., Demand Notes) the maturity is assumed to occur within one year. The maturity of secured debt may vary based on the payment activity of the related secured assets. Debt issuances that are redeemable at or above par, during the callable period, are presented at the stated maturity date. The amounts presented are before the effect of any unamortized discount or fair value adjustment. Refer to Note 13 to GMAC's consolidated financial statements in its Form 10-K for additional information on our debt obligations.
- **Mortgage purchase and sale commitments** – As part of our Mortgage operations, we enter into commitments to originate, purchase, and sell mortgages and mortgage-backed securities. Refer to Note 24 to GMAC's consolidated financial statements in its Form 10-K for additional information on our mortgage purchase and sale commitments.
- **Lending commitments** – Both our Financing and Mortgage operations have outstanding revolving lending commitments with customers. The amounts presented represent the unused portion of those commitments, as of December 31, 2005, that the customers may draw upon in accordance with the lending arrangement. Refer to Note 24 to GMAC's consolidated financial statements in its Form 10-K for additional information on our lending commitments.
- **Commitments to remit excess cash flows on certain loan portfolios** – We are committed to remitting, under certain shared execution arrangements, cash flows that exceed a required rate of return less credit loss reimbursements. This commitment is accounted for as a derivative. Refer to Note 24 to GMAC's consolidated financial statements in its Form 10-K for additional information on our shared execution arrangements.
- **Commitments to sell retail automotive receivables** – We have entered into agreements with third-party banks to sell automotive retail receivables in which we transfer all credit risk to the purchaser (retail automotive portfolio sales transactions). Refer to Note 24 to GMAC's consolidated financial statements in its Form 10-K for additional information on our commitments to remit excess cash flows on certain loan portfolios.
- **Lease commitments** – We have obligations under various operating lease arrangements (primarily for real property) with noncancelable lease terms that expire after December 31, 2005. Refer to Note 24 to GMAC's consolidated financial statements in its Form 10-K for additional information on our lease commitments.
- **Commitments to provide capital to equity method investees** – As part of arrangements with specific private equity funds, we are obligated to provide capital to equity method investees. Refer to Note 24 to GMAC's consolidated financial statements in its Form 10-K for additional information on our commitments to provide capital to equity method investees.

- **Purchase obligations** – We enter into multiple contractual arrangements for various services. The amounts represent fixed payment obligations under our most significant contracts and primarily relate to contracts with information technology providers. Refer to Note 24 to GMAC's consolidated financial statements in its Form 10-K for additional information on our purchase obligations.

Market Risk

Our financing, mortgage, and insurance activities give rise to market risk, representing the potential loss in the fair value of assets or liabilities caused by movements in market variables, such as interest rates, foreign exchange rates and equity prices. We are primarily exposed to interest rate risk arising from changes in interest rates related to our financing, investing and cash management activities. More specifically, we have entered into contracts to provide financing, to retain mortgage servicing rights 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 fluctuations (refer to Note 16 to GMAC's consolidated financial statements in its Form 10-K).

We are exposed to foreign currency risk arising from the possibility that fluctuations in foreign exchange rates will impact future earnings or asset and liability values related to our global operations. Our most significant foreign currency exposures relate to the Euro, the Canadian dollar, the British pound sterling, and the Australian dollar.

We are also exposed 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. Our equity securities are considered investments and we do not enter into derivatives to modify the risks associated with our Insurance investment portfolio.

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

Additional principle risks include credit risk and lease residual risk which are discussed in Item 7.

Value at Risk

One of the measures we use to manage market risk is Value at Risk (VaR), which gauges the dollar amount of potential loss in fair value from adverse interest rate and currency movements in an ordinary market. The VaR model uses a distribution of historical changes in market prices to assess the potential for future losses. In addition, VaR takes into account correlations between risks and the potential for movements in one portfolio to offset movements in another.

We measure VaR using a 95% confidence interval and an assumed one month holding period, meaning that we would expect to incur changes in fair value greater than those predicted by VaR in only one out of every 20 months. Currently, our VaR measurements do not include all of our market risk sensitive positions. The VaR estimates encompass the majority (approximately 90%) of our market risk sensitive positions, which management believes are representative of all positions. The following table represents the maximum, average, and minimum potential VaR losses measured for the years indicated.

	Years ended December 31,	
(Dollars in millions)	2005	2004
Value at Risk Maximum	\$239	\$276
Average	129	166
Minimum	66	122

Value at Risk (continued)

While no single risk statistic can reflect all aspects of market risk, the VaR measurements provide an overview of our exposure to changes in market influences. Less than 2% of our assets are accounted for as trading activities (i.e., those in which changes in fair value directly affect earnings). As such, our VaR measurements are not indicative of the impact to current period earnings caused by potential market movements. The actual earnings impact would differ as the accounting for our financial instruments is a combination of historical cost, lower of cost or market, and fair value (as further described in the accounting policies in Note 1 to GMAC's consolidated financial statements in its Form 10-K).

Sensitivity Analysis

While VaR reflects the risk of loss due to unlikely events in a normal market, sensitivity analysis captures our exposure to isolated hypothetical movements in specific market rates. The following analyses, which include GMAC Commercial Mortgage's financial instruments that are exposed to changes in interest rates, foreign exchange rates and equity prices, are based on sensitivity analyses performed assuming instantaneous, parallel shifts in market exchange rates, interest rate yield curves and equity prices.

	December 31,			
	2005		2004	
(Dollars in millions)	Non-trading ^(a)	Trading ^(b)	Non-trading ^(a)	Trading ^(b)
Financial instruments exposed to changes in:				
Interest rates				
Estimated fair value	\$(26,343)	\$4,580	\$(32,025)	\$3,545
Effect of 10% adverse change in rates	(1,662)	(127)	(1,463)	(33)
Foreign exchange rates				
Estimated fair value	\$ (7,177)	\$ 254	\$(10,213)	\$ 577
Effect of 10% adverse change in rates	(718)	(25)	(1,021)	(58)
Equity prices				
Estimated fair value	\$ 2,367	\$ -	\$ 2,230	\$ -
Effect of 10% decrease in prices	(236)	-	(222)	-

(a) Includes our available for sale and held to maturity investment securities. Refer to Note 6 to GMAC's consolidated financial statements in its Form 10-K for additional information on our investment securities portfolio.

(b) Includes our trading investment securities. Refer to Note 6 to GMAC's consolidated financial statements in its Form 10-K for additional information on our investment securities portfolio.

There are certain shortcomings inherent to the sensitivity analysis data presented. The models assume that interest rate and foreign exchange rate changes are instantaneous parallel shifts. In reality, changes are rarely instantaneous or parallel, and therefore, the sensitivities summarized in the foregoing table may be overstated. While this sensitivity analysis is our best estimate of the impacts of the scenarios described, actual results could differ from those projected.

Because they do not represent financial instruments, our operating leases are not required to be included in the interest rate sensitivity analysis. This exclusion is significant to the overall analysis and any resulting conclusions. While the sensitivity analysis shows an estimated fair value change for the debt which funds our operating lease portfolio, a corresponding change for our operating lease portfolio (which had a carrying value of \$31.2 billion and \$26.1 billion at December 31, 2005 and 2004, respectively) was excluded from the foregoing analysis. As a result, the overall impact to the estimated fair value of financial instruments from hypothetical changes in interest and foreign currency exchange rates is greater than what we would experience in the event of such market movements.

Operational Risk

We define operational risk as the risk of loss resulting from inadequate or failed processes or systems, human factors, or external events. Operational risk is an inherent risk element in each of our businesses and related support activities. Such risk can manifest in various ways, including breakdowns, errors, business interruptions and inappropriate behavior of employees, and can potentially result in financial losses and other damage to us.

To monitor and control such risk, we maintain a system of policies and a control framework designed to provide a sound and well-controlled operational environment. The goal is to maintain operational risk at appropriate levels in view of our financial strength, the characteristics of the businesses and the markets in which we operate, and the related competitive and regulatory environment. While each operating unit is responsible for risk management, we supplement this decentralized model with a centralized enterprise risk management function. This risk management function is responsible for ensuring that each business unit has proper policies and procedures for managing risk and for identifying, measuring and monitoring risk across our enterprise. We utilize an enterprise-wide control self-assessment process. The focus of the process has been to identify key risks specific to areas impacting financial reporting and disclosure controls and procedures.

Notwithstanding these risk and control initiatives, we may incur losses attributable to operational risks from time to time, and there can be no assurance that such losses will not be incurred in the future.

Accounting and Reporting Developments

Statement of Position 05-1 – In September 2005 the AICPA issued Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* (SOP 05-1). SOP 05-1 provides guidance on accounting for deferred acquisition costs on internal replacements of insurance contracts. SOP 05-1 defines an internal replacement, and specifies the conditions that determine whether the replacement contract is substantially or unsubstantially changed from the replaced contract. An internal replacement determined to result in a substantially changed contract should be accounted for as an extinguishment of the replaced contract, and unamortized deferred acquisition costs and unearned revenue liabilities of the replaced contract should be no longer be deferred. An internal replacement determined to result in an unsubstantially changed contract should be accounted for as a continuation of the replaced asset. SOP 05-01 introduces the terms integrated and non-integrated contract features and specifies that non-integrated features do not change the base contract and are to be accounted for in a manner similar to a separately issued contract. Integrated features are evaluated in conjunction with the base contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. Management is assessing the potential impact on our financial condition or results of operations.

Statement of Financial Accounting Standards No. 154 – In May 2005 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* (SFAS 154), that addresses accounting for changes in accounting principle, changes in accounting estimates, changes required by an accounting pronouncement in the instance that the pronouncement does not include specific transition provisions and error correction. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle and error correction unless impracticable to do so. SFAS 154 states an exception to retrospective application when a change in accounting principle, or the method of applying it, may be inseparable from the effect of a change in accounting estimate. When a change in principle is inseparable from a change in estimate, such as depreciation,

Accounting and Reporting Developments (continued)

amortization or depletion, the change to the financial statements is to be presented in a prospective manner. SFAS 154 and the required disclosures are effective for accounting changes and error corrections in fiscal years beginning after December 15, 2005.

Statement of Financial Accounting Standards No. 155 – In February 2006 the Financial Accounting Standards Board issued Statement of Financial Standards No. 155 *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140* (SFAS 155). This standard permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 allows an entity to make an irrevocable election to measure such a hybrid financial instrument at fair value on an instrument-by-instrument basis. The standard eliminates the prohibition on a QSPE from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 also clarifies which interest-only and principal-only strips are not subject to the requirements of SFAS 133 as well as determines that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of the fiscal year that begins after September 15, 2006. Management is assessing the potential impact on our financial condition or results of operations.

Statement of Financial Accounting Standards No. 156 – In March 2006 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets* (SFAS 156), which provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a onetime reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity's exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosures. SFAS 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006 with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings, however, SFAS 156 permits early adoption. GMAC plans to early adopt SFAS 156 as of January 1, 2006 and is currently in the process of quantifying the financial impact. It is not anticipated that adoption will have a material impact on GMAC's financial condition or results of operations.

Emerging Issues Task Force No. 04-5 – In July 2005 the Emerging Issues Task Force released Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (EITF 04-5). EITF 04-5 provides guidance in determining whether a general partner controls a limited partnership by determining the general partner's substantive ability to dissolve (liquidate) the limited partnership as well as assessing the substantive participating rights of the general partner within the limited partnership. EITF 04-5 states that if the general partner has substantive ability to dissolve (liquidate) or has substantive participating rights then the general partner is presumed to control that partnership and would be required to consolidate the limited partnership. EITF 04-5 is effective for all new limited partnerships and existing partnerships for which the partnership agreements are modified on June 29, 2005. This EITF is effective in fiscal periods beginning after December 15, 2005, for all other limited partnerships. We are currently reviewing the potential impact of EITF 04-5. It is not anticipated that adoption will have a material impact on our financial condition or results of operations.

FASB Staff Position (FSP) Nos. FAS 115-1 and FAS 124-1 – In November 2005 the FASB issued FSP Nos. FAS 115-1 and 124-1 to address the determination as to when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impaired loss. This FSP nullified certain requirements of Emerging Issues Task Force 03-1 *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (EITF 03-1), and references existing guidance on other than temporary guidance. Furthermore, this FSP creates a three step process in determining when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The FSP is effective for reporting periods beginning after December 15, 2005. It is not anticipated that adoption will have a material impact on our financial condition or results of operations.

Consolidated Operating Results

Comparison of 2005 to 2004

The following section provides a discussion of our consolidated results of operations as displayed in GMAC's consolidated statement of income in its Form 10-K. A further discussion of the operating results can be found within the foregoing individual business segment sections of this MD&A.

REVENUES

Total revenue increased by 5% primarily due to increases in commercial interest income, operating lease income and revenue from mortgages held for sale. The increase in commercial revenue was primarily the result of higher market interest rates as the majority of the portfolio is of a floating rate nature. Operating lease revenue increased due to a 20% growth of the portfolio compared to 2004 and mortgage loans held for sale revenue increased due to an increase in mortgage production.

Interest and discount expense increased by 36%, consistent with the overall increase in market interest rates during the year, but also reflective of the widening of our corporate credit spreads as we experienced a series of credit rating actions during the year. The provision for credit losses decreased by 44% as compared to 2004, despite the impact of loss reserves recorded in the third quarter of 2005 related to accounts impacted by Hurricane Katrina. The decrease in provision for credit losses was attributable to both our Financing and Residential mortgage operations. The decrease in provision at our Financing operations was due to a combination of lower consumer asset levels due to an increase in whole loan sales, improved loss performance on retail contracts and improved performance on the non-automotive commercial portfolio. Lower provision for credit losses at our Residential mortgage operations was primarily due to favorable loss severity and frequency of loss as compared to previous estimates primarily as a result of the effects of home price appreciation. Insurance premiums and service revenue earned increased by 6% as a result of contract growth across the major product lines (domestic and international).

Mortgage banking income increased by 28% as compared to 2004. The increase is primarily due to favorable net loan servicing income and higher gains on sales of loans. The increase in gains on sales of loans is primarily due to higher overall loan production and increased volume of off-balance sheet securitization versus on-balance sheet secured financings at our residential mortgage operations. Net loan servicing income increased due to higher servicing fees consistent with increases in the servicing portfolio as well as a reduction in amortization and impairment of mortgage servicing rights due to slower than expected prepayments consistent with observed trends in the portfolio and rising interest rates.

Investment and other income increased by 30% as compared to 2004. The increase is primarily due to interest income from cash and investments in U.S. Treasury securities, the favorable impact on the valuation of retained securitization interests at our residential mortgage operation, higher investment income at Commercial Mortgage and higher capital gains at our Insurance operations.

Comparison of 2005 to 2004 (continued)

EXPENSES

The 9% increase in noninterest expense is primarily due to the increase in depreciation expense on operating lease assets and compensation and benefits expense. Depreciation on operating lease assets increased as a result of higher average operating lease asset levels as compared to 2004. In addition, compensation and benefits expense increased reflecting increased compensation expense at our Mortgage operations consistent with the increase in loan production and higher supplemental compensation resulting from increased profitability. Insurance losses and loss adjustment expenses and other operating expenses were relatively stable as compared to 2004.

Our effective tax rate was 33.5%, consistent with the 33.0% rate experienced in 2004.

Noninterest expense was also negatively impacted by non-cash goodwill impairment charges of \$712 million, which were recognized in the fourth quarter of 2005. The charges relate predominately to our Commercial Finance operating segment and primarily to the goodwill recognized in connection with the 1999 acquisition of the majority of this business.

Comparison of 2004 to 2003

REVENUES

Total revenue increased by 12% or \$2,159 million to \$20,341 million in 2004. The majority of the increase in revenue (\$1,917 million) occurred at our Mortgage operations primarily due to the continued use of secured financing structures for consumer mortgage loans, which resulted in increased consumer finance receivables. The increase in commercial revenue was primarily the result of both higher earning rates caused by the overall increase in market rates in 2004 and higher wholesale receivable balances (which are primarily floating rate), as a result of increases in dealer inventories.

Interest and discount expense increased, consistent with the increase in secured debt collateralized by mortgage loans, but also the result of continued increases in our cost of borrowings due to declines in our credit ratings, as well as an overall increase in market interest rates during the year. The provision for credit losses was favorably impacted by lower credit loss provisions at our Financing operations, but negatively impacted by an increase in loss provisions in our mortgage loan portfolio due to the growth in on-balance sheet consumer mortgage loans, resulting in a net \$232 million increase in 2004 as compared to 2003.

The 11% increase in insurance premiums and service revenue earned in 2004 was due primarily to volume and rate increases at our Insurance operations. Mortgage banking income decreased by \$659 million in 2004. The

decrease in mortgage banking income was the result of decreased loan production, which resulted in decreases in gains from the sales of loans, mitigated by a decline in amortization and impairment of mortgage servicing rights due to the favorable impact of the increase in market interest rates.

The increase in investment income in 2004 was due primarily to increases in investment income in our Insurance operations investment portfolio. Capital gains on the portfolio were recognized in 2004, as compared to net capital losses (as the result of the recognition of other than temporary impairments) recognized in 2003. Additional increases in investment income were due to increases in the value of mortgage-related residual interests due to lower prepayments as a result of interest rate increases.

Other income increased by \$387 million during the year to \$3,516 million and included the following significant items, contributing to the net change:

- Increased amount of interest earned on cash and cash equivalents, resulting from an increase in the balance of cash and the overall increase in market interest rates during the year.
- Increased revenue from the International automotive full service leasing business.
- A reduction in the unfavorable impact of market adjustments on our non-hedge derivative financial instrument positions.
- Increased real estate service fees within our Mortgage operations as a result of continued growth in that portion of the business.

EXPENSES

Total noninterest expense increased by \$285 million or 2% in 2004 as compared to 2003 reflecting increased advertising expenses at our Financing operations related to joint marketing programs with General Motors, mitigated by the impact of favorable remarketing results on off-lease vehicles. Compensation and benefits expense in 2004 was consistent with 2003 levels, increasing by \$78 million or 3%. The \$83 million increase in insurance losses and loss adjustment expenses was consistent with the higher written premium and service revenue volumes experienced at our Insurance operations in 2004. Depreciation expense on operating lease assets was comparable to 2003, consistent with stable operating lease asset levels.

Other operating expenses increased by \$140 million in 2004 as compared to 2003, as a result of increased shared advertising and marketing expenses with GM, mitigated by the favorable impact of higher remarketing gains on the disposal of off-lease vehicles. Our effective tax rate was 33.0% in 2004, which was lower than the 36.3% rate experienced in 2003. During the year, we benefited from several favorable tax items within our Financing operations, including favorable tax settlements with various authorities and reduced reserve requirements.

Consolidated Financial Statements and Other Financial Information

The Consolidated Financial Statements, Financial Highlights, and Management's Discussion and Analysis of Financial Condition and Results of Operations of General Motors Corporation and subsidiaries were prepared by management, who is responsible for their integrity and objectivity. Where applicable, this financial information has been prepared in conformity with the Securities Exchange Act of 1934, as amended, and accounting principles generally accepted in the United States of America. The preparation of this financial information requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. The significant accounting policies that may involve a higher degree of judgments, estimates, and complexity are included in Management's Discussion and Analysis.

Deloitte & Touche LLP, an independent auditing firm, has audited the consolidated financial statements of General Motors and subsidiaries; its report is included herein. The audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The Board of Directors, through the Audit Committee (composed entirely of independent directors), is responsible for overseeing management's fulfillment of its responsibilities in the preparation of the consolidated financial statements. The Audit Committee annually recommends to the Board of Directors the selection of the independent auditors in advance of the Annual Meeting of Stockholders and submits the selection for ratification at the Meeting. In addition, the Audit

Committee reviews the scope of the audits and the accounting principles being applied in financial reporting. The independent auditors, representatives of management, and the internal auditors meet regularly (separately and jointly) with the Audit Committee to review the activities of each, to ensure that each is properly discharging its responsibilities, and to assess the effectiveness of internal control. To reinforce complete independence, Deloitte & Touche LLP has full and free access to meet with the Audit Committee without management representatives present, to discuss the result of the audit, the adequacy of internal control, and the quality of financial reporting.

General Motors has adopted a code of ethics that applies to its directors, officers, and employees, including the Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and any other persons performing similar functions. The text of GM's code of ethics, "Winning With Integrity," has been posted on the Corporation's Internet website at <http://investor.gm.com> at "Investor Information – Corporate Governance."

GM submitted a Section 12(a) Certification executed by GM's Chairman and Chief Executive Officer to the New York Stock Exchange in 2005.

GM filed certifications executed by GM's Chairman and Chief Executive Officer and Vice Chairman and Chief Financial Officer with the U.S. Securities and Exchange Commission pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to the Annual Report on Form 10-K for the year ended December 31, 2005.

Internal Controls Over Financial Reporting and Disclosure Controls

General Motors' management is responsible for establishing and maintaining internal controls over financial reporting and disclosure controls. Internal controls over financial reporting are designed to provide reasonable assurance that the books and records reflect the transactions of General Motors Corporation and subsidiaries and that established policies and procedures are carefully followed. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is appropriately recorded, processed, summarized and reported within the specified time periods. An important feature in General Motors' system of internal controls and disclosure controls is that both are continually reviewed for effectiveness and are augmented by written policies and guidelines.

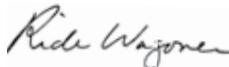
Management assessed our internal control over financial reporting as of December 31, 2005, the end of our fiscal year. Management based its assessment on criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

During 2005 GM identified three material weaknesses in internal controls, relating to statements of cash flows, accounting for vehicles on operating

lease with daily rental car entities, and impairment of foreign investments accounted for under the equity method. For further discussion, see Item 9A, Controls and Procedures, in GM's Annual Report on Form 10-K for the year ended December 31, 2005.

Based on our assessment, management has concluded that our internal control over financial reporting was not effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Deloitte & Touche LLP has audited this assessment of General Motors' internal controls over financial reporting; its report is included herein.



G. Richard Wagoner, Jr.
Chairman and
Chief Executive Officer



Frederick A. Henderson
Vice Chairman and
Chief Financial Officer



Paul W. Schmidt
Controller



Peter R. Bible
Chief Accounting Officer

Report of Independent Registered Public Accounting Firm

General Motors Corporation, its Directors, and Stockholders:

We have audited management's assessment, included in the heading "Internal Controls Over Financial Reporting and Disclosure Controls," that General Motors Corporation and subsidiaries (the Corporation) did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of the material weaknesses identified in management's assessment, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide

reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment: (1) management did not design and maintain adequate controls over the preparation, review, presentation and disclosure of amounts included in the consolidated statements of cash flows, which resulted in misstatements therein, and (2) a material weakness was identified related to the fact that GM's management did not adequately design the control procedures used to account for GM's portfolio of vehicles on operating lease with daily rental car entities, which was impaired at lease inception and prematurely revalued to reflect increased anticipated proceeds upon disposal. As discussed under the heading "Supplementary Information Selected Quarterly Data (Unaudited)," management restated previously reported 2005 quarterly financial statements due to the identification of these errors. These material weaknesses were considered in

Report of Independent Registered Public Accounting Firm

General Motors Corporation, its Directors, and Stockholders:

We have audited the accompanying Consolidated Balance Sheets of General Motors Corporation and subsidiaries (the Corporation) as of December 31, 2005 and 2004, and the related Consolidated Statements of Income, Cash Flows, and Stockholders' Equity for each of the three years in the period ended December 31, 2005. Our audits also included the Supplemental Information to the Consolidated Balance Sheets and Consolidated Statements of Income and Cash Flows (the financial statement schedules). These financial statements and financial statement schedules are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of General Motors Corporation and subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules,

determining the nature, timing, and extent of audit tests applied in our audit of the Consolidated Balance Sheet and the related Consolidated Statements of Income, Cash Flows, and Stockholders' Equity of the Corporation, the Supplemental Information to the Consolidated Balance Sheet and Consolidated Statements of Income and Cash Flows as of and for the year ended December 31, 2005 (collectively, the financial statements and financial statement schedules). This report does not affect our report on such financial statements and financial statement schedules.

In our opinion, management's assessment that the Corporation did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Corporation has not maintained effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet and the related Consolidated Statements of Income, Cash Flows, and Stockholders' Equity of the Corporation as of and for the year ended December 31, 2005. Our audit also included the Supplemental Information to the Consolidated Balance Sheet and Consolidated Statements of Income and Cash Flows (the financial statement schedules) as of and for the year ended December 31, 2005. Our report dated March 28, 2006 expressed an unqualified opinion on those financial statements and financial statement schedules and included an explanatory paragraph relating to the accounting for the estimated fair value of conditional asset retirement obligations described in Note 1.

Deloitte + Touche LLP

Detroit, Michigan
March 28, 2006

when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Corporation: (1) effective December 31, 2005, began to account for the estimated fair value of conditional asset retirement obligations to conform to FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, (2) effective July 1, 2003, began consolidating certain variable interest entities to conform to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, and (3) effective January 1, 2003, began expensing the fair market value of newly granted stock options and other stock-based compensation awards issued to employees to conform to Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 28, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Corporation's internal control over financial reporting and an adverse opinion on the effectiveness of the Corporation's internal control over financial reporting.

Deloitte + Touche LLP

Detroit, Michigan
March 28, 2006

Consolidated Statements of Income

<i>(Dollars in millions except per share amounts) Years ended December 31,</i>	2005	2004	2003
GENERAL MOTORS CORPORATION AND SUBSIDIARIES			
Total net sales and revenues (Notes 1 and 25)	\$192,604	\$193,517	\$185,837
Cost of sales and other expenses	171,033	159,957	152,419
Selling, general, and administrative expenses	22,734	20,394	20,957
Interest expense	15,768	11,980	9,464
<i>Total costs and expenses</i>	209,535	192,331	182,840
<i>Income (loss) from continuing operations before income taxes, equity income, and minority interests</i>	(16,931)	1,186	2,997
Income tax (benefit) expense (Note 12)	(5,878)	(916)	710
Equity income and minority interests	595	702	612
<i>Income (loss) from continuing operations before cumulative effect of accounting change</i>	(10,458)	2,804	2,899
(Loss) from discontinued operations (Note 3)	–	–	(219)
Gain on sale of discontinued operations (Note 3)	–	–	1,179
Cumulative effect of accounting change (Note 1)	(109)	–	–
<i>Net income (loss)</i>	\$ (10,567)	\$ 2,804	\$ 3,859
Basic earnings (loss) per share attributable to common stock			
\$1-2/3 par value			
Continuing operations before cumulative effect of accounting change	\$ (18.50)	\$ 4.97	\$ 5.17
Discontinued operations	–	–	2.14
Cumulative effect of accounting change (Note 1)	(0.19)	–	–
Earnings (loss) per share attributable to \$1-2/3 par value	\$ (18.69)	\$ 4.97	\$ 7.31
(Loss) per share from discontinued operations attributable to Class H	\$ –	\$ –	\$ (0.22)
Earnings (loss) per share attributable to common stock assuming dilution			
\$1-2/3 par value			
Continuing operations before cumulative effect of accounting change	\$ (18.50)	\$ 4.94	\$ 5.09
Discontinued operations	–	–	2.11
Cumulative effect of accounting change (Note 1)	(0.19)	–	–
Earnings (loss) per share attributable to \$1-2/3 par value	\$ (18.69)	\$ 4.94	\$ 7.20
(Loss) per share from discontinued operations attributable to Class H	\$ –	\$ –	\$ (0.22)

Reference should be made to the notes to consolidated financial statements.

Supplemental Information to the Consolidated Statements of Income

<i>(Dollars in millions) Years ended December 31,</i>	2005	2004	2003
AUTOMOTIVE AND OTHER OPERATIONS			
Total net sales and revenues (Notes 1 and 25)	\$158,221	\$161,545	\$155,831
Cost of sales and other expenses	162,173	150,224	143,408
Selling, general, and administrative expenses	13,222	11,863	11,737
<i>Total costs and expenses</i>	175,395	162,087	155,145
Interest expense	2,873	2,480	1,780
Net expense from transactions with Financing and Insurance Operations (Note 1)	497	273	297
<i>(Loss) from continuing operations before income taxes, equity income, and minority interests</i>	(20,544)	(3,295)	(1,391)
Income tax (benefit) (Note 12)	(7,184)	(2,440)	(854)
Equity income (loss) and minority interests	544	710	674
<i>Income (loss) from continuing operations before cumulative effect of accounting change</i>	(12,816)	(145)	137
(Loss) from discontinued operations (Note 3)	-	-	(219)
Gain on sale of discontinued operations (Note 3)	-	-	1,179
Cumulative effect of accounting change (Note 1)	(109)	-	-
<i>Net income (loss) - Automotive and Other Operations</i>	\$ (12,925)	\$ (145)	\$ 1,097

<i>(Dollars in millions) Years ended December 31,</i>	2005	2004	2003
FINANCING AND INSURANCE OPERATIONS			
Total revenues	\$ 34,383	\$ 31,972	\$ 30,006
Interest expense	12,895	9,500	7,684
Depreciation and amortization expense (Note 13)	5,696	5,523	5,567
Operating and other expenses	9,236	8,426	8,705
Provisions for financing and insurance losses	3,440	4,315	3,959
<i>Total costs and expenses</i>	31,267	27,764	25,915
Net income from transactions with Automotive and Other Operations (Note 1)	(497)	(273)	(297)
Income before income taxes, equity income, and minority interests	3,613	4,481	4,388
Income tax expense (Note 12)	1,306	1,524	1,564
Equity income (loss) and minority interests	51	(8)	(62)
<i>Net income - Financing and Insurance Operations</i>	\$ 2,358	\$ 2,949	\$ 2,762

The above Supplemental Information is intended to facilitate analysis of General Motors Corporation's businesses: (1) Automotive and Other Operations; and (2) Financing and Insurance Operations.

Reference should be made to the notes to consolidated financial statements.

Consolidated Balance Sheets

<i>(Dollars in millions) December 31,</i>	2005	2004
GENERAL MOTORS CORPORATION AND SUBSIDIARIES		
ASSETS		
Cash and cash equivalents (Note 1)	\$ 30,726	\$ 35,993
Other marketable securities (Note 7)	19,726	21,737
Total cash and marketable securities	50,452	57,730
Finance receivables - net (Note 9)	180,793	199,600
Loans held for sale	21,865	19,934
Accounts and notes receivable (less allowances)	15,578	21,236
Inventories (less allowances) (Note 10)	14,354	12,247
Assets held for sale (Note 1)	19,030	-
Deferred income taxes (Note 12)	29,889	26,559
Net equipment on operating leases (less accumulated depreciation) (Note 11)	38,187	34,214
Equity in net assets of nonconsolidated affiliates	3,291	6,776
Property - net (Note 13)	40,214	39,020
Intangible assets - net (Notes 1 and 14)	4,339	4,925
Other assets (Note 15)	58,086	57,680
<i>Total assets</i>	\$476,078	\$479,921
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable (principally trade)	\$ 29,913	\$ 28,830
Notes and loans payable (Note 17)	285,750	300,279
Liabilities related to assets held for sale (Note 1)	10,941	-
Postretirement benefits other than pensions (Note 18)	33,997	28,182
Pensions (Note 18)	11,304	9,455
Deferred income taxes (Notes 12 and 16)	4,477	7,078
Accrued expenses and other liabilities (Note 16)	84,060	78,340
<i>Total liabilities</i>	460,442	452,164
Minority interests	1,039	397
Stockholders' equity (Note 20)		
\$1-2/3 par value common stock (outstanding, 565,518,106 and 565,132,021 shares)	943	942
Capital surplus (principally additional paid-in capital)	15,285	15,241
Retained earnings	2,361	14,062
Subtotal	18,589	30,245
Accumulated foreign currency translation adjustments	(1,722)	(1,194)
Net unrealized gains on derivatives	733	589
Net unrealized gains on securities	786	751
Minimum pension liability adjustment	(3,789)	(3,031)
Accumulated other comprehensive loss	(3,992)	(2,885)
<i>Total stockholders' equity</i>	14,597	27,360
<i>Total liabilities, minority interests and stockholders' equity</i>	\$476,078	\$479,921

Reference should be made to the notes to consolidated financial statements.

Supplemental Information to the Consolidated Balance Sheets

<i>(Dollars in millions) December 31,</i>	2005	2004
ASSETS		
Automotive and Other Operations		
Cash and cash equivalents (Note 1)	\$ 15,187	\$ 13,148
Marketable securities (Note 7)	1,416	6,655
Total cash and marketable securities	16,603	19,803
Accounts and notes receivable (less allowances)	7,758	6,713
Inventories (less allowances) (Note 10)	13,851	11,717
Net equipment on operating leases (less accumulated depreciation) (Note 11)	6,993	6,488
Deferred income taxes and other current assets (Note 12)	8,877	10,794
Total current assets	54,082	55,515
Equity in net assets of nonconsolidated affiliates	3,291	6,776
Property - net (Note 13)	38,466	37,170
Intangible assets - net (Notes 1 and 14)	1,862	1,599
Deferred income taxes (Note 12)	22,849	17,639
Other assets (Note 15)	41,103	40,844
<i>Total Automotive and Other Operations assets</i>	161,653	159,543
Financing and Insurance Operations		
Cash and cash equivalents (Note 1)	15,539	22,845
Investments in securities (Note 7)	18,310	15,082
Finance receivables - net (Note 9)	180,793	199,600
Loans held for sale	21,865	19,934
Assets held for sale (Note 1)	19,030	-
Net equipment on operating leases (less accumulated depreciation) (Note 11)	31,194	27,726
Other assets (Note 15)	27,694	35,191
Net receivable from Automotive and Other Operations (Note 1)	4,452	2,426
<i>Total Financing and Insurance Operations assets</i>	318,877	322,804
<i>Total assets</i>	\$480,530	\$482,347
LIABILITIES AND STOCKHOLDERS' EQUITY		
Automotive and Other Operations		
Accounts payable (principally trade)	\$ 26,182	\$ 24,257
Loans payable (Note 17)	1,519	2,062
Accrued expenses (Note 16)	42,665	46,202
Net payable to Financing and Insurance Operations (Note 1)	4,452	2,426
Total current liabilities	74,818	74,947
Long-term debt (Note 17)	31,014	30,460
Postretirement benefits other than pensions (Note 18)	28,990	23,477
Pensions (Note 18)	11,214	9,371
Other liabilities and deferred income taxes (Notes 12 and 16)	22,023	16,206
<i>Total Automotive and Other Operations liabilities</i>	168,059	154,461
Financing and Insurance Operations		
Accounts payable	3,731	4,573
Liabilities related to assets held for sale (Note 1)	10,941	-
Debt (Note 17)	253,217	267,757
Other liabilities and deferred income taxes (Notes 12 and 16)	28,946	27,799
<i>Total Financing and Insurance Operations liabilities</i>	296,835	300,129
<i>Total liabilities</i>	464,894	454,590
Minority interests	1,039	397
<i>Total stockholders' equity</i>	14,597	27,360
<i>Total liabilities, minority interests and stockholders' equity</i>	\$480,530	\$482,347

The above Supplemental Information is intended to facilitate analysis of General Motors Corporation's businesses: (1) Automotive and Other Operations; and (2) Financing and Insurance Operations.

Reference should be made to the notes to consolidated financial statements.

Consolidated Statements of Cash Flows

<i>(Dollars in millions) For the years ended December 31,</i>	2005	2004	2003
Cash flows from operating activities			
Income (loss) from continuing operations	\$(10,458)	\$ 2,804	\$ 2,899
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities			
Depreciation and amortization expenses	15,769	14,152	13,513
Mortgages: servicing rights and premium amortization	1,142	1,675	1,797
Goodwill impairment	712	–	–
Provision for financing losses	1,085	1,944	1,721
Net gains on sale of finance receivables	(1,695)	(1,312)	(2,462)
Other postretirement employee benefit (OPEB) expense	5,671	4,558	4,650
OPEB payments	(4,084)	(3,974)	(3,536)
VEBA/401(h) (contributions)/withdrawals	3,168	(8,618)	(3,000)
Pension expense	2,496	2,456	3,412
Pension contributions	(833)	(919)	(18,168)
Retiree lump sum and vehicle voucher expense, net of payments	(264)	(329)	923
Net change in mortgage loans	(29,119)	(2,312)	(4,124)
Net change in mortgage securities	(1,155)	614	233
Change in other investments and miscellaneous assets	(653)	83	409
Change in other operating assets and liabilities	(1,183)	(1,644)	(2,358)
Other	2,545	178	915
<i>Net cash provided by (used in) continuing operating activities</i>	\$(16,856)	\$ 9,356	\$ (3,176)
Cash flows from continuing investing activities			
Expenditures for property	(8,179)	(7,753)	(7,091)
Investments in marketable securities - acquisitions	(21,800)	(15,278)	(28,660)
Investments in marketable securities - liquidations	22,537	15,911	24,253
Net change in mortgage servicing rights	(267)	(326)	(513)
Increase in finance receivables	(6,582)	(38,673)	(56,119)
Proceeds from sale of finance receivables	31,652	23,385	22,182
Proceeds from sale of business units/equity investments	846	–	4,148
Dividends received from discontinued operations	–	–	275
Operating leases - acquisitions	(15,496)	(14,324)	(11,032)
Operating leases - liquidations	5,362	7,696	9,604
Investments in companies, net of cash acquired	1,355	(60)	(201)
Other	(863)	1,359	(1,287)
<i>Net cash provided by (used in) continuing investing activities</i>	8,565	(28,063)	(44,441)
Cash flows from continuing financing activities			
Net increase (decrease) in loans payable	(10,126)	2,192	235
Long-term debt - borrowings	78,276	73,511	97,391
Long-term debt - repayments	(69,566)	(57,822)	(38,962)
Proceeds from sales of treasury stocks	–	–	60
Cash dividends paid to stockholders	(1,134)	(1,129)	(1,121)
Other	6,030	4,723	1,319
<i>Net cash provided by continuing financing activities</i>	3,480	21,475	58,922
Effect of exchange rate changes on cash and cash equivalents	(85)	671	929
Net increase (decrease) in cash and cash equivalents	(4,896)	3,439	12,234
Cash and cash equivalents reclassified to Assets Held for Sale	(371)	–	–
Cash and cash equivalents at beginning of the year	35,993	32,554	20,320
<i>Cash and cash equivalents at end of the year</i>	\$ 30,726	\$ 35,993	\$ 32,554
Net cash provided by operating activities of discontinued operations	–	–	846
Net cash used in investing activities of discontinued operations	–	–	(629)
Net cash provided by financing activities of discontinued operations	–	–	918
Net increase in cash and cash equivalents of discontinued operations	–	–	1,135
Cash retained by discontinued operations upon disposal	–	–	(2,216)
Cash reclassified as Assets of Discontinued Operations at beginning of year	–	–	1,081
<i>Cash included in Assets of Discontinued Operations at end of year</i>	\$ –	\$ –	\$ –

Reference should be made to the notes to consolidated financial statements.

Supplemental Information to the Consolidated Statements of Cash Flows

	(Dollars in millions) For the years ended December 31,					
	2005		2004		2003	
	Automotive and Other Operations	Financing and Insurance	Automotive and Other Operations	Financing and Insurance	Automotive and Other Operations	Financing and Insurance
Cash flows from continuing operating activities						
Income (loss) from continuing operations before cumulative effect of accounting change	\$(12,816)	\$ 2,358	\$ (145)	\$ 2,949	\$ 137	\$ 2,762
Adjustments to reconcile income (loss) from continuing operations before cumulative effect of accounting change to net cash provided by operating activities						
Depreciation and amortization expenses	10,073	5,696	8,629	5,523	7,946	5,567
Mortgages: servicing rights and premium amortization	–	1,142	–	1,675	–	1,797
Goodwill impairment	–	712	–	–	–	–
Provision for financing losses	–	1,085	–	1,944	–	1,721
Net gains on sale of finance receivables	–	(1,695)	–	(1,312)	–	(2,462)
Postretirement benefits other than pensions, net of payments and VEBA contributions/withdrawals	4,717	38	(8,048)	14	(1,906)	20
Pension expense, net of contributions	1,385	14	1,174	34	(13,869)	36
Net change in mortgage loans	–	(29,119)	–	(2,312)	–	(4,124)
Net change in mortgage securities	–	(1,155)	–	614	–	233
Change in other investments and miscellaneous assets	173	(826)	(22)	105	(207)	616
Change in other operating assets and liabilities	(5,466)	4,283	(268)	(1,376)	2,921	(5,279)
Other	1,970	575	(102)	280	(348)	1,263
<i>Net cash provided by (used in) continuing operating activities</i>	\$ 36	\$(16,892)	\$ 1,218	\$ 8,138	\$ (5,326)	\$ 2,150
Cash flows from continuing investing activities						
Expenditures for property	(7,896)	(283)	(7,284)	(469)	(6,616)	(475)
Investments in marketable securities – acquisitions	(2,616)	(19,184)	(2,209)	(13,069)	(13,138)	(15,522)
Investments in marketable securities – liquidations	7,663	14,874	4,609	11,302	7,109	17,144
Net change in mortgage servicing rights	–	(267)	–	(326)	–	(513)
Increase in finance receivables	–	(6,582)	–	(38,673)	–	(56,119)
Proceeds from sales of finance receivables	–	31,652	–	23,385	–	22,182
Proceeds from sale of business units/equity investments	846	–	–	–	4,148	–
Dividends received from discontinued operations	–	–	–	–	275	–
Operating leases – acquisitions	–	(15,496)	–	(14,324)	–	(11,032)
Operating leases – liquidations	–	5,362	–	7,696	–	9,604
Investments in companies, net of cash acquired	1,357	(2)	(48)	(12)	(57)	(144)
Net investing activity with Financing and Insurance Operations	2,500	–	1,500	–	1,000	–
Other	640	(1,503)	882	477	332	(1,619)
<i>Net cash provided by (used in) continuing investing activities</i>	2,494	8,571	(2,550)	(24,013)	(6,947)	(36,494)
Cash flows from continuing financing activities						
Net increase (decrease) in loans payable	(177)	(9,949)	(803)	2,995	(234)	469
Long-term debt – borrowings	386	77,890	758	72,753	14,785	82,606
Long-term debt – repayments	(46)	(69,520)	(79)	(57,743)	(19)	(38,943)
Net financing activity with Automotive and Other	–	(2,500)	–	(1,500)	–	(1,000)
Proceeds from sales of treasury stocks	–	–	–	–	60	–
Cash dividends paid to stockholders	(1,134)	–	(1,129)	–	(1,121)	–
Other	–	6,030	–	4,723	–	1,319
<i>Net cash provided by (used in) continuing financing activities</i>	(971)	1,951	(1,253)	21,228	13,471	44,451
Effect of exchange rate changes on cash and cash equivalents	(40)	(45)	375	296	661	268
Net transactions with Automotive/Financing Operations	520	(520)	934	(934)	403	(403)
Net increase (decrease) in cash and cash equivalents	2,039	(6,935)	(1,276)	4,715	2,262	9,972
Cash and cash equivalents reclassified to Assets Held for Sale	–	(371)	–	–	–	–
Cash and cash equivalents at beginning of the year	13,148	22,845	14,424	18,130	12,162	8,158
<i>Cash and cash equivalents at end of the year</i>	\$ 15,187	\$ 15,539	\$ 13,148	\$ 22,845	\$ 14,424	\$ 18,130

The above Supplemental Information is intended to facilitate analysis of General Motors Corporation's businesses: (1) Automotive and Other Operations; and (2) Financing and Insurance Operations. Classification of cash flows for Financing and Insurance Operations is consistent with presentation in GM's Consolidated Statement of Cash Flows. See Note 1.

Reference should be made to the notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

<i>(Dollars in millions)</i>	Total Capital Stock	Capital Surplus	Comprehensive Income (Loss)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2003	\$1,032	\$21,583		\$ 9,629	\$(25,832)	\$ 6,412
Shares issued	16	1,324		—	—	1,340
Comprehensive income:						
Net income	—	—	\$ 3,859	3,859	—	3,859
Other comprehensive income:						
Foreign currency translation adjustments	—	—	969	—	—	—
Unrealized gains on derivatives	—	—	256	—	—	—
Unrealized gains on securities	—	—	246	—	—	—
Minimum pension liability adjustment	—	—	20,755	—	—	—
Other comprehensive income	—	—	22,226	—	22,226	22,226
Comprehensive income	—	—	\$ 26,085	—	—	—
Effect of Hughes transactions (Note 3)	(111)	(8,056)				(8,167)
Stock options		334				334
Delphi spin-off adjustment (a)	—	—		20	—	20
Cash dividends	—	—		(1,121)	—	(1,121)
Balance at December 31, 2003	\$ 937	\$15,185		\$ 12,387	\$ (3,606)	\$ 24,903
Shares issued	5	138		—	—	143
Comprehensive income:						
Net income	—	—	\$ 2,804	2,804	—	2,804
Other comprehensive income:						
Foreign currency translation adjustments	—	—	621	—	—	—
Unrealized gains on derivatives	—	—	538	—	—	—
Unrealized gains on securities	—	—	133	—	—	—
Minimum pension liability adjustment	—	—	(571)	—	—	—
Other comprehensive income	—	—	721	—	721	721
Comprehensive income	—	—	\$ 3,525	—	—	—
Stock options		(82)				(82)
Cash dividends	—	—		(1,129)	—	(1,129)
Balance at December 31, 2004	\$ 942	\$15,241		\$ 14,062	\$ (2,885)	\$ 27,360
Shares issued	1	102		—	—	103
Comprehensive income:						
Net (loss) income	—	—	\$(10,567)	(10,567)	—	(10,567)
Other comprehensive income:						
Foreign currency translation adjustments	—	—	(528)	—	—	—
Unrealized gains on derivatives	—	—	144	—	—	—
Unrealized gains on securities	—	—	35	—	—	—
Minimum pension liability adjustment	—	—	(758)	—	—	—
Other comprehensive income	—	—	(1,107)	—	(1,107)	(1,107)
Comprehensive income	—	—	\$(11,674)	—	—	—
Stock options		(58)				(58)
Cash dividends	—	—		(1,134)	—	(1,134)
Balance at December 31, 2005	\$ 943	\$15,285		\$ 2,361	\$ (3,992)	\$ 14,597

(a) Write-off of deferred taxes related to the 1999 spin-off of Delphi Automotive Systems.

Reference should be made to the notes to consolidated financial statements.

Note 1 Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of General Motors Corporation and domestic and foreign subsidiaries that are more than 50% owned, principally General Motors Acceptance Corporation and Subsidiaries (GMAC) (collectively referred to as the "Corporation," "General Motors" or "GM"). In addition, GM consolidates variable interest entities (VIEs) for which it is deemed to be the primary beneficiary. General Motors' share of earnings or losses of associates, in which at least 20% of the voting securities is owned, is included in the consolidated operating results using the equity method of accounting, except for investments where GM is not able to exercise significant influence over the operating and financial decisions of the investee, in which case the cost method of accounting is used. GM encourages reference to the GMAC Annual Report on Form 10-K for the period ended December 31, 2005, filed separately with the U.S. Securities and Exchange Commission (SEC) and incorporated herein by reference.

Certain amounts for 2004 and 2003 have been reclassified to conform to the 2005 classifications.

NATURE OF OPERATIONS, FINANCIAL STATEMENT PRESENTATION, AND SUPPLEMENTAL INFORMATION

GM presents its primary financial statements on a fully consolidated basis. Transactions between reportable operating segments, Automotive and Other Operations (Auto & Other) and Financing and Insurance Operations (FIO), have been eliminated in the Corporation's consolidated financial statements. These transactions consist principally of borrowings and other financial services provided by FIO to Auto & Other. A master intercompany agreement governs the nature of these transactions to ensure that they are done in accordance with commercially reasonable standards.

To facilitate analysis, GM presents separate supplemental financial information for its reportable operating segments.

GM's Auto & Other reportable operating segment consists of:

- GM's four automotive regions: GM North America (GMNA), GM Europe (GME), GM Latin America/Africa/Mid-East (GMLAAM), and GM Asia Pacific (GMAP), which constitute GM Automotive (GMA); and
- Other, which includes the elimination of intersegment transactions, certain non-segment specific revenues and expenditures, including legacy costs related to postretirement benefits for certain Delphi and other retirees, and certain corporate activities.

GM's FIO reportable operating segment consists of GMAC and Other Financing, which includes financing entities that are not consolidated by GMAC.

USE OF ESTIMATES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may differ from those estimates.

REVENUE RECOGNITION

Sales generally are recorded when products are shipped (when title and risks and rewards of ownership have passed), or when services are rendered to independent dealers or other third parties. Provisions for dealer and customer sales incentives, customer leasing incentives, allowances, and rebates are made at the time of vehicle sales. Incentives, allowances, and rebates related to vehicles previously sold are recognized as reductions of sales when announced.

Sales to daily rental car companies with guaranteed repurchase options are accounted for as equipment on operating leases. Lease revenue is recognized over the term of the lease. Management reviews residual values periodically to determine that estimates remain appropriate, and if an asset is impaired losses are recognized at the time of the impairment.

Financing revenue is recorded over the terms of the receivables using the interest method. Income from operating lease assets is recognized on a straight-line basis over the scheduled lease terms.

Insurance premiums are earned on a basis related to coverage provided over the terms of the policies. Commissions, premium taxes, and other costs incurred in acquiring new business are deferred and amortized over the terms of the related policies on the same basis as premiums are earned.

ADVERTISING AND RESEARCH AND DEVELOPMENT

Advertising, research and development, and other product-related costs are charged to expense as incurred. Advertising expense was \$5.8 billion in 2005, \$5.2 billion in 2004, and \$4.7 billion in 2003. Research and development expense was \$6.7 billion in 2005, \$6.5 billion in 2004 and \$6.2 billion in 2003.

DEPRECIATION AND AMORTIZATION

Expenditures for special tools placed in service after January 1, 2002 are amortized using the straight-line method over their estimated useful lives. Expenditures for special tools placed in service prior to January 1, 2002, are amortized over their estimated useful lives, primarily using the units of production method. Replacements of special tools for reasons other than changes in products are charged directly to cost of sales. As of January 1, 2001, the Corporation adopted the straight-line method of depreciation for real estate, plants, and equipment placed in service after that date. Assets placed in service before January 1, 2001, continue generally to be depreciated using accelerated methods. The accelerated methods accumulate depreciation of approximately two-thirds of the depreciable cost during the first half of the estimated useful lives of property groups as compared to the straight-line method, which allocates depreciable costs equally over the estimated useful lives of property groups. Management believes the adoption of the straight-line amortization/depreciation method for special tools placed into service after January 1, 2002, and real estate, plants, and equipment placed into service after January 1, 2001, better reflects the consistent use of these assets over their useful lives.

Equipment on operating leases is depreciated using the straight-line method over the term of the lease agreement. For Auto & Other, the difference between the net book value and the proceeds of sale or salvage on items disposed of is accounted for as a charge against or credit to sales allowances.

GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangible assets, net of accumulated amortization, are reported in other assets. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), goodwill represents the excess of the cost of an acquisition over the fair value of net assets acquired. Goodwill is reviewed for impairment utilizing a two step process. The first step of the impairment test requires us to identify the reporting units, and compare the fair value of each of these reporting units to the respective carrying value. The fair value of the reporting units is determined based on various analyses, including discounted cash flow projections. 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, there is an indication that impairment may exist and a second step must be performed to compute the amount of the impairment. SFAS 142 requires goodwill to be tested for impairment annually at the same time every year, and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. We generally perform our annual impairment tests in the third or fourth quarters.

Note 1 Significant Accounting Policies (continued)

Other intangible assets, which include customer lists, trademarks and other identifiable intangible assets, are amortized on a straight-line basis over an estimated useful life of three to 10 years.

VALUATION OF LONG-LIVED ASSETS

GM periodically evaluates the carrying value of long-lived assets to be held and used in the business, other than goodwill and intangible assets with indefinite lives, and assets held for sale when events and circumstances warrant, generally in conjunction with the annual business planning cycle. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair market value for assets to be held and used. For assets held for sale, such loss is further increased by costs to sell. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Long-lived assets to be disposed of other than by sale are considered held and used until disposed of.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION

Foreign currency exchange transaction and translation losses, including the effect of derivatives, net of taxes, included in consolidated net income in 2005, 2004, and 2003, pursuant to SFAS No. 52, "Foreign Currency Translation," amounted to \$262 million, \$167 million, and \$122 million, respectively.

POLICY AND WARRANTY

Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of warranty claims. Management actively studies trends of warranty claims and takes action to improve vehicle quality and minimize warranty claims. See Note 16.

EXIT OR DISPOSAL ACTIVITIES

Costs to idle, consolidate or close facilities and provide postemployment benefits to employees on an other than temporary basis are accrued based on management's best estimate of the wage and benefits costs that will be incurred for qualified employees under the JOBS bank provisions of the current labor agreement through the date of its expiration in September 2007, plus estimated costs expected to be paid thereafter. These estimates include a 45% and 9% projected level of acceptance of normal and early retirement offers, respectively, made pursuant to the current labor agreement. Costs related to the idlings of employees that are expected to be temporary are expensed as incurred. Costs to terminate a contract without economic benefit to the Corporation are expensed at the time the contract is terminated. One-time termination benefits that are not subject to contractual arrangements provided to employees who are involuntarily terminated are recorded when management commits to a detailed plan of termination, that plan is communicated to employees, and actions required to complete the plan indicate that significant changes are not likely. If employees are required to render service until they are terminated in order to earn the termination benefit, the benefits are recognized ratably over the future service period.

CASH AND CASH EQUIVALENTS

Cash equivalents are defined as short-term, highly-liquid investments with original maturities of 90 days or less.

STATEMENTS OF CASH FLOWS SUPPLEMENTARY INFORMATION

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
Automotive and Other Operations			
Increase (decrease) in cash due to changes in other operating assets and liabilities was as follows:			
Accounts receivable	\$ 59	\$ (284)	\$ (575)
Prepaid expenses and other deferred charges	(83)	42	(578)
Inventories	(1,484)	(156)	(518)
Accounts payable	249	1,723	2,400
Deferred taxes and income taxes payable	(6,069)	(444)	2,235
Accrued expenses and other liabilities	3,935	11	2,887
Fleet rental - acquisitions	(9,452)	(7,846)	(7,761)
Fleet rental - liquidations	7,379	6,686	4,831
Total	\$ (5,466)	\$ (268)	\$ 2,921
Cash paid for interest	\$ 2,790	\$ 2,508	\$ 1,398

During 2005, Auto & Other had cash inflows related to investments in companies, net of cash acquired, of approximately \$1.4 billion. This amount is driven primarily by GM's acquisition in 2005 of a majority interest in GM Daewoo, which resulted in GM consolidating GM Daewoo's cash balance of approximately \$1.6 billion (net of \$70 million cash paid by GM to acquire the additional 6.3% interest in GM Daewoo).

During 2004 and 2003, Auto & Other had cash outflows related to investments in companies, net of cash acquired, of approximately \$50 million and \$60 million, respectively.

	Years ended December 31,		
(Dollars in millions)	2005	2004	2003
Financing and Insurance Operations			
Increase (decrease) in cash due to changes in other operating assets and liabilities was as follows:			
Other receivables	\$ 4,092	\$ 419	\$(5,236)
Other assets	48	(111)	186
Accounts payable and other liabilities	332	(1,173)	1,765
Deferred taxes and income taxes payable	(189)	(511)	(1,994)
Total	\$ 4,283	\$(1,376)	\$(5,279)
Cash paid for interest	\$ 13,025	\$ 8,887	\$ 6,965

During 2005, FIO made investments in companies, net of cash acquired, of approximately \$2 million. During 2004 and 2003, FIO made investments in companies, net of cash acquired, of approximately \$12 million and \$144 million, respectively.

DERIVATIVE INSTRUMENTS

GM is party to a variety of foreign exchange rate, interest rate and commodity forward contracts, and options entered into in connection with the management of its exposure to fluctuations in foreign exchange rates, interest rates, and certain commodity prices. These financial exposures are managed in accordance with corporate policies and procedures.

Note 1 Significant Accounting Policies (continued)

All derivatives are recorded at fair value on the consolidated balance sheet. Effective changes in fair value of derivatives designated as cash flow hedges and hedges of a net investment in a foreign operation are recorded in net unrealized gain/(loss) on derivatives, a separate component of other comprehensive income (loss). Amounts are reclassified from accumulated other comprehensive income (loss) when the underlying hedged item affects earnings. All ineffective changes in fair value are recorded currently in earnings. Changes in fair value of derivatives designated as fair value hedges are recorded currently in earnings offset, to the extent the derivative was effective, by changes in fair value of the hedged item. Changes in fair value of derivatives not designated as hedging instruments are recorded currently in earnings.

ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

On August 3, 2005, GMAC announced that it had entered into a definitive agreement to sell a majority equity interest in GMAC Commercial Holding Corp. (GMAC Commercial Mortgage). See Note 27 for subsequent events. For the year ended December 31, 2005, GMAC Commercial Mortgage's earnings and cash flows are fully consolidated in GM's Consolidated Statements of Income and Statements of Cash Flows. However, as a result of the agreement to sell a majority equity interest, the assets and liabilities of GMAC Commercial Mortgage have been classified as held for sale separately in GM's Consolidated Balance Sheet at December 31, 2005. The following table presents GMAC Commercial Mortgage's major classes of assets and liabilities classified as held for sale as of December 31, 2005 (dollars in millions):

Cash and cash equivalents	\$ 371
Marketable securities	2,295
Total cash and marketable securities	2,666
Finance receivables – net	2,990
Loans held for sale	9,019
Other assets	4,355
Total assets held for sale	\$19,030
Accounts payable	\$ 794
Debt	3,519
Deferred income taxes and other liabilities	6,628
Total liabilities related to assets held for sale	\$10,941

LABOR FORCE

GM, on a worldwide basis, has a concentration of its labor supply in employees working under union collective bargaining agreements, of which certain contracts expired in 2003.

The 2003 International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) labor contract was effective on October 6, 2003, covering a four-year term from 2003-2007. The contract included a \$3,000 lump sum payment per UAW employee paid in October 2003, and a 3% performance bonus per UAW employee was paid in October 2004. GM amortizes these payments over the 12-month period following the respective payment dates. UAW employees received a gross wage increase of 2% in 2005 and 3% in 2006. Active UAW employees were also granted pension benefit increases. There were no pension benefit increases granted to current retirees and surviving spouses. However, the contract does provide for four lump sum payments and two vehicle discount vouchers for current retirees and surviving spouses. The retiree lump sum payments and vehicle discount vouchers resulted in a charge to GM's 2003 cost of sales of approximately \$1.2 billion (\$725 million after tax).

CHANGE IN ACCOUNTING PRINCIPLE: CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Effective December 31, 2005, the Corporation adopted Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). FIN 47 relates to legal obligations associated with retirement of a tangible long-lived assets that result from their acquisition, construction, or development or normal operation of a long-lived asset. GM performed an analysis of such obligations associated with all real property owned or leased, including plants, warehouses, and offices. GM's estimates of conditional asset retirement obligations relate, in the case of owned properties, to costs estimated to be necessary for the legally required removal or remediation of various regulated materials, primarily asbestos. For leased properties, such obligations relate to the estimated cost of contractually required property restoration. The application of FIN 47 resulted in a charge, net of tax, of \$109 million included in the Consolidated Statement of Income for the year ended December 31, 2005 as the cumulative effect of a change in accounting principle, all attributable to Auto & Other. The liability for conditional asset retirement obligations recognized at December 31, 2005, as the result of the application of FIN 47 was \$181 million. Pro forma amounts, as if FIN 47 had been applied for all periods, follow (dollars in millions, except per share amounts).

	Years ended December 31,		
	2005	2004	2003
Net income (loss) as reported	\$(10,567)	\$2,804	\$3,859
Add: FIN 47 cumulative effect, net of tax	109	–	–
Less: FIN 47 depreciation and accretion expense, net of tax	(16)	(14)	(13)
Pro forma net income (loss)	\$(10,474)	\$2,790	\$3,846
Earnings (loss) per share			
Basic: As reported	\$ (18.69)	\$ 4.97	\$ 7.31
Pro forma	\$ (18.52)	\$ 4.94	\$ 7.29
Diluted: As reported	\$ (18.69)	\$ 4.94	\$ 7.20
Pro forma	\$ (18.52)	\$ 4.92	\$ 7.18
Pro forma asset retirement obligation – net, as of year-end	\$ 181	\$ 159	\$ 140

NEW ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (FASB) revised SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123R), requiring companies to record share-based payment transactions as compensation expense at fair market value. SFAS 123R further defines the concept of fair market value as it relates to such arrangements. Based on SEC guidance issued in Staff Accounting Bulletin (SAB) 107 in April 2005, the provisions of this statement will be effective for General Motors as of January 1, 2006. The Corporation began expensing the fair market value of newly granted stock options and other stock based compensation awards to employees pursuant to SFAS 123 in 2003; therefore this statement is not expected to have a material effect on GM's consolidated financial position or results of operations.

In accordance with the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," since GM adopted the fair value based method of accounting for stock-based employee compensation pursuant to SFAS No. 123 effective January 1, 2003, for newly granted stock-based compensation awards only, the following table illustrates the effect on net income and earnings per share if compensation cost for all outstanding

Note 1 Significant Accounting Policies (continued)

and unvested stock options and other stock-based employee compensation awards had been determined based on their fair values at the grant date (dollars in millions except per share amounts):

	Years ended December 31,		
	2005	2004	2003
Income (loss) from continuing operations before cumulative effect of accounting change	\$(10,458)	\$2,804	\$2,899
Add: stock-based compensation expense, included in reported net income, net of related tax effects	58	38	142
Deduct: total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(58)	(52)	(195)
Pro forma net income from continuing operations	\$(10,458)	\$2,790	\$2,846
Basic earnings per share from continuing operations attributable to GM \$1-2/3 par value			
– as reported	\$ (18.50)	\$ 4.97	\$ 5.17
– pro forma	\$ (18.50)	\$ 4.94	\$ 5.08
Diluted earnings per share from continuing operations attributable to GM \$1-2/3 par value			
– as reported	\$ (18.50)	\$ 4.94	\$ 5.09
– pro forma	\$ (18.50)	\$ 4.92	\$ 5.00

In December 2005, the FASB released FASB Staff Position (FSP) SFAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards," which provides a practical transition election related to accounting for the tax effects of share-based payment awards to employees. The Corporation is currently reviewing the transition alternatives and will elect the appropriate alternative within one year of the adoption of SFAS 123(R).

In April 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," requiring retrospective application as the required method for reporting a change in accounting principle, unless impracticable or a pronouncement includes specific transition provisions. This statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This statement carries forward the guidance in APB Opinion No. 20, "Accounting Changes," for the reporting of the correction of an error and a change in accounting estimate. This statement is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005.

In November 2005, the FASB released FSP FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners," requiring companies to disclose minimum revenue guarantees in accordance with the guidelines provided in FIN 45 for interim and annual financial statements. GM adopted FIN 45-3 upon issuance. The Interpretation did not have a material effect on GM's consolidated financial position or results of operations.

Effective July 1, 2003, the Corporation began consolidating certain variable interest entities to conform to FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). GM adopted the revision to FIN 46, FIN 46R, which clarified certain provisions of the original interpretation and exempted certain entities from its requirements. As of January 1, 2004, the adoption of FIN 46R did not have a significant effect on the Corporation's financial condition or results of operations.

Note 2 Acquisition and Disposal of Businesses

On February 3, 2005, GM completed the purchase of 16.6 million newly-issued shares of common stock in GM Daewoo for approximately \$49 million, which increased GM's ownership in GM Daewoo to 48.2% from 44.6%. No other shareholders in GM Daewoo participated in the issue. On June 28, 2005, GM purchased from Suzuki Motor Corporation (Suzuki) 6.9 million shares of outstanding common stock in GM Daewoo for approximately \$21 million. This increased GM's ownership in GM Daewoo to 50.9%. Accordingly, as of June 30, 2005, GM began consolidating GM Daewoo. This increased GM's total assets and liabilities as of June 30, 2005 by approximately \$4.7 billion and \$4.5 billion, respectively, including one-time increases of \$1.6 billion of cash and marketable securities and \$1.3 billion of long-term debt.

The following unaudited financial information for the periods ended December 31, 2005, 2004, and 2003 represents amounts attributable to GM Daewoo on a basis consistent with giving effect to the increased ownership and consolidation as of January 1, 2003 (dollars in millions). The pro forma effect on net income (loss) is not significant compared to equity income recognized.

	Years ended December 31,		
	2005	2004	2003
Total net sales and revenues	\$5,738	\$4,338	\$3,161

On February 13, 2005, GM and Fiat S.p.A. (Fiat) reached a settlement agreement whereby GM agreed to pay Fiat approximately \$2.0 billion and to return its 10% equity interest in Fiat Auto Holdings B.V. (FAH), to terminate the Master Agreement (including the Put Option) entered into in March 2000, settle various disputes related thereto, and acquire an interest in key strategic diesel engine assets, and other important rights with respect to diesel engine technology and know-how. The settlement agreement resulted in a pre-tax charge to earnings of approximately \$1.4 billion (\$886 million after tax). Since the underlying events and disputes giving rise to GM's and Fiat's agreement to settle these disputes and terminate the Master Agreement (including the Put Option) existed at December 31, 2004, GM recognized this charge in the fourth quarter of 2004. This charge was recorded in cost of sales and other expenses in Other Operations.

In addition, the settlement agreement included, among other things, the following actions or provisions:

- The Fiat-GM Powertrain (FGP) joint venture company would be dissolved and GM would regain complete ownership of all GM assets originally contributed. During a transition period, FGP would continue to supply both companies so that their respective operations would not be disrupted.
- GM will retain co-ownership with Fiat of the key powertrain intellectual property, including SDE and JTD diesel engines and the M20-32 six-speed manual transmission;
- GM will hold a 50% interest in a joint venture limited to operating the powertrain manufacturing plant in Bielsko-Biala, Poland, that currently produces the 1.3 liter SDE diesel engine;
- The companies will continue to supply each other with powertrains under long-term contracts which provide considerable ongoing savings;
- GM and Fiat will also continue to work together to develop certain car programs;
- Fiat will participate in GM's purchasing alliance program;
- GM and Fiat have exchanged broad releases of all claims and liabilities.

Note 2 Acquisition and Disposal of Businesses (continued)

Effective May 13, 2005 the liquidation of these joint ventures and GM's acquisition of certain strategic assets from Fiat were completed.

On April 4, 2005, GM completed the sale of its Electro-Motive Division (EMD) to an investor group led by Greenbriar Equity Group LLC and Berkshire Partners LLC. The sale covered substantially all of the EMD businesses, and both the LaGrange, Illinois and London, Ontario manufacturing facilities. This transaction did not have a material effect on GM's consolidated financial position or results of operations.

In the fourth quarter of 2005, GM completed the sale of its 20.1% investment in the common stock of Fuji Heavy Industries Ltd. (FHI). In the second quarter of 2005, GM recorded an after tax impairment charge of \$788 million associated with its investment in the common stock of FHI. In the fourth quarter of 2005, GM recorded a gain of \$71 million, after tax, due to the appreciation of the fair value of such stock after June 30, 2005, the date of the FHI impairment charge. The sale generated net proceeds of approximately \$775 million.

On August 3, 2005, GMAC announced that it had entered into a definitive agreement to sell a 60% equity interest in GMAC Commercial Holding Corp. (GMAC Commercial Mortgage). See Note 27 for subsequent events. As a result of the agreement, the assets and liabilities of GMAC Commercial Mortgage have been classified as held for sale separately in GM's consolidated balance sheet at December 31, 2005. See Note 1.

Note 3 Discontinued Operations

On December 22, 2003, GM completed a series of transactions that resulted in the split-off of Hughes from GM and the simultaneous sale of GM's approximately 19.8% retained economic interest in Hughes to The News Corporation Limited (News Corporation).

In the transactions, GM split off Hughes by distributing Hughes common stock to the holders of GM Class H common stock in exchange for all outstanding shares of GM Class H common stock. Simultaneously, GM sold its 19.8% retained economic interest in Hughes to News Corporation in exchange for cash and News Corporation Preferred American Depositary Shares (Preferred ADSs). All shares of GM Class H common stock were then cancelled. News Corporation then acquired from the former GM Class H common stockholders an additional 14.2% of the outstanding shares of Hughes common stock in exchange for News Corporation Preferred ADSs.

GM sold 80% of its 19.8% retained economic interest in Hughes to News Corporation for a total of approximately \$3.1 billion in cash. GM sold the remaining 20% of its retained economic interest in Hughes to News Corporation for approximately 28.6 million News Corporation Preferred ADSs, valued at \$819 million at December 22, 2003. Including Hughes' transaction expenses of approximately \$90 million, GM recorded a net gain of \$1.2 billion from the sale of GM's approximately 19.8% economic interest in Hughes, reported as gain on sale of discontinued operations in GM's Consolidated Statement of Income for 2003. In addition, as a result of the transactions, there was a net reduction to GM's stockholders' equity of approximately \$7.0 billion.

GM sold all its News Corporation Preferred ADSs in January 2004.

The financial data related to GM's investment in Hughes through December 22, 2003 is classified as discontinued operations for the year ended December 31, 2003. Hughes' net sales included in discontinued operations were \$9.8 billion, and Hughes' net losses from discontinued operations were \$219 million.

Note 4 Asset Impairments

GM reassesses the carrying value of long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, in connection with the annual business planning cycle, or when events and circumstances indicate the need for such a review. This impairment analysis is performed by comparing projected cash flows to the book value of specific product-related assets, which include special tools and other assets related to product lines, and facilities.

In the first quarter 2005, GMNA recorded an after tax charge of \$84 million for the write-down to fair market value of various plant assets in connection with the cessation of production at a Lansing, Michigan assembly plant.

In the second quarter of 2005, GMAP determined that the value of its investment in the common stock of Fuji Heavy Industries Ltd. (FHI) was impaired on an other-than-temporary basis. Accordingly, GMAP recorded an after-tax impairment charge of \$788 million associated with its investment in the common stock of FHI. In the fourth quarter of 2005, GM completed the sale of its investment in FHI, and recorded a gain of \$71 million, after tax, due to the appreciation of the fair value of such stock after June 30, 2005, the date of the FHI impairment charge.

In the third quarter of 2005, the business planning cycle was accelerated as a result of the lack of improved performance in the second quarter of 2005. In connection with this process, GM reviewed the carrying value of certain long-lived assets held and used, other than goodwill and intangible assets with indefinite lives. These reviews resulted in impairment charges in GMNA and GME. In addition, restructuring initiatives were announced in the third quarter of 2005 in GMAP, related to production in Australia, resulting in additional impairment charges. In GMLAAM, unusually strong South American currencies have adversely affected the profitability of GMLAAM's export business. Management's decision to adjust GMLAAM's export volumes resulted in lower expected future cash flows, resulting in an impairment charge in the region. These reviews and initiatives resulted in after-tax impairment charges totaling \$788 million recognized in the third quarter of 2005 (\$468 million at GMNA, \$176 million at GME, \$99 million at GMLAAM, and \$45 million at GMAP) for assets that were still in service.

In the fourth quarter of 2005, GMNA announced a restructuring initiative which will cease operations at nine assembly, stamping, and powertrain facilities and three Service Parts and Operations facilities by 2008. As a result of these capacity reduction initiatives, GM recorded an after-tax charge of \$455 million for the write-down to fair market value of property, plants, and equipment for assets that were still in service as of December 31, 2005. See Note 5 for further discussion of the employee costs associated with this restructuring.

Total after-tax impairment charges recognized in 2005, were \$2.0 billion, including \$767 million for product-specific assets, \$560 million for production and office facilities, and \$717 for investments in equity securities. The charges were recorded in cost of sales and other expenses in the consolidated statement of income. Unless otherwise noted above, there were no employee idling or separation costs, and no lease contracts were terminated.

In 2004, impairment analyses resulted in after-tax charges totaling \$383 million (\$118 million at GMNA, \$234 million at GME, and \$31 million at Other) with respect to product-specific assets. Additional after-tax charges of \$78 million were recorded at GMNA for the write-down to fair market value of various plant assets in connection with facilities rationalization actions at assembly plants in Baltimore, Maryland and Linden, New Jersey.

In the fourth quarter of 2004, GM completed its annual review of its investment in FAH. As a result of continued deterioration in the performance of Fiat Auto S.p.A. and its debt structure, GM recorded a non-cash charge of \$220 million (\$136 million, after-tax) to reduce the carrying value of GM's investment in FAH to zero. See Note 2.

In 2003, impairment analyses as described above resulted in after-tax charges totaling \$491 million (\$400 million at GMNA, \$11 million at GME, \$55 million at GMLAAM, and \$25 million at GMAP) with respect to product-specific assets. Additional after-tax charges of \$42 million were recorded at GMNA for the write-down to fair market value of various facilities.

Note 5 Postemployment Benefit Costs (Plant Idling Reserve)

Costs to idle, consolidate or close facilities and provide postemployment benefits to employees on an other than temporary basis are accrued based on management's best estimate of the wage and benefits costs that will be incurred for qualified employees under the JOBS bank provisions of the current labor agreement through the date of its expiration in September 2007, plus estimated costs expected to be paid thereafter. Costs related to the idling of employees that are expected to be temporary are expensed as incurred. GM reviews the adequacy and continuing need for these liabilities on an annual basis in conjunction with its year-end production and labor forecasts. Furthermore, GM reviews the reasonableness of the liabilities on a quarterly basis.

In 2005, GM recognized a pretax charge of \$1.8 billion, or \$1.2 billion after tax, for postemployment benefit liabilities related to the restructuring of North American operations announced in November 2005 (the GMNA restructuring). Approximately 17,500 employees are included in the charge for locations included in this action, some leaving the company through attrition and some transferring to other sites. GM's overall four-year employment reduction through 2008 remains at the approximate 30,000 employee level previously announced.

The charge is composed of two elements. The first element includes the costs GM expects to incur under the existing JOBS bank provisions of the current collective bargaining agreement (CBA), through its expiration in September 2007. This element of the charge was calculated based on the substantive postemployment benefits plan that GM has developed over time with regard to the JOBS bank, including its historical experience related to acceptance of routine retirement offers.

GM is currently discussing the JOBS bank provisions of the CBA with the UAW in an effort to develop an agreed upon accelerated attrition program for active employees, by which the Corporation will be able to reduce the number of employees that are and will be in the JOBS bank in a cost effective manner. See Note 27 for subsequent events. In this regard, GM believes it is likely that the JOBS bank provisions will be modified after the current CBA expires. Consequently, the second element of the charge includes GM's best estimate of costs to be paid after the expiration of the current CBA, including costs for employees at locations expected to be idled after the CBA expiration. In determining its best estimate, GM considered the effect of (i) the accelerated attrition program under discussion which, for employees in the JOBS bank, creates opportunities to return to active service, and (ii) policy changes that it intends to negotiate into the JOBS program.

The \$1.8 billion reflects GM's best estimate based on the information it has at the current time, but because the outcome of the discussions with the UAW may differ from GM's current best estimate, this estimate could increase or decrease by material amounts in subsequent periods. GM also considered an alternative approach to estimating the charge, which would have excluded the anticipated impact of the accelerated attrition program and changes to the terms of the JOBS bank in the next CBA, and accrued an amount based on the terms of the current JOBS bank to reflect payments that would be made to idled employees until their estimated retirement dates including normal attrition and early retirement. That approach would have increased the pre-tax charge by \$4.8 billion, to a total of \$6.6 billion. GM rejected that approach because it believes the probability of payment of that amount is remote, the measurement methodology does not result in an amount that is probable, and the terms of the JOBS bank in the existing CBA do not reflect a substantive plan that GM expects will continue beyond the end of that CBA through the employees' remaining service period.

The liability for postemployment benefits (primarily wage and benefit continuation) as of December 31, 2005 totals approximately \$2.0 billion relating to multiple plants and approximately 18,400 employees. The liability for postemployment benefits was \$237 million relating to numerous plants and to approximately 1,900 employees as of December 31, 2004. The liability for postemployment

benefits was \$384 million relating to approximately 2,900 employees as of December 31, 2003. The following tables summarize the activity from December 31, 2003 through December 31, 2005 for this liability (dollars in millions):

Balance at December 31, 2003	\$ 384
Spending	(151)
Interest accretion	19
Additions	-
Adjustments	(15)
Balance at December 31, 2004	\$ 237
Spending	(91)
Interest accretion	12
Additions	1,891
Adjustments	(37)
Balance at December 31, 2005	\$2,012

Note 6 Investment in Nonconsolidated Affiliates

Nonconsolidated affiliates of GM identified herein are those investees in which GM owns an equity interest and for which GM uses the equity method of accounting, because GM has the ability to exert significant influence over decisions relating to their operating and financial affairs. GM's significant affiliates and the percentage of GM's year-end equity ownership, or voting interest, in them include the following: Japan - FHI (sold at December 31, 2005, 20.1% in 2004 and 21.1% in 2003), Suzuki Motor Corporation (20.4% in 2005 and 2004, and 20.3% in 2003); China - Shanghai General Motors Co., Ltd. (50% in 2005, 2004, and 2003); SAIC GM Wuling Automobile Co., Ltd (34% in 2005, 2004, 2003); South Korea - GM-Daewoo (50.9% at December 31, 2005, 44.6% in 2004 and 2003) (with the increase in ownership to more than 50%, GM consolidated GM Daewoo at June 30, 2005 - see Note 2); Italy - GM-Fiat Powertrain (FGP) (dissolved at December 31, 2005, and 50% in 2004 and 2003).

Information regarding GM's share of income for all nonconsolidated affiliates (as defined above) in the following countries is included in the table below (in millions):

	Italy	Japan	China	South Korea
2005				
Book value of GM's investments in affiliates	NA	\$ 1,576	\$ 1,020	NA
GM's share of affiliates' net income (loss)	\$ 32	\$ 183	\$ 327	\$ 17
Total assets of significant affiliates	NA	\$ 15,507	\$ 4,363	NA
Total liabilities of significant affiliates	NA	\$ 7,467	\$ 2,425	NA
2004				
Book value of GM's investments in affiliates	\$ 1,293	\$ 3,174	\$ 1,173	\$ 193
GM's share of affiliates' net income (loss)	\$ 87	\$ 255	\$ 417	\$ (53)
Total assets of significant affiliates	\$ 8,616	\$ 30,582	\$ 3,429	\$ 5,288
Total liabilities of significant affiliates	\$ 5,539	\$ 17,417	\$ 1,630	\$ 4,447
2003				
Book value of GM's investments in affiliates	\$ 946	\$ 2,781	\$ 964	\$ 200
GM's share of affiliates' net income (loss)	\$ 95	\$ 196	\$ 414	\$ (74)
Total assets of significant affiliates	\$ 7,933	\$ 29,622	\$ 3,103	\$ 3,263
Total liabilities of significant affiliates	\$ 5,304	\$ 17,764	\$ 1,460	\$ 2,892

Note 7 Marketable Securities

Marketable securities held by GM are classified as available-for-sale, except for certain mortgage-related securities, which are classified as held-to-maturity or trading securities. Unrealized gains and losses, net of related income taxes, for available-for-sale securities are included as a separate component of stockholders' equity. Unrealized gains and losses for trading securities are included in income on a current basis. GM determines cost on the specific identification basis.

AUTOMOTIVE AND OTHER OPERATIONS

Investments in available for sale marketable securities were as follows (dollars in millions):

December 31, 2005	Cost	Book/Fair Value	Unrealized Gains	Unrealized Losses
Type of security				
Corporate debt securities and other	\$ 741	\$ 728	\$-	\$13
U.S. government and agencies	455	450	-	5
Mortgage-backed securities	243	238	-	5
Total marketable securities	\$1,439	\$1,416	\$-	\$23

December 31, 2004	Cost	Book/Fair Value	Unrealized Gains	Unrealized Losses
Type of security				
Corporate debt securities and other	\$3,697	\$3,691	\$12	\$18
U.S. government and agencies	2,146	2,141	6	11
Mortgage-backed securities	826	823	3	6
Total marketable securities	\$6,669	\$6,655	\$21	\$35

Debt securities totaling \$99 million mature within one year and \$938 million mature after one through five years, \$79 million mature after five through ten years and \$300 million mature after ten years. Proceeds from sales of marketable securities totaled \$14.7 billion in 2005, \$14.8 billion in 2004, and \$7.1 billion in 2003. The gross gains related to sales of marketable securities were \$37 million, \$25 million, and \$7 million in 2005, 2004, and 2003, respectively. The gross losses related to sales of marketable securities were \$66 million in 2005, \$30 million in 2004, and \$11 million in 2003.

FINANCING AND INSURANCE OPERATIONS

Investments in marketable securities were as follows (dollars in millions):

December 31, 2005	Cost	Book/Fair Value	Unrealized Gains	Unrealized Losses
Type of security				
Bonds, notes, and other securities				
United States government and agencies	\$ 2,945	\$ 2,904	\$ 5	\$ 46
States and municipalities	863	889	27	1
Foreign government securities	844	853	11	2
Mortgage and asset-backed securities	1,216	1,240	29	5
Corporate debt securities and other	6,136	6,144	43	35
Total debt securities available-for-sale	12,004	12,030	115	89
Mortgage-backed securities held-to-maturity	16	16	-	-
Mortgage-backed securities held for trading purposes	3,766	3,897	131	-
Total debt securities	15,786	15,943	246	89
Equity securities	1,510	2,367	874	17
Total investment in marketable securities	\$17,296	\$18,310	\$1,120	\$106
Total consolidated other marketable securities	\$18,735	\$19,726	\$1,120	\$129

December 31, 2004	Cost	Book/Fair Value	Unrealized Gains	Unrealized Losses
Type of security				
Bonds, notes, and other securities				
United States government and agencies	\$ 2,198	\$ 2,208	\$ 18	\$ 8
States and municipalities	556	596	40	-
Foreign government securities	792	805	14	1
Mortgage and asset-backed securities	1,988	2,074	97	11
Corporate debt securities and other	3,399	3,489	97	7
Total debt securities available-for-sale	8,933	9,172	266	27
Mortgage-backed securities held-to-maturity	135	135	-	-
Mortgage-backed securities held for trading purposes	3,510	3,545	35	-
Total debt securities	12,578	12,852	301	27
Equity securities	1,505	2,230	731	6
Total investment in marketable securities	\$14,083	\$15,082	\$1,032	\$33
Total consolidated other marketable securities	\$20,752	\$21,737	\$1,053	\$68

Debt securities available-for-sale totaling \$1.7 billion mature within one year, \$6.0 billion mature after one through five years, \$2.0 billion mature after five years through ten years, and \$1.0 billion mature after ten years. Mortgage-backed securities and interests in securitization trusts totaled \$1.3 billion. Proceeds from sales of marketable securities totaled \$5.7 billion in 2005, \$3.2 billion in 2004, and \$7.6 billion in 2003. The gross gains related to sales of marketable securities were \$186 million, \$138 million, and \$270 million in 2005, 2004, and 2003, respectively. The gross losses related to sales of marketable securities were \$66 million, \$49 million, and \$202 million in 2005, 2004, and 2003, respectively.

The fair value and gross unrealized losses of the Corporation's investments in an unrealized loss position that are not deemed to be other-than-temporarily impaired are summarized in the following table.

	December 31, 2005			
	Less Than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Automotive and Other Operations				
Available for sale securities				
Corporate debt securities and Other	\$ 201	\$ 3	\$370	\$10
U.S. government and agencies	289	2	84	3
Mortgage-backed securities	153	3	65	2
Total marketable securities	\$ 643	\$ 8	\$519	\$15
Financing and Insurance Operations				
Available for sale securities				
Debt securities				
U.S. Treasury and federal agencies	\$1,590	\$32	\$520	\$15
States and political subdivisions	79	1	-	-
Foreign government securities	179	1	-	-
Residential mortgage-backed securities	36	1	76	2
Interest-only strips	81	3	-	-
Corporate debt securities	1,865	20	331	10
Other	175	3	21	1
Total debt securities	4,005	61	948	28
Equity securities	137	15	19	2
Total available for sale securities	\$4,142	\$76	\$967	\$30
Total held to maturity securities	\$ -	\$ -	\$ -	\$ -

Note 7 Marketable Securities (continued)

(Dollars in millions)	December 31, 2004			
	Less Than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Automotive and Other Operations				
Available for sale securities				
Corporate debt securities and Other	\$ 1,698	\$ 16	\$ 81	\$ 3
U.S. government and agencies	1,293	11	—	—
Mortgage-backed securities	418	4	33	1
Total marketable securities	\$3,409	\$31	\$114	\$4
Financing and Insurance Operations				
Available for sale securities				
Debt securities				
U.S. Treasury and federal agencies	\$ 971	\$ 8	\$ —	\$—
Foreign government securities	208	1	—	—
Mortgage-backed securities:				
Residential	67	5	—	—
Commercial	343	2	14	1
Interest-only strips	27	3	—	—
Corporate debt securities	547	5	—	—
Other	35	2	—	—
Total debt securities	2,198	26	14	1
Equity securities	88	6	—	—
Total available for sale securities	\$2,286	\$32	\$ 14	\$1
Total held to maturity securities	\$ 15	\$ 1	\$ —	\$—

Note 8 Variable Interest Entities

GM applied the provisions of FIN 46, later clarified by FIN 46R, to all variable interest entities beginning July 1, 2003. In connection with the application of FIN 46R, GM is providing information below concerning variable interest entities that: (1) are consolidated by GM because GM is deemed to be the primary beneficiary and (2) those entities that GM does not consolidate because, although GM has significant interests in such variable interest entities, GM is not the primary beneficiary.

AUTOMOTIVE AND OTHER OPERATIONS

Synthetic leases – GM leases real estate and equipment from various special purpose entities (SPEs) that have been established to facilitate the financing of those assets for GM by nationally prominent, creditworthy lessors. These assets consist principally of office buildings, warehouses, and machinery and equipment. The use of SPEs allows the parties providing the financing to isolate particular assets in a single entity and thereby syndicate the financing to multiple third parties. This is a conventional financing technique used to lower the cost of borrowing and, thus, the lease cost to a lessee such as GM. There is a well-established market in which institutions participate in the financing of such property through their purchase of interests in these SPEs. Certain of these SPEs were determined to be VIEs under FIN 46. GM consolidates any entities with leases where GM provides a residual value guarantee of the leased property, and is considered the primary beneficiary under FIN 46. As of December 31, 2005, the carrying amount of assets and liabilities consolidated under FIN 46R amounted to \$780 million and \$1.0 billion, respectively, compared to \$883 million and

\$1.0 billion as of December 31, 2004. Assets consolidated are classified as "Property" in GM's consolidated financial statements. GM's maximum exposure to loss related to consolidated VIEs amounts to \$853 million. For other such lease arrangements involving VIEs, GM holds significant variable interests but is not considered the primary beneficiary under FIN 46R. GM's maximum exposure to loss related to VIE's where GM has a significant variable interest, but does not consolidate the entity, amounts to \$639 million.

FINANCING AND INSURANCE OPERATIONS

Automotive finance receivables – In certain securitization transactions, GMAC transfers consumer finance receivables and wholesale lines of credit into bank-sponsored multi-seller commercial paper conduits. These conduits provide a funding source to GMAC (as well as other transferors into the conduit) as they fund the purchase of the receivables through the issuance of commercial paper. Total assets outstanding in these bank-sponsored conduits approximated \$15.3 billion as of December 31, 2005. While GMAC has a variable interest in these conduits, it is not considered to be the primary beneficiary, as GMAC does not retain the majority of the expected losses or returns. GMAC's maximum exposure to loss as a result of its involvement with these non-consolidated variable interest entities is \$132 million and would only be incurred in the event of a complete loss on the assets that GMAC transferred.

Mortgage warehouse funding – GMAC's Mortgage operations transfer commercial and residential mortgage loans, lending receivables, home equity loans and lines of credit pending permanent sale or securitization through various structured finance arrangements in order to provide funds for the origination and purchase of future loans. These structured finance arrangements include transfers to warehouse funding entities, including GMAC and bank-sponsored commercial paper conduits. Transfers of assets from GMAC into each facility are accounted for as either sales (off-balance sheet) or secured financings (on-balance sheet) based on the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." However, in either case, creditors of these facilities have no legal recourse to the general credit of GMAC. Some of these warehouse funding entities represent variable interest entities under FIN 46R.

Management has determined that for certain mortgage warehouse funding facilities, GMAC is the primary beneficiary and, as such, consolidates the entities in accordance with FIN 46R. The assets of these residential mortgage warehouse entities totaled \$7.2 billion at December 31, 2005, the majority of which are included in loans held for sale and finance receivables, net, in the Corporation's Consolidated Balance Sheet.

During 2005, the use of the commercial mortgage warehouse entities was terminated. The assets of the commercial mortgage warehouse entities totaled \$526 million at December 31, 2004, the majority of which are included in loans held for sale and finance receivables and loans, net of unearned income, included in the Corporation's Consolidated Balance Sheet. The beneficial interest holders of these variable interest entities do not have legal recourse to the general credit of GMAC.

Residential mortgage loan alliances – GMAC has invested in strategic alliances with several mortgage loan originators. These alliances may include common or preferred equity investments, working capital or other subordinated lending, and warrants. In addition to warehouse lending arrangements, management has determined that GMAC does not have the majority of the expected losses or returns and as such, consolidation is not appropriate under FIN 46R. Total assets in these alliances were \$139 million at December 31, 2005. GMAC's maximum exposure to loss under these alliances, including commitments to lend additional funds or purchase loans at above-market rates, is \$265 million at December 31, 2005.

Note 8 Variable Interest Entities (continued)

Construction and real estate lending – GMAC uses an SPE to finance construction lending receivables. The SPE purchases and holds the receivables and funds the majority of the purchases through financing obtained from third-party asset-backed commercial paper conduits. GMAC is the primary beneficiary, and as such, consolidates the entity in accordance with FIN 46R. The assets in this entity totaled \$1.6 billion at December 31, 2005, which are included in finance receivables, net, in the Corporation's Consolidated Balance Sheet. The beneficial interest holders of this variable interest entity do not have legal recourse to the general credit of GMAC.

GMAC has subordinated real estate lending arrangements with certain entities. These entities are created to develop land and construct residential homes. Management has determined that GMAC does not have the majority of the expected losses or returns, and as such, consolidation is not appropriate under FIN 46R. Total assets in these entities were \$496 million at December 31, 2005, of which \$134 million represents GMAC's maximum exposure to loss.

Warehouse lending – GMAC has a facility in which it transfers mortgage warehouse lending receivables to a 100% owned SPE which then sells a senior participation interest in the receivables to an unconsolidated qualifying special purpose entity (QSPE). The QSPE funds the purchase of the participation interest from the SPE through financing obtained from third-party asset-backed commercial paper conduits. The SPE funds the purchase of the receivables from GMAC with cash obtained from the QSPE, as well as a subordinated loan and/or an equity contribution from GMAC. The senior participation interest sold to the QSPE, and the commercial paper issued are not included in the assets or liabilities of GMAC. Once the receivables have been sold, they may not be purchased by the GMAC except in very limited circumstances, such as a breach in representations or warranties. Management has determined that GMAC is the primary beneficiary of the SPE, and as such, consolidates the entity in accordance with FIN 46R. The assets in this entity totaled \$3.5 billion at December 31, 2005, which are included in finance receivables, net of unearned income, in the Corporation's Consolidated Balance Sheet. The beneficial interest holders of this variable interest entity do not have legal recourse to the general credit of GMAC.

Collateralized debt obligations (CDOs) – GMAC's Mortgage operations sponsor, purchase subordinate and equity interests in, and serve as collateral manager for CDOs. Under CDO transactions, a trust is established that purchases a portfolio of securities and issues debt and equity certificates, representing interests in the portfolio of assets. In addition to receiving variable compensation for managing the portfolio, GMAC sometimes retains equity investments in the CDOs. The majority of the CDOs sponsored by GMAC were initially structured or have been restructured (with approval by the senior beneficial interest holders) as QSPEs, and are therefore exempt from FIN 46R.

GMAC receives an asset management fee for purposes of surveillance of existing collateral performance. In the event that an asset is credit impaired, a call option is triggered whereby GMAC, as collateral manager, may buy the asset out of the pool and sell it to a third party. The call is triggered only by events that are outside of GMAC's control, such as the downgrade by a rating agency of an asset in the pool or in the event more than a specified percentage of mortgage loans underlying a security are greater than 60 days delinquent (or have been liquidated). In the event the conditions under which GMAC can exercise the call option are met, GMAC recognizes these assets. In accordance with these provisions, GMAC did not recognize any assets as of December 31, 2005 or 2004.

For the majority of GMAC's remaining CDOs, the results of the primary beneficiary analysis support the conclusion that consolidation is not appropriate under FIN 46R, because GMAC does not have the majority of the expected losses or returns. The assets in these CDOs totaled \$3.1 billion at December 31, 2005, of which GMAC's maximum exposure to loss is \$43 million, representing GMAC's retained interests in these entities. The maximum exposure to loss would only occur in the unlikely event that there was a complete loss on GMAC's retained interests in these entities. In addition, management has determined that for certain CDO entities, GMAC is the primary beneficiary, and as such, consolidates the entities in accordance with FIN 46R. The assets in these entities totaled \$569 million at December 31, 2005, the majority of which are included in other marketable securities in the Corporation's Consolidated Balance Sheet. The beneficiary interest holders of these variable interest entities do not have legal recourse to the general credit of GMAC.

Interests in real estate partnerships – GMAC's Commercial Mortgage operations syndicate investments in real estate partnerships to unaffiliated investors, and in certain partnerships, have guaranteed the timely payments of a specified return to those investors. The investor' returns are principally generated from each partnership's share of affordable housing tax credits and tax losses derived from the partnership's investments in entities which develop, own and operate affordable housing properties throughout the United States. These entities are considered VIE's under FIN 46R. The determination of whether GMAC is the primary beneficiary of a given tax credit fund depends on many factors, including the number of limited partners and the rights and obligations of the general and limited partners in that fund.

GMAC has variable interests in the underlying operating partnerships (primarily in the form of limited partnership interests). The results of the variable interest analysis indicated that GMAC is not the primary beneficiary of some of these partnerships and, as a result, are not required to consolidate these entities under FIN 46R. Assets outstanding in these underlying operating partnerships approximated \$6.5 billion at December 31, 2005. GMAC's maximum exposure to loss related to these partnerships is \$682 million. In addition, management has determined that for certain partnerships, GMAC is the primary beneficiary, and as such, consolidates the partnerships in accordance with FIN 46R. The impact of consolidation results in an increase to our assets totaling \$452 million at December 31, 2005, which are included in the Corporations' Consolidated Balance Sheet. This consolidation did not impact reported net income. Real estate assets held as collateral for these entities totaled \$252 million at December 31, 2005. The beneficial interest holders of these variable interest entities do not have legal recourse to the GMAC's general credit.

We hold variable interests in syndicated affordable housing partnerships where we provide unaffiliated investors with a guaranteed yield on their investment. These partnerships are reflected in the reporting segment held for sale in the Corporation's Consolidated Balance Sheet under the financing method in accordance with Statement of Financial Accounting Standards No 66, *Accounting for Sales of Real Estate* (SFAS 66). GMAC's exposure to loss at December 31, 2005 was \$1.4 billion representing the \$1.0 billion financing liability reflected in the Corporation's Consolidated Balance Sheet (i.e. real estate syndication proceeds) as well as \$0.4 billion in additional unpaid equity installments. The maximum exposure amount represents the amount payable to investors as unaffiliated investors place additional guaranteed commitments with GMAC, and decreases as tax benefits are delivered to the investors. Considering such amounts, GMAC exposure to loss in future periods is not expected to exceed \$1.9 billion.

Note 8 Variable Interest Entities (continued)

New market tax credit funds – The Corporation syndicates and manages investments in partnerships that make investments, typically mortgage loans that, in turn, qualify the partnerships to earn New Markets Tax Credits. New Markets Tax Credits permit taxpayers to receive a federal income tax credit for making qualified equity investments in community development entities. For one particular tax credit fund management has determined that GMAC does not have the majority of the expected losses or returns and, as such, consolidation is not appropriate under FIN 46R. The assets in these investments totaled \$62 million at December 31, 2005, of which \$41 million represents GMAC's maximum exposure to loss. In addition to this entity, management has determined that for other tax credit funds, GMAC is a primary beneficiary and as such, consolidates these entities in accordance with FIN 46R. The impact of consolidation results in an increase to our assets totaling \$206 million at December 31, 2005, which are included in the reporting segment held for sale in the Corporation's Consolidated Balance Sheet. The beneficial interest holders of these variable interest entities do not have legal recourse to the general credit of GMAC.

Note 9 Finance Receivables and Securitizations

FINANCE RECEIVABLES – NET

Finance receivables – net included the following (dollars in millions):

December 31,	2005	2004
Consumer		
Retail automotive	\$ 71,452	\$ 92,225
Residential mortgages	68,959	57,709
Total consumer	140,411	149,934
Commercial		
Automotive:		
Wholesale	19,641	27,796
Leasing and lease financing	1,228	1,466
Term loans to dealers and others	2,973	3,662
Commercial and industrial	16,936	14,203
Commercial real estate:		
Commercial mortgage ⁽¹⁾	43	3,148
Real estate construction	2,677	2,810
Total commercial	43,498	53,085
Total finance receivables and loans	183,909	203,019
Allowance for financing losses	(3,116)	(3,419)
Total consolidated finance receivables – net ⁽²⁾	\$180,793	\$199,600

(1) At December 31, 2005, \$3.0 billion (\$2.1 billion domestic and \$949 million foreign) in GMAC Commercial Mortgage's finance receivables and loans were transferred to the reporting segment held for sale on the Corporation's Consolidated Balance Sheet (refer to Note 1 for further details).

(2) Net of unearned income of \$5.9 billion and \$7.6 billion at December 31, 2005 and 2004, respectively.

Finance receivables that originated outside the United States were \$32.5 billion and \$35.4 billion at December 31, 2005 and 2004, respectively. The aggregate amounts of total finance receivables maturing in each of the five years following December 31, 2005, are as follows: 2006 – \$61.4 billion; 2007 – \$23.3 billion; 2008 – \$16.8 billion; 2009 – \$10.6 billion; 2010 – \$6.5 billion; and 2011 and thereafter – \$71.2 billion. Actual maturities may differ from those scheduled due to prepayments.

SECURITIZATIONS OF FINANCE RECEIVABLES AND MORTGAGE LOANS

The Corporation securitizes automotive and mortgage financial assets as a funding source. GMAC sells retail finance receivables, wholesale loans, residential mortgage loans, commercial mortgage loans and commercial mortgage securities. The information contained below relates only to the transfers of finance receivables and loans that qualify as off-balance sheet securitizations under the requirements of SFAS 140.

The Corporation retains servicing responsibilities for and subordinated interests in all of its securitizations of retail finance receivables and wholesale loans. Servicing responsibilities are retained for the majority of its residential and commercial mortgage loan securitizations and the Corporation may retain subordinated interests in some of these securitizations. GMAC also holds subordinated interests and acts as collateral manager in the Corporation's collateralized debt obligation (CDO) securitization program.

As servicer, GMAC generally receives a monthly fee stated as a percentage of the outstanding sold receivables. For retail automotive finance receivables where GMAC is paid a fee, the Corporation has concluded that the fee represents adequate compensation as a servicer and, as such, no servicing asset or liability is recognized. Considering the short-term revolving nature of wholesale loans, no servicing asset or liability is recognized upon securitization of the loans. As of December 31, 2005, the weighted average basic servicing fees for GMAC's primary servicing activities were 100 basis points, 100 basis points, 40 basis points and 7 basis points of the outstanding principal balance for sold retail finance receivables, wholesale loans, residential mortgage loans, and commercial mortgage loans, respectively. Additionally, the Corporation retains the rights to cash flows remaining after the investors in most securitization trusts have received their contractual payments. In certain retail securitization transactions, retail receivables are sold on a servicing retained basis, but with no servicing compensation and, as such, a servicing liability is established and recorded in other liabilities. As of December 31, 2005 and December 31, 2004, servicing liabilities of \$32 million and \$30 million, respectively, were outstanding related to such retail securitization transactions. In 2005, GMAC completed a retail automotive securitization where the servicing fee received is considered greater than adequate compensation requiring the recording of a servicing asset. As of December 31, 2005, the fair value of the servicing asset was \$30 million.

For mortgage servicing, the Corporation capitalizes the value expected to be realized from performing specified residential and commercial mortgage servicing activities as mortgage servicing rights.

GMAC maintains cash reserve accounts at predetermined amounts for certain securitization activities in the unlikely event that deficiencies occur in cash flows owed to the investors. The amounts available in such cash reserve accounts totaled \$52 million, \$1.0 billion, \$88 million, and \$7 million as of December 31, 2005 related to securitizations of retail finance receivables, wholesale loans, residential mortgage loans, and commercial mortgage loans, respectively, and \$118 million, \$1.0 billion, \$44 million, and \$10 million as of December 31, 2004, respectively.

Note 9 Finance Receivables and Securitizations (continued)

The following tables summarize pre-tax gains on securitizations and certain cash flows received from and paid to securitization trusts for transfers of finance receivables and loans that were completed during 2005, 2004 and 2003 (dollars in millions):

Year ended December 31,	2005				
	Retail Finance Receivables	Wholesale Loans	Mortgage Loans		Commercial Mortgage Securities
			Residential	Commercial	
Pre-tax gains on securitizations	\$ (2)	\$ 543	\$ 513	\$ 68	\$ 8
Cash flow information:					
Proceeds from new securitizations	4,874	7,705	41,987	3,990	741
Servicing fees received	65	179	245	21	—
Other cash flows received on retained interests	249	503	583	262	42
Proceeds from collections reinvested in revolving securitizations	—	102,306	—	—	—
Repayments of servicing advances	43	—	1,115	198	—
Cash outflow information:					
Servicing advances	(46)	—	(1,163)	(188)	—
Purchase obligations and options:					
Representations and warranties obligations	—	—	(29)	—	—
Administrator or servicer actions	(76)	—	—	—	—
Asset performance conditional calls	—	—	(99)	—	—
Clean-up calls	(715)	—	(2,202)	—	—
Year ended December 31,	2004				
	Retail Finance Receivables	Wholesale Loans	Mortgage Loans		Commercial Mortgage Securities
			Residential	Commercial	
Pre-tax gains on securitizations	\$ 9	\$ 497	\$ 602	\$ 54	\$ 11
Cash flow information:					
Proceeds from new securitizations	1,824	9,188	29,412	2,108	935
Servicing fees received	105	174	208	20	—
Other cash flows received on retained interests	340	808	729	216	68
Proceeds from collections reinvested in revolving securitizations	—	91,360	—	—	—
Repayments of servicing advances	75	—	947	147	—
Cash outflow information:					
Servicing advances	(64)	—	(1,035)	(169)	—
Purchase obligations and options:					
Representations and warranties obligations	(1)	—	(66)	—	—
Administrator or servicer actions	(75)	—	—	—	—
Asset performance conditional calls	—	—	(137)	—	—
Clean-up calls	(269)	—	(3,797)	—	—
Year ended December 31,	2003				
	Retail Finance Receivables	Wholesale Loans	Mortgage Loans		Commercial Mortgage Securities
			Residential	Commercial	
Pre-tax gains on securitizations	\$ 37	\$ 488	\$ 522	\$ 75	\$ 14
Cash flow information:					
Proceeds from new securitizations	1,604	3,625	29,566	3,342	1,870
Servicing fees received	228	164	250	20	—
Other cash flows received on retained interests	753	174	955	317	69
Proceeds from collections reinvested in revolving securitizations	862	97,829	—	5	—
Repayments of servicing advances	114	—	1,208	116	—
Cash outflow information:					
Servicing advances	(118)	—	(1,242)	(117)	—
Purchase obligations and options: ^(a)					
Representations and warranties obligations	(25)	—	(154)	—	—
Administrator or servicer actions	(146)	—	—	—	—
Asset performance conditional calls	—	—	(122)	—	—
Clean-up calls	(885)	—	(1,919)	—	—

Note 9 Finance Receivables and Securitizations (continued)

Key economic assumptions used in measuring the estimated fair value of retained interests of sales completed during 2005 and 2004, as of the dates of such sales, were as follows:

Years ended December 31,	2005				2004			
	Retail Finance Receivables ^(a)	Mortgage loans		Commercial Mortgage Securities	Retail Finance Receivables ^(a)	Mortgage Loans		Commercial Mortgage Securities
		Residential ^(b)	Commercial			Residential ^(b)	Commercial	
Key assumptions (rates per annum) ^(c) :								
Annual prepayment rate ^(d)	0.9-1.2%	0.0-60.0%	0.0-50.0%	0.0%	0.9-1.0%	0.0-51.3%	0.0-50.0%	0.0-19.9%
Weighted average life (in years)	1.6-1.7	1.1-8.5	0.3-8.6	5.9-9.9	1.6-1.8	1.1-5.5	0.4-8.8	2.5-17.4
Expected credit losses	0.4-1.6%	0.0-4.9%	0.0%	0.0%	0.4%	0.0-10.9%	0.0%	0.0-3.1%
Discount rate	9.5-15.0%	6.5-21.4%	4.2-10.7%	10.0-12.0%	9.5%	6.5-24.8%	4.3-15.0%	8.2-11.7%

(a) The fair value of retained interests in wholesale securitizations approximates cost because of the short-term and floating rate nature of wholesale loans.

(b) Included within residential mortgage loans are home equity loans and lines, high loan-to-value loans and residential first and second mortgage loans.

(c) The assumptions used to measure the expected yield on variable rate retained interests are based on a benchmark interest rate yield curve, plus a contractual spread, as appropriate. The actual yield curve utilized varies depending on the specific retained interests.

(d) Based on the weighted average maturity (WAM) for finance receivables and constant prepayment rate (CPR) for mortgage loans and commercial mortgage securities.

The table below outlines the key economic assumptions and the sensitivity of the fair value of retained interests at December 31, 2005 to immediate 10% and 20% adverse changes in those assumptions (dollars in millions):

	Retail Finance Receivables ^(a)	Mortgage Loans		Commercial Mortgage Securities
		Residential	Commercial	
Carrying value/fair value of retained interests	\$314	\$1,057	\$250	\$182
Weighted average life (in years)	0.1-1.2	1.0-6.2	0.0-17.7	2.4-16.1
Annual prepayment rate	0.7-1.2% WAM	0.0-60.0% CPR	0.0-50.0% CPR	1.2-16.0% CPR
Impact of 10% adverse change	\$(1)	\$(46)	\$(1)	\$-
Impact of 20% adverse change	(2)	(82)	(1)	-
Loss assumption	0.4% ^(b)	0.0-16.9%	0.0-3.4%	0.0-6.7%
Impact of 10% adverse change	\$(2)	\$(43)	\$(6)	\$(3)
Impact of 20% adverse change	(4)	(81)	(10)	(6)
Discount rate	9.5-12.0%	6.5-40.0%	0.1-33.5%	5.3-21.1%
Impact of 10% adverse change	\$(2)	\$(34)	\$(5)	\$(9)
Impact of 20% adverse change	(5)	(65)	(10)	(17)
Market rate ^(d)	3.9-5.1%	^(c)	^(c)	^(c)
Impact of 10% adverse change	\$(7)	\$(11)	\$-	\$-
Impact of 20% adverse change	(15)	(26)	-	-

(a) Fair value of retained interests in wholesale securitizations approximates cost of \$690 million because of the short-term and floating rate nature of wholesale receivables.

(b) Net of a reserve for expected credit losses totaling \$14 million at December 31, 2005. Such amounts are included in the fair value of the retained interests, which are classified as investment securities.

(c) Forward benchmark interest rate yield curve plus contractual spread.

(d) Represents the rate of return paid to the investors.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% and 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities. Additionally, the Corporation hedges interest rate and prepayment risks associated with certain of the retained interests; the effects of such hedge strategies have not been considered herein. Expected static pool net credit losses include actual incurred losses plus projected net credit losses

divided by the original balance of the outstandings comprising the securitization pool. The table below displays the expected static pool net credit losses based on the Corporation's securitization transactions.

Years ended December 31,	Loans Securitized in ^(a)		
	2005	2004	2003
Retail automotive	0.4%	0.4%	0.4%
Residential mortgage	0.0-16.9%	0.0-26.1%	0.0-26.1%
Commercial mortgage	0.0-3.4%	0.0-4.2%	0.0-6.6%
Commercial investment securities	0.0-6.7%	0.0-39.5%	0.9-33.7%

(a) Static pool losses not applicable to wholesale finance receivable securitizations because of their short-term nature.

Note 9 Finance Receivables and Securitizations (continued)

The following table presents components of securitized financial assets and other assets managed, along with quantitative information about delinquencies and net credit losses:

	Total Finance Receivables and Loans		Amount 60 Days or More Past Due		Net Credit Losses	
	2005	2004	2005	2004	2005	2004
<i>(Dollars in millions) December 31,</i>						
Retail automotive	\$ 77,197	\$ 97,631	\$ 892	\$ 806	\$ 867	\$1,044
Residential mortgage	167,584	129,550	8,682	6,686	885	944
Total consumer	244,781	227,181	9,574	7,492	1,752	1,988
Wholesale	41,062	49,197	73	51	4	2
Commercial mortgage	43	21,353	—	410	4	130
Other automotive and commercial	23,852	22,155	575	544	33	71
Total commercial ^(a)	64,957	92,705	648	1,005	41	203
Total managed portfolio ^(b)	309,738	319,886	\$10,222	\$8,497	\$1,793	\$2,191
Securitized finance receivables and loans	(103,947)	(96,801)				
Loans held for sale (unpaid principal)	(21,882)	(19,941)				
Total finance receivables and loans	\$ 183,909	\$203,144				

(a) Excludes \$26,320 million in GMAC commercial mortgage's managed assets. At December 31, 2005, commercial mortgage had \$281 million in accounts past due and net credit losses of \$228 million.

(b) Managed portfolio represents finance receivables and loans on the balance sheet or that have been securitized, excluding securitized finance receivables and loans that GMAC continues to service but has no other continuing involvement (i.e., in which GMAC retains an interest or risk of loss in the underlying receivables).

Note 10 Inventories

AUTOMOTIVE AND OTHER OPERATIONS

Inventories included the following (dollars in millions):

<i>December 31,</i>	2005	2004
Productive material, work in process, and supplies	\$ 5,471	\$ 4,838
Finished product, service parts, etc.	9,871	8,321
Total inventories at FIFO	15,342	13,159
Less LIFO allowance	(1,491)	(1,442)
Total inventories (less allowances)	\$13,851	\$11,717

Inventories are stated generally at cost, which is not in excess of market. The cost of approximately 67% of U.S. inventories is determined by the last-in, first-out (LIFO) method. Generally, the cost of all other inventories is determined by either the first-in, first-out (FIFO) or average cost methods.

During 2005 and 2004, U.S. LIFO eligible inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2005 and 2004 purchases, the effect of which decreased cost of goods sold by approximately \$100 million, pre-tax, in both 2005 and 2004.

FINANCING AND INSURANCE OPERATIONS

Inventories included the following (dollars in millions):

<i>December 31,</i>	2005	2004
Off-lease vehicles	\$ 503	\$ 530
Total consolidated inventories (less allowances)	\$14,354	\$12,247

Note 11 Equipment on Operating Leases

The Corporation has significant investments in its vehicle leasing portfolios. The residual values of vehicles on lease represent the estimate of the values of the assets at the end of the lease contracts and are initially determined based on appraisals and estimates. Realization of the residual value is dependent on the Corporation's future ability to market the vehicles under then prevailing market conditions. Management reviews residual values periodically to determine that the estimates remain appropriate.

AUTOMOTIVE AND OTHER OPERATIONS

Equipment on operating leases and accumulated depreciation were as follows (dollars in millions):

<i>December 31,</i>	2005	2004
Equipment on operating leases	\$7,629	\$7,475
Less accumulated depreciation	(636)	(987)
Net book value	\$6,993	\$6,488

FINANCING AND INSURANCE OPERATIONS

Equipment on operating leases and accumulated depreciation were as follows (dollars in millions):

<i>December 31,</i>	2005	2004
Equipment on operating leases	\$39,675	\$36,002
Less accumulated depreciation	(8,481)	(8,276)
Net book value	\$31,194	\$27,726
Total consolidated net book value	\$38,187	\$34,214

The lease payments to be received related to equipment on operating leases maturing in each of the five years following December 31, 2005, are as follows: Auto & Other - none, as the payment is received at lease inception and the income is deferred over the lease period; FIO - 2006 - \$6.3 billion; 2007 - \$4.4 billion; 2008 - \$2.4 billion; 2009 - \$665 million; and 2010 - \$27 million. There are no leases maturing after 2010.

Note 12 Income Taxes

Income (loss) from continuing operations before income taxes and minority interests included the following (dollars in millions):

Years ended December 31,	2005	2004	2003
U.S. income (loss)	\$(16,171)	\$ 242	\$ 1,802
Foreign income (loss)	(760)	944	1,195
Total	\$(16,931)	\$ 1,186	\$ 2,997

The provision for income taxes was estimated as follows (dollars in millions):

Years ended December 31,	2005	2004	2003
Income taxes estimated to be payable currently			
U.S. federal	\$ (147)	\$ (282)	\$ 167
Foreign	841	1,018	1,159
U.S. state and local	(2)	36	414
Total payable currently	692	772	1,740
Deferred income tax expense (credit) – net			
U.S. federal	(6,878)	(427)	134
Foreign	(668)	(1,239)	(1,136)
U.S. state and local	976	(22)	(28)
Total deferred	(6,570)	(1,688)	(1,030)
Total income taxes	\$(5,878)	\$ (916)	\$ 710

Annual tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns. Cash paid for income taxes in 2005, 2004, and 2003 was \$305 million, \$293 million, and \$542 million, respectively.

Provisions are made for estimated U.S. and foreign income taxes, less available tax credits and deductions, which may be incurred on the remittance of the Corporation's share of subsidiaries' undistributed earnings not deemed to be permanently reinvested. Taxes have not been provided on foreign subsidiaries' earnings, which are deemed permanently reinvested, of \$12.6 billion at December 31, 2005 and \$11.0 billion at December 31, 2004. Quantification of the deferred tax liability, if any, associated with permanently reinvested earnings is not practicable.

A reconciliation of the provision for income taxes compared with the amounts at the U.S. federal statutory rate was as follows (dollars in millions):

Years ended December 31,	2005	2004	2003
Tax at U.S. federal statutory income tax rate	\$(5,926)	\$ 415	\$ 1,049
State and local tax expense	(589)	(949)	21
Foreign rates other than 35%	(174)	(510)	(269)
Taxes on unremitted earnings of subsidiaries	(276)	(366)	(125)
Other tax credits	(69)	(41)	(52)
Settlement of prior year tax matters	(515)	(191)	(194)
Change in valuation allowance	2,178	1,432	566
ESOP dividend deduction ⁽¹⁾	(52)	(53)	(53)
Realization of basis differences due to foreign reorganizations	(84)	(483)	–
Medicare prescription drug benefit	(325)	(211)	–
Loss carryforward related to investment write-down	–	(168)	–
Stock contribution to pension plans ⁽²⁾	–	–	(87)
Other adjustments	(46)	209	(146)
Total income tax (benefit) expense	\$(5,878)	\$ (916)	\$ 710

(1) Deduction for dividends paid on GM \$1 2/3 par value common stock held under the employee stock ownership portion of the GM Savings Plans, pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001.

(2) Additional tax benefit related to the GM Class H Common Stock contribution to the pension and VEBA plans.

Deferred income tax assets and liabilities for 2005 and 2004 reflect the effect of temporary differences between amounts of assets, liabilities, and equity for financial reporting purposes and the bases of such assets, liabilities, and equity as measured by tax laws, as well as tax loss and tax credit carryforwards.

Temporary differences and carryforwards that gave rise to deferred tax assets and liabilities included the following (dollars in millions):

December 31,	2005		2004	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Postretirement benefits other than pensions	\$ 12,757	\$ –	\$ 9,377	\$ –
Pension and other employee benefit plans	3,807	12,985	3,787	13,408
Warranties, dealer and customer allowances, claims, and discounts	6,739	52	6,907	42
Depreciation and amortization	5,713	2,584	5,043	3,118
Tax carryforwards	11,155	–	10,422	–
Lease transactions	–	4,351	19	3,801
Miscellaneous foreign	4,510	371	4,401	2,300
Other	9,981	3,677	9,050	3,804
Subtotal	54,662	24,020	49,006	26,473
Valuation allowances	(5,230)	–	(3,052)	–
Total deferred taxes	\$49,432	\$24,020	\$45,954	\$26,473
Net deferred tax assets	\$25,412	–	\$19,481	–

These deferred tax balances are included in the following captions in the consolidated balance sheet and supplemental information:

	2005	2004
Current deferred tax assets	\$ 7,073	\$ 8,883
Current deferred tax liabilities	(3,759)	(5,226)
Non-current deferred tax assets	22,816	17,676
Non-current deferred tax liabilities	(718)	(1,852)
Total	\$25,412	\$19,481

Of the tax carryforwards at December 31, 2005, approximately 5% relates to the alternative minimum tax credit (which can be carried forward indefinitely), approximately 26% relates to U.S. federal net operating loss carryforwards and approximately 12% relates to the U.S. state net operating loss carryforwards, which will expire in 2006-2025 if not used. Approximately 85% of the U.S. state net operating loss carryforwards will not expire until after 2008. Approximately 38% of the tax carryforwards relate to general business credits (which consist primarily of research and experimentation credits) and U.S. foreign tax credits which will expire in 2009-2025 if not used. The remaining tax carryforwards relate to accumulated foreign operating losses of which approximately 93% can be carried forward indefinitely and the remaining 7% will expire by 2015.

The Corporation has the following net deferred tax assets applicable to the following taxing jurisdictions where the Corporation's operations have a recent history of pre-tax cumulative losses for financial reporting purposes:

Jurisdiction	2005	2004	Statutory Operating Loss Carryforward Period
United States	\$21,633	\$15,719	20 years/Unlimited
Germany	2,034	1,427	Unlimited
Brazil	0	453	Unlimited
United Kingdom	299	363	Unlimited
Spain	230	186	15 years
Total	\$24,196	\$18,148	

Note 12 Income Taxes (continued)

The need to establish valuation allowances for these net deferred tax assets is assessed periodically based on a more-likely-than-not realization threshold, in accordance with SFAS 109, "Accounting for Income Taxes." Appropriate consideration is given to all positive and negative evidence related to that realization. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, GM's experience with tax attributes expiring unused, and tax planning alternatives. The weight given to these considerations depends upon the degree to which they can be objectively verified.

The valuation allowances that GM has recognized relate to certain U.S. state and foreign jurisdiction net deferred tax assets. The change in the valuation allowance and related considerations are as follows:

Balance December 31, 2004	\$3,052
Additions:	
US State & Local	1,424
Brazil	617
Other	137
Balance December 31, 2005	\$5,230

United States – No valuation allowance has been established for GM's U.S. Federal net deferred tax assets, which GM believes will more likely than not be realized. This expectation is based in part on the fact that, while GM has incurred cumulative losses over the last three years in the United States, those losses occurred only in 2005. Moreover, the 2005 U.S. losses were largely driven by the Corporation's restructuring of its North American Operations; accordingly, those losses are unusual in nature and were incurred in order to improve future profitability. In addition, consideration has been given to the lengthy period over which these net deferred tax assets can be realized, and GM's history of never having lost a significant U.S. Federal tax attribute through expiration. GM has also given consideration to its forecast of future profitability, which includes the following key elements:

- The launch of new sport utility vehicles and full size pick-up trucks primarily in 2006, which are expected to produce substantially higher revenues and profits than the predecessor models in these segments in 2005;
- The amendment of the GM Health Care Program for Hourly Employees and the establishment of a defined contribution health care plan, which will result in a substantial reduction in health care costs in the U.S. beginning in 2006. The amendment has been ratified by the UAW and granted preliminary approval by the U.S. District Court for the Eastern District of Michigan;
- Reductions of GMNA's cost structure as a result of the implementation of its restructuring plan; and
- Continued strength of GMAC earnings in the U.S.

The anticipated outcome of these events is expected to improve GMNA's pre-tax results in the United States. At the forecast levels of future profitability, the U.S. net deferred tax assets are considered more likely than not to be realizable over the periods that the underlying transactions become deductible for U.S. Federal tax purposes. If future events and/or the outcome of GM's cost reduction actions were to be significantly different than GM currently forecasts, a substantial valuation allowance for the U.S. net deferred tax assets might be required. Furthermore, if GMAC's U.S. pre-tax income declines or if a significant portion of GMAC's U.S. pre-tax income were to no longer be available to GM, because of the sale of a controlling interest in GMAC or otherwise, a substantial valuation allowance may be required.

An additional valuation allowance was recorded in 2005 related to the 2005 loss allocable to certain U.S. state jurisdictions where it has been previously determined that tax attributes related to those jurisdictions were not realizable.

Brazil – In 2005, it was determined that it is more-likely-than-not that the deferred taxes in GM's Brazilian operations would not be realized. Therefore, GM recorded a full valuation allowance against all tax credit carryforwards and net timing differences in Brazil. The decision was based on a consideration of historical results at GM's operations in Brazil coupled with the government-imposed 30% annual limitation on net operating loss utilization.

Germany and United Kingdom (UK) – No valuation allowances have been established for GM's net deferred tax assets in Germany or the UK. Although GM's German and UK operations have incurred cumulative losses in recent years, GM believes other considerations overcome that fact and, accordingly, that their deferred tax assets will more-likely-than-not be realized. This determination is based in particular on the unlimited expiration of net operating loss carryforwards in Germany and the UK, together with those operations' histories of utilizing tax attributions in the past through earnings, and their strong prospects for future earnings.

Spain – No valuation allowance has been established for GM's Spanish net deferred tax assets, which GM believes will more-likely-than-not be realized. Spanish net operating loss carryforwards expire after 15 years, but losses in the Spanish operations have largely been caused by non-recurring transactions. In addition, GM believes its Spanish operations continue to have strong prospects for future earnings.

The Corporation has open tax years from primarily 1998 to 2005 with various significant taxing jurisdictions including the U.S., Canada, Mexico, Germany and Brazil. These open years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as they relate to the amount, timing or inclusion of revenue and expenses or the sustainability of income tax credits for a given audit cycle. The Corporation has established a liability of \$3.6 billion for those matters where the amount of loss is probable and reasonably estimable. The amount of the liability is based on management's best estimate given the Corporation's history with similar matters and interpretations of current laws and regulations.

Note 13 Property – Net

Property – net was as follows (dollars in millions):

December 31,	Estimated Useful Lives (Years)	2005	2004
Automotive and Other Operations			
Land	–	\$ 1,139	\$ 967
Buildings and land improvements	2-40	16,179	15,636
Machinery and equipment	3-30	48,351	45,796
Construction in progress	–	4,099	3,807
Real estate, plants, and equipment		69,768	66,206
Less accumulated depreciation		(41,554)	(39,405)
Real estate, plants, and equipment – net		28,214	26,801
Special tools – net		10,252	10,369
Total property – net		\$ 38,466	\$ 37,170
Financing and Insurance Operations			
Equipment and other	2-10	\$ 2,902	\$ 3,086
Less accumulated depreciation		(1,154)	(1,236)
Total property – net (Note 15)		\$ 1,748	\$ 1,850
Total consolidated property – net		\$ 40,214	\$ 39,020

Note 13 Property – Net (continued)

Depreciation and amortization expense was as follows (dollars in millions):

Years ended December 31,	2005	2004	2003
Automotive and Other Operations			
Depreciation	\$ 5,502	\$ 5,028	\$ 4,526
Amortization and impairment of special tools	4,495	3,563	3,391
Amortization of intangible assets	76	38	29
Total	\$10,073	\$ 8,629	\$ 7,946
Financing and Insurance Operations			
Depreciation	\$ 5,679	\$ 5,512	\$ 5,556
Amortization of intangible assets	17	11	11
Total	\$ 5,696	\$ 5,523	\$ 5,567
Total consolidated depreciation and amortization	\$15,769	\$14,152	\$13,513

Note 14 Goodwill and Intangible Assets

The components of the Corporation's intangible assets as of December 31, 2005 and 2004 were as follows (dollars in millions):

December 31, 2005	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Automotive and Other Operations			
Amortizing intangible assets:			
Patents and intellectual property rights	\$510	\$148	\$ 362
Non-amortizing intangible assets:			
Goodwill			757
Prepaid pension asset (Note 18)			743
Total goodwill and intangible assets			\$1,862
Financing and Insurance Operations			
Amortizing intangible assets:			
Customer lists and contracts	\$ 57	\$ 41	\$ 16
Trademarks and other	35	20	15
Total	\$ 92	\$ 61	\$ 31
Non-amortizing intangible assets:			
Goodwill			2,446
Total goodwill and intangible assets (Note 15)			2,477
Total consolidated goodwill and intangible assets			\$4,339

December 31, 2004	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Automotive and Other Operations			
Amortizing intangible assets:			
Patents and intellectual property rights	\$303	\$69	\$ 234
Non-amortizing intangible assets:			
Goodwill			600
Prepaid pension asset (Note 18)			765
Total goodwill and intangible assets			\$1,599
Financing and Insurance Operations			
Amortizing intangible assets:			
Customer lists and contracts	\$ 73	\$41	\$ 32
Trademarks and other	40	20	20
Total	\$113	\$61	\$ 52
Non-amortizing intangible assets:			
Goodwill			3,274
Total goodwill and intangible assets (Note 15)			3,326
Total consolidated goodwill and intangible assets			\$4,925

Aggregate amortization expense on existing acquired intangible assets was \$93 million for the year ended December 31, 2005. Estimated amortization expense in each of the next five years is as follows: 2006 – \$59 million; 2007 – \$59 million; 2008 – \$56 million; 2009 – \$49 million; and 2010 – \$23 million.

The changes in the carrying amounts of goodwill were as follows (dollars in millions):

	GMNA	GME	Total Auto & Other	GMAC	Total GM
Balance as of December 31, 2003	\$154	\$ 413	\$ 567	\$3,223	\$3,790
Goodwill acquired during the period	–	–	–	16	16
Effect of foreign currency translation	5	33	38	35	73
Other	(5)	–	(5)	–	(5)
Balance as of December 31, 2004	154	446	600	3,274	3,874
Goodwill acquired during the period	238	–	238	22	260
Impairment losses/other ⁽¹⁾				(734)	(734)
Effect of foreign currency translation	(9)	(72)	(81)	(57)	(138)
Transfers to reporting segment held for sale ⁽²⁾	–	–	–	(59)	(59)
Balance as of December 31, 2005	\$383	\$ 374	\$ 757	\$2,446	\$3,203

(1) In the fourth quarter of 2005, GMAC recorded a goodwill impairment pre-tax charge of \$734 million, relating primarily to the goodwill recognized in conjunction with the 1999 acquisition of The Bank of New York's commercial finance business.

(2) At December 31, 2005, \$59 million in GMAC Commercial Mortgage goodwill was reclassified to assets held for sale.

Note 15 Other Assets

AUTOMOTIVE AND OTHER OPERATIONS

Other assets included the following (dollars in millions)

December 31,	2005	2004
Investments in equity securities	\$ 435	\$ 350
Prepaid pension benefit cost (Note 18)	37,576	38,919
Other	3,092	1,575
Total other assets	\$41,103	\$40,844

Investments in equity securities at December 31, 2005 and 2004 include the fair value of investments in equity securities classified as available-for-sale for all periods presented. It is GM's intent to hold these securities for longer than one year. Balances include historical costs of \$225 million and \$144 million with unrealized gains of \$287 million and \$209 million and unrealized losses of \$77 million and \$3 million at December 31, 2005 and 2004, respectively. "Other" in the table above includes restricted cash balances of \$157 million and \$57 million at December 31, 2005 and 2004, respectively.

In the fourth quarter of 2004, GM completed its annual review of its investment in FAH. As a result of further deterioration in the performance of Fiat Auto S.p.A. and its current debt structure, GM recorded a non-cash charge of \$220 million (\$136 million, after tax) to reduce the carrying value of GM's investment in FAH to zero.

FINANCING AND INSURANCE OPERATIONS

Other assets included the following (dollars in millions):

December 31,	2005	2004
Mortgage servicing rights	\$ 4,015	\$ 3,890
Premiums and other insurance receivables	1,873	1,763
Deferred policy acquisition costs	1,696	1,444
Derivative assets	3,000	9,489
Repossessed and foreclosed assets, net	689	615
Equity investments	535	1,751
Intangible assets (Note 14)	2,477	3,326
Property (Note 13)	1,748	1,850
Cash deposits held for securitization trusts	2,907	1,836
Restricted cash collections for securitization trusts	1,871	2,217
Accrued interest and rent receivable	1,163	1,178
Real estate investments	1,320	1,473
Debt issuance costs	726	753
Servicer advances	499	769
Inventory (Note 10)	503	530
Other	2,672	2,307
Total other assets	\$27,694	\$35,191

RECLASSIFICATION FOR CONSOLIDATED BALANCE SHEET PRESENTATION

December 31,	2005	2004
Auto & Other - other assets, as detailed above	\$ 41,103	\$ 40,844
FIO - other assets, as detailed above	27,694	35,191
Subtotal	68,797	76,035
Prepaid assets and other	1,837	1,874
Inventory (Note 10)	(503)	(530)
Accounts receivable	(7,820)	(14,523)
Intangible assets (Note 14)	(2,477)	(3,326)
Property (Note 13)	(1,748)	(1,850)
Total consolidated other assets	\$ 58,086	\$ 57,680

Note 16 Accrued Expenses, Other Liabilities, and Deferred Income Taxes

AUTOMOTIVE AND OTHER OPERATIONS

Accrued expenses, other liabilities, and deferred income taxes included the following (dollars in millions):

December 31,	2005	2004
Dealer and customer allowances, claims, and discounts	\$11,605	\$11,492
Deferred revenue and deposits from rental car companies	13,611	13,239
Policy, product warranty, and recall campaigns	9,128	9,315
Delphi contingent exposure	5,500	0
Payrolls and employee benefits (excludes postemployment)	3,970	4,642
Unpaid losses under self-insurance programs	1,827	1,784
Taxes	2,485	2,993
Interest	1,011	922
Postemployment benefits - Plant idling (Note 5)	2,012	237
Postemployment benefits - Extended disability benefits	1,135	1,163
Fiat settlement (Note 2)	-	1,364
Other	7,418	8,211
Total accrued expenses and other liabilities	\$59,702	\$55,362
Pensions	90	84
Postretirement benefits	4,154	3,890
Deferred income taxes	742	3,072
Total accrued expenses, other liabilities, and deferred income taxes	\$64,688	\$62,408
Current	\$42,665	\$46,202
Non-current	22,023	16,206
Total accrued expenses, other liabilities, and deferred income taxes	\$64,688	\$62,408

Note 16 Accrued Expenses, Other Liabilities, and Deferred Income Taxes (continued)

Policy, product warranty and recall campaigns liability (dollars in millions):

December 31,	2005	2004
Beginning balance	\$ 9,315	\$ 8,832
Payments	(4,696)	(4,669)
Increase in liability (warranties issued during period)	5,159	5,065
Adjustments to liability (pre-existing warranties)	(381)	(85)
Effect of foreign currency translation	(269)	172
Ending balance	\$ 9,128	\$ 9,315

Policy, product warranty, and recall campaigns liability amounts in the table above include amounts with respect to certified-used vehicles. The December 31, 2004 disclosure has been revised accordingly to provide a comparative basis.

FINANCING AND INSURANCE OPERATIONS

Other liabilities and deferred income taxes included the following (dollars in millions):

December 31,	2005	2004
Unpaid insurance losses, loss adjustment expenses, and unearned insurance premiums	\$ 7,588	\$ 7,232
Interest	3,057	3,413
Deposits	8,367	7,477
Interest rate derivatives	2,224	934
Other	3,122	3,922
Total other liabilities	\$24,358	\$22,978
Postretirement benefits	853	815
Deferred income taxes	3,735	4,006
Total other liabilities and deferred income taxes	\$28,946	\$27,799
Total consolidated accrued expenses and other liabilities	\$84,060	\$78,340
Total consolidated deferred income tax liability (Note 12)	\$ 4,477	\$ 7,078

Note 17 Long-Term Debt and Loans Payable

AUTOMOTIVE AND OTHER OPERATIONS

Long-term debt and loans payable were as follows (dollars in millions):

	Weighted-Average Interest Rate		December 31,	
	2005	2004	2005	2004
Long-term debt and loans payable				
Payable within one year				
Current portion of long-term debt ⁽¹⁾	5.8%	5.7%	\$ 564	\$ 584
All other	7.4%	3.0%	955	1,478
Total loans payable			1,519	2,062
Payable beyond one year ⁽¹⁾	6.9%	6.8%	31,084	30,425
Unamortized discount			(97)	(103)
Mark-to-market adjustment ⁽²⁾			27	138
Total long-term debt			31,014	30,460
Total long-term debt and loans payable			\$32,533	\$32,522

(1) The weighted-average interest rates include the impact of interest rate swap agreements.

(2) Effective January 1, 2001 the Corporation has been recording its hedged debt at fair market value on its balance sheet due to the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

Long-term debt payable beyond one year at December 31, 2005 includes scheduled maturities as follows: 2007 - \$1 billion; 2008 - \$1.9 billion; 2009 - \$0.4 billion; 2010 - \$0.2 billion; 2011 and after - \$27.6 billion. Included in the long-term debt payable beyond one year are certain convertible debentures of approximately \$1.2 billion that may be put to GM for cash settlement in 2007, ahead of its scheduled maturity after 2011.

To protect against foreign exchange risk, GM has entered into cross currency swap agreements. The notional amount of such agreements as of December 31, 2005 and 2004 for Auto & Other were approximately \$2.4 billion and \$2.2 billion, respectively.

Amounts payable beyond one year after cross currency swaps at December 31, 2005 included \$3.9 billion in currencies other than the U.S. dollar, primarily the Euro (\$1.8 billion), the Korean won (\$1.5 billion), the Australian dollar (\$239 million), the Brazilian real (\$225 million), and the Canadian dollar (\$115 million).

At December 31, 2005 and 2004, long-term debt and loans payable for Auto & Other included \$26.0 billion and \$25.3 billion, respectively, of obligations with fixed interest rates and \$6.5 billion and \$7.2 billion, respectively, of obligations with variable interest rates (predominantly LIBOR), after interest rate swap agreements.

To achieve its desired balance between fixed and variable rate debt, GM has entered into interest rate swaps. The notional amount of pay variable swap agreements as of December 31, 2005 and 2004 for Auto & Other was approximately \$5.5 billion and \$5.9 billion, respectively.

GM's Auto & Other business maintains substantial lines of credit with various banks that totaled \$8.0 billion at December 31, 2005, of which \$2.4 billion represented short-term credit facilities and \$5.6 billion represented long-term credit facilities. At December 31, 2004, bank lines of credit totaled \$9.0 billion, of which \$3.4 billion represented short-term credit facilities and \$5.6 billion represented long-term credit facilities. The unused short-term and long-term portions of the credit lines totaled \$0.9 billion and \$5.6 billion at December 31, 2005, compared with \$2.7 billion and \$5.6 billion at December 31, 2004. In addition, GM's consolidated affiliates with non-GM minority shareholders, primarily GM Daewoo, have lines of credit with various banks that totaled \$2.5 billion at December 31, 2005, all of which represented long-term facilities. The unused portion of the credit lines totaled \$1.5 billion at December 31, 2005. Certain bank lines of credit contain covenants with which the Corporation and applicable subsidiaries were in compliance throughout the year ended December 31, 2005.

In view of GM's recent restatement of its prior financial statements, GM believes that there is substantial uncertainty as to whether the bank syndicate would be required to honor a borrowing request under its \$5.6 billion long-term credit facility, and therefore there is a high risk that GM would not be able to borrow under this facility. GM believes that issues also may arise from its restatement under various financing agreements, which consist principally of obligations under sale/leaseback transactions and other lease obligations and do not include GM's public debt indentures, as to which GM is a party. GM has evaluated the effect of its restatement under these financing agreements, including its legal rights with respect to any claims that could be asserted, and believes that it has sufficient access to liquidity to mitigate any likely impact of these matters.

Note 17 Long-Term Debt and Loans Payable (continued)

FINANCING AND INSURANCE OPERATIONS

Debt was as follows (dollars in millions):

	Weighted-Average Interest Rate		December 31,	
	2005	2004	2005	2004
Payable within one year				
Current portion of				
long-term debt ⁽¹⁾	4.9%	3.9%	\$ 41,733	\$ 37,300
Commercial paper ⁽¹⁾	5.5%	2.5%	528	8,416
All other	4.6%	2.8%	39,793	45,327
Total loans payable			82,054	91,043
Payable beyond one year ⁽¹⁾	5.2%	4.9%	171,699	176,090
Unamortized discount			(538)	(650)
Mark-to-market adjustment			2	1,274
Total long-term debt and loans payable			171,163	176,714
Total debt			\$253,217	\$267,757
Total consolidated notes and loans payable			\$285,750	\$300,279

(1) The weighted-average interest rates include the effect of interest rate swap agreements.

Debt payable beyond one year at December 31, 2005 included maturities as follows: 2007 - \$33.9 billion; 2008 - \$25.6 billion; 2009 - \$10.0 billion; 2010 - \$8.8 billion; 2011 and after - \$93.4 billion.

Amounts payable beyond one year after consideration of foreign currency swaps at December 31, 2005 included \$23.9 billion in currencies other than the U.S. dollar, primarily the Canadian dollar (\$8.1 billion), the euro (\$6.6 billion), the U.K. pound sterling (\$6.1 billion), and the Australian dollar (\$1.4 billion).

At December 31, 2005 and 2004, debt for FIO included \$93.2 billion and \$137 billion, respectively, of obligations with fixed interest rates and \$160.0 billion and \$130.8 billion, respectively, of obligations with variable interest rates (predominantly LIBOR), after considering the impact of interest rate swap agreements.

To achieve its desired balance between fixed and variable rate debt, GM has entered into interest rate swap, cap, and floor agreements. The notional amounts of such agreements as of December 31, 2005 for FIO were approximately \$104.5 billion relating to swap agreements (\$75.4 billion pay variable and \$29.1 billion pay fixed). The notional amounts of such agreements as of December 31, 2004 for FIO were approximately \$85.9 billion relating to swap agreements (\$56.7 billion pay variable and \$29.2 billion pay fixed).

GM's FIO business maintains substantial lines of credit with various banks that totaled \$47.2 billion at December 31, 2005, of which \$11.2 billion represented short-term credit facilities and \$36 billion represented long-term credit facilities. At December 31, 2004, bank lines of credit totaled \$60.3 billion, of which \$23 billion represented short-term credit facilities and \$37.3 billion represented long-term credit facilities. The unused short-term and long-term portions of the credit lines totaled \$3.1 billion and \$32.2 billion at December 31, 2005 compared with \$8.5 billion and \$35.9 billion at December 31, 2004. Certain bank lines of credit contain covenants with which the Corporation and applicable subsidiaries were in compliance throughout the year ended December 31, 2005.

Note 18 Pensions and Other Postretirement Benefits

GM sponsors a number of defined benefit pension plans covering substantially all U.S. and Canadian employees as well as certain other non-U.S. employees. Plans covering U.S. and Canadian represented employees generally provide benefits of negotiated, stated amounts for each year of service as well as significant supplemental benefits for employees who retire with 30 years of service before normal retirement age. The benefits provided by the plans covering U.S. and Canadian salaried employees and employees in certain other non-U.S. locations are generally based on years of service and compensation history. GM also has certain nonqualified pension plans covering executives that are based on targeted wage replacement percentages and are unfunded.

GM's funding policy with respect to its qualified pension plans is to contribute annually not less than the minimum required by applicable law and regulations, or to directly pay benefit payments where appropriate. GM made pension contributions to the U.S. hourly and salaried, other U.S., and non-U.S. pension plans, or made direct payments where appropriate, as follows (dollars in millions):

	2005	2004	2003
U.S. hourly and salaried	\$ -	\$ -	\$18,504
Other U.S.	125	117	117
Non-U.S.	708	802	442

In 2006, GM does not have any contributions due for its U.S. hourly plan. In February 2006, GM contributed \$1.7 million into its salaried pension plan. This contribution was a required contribution on behalf of GM employees who were former participants in the Saturn PCR plan, which was merged into the salaried pension plan in 2005. GM does not expect to make any additional contributions into the salaried pension plan in 2006. During 2006, GM expects to contribute or pay benefits of approximately \$100 million to its other U.S. pension plans and \$500 million to its primary non-U.S. pension plans, which include GM Canada Limited, Adam Opel and Vauxhall.

Additionally, GM maintains hourly and salaried benefit plans that provide postretirement medical, dental, vision, and life insurance to most U.S. retirees and eligible dependents. The cost of such benefits is recognized in the consolidated financial statements during the period employees provide service to GM. Certain of the Corporation's non-U.S. subsidiaries have postretirement benefit plans, although most participants are covered by government sponsored or administered programs. The cost of such programs generally is not significant to GM.

In 2004, GM contributed a total of \$9.0 billion to plan assets including \$8.8 billion to its U.S. hourly and salaried Voluntary Employees Beneficiary Association (VEBA) trusts for OPEB plans (consisting of \$8.4 billion in cash and \$0.4 billion in XM Satellite Radio Holdings, Inc. common stock shares) and \$0.2 billion to a salaried 401(h) account. This was the first such contribution related to the salaried OPEB plan and 401(h) account. Contributions by participants to the other OPEB plans were \$89 million and \$87 million for the years ended December 31, 2005 and 2004, respectively. In 2005, GM withdrew a total of \$3.2 billion from plan assets of its VEBA trusts for OPEB plans. GM withdrew \$1 billion from its VEBA trust on February 1, 2006 and another \$1 billion from its VEBA trust on March 1, 2006.

Note 18 Pensions and Other Postretirement Benefits (continued)

GM uses a December 31 measurement date for the majority of its U.S. pension plans and a September 30 measurement date for U.S. OPEB plans. GM's measurement dates for its Canadian, Adam Opel and Vauxhall Motors primary non-U.S. pension plans are November 30, September 30 and September 30, respectively. GM's measurement dates for its Canadian and South African non-U.S. OPEB plans are December 31.

(Dollars in millions)	U.S. Plans Pension Benefits		Non-U.S. Plans Pension Benefits		U.S. Other Benefits		Non-U.S. Other Benefits	
	2005	2004	2005	2004	2005	2004	2005	2004
Change in benefit obligations								
Benefit obligation at beginning of year	\$90,760	\$87,285	\$ 18,056	\$15,088	\$ 73,772	\$ 64,547	\$ 3,702	\$ 2,995
Service cost	1,117	1,097	322	247	702	566	50	39
Interest cost	4,883	5,050	965	892	4,107	3,726	218	201
Plan participants' contributions	22	22	27	26	88	85	1	2
Amendments	(65)	54	113	163	—	10	—	—
Actuarial losses	(975)	3,683	2,233	1,040	6,720	8,527	(200)	288
Benefits paid	(6,695)	(6,605)	(911)	(806)	(4,208)	(3,690)	(118)	(114)
Exchange rate movements	—	—	(942)	1,201	—	—	—	—
Curtailments, settlements, and other	86	174	778	205	—	1	107	291
Benefit obligation at end of year	89,133	90,760	20,641	18,056	81,181	73,772	3,760	3,702
Change in plan assets								
Fair value of plan assets at beginning of year	90,886	86,169	9,023	7,560	16,016	9,998	—	—
Actual return on plan assets	10,924	11,046	1,382	814	2,258	981	—	—
Employer contributions	125	117	505	802	2,008	5,037	—	—
Plan participants' contributions	22	22	27	26	—	—	—	—
Benefits paid	(6,695)	(6,605)	(911)	(806)	—	—	—	—
Exchange rate movements	—	—	(119)	627	—	—	—	—
Curtailments, settlements, and other	(12)	137	18	—	—	—	—	—
Fair value of plan assets at end of year	95,250	90,886	9,925	9,023	20,282	16,016	—	—
Funded status ⁽¹⁾	6,117	126	(10,716)	(9,033)	(60,899)	(57,756)	(3,760)	(3,702)
Unrecognized actuarial loss	25,538	31,604	6,554	5,411	30,592	27,345	1,698	1,326
Unrecognized prior service cost	4,616	5,862	770	808	(714)	(445)	(584)	51
Unrecognized transition obligation	—	—	28	39	—	—	—	—
Employer contributions/withdrawals in fourth quarter	—	—	203	—	(1,176)	4,000	—	—
Benefits paid in fourth quarter	—	—	—	—	846	999	—	—
Business Combination after Measurement Date	—	—	(187)	—	—	—	—	—
Net amount recognized	\$36,271	\$37,592	\$ (3,348)	\$ (2,775)	\$ (31,351)	\$ (25,857)	\$ (2,646)	\$ (2,325)
Amounts recognized in the consolidated balance sheets consist of:								
Prepaid benefit cost	\$37,280	\$38,570	\$ 296	\$ 349	\$ —	\$ —	\$ —	\$ —
Accrued benefit liability	(1,177)	(1,152)	(10,127)	(8,303)	(31,351)	(25,857)	(2,646)	\$(2,325)
Intangible asset	—	—	743	765	—	—	—	—
Accumulated other comprehensive income	168	174	5,740	4,414	—	—	—	—
Net amount recognized	\$36,271	\$37,592	\$ (3,348)	\$ (2,775)	\$ (31,351)	\$ (25,857)	\$ (2,646)	\$ (2,325)

(1) Includes overfunded status of the combined U.S. hourly and salaried pension plans of \$7.5 billion as of December 31, 2005, and \$1.6 billion as of December 31, 2004.

The total accumulated benefit obligation, the accumulated benefit obligation and fair value of plan assets for GM's pension plans with accumulated benefit obligations in excess of plan assets, and the projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets are as follows (dollars in millions):

	U.S. Plans		Non-U.S. Plans	
	2005	2004	2005	2004
Accumulated benefit obligation	\$86,885	\$88,053	\$19,714	\$17,097
Plans with ABO in excess of plan assets				
ABO	\$ 1,207	\$ 1,224	\$19,232	\$16,631
Fair value of plan assets	30	85	9,249	8,388
Plans with PBO in excess of plan assets				
PBO	\$ 1,703	\$31,176	\$20,515	\$17,907
Fair value of plan assets	295	29,548	9,622	8,708

Note 18 Pensions and Other Postretirement Benefits (continued)

The components of pension and OPEB expense along with the assumptions used to determine benefit obligations are as follows (dollars in millions):

	U.S. Plans Pension Benefits			Non-U.S. Plans Pension Benefits		
	2005	2004	2003	2005	2004	2003
Components of expense						
Service cost	\$ 1,117	\$ 1,097	\$ 919	\$ 322	\$ 247	\$ 228
Interest cost	4,883	5,050	5,162	965	892	803
Expected return on plan assets	(7,898)	(7,823)	(6,374)	(740)	(669)	(573)
Amortization of prior service cost	1,164	1,279	1,148	102	93	101
Amortization of transition obligation/(asset)	—	—	—	6	7	11
Recognized net actuarial loss	2,065	1,857	1,744	281	188	167
Curtailements, settlements, and other	115	34	27	114	204	49
Net expense	\$ 1,446	\$ 1,494	\$ 2,626	\$1,050	\$ 962	\$ 786
Weighted-average assumptions used to determine benefit obligations at December 31⁽¹⁾						
Discount rate	5.70%	5.60%	6.00%	4.72%	5.61%	6.12%
Rate of compensation increase	4.9%	5.0%	5.0%	3.1%	3.2%	3.4%
Weighted-average assumptions used to determine net expense for years ended December 31⁽²⁾						
Discount rate	5.60%	6.00%	6.75%	5.61%	6.12%	6.23%
Expected return on plan assets	9.0%	9.0%	9.0%	8.5%	8.4%	8.5%
Rate of compensation increase	5.0%	5.0%	5.0%	3.2%	3.4%	3.4%
	U.S. Other Benefits			Non-U.S. Other Benefits		
	2005	2004	2003	2005	2004	2003
Components of expense						
Service cost	\$ 702	\$ 566	\$ 503	\$ 50	\$ 39	\$ 34
Interest cost	4,107	3,726	3,630	218	201	168
Expected return on plan assets	(1,684)	(1,095)	(444)	—	—	—
Amortization of prior service cost	(70)	(87)	(19)	8	8	7
Amortization of transition obligation/(asset)	—	—	—	—	—	—
Recognized net actuarial loss	2,250	1,138	722	88	62	46
Curtailements, settlements, and other	—	—	—	2	—	3
Net expense	\$ 5,305	\$ 4,248	\$4,392	\$366	\$310	\$258
Weighted-average assumptions used to determine benefit obligations at December 31⁽¹⁾						
Discount rate	5.45%	5.75%	6.25%	5.00%	6.00%	6.75%
Rate of compensation increase	4.2%	3.9%	4.2%	4.0%	4.0%	4.0%
Weighted-average assumptions used to determine net expense for years ended December 31⁽²⁾						
Discount rate	5.75%	6.25%	6.75%	6.00%	6.75%	7.00%
Expected return on plan assets	8.8%	8.0%	7.0%	—	—	—
Rate of compensation increase	3.9%	4.2%	4.4%	4.0%	4.0%	4.0%

(1) Determined as of end of year

(2) Determined as of beginning of year

In recent years, GM estimated the discount rate for its U.S. pension and OPEB obligations by reference to Moody's AA Index, Citibank Salomon Smith Barney's above-median curve, and Watson Wyatt's bond-matching model as well as benchmarking.

Beginning with 2005 year-end valuations, GM estimates the discount rate for its U.S. pension and OPEB obligations using an iterative process based on a hypothetical investment in a portfolio of high-quality bonds and a hypothetical reinvestment of the proceeds of such bonds upon maturity (at forward rates derived from a yield curve) until its U.S. pension and OPEB obligations are fully defeased. GM incorporates this reinvestment component into its methodology because it is not feasible, in light of the magnitude and time horizon over which its U.S. pension and OPEB obligations extend, to accomplish full defeasance through direct cash flows from an actual set of bonds selected at any given mea-

surement date. This improved methodology, considered a change in estimate, was developed during 2005 and was adopted because it was deemed superior to the previously available algorithms for estimating assumed discount rates. In particular, this approach permits a better match of future cash outflows related to benefit payments with future cash inflows associated with bond coupons and maturities in the hypothetical described above.

GM's discount rate estimation under this iterative process involves four steps:

First, GM identifies a bond universe that consists of all AA-rated or higher bonds with an amount outstanding greater than \$25 million. GM excludes from this universe all callable and convertible bonds, mortgage-backed and asset-backed securities and bonds with a negative credit watch. The bond universe data, including amounts outstanding, market prices, credit ratings and other relevant data, is obtained from Bloomberg.

Note 18 Pensions and Other Postretirement Benefits (continued)

Second, GM creates a defeasance portfolio from the bond universe by selecting a set of bonds that would yield cash flows (through coupons, maturation and reinvestment) that are sufficient to defease its U.S. pension and OPEB obligations. Reinvestments are assumed to occur at forward rates calculated using a yield curve developed with the following methodology. For years during which the bond universe has a sufficient number of bonds, the yield curve is based on the yields of such bonds. For future years, when the bond universe does not have a sufficient number of bonds, the yield curve is extrapolated as follows:

- GM computes the spread between the yield curve and the swap curve (a market-based curve),
- To extrapolate the yield curve for the period beginning after the last year where substantial bonds are available in the bond universe and ending in year 50, GM adds the spread to the swap curve, which is observable over 50 years, and
- To extrapolate the yield curve beyond the 50th year, GM assumes that the last one-year forward rate on the yield curve (at the 49th year) remains constant for the remaining years.

Third, GM determines the market value of the defeasance portfolio using the actual initial market value of the bonds selected as part of the defeasance portfolio.

Fourth, GM computes the internal rate of return (IRR) of the defeasance portfolio based on its market value as of the measurement date and the final net cash flows from the coupons, maturations and reinvestments. GM uses this IRR as the discount rate for its U.S. pension and OPEB obligations.

Beginning with 2005 year-end valuations, GM rounds its discount rates for its U.S. pensions and U.S. OPEB plans to the nearest 0.05 percentage point, rather than to the nearest 0.25 percentage point as in prior years.

Using this new methodology, GM has established for its U.S. pension plans and U.S. OPEB plans discount rates of 5.70% and 5.45%, respectively, for year-end 2005.

GM sets the discount rate assumption annually for each of its retirement-related benefit plans at their respective measurement dates to reflect the yield of a portfolio of high quality, fixed-income debt instruments matched against the timing and amounts of projected future benefits.

Assumed Health Care Trend Rates at December 31,	2005	2004
Initial health care cost trend rate	10.0%	10.5%
Ultimate health care cost trend rate	5.0%	5.0%
Number of years to ultimate trend rate	6	6

A one percentage point increase in the assumed health care trend rates for all future periods would have increased the U.S. Accumulated Postretirement Benefit Obligation (APBO) by \$9.3 billion at December 31, 2005 and the U.S. aggregate service and interest cost components of non-pension postretirement benefit expense for 2005 by \$629 million. A one-percentage point decrease would have decreased the U.S. APBO by \$7.7 billion and the U.S. aggregate service and interest cost components of non-pension postretirement benefit expense for 2005 by \$516 million.

GM's long-term strategic mix and expected return on assets assumptions are derived from detailed periodic studies conducted by GM's actuaries and GM's asset management group. The U.S. study includes a review of alternative asset allocation strategies, anticipated future long-term performance of individual asset classes, risks (standard deviations) and correlations for each of the asset classes that comprise the funds' asset mix. The primary non-U.S. plans conduct similar studies in conjunction with local actuaries and asset managers. While the studies give appropriate consideration to recent fund performance and historical returns, the assumptions are primarily long-term, prospective rates.

The capital market assumptions underpinning GM's long-term strategic mix and long-term expected return assumptions are reexamined annually. The re-examinations of capital market assumptions in 2005 reaffirmed both the 9% long-term expected return assumption and GM's long-term strategic allocation for the U.S. pension plans.

GM's strategic asset mix for U.S. pension plans is intended to reduce exposure to equity market risks and to utilize asset classes which are not highly correlated as well as asset classes where active management has historically generated excess returns and places greater emphasis on manager skills to produce excess return while employing various risk mitigation strategies to reduce volatility. In 2005, GM's target allocations for pension assets fell within the following ranges: global equity, 41%-49%; global bonds, 30%-36%; real estate, 8%-12%; and alternative, 9%-13%.

With the significant contributions made to GM's hourly VEBA in 2004, a new investment policy was adopted during the year to manage plan assets under a single investment policy with an expanded range of assets classes. The hourly VEBA is managed to achieve long-term asset returns while maintaining adequate liquidity for reimbursement of benefit payments, as needed. The new asset allocation was implemented on October 1, 2004. In addition, in late 2004, a new salaried VEBA was created and funded. It is primarily invested in shorter-term liquid securities. For 2005, the expected return for the hourly VEBA was 9.0% and the expected return for the salaried VEBA was 4.5%. The blended expected rate of return on VEBA assets was 8.8% in 2005.

U.S. and non-U.S. pension plans and OPEB plans have the following asset allocations, as of their respective measurement dates in 2004 and 2005:

Asset Category	Plan Assets U.S. Pension Plans Actual Percentage of Plan Assets		Plan Assets Primary Non-U.S. Pension Plans Actual Percentage of Plan Assets		Plan Assets OPEB Actual Percentage of Plan Assets	
	2005	2004	2005	2004	2005	2004
Equity securities	47%	47%	61%	61%	52%	41%
Debt securities	32%	35%	31%	31%	31%	48%
Real estate	7%	8%	8%	8%	3%	2%
Other	14%	10%	0%	0%	14%	9%
Total	100%	100%	100%	100%	100%	100%

Equity securities include GM common stock in the amounts of \$11 million (less than 1% of total pension plan assets) and \$29 million (less than 1% of total pension plan assets) at December 31, 2005 and 2004, respectively. In addition, due to market-neutral investment strategies in place at some of GM's external asset managers, the pension plan trusts also hold short positions in GM common stock which had a value of \$(18) million at December 31, 2005.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003. The Act introduces a prescription drug benefit beginning in 2006 under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Due to the levels of benefits provided under GM's U.S. health care plans, management has concluded that GM's U.S. health care plans are at least actuarially equivalent to Medicare Part D.

GM elected not to defer accounting for the effects of the Act and remeasured GM's postretirement benefit obligation as of December 8, 2003. The remeasurement reduced GM's December 31, 2004 APBO by \$4.1 billion, increased plan assets by \$0.4 billion, and decreased the unrecognized actuarial loss by \$4.6 billion. The effect of the Act on 2005 and 2004 OPEB expense is included in the tables above.

Note 18 Pensions and Other Postretirement Benefits (continued)

The following benefit payments, which reflect estimated future employee service, as appropriate, are expected to be paid (dollars in millions):

	Pension Benefits		Other Benefits		Non U.S. Other Benefits	
	U.S. Plans	Primary Non-U.S. Plans	Gross Benefit Payments	Gross Medicare Part D Receipts	Gross Benefit Payments	Gross Medicare Part D Receipts
2006	6,794	834	4,337	181	128	—
2007	6,693	865	4,637	271	137	—
2008	6,728	905	4,916	301	147	—
2009	6,744	940	5,163	328	157	—
2010	6,754	979	5,383	353	167	—
2011-2015	\$33,517	\$5,443	\$29,187	\$2,116	\$993	\$—

Note 19 Commitments and Contingent Matters

COMMITMENTS

GM had the following minimum commitments under noncancelable capital leases having remaining terms in excess of one year, primarily for property (dollars in millions):

	2006	2007	2008	2009	2010	2011 and After
Minimum commitments	\$194	\$190	\$446	\$148	\$141	\$ 874
Sublease income	(19)	(19)	(19)	(19)	(19)	(301)
Net minimum commitments	\$175	\$171	\$427	\$129	\$122	\$ 573

GM had the following minimum commitments under noncancelable operating leases having remaining terms in excess of one year, primarily for property (dollars in millions):

	2006	2007	2008	2009	2010	2011 and After
Minimum commitments	\$1,076	\$ 895	\$1,368	\$ 749	\$ 770	\$ 4,073
Sublease income	(246)	(247)	(241)	(236)	(227)	(2,592)
Net minimum commitments	\$ 830	\$ 648	\$1,127	\$ 513	\$ 543	\$ 1,481

Certain of these minimum commitments fund the obligations of non-consolidated VIEs. Certain of the leases contain escalation clauses and renewal or purchase options. Rental expenses under operating leases were \$1,034 million, \$990 million, and \$926 million in 2005, 2004, and 2003, respectively.

GM sponsors a credit card program, entitled the GM Card program, which offers rebates that can be applied primarily against the purchase or lease of GM vehicles. The amount of rebates available to qualified cardholders (net of deferred program income) was \$4.5 billion, \$4.5 billion, and \$4.1 billion at December 31, 2005, 2004, and 2003, respectively.

GM has guarantees related to its performance under operating lease arrangements and the residual value of leased assets totaling \$639 million (included in table above). Expiration dates vary, and certain leases contain renewal options. The fair value of the underlying assets is expected to fully mitigate GM's obligations under these guarantees. Accordingly, no liabilities were recorded with respect to such guarantees.

Also, GM has entered into agreements with certain suppliers and service providers that guarantee the value of the supplier's assets and agreements with third parties that guarantee fulfillment of certain suppliers' commitments. The maximum exposure under these commitments amounts to \$106 million.

GMAC has guaranteed certain amounts related to the securitization of mortgage loans, agency loan programs, loans sold with recourse, and the repayment of third-party debt. In addition, GMAC issues financial standby letters of credit as

part of their financing and mortgage operations. At December 31, 2005, approximately \$28 million was recorded with respect to these guarantees, the maximum exposure under which is approximately \$10.3 billion.

In connection with certain divestitures prior to January 1, 2003, GM has provided guarantees with respect to benefits for former GM employees relating to pensions, postretirement health care, and life insurance. Other than items pertaining to the fourth quarter 2005 charge with respect to the contingent exposures relating to the Delphi Chapter 11 filing, including under the benefit guarantees, the maximum exposure under these agreements cannot be estimated due to the nature of these indemnities. No amounts have been recorded for such indemnities as the Corporation's obligations under them are not probable and estimable.

In addition to guarantees, GM has entered into agreements indemnifying certain parties with respect to environmental conditions pertaining to ongoing or sold GM properties. Due to the nature of the indemnifications, GM's maximum exposure under these agreements cannot be estimated. No amounts have been recorded for such indemnities as the Corporation's obligations under them are not probable and estimable.

In addition to the above, in the normal course of business GM periodically enters into agreements that incorporate indemnification provisions. While the maximum amount to which GM may be exposed under such agreements cannot be estimated, it is the opinion of management that these guarantees and indemnifications are not expected to have a material adverse effect on the Corporation's consolidated financial position or results of operations.

CONTINGENT MATTERS

Litigation is subject to uncertainties and the outcome of individual litigated matters is not predictable with assurance. Various legal actions, governmental investigations, claims, and proceedings are pending against the Corporation, including a number of shareholder class actions, bondholder class actions, shareholder derivative suits and ERISA class actions and other matters arising out of alleged product defects including asbestos-related claims; employment-related matters; governmental regulations relating to safety, emissions, and fuel economy; product warranties; financial services; dealer, supplier, and other contractual relationships; and environmental matters.

GM has established reserves for matters in which losses are probable and can be reasonably estimated. Some of the matters may involve compensatory, punitive, or other treble damage claims, or demands for recall campaigns, incurred but not reported asbestos-related claims, environmental remediation programs, or sanctions, that if granted, could require the Corporation to pay damages or make other expenditures in amounts that could not be estimated at December 31, 2005. After discussion with counsel, it is the opinion of management that such liability is not expected to have a material adverse effect on the Corporation's consolidated financial condition or results of operations.

DELPHI BANKRUPTCY

On October 8, 2005, Delphi filed a petition for Chapter 11 proceedings under the United States Bankruptcy Code for itself and many of its U.S. subsidiaries. Delphi is GM's largest supplier of automotive systems, components and parts, and GM is Delphi's largest customer.

Note 19 Commitments and Contingent Matters (continued)

GM will continue to work constructively in the court proceedings with Delphi, Delphi's unions, and other participants in Delphi's restructuring process. GM's goal is to pursue outcomes that are in the best interests of GM and its stockholders, and that enable Delphi to continue as an important supplier to GM.

Delphi has indicated to GM that it expects no disruption in its ability to supply GM with the systems, components and parts it needs as Delphi pursues a restructuring plan under the Chapter 11 process. Although the challenges faced by Delphi during its restructuring process could create operating and financial risks for GM, that process is also expected to present opportunities for GM, but there can be no assurance that GM will be able to realize any benefits.

There is a risk that Delphi or one or more of its affiliates may reject or threaten to reject individual contracts with GM, either for the purpose of exiting specific lines of business or in an attempt to increase the price GM pays for certain parts and components. As a result, GM might be materially adversely affected by disruption in the supply of automotive systems, components and parts that could force the suspension of production at GM assembly facilities.

In addition, various financial obligations Delphi has to GM as of the date of Delphi's Chapter 11 filing, including the \$951 million payable for amounts that Delphi owed to GM relating to Delphi employees who were formerly GM employees and subsequently transferred back to GM as job openings became available to them under certain employee "flowback" arrangements as of the date of Delphi's filing for Chapter 11, may be subject to compromise in the bankruptcy proceedings, which may result in GM receiving payment of only a portion of the face amount owed by Delphi.

GM will seek to minimize this risk by protecting our right of setoff against the \$1.15 billion we owed to Delphi as of the date of its Chapter 11 filing. A procedure for determining setoff claims has been put in place by the bankruptcy court. However, the extent to which these obligations are covered by our right to setoff may be subject to dispute by Delphi, the creditors committee, or Delphi's other creditors, and limitation by the court. GM cannot provide any assurance that it will be able to fully or partially setoff such amounts. However, to date setoffs of approximately \$52.5 million have been agreed to by Delphi and taken by GM. Although GM believes that it is probable that it will be able to collect all of the amounts due from Delphi, the financial impact of a substantial compromise of our right of setoff could have a material adverse impact on our financial position.

In connection with GM's spin-off of Delphi in 1999, GM entered into separate agreements with the UAW, the International Union of Electrical Workers and the United Steel Workers. In each of these three agreements (Benefit Guarantee Agreement(s)), GM provided contingent benefit guarantees to make payments for limited pension and OPEB expenses to certain former GM U.S. hourly employees who transferred to Delphi as part of the spin-off and meet the eligibility requirements for such payments (Covered Employees).

Each Benefit Guarantee Agreement contains separate benefit guarantees relating to pension, post-retirement health care and life insurance benefits. These limited benefit guarantees each have separate triggering events that initiate potential GM liability if Delphi fails to provide the corresponding benefit at the required level. Therefore, it is possible that GM could incur liability under one of the guarantees (e.g., pension) without triggering the other guarantees (e.g., post-retirement health care or life insurance). In addition, with respect to pension benefits, GM's obligation under the pension benefit guarantees only arises to the extent that the combination of pension benefits provided by Delphi and the Pension Benefit Guaranty Corporation (PBGC) falls short of the amounts GM has guaranteed.

The Chapter 11 filing by Delphi does not by itself trigger any of the benefit guarantees. In addition, the benefit guarantees expire on October 18, 2007 if not previously triggered by Delphi's failure to pay the specified benefits. If a benefit guarantee is triggered before its expiration date, GM's obligation could extend for the lives of affected Covered Employees, subject to the applicable terms of the pertinent benefit plans or other relevant agreements.

The benefit guarantees do not obligate GM to guarantee any benefits for Delphi retirees in excess of the levels of corresponding benefits GM provides at

any given time to GM's own hourly retirees. Accordingly, if any of the benefits GM provides to its hourly retirees are reduced, there would be a similar reduction in GM's obligations under the corresponding benefit guarantee.

A separate agreement between GM and Delphi requires Delphi to indemnify GM if and to the extent GM makes payments under the benefit guarantees to the UAW employees or retirees. GM received a notice from Delphi, dated October 8, 2005, that it was more likely than not that GM would become obligated to provide benefits pursuant to the benefit guarantees to the UAW employees or retirees. The notice stated that Delphi was unable at that time to estimate the timing and scope of any benefits GM might be required to provide under those benefit guarantees. Any recovery by GM under indemnity claims against Delphi might be subject to partial or complete discharge in the Delphi reorganization proceeding. As a result, GM's claims for indemnity may not be paid in full.

As part of the discussion to attain GM's tentative health-care agreement with the UAW, GM provided former GM employees who became Delphi employees the potential to earn up to seven years of credited service for purposes of eligibility for certain health-care benefits under the GM/UAW benefit guarantee agreement.

GM believes that it is probable that it has incurred a contingent liability due to Delphi's Chapter 11 filing. GM believes that the range of the contingent exposures is between \$5.5 billion and \$12 billion, with amounts near the low end of the range considered more possible than amounts near the high end of the range assuming an agreement is reached among GM, Delphi, and Delphi's unions. As a result, GM established a reserve of \$5.5 billion (\$3.6 billion after tax) as a non-cash charge in the fourth quarter of 2005. These views reflect GM's current assessment that it is unlikely that a Chapter 11 process will result in both a termination of Delphi's pension plan and complete elimination of its OPEB plans. The amount of this charge may change, depending on the result of discussions among GM, Delphi, and Delphi's unions, and other factors. GM is currently unable to estimate the amount of additional charges, if any, which may arise from Delphi's Chapter 11 filing. A consensual agreement to resolve the Delphi matter may cause GM to incur additional costs in exchange for benefits that would accrue to GM over time.

With respect to the possible cash flow effect on GM related to its ability to make either pension or OPEB payments, if any are required under the benefit guarantees, GM would expect to make such payments from ongoing operating cash flow and financings. Such payments, if any, are not expected to have a material effect on GM's cash flows in the short-term. However, if payable, these payments would be likely to increase over time, and could have a material effect on GM's liquidity in coming years. (For reference, Delphi's 2004 Form 10-K reported that its total cash outlay for OPEB for 2004 was \$226 million, which included \$154 million for both hourly and salaried retirees, the latter of whom are not covered under the benefit guarantees, plus \$72 million in payments to GM for certain former Delphi hourly employees that flowed back to retire from GM). If benefits to Delphi's U.S. hourly employees under Delphi's pension plan are reduced or terminated, the resulting effect on GM cash flows in future years due to the Benefit Guarantee Agreements is currently not reasonably estimable.

See Note 27 for subsequent events.

Note 20 Stockholders' Equity

The following table presents changes in capital stock for the period from January 1, 2003 to December 31, 2005 (dollars in millions):

	Common Stocks		Total Capital Stock
	\$1-2/3 Par Value	Class H	
Balance at January 1, 2003	936	\$ 96	\$1,032
Shares issued	1	15	16
Hughes split-off	—	(111)	(111)
Balance at December 31, 2003	937	—	937
Shares issued	5	—	5
Balance at December 31, 2004	942	—	942
Shares issued	1	—	1
Balance at December 31, 2005	\$943	\$ —	\$ 943

Note 20 Stockholders' Equity (continued)

GM CLASS H STOCK

Effective December 22, 2003, GM split off Hughes by distributing Hughes common stock to the holders of GM Class H common stock in exchange for all outstanding shares of GM Class H common stock. All shares of GM Class H common stock were then cancelled.

Years ended December 31,	2005			2004			2003		
	Pre-tax Amount	Tax Exp. (Credit)	Net Amount	Pre-tax Amount	Tax Exp. (Credit)	Net Amount	Pre-tax Amount	Tax Exp. (Credit)	Net Amount
Foreign currency translation adjustments	\$ (962)	\$(434)	\$ (528)	\$1,237	\$ 616	\$ 621	\$ 1,642	\$ 673	\$ 969
Unrealized (loss) gain on securities:									
Unrealized holding gain	216	76	140	299	114	185	465	166	299
Reclassification adjustment	(165)	(60)	(105)	(80)	(28)	(52)	(84)	(31)	(53)
Net unrealized gain	51	16	35	219	86	133	381	135	246
Minimum pension liability adjustment	(1,320)	(562)	(758)	(874)	(303)	(571)	33,378	12,623	20,755
Net unrealized gain on derivatives	219	75	144	701	163	538	329	73	256
Other comprehensive income (loss)	\$(2,012)	\$(905)	\$(1,107)	\$1,283	\$ 562	\$ 721	\$35,730	\$13,504	\$22,226

Note 21 Earnings (Loss) Per Share Attributable to Common Stock

Earnings per share (EPS) attributable to each class of GM common stock was determined based on the attribution of earnings to each such class of common stock for the period divided by the weighted-average number of common shares for each such class outstanding during the period. Diluted EPS attributable to each class of GM common stock considers the effect of potential common shares, unless the inclusion of the potential common shares would have an antidilutive effect. The attribution of earnings to each class of GM common stock was as follows (dollars in millions):

Years ended December 31,	2005	2004	2003
Earnings (loss) attributable to common stocks \$1-2/3 par value			
Continuing operations	\$(10,458)	\$2,804	\$2,899
Discontinued operations	—	—	(48)
Gain on sale of discontinued operations	—	—	1,249
Cumulative effect of accounting change	(109)	—	—
Earnings (loss) attributable to \$1-2/3 par value	\$(10,567)	\$2,804	\$4,100
Earnings (loss) from discontinued operations attributable to Class H	\$ —	\$ —	\$ (241)
Total earnings (loss) attributable to common stocks	\$(10,567)	\$2,804	\$3,859

For the period prior to December 22, 2003, the date GM completed its split-off of Hughes, earnings attributable to GM \$1 2/3 par value common stock represent the earnings attributable to all GM common stocks, reduced by the Available Separate Consolidated Net Income (ASCN) of Hughes for the period for which GM Class H common stock was outstanding.

The calculated loss used for computation of the ASCNI of Hughes are then multiplied by a fraction, the numerator of which is equal to the weighted-average number of shares of GM Class H common stock outstanding (1.1 billion as of December 22, 2003) and the denominator of which is a number equal to the weighted-average number of shares of GM Class H common stock which if issued and outstanding would represent a 100% interest in the earnings of

COMMON STOCK

The liquidation rights of the GM \$1 2/3 par value common stock are subject to certain adjustments if outstanding common stock is subdivided, by stock split or otherwise.

OTHER COMPREHENSIVE INCOME

The changes in the components of other comprehensive income (loss) are reported net of income taxes, as follows (dollars in millions):

Hughes (the "Average Class H dividend base"). The Average Class H dividend base was 1.4 billion at December 22, 2003, the date GM completed its split-off of Hughes and the GM Class H common stock ceased to be outstanding.

The reconciliation of the amounts used in the basic and diluted earnings per share computations for income from continuing operations was as follows (dollars in millions except per share amounts):

	\$1-2/3 Par Value Common Stock		
	Income	Shares	Per Share Amount
Year ended December 31, 2005			
Basic EPS			
Income (loss) from continuing operations attributable to common stocks	\$(10,458)	565	\$(18.50)
Effect of Dilutive Securities			
Assumed exercise of dilutive stock options	—	—	—
Diluted EPS			
Adjusted income (loss) attributable to common stocks	\$(10,458)	565	\$(18.50)
Year ended December 31, 2004			
Basic EPS			
Income from continuing operations attributable to common stocks	\$ 2,804	565	\$ 4.97
Effect of Dilutive Securities			
Assumed exercise of dilutive stock options	—	2	(0.03)
Diluted EPS			
Adjusted income attributable to common stocks	\$ 2,804	567	\$ 4.94
Year ended December 31, 2003			
Basic EPS			
Income from continuing operations attributable to common stocks	\$ 2,899	561	\$ 5.17
Effect of Dilutive Securities			
Assumed exercise of dilutive stock options	—	8	(0.08)
Diluted EPS			
Adjusted income attributable to common stocks	\$ 2,899	569	\$ 5.09

Note 21 Earnings (Loss) Per Share Attributable to Common Stock (continued)

Certain stock options and convertible securities were not included in the computation of diluted earnings per share for the periods presented since the instruments' underlying exercise prices were greater than the average market prices of GM \$1 2/3 par value common stock and inclusion would be antidilutive. Such shares not included in the computation of diluted earnings per share were 111 million, 88 million, and 176 million as of December 31, 2005, 2004, and 2003, respectively. In addition, for periods in which there was a loss attributable to common stocks, options to purchase shares of GM \$1 2/3 par value common stock with the underlying exercise prices less than the average market prices were outstanding, but were excluded from the calculations of diluted loss per share, as inclusion of these securities would have reduced the net loss per share.

As of December 31, 2005 GM had \$8.1 billion of convertible debentures outstanding, including \$1.2 billion principal amount of 4.5% Series A convertible senior debentures due 2032 (Series A), \$2.6 billion principal amount of 5.25% Series B convertible senior debentures due 2032 (Series B), and \$4.3 billion principal amount of 6.25% Series C convertible senior debentures due 2033 (Series C). In October 2004, the FASB ratified the consensus of the EITF with respect to Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share." On November 5, 2004, GM unilaterally and irrevocably waived, and relinquished, its right (the waiver) to use stock, and has committed to use cash, to settle the principal amount of the securities if (1) holders ever choose to convert the securities or (2) GM is ever required by holders to repurchase the securities. GM retains the right to use either cash or stock to settle any amount that might become due to security holders in excess of the principal amount (the in-the-money amount). The various circumstances under which conversion of the securities may occur are described in the paragraphs 1-4 below, while paragraph 5 describes the circumstances under which GM might be required to repurchase the securities.

- 1) If the closing sale price of GM's \$1 2/3 par value common stock exceeds 120% of the conversion price of that security (which closing prices are \$70.20 for the Series A securities, \$64.90 for the Series B securities, and \$47.62 for the Series C securities) for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; or
- 2) During the five business day period after any nine consecutive trading day period in which the trading price of the debentures for each day of such period was less than 95% of the product of the closing sale price of GM's \$1 2/3 par value common stock multiplied by the number of shares issuable upon conversion of \$25.00 principal amount of the debentures; or
- 3) If the debentures have been called for redemption (Series A on March 6, 2007, Series B on March 6, 2009 and Series C on July 20, 2010); or
- 4) Upon the occurrence of specified corporate events; or
- 5) If the investor requires GM to repurchase the debentures on the specified repurchase dates for each security (Series A: March 6 of 2007, 2012, 2017, 2022, and 2027, or, if any of those days is not a business day, the next succeeding business day; Series B: March 6 of 2014, 2019, 2024, and 2029, or, if any of those days is not a business day, the next succeeding business day; Series C: July 15 of 2018, 2023 and 2028 or, if any of those days is not a business day, the next succeeding business day).

No shares potentially issuable to satisfy the in-the-money-amount of the convertible debentures have been included in diluted earnings per share as of December 31, 2005, as the convertible debentures have not met the requirements for conversion.

Note 22 Derivative Financial Instruments and Risk Management

GM is exposed to market risk from changes in foreign currency exchange rates, interest rates, and certain commodity prices. In the normal course of business, GM enters into a variety of foreign exchange, interest rate, and commodity forward contracts, swaps, and options, with the objective of minimizing exposure arising from these risks. A risk management control system is utilized to monitor foreign exchange, interest rate, commodity, and related hedge positions.

CASH FLOW HEDGES

GM uses financial instruments designated as cash flow hedges to hedge the Corporation's exposure to foreign currency exchange risk associated with buying, selling, and financing in currencies other than the local currencies in which it operates, and to variability in cash flows related to its exposure to commodity price risk associated with changes in prices of commodities used in its automotive business, primarily nonferrous metals used in the manufacture of automotive components and to hedge exposure to variability in cash flows related to floating rate and foreign currency financial instruments. For transactions denominated in foreign currencies, GM typically hedges forecasted and firm commitment exposures up to three years in the future. For commodities, GM typically hedges exposures up to three years in the future. For the year ended December 31, 2005, hedge ineffectiveness associated with instruments designated as cash flow hedges decreased cost of sales and other expenses by \$37 million. For the year ended December 31, 2004, hedge ineffectiveness associated with instruments designated as cash flow hedges decreased cost of sales and other expenses by \$26 million. Derivative gains and losses included in other comprehensive income are reclassified into earnings at the time that the associated hedged transactions impact the income statement. For the year ended December 31, 2005, net derivative losses of \$208 million were reclassified to cost of sales and other expenses and net derivative gains of \$200 million were reclassified to revenue. For the year ended December 31, 2004, net derivative gains of \$245 million were reclassified to cost of sales and other expenses. These net losses/gains were offset by net gains/losses on the transactions being hedged. Approximately \$103 million of net derivative gains included in other comprehensive income at December 31, 2005, is expected to be reclassified into earnings within 12 months from that date. For the years ended December 31, 2005 and 2004, there were net gains of approximately \$47 million and \$26 million, respectively, which were reclassified into earnings as a result of discontinuance of certain commodity cash flow hedges because it was probable that the original forecasted transactions will not occur.

FAIR VALUE HEDGES

GM uses financial instruments designated as fair value hedges to manage certain of the Corporation's exposure to interest rate risk. GM is subject to market risk from exposures to changes in interest rates due to its financing, investing, and cash management activities. A variety of instruments is used to hedge GM's exposure associated with its fixed rate debt and mortgage servicing rights (MSRs). For the year ended December 31, 2005, hedge ineffectiveness associated with instruments designated as fair value hedges, primarily due to hedging of MSRs, decreased selling, general, and administrative expenses by \$34 million and decreased selling, general, and administrative expenses by \$104 million in 2004. Changes in time value of the instruments (which are excluded from the assessment of hedge effectiveness) decreased selling, general, and administrative expenses by \$59 million in 2005 and \$180 million in 2004.

Note 22 Derivative Financial Instruments and Risk Management (continued)

NET INVESTMENT HEDGES

GM uses foreign currency denominated debt to hedge the foreign currency exposure of its net investments in foreign operations. Foreign currency translation gains and losses related to these debt instruments are recorded in Other Comprehensive Loss as a foreign currency translation adjustment. For the years ended December 31, 2005 and 2004, a \$142 million and \$64 million unrealized loss were recorded in accumulated foreign currency translation.

UNDESIGNATED DERIVATIVE INSTRUMENTS

Forward contracts and options not designated as hedging instruments under SFAS No. 133 may also be used to hedge certain foreign currency, commodity, and interest rate exposures. Unrealized gains and losses on such instruments are recognized currently in earnings.

Note 23 Fair Value of Financial Instruments

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value; therefore, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The effect of using different market assumptions and/or estimation methodologies may be material to the estimated fair value amounts.

Book and estimated fair values of financial instruments, for which it is practicable to estimate fair value, were as follows (dollars in millions):

December 31,	2005		2004	
	Book Value	Fair Value	Book Value	Fair Value
Automotive and Other Operations				
Assets				
Other assets ⁽¹⁾	\$ 1,830	\$ 1,310	\$ 841	\$ 520
Derivative assets	\$ 1,767	\$ 1,767	\$ 2,089	\$ 2,089
Liabilities				
Long-term debt ⁽²⁾	\$ 31,014	\$ 20,837	\$ 30,460	\$ 31,276
Other liabilities ⁽¹⁾	\$ 535	\$ 447	\$ 537	\$ 591
Derivative liabilities	\$ 859	\$ 859	\$ 724	\$ 724
Financing and Insurance Operations				
Assets				
Finance receivables – net ⁽³⁾	\$ 180,793	\$ 181,090	\$ 199,600	\$ 199,827
Derivative assets	\$ 3,000	\$ 3,000	\$ 9,489	\$ 9,489
Liabilities				
Debt ⁽²⁾	\$ 253,217	\$ 244,956	\$ 267,757	\$ 268,813
Derivative liabilities	\$ 2,444	\$ 2,444	\$ 953	\$ 953
Other liabilities	\$ 5,930	\$ 5,830	\$ 4,230	\$ 4,106

- (1) Other assets include various financial instruments (e.g., long-term receivables and certain investments) that have fair values based on discounted cash flows, market quotations, and other appropriate valuation techniques. The fair values of retained subordinated interests in trusts and excess servicing assets (net of deferred costs) were derived by discounting expected cash flows using current market rates. Estimated values of Industrial Development Bonds, included in other liabilities, were based on quoted market prices for the same or similar issues.
- (2) Long-term debt has an estimated fair value based on quoted market prices for the same or similar issues or based on the current rates offered to GM for debt of similar remaining maturities.
- (3) The fair value was estimated by discounting the future cash flows using applicable spreads to approximate current rates applicable to each category of finance receivables.

Due to their short-term nature, the book value approximates fair value for cash and marketable securities, accounts and notes receivable (less allowances), accounts payable (principally trade), Auto & Other loans payable and FIO debt payable within one year for the periods ending December 31, 2005 and 2004.

Note 24 Stock Incentive Plans

GM's stock incentive plans consist of the General Motors 2002 Stock Incentive Plan, formerly the 1997 General Motors Amended Stock Incentive Plan (GMSIP), the General Motors 1998 Salaried Stock Option Plan (GMSSOP), and the General Motors 2002 Long Term Incentive Plan (GMLTIP). The GMSIP and the GMLTIP are administered by the Executive Compensation Committee of the GM Board. The GMSSOP is administered by the Vice President of Global Human Resources.

Under the GMSIP, 27.4 million shares of GM \$1 2/3 par value common stock may be granted from June 1, 2002, through May 31, 2007, of which approximately 4.9 million were available for grants at December 31, 2005. Any shares granted and undelivered under the GMSIP, due primarily to expiration or termination, become again available for grant. Options granted prior to 1997 under the GMSIP generally are exercisable one-half after one year and one-half after two years from the dates of grant. Stock option grants awarded since 1997 vest ratably over three years from the date of grant. Option prices are 100% of fair market value on the dates of grant and the options generally expire 10 years from the dates of grant, subject to earlier termination under certain conditions.

Under the GMSSOP, which commenced January 1, 1998 and ends December 31, 2007, the number of shares of GM \$1 2/3 par value common stock that may be granted each year is determined by management. Approximately 0.8 million shares of GM \$1 2/3 par value common stock were available for grants at December 31, 2005. Stock options vest one year following the date of grant and are exercisable two years from the date of grant. Option prices are 100% of fair market value on the dates of grant and the options generally expire 10 years and two days from the dates of grant subject to earlier termination under certain conditions.

The GMLTIP consists of award opportunities granted to participants that are based on the achievement of specific corporate business criteria. The target number of shares of GM \$1 2/3 par value common stock that may be granted each year is determined by management. These grants are subject to a three-year performance period and the final award payout may vary based on the achievement of those criteria. The condition for all three plans is a minimum percentile ranking of GM's Total Shareholder Return among the companies in the S&P 500.

As of December 31, 2005, approximately 4.8 million target shares were outstanding under the GMLTIP. Of these outstanding shares, a total of 2.8 million were granted in 2003 and 2004 at a grant-date fair value of \$37.28, and \$49.33, respectively. Management intends to settle these awards with GM \$1 2/3 par value common stock. Of the remaining outstanding shares, approximately 2.0 million shares were granted in 2005 at a fair value of \$39.13. Management intends to settle these awards in cash. The preceding is the targeted number of shares that would finally be granted should the targeted performance condition be achieved. Final payout is subject to approval by the Executive Compensation Committee of the Board of Directors.

Note 24 Stock Incentive Plans (continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2005		2004		2003	
	GMSIP	GMSSOP	GMSIP	GMSSOP	GMSIP	GMSSOP
Interest rate	3.8%	—%	3.1%	3.1%	2.9%	2.9%
Expected life (years)	6.0	—	5.0	5.0	5.0	5.0
Expected volatility	32.5%	—%	33.9%	33.9%	35.4%	35.4%
Dividend yield	5.5%	—%	3.7%	3.7%	5.0%	5.0%

Changes in the status of outstanding options were as follows:

	GMSIP \$1-2/3 Par Value Common		GMSSOP \$1-2/3 Par Value Common	
	Shares Under Option	Weighted-Average Exercise Price	Shares Under Option	Weighted-Average Exercise Price
Options outstanding at January 1, 2003	65,822,160	\$56.45	18,957,199	\$59.91
Granted	11,148,605	\$40.06	5,666,127	\$40.05
Exercised	1,489,170	\$42.28	—	—
Terminated	996,029	\$55.06	233,270	\$56.92
Options outstanding at December 31, 2003	74,485,566	\$54.38	24,390,056	\$55.33
Granted	8,055,460	\$53.83	3,315,479	\$53.92
Exercised	1,346,996	\$40.77	31,320	\$47.92
Terminated	1,738,737	\$55.26	83,589	\$54.02
Options outstanding at December 31, 2004	79,455,293	\$54.53	27,590,626	\$55.17
Granted	8,024,090	\$36.33	—	\$ —
Exercised	337,324	\$33.14	—	\$ —
Terminated	3,011,473	\$48.20	376,991	\$53.51
Options outstanding at December 31, 2005	84,130,586	\$53.11	27,213,635	\$55.19
Options exercisable at December 31, 2003	48,932,216	\$58.56	13,825,058	\$63.29
December 31, 2004	59,445,049	\$56.69	18,667,303	\$59.94
December 31, 2005	68,207,480	\$55.55	23,953,781	\$55.37

The weighted-average grant-date fair value was \$7.23, \$12.82 and \$8.58 for GMSIP options granted in 2005, 2004, and 2003, respectively. The grant-date fair value was \$12.85 in 2004 and \$8.58 in 2003 for GMSSOP options granted.

The following table summarizes information about GM's stock option plans at December 31, 2005:

Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life (yrs.)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
GMSIP \$1-2/3 Par Value Common					
\$20.00 to \$39.99	7,608,141	9.1	\$36.34	100,334	\$36.58
40.00 to 49.99	22,255,719	4.0	\$42.66	18,812,269	\$43.13
50.00 to 59.99	34,561,835	6.1	\$51.96	29,589,986	\$51.63
60.00 to 83.50	19,704,891	3.5	\$73.40	19,704,891	\$73.40
\$20.00 to \$83.50	84,130,586	5.2	\$53.11	68,207,480	\$55.55
GMSSOP \$1-2/3 Par Value Common					
\$40.05	5,513,298	7.1	\$40.05	5,513,298	\$40.05
46.59	2,218,613	2.0	\$46.59	2,218,613	\$46.59
50.46	4,828,683	6.0	\$50.46	4,828,683	\$50.46
52.35	3,763,918	5.0	\$52.35	3,763,918	\$52.35
53.92	3,259,854	8.1	\$53.92	—	\$ —
71.53	3,689,049	3.0	\$71.53	3,689,049	\$71.53
75.50	3,940,220	4.0	\$75.50	3,940,220	\$75.50
\$40.05 to \$75.50	27,213,635	5.3	\$55.19	23,953,781	\$55.37

Note 25 Other Income

Years ended December 31,	2005	2004	2003
Automotive and Other Operations			
Interest income	\$ 883	\$ 816	\$ 1,389
Rental car lease revenue	1,483	2,112	1,460
Claims, commissions, and grants	968	1,097	916
Gain on sale of GM Defense	—	—	814
Other	538	792	400
Total other income	\$ 3,872	\$ 4,817	\$ 4,979
Financing and Insurance Operations			
Interest income	\$ 1,671	\$ 807	\$ 684
Insurance premiums	3,762	3,528	3,178
Mortgage banking income	3,268	2,969	4,204
Automotive securitization income	752	753	760
Other	3,435	3,280	2,303
Total other income	\$12,888	\$11,337	\$11,129

Note 26 Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. GM's chief operating decision maker is the Chief Executive Officer. The operating segments are managed separately because each operating segment represents a strategic business unit that offers different products and serves different markets.

GM's Auto & Other reportable operating segment consists of GM's four automotive regions: GM North America (GMNA), GM Europe (GME), GM Latin America/Africa/Mid-East (GMLAAM), and GM Asia Pacific (GMAP), which constitute GM Automotive (GMA); and Other. GMNA designs, manufactures, and/or markets vehicles primarily in North America under the following nameplates: Chevrolet, Pontiac, GMC, Buick, Cadillac, Saturn, and HUMMER. GME, GMLAAM, and GMAP primarily meet the demands of customers outside North America with vehicles designed, manufactured, and marketed under the following nameplates: Opel, Vauxhall, Holden, Saab, Buick, Chevrolet, GMC, Cadillac, and Daewoo. Other includes the elimination of intersegment transactions, certain non-segment specific revenues and expenditures, including legacy costs related to postretirement benefits for certain Delphi and other retirees, and certain corporate activities. GM's FIO reportable operating segment consists of GMAC and Other Financing, which includes financing entities that are not consolidated by GMAC. GMAC provides a broad range of financial services, including consumer vehicle financing, full-service leasing and fleet leasing, dealer financing, car and truck extended service contracts, residential and commercial mortgage services, commercial and vehicle insurance, and asset-based lending.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that the disaggregated financial results have been prepared using a management approach, which is consistent with the basis and manner in which GM management internally disaggregates financial information for the purposes of assisting in making internal operating decisions. GM evaluates performance based on stand-alone operating segment net income and generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. Revenues are attributed to geographic areas based on the location of the assets producing the revenues.

Note 26 Segment Reporting (continued)

(Dollars in millions)	GMNA	GME	GMLAAM
2005			
Manufactured products sales and revenues:			
External customers	\$105,452	\$29,607	\$10,896
Intersegment	(4,261)	1,499	715
<i>Total manufactured products</i>	101,191	31,106	11,611
Financing revenue	–	–	–
Other income	3,564	613	134
<i>Total net sales and revenues</i>	\$104,755	\$31,719	\$11,745
Depreciation and amortization	\$ 7,605	\$ 1,743	\$ 329
Interest income ^(a)	\$ 1,347	\$ 406	\$ 57
Interest expense	\$ 3,166	\$ 543	\$ 197
Income tax expense (benefit)	\$ (2,540)	\$ (709)	\$ 622
Earnings (losses) of nonconsolidated associates	\$ (30)	\$ 102	\$ 15
Net income (loss) from continuing operations	\$ (8,156)	\$ (1,177)	\$ (569)
Investments in nonconsolidated affiliates	\$ 60	\$ 359	\$ 155
Segment assets	\$126,876	\$20,954	\$ 4,722
Expenditures for property	\$ 5,555	\$ 1,259	\$ 229
2004			
Manufactured products sales and revenues:			
External customers	\$112,881	\$29,126	\$ 8,045
Intersegment	(2,602)	1,030	673
<i>Total manufactured products</i>	110,279	30,156	8,718
Financing revenue	–	–	–
Other income	4,266	664	74
<i>Total net sales and revenues</i>	\$114,545	\$30,820	\$ 8,792
Depreciation and amortization	\$ 6,381	\$ 1,779	\$ 195
Interest income ^(a)	\$ 1,026	\$ 392	\$ 20
Interest expense	\$ 2,729	\$ 403	\$ 74
Income tax expense (benefit)	\$ (599)	\$ (640)	\$ 31
Earnings (losses) of nonconsolidated associates	\$ 40	\$ 102	\$ (3)
Net income (loss) from continuing operations	\$ 1,409	\$ (925)	\$ 60
Investments in nonconsolidated affiliates	\$ 482	\$ 1,476	\$ 276
Segment assets	\$126,982	\$26,586	\$ 4,192
Expenditures for property	\$ 5,163	\$ 1,331	\$ 158
2003			
Manufactured products sales and revenues:			
External customers	\$114,756	\$25,960	\$ 4,755
Intersegment	(2,044)	946	555
<i>Total manufactured products</i>	112,712	26,906	5,310
Financing revenue	–	–	–
Other income	3,598	572	77
<i>Total net sales and revenues</i>	\$116,310	\$27,478	\$ 5,387
Depreciation and amortization	\$ 6,199	\$ 1,211	\$ 248
Interest income ^(a)	\$ 1,445	\$ 375	\$ 36
Interest expense	\$ 1,762	\$ 343	\$ 119
Income tax expense (benefit)	\$ 224	\$ (378)	\$ (149)
Earnings (losses) of nonconsolidated associates	\$ 113	\$ 102	\$ 7
Net income (loss) from continuing operations	\$ 879	\$ (466)	\$ (329)
Investments in nonconsolidated affiliates	\$ 462	\$ 1,139	\$ 431
Segment assets	\$130,372	\$23,951	\$ 3,038
Expenditures for property	\$ 4,650	\$ 1,202	\$ 110

(a) Interest income is included in net sales and revenues from external customers.

GMAP	GMA	Other	Auto & Other	GMAC	Other Financing	Total Financing
\$ 8,446	\$154,401	\$ (52)	\$154,349	\$ -	\$ -	\$ -
2,050	3	(3)	-	-	-	-
10,496	154,404	(55)	154,349	-	-	-
-	-	-	-	21,299	196	21,495
397	4,708	(836)	3,872	12,738	150	12,888
\$10,893	\$159,112	\$ (891)	\$158,221	\$ 34,037	\$ 346	\$ 34,383
\$ 379	\$ 10,056	\$ 17	\$10,073	\$ 5,548	\$ 148	\$ 5,696
\$ 47	\$ 1,857	\$ (974)	\$883	\$ 2,185	\$ (514)	\$ 1,671
\$ 107	\$ 4,013	\$ (1,140)	\$2,873	\$ 12,930	\$ (35)	\$ 12,895
\$ (165)	\$ (2,792)	\$ (4,392)	\$ (7,184)	\$ 1,311	\$ (5)	\$ 1,306
\$ 534	\$ 621	\$ 19	\$640	\$ (6)	\$ -	\$ (6)
\$ (217)	\$ (10,119)	\$ (2,697)	\$ (12,816)	\$ 2,383	\$ (25)	\$ 2,358
\$ 2,597	\$ 3,171	\$ 120	\$3,291	\$ 308	\$ (308)	\$ -
\$10,141	\$162,693	\$ (1,040)	\$161,653	\$320,487	\$ (1,610)	\$318,877
\$ 839	\$ 7,882	\$ 14	\$7,896	\$ 279	\$ 4	\$ 283
\$ 5,775	\$155,827	\$ 901	\$156,728	\$ -	\$ -	\$ -
903	4	(4)	-	-	-	-
6,678	155,831	897	156,728	-	-	-
-	-	-	-	20,331	304	20,635
300	5,304	(487)	4,817	10,857	480	11,337
\$ 6,978	\$161,135	\$ 410	\$161,545	\$ 31,188	\$ 784	\$ 31,972
\$ 235	\$ 8,590	\$ 39	\$8,629	\$ 5,299	\$ 224	\$ 5,523
\$ 13	\$ 1,451	\$ (635)	\$816	\$ 1,117	\$ (310)	\$ 807
\$ 21	\$ 3,227	\$ (747)	\$2,480	\$ 9,535	\$ (35)	\$ 9,500
\$ (11)	\$ (1,219)	\$ (1,221)	\$ (2,440)	\$ 1,544	\$ (20)	\$ 1,524
\$ 666	\$ 805	\$ (16)	\$ 789	\$ (6)	\$ -	\$ (6)
\$ 730	\$ 1,274	\$ (1,419)	\$ (145)	\$ 2,968	\$ (19)	\$ 2,949
\$ 4,541	\$ 6,775	\$ 1	\$ 6,776	\$ 179	\$ (179)	\$ -
\$ 4,923	\$162,683	\$ (3,140)	\$159,543	\$324,217	\$ (1,413)	\$322,804
\$ 496	\$ 7,148	\$ 136	\$ 7,284	\$ 470	\$ (1)	\$ 469
\$ 4,578	\$150,049	\$ 803	\$150,852	\$ -	\$ -	\$ -
543	-	-	-	-	-	-
5,121	150,049	803	150,852	-	-	-
-	-	-	-	18,247	630	18,877
217	4,464	515	4,979	11,101	28	11,129
\$ 5,338	\$154,513	\$ 1,318	\$155,831	\$ 29,348	\$ 658	\$ 30,006
\$ 233	\$ 7,891	\$ 55	\$ 7,946	\$ 5,279	\$ 288	\$ 5,567
\$ 4	\$ 1,860	\$ (471)	\$ 1,389	\$ 937	\$ (253)	\$ 684
\$ 11	\$ 2,235	\$ (455)	\$ 1,780	\$ 7,564	\$ 120	\$ 7,684
\$ 44	\$ (259)	\$ (595)	\$ (854)	\$ 1,555	\$ 9	\$ 1,564
\$ 560	\$ 782	\$ (48)	\$ 734	\$ (3)	\$ (4)	\$ (7)
\$ 576	\$ 660	\$ (523)	\$ 137	\$ 2,728	\$ 34	\$ 2,762
\$ 3,944	\$ 5,976	\$ 56	\$ 6,032	\$ 50	\$ (50)	\$ -
\$ 3,302	\$160,663	\$ 1,247	\$161,910	\$288,350	\$ 51	\$288,401
\$ 576	\$ 6,538	\$ 78	\$ 6,616	\$ 473	\$ 2	\$ 475

Note 26 Segment Reporting (continued)

Information concerning principal geographic areas was as follows (dollars in millions):

	2005		2004		2003	
	Net Sales and Revenues	Long-Lived Assets ⁽¹⁾	Net Sales and Revenues	Long-Lived Assets ⁽¹⁾	Net Sales and Revenues	Long-Lived Assets ⁽¹⁾
North America						
United States	\$127,316	\$49,540	\$134,380	\$46,712	\$133,955	\$47,354
Canada and Mexico	16,769	12,739	15,484	10,443	14,667	8,530
<i>Total North America</i>	144,085	62,279	149,864	57,155	148,622	55,884
Europe						
France	2,612	333	2,669	262	2,429	216
Germany	7,384	4,090	6,710	4,479	5,945	3,996
Spain	2,847	1,182	2,661	1,181	2,143	1,256
United Kingdom	7,859	1,958	7,563	2,273	6,480	2,244
Other	12,944	3,798	13,622	3,805	12,356	3,537
<i>Total Europe</i>	33,646	11,361	33,225	12,000	29,353	11,249
Latin America						
Brazil	3,813	784	2,987	609	2,328	584
Other Latin America	3,729	158	2,611	180	1,685	186
<i>Total Latin America</i>	7,542	942	5,598	789	4,013	770
All other	7,331	3,819	4,830	3,290	3,849	2,820
<i>Total</i>	\$192,604	\$78,401	\$193,517	\$73,234	\$185,837	\$70,723

(1) Consists of property (Note 13), equipment on operating leases (Note 11), net of accumulated depreciation.

Note 27 Subsequent Events

GM withdrew \$1 billion from its hourly VEBA trust on February 1, 2006, and an additional \$1 billion from its hourly VEBA trust on March 1, 2006.

On February 6, 2006, the Board declared a quarterly cash dividend of \$0.25 per share, a reduction from the quarterly rate of \$0.50 per share that had been followed since the first quarter of 1997.

On March 7, 2006, GM sold 92.36 million shares of its investment in Suzuki for approximately \$2.0 billion in cash, reducing its equity stake from 20.4% to approximately 3.7% (16.3 million shares). GM expects a pre-tax gain in the range of \$600 million to \$650 million.

On March 22, 2006, GM announced that GM, Delphi and the UAW, reached a tentative agreement intended to reduce the number of U.S. hourly employees at GM and Delphi through an accelerated attrition program. The agreement is subject to approval by the bankruptcy court of Delphi's participation in the agreement. If so approved, the agreement will provide for a combination of early retirement programs and other incentives designed to help reduce employment levels at both GM and Delphi. The agreement also calls for the flowback of 5,000 UAW-represented Delphi employees to GM by September 2007 (subject to extension). Eligible UAW-represented Delphi employees may elect to retire from Delphi

or flow back to GM and retire. Under the agreement, GM has agreed to assume the financial obligations relating to the lump sum payments to be made to eligible Delphi U.S. hourly employees accepting normal or voluntary retirement incentives and certain post-retirement employee benefit obligations relating to Delphi employees who flow back to GM under the agreement. GM expects to record the costs associated with eligible GM employees under this attrition program in 2006 as employees agree to participate. The estimated costs associated with those eligible UAW-represented Delphi employees who elect to flow back to GM were included in the reserve recorded by GM in 2005 related to contingent liabilities associated with Delphi's Chapter 11 filing.

On March 23, 2006, GMAC sold 78% of its equity in GMAC Commercial Mortgage for approximately \$1.5 billion in cash. At the closing, GMAC Commercial Mortgage repaid to GMAC approximately \$7.3 billion of intercompany loans, bringing GMAC's total cash proceeds to \$8.8 billion. Furthermore, at the closing, GMAC Commercial Mortgage changed its name to Capmark Financial Group Inc. (Capmark). GMAC will also invest an additional \$250 million in Capmark trust preferred stock. GMAC's remaining interest in GMAC Commercial Mortgage will be reflected as an equity method investment.

Supplementary Information Selected Quarterly Data (Unaudited)

(Dollars in millions, except per share amounts)	2005 Quarters ⁽¹⁾							
	1st ⁽³⁾		2nd ⁽⁴⁾		3rd ⁽⁵⁾		4th ⁽⁶⁾	
	As Previously Reported	Restated	As Previously Reported	Restated	As Previously Reported	Restated	As Previously Announced	Revised
Total net sales and revenues	\$45,773	\$45,773	\$48,469	\$48,469	\$47,182	\$47,182	\$51,180	\$ 51,180
Income (loss) from continuing operations before income taxes and minority interests	\$ (2,108)	\$ (2,294)	\$ (1,577)	\$ (1,405)	\$ (2,722)	\$ (2,871)	\$ (7,293)	\$ (10,361)
Income tax expense (benefit)	(935)	(972)	(330)	(245)	(989)	(1,107)	(2,372)	(3,554)
Minority interests	(16)	(16)	(18)	(18)	(37)	(37)	32	32
Earnings of nonconsolidated associates	85	85	191	191	137	137	221	221
Cumulative effect of accounting change	—	—	—	—	—	—	(109)	(109)
Net income (loss)	\$ (1,104)	\$ (1,253)	\$ (1,074)	\$ (987)	\$ (1,633)	\$ (1,664)	\$ (4,777)	\$ (6,663)
Basic earnings (losses) per share attributable to \$1-2/3 par value	\$ (1.95)	\$ (2.22)	\$ (1.90)	\$ (1.75)	\$ (2.89)	\$ (2.94)	\$ (8.45)	\$ (11.78)
Average number of shares of common stock outstanding – basic (in millions) \$1-2/3 par value	565	565	565	565	566	566	566	566
Earnings (loss) per share attributable to common stock assuming dilution \$1-2/3 par value	\$ (1.95)	\$ (2.22)	\$ (1.90)	\$ (1.75)	\$ (2.89)	\$ (2.94)	\$ (8.45)	\$ (11.78)
Average number of shares of common stock outstanding – diluted (in millions) \$1-2/3 par value	565	565	565	565	566	566	566	566
Net income (loss) by reportable operating segment/region								
Automotive and Other Operations								
GMNA	\$ (1,560)	\$ (1,704)	\$ (1,194)	\$ (1,121)	\$ (2,095)	\$ (2,165)	\$ (2,832)	\$ (3,249)
GME	(525)	(547)	(89)	(112)	(382)	(363)	(220)	(176)
GMLAAM	46	31	33	25	(74)	(68)	(599)	(559)
GMAP	60	70	(612)	(605)	114	126	159	189
Other Operations	146	168	(20)	18	122	145	(1,874)	(3,028)
Net income (loss) – Automotive and Other Operations	(1,833)	(1,982)	(1,882)	(1,795)	(2,315)	(2,325)	(5,366)	(6,823)
Financing and Insurance Operations								
Net income – Financing and Insurance Operations	729	729	808	808	682	661	589	160
Net income (loss)	\$ (1,104)	\$ (1,253)	\$ (1,074)	\$ (987)	\$ (1,633)	\$ (1,664)	\$ (4,777)	\$ (6,663)

Supplementary Information Selected Quarterly Data (Unaudited)

(Dollars in millions)	2005 Year-to-Date ⁽²⁾					
	3 Months Ended March 31, 2005		6 Months Ended June 30, 2005		9 Months Ended September 30, 2005	
	As Previously Reported	Restated	As Previously Reported	Restated	As Previously Reported	Restated
Consolidated						
Net cash provided by (used in) continuing operating activities	\$ (4,137)	(6,148)	\$ 2,489	(1,781)	\$ 3,676	(7,256)
Net cash provided by (used in) continuing investing activities	(2,016)	(5)	1,257	5,527	(179)	10,753
Net cash provided by (used in) continuing financing activities	(3,007)	(3,007)	(7,066)	(7,066)	(3,772)	(3,772)
Effect of exchange rate changes on cash and cash equivalents	(444)	(444)	(412)	(412)	(120)	(120)
Net increase (decrease) in cash and cash equivalents	\$ (9,604)	\$ (9,604)	\$ (3,732)	\$ (3,732)	\$ (395)	\$ (395)
Automotive and Other						
Net cash provided by (used in) continuing operating activities	\$ (2,555)	\$ (2,555)	\$ (2,138)	\$ (2,138)	\$ (2,482)	\$ (1,715)
Net cash provided by (used in) continuing investing activities	154	154	1,817	1,817	2,871	2,871
Net cash provided by (used in) continuing financing activities	(47)	(47)	(519)	(519)	(779)	(779)
Effect of exchange rate changes on cash and cash equivalents	(369)	(369)	(283)	(283)	(36)	(36)
Net transactions with Financing and Insurance	(126)	(126)	420	420	973	206
Net increase (decrease) in cash and cash equivalents	\$ (2,943)	\$ (2,943)	\$ (703)	\$ (703)	\$ 547	\$ 547
Financing and Insurance						
Net cash provided by (used in) continuing operating activities	\$ (1,582)	(3,593)	\$ 4,627	357	\$ 6,158	(5,541)
Net cash provided by (used in) continuing investing activities	(1,670)	341	440	4,710	(1,550)	9,382
Net cash provided by (used in) continuing financing activities	(3,460)	(3,460)	(7,547)	(7,547)	(4,493)	(4,493)
Effect of exchange rate changes on cash and cash equivalents	(75)	(75)	(129)	(129)	(84)	(84)
Net transactions with Automotive and Other	126	126	(420)	(420)	(973)	(206)
Net increase (decrease) in cash and cash equivalents	\$ (6,661)	\$ (6,661)	\$ (3,029)	\$ (3,029)	\$ (942)	\$ (942)

(1) Restatement of quarterly results

Previously Announced Restatements

GM previously disclosed in a Current Report on Form 8-K dated November 9, 2005, that it would restate its financial statements to correct the accounting for credits and other lump sum payments from suppliers. Additionally, GM has subsequently chosen to restate its financial

statements for errors it has identified in all periods presented in this filing. The restatement of GM's previously reported financial results for the years ended December 31, 2004, 2003, and 2002 have been reflected in our Annual Report on Form 10-K/A for the year ended December 31, 2004. The restatement effects for the first three quarters of 2005 and previously announced fourth quarter and calendar year 2005 results are summarized below.

(Dollars in millions)	2005 Quarters				2005
	1st	2nd	3rd	4th	Calendar Year
Net (loss)					
As originally reported/announced: ^(a) Quarterly results	\$ (1,104)	\$ (1,074)	\$ (1,633)	\$ (4,777)	
Calendar year results					\$ (8,554)
Adjustments, net of tax, for:					
Supplier credits: quarterly basis ^(b)	4	11	11	10	
annual basis ^(b)					2
Disposal loss adjustment ^(c)	(107)	49	17	31	(10)
Benefit plans economic assumptions ^(d)	(16)	(16)	(16)	(16)	(64)
Other, net-of-tax ^(e)	(30)	43	(43)	137	107
Total of above adjustments	(149)	87	(31)	162	35
Delphi contingent exposures ^(f)	—	—	—	(1,248)	(1,248)
GMNA restructuring ^(g)	—	—	—	(361)	(361)
Goodwill impairment ^(h)	—	—	—	(439)	(439)
As restated	\$ (1,253)	\$ (987)	\$ (1,664)	\$ (6,663)	\$ (10,567)

(a) Quarterly results previously reported for the first three quarters of 2005 do not include adjustments for the estimated effect of supplier credits, discussed below, that are included in announced fourth quarter and calendar year 2005 results. Accordingly, the sum of the above quarterly results does not equal the announced calendar year results.

(b) GM erroneously recorded as a reduction to cost of sales certain payments and credits received from suppliers prior to completion of the earnings process. GM concluded that the payments and credits received were associated with agreements for the award of future services or products or other rights and privileges and should be recognized when subsequently earned. The "quarterly basis" adjustments above reflect the totals, net of tax, to correct the original accounting for such credits for each quarter of 2005. Calendar year results for 2005, as previously announced, included an estimate of such effects; accordingly, only the final adjustment to this estimate is shown above on an annual basis.

(c) GM's portfolio of vehicles on operating lease with daily rental car entities, which was impaired at lease inception, was prematurely revalued in 2005 to reflect increased anticipated proceeds upon disposal.

(d) GM originally estimated its discount rate for the U.S. Hourly pension plan referencing certain indicators which, in view of evolving guidance, did not provide the best estimate to defease the pension liability. The above adjustments represent the amounts, net of tax, to correct the original accounting estimates.

Supplementary Information Selected Quarterly Data (Unaudited)

(e) For quarters covered by this filing, GM has recorded other accounting adjustments it has identified that were not recorded in the proper period. These out-of-period adjustments were not material to the financial statements as originally reported; however, as part of the restatement, they are being recognized in the period in which the underlying transactions occurred. The effect of these adjustments, net-of-tax, was \$(30) million, \$43 million, \$(43) million, and \$137 million for each quarter of 2005, respectively. The significant out-of-period adjustments were related to the following matters: (1) Engineering and facility-related expenses recorded in improper periods. (2) Over-depreciation of certain fixed assets. (3) Reconciliation of prior year tax provisions to actual tax returns. Of the \$(43) million adjustment in the third quarter, \$96 million relates to engineering and facility-related expenses, and \$(113) relates to over-depreciation of certain fixed assets. Of the \$137 million adjustment in the fourth quarter, \$118 million relates to tax matters.

Adjustments to Preliminary Results Reported on Form 8-K Dated January 26, 2006

In addition to the above restatement adjustments, GM's fourth quarter and calendar year 2005 preliminary results reported on Form 8-K dated January 26, 2006 have been adjusted for the following items:

- (f) **Delphi Contingent Exposures** – Range of contingent exposures reported in preliminary results refined to reflect further developments. GM believes that the range of the contingent exposures is between \$5.5 billion and \$12 billion, with amounts near the low end of the range considered more possible than amounts near the high end of the range assuming an agreement is reached among GM, Delphi, and Delphi's unions.
- (g) **GMNA Restructuring** – Restructuring charges as reported in preliminary results were revised to include GM's best estimate of costs to be incurred after the expiration of the current labor agreement in September 2007.
- (h) **Goodwill Impairment** – Recognition of goodwill impairment charges related to GMAC's Commercial Finance operating segment. The impairment charges pertain primarily to the goodwill recognized in connection with the 1999 acquisition of The Bank of New York's commercial finance business.
- (2) **Restatement of interim statements of cash flows**

GM has restated its statements of cash flows to correct for the erroneous classification of cash flows from certain mortgage transactions within our financing and insurance operations. Certain mortgage loan originations and purchases were not appropriately classified as either operating cash flows or investing cash flows consistent with the original designation as loans held for sale or loans held for investment. In addition, proceeds from sales and repayments related to certain mortgage loans, which initially were classified as mortgage loans held for investment and subsequently transferred to mortgage loans held for sale, were reported as operating cash flows instead of investing cash flows in our consolidated statements of cash flows. Finally, certain non-cash proceeds and transfers were not appropriately presented in the statements of cash flows. The effects of the restatement adjustments on GM's previously reported interim statements of cash flows for 2005 are summarized below.

	2005 Year-to-Date		
	3 months ended March 31, 2005	6 months ended June 30, 2005	9 months ended September 30, 2005
(Dollars in millions)			
Financing and Insurance Operations			
Net cash provided by (used in)			
operating activities			
As originally reported	\$(1,582)	\$ 4,627	\$ 6,158
Adjustments for:			
Restatement – Mortgage related activity	(2,011)	(4,270)	(10,932)
Reclassification – Net transactions with Automotive/Financing Operations	–	–	(767)
As restated	\$(3,593)	\$ 357	\$ (5,541)
Net cash provided by (used in)			
investing activities			
As originally reported	\$(1,670)	\$ 440	\$ (1,550)
Adjustments for:			
Restatement – Mortgage related activity	2,011	4,270	10,932
As restated	\$ 341	\$ 4,710	\$ 9,382

- (3) First quarter 2005 results include the following after-tax items:
- A charge of \$148 million for a salaried attrition program relating to voluntary early retirement and other separation programs in the U.S.
 - A charge of \$84 million for plant and facility impairments relating to the write-down to fair market value of various plant assets in connection with action to discontinue production at the Lansing assembly plant.
 - A charge of \$422 million for the GME restructuring plan, announced in the fourth quarter of 2004, targeting a reduction in annual structural costs of an estimated \$600 million by 2006. A total reduction of 12,000 employees, including 10,000 in Germany, from 2005-2007 through separation programs, early retirements, and selected outsourcing initiatives is expected. The charge in the first quarter of 2005 covers approximately 5,650 people, of whom 4,900 are in Germany.
- (4) Second quarter 2005 results include the following after-tax items:
- A charge of \$788 million related to the write-down to fair market value, as of June 30, 2005, of GM's investment in approximately 20% of the common stock of Fuji Heavy Industries (FHI).
 - An additional charge of \$126 million, related to the GME restructuring plan noted above and costs related to dissolving GM's powertrain and purchasing joint ventures with Fiat. The charge covers approximately 600 additional separations, as well as charges related to previous separations that are required to be amortized over future periods.
- (5) Third quarter 2005 results include the following after-tax items:
- A charge of \$788 million (\$468 million at GMNA, \$176 million at GME, \$99 million at GMLAAM, and \$45 million at GMAP) for plant and facility impairments reflecting the results of third quarter reviews of the carrying value of long-lived assets held and used, other than goodwill and intangible assets with indefinite lives. The impairments consist of \$672 million, after tax, related to product-specific assets that were written down and \$116 million, after tax, related to office and production facilities, which were still in service at year-end 2005. There were no employee idling or separation costs and no lease contracts were terminated.
 - An additional charge, related to the GME restructuring plan noted above, of \$56 million for approximately 500 additional separations, as well as charges related to previous separations that are required to be amortized over future periods.
- (6) Fourth quarter 2005 results include the following after-tax items:
- A charge of \$1.7 billion in connection with the North American manufacturing capacity actions announced in November 2005. This charge includes \$1.2 billion associated with the hourly employees at the facilities GM is idling and \$455 million for the non-cash write-down of property, plants and equipment.
 - A charge of pre-tax \$5.5 billion, \$3.6 billion after tax, for GM's contingent exposures relating to Delphi's Chapter 11 filing, including under the benefit guarantees for certain former GM U.S. hourly employees who transferred to Delphi. GM believes that the range of the contingent exposures is between \$5.5 billion and \$12 billion.
 - A gain of \$71 million, related to the sale of GM's investment in the common stock of FHI, due to the appreciation of the fair value of such stock after June 30, 2005, the date of the FHI impairment charge. Also in the fourth quarter, GME recorded cancellation charges of \$20 million (after tax) related to FHI, resulting in a net adjustment of \$51 million in the fourth quarter.
 - Restructuring charges totaling \$114 million, as follows: An additional after-tax charge, related to the GME restructuring plan noted above, of \$69 million for approximately 800 additional separations, as well as charges related to previous separations that are required to be amortized over future periods; \$38 million at GMAP; and \$7 million at Other.
 - A charge of \$109 million related to the adoption of FIN 47, "Accounting for Conditional Asset Retirement Obligations," as of December 31, 2005, which was recorded as the cumulative effect of a change in accounting principle.
 - A benefit of \$49 million related to the effect of changes in Polish tax law at a GM Powertrain joint venture. Amount is included in equity income.
 - The recognition of a valuation allowance of \$617 million against deferred tax assets at GM do Brasil.

Supplementary Information Selected Quarterly Data (Unaudited)

(Dollars in millions, except per share amounts)	2004 Quarters			
	1st	2nd	3rd	4th ⁽¹⁾
Total net sales and revenues	\$47,862	\$49,293	\$44,934	\$51,428
Income (losses) from continuing operations before income taxes and minority interests	\$1,216	\$1,449	\$94	\$(1,573)
Income tax expense (benefit)	243	223	(39)	(1,343)
Minority interests	(23)	(23)	(12)	(23)
Earnings of nonconsolidated associates	275	236	162	110
Net income	\$1,225	\$1,439	\$283	\$(143)
Basic earnings (losses) per share attributable to \$1 2/3 par value	\$2.17	\$2.55	\$0.50	\$(0.25)
Average number of shares of common stock outstanding - basic (in millions) \$1 2/3 par value	564	565	565	565
Earnings (loss) per share attributable to common stock assuming dilution \$1 2/3 par value	\$2.15	\$2.53	\$0.50	\$(0.25)
Average number of shares of common stock outstanding - diluted (in millions) \$1 2/3 par value	569	568	567	565
Net income (loss) by reportable operating segment/region				
Automotive and Other Operations				
GMNA	\$344	\$366	\$(166)	\$865
GME	(109)	(62)	(207)	(547)
GMLAAM	(17)	18	17	42
GMAP	272	253	74	131
Other Operations	(22)	65	(85)	(1,377)
Net income (loss) - Automotive and Other Operations	468	640	(367)	(886)
Financing and Insurance Operations Net income - Financing and Insurance Operations	757	799	650	743
Net income	\$1,225	\$1,439	\$283	\$(143)

(1) Fourth quarter 2004 results include the following:

- An after-tax gain of \$118 million resulting from the contribution of 11 million shares of XM Satellite Radio Holdings Inc. Class A common stock valued at \$432 million to GM's Voluntary Employees' Beneficiary Association (VEBA);
- A \$78 million after-tax charge related primarily to previously announced facilities rationalization actions at GM's Baltimore, MD and Linden, NJ plants;
- A \$383 million after-tax charge related to the results of GM's annual review of the carrying value of its long-lived assets held and used, other than goodwill and intangible assets with indefinite lives;
- A \$136 million after-tax charge related to the write-off of GM's remaining investment balance in Fiat Auto Holdings, B.V. and reflects completion of an impairment study relating to the carrying value of that investment;
- A \$540 million after-tax favorable adjustment for various adjustments resulting from changes in tax laws both in the U.S. and overseas and capital loss carryforwards; and
- An after-tax charge of \$886 million related to the February 13, 2005 GM and Fiat agreement under which GM will pay Fiat approximately \$2.0 billion and will return its 10% equity interest in FAH to settle various disputes and terminate the Master Agreement (including the Put Option) entered into in March 2000, and acquire an interest in key strategic diesel engine assets, and other important rights with respect to diesel engine technology and know-how.

This Item 8 should also be read in conjunction with Part II, Item 8 (Financial Statements and Supplementary Data) of the GMAC Annual Report on Form 10-K for the period ended December 31, 2005, filed separately with the SEC, which is incorporated into this document by reference.

Supplementary Information Selected Financial Data

(Dollars in millions, except per share amounts)	Years ended December 31,				
	2005	2004	2003	2002	2001
Total net sales and revenues	\$192,604	\$193,517	\$185,837	\$177,867	\$169,051
Income (loss) from continuing operations	\$ (10,458)	\$ 2,804	\$ 2,899	\$ 1,813	\$ 1,041
(Loss) from discontinued operations	—	—	(219)	(239)	(621)
Gain from sale of discontinued operations	—	—	1,179	—	—
Cumulative effect of accounting change	(109)	—	—	—	—
Net income (loss) ⁽¹⁾	\$ (10,567)	\$ 2,804	\$ 3,859	\$ 1,574	\$ 420
\$1 2/3 par value common stock					
Basic earnings (losses) per share from continuing operations before cumulative effect of accounting change	\$ (18.50)	\$ 4.97	\$ 5.17	\$ 3.24	\$ 1.89
Basic earnings (losses) per share from discontinued operations	\$ —	\$ —	\$ 2.14	\$ (0.16)	\$ (0.42)
Basic (losses) per share from cumulative effect of accounting change	\$ (0.19)	\$ —	\$ —	\$ —	\$ —
Diluted earnings (losses) per share from continuing operations before cumulative effect of accounting change	\$ (18.50)	\$ 4.94	\$ 5.09	\$ 3.23	\$ 1.87
Diluted earnings (losses) per share from discontinued operations	\$ —	\$ —	\$ 2.11	\$ (0.16)	\$ (0.43)
Diluted (loss) per share from cumulative effect of accounting change	\$ (0.19)	\$ —	\$ —	\$ —	\$ —
Cash dividends declared per share	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
GM's Class H common stock⁽²⁾					
Basic earnings (losses) per share from discontinued operations	\$ —	\$ —	\$ (0.22)	\$ (0.21)	\$ (0.55)
Diluted earnings (losses) per share from discontinued operations	\$ —	\$ —	\$ (0.22)	\$ (0.21)	\$ (0.55)
Cash dividends declared per share	\$ —	\$ —	\$ —	\$ —	\$ —
Total assets	\$476,078	\$479,921	\$448,819	\$369,346	\$322,637
Notes and loans payable	\$285,750	\$300,279	\$271,756	\$200,168	\$165,361
Stockholders' equity	\$ 14,597	\$ 27,360	\$ 24,903	\$ 6,412	\$ 19,467

Reference should be made to the notes to GM's consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

This selected financial data should also be read in conjunction with Part II, Item 6 (Selected Financial Data), Item 7 (MD&A) and Item 8 (Financial Statements and Supplementary Data) of the GMAC Annual Report on Form 10-K for the period ended December 31, 2005, filed separately with the SEC, which is incorporated into this document by reference.

- (1) On January 1, 2002, the Corporation implemented Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets," which ceased the amortization method of accounting for goodwill and changed to an impairment only approach. Accordingly, goodwill is no longer amortized and is tested for impairment at least annually. Effective January 1, 2003, the Corporation began expensing the fair market value of newly granted stock options and other stock-based compensation awards issued to employees to conform to SFAS No. 123, "Accounting for Stock-Based Compensation." Effective July 1, 2003, the Corporation began consolidating certain variable interest entities to conform to FASB Interpretation No. (FIN) 46, "Consolidation of Variable Interest Entities." As of December 31, 2005, the Corporation recorded a pre-tax asset retirement obligation of \$181 million in accordance with the requirements of FIN 47 "Accounting for Conditional Asset Retirement Obligations." The cumulative effect on net loss, net of related income tax effects, of recording the asset retirement obligations was \$109 million or \$0.19 per share.
- (2) Effective December 22, 2003, GM split off Hughes by distributing Hughes common stock to the holders of GM Class H common stock in exchange for all outstanding shares of GM Class H common stock. Simultaneously, GM sold its 19.8% retained economic interest in Hughes to News Corporation in exchange for cash and News Corporation Preferred ADSs. All shares of GM Class H common stock were then cancelled. See Note 2 to the Consolidated Financial Statements.



Board of Directors and Committees *(as of April 1, 2006)*

PERCY N. BARNEVIK ^{2,5}

Retired Chairman,
AstraZeneca PLC
Director since 1996

ELLEN J. KULLMAN ^{1,4}

Group Vice President –
Safety & Protection,
E.I. du Pont de Nemours and Company
Director since 2004

ECKHARD PFEIFFER ^{1,4}

Retired President and
Chief Executive Officer,
Compaq Computer Corporation
Director since 1996

JOHN H. BRYAN ^{2,3}

Retired Chairman and
Chief Executive Officer,
Sara Lee Corporation
Director since 1993

KENT KRESA ^{1,4}

Chairman Emeritus,
Northrop Grumman Corporation
Director since 2003

G. RICHARD WAGONER, JR.

Chairman and Chief Executive Officer,
General Motors Corporation
Director since 1998



ERSKINE B. BOWLES ^{2,5}

President,
The University of North Carolina
Director since 2005

KAREN KATEN ^{2,3}

Vice Chairman,
Pfizer Inc
and President,
Pfizer Human Health
Director since 1997

GEORGE M.C. FISHER ^{2,3}

Retired Chairman and
Chief Executive Officer,
Eastman Kodak Company
Director since 1996

JEROME B. YORK ^{4,5}

Chief Executive Officer,
Harwinton Capital Corporation
Director since 2006

ARMANDO M. CODINA ^{3,4}

Chairman and Chief Executive Officer,
Codina Group, Inc.
Director since 2002

PHILIP A. LASKAWY ^{1,4}

Retired Chairman and
Chief Executive Officer,
Ernst & Young
Director since 2003

¹ Audit Committee

Philip A. Laskawy, Chair

² Directors and Corporate Governance Committee

George M.C. Fisher, Chair

³ Executive Compensation Committee

John H. Bryan, Chair

⁴ Investment Funds Committee

Kent Kresa, Chair

⁵ Public Policy Committee

Percy N. Barnevik, Chair

General Motors Senior Leadership Group (as of April 1, 2006)

G. RICHARD WAGONER, JR.

*Chairman and
Chief Executive Officer*

JOHN M. DEVINE

Vice Chairman

FREDERICK A. HENDERSON

*Vice Chairman and
Chief Financial Officer*

ROBERT A. LUTZ

*Vice Chairman,
Global Product Development*

THOMAS A. GOTTSCHALK

*Executive Vice President,
Law & Public Policy and
General Counsel*

TROY A. CLARKE

*Group Vice President and
President, GM Asia Pacific*

GARY L. COWGER

*Group Vice President,
Global Manufacturing and
Labor Relations*

ERIC A. FELDSTEIN

*Group Vice President and
Chairman, GMAC*

CARL-PETER FORSTER

*Group Vice President and
President, GM Europe*

MAUREEN KEMPSTON DARKES

*Group Vice President and
President, GM Latin America,
Africa and Middle East*

JOHN F. SMITH

*Group Vice President,
Global Product Planning*

THOMAS G. STEPHENS

*Group Vice President,
GM Powertrain*

RALPH J. SZYGENDA

*Group Vice President and
Chief Information Officer*

BO I. ANDERSSON

*GM Vice President, Global
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Chief Accounting Officer

NANCY E. POLIS

Secretary

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General Auditor

ROGER D. WHEELER

Chief Tax Officer

COMMON STOCK

GM common stock, \$1-2/3 par value, is listed on the New York Stock Exchange and on other exchanges in the United States and around the world.

Ticker symbol: GM

ANNUAL MEETING

The GM Annual Meeting of Stockholders will be held at 9 a.m. ET on Tuesday, June 6, 2006, in Wilmington, Delaware.

STOCKHOLDER ASSISTANCE

Stockholders of record requiring information about their accounts should contact:

Computershare Trust Company, N.A.
General Motors Corporation
P.O. Box 43009
Providence, RI 02940-3009
800-331-9922

781-575-3990 (outside continental U.S. and Canada)

800-994-4755 (TDD – telecommunications device for the deaf)

Computershare representatives are available Monday through Friday from 9 a.m. to 5 p.m. ET. Automated phone service (800-331-9922) and the Computershare Web site at www.computershare.com/investor/gm are always available.

For other information, stockholders may contact:

GM Stockholder Services
General Motors Corporation
Mail Code 482-C38-B71
300 Renaissance Center
P.O. Box 300
Detroit, MI 48265-3000
313-667-1500
investor.gm.com

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

If you are a stockholder of record and own at least one share of GM common stock, you may elect to automatically reinvest all or part of your dividends in additional shares of GM common stock. Contact Computershare at 800-331-9922 for a prospectus and enrollment information. The prospectus may be viewed online at investor.gm.com.

ELECTRONIC DELIVERY OF ANNUAL MEETING MATERIALS

Stockholders may consent to receive their GM annual report and proxy materials via the Internet. Stockholders of record and employee savings plan participants may enroll at www.econsent.com/gm. Beneficial stockholders, who hold their GM stock through a broker or bank, may sign up at www.icsdelivery.com/gm if their broker or bank participates in electronic delivery.

SECURITIES AND INSTITUTIONAL ANALYST QUERIES

GM Investor Relations
General Motors Corporation
Mail Code 482-C34-D71
300 Renaissance Center
P.O. Box 300
Detroit, MI 48265-3000
313-667-1669

AVAILABLE PUBLICATIONS

The current annual report, proxy statement, Forms 10-K and 10-Q and *Stockholder News* newsletter are available electronically or print copies may be requested at "Request Information" on investor.gm.com.

Written requests should be sent to:

GM Fulfillment Center
Mail Code 480-000-FC1
1324 Rankin
Troy, MI 48083-2826

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Explore the world of General Motors products and services on our corporate Web site, www.gm.com.

GM EMPLOYEE SAVINGS PLANS

Participants in the Savings-Stock Purchase Program or Personal Savings Plan should contact the GM Benefits & Services Center at 800-489-4646.

GM CUSTOMER ASSISTANCE CENTERS

To request product information or to receive assistance with your vehicle, please contact the appropriate marketing unit:

Buick: 800-521-7300
Cadillac: 800-458-8006
Chevrolet: 800-222-1020
GMC: 800-462-8782
HUMMER: 866-486-6376
Oldsmobile: 800-442-6537
Pontiac: 800-762-2737
Saab: 800-722-2872
Saturn: 800-553-6000
GM of Canada: 800-263-3777
GM Mobility: 800-323-9935

GMAC FINANCIAL SERVICES

www.gmacfs.com

GMAC Customer Service Center/
Auto Financing: 800-200-4622

GMAC Demand Notes/Smart Notes:
888-271-4066, www.demandnotes.com,
www.smartnotes.com

SmartLease/Smart Products:
800-327-6278

ResCap: 952-857-7000,
www.rescapholdings.com

GMAC Bank: 866-2GMBANK,
www.gmacbank.com

GMAC Mortgage: 800-888-GMAC,
www.gmacmortgage.com

GMAC Real Estate: 800-274-SOLD,
www.gmacrealestate.com

GMAC Commercial Holding Corp.:
215-328-4622, www.gmaccm.com

GMAC Commercial Finance: 248-356-4622,
www.gmaccf.com

GMAC Insurance:
GM Family: 800-328-5503
Consumer: 800-847-2886

Mechanical Customer Service Center:
800-631-5590
www.gmacinsurance.com

OTHER PRODUCTS AND SERVICES

GM Card: 800-846-2273
OnStar: 888-667-8277
XM Satellite Radio: 800-852-9696

PRINCIPAL OFFICE

General Motors Corporation
300 Renaissance Center
P.O. Box 300
Detroit, MI 48265-3000
313-556-5000





General Motors Corporation
300 Renaissance Center
P.O. Box 300
Detroit, MI 48265-3000
www.gm.com