



# Ally Financial Inc.

## Basel III Public Disclosures

As of and for the three months ended September 30, 2020

# Road Map

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## References to Ally Financial Inc.'s SEC Filings

The SEC filings of Ally Financial Inc. contain information relevant to the disclosure requirements set forth under the Basel III Capital Framework. The following is a mapping of the disclosure topics addressed within this regulatory disclosure report to the Ally Financial Inc. Quarterly Report on Form 10-Q for the three months ended September 30, 2020, and the Annual Report on Form 10-K for the year ended December 31, 2019.

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# Index of Defined Terms

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| Term                | Definition  |
|---------------------|---|
| ASU                 | Accounting Standards Update   |
| BHC                 | Bank holding company  |
| Board               | Board of Directors  |
| CECL                | Accounting Standards Update 2016-13 (and related Accounting Standards Updates), or the Current Expected Credit Losses methodology |
| CRA                 | Community Reinvestment Act  |
| ERM                 | Enterprise Risk Management  |
| FDI Act             | Federal Deposit Insurance Act   |
| FDIC                | Federal Deposit Insurance Corporation   |
| FDICIA              | Federal Deposit Insurance Corporation Improvement Act of 1991   |
| FHC                 | Financial Holding Company   |
| FHLB                | Federal Home Loan Bank  |
| Final Capital Rules | Rules implementing the Basel III capital framework in the United States, as amended from time to time                             |
| FRB                 | Federal Reserve Bank, or Board of Governors of the Federal Reserve System, as the context requires                                |
| GLB Act             | Gramm-Leach-Bliley Act of 1999, as amended  |
| IB Finance          | IB Finance Holding Company, LLC   |
| LIHTC               | Low-income housing tax credit   |
| MD&A                | Management's Discussion and Analysis of Financial Condition and Results of Operations   |
| OTC                 | Over-the-counter  |
| PCA                 | Prompt Corrective Action  |
| RC                  | Risk Committee of the Ally Board of Directors   |
| RWA                 | Risk-weighted asset   |
| SEC                 | U.S. Securities and Exchange Commission   |
| Series 2 TRUPS      | 8.125% Fixed Rate/Floating Rate Trust Preferred Securities, Series 2 of GMAC Capital Trust  |
| SPE                 | Special-purpose entity  |
| SSFA                | Simplified Supervisory Formula Approach   |
| STSA                | Enterprise Stress Testing and Scenario Analysis   |
| U.S. GAAP           | Accounting Principles Generally Accepted in the United States of America  |
| UDFI                | Utah Department of Financial Institutions   |
| VIE                 | Variable interest entity  |

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Ally Financial Inc.

## Introduction

Ally Financial Inc. (together with its consolidated subsidiaries unless the context otherwise requires, Ally, or we, us, or our) is a leading digital financial-services company. As a customer-centric company with passionate customer service and innovative financial solutions, we are relentlessly focused on “Doing It Right” and being a trusted financial-services provider to our consumer, commercial, and corporate customers. We are one of the largest full-service automotive finance operations in the country and offer a wide range of financial services and insurance products to automotive dealerships and consumers. Our award-winning online bank (Ally Bank, Member FDIC and Equal Housing Lender) offers mortgage lending, personal lending, and a variety of deposit and other banking products, including savings, money-market, and checking accounts, certificates of deposit, and individual retirement accounts. Additionally, we offer securities-brokerage and investment-advisory services through Ally Invest. Our robust corporate-finance business offers capital for equity sponsors and middle-market companies. We are a Delaware corporation and are registered as a BHC under the Bank Holding Company Act of 1956, as amended, and an FHC under the GLB Act.

As a BHC, Ally is subject to regulation, supervision and examination by the FRB. Ally must also comply with regulatory risk-based and leverage capital requirements, as well as various safety and soundness standards imposed by the FRB, and is subject to certain statutory restrictions concerning the types of assets or securities it may own and the activities in which it may engage. Ally Bank, our banking subsidiary, is a member of the Federal Reserve System and is subject to regulation, supervision and examination by the FRB, and as a Utah chartered bank, by the UDFI.

In July 2013, the U.S. banking agencies finalized rules implementing the Basel III capital framework, which represent substantial revisions to the existing regulatory capital standards for U.S. banking organizations. These rules have been amended by the U.S. banking agencies from time to time and, collectively with such amendments, are referred to herein as the Final Capital Rules. The Basel III capital framework, as described below, requires qualitative and quantitative disclosures regarding a banking institution’s regulatory capital, risk exposures, risk-management practices, and capital adequacy. This report also includes information on the methodologies used to calculate RWAs. The disclosure requirement applies to banking organizations with total consolidated assets of \$50 billion or more that are not a consolidated subsidiary of a BHC that is subject to these disclosure requirements. This report is designed to satisfy these requirements and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2019, our Quarterly Report on Form 10-Q for the three months ended September 30, 2020, and our Consolidated Financial Statements for Holding Companies - FR Y-9C for September 30, 2020. The disclosures included in this report are not required to be and have not been audited by our independent auditors.

From time to time we have made, and in the future will make, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as “believe,” “expect,” “anticipate,” “intend,” “pursue,” “seek,” “continue,” “estimate,” “project,” “outlook,” “forecast,” “potential,” “target,” “objective,” “trend,” “plan,” “goal,” “initiative,” “priorities,” or other words of comparable meaning or future-tense or conditional verbs such as “may,” “will,” “should,” “would,” or “could.” Forward-looking statements convey our expectations, intentions, or forecasts about future events, circumstances, or results. You should not place undue reliance on any forward-looking statement and should consider all uncertainties and risks discussed in this report and those under Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2019, as well as those provided in any subsequent SEC filings. Forward-looking statements apply only as of the date they are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date the forward-looking statement was made.

Unless the context otherwise requires, references herein to our income statement mean the Consolidated Statement of Income included in the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2019, or the Condensed Consolidated Statement of Comprehensive Income included in the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020, as applicable. Unless the context otherwise requires, references herein to our balance sheet mean the Consolidated Balance Sheet included in the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2019, or the Condensed Consolidated Balance Sheet included in the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020, as applicable.

## Basis of Presentation and Consolidation

Our accounting and reporting policies conform to U.S. GAAP. Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities.

Refer to Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2019, for further information on our basis of presentation and consolidation. There are no significant differences in the basis of consolidation between our Annual Report on Form 10-K for the year ended December 31, 2019, our Quarterly Report on Form 10-Q for the three months ended September 30, 2020, and this report.

## Basel Capital Accord

In December 2010, the Basel Committee reached an agreement on the global Basel III capital framework, which was designed to increase the quality and quantity of regulatory capital by introducing new risk-based and leverage capital standards. In July 2013, the U.S. banking agencies finalized rules implementing the Basel III capital framework in the United States as well as related provisions of the Dodd-Frank Act (U.S. Basel III). U.S. Basel III represents a substantial revision to the previously effective regulatory capital standards for U.S.

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banking organizations. We became subject to U.S. Basel III on January 1, 2015, although a number of its provisions—including capital buffers, were subject to a phase-in period through December 31, 2018.

Under U.S. Basel III, Ally and Ally Bank must maintain a minimum Common Equity Tier 1 risk-based capital ratio of 4.5%, a minimum Tier 1 risk-based capital ratio of 6%, and a minimum total risk-based capital ratio of 8%. In addition to these minimum risk-based capital ratios, Ally and Ally Bank are subject to a capital conservation buffer requirement that was fixed at 2.5%. Failure to maintain more than the full amount of the capital conservation buffer requirement would result in restrictions on the ability of Ally and Ally Bank to make capital distributions, including dividend payments and stock repurchases and redemptions, and to pay discretionary bonuses to executive officers. U.S. Basel III also subjects Ally and Ally Bank to a minimum Tier 1 leverage ratio of 4%.

The well capitalized standard for insured depository institutions, such as Ally Bank, reflects the capital requirements under U.S. Basel III.

U.S. Basel III also revised the eligibility criteria for regulatory capital instruments and provides for the phase-out of instruments that had previously been recognized as capital but that do not satisfy these criteria. For example, subject to certain exceptions (for example, certain debt or equity issued to the U.S. government under the Emergency Economic Stabilization Act), trust preferred and other hybrid securities were excluded from a BHC's Tier 1 capital as of January 1, 2016. Also, subject to a phase-in schedule, certain items are deducted from Common Equity Tier 1 capital under U.S. Basel III that had not previously been deducted from regulatory capital, and certain other deductions from regulatory capital have been modified. Among other things, U.S. Basel III requires significant investments in the common stock of unconsolidated financial institutions, mortgage servicing assets, and certain deferred tax assets that exceed specified individual and aggregate thresholds to be deducted from Common Equity Tier 1 capital. U.S. Basel III also revised the standardized approach for calculating RWAs by, among other things, modifying certain risk weights and the methods for calculating RWAs for certain types of assets and exposures.

Ally and Ally Bank are subject to the U.S. Basel III standardized approach for counterparty credit risk, but not to the U.S. Basel III advanced approaches for credit risk or operational risk. Ally is also not subject to the U.S. market-risk capital rule, which applies only to banking organizations with significant trading assets and liabilities.

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## Scope of Application

The Basel III framework applies to Ally Financial Inc.

## Restrictions on Capital

- **Capital Adequacy Requirements** — Ally and Ally Bank are subject to various capital adequacy requirements. For additional information, refer to Note 20 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2019, and Note 17 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020.
- **Limitations on Bank and BHC Dividends and Other Capital Distributions** — Federal and Utah law place a number of conditions, limits, and other restrictions on dividends and other capital distributions that may be paid by Ally Bank to IB Finance, a direct subsidiary of Ally and the direct parent of Ally Bank, and thus indirectly to Ally. In addition, even if the FRB does not object to our capital plan, Ally and IB Finance may be precluded from or limited in paying dividends or other capital distributions without the FRB's approval under certain circumstances—for example, if Ally or IB Finance were to not meet minimum regulatory capital ratios after giving effect to the distributions. FRB supervisory guidance also directs BHCs like us to consult with the FRB prior to increasing dividends, implementing common-stock-repurchase programs, or redeeming or repurchasing capital instruments. Further, the U.S. banking agencies are authorized to prohibit an insured depository institution, like Ally Bank, or a BHC, like Ally, from engaging in unsafe or unsound banking practices and, depending upon the circumstances, could find that paying a dividend or other capital distribution would constitute an unsafe or unsound banking practice.
- **Transactions with Affiliates** — Sections 23A and 23B of the Federal Reserve Act and the FRB's Regulation W prevent Ally and its nonbank subsidiaries from taking undue advantage of the benefits afforded to Ally Bank as a depository institution, including its access to federal deposit insurance and the FRB's discount window. Pursuant to these laws, "covered transactions"—including Ally Bank's extensions of credit to and asset purchases from its affiliates—are generally subject to meaningful restrictions. For example, unless otherwise exempted, (1) covered transactions are limited to 10% of Ally Bank's capital stock and surplus in the case of any individual affiliate and 20% of Ally Bank's capital stock and surplus in the case of all affiliates; (2) Ally Bank's credit transactions with an affiliate are generally subject to stringent collateralization requirements; (3) with few exceptions, Ally Bank may not purchase any "low quality asset" from an affiliate; and (4) covered transactions must be conducted on terms and conditions that are consistent with safe and sound banking practices (collectively, Affiliate Transaction Restrictions). In addition, transactions between Ally Bank and an affiliate must be on terms and conditions that are either substantially the same as or more beneficial to Ally Bank than those prevailing at the time for comparable transactions with or involving nonaffiliates.

Furthermore, these laws include an attribution rule that treats a transaction between Ally Bank and a nonaffiliate as a transaction between Ally Bank and an affiliate to the extent that the proceeds of the transaction are used for the benefit of or transferred to the affiliate. Thus, Ally Bank's purchase from a dealer of a retail installment sales contract involving a vehicle for which Ally provided floorplan financing is subject to the Affiliate Transaction Restrictions because the purchase price paid by Ally Bank is ultimately transferred by the dealer to Ally to pay off the floorplan financing.

The Dodd-Frank Act tightened the Affiliate Transaction Restrictions in a number of ways. For example, the definition of covered transactions was expanded to include credit exposures arising from derivative transactions, securities lending and borrowing transactions, and the acceptance of affiliate-issued debt obligations (other than securities) as collateral. For a credit transaction that must be collateralized, the Dodd-Frank Act also requires that collateral be maintained at all times while the credit extension or credit exposure remains outstanding and places additional limits on acceptable collateral.

- **Source of Strength** — The Dodd-Frank Act codified the FRB's policy requiring a BHC, like Ally, to serve as a source of financial strength for a depository-institution subsidiary, like Ally Bank, and to commit resources to support the subsidiary in circumstances when Ally might not otherwise elect to do so. The functional regulator of any nonbank subsidiary of Ally, however, may prevent that subsidiary from directly or indirectly contributing its financial support, and if that were to preclude Ally from serving as an adequate source of financial strength, the FRB may instead require the divestiture of Ally Bank and impose operating restrictions pending such a divestiture.
- **Enforcement Authority** — The FRB possesses extensive authorities and powers to regulate and supervise the conduct of Ally's businesses and operations. If the FRB were to take the position that Ally or any of its subsidiaries have violated any law or commitment or engaged in any unsafe or unsound practice, formal or informal enforcement and other supervisory actions could be taken by the FRB against Ally, its subsidiaries, and institution-affiliated parties (such as directors, officers, and agents). The UDFI and the FDIC have similarly expansive authorities and powers over Ally Bank and its subsidiaries. For example, any of these governmental authorities could order us to cease and desist from engaging in specified activities or practices or could affirmatively compel us to correct specified violations or practices. Some or all of these government authorities also would have the power, as applicable, to issue administrative orders against us that can be judicially enforced, to direct us to increase capital and liquidity, to limit our dividends and other capital distributions, to restrict or redirect the growth of our assets, businesses, and operations, to assess civil money penalties against us, to remove our officers and directors, to require the divestiture or the retention of assets or entities, to terminate deposit insurance, or to force us into bankruptcy, conservatorship, or receivership. These actions could directly

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affect not only Ally, its subsidiaries, and institution-affiliated parties but also Ally's counterparties, stockholders, and creditors and its commitments, arrangements, and other dealings with them.

## **Bank Holding Company, Financial Holding Company, and Depository Institution Status**

Ally and IB Finance are BHCs under the BHC Act. Ally is also an FHC under the GLB Act. IB Finance is a direct subsidiary of Ally and the direct parent of Ally Bank, which is a commercial bank that is organized under the laws of the State of Utah and whose deposits are insured by the FDIC under the FDI Act. As BHCs, Ally and IB Finance are subject to regulation, supervision, and examination by the FRB. Ally Bank is a member of the Federal Reserve System and is subject to regulation, supervision, and examination by the FRB and the UDFI. Ally Bank is required to file periodic reports with regulators concerning its financial condition. Total assets of Ally Bank were \$174.6 billion at September 30, 2020, based on its Call Report filing. Ally Bank's deposits are insured by the FDIC.

The FRB and other U.S. banking agencies have adopted risk-based and leverage capital standards that establish minimum capital-to-asset ratios for BHCs, like Ally, and depository institutions, like Ally Bank. The capital-to-asset ratios play a central role in PCA, which is an enforcement framework used by the U.S. banking agencies to constrain the activities of depository institutions based on their levels of regulatory capital. Five categories have been established using thresholds for the Common Equity Tier 1 risk-based capital ratio, the Tier 1 risk-based capital ratio, the total risk-based capital ratio, and the leverage ratio: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. The FDICIA generally prohibits a depository institution from making any capital distribution, including any payment of a cash dividend or a management fee to its BHC, if the depository institution would become undercapitalized after the distribution. An undercapitalized institution is also subject to growth limitations and must submit and fulfill a capital restoration plan. While BHCs are not subject to the PCA framework, the FRB is empowered to compel a BHC to take measures—such as the execution of financial or performance guarantees—when PCA is required in connection with one of its depository-institution subsidiaries. In addition, under the FDICIA, only well-capitalized and adequately capitalized institutions may accept brokered deposits, and even adequately capitalized institutions are subject to some restrictions on the rates they may offer for brokered deposits. At September 30, 2020, Ally Bank was well capitalized under the PCA framework.

At September 30, 2020, both Ally Financial Inc. and Ally Bank were in compliance with our regulatory capital requirements. For an additional discussion of capital adequacy requirements, refer to Note 17 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020.

## **Insurance Companies**

Some of our insurance operations—including in the United States, Canada, and Bermuda—are subject to certain minimum aggregate capital requirements, net asset and dividend restrictions under applicable state and foreign insurance laws, and the rules and regulations promulgated by various U.S. and foreign regulatory agencies. Under various state and foreign insurance laws, dividend distributions may be made only from statutory unassigned surplus with approvals required from the regulatory authorities for dividends in excess of certain statutory limitations. Our insurance operations are also subject to applicable state and foreign laws generally governing insurance companies, as well as laws addressing products that are not regulated as insurance, such as vehicle service contracts and guaranteed asset protection waivers.

## **Investments in Ally**

Because Ally Bank is an insured depository institution and Ally and IB Finance are BHCs, direct or indirect control of us—whether through the ownership of voting securities, influence over management or policies, or other means—is subject to approvals, conditions, and other restrictions under federal and state laws. Refer to Bank Holding Company, Financial Holding Company, and Depository Institution Status earlier in this section. These laws may differ in their purposes, definitions and presumptions of control, and restrictions, which for example is the case for the BHC Act and the Change in Bank Control Act. Investors are responsible for ensuring that they do not, directly or indirectly, acquire control of us in contravention of these laws.

## **Surplus of Insurance Subsidiaries and Subsidiary Regulatory Capital**

At September 30, 2020, Ally did not have any subsidiaries whose regulatory capital was less than the minimum required regulatory capital amount.

At September 30, 2020, the aggregate capital surplus of insurance subsidiaries was \$842 million.



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## Capital Structure

The following table presents Ally Financial Inc.'s capital components under the Final Capital Rules at September 30, 2020.

| (\$ in millions)  | September 30, 2020 |
|---|--------------------|
| Common Equity Tier 1 capital                                    |                    |
| Common stock and related surplus                                | \$ 18,324          |
| Accumulated deficit   | (4,893)            |
| CECL phase-in adjustment (a)                                    | 1,212              |
| Accumulated other comprehensive income                          | 695                |
| Adjustments and deductions made to Common Equity Tier 1 capital | (1,080)            |
| Total Common Equity Tier 1 capital                              | 14,258             |
| Other Tier 1 capital  |                    |
| Additional Tier 1 capital elements                              | 2,498              |
| Adjustments and deductions made to Tier 1 capital               | (88)               |
| Total Tier 1 capital  | 16,668             |
| Tier 2 capital  |                    |
| Tier 2 capital elements   | 1,035              |
| Includable allowance for loan and lease losses                  | 1,722              |
| Adjustments and deductions made to Tier 2 capital               | (88)               |
| Total Tier 2 capital  | 2,669              |
| Total capital (b)   | \$ 19,337          |

- (a) On January 1, 2020, we adopted ASU 2016-13 and all subsequent ASUs that modified ASU 2016-13, which have been codified under Accounting Standards Codification 326, *Financial Instruments - Credit Losses* (referred to herein as CECL). We have elected to delay recognizing the estimated impact of CECL on regulatory capital until after a two-year deferral period, which for us extends through December 31, 2021. Beginning on January 1, 2022, we will be required to phase in 25% of the previously deferred estimated capital impact of CECL, with an additional 25% to be phased in at the beginning of each subsequent year until fully phased in by the first quarter of 2025. Refer to Note 1 and Note 17 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020, for further information.
- (b) For more information, refer to the September 30, 2020, FR Y-9C Schedule HC-R.

Ally has issued a variety of capital instruments to meet its regulatory capital requirements and to maintain a strong capital base. The terms and conditions of Ally's significant capital instruments are described as follows.

### Common Stock

\$0.01 par value; shares authorized 1,100,000,000; issued 500,382,748; and outstanding 373,857,264.

### Trust Preferred Securities

At September 30, 2020, we had issued and outstanding approximately \$2.6 billion in aggregate liquidation preference of Series 2 TRUPS. Each Series 2 TRUPS security has a liquidation amount of \$25. Distributions are cumulative and are payable until redemption at the applicable coupon rate. Distributions are payable at an annual rate equal to three-month London interbank offered rate plus 5.785% payable quarterly in arrears. Ally has the right to defer payments of interest for a period not exceeding 20 consecutive quarters. The Series 2 TRUPS have no stated maturity date, but must be redeemed upon the redemption or maturity of the related debentures (Debentures), which mature on February 15, 2040. Ally at any time may redeem the Series 2 TRUPS at a redemption price equal to 100% of the principal amount being redeemed, plus accrued and unpaid interest through the date of redemption. The Series 2 TRUPS are generally nonvoting, other than with respect to certain limited matters. During any period in which any Series 2 TRUPS remain outstanding but in which distributions on the Series 2 TRUPS have not been fully paid, none of Ally or its subsidiaries will be permitted to (i) declare or pay dividends on, make any distributions with respect to, or redeem, purchase, acquire or otherwise make a liquidation payment with respect to, any of Ally's capital stock or make any guarantee payment with respect thereto; or (ii) make any payments of principal, interest, or premium on, or repay, repurchase or redeem, any debt securities or guarantees that rank on a parity with or junior in interest to the Debentures with certain specified exceptions in each case.

The Series 2 TRUPS were issued prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008 and are not subject to phase-out from additional Tier 1 capital into Tier 2 capital. The amount of Series 2 TRUPS included in Ally's Tier 1 capital was \$2.5 billion at September 30, 2020. The amount represents the carrying amount of the Series 2 TRUPS less our common stock investment in the trust.



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## **Subordinated Debt**

Qualifying subordinated debt included in Tier 2 capital was \$1.0 billion at September 30, 2020. The qualifying subordinated debt represents subordinated debt issued by Ally with an original term to maturity of five years or greater. The subordinated debt had a carrying value of \$1.0 billion at September 30, 2020, a coupon rate of 5.75%, and a maturity date in 2025.

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## Capital Adequacy

Ally has a capital-management framework that adheres to the FRB's capital plan rule for an effective capital adequacy process, as well as broader FRB risk management and capital management related supervisory guidance.

Capital adequacy assessment and management is conducted at both the enterprise and at Ally Bank and frameworks have been established at both levels. Governance and oversight for each level is provided by the respective Boards, committees, and management structures.

## Enterprise Risk Management Framework

The primary goals of Ally's ERM framework are to ensure that the outcomes of Ally's risk-taking activities are consistent with Ally's risk appetite and strategies, and that there is an appropriate balance between risk taking and reward, without jeopardizing targeted capital and liquidity levels.

Ally's risk-management framework is applied on an enterprise-wide basis and includes the following key components: Governance & Organization, Strategy & Risk Appetite, and Risk Management Processes, including Risk Identification and Measurement, Risk Mitigation and Control, and Risk Monitoring and Reporting.

The ERM framework also establishes guidance for maintaining a strong risk-management culture throughout Ally. Ally's risk culture is grounded in a top-down risk-governance structure, originating with the RC, and implemented through other Board and management committees down through business-line committees, councils, members of enterprise management teams, and business-line management teams. Equally important is the bottom-up and cross business identification, assessment, and management of risks to provide information and reporting to senior management to appropriately manage and control risk exposures within Ally's established risk appetite.

To effectively manage and monitor the risks of Ally, the ERM framework also defines multiple layers of defense that clarify the general roles and responsibilities of the business-line risk owners, independent risk-management function, and internal audit function. This "multiple layers of defense" approach directly supports the balance between risk and return to protect Ally's target capital and liquidity levels. Each layer has specific responsibilities with respect to the effectiveness of Ally's governance, risk management, and internal controls.

Risk appetite is also integral to ERM. It guides decisions on the types and amount of risk Ally is willing to accept in executing on its strategic priorities and business objectives. Ally uses a combination of risk appetite statements and measures to provide the basis for risk reporting to Ally management and the Boards. In order to assess capital adequacy, risk appetite includes processes to compare current and projected capital levels (from baseline forecasting and stress testing) to regulatory well-capitalized minimums as well as internal targets and minimums. In addition, the ERM framework highlights specific processes for appropriate governance, oversight, and accountability for risk appetite.

Ally's risk-appetite metrics are monitored by the ERM function, and reported to the ERM Committee and the RC. Detailed risk-appetite metrics are also reported throughout the organization to various management committees.

## Capital Planning Practices

The objectives of the capital-planning process are to maintain capital levels that are commensurate with Ally's risk profiles, maintain capital above the minimum regulatory capital ratios and internal minimums, and continue to serve as a source of strength for Ally's depository institution, Ally Bank. In addition, we will continue to maintain capital levels that enable us to meet our obligations to creditors and counterparties and remain a viable finance intermediary during stressful conditions.

The capital-adequacy process provides a comprehensive structure to manage capital adequacy across the entire organization. The process documents key processes related to assessing the adequacy of Ally's capital and planning for short-term and long-term capital needs. It also incorporates related efforts inclusive of stress testing, material risk identification, risk appetite, modeling, and corporate governance.

The capital-adequacy process is designed to be a central integration point for decision-making processes internal to the organization. Outputs from the capital-adequacy process are used to inform and improve risk appetite and related risk guardrails, as well as initiate capital discussions and potential capital decisions based on established triggers (such as internal capital targets, internal goals/minimums, and regulatory minimums).

## Enterprise-Wide Stress Testing & Capital Planning

Ally's enterprise-wide stress-testing process measures risks throughout the organization, reflecting a required or internally driven set of economic scenarios, and ultimately influences Ally's risk-management and capital-planning practices.

Ally conducts various stress tests each year including severe stresses of macroeconomic conditions and idiosyncratic stresses that are more specific to Ally. The results of each stress test are integrated into our capital adequacy assessment and decision-making.

Ally has established a centrally coordinated enterprise stress-testing process, with close engagement of senior management and the Boards throughout the process. Ally's STSA team is a dedicated team within the ERM function that develops and facilitates stress tests based on an established set of methodologies and appropriately tailored assumptions across Ally and its subsidiaries. A centrally managed process

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Ally Financial Inc.

helps ensure effective oversight and control, and is conducive to providing consistent output that can inform strategic decisions on an ongoing basis.

The STSA team coordinates the development of scenarios, analyzes and challenges results and supporting documentation, as well as prepares summary reporting materials for internal and external parties.

The following table presents Ally's RWAs by exposure type calculated under the Final Capital Rules at September 30, 2020.

| (\$ in millions)  | September 30, 2020 |
|---|--------------------|
| Exposures to government-sponsored enterprises                                       | \$ 4,221           |
| Exposures to depository institutions and foreign banks                              | 159                |
| Exposures to public-sector entities   | 411                |
| Corporate exposures   | 27,751             |
| Retail exposures  | 72,878             |
| Residential mortgage exposures  | 8,375              |
| High volatility commercial real estate loans  | 335                |
| Past due loans  | 2,121              |
| Other assets (a)  | 14,919             |
| Securitization exposures  | 1,236              |
| Equity exposures  | 2,089              |
| Other off-balance sheet items   | 3,216              |
| Over-the-counter derivatives  | 2                  |
| Cleared transactions  | 10                 |
| Risk-weighted assets before deduction for excess allowance of loan and lease losses | 137,723            |
| Excess allowance for loan and lease losses  | (129)              |
| Total standardized risk-weighted assets (b)   | \$ 137,594         |

(a) Includes investments in operating leases with an RWA amount of \$9.5 billion.

(b) For more information, refer to Schedule HC-R of our FR Y-9C for September 30, 2020.

The following table summarizes the capital ratios for Ally and its depository subsidiary, Ally Bank.

| September 30, 2020  | Common Equity<br>Tier 1<br>capital ratio | Tier 1<br>capital ratio | Total risk-based<br>capital ratio |
|---------------------|--|-------------------------|-----------------------------------|
| Ally Financial Inc. | 10.36 %                                  | 12.11 %                 | 14.05 %                           |
| Ally Bank           | 13.63                                    | 13.63                   | 14.88                             |

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## Capital Conservation Buffer

As part of the Basel III capital requirements, Ally must maintain a capital conservation buffer of greater than 2.5% in order to not be subject to any limitation on distributions and discretionary bonus payments. The capital conservation buffer is composed solely of Common Equity Tier 1 capital and is equal to the lowest of the reported Common Equity Tier 1, Tier 1, or total capital ratios, minus the minimum capital requirement for each respective ratio.

Failure to maintain more than the full amount of the capital conservation buffer requirement would result in restrictions on the ability of Ally to make capital distributions, including dividend payments and stock repurchases and redemptions, and to pay discretionary bonuses to executive officers.

At September 30, 2020, Ally's capital conservation buffer was 5.86%, which exceeded the requirement. Accordingly, on the basis of the capital conservation buffer, Ally is not subject to any limitations on distributions and discretionary bonus payments, and it is also not subject to a maximum payout amount equal to eligible retained income multiplied by the applicable maximum payout ratio.

Eligible retained income is defined under the Final Capital Rules as the greater of 1) net income for the four preceding calendar quarters, net of distributions and associated tax effects not already reflected in net income, and 2) average net income over the four preceding calendar quarters. At September 30, 2020, our net income for the four preceding calendar quarters was \$776 million, and distributions related to repurchases of and cash dividends on common stock were \$688 million, resulting in a net amount of \$88 million. At September 30, 2020, our average net income over the four preceding calendar quarters was \$194 million. Based on these amounts, our eligible retained income at September 30, 2020, was calculated to be \$194 million.

In March 2020, the FRB issued a final rule to more closely align forward-looking stress testing results with the FRB's non-stress regulatory capital requirements for BHCs with \$100 billion or more in total consolidated assets and other specified companies. The final rule introduced a stress capital buffer requirement based on firm-specific stress test performance and planned dividends, which replaced the fixed 2.5% component of the capital conservation buffer requirement. For a Category IV firm like Ally, the stress capital buffer requirement will comprise its capital conservation buffer requirement. Under the final rule, Ally's stress capital buffer requirement is the greater of 2.5% and the result of the following calculation: (1) the difference between Ally's starting and minimum projected Common Equity Tier 1 capital ratios under the severely adverse scenario in the supervisory stress test, plus (2) the sum of the dollar amount of Ally's planned common stock dividends for each of the fourth through seventh quarters of its nine-quarter capital planning horizon, as a percentage of risk-weighted assets. Ally Bank's capital conservation buffer requirement will continue to be a fixed 2.5%.

Ally received its first preliminary stress capital buffer requirement from the FRB on June 25, 2020, which was determined under this new methodology to be 3.5%, was finalized on August 10, 2020, and became effective on October 1, 2020. On June 25, 2020, the FRB also announced its determination that changes in financial markets or the macroeconomic outlook could have a material effect on the risk profiles and financial conditions of firms subject to the capital-plan rule and that, as a result, the firms (including Ally) would be required to resubmit capital plans to the FRB within 45 days after receiving updated stress scenarios from the FRB. On September 17, 2020, the FRB released two updated scenarios—severely adverse and alternative severe. We updated our capital plan in light of firm-specific baseline and stress scenarios, as required, and submitted our updated plan to the FRB on November 2, 2020. It is possible that this resubmission process may result in a change in Ally's stress capital buffer requirement.

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## Credit Risk

For qualitative discussion surrounding our credit-risk-management policies, procedures, and practices, refer to the Risk Management section within MD&A in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020, and our Annual Report on Form 10-K for the year ended December 31, 2019.

Prior to the implementation of CECL on January 1, 2020, loans of all classes were considered impaired when we determined it was probable that we would be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. Under CECL, credit losses for financial assets measured at amortized cost are (i) determined based on the total current expected credit losses over the life of the financial asset or group of financial assets, and (ii) recognized immediately when a financial asset is originated or purchased. Given this contrast, the definition of impaired loans was removed from the accounting literature with the introduction of CECL. For a complete description of our accounting policies for (i) determining past due or delinquency status, (ii) placing loans on nonaccrual status, (iii) returning loans to accrual status, (iv) estimating our allowance for loan and lease losses, and (v) charging-off uncollectible amounts, refer to the sections titled *Significant Accounting Policies* within Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2019, and Note 1 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020.

The following table summarizes, by counterparty type and domicile, total and average balances for our significant asset classes exposed to credit risk.

| September 30, 2020 (\$ in millions)                       | Counterparty type |               |                   |            |            | Domicile      |          |            | Quarterly average |
|---|-------------------|---------------|-------------------|------------|------------|---------------|----------|------------|-------------------|
|   | Banks             | Public sector | Corporate & Other | Retail     | Total      | United States | Non-U.S. | Total      |                   |
| Exposure  |                   |               |                   |            |            |               |          |            |                   |
| Debt securities (a)                                       | \$ 342            | \$ 4,159      | \$ 26,743         | \$ —       | \$ 31,244  | \$ 31,117     | \$ 127   | \$ 31,244  | \$ 30,435         |
| Finance receivables and loans, net of unearned income (b) | —                 | 86            | 28,067            | 90,316     | 118,469    | 118,379       | 90       | 118,469    | 118,018           |
| Operating leases  | —                 | —             | 18                | 9,436      | 9,454      | 9,454         | —        | 9,454      | 9,317             |
| Over-the-counter derivative contracts (at fair value)     | 3                 | —             | 18                | —          | 21         | 18            | 3        | 21         | 16                |
| Unfunded commitments                                      | —                 | 61            | 7,659             | 661        | 8,381      | 8,353         | 28       | 8,381      | 8,073             |
| Total credit risk exposures                               | \$ 345            | \$ 4,306      | \$ 62,505         | \$ 100,413 | \$ 167,569 | \$ 167,321    | \$ 248   | \$ 167,569 | \$ 165,859        |

- (a) Amounts as of September 30, 2020, include available-for-sale securities presented at fair value of \$30.0 billion, and held-to-maturity securities presented at amortized cost of \$1.3 billion.
- (b) Refer to the Risk Management section within MD&A in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020, for state concentration risk of our consumer and commercial loan portfolios.

The following table summarizes the remaining contractual maturity delineation of our significant asset classes exposed to credit risk.

| September 30, 2020 (\$ in millions)                   | One year or less | After one year through five years | After five years | Total      |
|---|------------------|-----------------------------------|------------------|------------|
| Exposure  |                  |                                   |                  |            |
| Debt securities (a)                                   | \$ 236           | \$ 1,876                          | \$ 29,132        | \$ 31,244  |
| Finance receivables and loans, net of unearned income | 17,843           | 50,046                            | 50,580           | 118,469    |
| Operating leases                                      | 2,284            | 7,170                             | —                | 9,454      |
| Over-the-counter derivative contracts (at fair value) | 21               | —                                 | —                | 21         |
| Unfunded commitments                                  | 4,528            | 3,418                             | 435              | 8,381      |
| Total credit risk exposures                           | \$ 24,912        | \$ 62,510                         | \$ 80,147        | \$ 167,569 |

- (a) Includes available-for-sale securities presented at fair value of \$30.0 billion, and held-to-maturity securities presented at amortized cost of \$1.3 billion.

The following table presents the amortized cost of loans in our held-for-investment portfolio that are 90 days or more past due.

| September 30, 2020 (\$ in millions)             | Consumer automotive | Consumer mortgage | Consumer other | Commercial | Total  |
|---|---------------------|-------------------|----------------|------------|--------|
| Loans 90 days or more past due — nonaccrual     | \$ 392              | \$ 54             | \$ 1           | \$ 10      | \$ 457 |
| Loans 90 days or more past due — still accruing | —                   | —                 | —              | —          | —      |
| Total loans 90 days or more past due            | \$ 392              | \$ 54             | \$ 1           | \$ 10      | \$ 457 |

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The following table presents an analysis of the activity in our allowance for loan losses.

| <i>(\$ in millions)</i>                         | <b>Consumer<br/>automotive</b> | <b>Consumer<br/>mortgage</b> | <b>Consumer<br/>other</b> | <b>Commercial</b> | <b>Total</b> |
|---|--------------------------------|------------------------------|---------------------------|-------------------|--------------|
| Allowance at July 1, 2020                       | \$ 2,963                       | \$ 42                        | \$ 49                     | \$ 300            | \$ 3,354     |
| Charge-offs                                     | (269)                          | (4)                          | (2)                       | (4)               | (279)        |
| Recoveries                                      | 152                            | 5                            | —                         | —                 | 157          |
| Net charge-offs                                 | (117)                          | 1                            | (2)                       | (4)               | (122)        |
| Provision for credit losses                     | 134                            | (3)                          | 20                        | (4)               | 147          |
| Other   | 2                              | (1)                          | —                         | (1)               | —            |
| Allowance at September 30, 2020                 | \$ 2,982                       | \$ 39                        | \$ 67                     | \$ 291            | \$ 3,379     |
| Finance receivables and loans at amortized cost |                                |                              |                           |                   |              |
| Ending balance                                  | \$ 73,761                      | \$ 16,072                    | \$ 319                    | \$ 27,868         | \$ 118,020   |

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## Counterparty Credit Risk

Counterparty credit risk is the risk that a counterparty to a financial transaction may be unable or unwilling to fulfill its contractual obligation, which could potentially lead to financial losses for Ally. Counterparty credit risk at Ally arises primarily from conventional treasury activities including derivatives and securities financing transactions.

Credit risk associated with derivative financial instruments is measured as the net replacement cost should the counterparties that owe us under the contract completely fail to perform under the terms of those contracts, assuming no recoveries of underlying collateral as measured by the market value of the derivative financial instrument.

We periodically enter into term repurchase agreements—short-term borrowing agreements in which we sell securities to one or more investors while simultaneously committing to repurchase them at a specified future date, at the stated price plus accrued interest.

## Risk Reduction

We manage our risk to financial counterparties through internal credit analysis, limits, and monitoring. Additionally, derivatives and repurchase agreements are entered into with approved counterparties using industry standard agreements.

We execute certain OTC derivatives, such as interest rate caps and floors, using bilateral agreements with financial counterparties. Bilateral agreements generally require both parties to post collateral in the event the fair values of the derivative financial instruments meet posting thresholds established under the agreements. In the event that either party defaults on the obligation, the secured party may seize the collateral. Payments related to the exchange of collateral for OTC derivatives are recognized as collateral.

We also execute certain derivatives, such as interest rate swaps, with clearinghouses, which requires us to post and receive collateral. For these clearinghouse derivatives, these payments are recognized as settlements rather than collateral.

Certain derivative instruments contain provisions that require us to either post additional collateral or immediately settle any outstanding liability balances upon the occurrence of a specified credit-risk-related event. No such specified credit-risk-related events occurred during the third quarter of 2020.

The primary risk associated with these repurchase agreements is that the counterparty will be unable to perform under the terms of the contract. As the borrower, we are exposed to the excess market value of the securities pledged over the amount borrowed. Daily mark-to-market collateral management is designed to limit this risk to the initial margin. However, should a counterparty declare bankruptcy or become insolvent, we may incur additional delays and costs.

## Counterparty Exposures

We placed noncash collateral totaling \$121 million supporting our derivative positions at September 30, 2020, in accounts maintained by counterparties. We received cash collateral from counterparties totaling \$5 million at September 30, 2020, primarily to support these derivative positions. These amounts include collateral received from clearinghouses. We may be granted the right to sell or pledge the underlying assets we receive as noncash collateral. At September 30, 2020, we have not sold or pledged any of the noncash collateral received under these agreements.

The fair value amounts of derivative instruments are presented on a gross basis, are segregated by derivatives that are designated and qualifying as hedging instruments or those that are not, and are further segregated by type of contract within those two categories. At September 30, 2020, this included total derivatives of \$23 million in an asset position, \$4 million in a liability position, and of a \$13.7 billion notional amount. At September 30, 2020, the net amount of derivative liabilities in net liability positions totaled \$1 million.

As of September 30, 2020, Ally has not purchased or sold any credit derivatives and had no securities sold under agreements to repurchase.



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## Credit Risk Mitigation

Credit risk is defined as the risk of loss arising from an obligor not meeting its contractual obligations to us. Credit risk includes consumer credit risk, commercial credit risk, and counterparty credit risk. Credit risk is a major source of potential economic loss to us. Credit risk is monitored by the RCs, executive leadership team, and our associates. Together, they oversee credit decisioning, account servicing activities, and credit-risk-management processes, and manage credit risk exposures within our risk appetite. In addition, our Loan Review Group provides an independent assessment of the quality of our credit portfolios and credit-risk-management practices, and reports its findings to the RC on a regular basis.

To mitigate risk, we have implemented specific policies and practices across business lines, utilizing both qualitative and quantitative analyses. This reflects our commitment to maintaining an independent and ongoing assessment of credit risk and credit quality. Our policies require an objective and timely assessment of the overall quality of the consumer and commercial loan and operating lease portfolios. This includes the identification of relevant trends that affect the collectability of the portfolios, segments of the portfolios that are potential problem areas, loans and operating leases with potential credit weaknesses, and the assessment of the adequacy of internal credit risk policies and procedures. Our consumer and commercial loan and operating lease portfolios are subject to regular stress tests that are based on plausible, but unexpected, economic scenarios to assess how the portfolios may perform in a severe economic downturn. In addition, we establish and maintain underwriting policies and limits across our portfolios and higher risk segments (for example, nonprime) based on our risk appetite.

Another important aspect to managing credit risk involves the need to carefully monitor and manage the performance and pricing of our loan products with the aim of generating appropriate risk-adjusted returns. When considering pricing, various granular risk-based factors are considered such as expected loss rates, loss volatility, anticipated operating costs, and targeted returns on equity. We carefully monitor credit losses and trends in credit losses relative to expected credit losses at contract inception. We closely monitor our loan performance and profitability in light of forecasted economic conditions and manage credit risk and expectations of losses in the portfolio.

We manage credit risk based on the risk profile of the borrower, the source of repayment, the underlying collateral, and current market conditions. We monitor the credit risk profile of individual borrowers, various segmentations (for example, geographic region, product type, industry segment), as well as the aggregate portfolio. We perform quarterly analyses of the consumer automotive, consumer mortgage, consumer other, and commercial portfolios using a range of indicators to assess the adequacy of the allowance for loan losses based on historical and current trends. Refer to Note 8 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020, for additional information.

Additionally, we utilize numerous collection strategies to mitigate loss and provide ongoing support to customers in financial distress. For consumer automotive loans, we work with customers when they become delinquent on their monthly payment. In lieu of repossessing their vehicle, we may offer several types of assistance to aid our customers based on their willingness and ability to repay their loan. Loss mitigation may include payment extensions and rewrites of the loan terms. For mortgage loans, as part of certain programs, we offer mortgage loan modifications to qualified borrowers. These programs are in place to provide support to our mortgage customers in financial distress, including principal forgiveness, maturity extensions, delinquent interest capitalization, and changes to contractual interest rates.

Furthermore, we manage our credit exposure to financial counterparties based on the risk profile of the counterparty. Within our policies we have established standards and requirements for managing counterparty risk exposures in a safe and sound manner. Counterparty credit risk is derived from multiple exposure types including derivatives, securities trading, securities financing transactions, and certain cash balances. For more information on derivative counterparty credit risk, refer to Note 18 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020.

## Loan and Lease Exposure

The risks inherent in our loan and operating lease exposures are largely driven by changes in the overall economy, used vehicle and housing prices, unemployment levels, and their impact on our borrowers. The potential financial statement impact of these exposures varies depending on the accounting classification and future expected disposition strategy. We retain the majority of our consumer automotive loans as they complement our core business model, but we do sell loans from time to time on an opportunistic basis. We ultimately manage the associated risks based on the underlying economics of the exposure. Our operating lease residual risk may be more volatile than credit risk in stressed macroeconomic scenarios. While all operating leases are exposed to potential reductions in used vehicle values, only loans where we take possession of the vehicle are affected by potential reductions in used vehicle values.

For detailed information on the significant asset classes affected by our loan and lease exposure, refer to the Risk Management section within MD&A in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020.

Other than guarantees related to sovereign debt securities we hold, at September 30, 2020, none of our exposures were covered by eligible guarantees recognized for the purposes of reducing capital requirements, and none were covered by credit derivatives. At September 30, 2020, an insignificant amount of our exposure was covered by eligible financial collateral.

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## Securitization

Basel III defines a traditional securitization exposure as follows:

- All or a portion of the credit risk of one or more underlying exposures is transferred to one or more third parties other than through the use of credit derivatives or guarantees;
- The credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority;
- Performance of the securitization exposures depends upon the performance of the underlying exposures;
- All or substantially all of the underlying exposures are financial exposures;
- The underlying exposures are not owned by an operating company; and
- The underlying exposures are not owned by a small business investment company or related to a community development investment.

Synthetic securitization exposures are those that meet the above criteria but through the use of one or more credit derivatives or guarantees. Resecuritization is a securitization with more than one underlying exposures in which one or more of the underlying exposures is a securitization exposure.

Ally is both an originator and investor in the securitization market. We securitize, transfer, and service consumer and commercial automotive loans, and notes secured by operating leases (collectively referred to as financial assets) through the use of SPEs that are often VIEs and may or may not be consolidated on our balance sheet. As an originator, the majority of the securitizations that are consolidated on our balance sheet are risk weighted according to the underlying assets. Securitization activities act as a source of liquidity and cost-efficient funding while also reducing our credit exposure beyond any economic interest we may retain.

For all VIEs in which we are involved, we assess whether we are the primary beneficiary of the VIE on an ongoing basis. In circumstances where we have both the power to direct the activities that most significantly impact the VIEs performance and the obligation to absorb losses or the right to receive the benefits of the VIE that could be significant, we would conclude that we are the primary beneficiary of the VIE, and would consolidate the VIE (also referred to as on-balance sheet). In situations where we are not deemed to be the primary beneficiary of the VIE, we do not consolidate the VIE and only recognize our interests in the VIE (also referred to as off-balance sheet).

In the case of a consolidated on-balance-sheet VIE used for a securitization, the underlying assets remain on our balance sheet with the corresponding obligations to third party beneficial interest holders reflected as debt. We recognize income on the assets, interest expense on the debt issued by the VIE, and losses on the assets as incurred. Consolidation of the VIE precludes us from recording an accounting sale on the transaction.

In securitizations where we are not determined to be the primary beneficiary of the VIE, we must determine whether we achieve a sale for accounting purposes. To achieve a sale for accounting purposes, the financial assets being transferred must be legally isolated, not be constrained by restrictions from further transfer, and be deemed to be beyond our control. We would deem the transaction to be an off-balance-sheet securitization if the preceding three criteria for sale accounting are met. If we were to fail any of these three criteria for sale accounting, the transfer would be accounted for as a secured borrowing consistent with the preceding paragraph regarding on-balance sheet VIEs.

The gain or loss recognized on off-balance-sheet securitizations take into consideration any assets received or liabilities assumed, including any retained interests, and servicing assets or liabilities (if applicable), which are initially recorded at fair value at the date of sale. Upon the sale of the financial assets, we recognize a gain or loss on sale for the difference between the assets and liabilities recognized, and the assets derecognized. The financial assets obtained from off-balance-sheet securitizations are primarily reported as cash or if applicable, retained interests. Retained interests are classified as securities or as other assets depending on their form and structure. The estimate of the fair value of the retained interests and servicing requires us to exercise significant judgment about the timing and amount of future cash flows from the interests. For a discussion on fair value estimates, refer to Note 20 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020.

Gains or losses on off-balance-sheet securitizations are reported in gain on mortgage and automotive loans, net, in our income statement.

We retain the right to service our consumer and commercial automotive loan and operating lease securitizations. We may receive servicing fees for off-balance-sheet securitizations based on the securitized asset balances and certain ancillary fees, all of which are reported in servicing fees in our income statement. Typically, the fee we are paid for servicing represents adequate compensation, and consequently, does not result in the recognition of a servicing asset or liability.

We generally hold certain conditional repurchase options specific to securitizations that allow us to repurchase assets from the securitization entity. The majority of the securitizations provide us, as servicer, with a call option that allows us to repurchase the remaining transferred financial assets or redeem outstanding beneficial interests at our discretion once the asset pool reaches a predefined level, which represents the point where servicing becomes administratively burdensome (a clean-up call option). The repurchase price is typically the

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discounted securitization balance of the assets plus accrued interest when applicable. We generally have discretion regarding when or if we will exercise these options, but we would do so only when it is in our best interest.

Other than our customary representation and warranty provisions, these securitizations are nonrecourse to us, thereby transferring the risk of future credit losses to the extent the beneficial interests in the SPE are held by third parties. Representation and warranty provisions generally require us to repurchase assets or indemnify the investor or other party for incurred losses to the extent it is determined that the assets were ineligible or were otherwise defective at the time of sale. We did not provide any non-contractual financial support to any of these entities during the third quarter of 2020.

Assets intended to be securitized off-balance sheet are accounted for as loans held-for-sale and are valued using internally developed valuation models when observable market prices are not available, which is often the case. The models utilize prepayment, default, and discount rate assumptions to price the loans on a discounted cash flow basis.

## Risk Management

Our securitization activity exposes us primarily to the credit risk and performance of the underlying assets. For qualitative discussion surrounding our credit-risk-management policies, procedures, and practices, refer to the Risk Management section within MD&A in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020. To mitigate the retained risk in securitization activities, Ally utilizes credit enhancements including cash reserves, overcollateralization, and subordinate notes.

## Securitization Exposures

The following table represents Ally's off-balance sheet securitization exposures, including delinquencies and net credit losses.

| At and for the three months ended September 30, 2020 (\$ in millions) | Total amount | Amount 60 days or more past due | Net credit losses |
|---|--------------|---------------------------------|-------------------|
| Consumer automotive   | \$ 121       | \$ 2                            | \$ —              |
| Total securitization exposures  | \$ 121       | \$ 2                            | \$ —              |

Ally does not have any synthetic securitization exposures.

## Securitization Activity

During the three months ended September 30, 2020, we did not complete any off-balance sheet securitizations.

## Purchased Investment Securities

As an investor, Ally has purchased investment securities that meet the regulatory definition of a securitization. These securitizations are accounted for as available-for-sale securities and reported at fair value on our balance sheet. Available-for-sale securities are carried at fair value based on observable market prices, when available. We classify our securities as Level 1 when fair value is determined using quoted prices available for the same instruments trading in active markets. We classify our securities as Level 2 when fair value is determined using prices for similar instruments trading in active markets. We perform pricing validation procedures for our available-for-sale securities.

## Other Securitization Exposures

As of September 30, 2020, our securitization exposures included commercial loans and unfunded lending commitments made to SPEs and secured by underlying financial exposures. These arrangements are designed to meet the needs of our clients for long-term financing of assets or working capital, and qualify for us as traditional securitizations for regulatory capital purposes.

## Regulatory Capital Approach

We utilize the SSFA to determine the risk weight of securitization exposures. The SSFA method considers our seniority in the securitization structure and risk factors inherent in the underlying assets.

The following table represents Ally's securitizations by underlying exposure type as of September 30, 2020.

| September 30, 2020 (\$ in millions)    | Exposure amount |
|--|-----------------|
| Mortgage-backed residential securities | \$ 2,982        |
| Asset-backed securities                | 390             |
| Other securitization exposures         | 1,810           |
| Total                                  | \$ 5,182        |

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The following table represents Ally's securitizations by risk-weight bands as of September 30, 2020.

| <b>September 30, 2020 (\$ in millions)</b> | <b>Exposure<br/>amount</b> | <b>SSFA risk-<br/>weighted assets</b> |
|--|----------------------------|---------------------------------------|
| <b>Risk-weight category</b>                |                            |                                       |
| 20% – <50% risk weighting (a)              | \$ 4,997                   | \$ 1,014                              |
| 50% – <100% risk weighting                 | 96                         | 59                                    |
| 100% – <250% risk weighting                | 88                         | 150                                   |
| 250% – 1250% risk weighting                | 1                          | 13                                    |
| <b>Total</b>                               | <b>\$ 5,182</b>            | <b>\$ 1,236</b>                       |

(a) Exposures with a risk weight equal to 20% were \$4.8 billion.

At September 30, 2020, Ally did not have any resecuritization exposures.

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## Equities Not Subject to the Market-Risk Rule

Our equity holdings primarily consist of equity investments that are publicly traded and have a readily determinable fair value. Effective January 1, 2018, these equity investments, as well as certain investments that do not have a readily determinable fair value and are not eligible to be recognized using other measurement principles, are recorded at fair value with changes in fair value recorded in earnings and reported in other gain on investments, net, in our income statement. Details of our policy for the valuation of investment securities can be found in Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2019, and Note 1 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended September 30, 2020.

Our equity securities recognized using other measurement principles include investments in FHLB and FRB stock held to meet regulatory requirements, equity investments related to LIHTCs and the CRA, which do not have a readily determinable fair value, and other equity investments that do not have a readily determinable fair value. Our LIHTC investments are accounted for using the proportional amortization method of accounting for qualified affordable housing investments. Our obligations related to unfunded commitments for our LIHTC investments are included in other liabilities. The majority of our other CRA investments are accounted for using the equity method of accounting. Our investments in LIHTCs and other CRA investments are included in other assets on our balance sheet. Our investments in FHLB and FRB stock are carried at cost, less impairment. Our remaining investments in equity securities are recorded at cost, less impairment and adjusted for observable price changes under the measurement alternative provided under U.S. GAAP. These investments, along with our investments in FHLB and FRB stock, are included in nonmarketable equity investments in other assets on our balance sheet. As conditions warrant, we review these investments for impairment and adjust the carrying value of the investment if it is deemed to be impaired. Investments recorded under the measurement alternative are also reviewed at each reporting period to determine if any adjustments are required for observable price changes in identical or similar securities of the same issuer.

Under the Basel III rules, a banking organization may apply a 100% risk weight to equity exposures deemed non-significant. Equity exposures are considered non-significant when the total aggregate adjusted carrying value of the equity exposures do not exceed 10 percent of total capital. Ally's equity exposures do not exceed 10 percent of total capital and are considered non-significant.

The table below presents the carrying value, fair value, and RWAs by risk-weight category for equity investments on our balance sheet.

| <b>September 30, 2020 (\$ in millions)</b> | <b>Risk-weight category</b> | <b>Carrying value (a)</b> | <b>Risk-weighted assets</b> |
|--|-----------------------------|---------------------------|-----------------------------|
| Equity exposures                           |                             |                           |                             |
| FRB stock                                  | — %                         | \$ 449                    | \$ —                        |
| FHLB stock                                 | 20 %                        | 394                       | 79                          |
| Community reinvestment activity exposures  | 100 %                       | 1,241                     | 1,241                       |
| Non-significant equity exposures (b)       | 100 %                       | 769                       | 769                         |
| Total                                      |                             | \$ 2,853                  | \$ 2,089                    |

- (a) Amounts represent the fair value of equity securities with readily determinable fair values, as well as investments recorded in other assets accounted for under either the equity method, the proportional amortization method, or the cost method.
- (b) Includes publicly traded equity securities with a cost basis of \$761 million.

Total net unrealized losses on equity securities recognized on our balance sheet were \$139 million at September 30, 2020. Total net realized gains arising from sales and liquidations of equity securities were \$7 million for the three months ended September 30, 2020.

# Basel III Public Disclosures

Ally Financial Inc.

## Interest Rate Risk for Non-Trading Activities

We are exposed to interest rate risk arising from changes in interest rates related to financing, investing, and cash management activities. Interest rate risk arises from the mismatch between assets and the related liabilities used for funding. We enter into various financial instruments, including derivatives, to maintain the desired level of exposure to the risk of interest rate and other fluctuations.

Interest rate risk represents one of our most significant exposures to market risk. We actively monitor the level of exposure to movements in interest rates and take actions to mitigate adverse impacts these movements may have on future earnings. We use a sensitivity analysis of net financing revenue as our primary metric to measure and manage the interest rate risk of our financial instruments.

We prepare forward-looking baseline forecasts of net financing revenue taking into consideration anticipated future business growth, asset/liability positioning, and interest rates based on the implied forward curve. The analysis is highly dependent upon a variety of assumptions including the repricing characteristics of retail deposits with both contractual and non-contractual maturities. We continually monitor industry and competitive repricing activity along with other market factors when contemplating deposit pricing actions.

Simulations are then used to assess changes in net financing revenue in multiple interest rate scenarios relative to the baseline forecast. The changes in net financing revenue relative to the baseline are defined as the sensitivity. Our simulations incorporate contractual cash flows and repricing characteristics for all assets, liabilities, and off-balance-sheet exposures and incorporate the effects of changing interest rates on the prepayment and attrition rates of certain assets and liabilities. Our simulation does not assume any specific future actions are taken to mitigate the impacts of changing interest rates.

The net financing revenue sensitivity tests measure the potential change in our pretax net financing revenue over the following 12 months. We test a number of alternative rate scenarios, including immediate and gradual parallel shocks to the implied market forward curve. Management also evaluates nonparallel shocks to interest rates and stresses to certain term points on the yield curve in isolation to capture and monitor a number of risk types. Relative to our baseline forecast, which is based on the implied forward curve, our net financing revenue over the next 12 months would increase by \$3 million if interest rates remain unchanged.

The following table presents the pretax dollar impact to forecasted net financing revenue over the next 12 months assuming various shocks to the implied market forward curve.

| (\$ in millions)         | September 30, 2020 |               |
|--------------------------|--------------------|---------------|
|                          | Gradual (a)        | Instantaneous |
| Change in interest rates |                    |               |
| +200 basis points        | \$ 171             | \$ 221        |
| +100 basis points        | 88                 | 181           |
| -25 basis points (b)     | (1)                | (36)          |

(a) Gradual changes in interest rates are recognized over 12 months.

(b) With rates at or near historical lows across the curve, a scenario with rates declining 25 basis points is being utilized, which management believes is more meaningful to understand exposure to lower rates in the current market rate environment rather than the down 100 basis point scenario. Our models currently assume rates do not go below zero.

The implied forward rate curve was significantly lower across all tenors in 2020 as interest rates were at or near historical lows across the curve. The impact of this change is reflected in our baseline net financing revenue projections. As of September 30, 2020, the expected benefit of an upward instantaneous interest rate shock scenario has increased, primarily due to changes to our derivative hedging position, higher cash balances, as well as our continued shift in funding to retail deposits.

The exposure in the downward instantaneous interest rate shock scenario is largely driven by mortgage prepayment risk and is muted as our models assume rates do not go below zero.

Our risk position is influenced by the impact of hedging activity which primarily consists of interest rate swaps designated as fair value hedges of certain fixed-rate assets and fixed-rate debt instruments, and pay-fixed interest rate swaps designated as cash flow hedges of certain floating-rate debt instruments. We also have the ability to utilize interest rate floor contracts designated as cash flow hedges on certain floating-rate assets. The size, maturity, and mix of our hedging activities are adjusted as our balance sheet, asset liability management objectives, and interest rate environment evolve over time.

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