



Ally Financial Inc.  
Basel III Public Disclosures

As of and for the three months ended March 31, 2021

# Road Map

Ally Financial Inc. • Basel III Public Disclosures

## 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 March 31, 2021, and the Annual Report on Form 10-K for the year ended December 31, 2020.

Disclosure Requirement	Basel III Report	Q1 2021 Form 10-Q	2020 Form 10-K
	Page(s)		
Introduction	4-5	12, 36-37, 58	5, 10, 39, 123, 169-170
Scope of Application			
Basis of Consolidation	4	12	123
Restrictions on Capital	6	36-37	6-10, 169-170
Subsidiary Minimum Capital Requirement	7	—	12-13
Capital Surplus of Insurance Subsidiaries	7	—	—
Capital Structure			
Capital Components	8	7, 9, 33, 38, 57, 61	38, 118, 120, 163-165
Term and Conditions of Capital Instruments	8-9	33, 57	163-165
Capital Adequacy			
Capital Adequacy Assessment Process	10-11	38	—
Risk-Weighted Assets	11	61	38
Capital Ratios	11	38, 61	38, 171
Capital Conservation Buffer	12	38	171
Credit Risk			
Policies, Procedures, and Practices	13	81	74-75, 125-129
Credit Risk Exposures — Counterparty, Domicile, and Maturity	13	81-90	—
Impaired Loans	—	—	147
Allowance for Loan Losses	14	19	145
Counterparty Credit Risk			
Methodology	15	40-41	162, 174-175
Counterparty Credit Risk	15	40-41, 52-53	162, 174-175, 189-190
Credit Derivatives	15	40	174
Credit Risk Mitigation			
Policies, Procedures, and Practices	16	81-82	75-76
Eligible Financial Collateral, Guarantees, and Credit Derivatives	16	—	—
Securitization			
Policies, Procedures, and Practices	17-18	29	129, 157-158
Securitization Exposures and Activity	18	29-30, 95	97-98, 157-159
Synthetic Securitizations	18	—	—
Purchased Securitizations and Resecuritizations	18-19	—	—
Equities Not Subject to the Market-Risk Rule			
Policies, Procedures, and Practices	20	—	124-125
Carry Value and Fair Value by Exposure	20	—	—
Publicly Traded	20	—	—
Unrealized and Realized Gains and Losses	20	16, 18	141, 143
Interest Rate Risk for Non-Trading Activities			
Policies, Procedures, and Practices	21	90	87-88
Net Financing Revenue Sensitivity	21	91	89-90

# Index of Defined Terms

Ally Financial Inc. • Basel III Public Disclosures

<b>Term</b>	<b>Definition</b>
BHC	Bank holding company
BHC Act	Bank Holding Company Act of 1956 as amended
Board	Board of Directors
CECL	Accounting Standards Update 2016-13 (and related Accounting Standards Updates), or current expected credit loss
CRA	Community Reinvestment Act of 1977 as amended
ERM	Enterprise Risk Management
FDI Act	Federal Deposit Insurance Act as amended
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991 as amended
FHC	Financial Holding Company
FHLB	Federal Home Loan Bank
FRB	Federal Reserve Bank, or Board of Governors of the Federal Reserve System, as the context requires
GAP	Guaranteed asset protection
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 I
SPE	Special-purpose entity
SSFA	Simplified Supervisory Formula Approach
STSA	Enterprise Stress Testing and Scenario Analysis
U.S. Basel III	The rules implementing the 2010 Basel III capital framework in the United States as well as related provisions of the Dodd-Frank Act, as amended from time to time
U.S. GAAP	Accounting Principles Generally Accepted in the United States of America
UDFI	Utah Department of Financial Institutions
VIE	Variable interest entity
VSC	Vehicle service contract

# Basel III Public Disclosures

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 United States and offer a wide range of financial services and insurance products to automotive dealerships and consumers. Our award-winning digital direct bank (Ally Bank, Member FDIC and Equal Housing Lender) offers mortgage lending, point-of-sale 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 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 BHC Act, 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 2010 Basel III capital framework in the United States as well as related provisions of the Dodd-Frank Act, which represented substantial revisions to the prior 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 U.S. Basel III. As described below, U.S. Basel III 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, 2020, our Quarterly Report on Form 10-Q for the three months ended March 31, 2021, and our Consolidated Financial Statements for Holding Companies - FR Y-9C for March 31, 2021. 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, 2020, 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, 2020, 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 March 31, 2021, 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, 2020, 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 March 31, 2021, 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, 2020, 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, 2020, our Quarterly Report on Form 10-Q for the three months ended March 31, 2021, 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. Certain aspects of these rules have since been updated by the U.S. banking agencies from time to time to comply with changes to

# Basel III Public Disclosures

Ally Financial Inc.

law in the United States. U.S. Basel III represents a substantial revision to the previously effective regulatory capital standards for U.S. 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, which for Ally was 3.5% and for Ally Bank was 2.5% as of March 31, 2021. Failure to maintain more than the full amount of the capital conservation buffer requirement would result in automatic 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 (such as 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 investments in the capital instruments of unconsolidated financial institutions, mortgage servicing assets, and certain deferred tax assets that individually exceed a specified threshold 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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Ally Financial Inc.

## 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, 2020, and Note 16 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended March 31, 2021.
- **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, 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.

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 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.

# Basel III Public Disclosures

Ally Financial Inc.

## **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 \$171.5 billion at March 31, 2021, 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 risk-based capital ratios and the Tier 1 leverage ratio 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 Tier 1 leverage ratio: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. 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 FDICIA, only well-capitalized and, with a waiver from the FDIC, 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 March 31, 2021, Ally Bank was well capitalized under the PCA framework.

At March 31, 2021, 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 16 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended March 31, 2021.

## **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 VSCs and GAP 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 the section above titled *Bank Holding Company, Financial Holding Company, and Depository Institution Status* for additional information. 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 March 31, 2021, Ally did not have any subsidiaries whose regulatory capital was less than the minimum required regulatory capital amount.

At March 31, 2021, the aggregate capital surplus of insurance subsidiaries was \$961 million.



# Basel III Public Disclosures

Ally Financial Inc.

## Capital Structure

The following table presents Ally Financial Inc.'s capital components under U.S. Basel III at March 31, 2021.

<i>(\$ in millions)</i>	<b>March 31, 2021</b>	
Common Equity Tier 1 capital		
Common stock and related surplus	\$	18,153
Accumulated deficit		(3,555)
CECL phase-in adjustment (a)		1,155
Accumulated other comprehensive income		27
Adjustments and deductions made to Common Equity Tier 1 capital		(421)
<b>Total Common Equity Tier 1 capital</b>		<b>15,359</b>
Other Tier 1 capital		
Additional Tier 1 capital elements		2,500
Adjustments and deductions made to Tier 1 capital		(64)
<b>Total Tier 1 capital</b>		<b>17,795</b>
Tier 2 capital		
Tier 2 capital elements		829
Includable allowance for loan and lease losses		1,680
Adjustments and deductions made to Tier 2 capital		(64)
<b>Total Tier 2 capital</b>		<b>2,445</b>
<b>Total capital (b)</b>	<b>\$</b>	<b>20,240</b>

- (a) On January 1, 2020, we adopted 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 16 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended March 31, 2021, for further information.
- (b) For more information, refer to Schedule HC-R of our FR Y-9C for March 31, 2021.

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 503,643,221; and outstanding 371,804,633.

### Trust Preferred Securities

At March 31, 2021, 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 March 31, 2021. The amount represents the carrying amount of the Series 2 TRUPS less our common stock investment in the trust.

### Series B Preferred Stock Offering and Partial Redemption of Trust Preferred Securities

On April 22, 2021, we issued 1,350,000 shares of 4.700% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series B with \$0.01 par value and liquidation preference of \$1,000 per share. Dividends, if approved and declared by our Board, will be paid on a non-cumulative basis quarterly, in arrears, at a rate equal to (i) 4.700% from the original issue date to, but excluding, May 15, 2026, and (ii) from



# Basel III Public Disclosures

Ally Financial Inc.

the May 15, 2026 dividend date and during each subsequent reset period at a rate per annum equal to the five-year treasury rate plus 3.868%. This instrument qualifies as an element of our additional Tier 1 capital under U.S. Basel III, and we intend to use the net proceeds from issuance to redeem a portion of our 8.125% Fixed Rate/Floating Rate Trust Preferred Securities, Series 2 of GMAC Capital Trust I.

On April 22, 2021, we provided notice to The Bank of New York Mellon, in its capacity as trustee for our 8.125% Fixed Rate/Floating Rate Trust Preferred Securities, Series 2 of GMAC Capital Trust I, that we intend to redeem \$1.4 billion, or 56,000,000 shares of the outstanding Trust Preferred Securities at a par price of \$25.00 per unit, plus accrued interest through the May 24, 2021 redemption date.

## **Subordinated Debt**

Qualifying subordinated debt included in Tier 2 capital was \$829 million at March 31, 2021. 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 March 31, 2021, a coupon rate of 5.75%, and a maturity date in 2025.

# Basel III Public Disclosures

Ally Financial Inc.

## 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

# Basel III Public Disclosures

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 U.S. Basel III at March 31, 2021.

<i>(\$ in millions)</i>	<b>March 31, 2021</b>
Exposures to government-sponsored enterprises	<b>\$ 5,070</b>
Exposures to depository institutions and foreign banks	<b>175</b>
Exposures to public-sector entities	<b>451</b>
Corporate exposures	<b>25,704</b>
Retail exposures	<b>73,379</b>
Residential mortgage exposures	<b>6,749</b>
High volatility commercial real estate loans	<b>276</b>
Past due loans	<b>2,016</b>
Other assets (a)	<b>15,937</b>
Securitization exposures	<b>1,351</b>
Equity exposures	<b>2,686</b>
Other off-balance sheet items (b)	<b>5,009</b>
Over-the-counter derivatives	<b>5</b>
Cleared transactions	<b>10</b>
Risk-weighted assets before deduction for excess allowance of loan and lease losses	<b>138,818</b>
Excess allowance for loan and lease losses	<b>—</b>
<b>Total standardized risk-weighted assets (c)</b>	<b>\$ 138,818</b>

(a) Includes investments in operating leases with an RWA amount of \$9.9 billion.

(b) Includes equity commitments with an RWA amount of \$300 million.

(c) For more information, refer to Schedule HC-R of our FR Y-9C for March 31, 2021.

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

<b>March 31, 2021</b>	<b>Common Equity Tier 1 capital ratio</b>	<b>Tier 1 capital ratio</b>	<b>Total risk-based capital ratio</b>
Ally Financial Inc.	<b>11.06 %</b>	<b>12.82 %</b>	<b>14.58 %</b>
Ally Bank	<b>13.68</b>	<b>13.68</b>	<b>14.93</b>

# Basel III Public Disclosures

Ally Financial Inc.

## Capital Conservation Buffer

As part of the Basel III capital requirements, Ally must maintain a capital conservation buffer 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.

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 for Ally replaced the fixed 2.5% component of the 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. For a Category IV firm like Ally, the capital conservation buffer requirement comprises the stress capital buffer requirement. The capital conservation buffer requirement applicable to Ally's depository-institution subsidiary, Ally Bank, continues to be a fixed 2.5%. Ally received its first preliminary stress capital buffer requirement from the FRB in June 2020, which was determined under this new methodology to be 3.5%, was finalized in August 2020, and became effective in October 2020. In June 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. In September 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 in November 2020. In December 2020, the FRB publicly disclosed summary results of this second round of supervisory stress testing and extended its deadline for notifying firms about whether their stress capital buffer requirements will be recalculated to March 31, 2021. On March 25, 2021, the FRB further extended this deadline to June 30, 2021.

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 March 31, 2021, Ally's capital conservation buffer was 6.56%, 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 U.S. Basel III 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 March 31, 2021, our net income for the four preceding calendar quarters was \$2.2 billion, and distributions related to repurchases of and cash dividends on common stock were \$511 million, resulting in a net amount of \$1.7 billion. At March 31, 2021, our average net income over the four preceding calendar quarters was \$550 million. Based on these amounts, our eligible retained income at March 31, 2021, was \$1.7 billion.

# Basel III Public Disclosures

Ally Financial Inc.

## 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 March 31, 2021, and our Annual Report on Form 10-K for the year ended December 31, 2020.

For a 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 section 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, 2020.

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

March 31, 2021 (\$ in millions)	Counterparty type					Domicile			Quarterly average
	Banks	Public sector	Corporate & Other	Retail	Total	United States	Non-U.S.	Total	
Exposure									
Debt securities (a)	\$ 472	\$ 4,409	\$ 29,762	\$ —	\$ 34,643	\$ 34,523	\$ 120	\$ 34,643	\$ 33,061
Finance receivables and loans, net of unearned income (b)	—	129	25,901	87,676	113,706	113,611	95	113,706	116,235
Operating leases	—	—	18	9,926	9,944	9,944	—	9,944	9,831
Over-the-counter derivative contracts (at fair value)	3	—	14	—	17	14	3	17	17
Unfunded commitments	—	117	10,632	1,308	12,057	12,037	20	12,057	10,434
<b>Total credit risk exposures</b>	<b>\$ 475</b>	<b>\$ 4,655</b>	<b>\$ 66,327</b>	<b>\$ 98,910</b>	<b>\$ 170,367</b>	<b>\$ 170,129</b>	<b>\$ 238</b>	<b>\$ 170,367</b>	<b>\$ 169,578</b>

(a) Amounts as of March 31, 2021, include available-for-sale securities presented at fair value of \$33.4 billion, and held-to-maturity securities presented at amortized cost of \$1.2 billion.

(b) Refer to the Risk Management section within MD&A in our Quarterly Report on Form 10-Q for the three months ended March 31, 2021, 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.

March 31, 2021 (\$ in millions)	One year or less	After one year		Total
		through five years	After five years	
Exposure				
Debt securities (a)	\$ 197	\$ 1,837	\$ 32,609	\$ 34,643
Finance receivables and loans, net of unearned income	15,469	49,704	48,533	113,706
Operating leases	2,086	7,858	—	9,944
Over-the-counter derivative contracts (at fair value)	17	—	—	17
Unfunded commitments	5,940	5,488	629	12,057
<b>Total credit risk exposures</b>	<b>\$ 23,709</b>	<b>\$ 64,887</b>	<b>\$ 81,771</b>	<b>\$ 170,367</b>

(a) Includes available-for-sale securities presented at fair value of \$33.4 billion, and held-to-maturity securities presented at amortized cost of \$1.2 billion.

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

March 31, 2021 (\$ in millions)	Consumer automotive		Consumer mortgage		Consumer other		Commercial		Total
Loans 90 days or more past due — nonaccrual	\$ 256	\$ 69	\$ 2	\$ 7	\$ 334				
Loans 90 days or more past due — still accruing	—	—	—	—	—				
<b>Total loans 90 days or more past due</b>	<b>\$ 256</b>	<b>\$ 69</b>	<b>\$ 2</b>	<b>\$ 7</b>	<b>\$ 334</b>				

# Basel III Public Disclosures

Ally Financial Inc.

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

<i>(\$ in millions)</i>	<b>Consumer automotive</b>	<b>Consumer mortgage</b>	<b>Consumer other</b>	<b>Commercial</b>	<b>Total</b>
Allowance at January 1, 2021	\$ 2,902	\$ 33	\$ 73	\$ 275	\$ 3,283
Charge-offs	(284)	(2)	(8)	(14)	(308)
Recoveries	187	3	—	—	190
Net charge-offs	(97)	1	(8)	(14)	(118)
Provision for credit losses	4	(7)	3	(13)	(13)
Other	—	(1)	1	—	—
Allowance at March 31, 2021	\$ 2,809	\$ 26	\$ 69	\$ 248	\$ 3,152
Finance receivables and loans at amortized cost					
Ending balance	\$ 73,998	\$ 12,903	\$ 482	\$ 25,685	\$ 113,068

# Basel III Public Disclosures

Ally Financial Inc.

## 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.

### 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 first quarter of 2021.

### Counterparty Exposures

We placed cash collateral totaling \$1 million and noncash collateral totaling \$163 million supporting our derivative positions at March 31, 2021, in accounts maintained by counterparties. We received cash collateral from counterparties totaling \$4 million at March 31, 2021, in support of derivative positions. These amounts include collateral placed at and received from clearinghouses.

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 March 31, 2021, this included total derivatives of \$18 million in an asset position, \$44 million in a liability position, and of a \$19.6 billion notional amount. At March 31, 2021, there were no derivative assets in net asset positions or derivative liabilities in net liability positions.

As of March 31, 2021, Ally had no securities sold under agreements to repurchase.

Ally's credit derivatives at March 31, 2021, consisted of various retail automotive-loan purchase agreements with certain counterparties. As part of those agreements, Ally may withhold a portion of the purchase price from the counterparty and be required to pay the counterparty all or part of the amount withheld at agreed upon measurement dates and determinable amounts if actual credit performance of the acquired loans on the measurement date is better than or equal to what was estimated at the time of acquisition. These credit derivatives had a gross negative fair value of \$37 million at March 31, 2021, and due to their nature, do not have a notional amount or carry potential future exposure to counterparty credit risk for Ally. The maximum potential amount of undiscounted future payments that could be required under these credit derivatives was \$66 million as of March 31, 2021.



# Basel III Public Disclosures

Ally Financial Inc.

## 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 7 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended March 31, 2021, 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 maturity extensions, delinquent interest capitalization, changes to contractual interest rates, and principal forgiveness.

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 17 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended March 31, 2021.

## 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 most 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 March 31, 2021.

Other than guarantees related to sovereign debt securities we hold, at March 31, 2021, none of our exposures were covered by eligible guarantees or credit derivatives recognized for the purposes of reducing capital requirements. At March 31, 2021, an insignificant amount of our exposure was covered by eligible financial collateral.

# Basel III Public Disclosures

Ally Financial Inc.

## 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 19 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended March 31, 2021.

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

# Basel III Public Disclosures

Ally Financial Inc.

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 first quarter of 2021.

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 March 31, 2021. To mitigate the retained risk in securitization activities, Ally utilizes credit enhancements including cash reserves, overcollateralization, and subordinate notes.

## Securitization Exposures

We did not have any off-balance sheet securitization exposures or any synthetic securitization exposures at March 31, 2021.

## Securitization Activity

During the three months ended March 31, 2021, 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 securities are accounted for as either available for sale or held to maturity, and measured at fair value or amortized cost less allowance for credit losses, respectively, on our balance sheet. The fair value of available-for-sale securities is 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 March 31, 2021, 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 certain 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 that were risk weighted using the SSFA by underlying exposure type as of March 31, 2021.

<b>March 31, 2021</b> ( <i>\$ in millions</i> )	<b>Exposure amount</b>
Mortgage-backed residential securities	<b>\$ 2,284</b>
Asset-backed securities	<b>470</b>
Other securitization exposures	<b>2,765</b>
<b>Total</b>	<b>\$ 5,519</b>

# Basel III Public Disclosures

Ally Financial Inc.

The following table represents Ally's securitizations that were risk weighted using the SSFA by risk-weight band as of March 31, 2021.

<b>March 31, 2021</b> ( <i>\$ in millions</i> )	<b>Exposure amount</b>	<b>SSFA risk-weighted assets</b>
<b>Risk-weight category</b>		
20% – <50% risk weighting (a)	\$ 5,378	\$ 1,093
50% – <100% risk weighting	43	25
100% – <250% risk weighting	84	183
250% – 1250% risk weighting	14	50
<b>Total</b>	<b>\$ 5,519</b>	<b>\$ 1,351</b>

(a) Exposures with a risk weight equal to 20% were \$5.3 billion.

At March 31, 2021, Ally did not have any resecuritization exposures.

# Basel III Public Disclosures

Ally Financial Inc.

## Equities Not Subject to the Market-Risk Rule

Equity securities that have a readily determinable fair value 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. These investments are included in equity securities on our balance sheet. 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, 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 investments in qualified affordable housing projects and equity-method investments, respectively, in other assets on our balance sheet. Our investments in FHLB and FRB stock are carried at cost, less impairment, if any. 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. 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. As conditions warrant, we review these investments, as well as investments in FHLB and FRB stock, for impairment and adjust the carrying value of the investment if it is deemed to be impaired. Adjustments related to observable price changes or impairment on securities using the measurement alternative and FHLB and FRB stock are recorded in earnings and reported in other income, net, in our income statement.

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>March 31, 2021</b> ( <i>\$ in millions</i> )	<b>Risk-weight category</b>	<b>Carrying value (a)</b>	<b>Risk-weighted assets</b>
<b>Equity exposures</b>			
FRB stock	— %	\$ 449	\$ —
FHLB stock	20 %	248	50
Community development equity exposures	100 %	1,240	1,240
Non-significant equity exposures (b)	100 %	1,396	1,396
<b>Total</b>		<b>\$ 3,333</b>	<b>\$ 2,686</b>

(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 \$1.1 billion.

Total net unrealized losses on equity securities recognized on our balance sheet were \$17 million at March 31, 2021. Total net realized gains arising from sales and liquidations of equity securities were \$74 million for the three months ended March 31, 2021.

# 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 assumptions.

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, our net financing revenue over the next 12 months is expected to decrease by \$34 million if interest rates remain unchanged.

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

(\$ in millions)	March 31, 2021	
	Gradual (a)	Instantaneous
Change in interest rates		
+200 basis points	\$ (29)	\$ (41)
+100 basis points	(27)	(9)
-25 basis points (b)	(44)	(96)

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

(b) Our models currently assume rates do not go below zero.

The implied forward rate curve was steeper in 2021 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 March 31, 2021, we expect an upward instantaneous interest rate shock scenario to have a modest negative impact to the baseline forecast, primarily due to a shift from floating-rate to fixed-rate assets, our continued shift in funding to retail deposits, and changes to our derivative hedging position.

The exposure in the downward instantaneous interest rate shock scenario is largely driven by floating-rate assets and prepayment risk, as well as limited repricing of liquid deposits.

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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