Ally Financial Inc.
Form 10-K
February 20, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018 or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 1-3754
ALLY FINANCIAL INC.
(Exact name of registrant as specified in its charter)

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

Ally Detroit Center
500 Woodward Ave.
Floor 10, Detroit, Michigan
48226
(Address of principal executive offices)
(Zip Code)
(866) 710-4623
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act (all listed on the New York Stock Exchange):
Title of each class

Common Stock, par value $0.01 per share	8.125% Fixed Rate/Floating Rate Trust Preferred Securities, Series 2 of GMAC Capital Trust I

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o

Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
The aggregate market value of the Registrant's common stock (Common Stock) held on June 29, 2018 by non-affiliated entities was approximately $11.2 billion (based on the June 29, 2018 closing price of Common Stock of $26.27 per share as reported on the New York Stock Exchange).
At February 15, 2019, the number of shares outstanding of the Registrant's common stock was 402,666,101 shares.
Documents incorporated by reference: portions of the Registrant's Proxy Statement for the annual meeting of stockholders to be held on May 7, 2019, are incorporated by reference in this Form 10-K in response to Items 10, 11, 12, 13, and 14 of Part III.

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Item 1. Business

Our Business

Ally Financial Inc. (together with its consolidated subsidiaries unless the context otherwise requires, Ally, the Company, or we, us, or our) is a leading digital financial-services company with $178.9 billion in assets as of December 31, 2018. 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 services and a variety of deposit and other banking products, including savings, money-market, and checking accounts, certificates of deposit (CDs), and individual retirement accounts (IRAs). We also support the Ally CashBack Credit Card. 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 bank holding company (BHC) under the Bank Holding Company Act of 1956, as amended (BHC Act), and a financial holding company (FHC) under the Gramm-Leach-Bliley Act of 1999, as amended (GLB Act). Our primary business lines are Dealer Financial Services, which comprises our Automotive Finance and Insurance operations, Mortgage Finance, and Corporate Finance. Corporate and Other primarily consists of centralized corporate treasury activities, the management of our legacy mortgage portfolio, the activity related to Ally Invest, and reclassifications and eliminations between the reportable operating segments. Ally Bank’s assets and operating results are included within our Automotive Finance, Mortgage Finance, and Corporate Finance segments, as well as Corporate and Other, based on its underlying business activities. As of December 31, 2018, Ally Bank had total assets of $159.0 billion and total deposits of $106.2 billion.

Our strategic focus is centered around continuing to optimize our Automotive Finance and Insurance operations, to grow our deposits and customers, to increase the scale of our digital product offerings, to maintain efficient capital management and disciplined risk management, to build the long-term value of our business, and to foster a culture of relentlessly focusing on our customers, communities, associates, and stockholders. Within our Automotive Finance and Insurance operations, we are focused on strengthening our network of dealer relationships and pursuing digital distribution channels for our products and services, including through our operation of a direct-lending platform, our participation in other direct-lending platforms, and our work with dealers innovating in digital transactions—all while maintaining an appropriate level of risk. We also seek to extend our leading position in automotive finance in the United States by continuing to provide automotive dealers and their retail customers with premium service, a comprehensive product suite, consistent funding, and competitive pricing—reflecting our commitment to the automotive industry. Within our other banking operations—including Mortgage Finance and Corporate Finance—we seek to prudently expand our consumer and commercial banking products and services while providing a high level of customer service. In addition, we continue to focus on delivering significant and sustainable growth in deposit customers and balances while optimizing our cost of funds. At Ally Invest, we look to augment our securities brokerage and investment advisory services to more comprehensively assist our customers in managing their savings and wealth.

We continue to invest in enhancing the customer experience with integrated features across product lines on our digital platform. We also continue to build on our existing foundation of approximately 6.0 million consumer automotive financing and primary deposit customers, strong brand, and innovative culture. Upon launching our first ever enterprise-wide campaign themed “Do It Right,” we introduced a broad audience to our full suite of digital financial services, which emphasizes our relentless customer-centric focus and commitment to constantly create and reinvent our product offerings and digital experiences to meet the needs of consumers. Our product offerings and brand continue to gain traction in the marketplace, as demonstrated by industry recognition of our award-winning direct online bank and strong retention rates of our customer base.

Unless the context otherwise requires, the following definitions apply. The term “loans” means the following consumer and commercial products associated with our direct and indirect financing activities: loans, retail installment sales contracts, lines of credit, and other financing products excluding operating leases. The term “operating leases” means consumer- and commercial-vehicle lease agreements where Ally is the lessor and the lessee is generally not obligated to acquire ownership of the vehicle at lease-end or compensate Ally for the vehicle’s residual value. The terms “lend,” “finance,” and “originate” mean our direct extension or origination of loans, our purchase or acquisition of loans, or our purchase of operating leases as applicable. The term “consumer” means all consumer products associated with our loan and operating-lease activities and all commercial retail installment sales contracts. The term “commercial” means all commercial products associated with our loan activities, other than commercial retail installment sales contracts.

For further details and information related to our business segments and the products and services they provide, refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in Part II, Item 7 of this report, and Note 26 to the Consolidated Financial Statements.

Industry and Competition

The markets for automotive financing, insurance, banking (including corporate finance and mortgage finance), securities brokerage, and investment-advisory services are highly competitive. We directly compete in the automotive financing market with banks, credit unions, captive automotive finance companies, and independent finance companies. Our insurance business also faces significant competition from automotive manufacturers, captive automotive finance companies, insurance carriers, third-party administrators, brokers, and other insurance-related companies. Some of these competitors in automotive financing and insurance, such as captive automotive finance companies, have certain exclusivity privileges with automotive manufacturers whose customers and dealers make up a significant portion of our customer base. In addition, our banking, securities brokerage, and investment-advisory businesses face intense competition from banks, savings associations, finance companies, credit unions, mutual funds, investment advisers, asset managers, brokerage firms, hedge funds, insurance companies, mortgage-banking companies, and credit card companies. Financial-technology (fintech) companies also have been partnering more often with financial services providers to compete against us in lending and other markets. Many of our competitors have substantial positions nationally or in the markets in which they operate. Some of our competitors have significantly greater scale, financial and operational resources, investment capacity, and brand recognition as well as lower cost structures, substantially lower costs of capital, and much less reliance on securitization, unsecured debt, and other capital markets. Our competitors may be subject to different and, in some cases, less stringent legislative, regulatory, and supervisory regimes than we are. A range of competitors differ from us in their strategic and tactical priorities and, for example, may be willing to suffer meaningful financial losses in the pursuit of disruptive innovation or to accept more aggressive business, compliance, and other risks in the pursuit of higher returns. Competition affects every aspect of our business, including product and service offerings, rates, pricing and fees, and customer service. Successfully competing in our markets also depends on our ability to innovate, to invest in technology and infrastructure, to maintain and enhance our reputation, and to attract, retain, and motivate talented employees, all the while effectively managing risks and expenses. We expect that competition will only intensify in the future.

Regulation and Supervision

We are subject to significant regulatory frameworks in the United States—at federal, state, and local levels—that affect the products and services that we may offer and the manner in which we may offer them, the risks that we may take, the ways in which we may operate, and the corporate and financial actions that we may take.

We are also subject to direct supervision and periodic examinations by various governmental agencies and industry self-regulatory organizations (SROs) that are charged with overseeing the kinds of business activities in which we engage, including the Board of Governors of the Federal Reserve System (FRB), the Utah Department of Financial Institutions (UDFI), the Federal Deposit Insurance Corporation (FDIC), the Bureau of Consumer Financial Protection (CFPB), the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), and a number of state regulatory and licensing authorities such as the New York Department of Financial Services (NYDFS). These agencies and organizations generally have broad authority and discretion in restricting and otherwise affecting our businesses and operations and may take formal or informal supervisory, enforcement, and other actions against us when, in the applicable agency's or organization's judgment, our businesses or operations fail to comply with applicable law, comport with safe and sound practices, or meet its supervisory expectations.

This system of regulation, supervision, and examination is intended primarily for the protection and benefit of our depositors and other customers, the FDIC's Deposit Insurance Fund (DIF), the banking and financial systems as a whole, and the broader economy—and not for the protection or benefit of our stockholders (except in the case of securities laws) or non-deposit creditors. The scope, intensity, and focus of this system can vary from time to time for reasons that range from the state of the economic and political environments to the performance of our businesses and operations, but for the foreseeable future, we expect to remain subject to extensive regulation, supervision, and examinations.

This section summarizes some relevant provisions of the principal statutes, regulations, and other laws that apply to us. The descriptions, however, are not complete and are qualified in their entirety by the full text and judicial or administrative interpretations of those laws and other laws that affect us.

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

Ally and IB Finance Holding Company, LLC (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 Federal Deposit Insurance Act (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.

- Permitted Activities — Under the BHC Act, BHCs and their subsidiaries are generally limited to the business of banking and to closely related activities that are incident to banking. The GLB Act amended the BHC Act and created a regulatory framework for FHCs, which are BHCs that meet certain qualifications and elect FHC status. FHCs, directly or indirectly through their nonbank subsidiaries, are generally permitted to engage in a broader range of financial and related activities than those that are permissible for BHCs—for example, (1) underwriting, dealing in, and making a market in securities; (2) providing financial, investment, and economic advisory services; (3) underwriting insurance; and (4) merchant banking activities. The FRB regulates, supervises, and examines FHCs, as it does all BHCs, but insurance and securities activities conducted by an FHC or any of its nonbank subsidiaries are also regulated, supervised, and examined by functional regulators such as state insurance commissioners, the SEC, or FINRA. Ally's status as an FHC allows us to provide insurance products and services, to deliver our SmartAuction finder services and a number of related vehicle-remarketing services for third parties, and to offer a range of brokerage and advisory services. To remain eligible to conduct these broader financial and related activities, Ally and Ally Bank must remain "well-capitalized" and "well-managed" as defined under applicable law. Refer to Note 20 to the Consolidated Financial Statements and the section below titled Basel Capital Frameworks for additional information. In addition, our ability to expand these financial and related activities or to make acquisitions generally requires that we achieve a satisfactory or better rating under the Community Reinvestment Act (CRA).

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Further, under the BHC Act, we may be subject to approvals, conditions, and other restrictions when seeking to acquire control over another entity or its assets. For this purpose, control includes (a) directly or indirectly owning, controlling, or holding the power to vote 25% or more of any class of the entity's voting securities, (b) controlling in any manner the election of a majority of the entity's directors, trustees, or individuals performing similar functions, or (c) directly or indirectly exercising a controlling influence over the management or policies of the entity. For example, Ally generally may not directly or indirectly acquire control of more than 5% of any class of voting securities of any unaffiliated bank or BHC without first obtaining FRB approval.

- Enhanced Prudential Standards — Ally is currently subject to enhanced prudential standards that have been established by the FRB as required or authorized under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). In May 2018, targeted amendments to the Dodd-Frank Act and other financial-services laws were enacted through the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCP Act), including amendments that affect whether and, if so, how the FRB applies enhanced prudential standards to BHCs like us with $100 billion or more but less than $250 billion in total consolidated assets. During the fourth quarter of 2018, the FRB and other U.S. banking agencies issued proposals that would implement these amendments in the EGRRCP Act and establish risk-based categories for determining the prudential standards and the capital and liquidity requirements that apply to large U.S. banking organizations. Under the proposals, Ally would be treated as a Category IV firm and, as such, would be (1) made subject to the FRB's Comprehensive Capital Analysis and Review (CCAR) on a two-year cycle rather than the current one-year cycle, (2) made subject to supervisory stress testing on a two-year cycle rather than the current one-year cycle, (3) required to continue submitting an annual capital plan to the FRB for non-objection, (4) allowed to continue excluding accumulated other comprehensive income (AOCI) from regulatory capital, (5) required to continue maintaining a buffer of unencumbered highly liquid assets to meet projected net cash outflows for 30 days, (6) required to conduct liquidity stress tests on a quarterly basis rather than the current monthly basis, (7) allowed to engage in more tailored liquidity risk management, including monthly rather than weekly calculations of collateral positions, the elimination of limits for activities that are not relevant to the firm, and fewer required elements of monitoring of intraday liquidity exposures, (8) exempted from company-run stress testing, the modified liquidity coverage ratio (LCR), and the proposed modified net stable funding ratio (NSFR), and (9) allowed to remain exempted from the supplementary leverage ratio, the countercyclical capital buffer, and single-counterparty credit limits. In the proposals, the FRB also expressed an intent to propose at a later date similar amendments to its capital-plan rule and a separate rulemaking on the applicability of resolution-planning requirements to banking organizations with $100 billion or more but less than $250 billion in total consolidated assets. The FRB and other U.S. banking agencies control when and how the existing proposals and any future proposals may be considered and adopted, and their actions cannot be predicted with any certainty. In the meantime, Ally remains subject to the enhanced prudential standards and the capital and liquidity requirements as currently applied and, in the case of the latter, further described later in this section.
- Liquidity Coverage Ratio Requirements — The FRB and other U.S. banking agencies have adopted the LCR consistent with international standards developed by the Basel Committee on Banking Supervision (Basel Committee). The LCR complements the enhanced prudential standards for managing liquidity risk and establishes a minimum quantitative ratio of high-quality liquid assets to total net cash outflows over a prospective 30 calendar-day period. Pending the adoption of proposals described earlier in Enhanced Prudential Standards, Ally is subject to a modified and less stringent version of the LCR that applies to BHCs with $100 billion or more but less than $250 billion in total consolidated assets and less than $10 billion in foreign exposures. Ally is required to calculate its LCR on a monthly basis and is subject to a minimum LCR of 100%. Additionally, effective October 1, 2018, Ally is required to publicly disclose quantitative information about its LCR calculation and a qualitative discussion of the factors that have a significant effect on its LCR.

- Capital Adequacy Requirements — Ally and Ally Bank are subject to various capital adequacy requirements. Refer to Note 20 to the Consolidated Financial Statements and the section below titled Basel Capital Frameworks for additional information.
- Capital Planning and Stress Tests — Pending the adoption of proposals described earlier in Enhanced Prudential Standards, Ally must comply with the FRB's current capital planning and stress testing requirements for large and noncomplex BHCs with $100 billion or more but less than $250 billion in total consolidated assets and less than $75 billion in total nonbank assets. Specifically, Ally is subject to annual supervisory and semiannual company-run stress tests and must submit a proposed capital plan to the FRB annually in connection with CCAR. The proposed capital plan must include an assessment of our expected uses and sources of capital and a description of all planned capital actions over a nine-quarter planning horizon, including any issuance of a debt or equity capital instrument, any dividend or other capital distribution, and any similar action that the FRB determines could have an impact on Ally's capital. The proposed capital plan must also include a discussion of how Ally, under expected and stressful conditions, will maintain capital commensurate with its risks and above the minimum regulatory capital ratios and will serve as a source of strength to Ally Bank. The FRB will either object to Ally's proposed capital plan, in whole or in part, or provide a notice of non-objection. If the FRB objects to the proposed capital plan, or if certain material events occur after approval of the plan, Ally must submit a revised capital plan within 30 days. Ally received a non-objection to its 2018 capital plan in June 2018.

The FRB's quantitative assessment of Ally's proposed capital plan is based on the FRB's estimate of Ally's post-stress capital ratios under the supervisory stress test. Pending the adoption of proposals described earlier in Enhanced Prudential Standards, the FRB also requires Ally to conduct semiannual company-run stress tests under baseline, adverse, and severely adverse economic scenarios over a nine-quarter planning horizon. For the 2018 stress testing cycle, Ally submitted the results of its company-run stress tests to the FRB in April and October 2018.

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In January 2017, the FRB amended its capital planning and stress testing rules, effective for the 2017 cycle and beyond. As a result of this amendment, the FRB may no longer object to the capital plan of a large and noncomplex BHC, like Ally, on the basis of qualitative deficiencies in its capital planning process. Instead, the qualitative assessment of Ally's capital planning process is now conducted outside of CCAR through the supervisory review process. The amendment also decreased the de minimis threshold for the amount of capital that Ally could distribute to stockholders outside of an approved capital plan without the FRB's prior approval, and modified Ally's reporting requirements to reduce unnecessary burdens.

The FRB publishes summary quantitative results of the supervisory stress test of each large and noncomplex BHC, like Ally, ordinarily in June in connection with the culmination of the CCAR process. Additionally, we publicly disclose summary results of each company-run stress test under the severely adverse economic scenario in accordance with regulatory requirements. In 2018, we disclosed the summary results of our annual stress test on June 28, 2018, and the summary results of our mid-cycle stress test on October 5, 2018.

During the first quarter of 2019, the FRB announced that a number of large and noncomplex BHCs with $100 billion or more but less than $250 billion in total consolidated assets, including Ally, will not be required to submit a capital plan to the FRB, participate in the supervisory stress test or CCAR, or conduct company-run stress tests during the 2019 cycle. Instead, Ally's capital actions during this cycle will be largely based on the results from its 2018 supervisory stress test.

- Resolution Planning — Under the Dodd-Frank Act, Ally is required to periodically submit to the FRB and the FDIC plans (commonly known as a living will) for the rapid and orderly resolution of Ally and its significant legal entities under the U.S. Bankruptcy Code and other applicable insolvency laws in the event of future material financial distress or failure. If the FRB and the FDIC jointly determine that the resolution plan is not credible and the deficiencies are not adequately remedied in a timely manner, they may jointly impose on us more stringent capital, leverage, or liquidity requirements or restrictions on our growth, activities, or operations. Further, if we were to fail to address any deficiencies in our resolution plan when required, we could eventually be compelled to divest specified assets or operations. Ally submitted its most recent resolution plan to the FRB and the FDIC on December 31, 2017. In addition, under rules issued by the FDIC, Ally Bank is required to periodically submit to the FDIC a separate resolution plan, which is similarly assessed for its credibility. The most recent Ally Bank plan was filed on July 1, 2018. The public versions of the resolution plans previously submitted by Ally and Ally Bank are available on the FRB's and the FDIC's websites. With the enactment of the EGRRCP Act, the FRB and the FDIC have expressed their intent to revise the resolution-planning requirements for banking organizations like Ally and Ally Bank with $100 billion or more but less than $250 billion in total consolidated assets. As with related proposals, the FRB and the FDIC control when and how the revisions may be considered and adopted, and their actions cannot be predicted with any certainty.
- 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, when Ally or IB Finance would 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. This commitment is also reflected in Ally Bank's application for membership in the Federal Reserve System, as described in Note 20 to the Consolidated Financial Statements. 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.
- Single Point of Entry Resolution Authority — Under the Dodd-Frank Act, a BHC whose failure would have serious adverse effects on the financial stability of the United States may be subjected to an FDIC-administered resolution regime called the orderly liquidation authority as an alternative to bankruptcy. If Ally were to be placed into receivership under the orderly liquidation authority, the FDIC as receiver would have considerable rights and powers in liquidating and winding up Ally, including the ability to assign assets and liabilities without the need for creditor consent or prior court review and the ability to differentiate and determine priority among creditors. In doing so, moreover, the FDIC's primary goal would be a liquidation that mitigates risk to the financial stability of the United States and that minimizes moral hazard. Under the FDIC's proposed Single Point of Entry strategy for the resolution of a systemically important financial institution under the orderly liquidation authority, the FDIC would place the top-tier U.S. holding company in receivership, keep its operating subsidiaries open and out of insolvency proceedings by transferring them to a new bridge holding company, impose losses on the stockholders and creditors of the holding company in receivership according to their statutory order of priority, and address the problems that led to the institution's failure.
- 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, 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.

In addition, the CFPB has broad authorities and powers to enforce federal consumer protection laws involving financial products and services. The CFPB has exercised these authorities and powers through public enforcement actions, lawsuits, and consent orders and through nonpublic enforcement actions. In doing so, the CFPB has generally sought remediation of harm alleged to have been suffered by consumers, civil money penalties, and changes in practices and other conduct.

The SEC, FINRA, the Department of Justice, state attorneys general, and other domestic or foreign government authorities also have an array of means at their disposal to regulate and enforce matters within their jurisdiction that

could impact Ally's businesses and operations.
Basel Capital Framework
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 are based on a banking organization's risk-weighted assets (RWAs), which are generally determined under the standardized approach applicable to Ally and Ally Bank by (1) assigning on-balance sheet exposures to broad risk weight categories according to the counterparty or, if relevant, the guarantor or collateral (with higher risk weights assigned to categories of exposures perceived as representing greater risk), and (2) multiplying off-balance sheet exposures by specified credit conversion factors to calculate credit equivalent amounts and assigning those credit equivalent amounts to the relevant risk weight categories. The leverage ratio, in contrast, is based on an institution's average unweighted on-balance sheet exposures.
Until January 1, 2015, the U.S. risk-based and leverage capital standards applicable to Ally and Ally Bank were based on the Basel I capital accord promulgated by the Basel Committee in 1989 (U.S. Basel I). Ally and Ally Bank were required to maintain, under U.S. Basel I, a minimum Tier 1 risk-based capital ratio of Tier 1 capital to RWAs of 4%, a minimum total risk-based capital ratio of total qualifying capital to RWAs of 8%, and a minimum Tier 1 leverage ratio of Tier 1 capital to average on-balance-sheet exposures of 4%.

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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. banking organizations. We became subject to U.S. Basel III on January 1, 2015, although a number of its provisions—including capital buffers and certain regulatory capital deductions—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 also subject to a Common Equity Tier 1 capital conservation buffer of more than 2.5%, which was subject to a phase-in period from January 1, 2016, through December 31, 2018. Failure to maintain the full amount of the buffer 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%.

U.S. Basel III also revised the eligibility criteria for regulatory capital instruments and provided 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 (e.g., 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 beginning January 1, 2016. Also, 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 (DTAs) 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.

The capital-to-asset ratios play a central role in prompt corrective action (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 Federal Deposit Insurance Corporation Improvement Act of 1991 (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 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 December 31, 2018, Ally Bank was well capitalized under the PCA framework.

At December 31, 2018, Ally and Ally Bank were in compliance with their regulatory capital requirements. For an additional discussion of capital adequacy requirements, refer to Note 20 to the Consolidated Financial Statements.

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (CECL), which is further described in Note 1 to the Consolidated Financial Statements.

CECL introduces a new accounting model to measure credit losses for financial assets measured at amortized cost, which includes the vast majority of our finance receivables and loan portfolio. Under CECL, credit losses for each of these financial assets are measured based on the total current expected credit losses over the life of the financial asset or group of financial assets. In effect, this means that the financial asset or group of financial assets are presented at the net amount expected to ever be collected. CECL will become effective for our fiscal year beginning January 1, 2020, and represents a significant departure from existing accounting principles generally accepted in the United States (GAAP), which currently provide for credit losses on these financial assets to be measured as they are incurred. When effective for us on January 1, 2020, CECL is expected to substantially increase our allowance for loan losses with a resulting negative day-one adjustment to equity. In December 2018, the FRB and other U.S. banking agencies approved a final rule to mitigate the impact of CECL on regulatory capital by allowing BHCs and banks, including Ally, to phase in the day-one impact of CECL over a period of three years for regulatory capital purposes. In addition, the FRB announced that although BHCs subject to company-run stress tests as part of CCAR must incorporate CECL beginning in the 2020 cycle, the FRB also further clarified that, in order to reduce uncertainty, it will maintain its current modeling framework for the allowance for loan losses in supervisory stress tests through the 2021 cycle.
Prompted by the enactment of the EGRRCP Act, the FRB and other U.S. banking agencies in the fourth quarter of 2018 issued proposals that would establish risk-based categories for determining capital and liquidity requirements that apply to large U.S. banking organizations. Refer to Holding Company, Financial Holding Company, and Depository Institution Status earlier in this section. In April 2018, the FRB issued a proposal to more closely align forward-looking stress testing results with the FRB’s non-stress regulatory capital requirements for

banking organizations with $50 billion or more in total consolidated assets. The proposal would introduce a stress capital buffer based on firm-specific stress test performance, which would effectively replace the non-stress capital conservation buffer. The proposal would also make several changes to the CCAR process, such as eliminating the CCAR quantitative objection, narrowing the set of planned capital actions assumed to occur in the stress scenario, and eliminating the 30% dividend payout ratio as a criterion for heightened scrutiny of a firm's capital plan.

In December 2017, the Basel Committee approved revisions to the global Basel III capital framework (commonly known as Basel IV), many of which—if adopted in the United States—could heighten regulatory capital standards even more.

At this time, how all of these proposals and revisions will be harmonized and finalized in the United States is not clear or predictable.

Insured Depository Institution Status

Ally Bank is an insured depository institution and, as such, is required to file periodic reports with the FDIC about its financial condition. Total assets of Ally Bank were $159.0 billion and $137.4 billion at December 31, 2018, and 2017, respectively.

Ally Bank's deposits are insured by the FDIC in the standard insurance amounts per depositor for each account ownership category as prescribed by the FDI Act. Deposit insurance is funded through assessments on Ally Bank and other insured depository institutions, and the FDIC may take action to increase insurance premiums if the DIF is not funded to its regulatory mandated Designated Reserve Ratio (DRR). Currently, the FDIC is required to achieve a DRR of 1.35% by September 30, 2020, and has established a target DRR of 2.0%. Under the Dodd-Frank Act, the FDIC assesses premiums from each institution based on its average consolidated total assets minus its average tangible equity, while utilizing a scorecard method to determine each institution's risk to the DIF. The Dodd-Frank Act also requires the FDIC, in setting assessments, to offset the effect of increasing its reserve for the DIF on institutions with consolidated total assets of less than $10 billion. To achieve the mandated DRR consistent with these provisions of the Dodd-Frank Act, the FDIC implemented a rule in 2016 imposing a surcharge of 4.5 basis points on all insured depository institutions with consolidated total assets of $10 billion or more in addition to their regular assessments. Under the rule, the surcharge would cease once a DRR of 1.35% had been achieved or on December 31, 2018, whichever came first. On September 30, 2018, the DRR reached 1.36%, and the surcharge was eliminated.

If an insured depository institution like Ally Bank were to become insolvent or if other specified events were to occur relating to its financial condition or the propriety of its actions, the FDIC may be appointed as conservator or receiver for the institution. In that capacity, the FDIC would have the power to (1) transfer assets and liabilities of the institution to another person or entity without the approval of the institution's creditors; (2) require that its claims process be followed and to enforce statutory or other limits on damages claimed by the institution's creditors; (3) enforce the institution's contracts or leases according to their terms; (4) repudiate or disaffirm the institution's contracts or leases; (5) seek to reclaim, recover, or recharacterize transfers of the institution's assets or to exercise control over assets in which the institution may claim an interest; (6) enforce statutory or other injunctions; and (7) exercise a wide range of other rights, powers, and authorities, including those that could impair the rights and interests of all or some of the institution's creditors. In addition, the administrative expenses of the conservator or receiver could be afforded priority over all or some of the claims of the institution's creditors, and under the FDI Act, the claims of depositors (including the FDIC as subrogee of depositors) would enjoy priority over the claims of the institution's unsecured creditors.

Consumer Financial Laws

Ally and Ally Bank are subject to regulation, supervision, and examination by the CFPB with respect to federal consumer protection laws involving financial products and services. The Dodd-Frank Act also empowers state attorneys general and other state officials to enforce federal consumer protection laws under specified conditions. Ally and Ally Bank are subject to a host of state consumer protections laws as well.

- Mortgage Operations — Our mortgage business is subject to extensive federal, state, and local laws, including related judicial and administrative decisions. The federal, state, and local laws to which our mortgage business is subject, among other things, impose licensing obligations and financial requirements; limit the interest rates, finance charges, and other fees that can be charged; regulate the use of credit reports and the reporting of credit information; impose underwriting requirements; regulate marketing techniques and practices; require the safeguarding of nonpublic information about customers; and regulate servicing practices, including in connection with assessments, collection and foreclosure activities, claims handling, and investment and interest payments on escrow accounts.

Through our direct-to-consumer mortgage offering, we offer a variety of jumbo and conforming fixed- and adjustable-rate mortgage products with the assistance of a third-party fulfillment provider. Jumbo mortgage loans are generally held on our balance sheet and are accounted for as held-for-investment. Conforming mortgage loans are generally originated as held-for-sale and then sold to the fulfillment provider, which in turn may sell the loans to the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), or other participants in the secondary mortgage market. The nature and dynamics of this market, however, continue to evolve in ways that are often not clear or predictable. For example, Fannie Mae and Freddie Mac have been in conservatorship since September 2008. While the Federal Housing Finance Agency has published and pursued strategic goals for these government-sponsored enterprises during the conservatorship, their role in the market remains subject to uncertainty. Relatedly, during this same period, Congress has debated comprehensive housing-finance reform, but proposed legislation has yet to be meaningfully advanced.

- Automotive Lending Business — In March 2013, the CFPB issued guidance about compliance with the fair-lending requirements of the Equal Credit Opportunity Act and Regulation B. The guidance was specific to the practice of indirect automotive finance companies purchasing financing contracts executed between dealers and consumers and paying dealers for the contracts at a discount below the rates dealers charge consumers. In December 2017, the Government Accountability Office (GAO) determined that the CFPB's guidance constituted a rule under the Congressional Review Act. In May 2018, the guidance was disapproved and nullified under the Congressional Review Act by a joint resolution adopted by Congress and signed by the President.

Asset-backed Securitizations

Section 941 of the Dodd-Frank Act requires securitizers of different types of asset-backed securitizations, including transactions backed by residential mortgages, commercial mortgages, and commercial, credit card, and automotive loans, to retain no less than five percent of the credit risk of the assets being securitized, with an exemption for securitizations that are wholly composed of "qualified residential mortgages" (QRMs). Federal regulators issued final rules implementing this Dodd-Frank Act requirement in October 2014. The final rules aligned the definition of QRMs with the CFPB's definition of "Qualified Mortgage" and also included an exemption for the mortgage-backed securities (MBS) of government-sponsored enterprises. The regulations took effect on February 23, 2015. Compliance was required with respect to securitization transactions backed by residential mortgages beginning December 24, 2015, and with respect to securitization transactions backed by other types of assets beginning December 24, 2016. Ally Bank has complied with the FDIC's Safe Harbor Rule requiring it to retain five percent risk retention in consumer automotive loan and operating lease securitizations.

Insurance Companies

Certain of our Insurance operations 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 regulations, 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 laws generally governing insurance companies, as well as laws and regulations for products that are not regulated as insurance, such as vehicle service contracts (VSCs) and guaranteed asset protection (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 Bank Holding Company, Financial Holding Company, and Depository Institution Status earlier in this section. Investors are responsible for ensuring that they do not, directly or indirectly, acquire control of us in contravention of these laws.

Ally Invest Subsidiaries

Ally Invest Securities LLC (Ally Invest Securities) is registered as a securities broker-dealer with the SEC and in all 50 states, the District of Columbia, and Puerto Rico, is registered with the Municipal Securities Rulemaking Board as a municipal securities broker-dealer, and is a member of FINRA, Securities Investor Protection Corporation (SIPC), and various other SROs, including BATS BYX Exchange, BATS BZX Exchange, NYSE Arca, and Nasdaq Stock Market. As a result, Ally Invest Securities and its personnel are subject to extensive requirements under the Securities Exchange Act of 1934, as amended (Exchange Act), SEC regulations, SRO rules, and state laws, which collectively cover all aspects of the firm's securities activities—including sales and trading practices, capital adequacy, recordkeeping, privacy, anti-money laundering, financial and other reporting, supervision, misuse of material nonpublic information, conducting its business in accordance with just and equitable principles of trade, and personnel qualifications. The firm operates as an introducing broker and clears all transactions, including all customer transactions, through a third-party clearing broker-dealer on a fully disclosed basis.

Ally Invest Forex LLC (Ally Invest Forex) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as an introducing broker and is a member of the National Futures Association (NFA), which is the primary

SRO for the U.S. futures industry. It is subject to similarly expansive requirements under the Commodity Exchange Act, CFTC and NFA rules governing introducing brokers and their personnel, and CFTC retail forex rules.

Ally Invest Advisors Inc. (Ally Invest Advisors) is registered as an investment adviser with the SEC. As a result, it is subject to a host of requirements governing investment advisers and their personnel under the Investment Advisers Act of 1940 as amended, and the rules and regulations promulgated thereunder, including certain fiduciary and other obligations with respect to its relationships with its investment advisory clients.

Regulators conduct periodic examinations of Ally Invest Securities, Ally Invest Forex, and Ally Invest Advisors, and regularly review reports that the firms are required to submit on an ongoing basis. Violations of relevant regulatory requirements could result in adverse consequences for the firms and their personnel, including censure, penalties and fines, the issuance of cease-and-desist orders, and restriction, suspension or expulsion from the securities industry and other adverse consequences.

Other Laws

Ally is subject to numerous federal, state, and local statutes, regulations, and other laws, and the possibility of violating applicable law presents an ongoing risk to Ally. Some of the other more significant laws to which we are subject include:

- Privacy and Data Security — The GLB Act and related regulations impose obligations on financial institutions to safeguard specified consumer information maintained by them, to provide notice of their privacy practices to consumers in specified circumstances, and to allow consumers to “opt-out” of specified kinds of information sharing with unaffiliated parties. Related regulatory guidance also directs financial institutions to notify consumers in specified cases of unauthorized access to sensitive consumer information. In addition, most states have enacted laws requiring notice of specified cases of unauthorized access to information. In February 2017, the NYDFS adopted expansive cybersecurity regulations that require regulated entities to establish cybersecurity programs and policies, to designate chief information security officers, to comply with notice and reporting obligations, and to take other actions in connection with the security of their information. As these and future laws impose increasingly stringent privacy and data-security obligations on us, our compliance costs and other liabilities could increase substantially.
- Volcker Rule — Under the Dodd-Frank Act and implementing regulations of the CFTC, FDIC, FRB, Office of the Comptroller of the Currency and the SEC (the Volcker Rule), insured depository institutions and their affiliates are prohibited from (1) engaging in “proprietary trading,” and (2) investing in or sponsoring certain types of funds (covered funds) subject to certain limited exceptions. The final rules contain exemptions for market-making, hedging, underwriting, trading in U.S. government and agency obligations and also permit certain ownership interests in certain types of funds to be retained. They also permit the offering and sponsoring of funds under certain conditions. In early 2017, the FRB granted us a five-year extension to conform with requirements related to certain covered funds activities. The Volcker Rule imposes significant compliance and reporting obligations on banking entities. The impact of the Volcker Rule is not expected to be material to Ally’s business operations.
- Fair Lending Laws — The Equal Credit Opportunity Act, the Fair Housing Act, and similar fair-lending laws (collectively, Fair Lending Laws) generally prohibit a creditor from discriminating against an applicant or borrower in any aspect of a credit transaction on the basis of specified characteristics known as “prohibited bases,” such as race, gender, and religion. Creditors are also required under the Fair Lending Laws to follow a number of highly prescriptive rules, including rules requiring credit decisions to be made promptly, notices of adverse actions to be given, and, in the case of mortgage lenders of a certain size, anonymized data and information about mortgage applicants and credit decisions to be gathered and made publicly available. Ally, under the oversight of its Fair and Responsible Banking team, has established a comprehensive fair-lending program that is designed to identify and mitigate fair-lending risk. Because the Fair Lending Laws and interpretations of them continue to evolve, however, Ally remains at risk of being accused of violations.
- Fair Credit Reporting Act — The Fair Credit Reporting Act regulates the dissemination of credit reports by credit reporting agencies, requires users of credit reports to provide specified notices to the subjects of those reports, imposes standards on the furnishing of information to credit reporting agencies, obligates furnishers to maintain reasonable procedures to deal with the risk of identity theft, addresses the sharing of specified kinds of information with affiliates and third parties, and regulates the use of credit reports to make preapproved offers of credit and insurance to consumers. All of these provisions impose additional regulatory and compliance costs on us and affect our marketing programs.
- Truth in Lending Act — The Truth in Lending Act (TILA) and Regulation Z, which implements TILA, require lenders to provide borrowers with uniform, understandable information about the terms and conditions in certain credit transactions. These rules apply to Ally and its subsidiaries when they extend credit to consumers and require, in the case of certain mortgage and automotive consumer loans, conspicuous disclosure of the finance charge and annual percentage rate, as applicable. In addition, if an advertisement for credit states specific credit terms, Regulation Z requires that the advertisement state only those terms that actually are or will be arranged or offered by the creditor together with specified notices. The CFPB has issued substantial amendments to the mortgage requirements under Regulation Z, and additional changes are likely in the future. Amendments to Regulation Z and Regulation X, which implements the Real Estate Settlement Procedures Act, require integrated mortgage loan disclosures to be provided for applications received on or after October 3, 2015. Failure to comply with TILA can result in liability for damages

as well as criminal and civil penalties.

- Sarbanes-Oxley Act — The Sarbanes-Oxley Act of 2002 implemented a broad range of corporate governance and accounting measures designed to promote honesty and transparency in corporate America. The principal provisions of the act include, among other things, (1) the creation of an independent accounting oversight board; (2) auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients; (3) additional corporate governance and responsibility measures including the requirement that the principal executive and financial officers certify financial statements; (4) the potential forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer’s securities by directors and senior officers in the twelve-month period following initial publication of any financial statements that later require restatement; (5) an increase in the oversight and enhancement of certain requirements relating to audit committees and how they interact with the independent auditors; (6) requirements that audit committee members must be independent and are barred from accepting consulting, advisory, or other compensatory fees from the issuer; (7) requirements that companies disclose whether at least one member of the audit committee is a “financial expert” (as defined by the SEC) and, if not, why the audit committee does not have a financial expert; (8) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions, on nonpreferential terms and in compliance with other bank regulatory requirements; (9) disclosure of a code of ethics; (10) requirements that management assess the effectiveness of internal control over financial reporting and that the independent registered public accounting firm attest to the assessment; and (11) a range of enhanced penalties for fraud and other violations.

- USA PATRIOT Act/Anti-Money-Laundering Requirements — In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act) was signed into law. Title III of the USA PATRIOT Act amends the Bank Secrecy Act and contains provisions designed to detect and prevent the use of the U.S. financial system for money laundering and terrorist financing activities. The Bank Secrecy Act, as amended by the USA PATRIOT Act, requires banks, certain other financial institutions, and, in certain cases, BHCs to undertake activities including maintaining an anti-money-laundering program, verifying the identity of clients, monitoring for and reporting on suspicious transactions, reporting on cash transactions exceeding specified thresholds, and responding to certain requests for information by regulatory authorities and law enforcement agencies. We have implemented internal practices, procedures, and controls designed to comply with these anti-money-laundering requirements.
- Community Reinvestment Act — Under the CRA, a bank has a continuing and affirmative obligation, consistent with the safe and sound operation of the institution, to help meet the credit needs of its entire community, including low- and moderate-income persons and neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions. However, institutions are rated on their performance in meeting the needs of their communities. Ally Bank filed its three-year CRA Strategic Plan with the FRB in October 2016, and received approval in November 2016. In addition, in 2017, Ally Bank received an "Outstanding" rating in its most recent CRA performance evaluation. Failure by Ally Bank to maintain a "Satisfactory" or better rating under the CRA may adversely affect our ability to expand our financial and related activities as an FHC or make acquisitions.

Employees

We had approximately 8,200 and 7,900 employees at December 31, 2018, and 2017, respectively.

Additional Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K (and amendments to these reports) are available on our internet website, free of charge, as soon as reasonably practicable after the reports are electronically filed with or furnished to the SEC. These reports are available at www.ally.com/about/investor/sec-filings/. These reports can also be found on the SEC website at www.sec.gov.

Item 1A. Risk Factors

We face many risks and uncertainties, any one or more of which could have a material adverse effect on our business, results of operations, financial condition (including capital and liquidity), or prospects or the value of or return on an investment in Ally. We believe that the most significant of these risks and uncertainties are described in this section, although we may be adversely affected by other risks or uncertainties that are not presently known to us, that we have failed to appreciate, or that we currently consider immaterial. These risk factors should be read in conjunction with the MD&A in Part II, Item 7 of this report, and the Consolidated Financial Statements and notes thereto. This Annual Report on Form 10-K is qualified in its entirety by these risk factors.

Risks Related to Regulation and Supervision

The regulatory and supervisory environment in which we operate could have an adverse effect on our business, financial condition, results of operations, and prospects.

We are subject to extensive regulatory frameworks and to direct supervision and periodic examinations by various governmental agencies and industry SROs that are charged with overseeing the kinds of business activities in which we engage. This regulatory and supervisory oversight is designed to protect public and private interests—such as macroeconomic policy objectives, financial-market stability and liquidity, and the confidence and security of depositors—that may not always be aligned with those of our stockholders or non-deposit creditors. Refer to the section above titled Regulation and Supervision in Part I, Item 1 of this report. In the last decade, governmental scrutiny of the financial services industry has intensified, fundamental changes have been made to the banking, securities, and other laws that govern financial services, and a multitude of related business practices have been altered. While the scope, intensity, and focus of governmental oversight can vary from time to time, we expect to continue devoting substantial time and resources to risk management, compliance, regulatory change management, and cybersecurity and other technology initiatives, each of which may adversely affect our ability to operate profitably or to pursue advantageous

business opportunities.
Ally operates as an FHC, which permits us to engage in a number of financial and related activities—including securities, advisory, insurance, and merchant-banking activities—beyond the business of banking. To remain eligible to do so, Ally and Ally Bank must remain well capitalized and well managed as defined under applicable law. If Ally or Ally Bank were found not to be well capitalized or well managed, we may be restricted from engaging in the broader range of financial and related activities permitted for FHCs and may be required to discontinue these activities or even divest Ally Bank. In addition, if we fail to achieve a satisfactory or better rating under the CRA, our ability to expand these financial and related activities or make acquisitions could be restricted.
In connection with their continuous supervision and examinations of us, the FRB, the UDFI, the CFPB, the SEC, FINRA, the NYDFS, or other regulatory agencies may require changes in our business or operations. Such a requirement may be judicially enforceable or impractical for us to contest, and if we are unable to implement or maintain the requirement in a timely and effective manner, we could become subject to formal or informal enforcement and other supervisory actions, including memoranda of understanding, written agreements, cease-and-desist orders, and prompt-corrective-action or safety-and-soundness directives. Supervisory actions could entail significant

restrictions on our existing business, our ability to develop new business, our flexibility in conducting operations, and our ability to pay dividends or utilize capital. Enforcement and other supervisory actions also may result in the imposition of civil monetary penalties or injunctions, related litigation by private plaintiffs, damage to our reputation, and a loss of investor confidence. We could be required as well to dispose of specified assets and liabilities within a prescribed period of time. As a result, any enforcement or other supervisory action could have an adverse effect on our business, financial condition, results of operations, and prospects.

Our regulatory and supervisory environments are not static. No assurance can be given that applicable statutes, regulations, and other laws will not be amended or construed differently, that new laws will not be adopted, or that any of these laws will not be enforced more aggressively. For example, while Congress nullified the CFPB’s guidance about compliance with fair-lending laws in the context of indirect automotive financing, the NYDFS has since adopted arguably more far-reaching guidance on the subject. Changes in the regulatory and supervisory environments could adversely affect us in substantial and unpredictable ways, including by limiting the types of financial services and products we may offer, enhancing the ability of others to offer more competitive financial services and products, restricting our ability to make acquisitions or pursue other profitable opportunities, and negatively impacting our financial condition and results of operations. Further, noncompliance with applicable laws could result in the suspension or revocation of licenses or registrations that we need to operate and in the initiation of enforcement and other supervisory actions or private litigation.

Our ability to execute our business strategy for Ally Bank may be adversely affected by regulatory constraints.

A primary component of our business strategy is the continued growth of Ally Bank, which is a direct bank with no branch network. This growth includes amassing a higher level of retail deposits and expanding our consumer and commercial lending. If regulatory agencies raise concerns about any aspect of our business strategy for Ally Bank or the way in which we implement it, we may be obliged to limit or even reverse the growth of Ally Bank or otherwise alter our strategy, which could have an adverse effect on our business, financial condition, results of operations, or prospects. In addition, if we are compelled to retain or shift any of our business activities in or to nonbank affiliates, our funding costs for those activities—such as unsecured funding in the capital markets—could be more expensive than our cost of funds at Ally Bank.

We are subject to stress tests, capital and liquidity planning, and other enhanced prudential standards, which impose significant restrictions and costly requirements on our business and operations.

We are currently subject to enhanced prudential standards that have been established by the FRB as required or authorized under the Dodd-Frank Act, including capital planning and stress testing requirements for large and noncomplex BHCs with $100 billion or more but less than $250 billion in total consolidated assets and less than $75 billion in total nonbank assets. Specifically, Ally is subject to annual supervisory and semiannual company-run stress tests and must submit a proposed capital plan to the FRB annually in connection with CCAR. Refer to the section above titled Regulation and Supervision in Part I, Item 1 of this report. The FRB will either object to our proposed capital plan, in whole or in part, or provide a notice of non-objection. The failure to receive a notice of non-objection from the FRB—whether due to how well our business and operations are forecasted to perform, how capably we execute our capital planning process, how acutely the FRB projects severely adverse conditions to be, or otherwise—may prohibit us from paying dividends, repurchasing our common stock, or making other capital distributions, may compel us to issue capital instruments that could be dilutive to stockholders, may prevent us from maintaining or expanding lending or other business activities, or may damage our reputation and result in a loss of investor confidence.

Further, we may be required to raise capital if we are at risk of failing to satisfy our minimum regulatory capital ratios or related supervisory requirements, whether due to inadequate operating results that erode capital, future growth that outpaces the accumulation of capital through earnings, changes in regulatory capital standards, changes in accounting standards that affect capital (such as CECL), or otherwise. In addition, we may elect to raise capital for strategic reasons even when not required to do so. Our ability to raise capital on favorable terms or at all will depend on general economic and market conditions, which are outside of our control, and on our operating and financial performance. Accordingly, we cannot be assured of being able to raise capital when needed or on favorable terms. An inability to raise capital when needed and on favorable terms could damage the performance and value of our business, prompt supervisory actions and private litigation, harm our reputation, and cause a loss of investor confidence, and if the condition were to persist for any appreciable period of time, our viability as a going concern could be threatened. Even if we are able to raise capital but do so by issuing common stock or convertible securities, the ownership interest of our existing stockholders could be diluted, and the market price of our common stock could decline.

Existing enhanced prudential standards also require Ally to conduct liquidity stress tests and maintain a sufficient quantity of highly liquid assets to survive a projected 30-day liquidity stress event, to adopt a contingency funding plan that would address liquidity needs during various stress events, and to implement specified liquidity risk management and corporate governance measures. These enhanced liquidity standards, together with a quantitative minimum liquidity coverage ratio that we must satisfy as a complement to these standards, could constrain our ability to originate or invest in longer-term or less liquid assets or to take advantage of other profitable opportunities and, therefore, may adversely affect our business, results of operations, and prospects.

In May 2018, targeted amendments to the Dodd-Frank Act and other financial-services laws were enacted through the EGRRCP Act, including amendments that affect whether and, if so, how the FRB applies enhanced prudential standards to BHCs like us with $100 billion or more but less than $250 billion in total consolidated assets. During the fourth quarter of 2018, the FRB and other U.S. banking agencies issued proposals that would implement these amendments in the EGRRCP Act and establish risk-based categories for determining the prudential standards and the capital and liquidity requirements that apply to large U.S. banking organizations. Under the proposals, Ally would be treated as a Category IV firm and, for the most part, would be subject to prudential standards that are more tailored to our risk profile. Similar proposals revising the FRB's capital-plan rule and the FRB's and the FDIC's resolution-planning requirements are expected as well. Additionally, during the first quarter of 2019, the FRB announced that a number of large and noncomplex BHCs with $100 billion or more but less than $250 billion in total consolidated assets, including Ally, will not be required to submit a capital plan to the FRB, participate in the supervisory stress test or CCAR, or conduct company-run stress tests during the 2019 cycle. Instead, Ally's capital actions during this cycle will be largely based on the results from its 2018 supervisory stress test. Refer to the section above titled Regulation and Supervision in Part I, Item 1 of this report. The FRB and other U.S. banking agencies, however, control when and how the existing proposals and any future proposals may be considered and adopted, and their actions cannot be predicted with any certainty. Final rules may be more or less favorable than the proposals. Even if favorable to us in form and content, final rules may be interpreted, applied, and enforced by regulatory agencies in ways that dilute or eliminate that favorability. In addition, other laws may be enacted, adopted, interpreted, applied, and enforced in ways that offset any favorability generated by these proposals.

Our ability to rely on deposits as a part of our funding strategy may be limited.

Ally Bank is a key part of our funding strategy, and we place great reliance on deposits at Ally Bank as a source of funding. Competition for deposits and deposit customers, however, is fierce and has only intensified with the implementation of enhanced capital and liquidity requirements in the last decade. Ally Bank does not have a branch network but, instead, obtains its deposits through online and other digital channels, from customers of Ally Invest, and through deposit brokers. Brokered deposits may be more price sensitive than other types of deposits and may become less available if alternative investments offer higher returns. Brokered deposits totaled $16.9 billion at December 31, 2018, which represented 15.9% of Ally Bank's total deposits. In addition, our ability to maintain or grow deposits may be constrained by our lack of in-person banking services, gaps in our product and service offerings, changes in consumer trends, competition from fintech companies and emerging financial-services providers, or any loss of confidence in our brand or our business. Our level of deposits also could be adversely affected by regulatory or supervisory restrictions, including any applicable prior approval requirements or limits on our offered rates or brokered deposit growth, and by changes in monetary or fiscal policies that influence deposit or other interest rates. Perceptions of our financial strength, rates or returns offered by other financial institutions or third parties, and other competitive factors beyond our control, including returns on alternative investments, will also impact the size of our deposit base.

Requirements under the U.S. Basel III rules to increase the quality and quantity of regulatory capital and future revisions to the Basel III framework may adversely affect our business and financial results.

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 U.S. Basel III, which substantially revised the previously effective regulatory capital standards for U.S. banking organizations. Refer to the section above titled Regulation and Supervision in Part I, Item 1 of this report.

Ally and Ally Bank became subject to U.S. Basel III on January 1, 2015, although a number of its provisions—including capital buffers and certain regulatory capital deductions—were subject to a phase-in period through December 31, 2018. U.S. Basel III subjects Ally and Ally Bank to higher minimum risk-based capital ratios and a capital conservation buffer above these minimum ratios. Failure to maintain the full amount of the buffer would result in restrictions on our ability 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 has, over time, imposed more stringent deductions for specified DTAs and other assets and limited our ability to meet regulatory capital requirements through the use of trust preferred securities or other hybrid securities.

If Ally or Ally Bank were to fail to satisfy its regulatory capital requirements, significant regulatory sanctions could result, such as a bar on capital distributions as well as acquisitions and new activities, restrictions on our acceptance of brokered deposits, a loss of our status as an FHC, informal or formal enforcement and other supervisory actions, or even resolution or receivership. Any of these sanctions could have an adverse effect on our business, results of operations, financial condition, or prospects.

Through its adoption of CECL, the FASB has introduced a new accounting model to measure credit losses for financial assets measured at amortized cost, which includes the vast majority of our finance receivables and loan portfolio. Refer to Note 1 to the Consolidated Financial Statements and the section above titled Regulation and Supervision in Part I, Item 1 of this report. When effective for us on January 1, 2020, CECL is expected to substantially increase our allowance for loan losses with a resulting negative day-one adjustment to equity. In December 2018, the FRB and other U.S. banking agencies approved a final rule to mitigate the impact of CECL on regulatory capital by allowing BHCs and banks, including Ally, to phase in the day-one impact of CECL over a period of three years for regulatory capital purposes. In addition, the FRB announced that although BHCs subject to company-run stress tests as part of CCAR must incorporate CECL beginning in the 2020 cycle, the FRB also further clarified that, in order to reduce uncertainty, it will maintain its current modeling framework for the allowance for loan losses in supervisory stress tests through the 2021 cycle. It is not yet clear whether, taken together, these actions by the U.S. banking agencies will mitigate the impact of CECL to a degree that is sufficient for us to sustain appropriate levels of regulatory capital without meaningfully altering our business, financial, and operational plans, including our current level of capital distributions. If the actions are insufficient, our business, results of operations, financial condition, or prospects could suffer.

In April 2018, the FRB issued a proposal that would introduce a stress capital buffer based on firm-specific stress test performance—which would effectively replace the non-stress capital conservation buffer—as well as several related changes to CCAR. Refer to Note 1 to the Consolidated Financial Statements and the section above titled Regulation and Supervision in Part I, Item 1 of this report. In December

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2017, the Basel Committee approved revisions to the global Basel III capital framework (commonly known as Basel IV), many of which—if adopted in the United States—could heighten regulatory capital standards. How these proposals and revisions will be harmonized and finalized in the United States is not clear or predictable, and no assurance can be provided that they would not further impact our business, results of operations, financial condition, or prospects in an adverse way.

Our business and financial results could be adversely affected by the political environment and governmental fiscal and monetary policies.

A fractious or volatile political environment in the United States, including any related social unrest, could negatively impact business and market conditions, economic growth, financial stability, and business, consumer, investor, and regulatory sentiments, any one or more of which in turn could cause our business and financial results to suffer. In addition, disruptions in the foreign relations of the United States could adversely affect the automotive and other industries on which our business depends and our tax positions and other dealings in foreign countries. We also could be negatively impacted by political scrutiny of the financial-services industry in general or our business or operations in particular, whether or not warranted, and by an environment where criticizing financial-services providers or their activities is politically advantageous.

Our business and financial results are also significantly affected by the fiscal and monetary policies of the U.S. government and its agencies. We are particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States in pursuit of maximum employment, stable prices, and moderate long-term interest rates. The FRB and its policies influence the availability and demand for loans and deposits, the rates and other terms for loans and deposits, the conditions in equity, fixed-income, currency, and other markets, and the value of securities and other financial instruments. Refer to the risk factor below, titled The levels of or changes in interest rates could affect our results of operations and financial condition, for more information on how the FRB could affect interest rates. These policies and related governmental actions could adversely affect every facet of our business and operations—for example, the new and used vehicle financing market, the cost of our deposits and other interest-bearing liabilities, and the yield on our earning assets. Tax and other fiscal policies, moreover, impact not only general economic and market conditions but also give rise to incentives or disincentives that affect how we and our customers prioritize objectives, deploy resources, and run households or operate businesses. Both the timing and the nature of any changes in monetary or fiscal policies, as well as their consequences for the economy and the markets in which we operate, are beyond our control and difficult to predict but could adversely affect us.

If our ability to receive distributions from subsidiaries is restricted, we may not be able to satisfy our obligations to counterparties or creditors, make dividend payments to stockholders, or repurchase our common stock.

Ally is a legal entity separate and distinct from its bank and nonbank subsidiaries and, in significant part, depends on dividend payments and other distributions from those subsidiaries to fund its obligations to counterparties and creditors, its dividend payments to stockholders, and its repurchases of common stock. Refer to the section above titled Regulation and Supervision in Part I, Item 1 of this report. Regulatory or other legal restrictions, deterioration in a subsidiary's performance, or investments in a subsidiary's own growth may limit the ability of the subsidiary to transfer funds freely to Ally. In particular, many of Ally's subsidiaries are subject to laws that authorize their supervisory agencies to block or reduce the flow of funds to Ally in certain situations. In addition, if any subsidiary were unable to remain viable as a going concern, Ally's right to participate in a distribution of assets would be subject to the prior claims of the subsidiary's creditors (including, in the case of Ally Bank, its depositors and the FDIC).

Legislative or regulatory initiatives on cybersecurity and data privacy could adversely impact our business and financial results.

Cybersecurity and data privacy risks have received heightened legislative and regulatory attention. For example, the U.S. banking agencies have proposed enhanced cyber risk management standards that would apply to us and our service providers and that would address cyber risk governance and management, management of internal and external dependencies, and incident response, cyber resilience, and situational awareness. Several states also have adopted or proposed cybersecurity laws targeting these issues.

Legislation and regulations on cybersecurity and data privacy may compel us to enhance or modify our systems, invest in new systems, change our service providers, or alter our business practices or our policies on data governance and privacy. If any of these outcomes were to occur, our operational costs could increase significantly. In addition, if government authorities were to conclude that we or our service providers had not adequately implemented laws on cybersecurity and data privacy or had not otherwise met related supervisory expectations, we could be subject to enforcement and other supervisory actions, related litigation by private plaintiffs, reputational damage, or a loss of investor confidence.

Risks Related to Our Business

Weak or deteriorating economic conditions, failures in underwriting, changes in underwriting standards, financial or systemic shocks, or growth in our nonprime or used vehicle financing business could increase our credit risk, which could adversely affect our business and financial results.

Our business is centered around lending and banking, and a significant percentage of our assets are composed of loans, operating leases, and securities. As a result, in the ordinary course of business, credit risk is our most pronounced risk.

Our business and financial results depend significantly on household, business, economic, and market conditions. When those conditions are weak or deteriorating, we could simultaneously experience reduced demand for credit and increased delinquencies or defaults, including in the loans that we have securitized and in which we retain a residual interest. These kinds of conditions also could dampen the demand for products and services in our insurance, banking, brokerage, and other businesses. Increased delinquencies or defaults could result as well from us failing to appropriately underwrite loans and operating leases that we originate or purchase or from us adopting—for strategic, competitive, or other reasons—more liberal underwriting standards. If delinquencies or defaults on our loans and operating leases increase, their value and the income derived from them could be adversely affected, and we could incur increased administrative and other costs in seeking a recovery on claims and any collateral. If unfavorable conditions are negatively affecting used vehicle or other collateral values at the same time, the amount and timing of recoveries could suffer as well. Weak or deteriorating economic conditions also may negatively impact the market value and liquidity of our investment securities, and we may be required to record additional impairment charges that adversely affect earnings if debt securities suffer a decline in value that is considered other-than-temporary. There can be no assurance that our monitoring of our credit risk and our efforts to mitigate credit risk through risk-based pricing, appropriate underwriting and investment policies, loss-mitigation strategies, and diversification are, or will be, sufficient to prevent an adverse impact to our business and financial results. A financial or systemic shock and a failure of a significant counterparty or a significant group of counterparties could negatively impact us as well, possibly to a severe degree, due to our role as a financial intermediary and the interconnectedness of the financial system.

We continue to have exposure to nonprime consumer automotive financing and used vehicle financing. We define nonprime consumer automotive loans primarily as those loans with a FICO® Score (or an equivalent score) at origination of less than 620. Customers that finance used vehicles tend to have lower FICO® Scores as compared to new vehicle customers, and defaults resulting from vehicle breakdowns are more likely to occur with used vehicles as compared to new vehicles that are financed. The carrying value of our nonprime consumer automotive loans before allowance for loan losses was $8.3 billion, or approximately 11.7% of our total consumer automotive loans at December 31, 2018, as compared to $8.8 billion, or approximately 12.9% of our total consumer automotive loans at December 31, 2017. At December 31, 2018, and 2017, $203 million and $204 million, respectively, of nonprime consumer automotive loans were considered nonperforming as they had been placed on nonaccrual status in accordance with our accounting policies. Refer to the Nonaccrual Loans section of Note 1 to the Consolidated Financial Statements for additional information. Additionally, the carrying value of our consumer automotive used vehicle loans before allowance for loan losses was $36.3 billion, or approximately 51.5% of our total consumer automotive loans at December 31, 2018, as compared to $31.8 billion, or approximately 46.8% of our total consumer automotive loans at December 31, 2017. If our exposure to nonprime consumer automotive loans or used vehicle financing were to increase over time, our credit risk will increase to a possibly significant degree.

As part of the underwriting process, we rely heavily upon information supplied by applicants and other third parties, such as automotive dealers and credit reporting agencies. If any of this information is intentionally or negligently misrepresented and the misrepresentation is not detected before completing the transaction, we may experience increased credit risk.

Our allowance for loan losses may not be adequate to cover actual losses, and we may be required to significantly increase our allowance, which may adversely affect our financial condition and results of operations.

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expenses and which represents management’s best estimate of probable credit losses that have been incurred within the existing portfolio of loans. Refer to Note 1 to the Consolidated Financial Statements. The allowance is established to reserve for estimated loan losses and risks inherent in the loan portfolio. Any increase in the allowance results in an associated decrease in net income and capital and, if significant, may adversely affect our financial condition or results of operations.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks using existing quantitative and qualitative information, all of which may change substantially over time. Changes in economic conditions affecting borrowers, revisions to accounting rules and related guidance, new qualitative or quantitative information about existing loans, identification of additional problem loans, changes in the size or composition of our loan portfolio, and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. For example, our shift to a full credit spectrum consumer automotive finance portfolio over the past several years could result in additional increases in our allowance for loan losses in the future.

Through its adoption of CECL, the FASB has introduced a new accounting model to measure credit losses for financial assets measured at amortized cost, which includes the vast majority of our finance receivables and loan portfolio. Refer to Note 1 to the Consolidated Financial Statements and the section above titled Regulation and Supervision in Part I, Item 1 of this report. Immediately when effective on January 1, 2020, CECL is expected to substantially increase our allowance for loan losses with a resulting negative adjustment to equity. While the FRB and other U.S. banking agencies have taken steps to mitigate the impact of CECL on regulatory capital, it is not yet clear whether these actions will do so to a degree that is sufficient for us to sustain appropriate levels of regulatory capital without meaningfully altering our business, financial, and operational plans, including our current level of capital distributions. Refer to the risk factor above, titled Requirements under the U.S. Basel III rules to increase the quality and quantity of regulatory capital and future revisions to the Basel III framework may adversely affect our business and financial results, for more information about the consequences of our failure to satisfy regulatory capital requirements.

Regulatory agencies periodically review our allowance for loan losses, as well as our methodology for calculating our allowance for loan losses, and from time to time may insist on an increase in the allowance for loan losses or the recognition of additional loan charge-offs based on judgments different than those of management. If these differences in judgment are considerable, our allowance could meaningfully increase and result in a sizable decrease in our net income and capital.

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We have dealer-centric automotive finance and insurance businesses, and a change in the key role of dealers within the automotive industry or our ability to maintain or build relationships with them could have an adverse effect on our business, results of operations, financial condition, or prospects.

Our Dealer Financial Services business, which includes our Automotive Finance and Insurance segments, depends on the continuation of the key role of dealers within the automotive industry, the maintenance of our existing relationships with dealers, and our creation of new relationships with dealers. Refer to the section titled Our Business in the MD&A that follows.

A number of trends are affecting the automotive industry and the role of dealers within it. These include challenges to the dealer's role as intermediary between manufacturers and purchasers, shifting financial and other pressures exerted by manufacturers on dealers, the rise of vehicle sharing and ride hailing, the development of autonomous and alternative-energy vehicles, the impact of demographic shifts on attitudes and behaviors toward vehicle ownership and use, changing expectations around the vehicle buying experience, adjustments in the geographic distribution of new and used vehicle sales, and advancements in communications technology. Any one or more of these trends could adversely affect the key role of dealers and their business models, profitability, and viability, and if this were to occur, our dealer-centric automotive finance and insurance businesses could suffer as well.

Our share of commercial wholesale financing remains at risk of decreasing in the future as a result of intense competition and other factors. The number of dealers with whom we have wholesale relationships decreased approximately 7% as compared to December 31, 2017. If we are not able to maintain existing relationships with significant automotive dealers or if we are not able to develop new relationships for any reason—including if we are not able to provide services on a timely basis, offer products and services that meet the needs of the dealers, compete successfully with the products and services of our competitors, or effectively counter the exclusivity privileges that some competitors have with automotive manufacturers—our wholesale funding volumes, and the number of dealers with whom we have retail funding relationships, could decline in the future. If this were to occur, our business, results of operations, financial condition, or prospects could be adversely affected.

General Motors Company (GM) and Fiat Chrysler Automobiles US LLC (Chrysler) dealers and their retail customers continue to constitute a significant portion of our customer base, which creates concentration risk for us.

While we have diversified—and are continuing to diversify—our automotive finance and insurance businesses and to expand into other financial services, GM and Chrysler dealers and their retail customers continue to constitute a significant portion of our customer base. In 2018, 48% of our new vehicle dealer inventory financing and 27% of our consumer automotive financing volume were transacted for GM-franchised dealers and customers, and 36% of our new vehicle dealer inventory financing and 27% of our consumer automotive financing volume were transacted for Chrysler dealers and customers. GM, Chrysler, and their captive automotive finance companies compete vigorously with us and could take further actions that negatively impact the amount of business that we do with GM and Chrysler dealers and their retail customers. Further, a significant adverse change in GM's or Chrysler's business—including, for example, in the production or sale of GM or Chrysler vehicles, the quality or resale value of GM or Chrysler vehicles, GM's or Chrysler's relationships with its key suppliers, or the rate or volume of recalls of GM or Chrysler vehicles—could negatively impact our GM and Chrysler dealer and retail customer bases and the value of collateral securing our extensions of credit to them. Any future reductions in GM and Chrysler business that we are not able to offset could adversely affect our business and financial results.

Our business and financial results are dependent upon overall U.S. automotive industry sales volume.

Our automotive finance and insurance businesses can be impacted by the sales volume for new and used vehicles. Vehicle sales are impacted, in turn, by several economic and market conditions, including employment levels, household income, interest rates, credit availability, and fuel costs. For example, new vehicle sales decreased dramatically during the economic crisis that began in 2007–2008 and did not rebound significantly until 2012 and 2013. Any future declines in new or used vehicle sales could have an adverse effect on our business and financial results.

Vehicle loans and operating leases make up a significant part of our earning assets, and our business and financial results could suffer if used vehicle prices are low or volatile or decrease in the future.

During the year ended December 31, 2018, more than 65% of our average earning assets were composed of vehicle loans or operating leases and related residual securitization interests. If we experience higher losses on the sale of repossessed vehicles or lower or more volatile residual values for off-lease vehicles, our business or financial results could be adversely affected.

General economic conditions, the supply of off-lease and other vehicles to be sold, relative market prices for new and used vehicles, perceived vehicle quality, overall vehicle prices, the vehicle disposition channel, volatility in gasoline or diesel fuel prices, levels of household income, interest rates, and other factors outside of our control heavily influence used vehicle prices. Consumer confidence levels and the strength of automotive manufacturers and dealers can also influence the used vehicle market. For example, when the recent economic crisis began in 2007–2008, sharp declines in used vehicle demand and sale prices adversely affected our remarketing proceeds and financial results.

Our expectation of the residual value of a vehicle subject to an automotive operating lease contract is a critical element used to determine the amount of the operating lease payments under the contract at the time the customer enters into it. As a result, to the extent that the actual residual value of the vehicle—as reflected in the sale proceeds received upon remarketing at lease termination—is less than the expected residual value for the vehicle at lease inception, we will incur additional depreciation expense and lower profit on the operating lease transaction than our priced expectation. Our expectation of used vehicle values is also a factor in determining our pricing of new loan and operating lease originations. In stressed economic environments, residual-value risk may be even more volatile than credit risk. To the extent that used vehicle prices are significantly lower than our expectations, our profit on vehicle loans and operating leases could be substantially less than our expectations, even more so if our estimate of loss frequency is underestimated as well. In addition, we could be adversely affected if we fail to efficiently process and effectively market off-lease vehicles and repossessed vehicles and, as a consequence, incur higher-than-expected disposal costs or lower-than-expected proceeds from the vehicle sales.

The levels of or changes in interest rates could affect our results of operations and financial condition.

We are highly dependent on net interest income, which is the difference between interest income on earning assets (such as loans and investments) and interest expense on deposits and borrowings. Net interest income is significantly affected by market rates of interest, which in turn are influenced by monetary and fiscal policies, general economic and market conditions, the political and regulatory environments, business and consumer sentiment, competitive pressures, and expectations about the future (including future changes in interest rates). We may be adversely affected by policies, laws, or events that have the effect of flattening or inverting the yield curve (that is, the difference between long-term and short-term interest rates), depressing the interest rates associated with our earning assets to levels near the rates associated with our interest expense, increasing the volatility of market rates of interest, or changing the spreads among different interest rate indices.

The levels of or changes in interest rates could adversely affect us beyond our net interest income, including the following:

- increase the cost or decrease the availability of deposits or other variable-rate funding instruments;
- reduce the return on or demand for loans or increase the prepayment speed of loans;
- increase customer or counterparty delinquencies or defaults;
- negatively impact our ability to remarket off-lease and repossessed vehicles; and
- reduce the value of our loans, retained interests in securitizations, and fixed-income securities in our investment portfolio and the efficacy of our hedging strategies.

The level of and changes in market rates of interest—and, as a result, these risks and uncertainties—are beyond our control. The dynamics among these risks and uncertainties are also challenging to assess and manage. For example, while an accommodative monetary policy may benefit us to some degree by spurring economic activity among our customers, such a policy may ultimately cause us more harm by inhibiting our ability to grow or sustain net interest income. A rising interest rate environment can pose different challenges, such as potentially slowing the demand for credit, increasing delinquencies and defaults, and reducing the values of our loans and fixed-income securities. Following a prolonged period in which the federal funds rate was stable or decreasing, the FRB has recently increased this benchmark rate. In addition, the FRB has begun to end its quantitative-easing program and reduce the size of its balance sheet, which is expected to exert upward pressure on interest rates as well and which also may create market volatility in interest rates. Refer to the section titled Market Risk in the MD&A that follows and Note 21 to the Consolidated Financial Statements.

Uncertainty about the future of the London Interbank Offer Rate (LIBOR) may adversely affect our business and financial results.

LIBOR meaningfully influences market interest rates around the globe. In July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced its intent to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. This announcement indicates that the continuation of LIBOR as currently constructed is not guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere, and whether other rate or rates may become accepted alternatives to LIBOR.

In 2014, the FRB and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee (ARRC) to identify best practices for alternative reference rates, identify best practices for contract robustness, develop an adoption plan, and create an implementation plan with metrics of success and a timeline. The ARRC accomplished its first set of objectives and has identified the Secured Overnight Financing Rate (SOFR) as the rate that represents best practice for use in certain new U.S. dollar derivatives and other financial contracts. The ARRC also published its Paced Transition Plan, with specific steps and timelines designed to encourage adoption of the SOFR. The ARRC was reconstituted in 2018 to help to ensure the successful implementation of the Paced Transition Plan and serve as a forum to coordinate and track planning across cash and derivatives products and market participants currently using LIBOR.

No assurance can be provided that the uncertainties around LIBOR or their resolution will not adversely affect the use, level, and volatility of LIBOR or other interest rates or the value of LIBOR-based securities—including Ally's 8.125% Fixed Rate/Floating Rate Trust Preferred Securities, Series 2—or other securities or financial arrangements. Further, the viability of SOFR as an alternative reference rate and the availability and acceptance of other alternative reference rates are unclear and also may have adverse effects on market rates of interest and the value of securities and other financial arrangements. These uncertainties, proposals and actions to resolve them, and their ultimate resolution also could negatively impact our funding costs, loan and other asset values, asset-liability management strategies, and other aspects of our business and financial results.

We rely extensively on third-party service providers in delivering products and services to our customers and otherwise conducting our business and operations, and their failure to perform to our standards or other issues of concern with them could adversely affect our reputation, business, and financial results.

We seek to distinguish ourselves as a customer-centric company that delivers passionate customer service and innovative financial solutions and that is relentlessly focused on “Doing It Right.” Third-party service providers, however, are key to much of our business and operations, including online and mobile banking, mortgage finance, brokerage, customer service, and operating systems and infrastructure. While we have implemented a supplier-risk-management program and can exert varying degrees of influence over our service providers, we do not control them, their actions, or their businesses. Our contracts with service providers, moreover, may not require or sufficiently incent them to perform at levels and in ways that we would choose acting on our own. No assurance can be provided that service providers will perform to our standards, adequately represent our brand, comply with applicable law, appropriately manage their own risks, remain financially or operationally viable, abide by their contractual obligations, or continue to provide us with the services that we require. In such a circumstance, our ability to deliver products and services to customers, to satisfy customer expectations, and to otherwise successfully conduct our business and operations could be adversely affected. In addition, we may need to incur substantial expenses to address issues of concern with a service provider, and even if the issues cannot be acceptably resolved, we may not be able to timely or effectively replace the service provider due to contractual restrictions, the unavailability of acceptable alternative providers, or other reasons. Further, regardless of how much we can influence our service providers, issues of concern with them could result in supervisory actions and private litigation against us and could harm our reputation, business, and financial results.

Our operating systems or infrastructure, as well as those of our service providers or others on whom we rely, could fail or be interrupted, which could disrupt our business and adversely affect our results of operations, financial condition, and prospects.

We rely heavily upon communications, data management, and other operating systems and infrastructure to conduct our business and operations, which creates meaningful operational risk for us. Any failure of or interruption in these systems or infrastructure or those of our service providers or others on whom we rely—including as a result of inadequate or failed technology or processes, unplanned or unsuccessful updates to technology, sudden increases in transaction volume, human errors, fraud or other misconduct, deficiencies in the integration of acquisitions or the commencement of new businesses, energy or similar infrastructure outages, disruptions in communications networks or systems, natural disasters, catastrophic events, pandemics, acts of terrorism, political or social unrest, external or internal security breaches, acts of vandalism, cyberattacks such as computer viruses and malware, misplaced or lost data, or breakdowns in business continuity plans—could cause failures or delays in receiving applications for loans and operating leases, underwriting or processing loan or operating-lease applications, servicing loans and operating leases, accessing online accounts, processing transactions, executing brokerage orders, communicating with our customers, managing our investment portfolio, or otherwise conducting our business and operations. These adverse effects could be exacerbated if systems or infrastructure need to be taken offline or meaningfully repaired, if backup systems or infrastructure are not adequately redundant and effective for the conduct of our business and operations, or if technological or other solutions do not exist or are slow to be developed. Further, to the extent that the systems or infrastructure of service providers or others are involved, we may have little or no control or influence over how and when failures or delays are addressed. As a digital financial services company, we are susceptible to business, reputational, financial, regulatory, and other harm as a result of these risks.

In the ordinary course of our business, we collect, store, process, and transmit sensitive, confidential, or proprietary data and other information, including business information, intellectual property, and the personally identifiable information of customers and employees. The secure collection, storage, processing, and transmission of this information are critical to our business and reputation, and if any of this information were mishandled, misused, improperly accessed, lost, or stolen or if related operations were disabled or otherwise disrupted, we could suffer significant business, reputational, financial, regulatory, and other damage.

Even when a failure of or interruption in operating systems or infrastructure is timely resolved, we may need to expend substantial resources in doing so, may be required to take actions that could adversely affect customer satisfaction or behavior, and may be exposed to reputational damage. We also could be exposed to contractual claims, supervisory actions, or litigation by private plaintiffs.

We face a wide array of security risks that could result in business, reputational, financial, regulatory, and other harm to us.

Our operating systems and infrastructure, as well as those of our service providers or others on whom we rely, are subject to security risks that are rapidly evolving and increasing in scope and complexity, in part, because of the introduction of new technologies, the expanded use of the internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions, and the increased sophistication and activities of hostile state-sponsored actors, organized crime, perpetrators of fraud, hackers, terrorists, and others. We along with other financial institutions, our service providers, and others on whom we rely have been and are expected to continue to be the target of cyberattacks, which could include computer viruses, malware, malicious or destructive code, phishing or spear phishing attacks, denial-of-service or denial-of-information attacks, ransomware, identity theft, access violations by employees or vendors, attacks on the personal email of employees, and ransom demands accompanied by threats to expose security vulnerabilities. We, our service providers, and others on whom we rely are also exposed to more traditional security threats to physical facilities and personnel.

These security risks could result in business, reputational, financial, regulatory, and other harm to us. For example, if sensitive, confidential, or proprietary data or other information about us or our customers or employees were improperly accessed or destroyed because of a security breach, we could experience business or operational disruptions, reputational damage, contractual claims, supervisory actions, or litigation by private plaintiffs. As security threats evolve, moreover, we expect to continue expending significant resources to enhance our defenses, to educate our employees, to monitor and support the defenses established by our service providers and others on whom we rely, and to investigate and remediate incidents and vulnerabilities as they arise or are identified. Even so, we may not be able to anticipate or implement effective preventive measures against all security breaches, especially because techniques change frequently, and attacks can be launched with no warning from a wide variety of sources around the globe. A sophisticated breach, moreover, may not be identified until well after the attack has occurred and the damage has been caused.

We also could be adversely affected by security risks faced by others. For example, a cyberattack or other security breach affecting a service provider or another entity on whom we rely could negatively impact us and our ability to conduct business and operations just as much as a breach affecting us directly. Even worse, in such a circumstance, we may not receive timely notice of or information about the breach or be able to exert any meaningful control or influence over how and when the breach is addressed. In addition, a security threat affecting the business community, the markets, or parts of them may cycle or cascade through the financial system and harm us. The mere perception of a security breach involving us or any part of the financial services industry, whether or not true, also could damage our business, operations, or reputation.

Many if not all of these risks and uncertainties are beyond our control. Refer to section titled Risk Management in the MD&A that follows.

We are heavily reliant on technology, and a failure in effectively implementing technology initiatives or anticipating future technology needs or demands could adversely affect our business or financial results.

We significantly depend on technology to deliver our products and services and to otherwise conduct our business and operations. To remain technologically competitive and operationally efficient, we invest in system upgrades, new solutions, and other technology initiatives. Many of these initiatives take a significant amount of time to develop and implement, are tied to critical systems, and require substantial financial, human, and other resources. Although we take steps to mitigate the risks and uncertainties associated with these initiatives, no assurance can be provided that they will be implemented on time, within budget, or without negative operational or customer impact or that, once implemented, they will perform as we or our customers expect. We also may not succeed in anticipating or keeping pace with future technology needs, the technology demands of customers, or the competitive landscape for technology. If we were to misstep in any of these areas, our business, financial results, or reputation could be negatively impacted.

Our enterprise risk-management framework or independent risk-management function may not be effective in mitigating risk and loss.

We maintain an enterprise risk-management framework that is designed to identify, measure, assess, monitor, test, control, report, escalate, and mitigate the risks that we face. These include credit, insurance/underwriting, market, liquidity, business/strategic, reputation, operational, information-technology/security, compliance, and conduct risks. The framework incorporates risk culture and incentives, risk governance and organization, strategy and risk appetite, a material-risk taxonomy, key risk-management processes, and risk capabilities. Our chief risk officer, chief compliance officer, and other personnel who make up our independent risk-management function are responsible for overseeing and implementing the framework. Refer to the section titled Risk Management in the MD&A that follows. There can be no assurance, however, that the framework—including its design and implementation—will effectively mitigate risk and limit losses in our business and operations. If conditions or circumstances arise that expose flaws or gaps in the framework or its implementation, the performance and value of our business and operations could be adversely affected. An ineffective risk-management framework or function also could give rise to enforcement and other supervisory actions, damage our reputation, and result in private litigation.

We are or may be subject to potential liability in connection with pending or threatened legal proceedings and other matters, which could adversely affect our business or financial results.

We are involved from time to time in a variety of judicial, alternative-dispute, and other proceedings arising out of our business and operations. These legal matters may be formal or informal and include litigation and arbitration with one or more identified claimants, certified or purported class actions with yet-to-be-identified claimants, and regulatory or other governmental information-gathering requests, examinations, investigations, and enforcement proceedings. Our legal matters exist in varying stages of adjudication, arbitration, negotiation, or investigation and span our business lines and operations. Claims may be based in law or equity—such as those arising under contracts or in tort and those involving banking, consumer protection, securities, tax, employment, and other laws—and some can present novel legal theories and allege substantial or indeterminate damages.

The course and outcome of legal matters are inherently unpredictable. This is especially so when a matter is still in its early stages, the damages sought are indeterminate or unsupported, significant facts are unclear or disputed, novel questions of law or other meaningful legal uncertainties exist, a request to certify a proceeding as a class action is outstanding or granted, multiple parties are named, or regulatory or other governmental entities are involved. As a result, we often are unable to determine how or when threatened or pending legal matters will be resolved and what losses may be incurred. Actual losses may be higher or lower than any amounts accrued or estimated for those matters, possibly to a significant degree. Refer to Note 29 to the Consolidated Financial Statements. In addition, while we maintain insurance policies to mitigate the cost of litigation and other proceedings, these policies have deductibles, limits, and exclusions that may diminish their value or efficacy. Substantial legal claims, even if not meritorious, could have a detrimental impact on our business, results of operations, and financial condition and could cause us reputational harm.

Our inability to attract, retain, or motivate qualified employees could adversely affect our business or financial results.
Skilled employees are our most important resource, and competition for talented people is intense. Even though compensation and benefits expense is among our highest expenses, we may not be able to locate and hire the best people, keep them with us, or properly motivate them to perform at a high level. Recent scrutiny of compensation practices, especially in the financial services industry, has made this only more difficult. In addition, many parts of our business are particularly dependent on key personnel. If we were to lose and find ourselves unable to replace these personnel or other skilled employees or if the competition for talent were to drive our compensation costs to unsustainable levels, our business and financial results could be negatively impacted.

Our ability to successfully make acquisitions is subject to significant risks, including the risk that government authorities will not provide the requisite approvals, the risk that integrating acquisitions may be more difficult, costly, or time consuming than expected, and the risk that the value of acquisitions may be less than anticipated.

We may from time to time seek to acquire other financial services companies or businesses. These acquisitions may be subject to regulatory approval, and no assurance can be provided that we will be able to obtain that approval in a timely manner or at all. Even when we are able to obtain regulatory approval, the failure of other closing conditions to be satisfied or waived could delay the completion of an acquisition for a significant period of time or prevent it from occurring altogether. Any failure or delay in closing an acquisition could adversely affect our reputation, business, and performance.

Acquisitions involve numerous risks and uncertainties, including lower-than-expected performance or higher-than-expected costs, difficulties related to integration, diversion of management's attention from other business activities, changes in relationships with customers or counterparties, and the potential loss of key employees. An acquisition also could be dilutive to our existing stockholders if we were to issue common stock to fully or partially pay or fund the purchase price. We, moreover, may not be successful in identifying appropriate acquisition candidates, integrating acquired companies or businesses, or realizing expected value from acquisitions. There is significant competition for valuable acquisition targets, and we may not be able to acquire other companies or businesses on attractive terms. No assurance can be given that we will pursue future acquisitions, and our ability to grow and successfully compete may be impaired if we choose not to pursue or are unable to successfully make acquisitions.

Our business requires substantial capital and liquidity, and a disruption in our funding sources or access to the capital markets may have an adverse effect on our liquidity, capital positions, and financial condition.

Liquidity is the ability to fund increases in assets and meet obligations as they come due, all without incurring unacceptable losses. Banks are especially vulnerable to liquidity risk because of their role in the maturity transformation of demand or short-term deposits into longer-term loans or other extensions of credit. We, like other financial services companies, rely to a significant extent on external sources of funding (such as deposits and borrowings) for the liquidity needed to conduct our business and operations. A number of factors beyond our control, however, could have a detrimental impact on the availability or cost of that funding and thus on our liquidity. These include market disruptions, changes in our credit ratings or the sentiment of our investors, the state of the regulatory environment and monetary and fiscal policies, reputational damage, the confidence of depositors in us, financial or systemic shocks, and significant counterparty failures. Weak business or operational performance, unexpected declines or limits on dividends or other distributions from our subsidiaries, and other failures to execute our strategic plan also could adversely affect Ally's liquidity position.

We have significant maturities of unsecured debt each year. While we have reduced our reliance on unsecured funding in recent years, it remains an important component of our capital structure and financing plans. At December 31, 2018, approximately $1.7 billion in principal amount of total outstanding consolidated unsecured debt is scheduled to mature in 2019, and approximately $2.3 billion and $702 million is scheduled to mature in 2020 and 2021, respectively. We also obtain short-term funding from the sale of floating-rate demand notes, all of which the holders may elect to have redeemed at any time without restriction. At December 31, 2018, approximately $2.5 billion in principal amount of demand notes were outstanding, which is not included in the amount of unsecured debt described above. We also rely substantially on secured funding. At December 31, 2018, approximately $7.3 billion in principal

amount of total outstanding consolidated secured long-term debt is scheduled to mature in 2019, approximately $7.4 billion is scheduled to mature in 2020, and approximately $10.2 billion is scheduled to mature in 2021. Furthermore, at December 31, 2018, approximately $31.5 billion in certificates of deposit at Ally Bank are scheduled to mature in 2019, which is not included in the amounts provided above. Additional funding, whether through deposits or borrowings, will be required to fund a substantial portion of the debt maturities over these periods.
We continue to rely as well on our ability to borrow from other financial institutions, and many of our primary bank facilities are up for renewal on a yearly basis. Any weakness in market conditions, tightening of credit availability, or other events referenced earlier in this risk factor could have a negative effect on our ability to refinance these facilities and could increase the costs of bank funding. Ally and Ally Bank also continue to access the securitization markets. While those markets have stabilized following the liquidity crisis that commenced in 2007–2008, there can be no assurances that these sources of liquidity will remain available to us.
Our policies and controls are designed to enable us to maintain adequate liquidity to conduct our business in the ordinary course even in a stressed environment. There is no guarantee, however, that our liquidity position will never become compromised. In such an event, we may be required to sell assets at a loss or reduce loan and operating lease originations in order to continue operations. This could damage the performance and value of our business, prompt regulatory intervention and private litigation, harm our reputation, and cause a loss of investor confidence, and if the condition were to persist for any appreciable period of time, our viability as a going concern could be threatened.
Refer

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to section titled Liquidity Management, Funding, and Regulatory Capital in the MD&A that follows and Note 20 to the Consolidated Financial Statements.

Our indebtedness and other obligations are significant and could adversely affect our business and financial results.

We have a significant amount of indebtedness apart from deposit liabilities. At December 31, 2018, we had approximately $55.3 billion in principal amount of indebtedness outstanding (including $39.7 billion in secured indebtedness). Interest expense on our indebtedness constituted approximately 21.0% of our total financing revenue and other interest income for the year ended December 31, 2018. We also have the ability to create additional indebtedness.

If our debt service obligations increase, whether due to the increased cost of existing indebtedness or the incurrence of additional indebtedness, more of our cash flow from operations would need to be allocated to the payment of principal of, and interest on, our indebtedness, which would reduce the funds available for other purposes. Our indebtedness also could limit our ability to execute our strategic plan and withstand competitive pressures and could reduce our flexibility in responding to changing business and economic conditions. In addition, if we are unable to satisfy our indebtedness and other obligations in full and on time, our business, reputation, and value as a going concern could be profoundly and perhaps inexorably damaged.

The markets for automotive financing, insurance, banking (including corporate finance and mortgage finance), brokerage, and investment-advisory services are extremely competitive, and competitive pressures could adversely affect our business and financial results.

The markets for automotive financing, insurance, banking (including corporate finance and mortgage finance), brokerage, and investment-advisory services are highly competitive, and we expect competitive pressures only to intensify in the future, especially in light of the regulatory and supervisory environments in which we operate, technological innovations that alter the barriers to entry, current and evolving economic and market conditions, changing customer preferences and consumer and business sentiment, and monetary and fiscal policies. Refer to the section above titled Industry and Competition in Part I, Item 1 of this report. Competitive pressures may drive us to take actions that we might otherwise eschew, such as lowering the interest rates or fees on loans, raising the interest rates on deposits, or adopting more liberal underwriting standards. These pressures also may accelerate actions that we might otherwise elect to defer, such as substantial investment in systems or infrastructure. Whatever the reason, actions that we take in response to competition may adversely affect our results of operations and financial condition. These consequences could be exacerbated if we are not successful in introducing new products and services, achieving market acceptance of our products and services, developing and maintaining a strong customer base, continuing to enhance our reputation, or prudently managing risks and expenses.

Our borrowing costs and access to the banking and capital markets could be negatively impacted if our credit ratings are downgraded or otherwise fail to meet investor expectations or demands.

The cost and availability of our funding are meaningfully affected by our short- and long-term credit ratings. Each of Standard & Poor’s Rating Services, Moody’s Investors Service, Inc., Fitch, Inc., and Dominion Bond Rating Service rates some or all of our debt, and these ratings reflect the rating agency’s opinion of our financial strength, operating performance, strategic position, and ability to meet our obligations. Agency ratings are not a recommendation to buy, sell, or hold any security and may be revised or withdrawn at any time. Each agency’s rating should be evaluated independently of any other agency’s rating.

Some of our current credit ratings are below investment grade, which negatively impacts our access to liquidity and increases our borrowing costs in the banking and capital markets. If our credit ratings were to be downgraded further or were to otherwise fail to meet investor expectations or demands, our borrowing costs and access to the banking and capital markets could become even more challenging and, as a result, negatively affect our business and financial results. In addition, downgrades of our credit ratings or their failure to meet investor expectations or demands could result in more restrictive terms and conditions being added to any new or replacement financing arrangements as well as trigger disadvantageous provisions of existing borrowing arrangements.

Challenging business, economic, or market conditions may adversely affect our business, results of operations, and financial condition.

Our businesses are driven by wealth creation in the economy, robust market activity, monetary and fiscal stability, and positive investor, business, and consumer sentiment. A downturn in economic conditions, disruptions in the equity or debt markets, high unemployment or underemployment, depressed vehicle or housing prices, unsustainable debt levels, unfavorable changes in interest rates, declines in household incomes, deteriorating consumer or business sentiment, consumer or commercial bankruptcy filings, or declines in the strength of national or local economies could decrease demand for our products and services, increase the amount and rate of delinquencies and losses, raise our operating and other expenses, and negatively impact the returns on and the value of our loans, investment portfolio, and other assets. Further, if a significant and sustained increase in fuel prices or other adverse conditions were to lead to diminished new and used vehicle purchases or prices, our automotive finance and insurance businesses could suffer considerably. In addition, concerns about the pace of economic growth and uncertainty about fiscal and monetary policies can result in significant volatility in the financial markets and could impact our ability to obtain cost-effective funding. If any of these events were to occur or worsen, our business, results of operation, and financial condition could be adversely affected.

Acts or threats of terrorism, natural disasters, and other conditions or events beyond our control could adversely affect us.

Geopolitical conditions, natural disasters, and other conditions or events beyond our control may adversely affect our business, results of operations, financial condition, or prospects. For example, acts or threats of terrorism and political or military actions taken in response to terrorism could adversely affect general economic, business, or market conditions and, in turn, us. We also could be negatively impacted if our key personnel, a significant number of our employees, or our systems or infrastructure were to become unavailable or damaged due to a pandemic, natural disaster, war, act of terrorism, accident, or similar cause. These same risks and uncertainties arise too for the service providers and counterparties on whom we depend as well as their own third-party service providers and counterparties.

Significant repurchases or indemnification payments in our securitizations or whole-loan sales could harm our profitability and financial condition.

We have repurchase and indemnification obligations in our securitizations and whole-loan sales. If we were to breach a representation, warranty, or covenant in connection with a securitization or whole-loan sale, we may be required to repurchase the affected loans or operating leases or otherwise compensate investors or purchasers for losses caused by the breach. If the scale or frequency of repurchases or indemnification payments were to increase substantially from its present levels, our results of operations and financial condition could be adversely affected. In such a circumstance, we also could suffer reputational damage, become subject to stricter supervisory scrutiny and private litigation, and find our access to capital and banking markets more limited or more costly.

Our business and operations make extensive use of models, and we could be adversely affected if our design, implementation, or use of models is flawed.

We use quantitative models to price products and services, measure risk, estimate asset and liability values, assess capital and liquidity, manage our balance sheet, create financial forecasts, and otherwise conduct our business and operations. If the design, implementation, or use of any of these models is flawed, we could make strategic or tactical decisions based on incorrect, misleading, or incomplete information. In addition, to the extent that any inaccurate model outputs are used in reports to banking agencies or the public, we could be subjected to supervisory actions, private litigation, and other proceedings that may adversely affect our business and financial results. Refer to section titled Risk Management in the MD&A that follows.

Our hedging strategies may not be successful in mitigating our interest rate, foreign exchange, and market risks, which could adversely affect our financial results.

We employ various hedging strategies to mitigate the interest rate, foreign exchange, and market risks inherent in many of our assets and liabilities. Our hedging strategies rely considerably on assumptions and projections regarding our assets and liabilities as well as general market factors. If any of these assumptions or projections prove to be incorrect or our hedges do not adequately mitigate the impact of changes in interest rates, foreign exchange rates, and other market factors, we may experience volatility in our earnings that could adversely affect our profitability and financial condition. In addition, we may not be able to find market participants that are willing to act as our hedging counterparties on acceptable terms or at all, which could have an adverse effect on the success of our hedging strategies.

We use estimates and assumptions in determining the value or amount of many of our assets and liabilities. If our estimates or assumptions prove to be incorrect, our cash flow, profitability, financial condition, and prospects could be adversely affected.

We use estimates and assumptions in determining the fair value of many of our assets, including retained interests from securitizations, loans held-for-sale, and other investments that do not have an established market value or are not publicly traded. We also use estimates and assumptions in determining the residual values of our operating lease assets. In addition, we use estimates and assumptions in determining our reserves for legal matters, insurance losses, and loss adjustment expenses (which represent the accumulation of estimates for both reported losses and those incurred, but not reported, including claims adjustment expenses relating to direct insurance and assumed reinsurance agreements). Refer to section titled Critical Accounting Estimates in the MD&A that follows. Our assumptions and estimates may be inaccurate for many reasons. For example, they often involve matters that are inherently difficult to predict and that are beyond our control (such as macroeconomic conditions and their impact on automotive dealers) and often involve complex interactions between a number of dependent and independent variables, factors, and other assumptions. Assumptions and estimates are also far more difficult during periods of market dislocation or illiquidity. As a result, our actual experience may differ substantially from these estimates and assumptions. A meaningful difference between our estimates and assumptions and our actual experience may adversely affect our cash flow, profitability, financial condition, and prospects and may increase the volatility of our financial results. In addition, several different judgments associated with assumptions or estimates could be reasonable under the circumstances and yet result in significantly different results being reported.

Significant fluctuations in the valuation of investment securities or market prices could negatively affect our financial results.

Market prices for securities and other financial assets are subject to considerable fluctuation. Fluctuations may result, for example, from perceived changes in the value of the asset, the relative price of alternative investments, shifts in investor sentiment, geopolitical events, actual or expected changes in monetary or fiscal policies, and general market conditions. Due to these kinds of fluctuations, the amount that we realize in the subsequent sale of an investment may significantly differ from the last reported value and could negatively affect our financial results. Additionally, negative fluctuations in the value of available-for-sale investment securities could result in unrealized losses recorded in equity.

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Changes in accounting standards could adversely affect our reported revenues, expenses, profitability, and financial condition.

Our financial statements are subject to the application of GAAP, which are periodically revised or expanded. The application of GAAP is also subject to varying interpretations over time. Accordingly, we are required to adopt new or revised accounting standards or comply with revised interpretations that are issued from time to time by various parties, including accounting standard setters and those who interpret the standards, such as the FASB, the SEC, banking agencies, and our independent registered public accounting firm. Those changes are beyond our control but could adversely affect our revenues, expenses, profitability, or financial condition. Refer to Note 1 to the Consolidated Financial Statements for financial accounting standards issued by the FASB, but not yet adopted by the company, with effective dates between January 1, 2019, and January 1, 2020.

The financial system is highly interrelated, and the failure of even a single financial institution could adversely affect us.

The financial system is highly interrelated, including as a result of lending, trading, clearing, counterparty, and other relationships. We have exposure to and routinely execute transactions with a wide variety of financial institutions, including brokers, dealers, commercial banks, and investment banks. If any of these institutions were to become or perceived to be unstable, were to fail in meeting its obligations in full and on time, or were to enter bankruptcy, conservatorship, or receivership, the consequences could ripple throughout the financial system and may adversely affect our business, results of operations, financial condition, or prospects. Because of interrelationships within the financial system, this could occur even if the institution itself were not systemically important or perceived to play a meaningful role in the stable functioning of the financial markets.

Adverse economic conditions or changes in laws in the states where we have loan or operating lease concentrations may negatively affect our business and financial results.

We are exposed to portfolio concentrations in some states, including California, Texas, and Florida. Factors adversely affecting the economies and applicable laws in these states could have an adverse effect on our business, results of operations, and financial condition.

Negative publicity outside of our control, or our failure to successfully manage issues arising from our conduct or in connection with the financial services industry generally, could damage our reputation and adversely affect our business or financial results.

The performance and value of our business could be negatively impacted by any reputational harm that we may suffer. This harm could arise from negative publicity outside of our control or our failure to adequately address issues arising from our conduct or in connection with the financial services industry generally. Risks to our reputation could arise in any number of contexts—for example, stricter regulatory or supervisory environments, cyber incidents and other security breaches, inabilities to meet customer expectations, mergers and acquisitions, lending or banking practices, actual or perceived conflicts of interest, failures to prevent money laundering, inappropriate conduct by employees, and inadequate corporate governance.

Risks Related to Ownership of Our Common Stock

Our ability to pay dividends on our common stock or repurchase shares in the future may be limited.

Any future dividends on our common stock or changes in our stock-repurchase program will be determined by our Board of Directors in its sole discretion and will depend on our business, financial condition, earnings, capital, liquidity, and other factors at the time. In addition, any plans to continue dividends or share repurchases in the future will be subject to the FRB's review of and non-objection to our capital plan, which is unpredictable. Refer to the section above titled Regulation and Supervision in Part I, Item 1 of this report. There is no assurance that our Board of Directors will approve, or the FRB will permit, future dividends or share repurchases.

It is possible that any indentures or other financing arrangements that we execute in the future could limit our ability to pay dividends on our capital stock, including our common stock. In the event that any of our indentures or other financing arrangements in the future restrict that ability, we may be unable to pay dividends unless and until we can refinance the amounts outstanding under those arrangements. In addition, under Delaware law, our Board of Directors may declare dividends on our capital stock only to the extent of our statutory surplus (which is defined as the amount equal to total assets minus total liabilities, in each case at fair market value, minus statutory capital) or, if no surplus exists, out of our net profits for the then-current or immediately preceding fiscal year. Further, even if we are permitted under our contractual obligations and Delaware law to pay dividends on our common stock, we may not have sufficient cash or regulatory approvals to do so.

The market price of our common stock could be adversely impacted by anti-takeover provisions in our organizational documents and Delaware law that could delay or prevent a takeover attempt or change in control of Ally or by other banking, antitrust, or corporate laws that have or are perceived as having an anti-takeover effect.

Our certificate of incorporation, our bylaws, and Delaware law contain provisions that could have the effect of discouraging, hindering, or preventing an acquisition that our Board of Directors does not find to be in the best interests of us and our stockholders. For example, our organizational documents include provisions:

- limiting the liability of our directors and providing indemnification to our directors and officers; and

- limiting the ability of our stockholders to call and bring business before special meetings of stockholders by requiring any requesting stockholders to hold at least 25% of our common stock in the aggregate.

These provisions, alone or together, could delay hostile takeovers and changes in control of Ally or changes in management.

In addition, we are subject to Section 203 of the General Corporation Law of the State of Delaware, which generally prohibits a corporation from engaging in various business combination transactions with any interested stockholder (generally defined as a stockholder who owns 15% or more of a corporation's voting stock) for a period of three years following the time that the stockholder became an interested stockholder, except under specified circumstances such as the receipt of prior board approval.

Banking and antitrust laws, including associated regulatory-approval requirements, also impose significant restrictions on the acquisition of direct or indirect control over any BHC like Ally or any insured depository institution like Ally Bank.

Any provision of our organizational documents or applicable law that deters, hinders, or prevents a non-negotiated takeover or change in control of Ally could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal corporate offices are located in Detroit, Michigan, and Charlotte, North Carolina. In Detroit, we lease approximately 317,000 square feet of office space under a lease that expires in December 2028. In Charlotte, we lease approximately 234,000 square feet of office space under a variety of leases expiring between November 2019 and May 2024. In September 2017, we entered into a new agreement, scheduled to commence in April 2021, to lease approximately 543,000 square feet of office space in Charlotte under a lease that is expected to expire in March 2036. Under the new lease we plan to consolidate our three current Charlotte, North Carolina locations, through a series of phases, as the existing leases expire.

The primary offices for both our Automotive Finance and Insurance operations are located in Detroit, and are included in the totals referenced above. The primary office for our Mortgage Finance operations is located in Charlotte, where, in addition to the totals referenced above, we lease approximately 84,000 square feet of office space under a lease that expires in December 2022. Upon expiration, our Mortgage Finance operations will relocate to the consolidated office space in Charlotte, North Carolina, referenced above. The primary office for our Corporate Finance operations is located in New York, New York, where we lease approximately 55,000 square feet of office space under a lease that expires in June 2023.

In addition to the properties described above, we lease additional space to conduct our operations. We believe our facilities are adequate for us to conduct our present business activities.

Item 3. Legal Proceedings

Refer to Note 29 to the Consolidated Financial Statements for a discussion related to our legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol "ALLY." At December 31, 2018, we had 404,899,599 shares of common stock outstanding, compared to 437,053,936 shares at December 31, 2017. As of February 15, 2019, we had approximately 37 holders of record of our common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information about the securities authorized for issuance under our equity compensation plans as of December 31, 2018.

Plan category	(1) Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) (in thousands)	(2) Weighted-average exercise price of outstanding options, warrants and rights	(3) Number of securities remaining available for further issuance under equity compensation plans (excluding securities reflected in column (1)) (b) (in thousands)
Equity compensation plans approved by security holders	7,576	—	27,289
Total	7,576	—	27,289

(a) Includes restricted stock units outstanding under the Incentive Compensation Plan and deferred stock units outstanding under the Non-Employee Directors Equity Compensation Plan.

(b) Includes 24,883,283 securities available for issuance under the plans identified in (a) above and 2,405,374 securities available for issuance under Ally's Employee Stock Purchase Plan.

Stock Performance Graph

The following graph compares the cumulative total return to stockholders on our common stock relative to the cumulative total returns of the S&P 500 index and the S&P Financials index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each index on April 10, 2014 (the date our common stock first commenced trading on the NYSE), and its relative performance is tracked through December 31, 2018. The returns shown are based on historical results and are not intended to suggest future performance.

This performance graph is not deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, or incorporated by reference into any filing of Ally under the Securities Act of 1933, as amended (Securities Act), or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Recent Sales of Unregistered Securities

Ally did not have any sales of unregistered securities in the last three fiscal years.

Purchases of Equity Securities by the Issuer

The following table presents repurchases of our common stock, by month, for the three months ended December 31, 2018.

Three months ended December 31, 2018	Total number of shares repurchased (a) (in thousands)	Weighted-average price paid per share (a) (b) (in dollars)	Total number of shares repurchased as part of publicly announced program (a) (c) (in thousands)	Maximum approximate dollar value of shares that may yet be repurchased under the program (a) (b) (c) ($ in millions)
October 2018	3,887	$ 25.84	3,887	$ 650
November 2018	6,195	25.57	6,195	491
December 2018	2,039	24.73	2,039	441
Total	12,121	25.52	12,121	

(a) Includes shares of common stock withheld to cover income taxes owed by participants in our share-based incentive plans.

(b) Excludes brokerage commissions.

(c) On June 28, 2018, we announced a common-stock-repurchase program of up to $1.0 billion. The program commenced in the third quarter of 2018 and will expire on June 30, 2019. Refer to Note 20 to the Consolidated Financial Statements for a discussion of our 2018 capital plan.

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Item 6. Selected Financial Data

The selected historical financial information set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in Part II, Item 7 of this report, and our Consolidated Financial Statements and the notes thereto. The historical financial information presented may not be indicative of our future performance.

The following table presents selected Consolidated Statement of Income and earnings per common share data.

($ in millions, except per share data; shares in thousands)	2018	2017	2016	2015	2014
Total financing revenue and other interest income	$ 9,052	$ 8,322	$ 8,305	$ 8,397	$ 8,391
Total interest expense	3,637	2,857	2,629	2,429	2,783
Net depreciation expense on operating lease assets	1,025	1,244	1,769	2,249	2,233
Net financing revenue and other interest income	4,390	4,221	3,907	3,719	3,375
Total other revenue	1,414	1,544	1,530	1,142	1,276
Total net revenue	5,804	5,765	5,437	4,861	4,651
Provision for loan losses	918	1,148	917	707	457
Total noninterest expense	3,264	3,110	2,939	2,761	2,948
Income from continuing operations before income tax expense	1,622	1,507	1,581	1,393	1,246
Income tax expense from continuing operations (a)	359	581	470	496	321
Net income from continuing operations	1,263	926	1,111	897	925
Income (loss) from discontinued operations, net of tax	—	3	(44)	392	225
Net income	$ 1,263	$ 929	$ 1,067	$ 1,289	$ 1,150
Basic earnings per common share (b) (c):					
Net income (loss) from continuing operations	$ 2.97	$ 2.04	$ 2.25	$ (3.47)	$ 1.36
Net income (loss)	2.97	2.05	2.15	(2.66)	1.83
Weighted-average common shares outstanding	425,165	453,704	481,105	482,873	481,155
Diluted earnings per common share (b) (c):					
Net income (loss) from continuing operations	$ 2.95	$ 2.03	$ 2.24	$ (3.47)	$ 1.36
Net income (loss)	2.95	2.04	2.15	(2.66)	1.83
Weighted-average common shares outstanding (d)	427,680	455,350	482,182	482,873	481,934
Common share information (c):					
Cash dividends declared per common share	$ 0.56	$ 0.40	$ 0.16	$ —	$ —
Period-end common shares outstanding	404,900	437,054	467,000	481,980	480,095

(a) As a result of the Tax Cuts and Jobs Act of 2017 (the Tax Act) an additional $119 million of tax expense was incurred during 2017.

(b) Includes shares related to share-based compensation that vested but were not yet issued. Earnings per common share is reflected net of preferred stock dividends, which included $2.4 billion for the year ended December 31, 2015, recognized in connection with the partial redemption of the Series G Preferred Stock and the repurchase of the Series A Preferred Stock. These dividends represent an additional return to preferred stockholders calculated as the excess consideration paid over the carrying amount derecognized.

(c) In April 2014, we completed an initial public offering (IPO) of 95 million shares of common stock at $25 per share. In connection with the IPO, we effected a 310-for-one stock split on shares of our common stock, $0.01 par value per share. Accordingly, these references to share and per share amounts relating to common stock have been adjusted, on a retroactive basis, to recognize the 310-for-one stock split.

(d) Due to antidilutive effect of the net loss from continuing operations attributable to common stockholders for the year ended December 31, 2015, basic weighted-average common shares outstanding was used to calculate basic and diluted earnings per share.

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The following tables present selected Consolidated Balance Sheet and ratio data.

December 31, ($ in millions)	2018	2017	2016	2015	2014
Selected period-end balance sheet data:					
Total assets	$178,869	$167,148	$163,728	$158,581	$151,631
Total deposit liabilities	$106,178	$93,256	$79,022	$66,478	$58,203
Long-term debt	$44,193	$44,226	$54,128	$66,234	$66,380
Preferred stock	$—	$—	$—	$696	$1,255
Total equity	$13,268	$13,494	$13,317	$13,439	$15,399

Year ended December 31, ($ in millions)	2018	2017	2016	2015	2014
Financial ratios:					
Return on average assets (a)	0.74 %	0.57 %	0.68%	0.84%	0.77%
Return on average equity (a)	9.65 %	6.89 %	7.80%	8.69%	7.77%
Equity to assets (a)	7.65 %	8.28 %	8.69%	9.65%	9.86%
Common dividend payout ratio (b)	18.86%	19.51%	7.44%	— %	— %
Net interest spread (a) (c) (d)	2.47 %	2.58 %	2.49%	2.44%	2.26%
Net yield on interest-earning assets (a) (d) (e)	2.65 %	2.71 %	2.63%	2.57%	2.41%

(a) The ratios were based on average assets and average equity using a combination of monthly and daily average methodologies.

(b) Common dividend payout ratio was calculated using basic earnings per common share.

(c) Net interest spread represents the difference between the rate on total interest-earning assets and the rate on total interest-bearing liabilities, excluding discontinued operations for the periods shown.

(d) Amounts for the years ended December 31, 2015, and 2014, were adjusted to include previously excluded equity investments and related income on equity investments.

(e) Net yield on interest-earning assets represents net financing revenue and other interest income as a percentage of total interest-earning assets.

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As of January 1, 2015, Ally became subject to the rules implementing the 2010 Basel III capital framework in the United States (U.S. Basel III), which reflect new and higher capital requirements, capital buffers, and new regulatory capital definitions, deductions and adjustments. Certain aspects of U.S. Basel III, including the new capital buffers, were subject to a phase-in period through December 31, 2018. To assess our capital adequacy against the full impact of U.S. Basel III, we also present "fully phased-in" information that reflects regulatory capital rules that took effect at the conclusion of the transition period. Refer to Note 20 to the Consolidated Financial Statements for further information. The following table presents selected regulatory capital data.

	Under Basel III (a)								Under
	Transitional				Fully phased-in (b)				Basel I
December 31, ($ in millions)	2018	2017	2016	2015	2018	2017	2016	2015	2014
Common Equity Tier 1 capital ratio	9.14 %	9.53 %	9.37 %	9.21 %	9.13 %	9.46 %	9.13 %	8.74 %	9.64
Tier 1 capital ratio	10.80 %	11.25 %	10.93 %	11.10 %	10.78 %	11.22 %	10.88 %	11.06 %	12.55
Total capital ratio	12.31 %	12.94 %	12.57 %	12.52 %	12.29 %	12.91 %	12.52 %	12.47 %	13.24
Tier 1 leverage ratio (to adjusted quarterly average assets) (d)	9.00 %	9.53 %	9.54 %	9.73 %	9.00 %	9.53 %	9.53 %	9.73 %	10.94
Total equity	$13,268	$13,494	$13,317	$13,439	$13,268	$13,494	$13,317	$13,439	$15,39
Preferred stock	—	—	—	(696)	—	—	—	(696)	(1,255
Goodwill and certain other intangibles	(285)	(283)	(272)	(27)	(285)	(294)	(293)	(27)	(27
Deferred tax assets arising from net operating loss and tax credit carryforwards (e)	(143)	(224)	(410)	(392)	(143)	(280)	(683)	(980)	(1,310
Other adjustments	557	250	343	183	557	250	343	183	(219
Common Equity Tier 1 capital	13,397	13,237	12,978	12,507	13,397	13,170	12,684	11,919	12,588
Preferred stock	—	—	—	696	—	—	—	696	1,255
Trust preferred securities	2,493	2,491	2,489	2,520	2,493	2,491	2,489	2,520	2,546

Deferred tax assets arising from net operating loss and tax credit carryforwards	—	(56)	(273)	(588)	—	—	—	—	—
Other adjustments	(59)	(44)	(47)	(58)	(59)	(44)	(47)	(58)	—
Tier 1 capital	15,831	15,628	15,147	15,077	15,831	15,617	15,126	15,077	16,389
Qualifying subordinated debt and other instruments qualifying as Tier 2	1,031	1,113	1,174	932	1,031	1,113	1,174	932	237
Qualifying allowance for credit losses and other adjustments	1,184	1,233	1,098	996	1,184	1,233	1,098	996	668
Total capital	$18,046	$17,974	$17,419	$17,005	$18,046	$17,963	$17,398	$17,005	$17,294
Risk-weighted assets (f)	$146,561	$138,933	$138,539	$135,844	$146,794	$139,185	$138,987	$136,354	$130,59

(a) U.S. Basel III became effective for us on January 1, 2015, subject to transitional provisions primarily related to deductions and adjustments impacting Common Equity Tier 1 capital and Tier 1 capital.

(b) Our fully phased-in capital ratios are non-GAAP financial measures that management believes are important to the reader of the Consolidated Financial Statements but should be supplemental to, and not a substitute for, primary GAAP measures. The fully phased-in capital ratios are compared to the transitional capital ratios above. We believe these capital ratios are important because we believe investors, analysts, and banking regulators may assess our capital utilization and adequacy using these ratios. Additionally, presentation of these ratios allows readers to compare certain aspects of our capital utilization and adequacy on the same basis to other companies in the industry.

(c) Capital ratios as of December 31, 2014, are presented under the U.S. Basel I capital framework.

(d) Tier 1 leverage ratio equals Tier 1 capital divided by adjusted quarterly average total assets (which reflects adjustments for disallowed goodwill, certain intangible assets, and disallowed deferred tax assets).

(e) Contains deferred tax assets required to be deducted from capital under U.S. Basel III.

(f) Risk-weighted assets are defined by regulation and are generally determined by allocating assets and specified off-balance sheet exposures into various risk categories.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Notice about Forward-Looking Statements and Other Terms

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," "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.

This report, including any information incorporated by reference in this report, contains forward-looking statements. We also may make forward-looking statements in other documents that are filed or furnished with the SEC. In addition, we may make forward-looking statements orally or in writing to investors, analysts, members of the media, or others.

All forward-looking statements, by their nature, are subject to assumptions, risks, and uncertainties, which may change over time and many of which are beyond our control. You should not rely on any forward-looking statement as a prediction or guarantee about the future. Actual future objectives, strategies, plans, prospects, performance, conditions, or results may differ materially from those set forth in any forward-looking statement. While no list of assumptions, risks, or uncertainties could be complete, some of the factors that may cause actual results or other future events or circumstances to differ from those in forward-looking statements include:

- evolving local, regional, national, or international business, economic, or political conditions;
- changes in laws or the regulatory or supervisory environment, including as a result of recent financial services legislation, regulation, or policies or changes in government officials or other personnel;
- changes in monetary, fiscal, or trade laws or policies, including as a result of actions by government agencies, central banks, or supranational authorities;
- changes in accounting standards or policies, including ASU 2016-13, Financial Instruments — Credit Losses;
- changes in the automotive industry or the markets for new or used vehicles, including the rise of vehicle sharing and ride hailing, the development of autonomous and alternative-energy vehicles, and the impact of demographic shifts on attitudes and behaviors toward vehicle ownership and use;
- disruptions or shifts in investor sentiment or behavior in the securities, capital, or other financial markets, including financial or systemic shocks and volatility or changes in market liquidity, interest or currency rates, or valuations;
- changes in business or consumer sentiment, preferences, or behavior, including spending, borrowing, or saving by businesses or households;
- changes in our corporate or business strategies, the composition of our assets, or the way in which we fund those assets;
- our ability to execute our business strategy for Ally Bank, including its digital focus;
- our ability to optimize our automotive finance and insurance businesses and to continue diversifying into and growing other consumer and commercial business lines, including mortgage finance, corporate finance, brokerage, and wealth management;
- our ability to develop capital plans that will be approved by the FRB and our ability to implement them, including any payment of dividends or share repurchases;
- our ability to effectively manage capital or liquidity consistent with evolving business or operational needs, risk-management standards, and regulatory or supervisory requirements;
- our ability to cost-effectively fund our business and operations, including through deposits and the capital markets;
- changes in any credit rating assigned to Ally, including Ally Bank;
- adverse publicity or other reputational harm to us or our senior officers;
-

our ability to develop, maintain, or market our products or services or to absorb unanticipated costs or liabilities associated with those products or services;

- our ability to innovate, to anticipate the needs of current or future customers, to successfully compete, to increase or hold market share in changing competitive environments, or to deal with pricing or other competitive pressures;
- the continuing profitability and viability of our dealer-centric automotive finance and insurance businesses, especially in the face of competition from captive finance companies and their automotive manufacturing sponsors and challenges to the dealer's role as intermediary between manufacturers and purchasers;

- our ability to appropriately underwrite loans that we originate or purchase and to otherwise manage credit risk;
- changes in the credit, liquidity, or other financial condition of our customers, counterparties, service providers, or competitors;
- our ability to effectively deal with economic, business, or market slowdowns or disruptions;
- judicial, regulatory, or administrative investigations, proceedings, disputes, or rulings that create uncertainty for, or are adverse to, us or the financial services industry;
- our ability to address stricter or heightened regulatory or supervisory requirements and expectations;
- the performance and availability of third-party service providers on whom we rely in delivering products and services to our customers and otherwise conducting our business and operations;
- our ability to maintain secure and functional financial, accounting, technology, data processing, or other operating systems or infrastructure, including our capacity to withstand cyberattacks;
- the adequacy of our corporate governance, risk-management framework, compliance programs, or internal controls over financial reporting, including our ability to control lapses or deficiencies in financial reporting or to effectively mitigate or manage operational risk;
- the efficacy of our methods or models in assessing business strategies or opportunities or in valuing, measuring, estimating, monitoring, or managing positions or risk;
- our ability to keep pace with changes in technology that affect us or our customers, counterparties, service providers, or competitors;
- our ability to successfully make and integrate acquisitions;
- the adequacy of our succession planning for key executives or other personnel and our ability to attract or retain qualified employees;
- natural or man-made disasters, calamities, or conflicts, including terrorist events and pandemics; or
- other assumptions, risks, or uncertainties described in the Risk Factors (Item 1A), Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7), or the Notes to the Consolidated Financial Statements (Item 8) in this Annual Report on Form 10-K or described in any of the Company's annual, quarterly or current reports.

Any forward-looking statement made by us or on our behalf speaks only as of the date that it was made. We do not undertake to update any forward-looking statement to reflect the impact of events, circumstances, or results that arise after the date that the statement was made, except as required by applicable securities laws. You, however, should consult further disclosures (including disclosures of a forward-looking nature) that we may make in any subsequent Annual Report on Form 10-K, Quarterly Report on Form 10-Q, or Current Report on Form 8-K.

Unless the context otherwise requires, the following definitions apply. The term "loans" means the following consumer and commercial products associated with our direct and indirect financing activities: loans, retail installment sales contracts, lines of credit, and other financing products excluding operating leases. The term "operating leases" means consumer- and commercial-vehicle lease agreements where Ally is the lessor and the lessee is generally not obligated to acquire ownership of the vehicle at lease-end or compensate Ally for the vehicle's residual value. The terms "lend," "finance," and "originate" mean our direct extension or origination of loans, our purchase or acquisition of loans, or our purchase of operating leases as applicable. The term "consumer" means all consumer products associated with our loan and operating-lease activities and all commercial retail installment sales contracts. The term "commercial" means all commercial products associated with our loan activities, other than commercial retail installment sales contracts.

Overview

Ally Financial Inc. (together with its consolidated subsidiaries unless the context otherwise requires, Ally, the Company, 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 dealerships and consumers. Our award-winning online bank (Ally Bank, Member FDIC and

Equal Housing Lender) offers mortgage-lending services and a variety of deposit and other banking products, including savings, money-market, and checking accounts, certificates of deposit (CDs), and individual retirement accounts (IRAs). We also support the Ally CashBack Credit Card. 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 bank holding company (BHC) under the Bank Holding Company Act of 1956, as amended, and a financial holding company (FHC) under the Gramm-Leach-Bliley Act of 1999, as amended.

Our Business

Dealer Financial Services

Dealer Financial Services comprises our Automotive Finance and Insurance segments. Our primary customers are automotive dealers, which are independently owned businesses. A dealer may sell or lease a vehicle for cash but, more typically, enters into a retail installment sales contract or operating lease with the customer and then sells the retail installment sales contract or the operating lease and the leased vehicle, as applicable, to Ally or another automotive-finance provider. The purchase by Ally or another provider is commonly described as indirect automotive lending to the customer.

Our Dealer Financial Services is one of the largest full service automotive finance operations in the country and offers a wide range of financial services and insurance products to automotive dealerships and customers. We have deep dealer relationships that have been built throughout our hundred-year history, and we are leveraging competitive strengths to expand our dealer footprint. Our dealer-centric business model encourages dealers to use our broad range of products through incentive programs like our Ally Dealer Rewards program, which rewards individual dealers based on the depth and breadth of our relationship. Our automotive finance services include purchasing retail installment sales contracts and operating leases from dealers, extending automotive loans directly to consumers, offering term loans to dealers, financing dealer floorplans and providing other lines of credit to dealers, supplying warehouse lines to automotive retailers, offering automotive-fleet financing, providing financing to companies and municipalities for the purchase or lease of vehicles, and supplying vehicle-remarketing services. We also offer retail VSCs and commercial insurance primarily covering dealers' vehicle inventories. We are a leading provider of VSCs, GAP, and vehicle maintenance contracts (VMCs).

Automotive Finance

Our Automotive Finance operations provide U.S.-based automotive financing services to consumers, automotive dealers, other businesses, and municipalities. Our dealer-focused business model, value-added products and services, full-spectrum financing, and business expertise proven over many credit cycles make us a premier automotive finance company. For consumers, we provide financing for new and used vehicles. In addition, our Commercial Services Group (CSG) provides automotive financing for small businesses. At December 31, 2018, our CSG had $7.9 billion of loans outstanding. Through our commercial automotive financing operations, we fund dealer purchases of new and used vehicles through wholesale floorplan financing. At December 31, 2018, our Automotive Finance operations had $117.3 billion of assets and generated $4.0 billion of total net revenue in 2018. We manage commercial account servicing on approximately 3,600 dealers that utilize our floorplan inventory lending or other commercial loans. We service a $79.7 billion consumer loan and operating lease portfolio at December 31, 2018. The extensive infrastructure, technology, and analytics of our servicing operations as well as the experience of our servicing personnel enhance our ability to minimize our loan losses and enable us to deliver a favorable customer experience to both our dealers and retail customers. During 2018, we continued to reposition our origination profile to focus on capital optimization and risk-adjusted returns. In 2018, total consumer automotive originations were $35.4 billion, an increase of $694 million compared to 2017. The shorter-term duration consumer automotive loan and variable-rate commercial loan portfolios offer attractive asset classes where we continue to optimize risk-adjusted returns through origination mix management and pricing and underwriting discipline.

Our success as an automotive finance provider is driven by the consistent and broad range of products and services we offer to dealers. The automotive marketplace is dynamic and evolving, and we are focused on meeting the needs of both our dealer and consumer customers and continuing to strengthen and expand upon the 17,900 dealer relationships we have. Clearlane, our online automotive lender exchange, expands our direct-to-consumer capabilities and provides a digital platform for consumers seeking financing. Clearlane further enhances our automotive financing offerings, dealer relationships, and digital capabilities. In addition to providing a digital direct-to-consumer channel for Ally, Clearlane is a fee-based business that generates revenue by successfully referring leads to other automotive lenders. Additionally, we continue to expand our relationship with Carvana, a leading eCommerce platform for buying used vehicles. During the fourth quarter of 2018, we renewed our annual program with Carvana to provide up to $1.6

billion in purchases of retail installment sales contracts and warehouse financing. We believe these actions will enable us to respond to the growing trends for a more streamlined and digital automotive financing process to serve both dealers and consumers.

The Growth channel was established to focus on developing dealer relationships beyond those relationships that primarily were developed through our role as a captive finance company for General Motors Company (GM) and Fiat Chrysler Automobiles US LCC (Chrysler). The Growth channel was expanded to include direct-to-consumer financing through Clearlane and other channels and our arrangements with online automotive retailers. We have established relationships with thousands of Growth channel dealers through our customer-centric approach and specialized incentive programs designed to drive loyalty amongst dealers to our products and services. The success of the Growth channel has been a key enabler to converting our business model from a focused captive finance company to a leading market competitor. In this channel, we currently have over 11,000 dealer relationships, of which approximately 89% are franchised dealers (including brands such as Ford, Nissan, Kia, Hyundai, Toyota, Honda, and others), or used vehicle only retailers that have a national presence.

Over the past several years, we have continued to focus on the used vehicle segment primarily through franchised dealers, which has resulted in used vehicle financing volume growth, and has positioned us as an industry leader in used vehicle financing. The highly-fragmented used vehicle financing market, with a total financing opportunity represented by over 275 million vehicles in operation, provides an attractive opportunity that we believe will further expand and support our dealer relationships and increase our risk-adjusted return on retail loan originations. In January 2019, we renewed our annual program with DriveTime, the nation’s second largest vehicle retailer focused solely on used vehicles, to provide up to $200 million for the purchase of retail installment sales contracts.

For consumers, we provide automotive loan financing and leasing for new and used vehicles to approximately 4.3 million customers. Retail financing for the purchase of vehicles generally takes the form of installment sales financing. During 2018 and 2017, we originated a total of approximately 1.4 million and 1.3 million automotive loans and operating leases totaling $35.4 billion and $34.7 billion, respectively. Our operating lease residual risk, which may be more volatile than credit risk in stressed macroeconomic scenarios, has declined over the past several years as we have experienced growth in our consumer automotive loan portfolio and a significant reduction in operating lease assets since 2014. As of December 31, 2018, operating lease assets, net of accumulated depreciation, decreased 57%, to $8.4 billion, since December 31, 2014. 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.

Our consumer automotive financing operations generate revenue primarily through finance charges on retail installment sales contracts and rental payments on operating lease contracts. For operating leases, when the contract is originated, we estimate the residual value of the leased vehicle at lease termination. Periodically thereafter we revise the projected residual value of the leased vehicle at lease termination and adjust depreciation expense over the remaining life of the lease if appropriate. Given the fluctuations in used vehicle values, our actual sales proceeds from remarketing the vehicle may be higher or lower than the projected residual value, which results in gains or losses on lease termination. During 2018, we recognized $90 million of gains on operating lease terminations, compared to $124 million of gains in 2017. Remarketing gains decreased in 2018 due to lower operating lease termination volume as a result of our focus on consumer automotive loans.

We continue to maintain a diverse mix of product offerings across a broad risk spectrum, subject to underwriting policies that reflect our risk appetite. Our current operating results continue to increasingly reflect our ongoing strategy to grow used vehicle financing and expand risk-adjusted returns. While we predominately focus on prime-lending markets, we seek to be a meaningful source of financing to a wide spectrum of customers and continue to carefully measure risk versus return. We place great emphasis on our risk management and risk-based pricing policies and practices and employ robust credit decisioning processes coupled with granular pricing that is differentiated across credit tiers.

Our commercial automotive financing operations primarily fund dealer inventory purchases of new and used vehicles, commonly referred to as wholesale floorplan financing. This represents the largest portion of our commercial automotive financing business. Wholesale floorplan loans are secured by vehicles financed (and all other vehicle inventory), which provide strong collateral protection in the event of dealership default. Additional collateral or other credit enhancements (e.g., personal guarantees from dealership owners) are typically obtained to further mitigate credit risk. The amount we advance to dealers is equal to 100% of the wholesale invoice price of new vehicles. Interest on wholesale automotive financing is generally payable monthly and is indexed to a floating-rate benchmark. The rate for a particular dealer is based on, among other considerations, competitive factors and the dealer’s creditworthiness. During 2018, we financed an average of $29.5 billion of dealer vehicle inventory through wholesale floorplan financings. Other commercial automotive lending products, which averaged $6.0 billion during 2018, consist of automotive dealer term loans, including those to finance dealership land and buildings, and dealer fleet financing. We also provide comprehensive automotive remarketing services, including the use of SmartAuction, our online auction platform, which efficiently supports dealer-to-dealer and other commercial wholesale vehicle transactions. SmartAuction provides diversified fee-based revenue and serves as a means of deepening relationships with our dealership customers. In 2018, Ally and other parties, including dealers, fleet rental companies, and financial institutions, utilized SmartAuction to sell approximately 281,000 vehicles to dealers and other commercial customers. SmartAuction served as the remarketing channel for 52% of our off-lease vehicles.

Insurance

Our Insurance operations offer both consumer finance protection and insurance products sold primarily through the automotive dealer channel, and commercial insurance products sold directly to dealers. We serve approximately 2.4 million end consumers and have active relationships with approximately 4,200 dealerships nationwide across Finance and Insurance (F&I) and Property and Casualty (P&C) products. Our Insurance operations had $7.7 billion of assets at December 31, 2018, and generated $1.0 billion of total net revenue during 2018. As part of our focus on offering dealers a broad range of consumer financial and insurance products, we offer VSCs, VMCs, GAP products, and other ancillary products desired by consumers. We also underwrite selected commercial insurance coverages, which primarily insure dealers' wholesale vehicle inventory. Ally Premier Protection is our flagship VSC offering, which provides coverage for new and used vehicles of virtually all makes and models. We also offer ClearGuard on the SmartAuction platform, which is a protection product designed to minimize the risk to dealers from arbitration claims for eligible vehicles sold at auction. Additionally, we are the preferred VSC and protection plan provider for GM Canada.

From a dealer perspective, Ally provides significant value and expertise, which creates high retention rates and strong relationships. In addition to our product offerings, we provide consultative services and training to assist dealers in optimizing F&I results while achieving high levels of customer satisfaction and regulatory compliance. We also serve in an advisory role to dealers relative to their necessary liability and physical damage coverages.

The primary channel in which our F&I products are distributed is indirectly through the automotive dealer network. We have established 1,900 F&I dealer relationships and are focused on growing dealer relationships in the future. Our VSCs for retail customers offer owners and lessees mechanical repair protection and roadside assistance for new and used vehicles beyond the manufacturer's new vehicle warranty. These VSCs are marketed to the public through automotive dealerships and on a direct response basis. We also offer GAP products, which allow the recovery of a specified amount beyond the covered vehicle's value in the event the vehicle is damaged or stolen and declared a total loss. We continue to evolve our product suite and digital capabilities to position our business for future opportunities through growing third-party relationships and sales through our online automotive lending exchange, Clearlane.

We have approximately 3,200 dealer relationships within our P&C business where we offer a variety of commercial products and levels of coverage. Vehicle inventory insurance for dealers provides physical damage protection for dealers’ floorplan vehicles. Among dealers to whom we provide wholesale financing, our insurance product penetration rate is approximately 77%. Dealers who receive wholesale financing from us are eligible for insurance incentives such as automatic eligibility in our preferred insurance programs. In April 2018, we entered into a one-year reinsurance agreement to obtain excess of loss coverage for our vehicle inventory insurance product, including catastrophe coverage for weather-related events, to help manage our level of risk.

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

Mortgage Finance

Our Mortgage Finance operations consist of the management of held-for-investment and held-for-sale consumer mortgage loan portfolios. Our held-for-investment portfolio includes bulk purchases of high-quality jumbo and low-to-moderate income (LMI) mortgage loans originated by third parties, and a direct-to-consumer mortgage offering under the Ally Home brand. Our Mortgage Finance operations had $15.2 billion of assets at December 31, 2018, and generated $186 million of total net revenue in 2018.

Through the bulk loan channel, we purchase loans from several qualified sellers including direct originators and large aggregators who have the financial capacity to support strong representations and warranties and the industry knowledge and experience to originate high-quality assets. Bulk purchases are made on a servicing-released basis, allowing us to directly oversee servicing activities and manage prepayments through retention modification or refinancing through our direct-to-consumer channel. During the year ended December 31, 2018, we purchased $4.4 billion of mortgage loans that were originated by third parties. Our mortgage loan purchases are held-for-investment.

Through our direct-to-consumer channel, which was introduced late in 2016, we offer a variety of competitively-priced jumbo and conforming fixed- and adjustable-rate mortgage products through a third-party fulfillment provider. Under our current arrangement, our direct-to-consumer conforming mortgages are originated as held-for-sale and sold, while jumbo and LMI mortgages are originated as held-for-investment. Loans originated in the direct-to-consumer channel are sourced by existing Ally customer marketing, prospect marketing on third-party websites, and email or direct mail campaigns.

The combination of our bulk portfolio purchase program and our direct-to-consumer strategy provides the capacity to expand revenue sources and further grow and diversify our finance receivable portfolio with an attractive asset class while also deepening relationships with existing Ally customers.

Corporate Finance

Our Corporate Finance operations primarily provide senior secured leveraged cash flow and asset-based loans to mostly U.S.-based middle-market companies. Our Corporate Finance operations had $4.7 billion of assets at December 31, 2018, and generated $242 million of total net revenue during 2018, and continues to offer attractive returns and diversification benefits to our broader lending portfolio. We believe our growing deposit-based funding model coupled with our expanded product offerings and deep industry relationships provide an advantage over our competition, which includes other banks as well as publicly and privately held finance companies. While there has been an increase in liquidity and competition in the middle-market lending space given a strong economic environment and favorable returns in this area, we have continued to prudently grow our lending portfolio with a focus on a disciplined and selective approach to credit quality. We seek markets and opportunities where our clients require customized, complex, and time-sensitive financing solutions. Our corporate finance lending portfolio is generally composed of first-lien, first-out loans. Our primary focus is on businesses owned by private equity sponsors with loans typically used for leveraged buyouts, mergers and acquisitions, debt refinancing, expansions, restructurings, and working capital. Our target commitment hold level for individual exposures ranges from $25 million to $100 million for individual borrowers, depending on product type. We also selectively arrange larger transactions that we may retain on-balance sheet or syndicate to other lenders. By syndicating loans to other lenders, we are able to provide larger financing commitments beyond our target hold levels to our customers and generate loan syndication fee income while limiting our risk exposure to individual borrowers. Loan facilities typically include both a revolver and term loan component. All of our loans are floating-rate facilities with maturities typically ranging from two to seven years. In certain instances, we may be offered the opportunity to make small equity investments in our borrowers, where we could benefit from potential appreciation in the company’s value. The portfolio is well diversified across multiple industries including manufacturing, distribution, services, and other specialty sectors. These specialty sectors include our Technology Finance and Healthcare verticals. Our Technology Finance vertical provides financing solutions to venture capital-backed, technology-based companies. The Healthcare vertical provides financing across the healthcare spectrum including services, pharmaceuticals, manufacturing, and medical devices and supplies. Additionally, in late 2017 we launched a commercial real estate product focused on lending to skilled nursing facilities, senior housing, medical office buildings, and hospitals. Other smaller complementary product offerings that help strengthen our reputation as a full-spectrum provider of financing solutions for borrowers include selectively offering second-out loans on certain transactions and issuing letters of credit through Ally Bank.

Corporate and Other

Corporate and Other primarily consists of centralized corporate treasury activities such as management of the cash and corporate investment securities and loan portfolios, short- and long-term debt, retail and brokered deposit liabilities, derivative instruments, original issue discount, and the residual impacts of our corporate funds-transfer pricing (FTP) and treasury asset liability management (ALM) activities. Corporate and Other also includes activity related to the Ally CashBack credit card, certain equity investments, which primarily consist of Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock, the management of our legacy mortgage portfolio, which primarily consists of loans originated prior to January 1, 2009, and reclassifications and eliminations between the reportable operating segments.

In May 2017, we launched Ally Invest, our digital brokerage and wealth management offering, which enables us to complement our competitive deposit products with low-cost investing through the platform we acquired from the June 2016 acquisition of TradeKing Group, Inc. (TradeKing). The digital wealth management business aligns with our strategy to create a premier digital financial services company and provides additional sources of fee income through trading commissions and asset management fees, with minimal balance sheet utilization. This business also provides an additional source of low-cost funding in the form of sweep deposits.

Through Ally Invest, we are able to offer brokerage and investment-advisory services through a fully-integrated digital consumer platform. Our value proposition is based on the combination of attractive pricing, a broad product offering for active and passive investors, and outstanding client-focused and user-friendly customer service that is accessible twenty-four hours a day, seven days a week, via the phone, web or email—consistent with the Ally brand.

Ally Invest provides clients with self-directed trading services for a variety of securities including stocks, options, exchange-traded funds (ETFs), mutual funds, and fixed-income products through Ally Invest Securities. Ally Invest Securities also offers margin lending, which allows customers to borrow money by using securities and cash currently held in their accounts as collateral. Through Ally Invest Forex, we offer self-directed investors and traders the ability to trade over fifty currency pairs through a state-of-the-art forex trading platform.

Ally Invest also provides digital advisory services to clients through web-based solutions, informational resources, and virtual interaction through Ally Invest Advisors, an SEC-registered investment advisor. These services have emerged as a fast-growing segment within the financial services industry over the past several years. Ally Invest Advisors provides clients the opportunity to obtain professional portfolio management services in return for a fee that is based upon the client's assets under management. A number of core managed portfolios are offered, which hold ETFs diversified across asset class, industry sector, and geography and which are customized for clients based on risk tolerance, investment time horizon, and wealth ratio.

Financial results related to our online brokerage operations are currently included within Corporate and Other.

The net financing revenue and other interest income of our Automotive Finance, Mortgage Finance, and Corporate Finance operations include the results of an FTP process that insulates these operations from interest rate volatility by matching assets and liabilities with similar interest rate sensitivity and maturity characteristics. The FTP process assigns charge rates to the assets and credit rates to the liabilities within our Automotive Finance, Mortgage Finance, and Corporate Finance operations, based on anticipated maturity and a benchmark rate curve plus an assumed credit spread. The assumed credit spread represents the cost of funds for each asset class based on a blend of funding channels available to the enterprise, including unsecured and secured capital markets, private funding facilities, and deposits. In addition, a risk-based methodology is used to allocate equity to these operations.

Deposits

We are focused on growing a stable deposit base and deepening relationships with our 1.6 million primary deposit customers driven by our compelling brand and strong value proposition. Ally Bank, which is a direct bank with no branch network, obtains retail deposits directly from customers through internet, telephone, mobile, and mail channels. We have grown our deposits with a strong brand that is based on a promise of being straightforward, and offering high-quality customer service. Ally Bank has consistently increased its share of the direct banking deposit market and remains one of the largest direct banks in terms of retail deposit balances. Our strong retention rates and a growing customer base reflect the strength of our brand and, together with competitive deposit rates, continue to drive growth in retail deposits. At December 31, 2018, Ally Bank had $106.2 billion of total deposits—including $89.1 billion of retail deposits, which grew $11.2 billion, or 14% during 2018. Over the past several years, the continued growth of our retail-deposit base has contributed to a more favorable mix of lower cost funding. Our segment results include cost of funds associated with these deposit-product offerings. Noninterest costs associated with deposit gathering activities were $303 million for the year ended December 31, 2018, and are allocated to each segment based on their relative

balance sheets.
Our deposit products and services are designed to develop long-term customer relationships and capitalize on the shift in consumer preference for direct banking. These products and services appeal to a broad group of customers, many of whom appreciate a streamlined digital experience coupled with our strong value proposition. Ally Bank offers a full spectrum of deposit product offerings, such as savings and money market accounts, interest-bearing checking accounts, CDs, including several raise-your-rate CD terms, IRAs, and trust accounts. Our deposit services include Zelle® person-to-person payment services, eCheck remote deposit capture, and mobile banking. In addition, brokered deposits are obtained through third-party intermediaries.
We believe we are well-positioned to continue to benefit from the consumer-driven shift from branch banking to direct banking as demonstrated by the growth we have experienced. Our 1.6 million deposit customers and 3.2 million retail bank accounts as of December 31, 2018, reflect increases from 1.4 million and 2.7 million, respectively, as compared to December 31, 2017. Our customer base spans across diverse demographic segmentations and socioeconomic bands. Our direct bank business model resonates particularly well with the millennial generation, which consistently makes up the largest percentage of our new customers. According to a 2018 American Bankers Association survey, 75% of customers prefer to do their banking most often via digital and other direct channels (internet, mobile, telephone, and mail). Furthermore, over the past five years, estimated direct banking deposits as a percentage of the broader retail deposits market increased by

approximately 2 percentage points, from 7% to 9%. We have received a positive response to innovative savings and other deposit products and have been recognized as a "best online bank" by industry and consumer publications. Ally Bank's competitive direct banking includes online and mobile banking features such as electronic bill pay, remote deposit, and electronic funds transfer nationwide, with innovative interfaces such as banking through Alexa-enabled devices, and no minimum balance requirements.

We intend to continue to grow and invest in our direct online bank and further capitalize on the shift in consumer preference for direct banking with expanded digital capabilities and customer-centric products that utilize advanced analytics for personalized interactions and other technologies that improve efficiency, security, and the customer's connection to the brand. We are focused on growing, deepening, and further leveraging the customer relationships and brand loyalty that exist with Ally Bank as a catalyst for future loan and deposit growth, as well as revenue opportunities that arise from introducing Ally Bank deposit customers to our digital wealth management offering, Ally Invest.

Funding and Liquidity

Our funding strategy largely focuses on maintaining a diversified mix of retail and brokered deposits, public and private secured debt, and public unsecured debt. These funding sources are managed across products, markets, and investors to enhance funding flexibility and limit dependence on any one source, resulting in a more cost-effective long-term funding strategy.

Prudent expansion of asset originations at Ally Bank and continued growth of a stable deposit base continue to be the cornerstone of our long-term liquidity strategy. Retail deposits provide a low-cost source of funds that are less sensitive to interest rate changes, market volatility, or changes in our credit ratings than other funding sources. At December 31, 2018, deposit liabilities totaled $106.2 billion, which reflects an increase of $12.9 billion as compared to December 31, 2017. Deposits as a percentage of total liability-based funding increased three percentage points to 66% at December 31, 2018, as compared to December 31, 2017.

In addition to building a larger deposit base, we continue to remain active in the securitization markets to finance our automotive loan portfolios. During 2018, we issued $7.4 billion in securitizations backed by consumer automotive loans and dealer floorplan automotive assets. Securitizations continue to be an attractive source of funding due to structural efficiencies and the established market. Additionally, for retail loans and operating leases, the term structure of the transaction locks in funding for a specified pool of loans and operating leases. Once a pool of consumer automotive loans is selected and placed into a securitization, the underlying assets and corresponding debt amortize simultaneously resulting in committed and matched funding for the life of the asset. We manage the execution risk arising from securitizations by maintaining a diverse investor base and maintaining committed secured credit facilities.

As we continue to migrate assets to Ally Bank and grow our bank funding capabilities, our reliance on parent company liquidity has been reduced. At December 31, 2018, 89% of Ally's total assets were within Ally Bank. This compares to approximately 82% as of December 31, 2017. Funding sources at the parent company generally consist of longer-term unsecured debt, asset-backed securitizations, and private committed credit facilities. At December 31, 2018, we had $1.7 billion and $2.3 billion of unsecured long-term debt principal maturing in 2019 and 2020, respectively. We plan to reduce our reliance on market-based funding and continue to replace a significant portion of our unsecured term debt with lower cost deposit funding.

The strategies outlined above have allowed us to build and maintain a conservative liquidity position. Total available liquidity at December 31, 2018, was $19.0 billion. Absolute levels of liquidity increased during 2018 primarily as a result of continued growth in our portfolio of highly liquid investment securities. Refer to the section below titled Liquidity Management, Funding, and Regulatory Capital for a further discussion about liquidity risk management.

Credit Strategy

Our strategy and approach to extending credit, as well as our management of credit risk, is a critical element of our business. Credit performance is driven by a number of factors including our risk appetite, our credit and underwriting processes, our monitoring and collection efforts, the financial condition of our borrowers, the performance of loan collateral, and various macroeconomic considerations. The majority of our businesses offer credit products and services, which drive overall business performance. The failure to effectively manage credit risk can have a direct and significant impact on Ally's earnings, capital position, and reputation. Refer to the Risk Management section of this MD&A for a further discussion of credit risk and performance of our consumer and commercial credit portfolios.

Within our Automotive Finance operations, we target a mix of consumers across the credit spectrum to achieve portfolio diversification and to optimize the risk and return of our consumer automotive portfolio. This is carried out through the utilization of robust credit decisioning processes coupled with granular pricing that is differentiated across our credit tiers. While we are a full-spectrum automotive finance lender, the large majority of our consumer automotive loans are underwritten within the prime-lending markets. During 2018, our strategy for originations was to optimize the deployment of stockholder capital by focusing on our risk-adjusted returns against available origination opportunities, which has included a gradual and measured shift toward our Growth channel including used vehicle financings.

Consistent with our risk appetite, the Mortgage Finance team operates under credit standards that consider the borrower's ability and willingness to repay the mortgage loan, and considers and assesses the value of the underlying real estate in accordance with prudent credit practices and regulatory requirements. For both the direct-to-consumer business and the loans obtained through the bulk-purchase program, we generally focus on applicants with stronger credit profiles with and income streams to support repayment of the loan. Refer to the Mortgage Finance section of the MD&A that follows for credit quality information about purchases and originations of consumer mortgages held-for-investment. We generally rely on appraisals conducted by licensed appraisers in conformance with the expectations and requirements of Fannie Mae and federal regulators. When appropriate, we require credit enhancements such as private mortgage insurance. We price each mortgage loan that we originate based on a number of factors, including the customer's FICO® Score, the loan-to-value (LTV) ratio, and the size of the loan. For bulk purchases, we only purchase loans from sellers with the financial wherewithal to support their representations and warranties and the experience to originate high-quality loans.

Within our commercial lending portfolios, Corporate Finance operations primarily provide senior secured leveraged cash flow and asset-based loans to mostly U.S.-based middle-market companies. During 2018, we continued to prudently grow this portfolio with a disciplined and selective approach to credit quality, which has included the avoidance of covenant-light lending arrangements. Within our commercial automotive business we continue to offer a variety of dealer-centric lending products that primarily center around floorplan financing and dealer term loans. These commercial products are an important aspect of our dealer relationships and offer a secured lending arrangement with a number of strong collateral protections in the event of dealer default. The performance of our commercial credit portfolios continues to remain strong. During the years ended December 31, 2018, and 2017, we recognized total net charge-offs of $8 million and $18 million, respectively, within our commercial lending portfolios.

During 2018, the U.S. economy continued to modestly expand, and consumer confidence remained strong. The labor market remained healthy during the year, with the unemployment rate falling to 3.9% as of December 31, 2018. Our credit portfolios will continue to be impacted by household, business, economic, and market conditions—including used vehicle and housing price levels, and unemployment levels—and their impact to our borrowers. We expect to experience modest downward pressure on used vehicle values during 2019.

Discontinued Operations

During 2013 and 2012, certain disposal groups met the criteria to be presented as discontinued operations. The remaining activity relates to previous discontinued operations for which we continue to have wind-down, legal, and minimal operational costs. For all periods presented, the operating results for these operations have been removed from continuing operations. Refer to Note 2 to the Consolidated Financial Statements for more details. The MD&A has been adjusted to exclude discontinued operations unless otherwise noted.

Primary Business Lines

Dealer Financial Services, which includes our Automotive Finance and Insurance operations, Mortgage Finance, and Corporate Finance are our primary business lines. The following table summarizes the operating results excluding discontinued operations of each business line. Operating results for each of the business lines are more fully described in the MD&A sections that follow.

Year ended December 31, ($ in millions)	2018	2017	2016	Favorable/(unfavorable) 2018–2017 % change	Favorable/(unfavorable) 2017–2016 % change
Total net revenue					
Dealer Financial Services					
Automotive Finance	$4,038	$4,068	$3,971	(1)	2
Insurance	1,035	1,118	1,097	(7)	2
Mortgage Finance	186	136	97	37	40
Corporate Finance	242	212	147	14	44
Corporate and Other	303	231	125	31	85
Total	$5,804	$5,765	$5,437	1	6
Income (loss) from continuing operations before income tax expense					
Dealer Financial Services					
Automotive Finance	$1,368	$1,220	$1,380	12	(12)
Insurance	80	168	157	(52)	7
Mortgage Finance	45	20	34	125	(41)
Corporate Finance	144	114	71	26	61

Corporate and Other	(15)	(15)	(61)	—	75
Total	$1,622	$1,507	$1,581	8	(5)

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Consolidated Results of Operations

The following table summarizes our consolidated operating results excluding discontinued operations for the periods shown. Refer to the operating segment sections of the MD&A that follows for a more complete discussion of operating results by business line.

Year ended December 31, ($ in millions)	2018	2017	2016	Favorable/(unfavorable) 2018–2017 % change	Favorable/(unfavorable) 2017–2016 % change
Net financing revenue and other interest income					
Total financing revenue and other interest income	$9,052	$8,322	$8,305	9	—
Total interest expense	3,637	2,857	2,629	(27)	(9)
Net depreciation expense on operating lease assets	1,025	1,244	1,769	18	30
Net financing revenue and other interest income	4,390	4,221	3,907	4	8
Other revenue					
Insurance premiums and service revenue earned	1,022	973	945	5	3
Gain on mortgage and automotive loans, net	25	68	11	(63)	n/m
Other (loss) gain on investments, net	(50)	102	185	(149)	(45)
Other income, net of losses	417	401	389	4	3
Total other revenue	1,414	1,544	1,530	(8)	1
Total net revenue	5,804	5,765	5,437	1	6
Provision for loan losses	918	1,148	917	20	(25)
Noninterest expense					
Compensation and benefits expense	1,155	1,095	992	(5)	(10)
Insurance losses and loss adjustment expenses	295	332	342	11	3
Other operating expenses	1,814	1,683	1,605	(8)	(5)
Total noninterest expense	3,264	3,110	2,939	(5)	(6)
Income from continuing operations before income tax expense	1,622	1,507	1,581	8	(5)
Income tax expense from continuing operations	359	581	470	38	(24)
Net income from continuing operations	$1,263	$926	$1,111	36	(17)

n/m = not meaningful

2018 Compared to 2017

We earned net income from continuing operations of $1.3 billion for the year ended December 31, 2018, compared to $926 million for the year ended December 31, 2017. During the year ended December 31, 2018, results were favorably impacted by a decrease in the provision for loan losses primarily due to favorable credit performance within our consumer automotive loan portfolio, higher net financing revenue across our lending operations resulting from a continued focus on optimizing portfolio growth within our Automotive Finance operations, and growth within our

Mortgage Finance and Corporate Finance operations. Additionally, results were favorably impacted by the reduction in the U.S. federal corporate tax rate effective during 2018 and $119 million of income tax expense attributable to changes to our net deferred tax assets in the fourth quarter of 2017 as a result of the Tax Cuts and Jobs Act of 2017 (the Tax Act). A more favorable interest rate environment and higher investment securities balances also contributed to higher yields on earning assets. These items were partially offset by higher interest expense, lower net operating lease revenue due to runoff of our legacy GM operating lease portfolio, and higher noninterest expense. Additionally, results were unfavorably impacted by $121 million of unrealized losses on equity securities. Beginning January 1, 2018, as a result of a change in accounting principles, unrealized gains and losses on equity securities are included in net income. Refer to Note 1 to the Consolidated Financial Statements for further discussion.

Net financing revenue and other interest income increased $169 million for the year ended December 31, 2018, compared to the year ended December 31, 2017. Within our automotive finance business, consumer automotive net financing revenue continued to benefit from our efforts to reposition our origination profile to further drive capital optimization and expand risk-adjusted returns, a higher interest rate environment, and higher average retail asset levels. Commercial automotive net financing revenue also increased due to higher benchmark interest rates, partially offset by a decrease in average outstanding floorplan assets resulting from a reduction in the number of GM dealer floorplan lines. Income from our portfolio of investment securities and other earning assets, including cash and cash equivalents, increased $224 million for the year ended December 31, 2018, compared to 2017, due to both higher yields and higher balances of investment securities as we continue to utilize this portfolio to manage liquidity and generate a stable source of income. Net financing revenue and other interest income within our Mortgage Finance operations was favorably impacted by increased loan balances primarily as a result of bulk purchases of high-quality jumbo and LMI mortgage loans. Net financing revenue and other interest income within our Corporate Finance operations was favorably impacted by our strategy to prudently grow assets and our product suite within existing verticals while selectively pursuing opportunities to broaden industry and product diversification. The increase to net financing revenue and other interest income was partially offset by the runoff of our legacy GM operating lease portfolio, which was substantially wound-down as of June 30, 2018. Additionally, total interest expense increased 27% for the year ended December 31, 2018, compared to 2017. While we continue to shift borrowings toward more cost-effective deposit funding and reduce our dependence on market-based funding through reductions in higher-cost secured and unsecured debt, interest expense increased as a result of higher market rates across all funding sources. Additionally, our overall borrowing levels were higher to support the growth in our lending operations. Our total deposit liabilities increased $12.9 billion to $106.2 billion as of December 31, 2018, as compared to $93.3 billion as of December 31, 2017.

Insurance premiums and service revenue earned increased $49 million for the year ended December 31, 2018, compared to 2017, primarily due to higher vehicle inventory insurance rates and growth in GAP volume. The increase was partially offset by the implementation of ASU 2014-09, Revenue from Contracts with Customers, on January 1, 2018, which changed the revenue recognition portion of revenue earned on noninsurance contracts to be recognized over the contract term as further described in Note 3 to the Consolidated Financial Statements.

Gain on mortgage and automotive loans was $25 million for the year ended December 31, 2018, as compared to $68 million in 2017. The decrease for the year ended December 31, 2018, was due to lower levels of consumer automotive whole-loan sales. We continue to utilize whole-loan sales to proactively manage our credit exposure, asset levels, funding, and capital utilization, including the sale of previously written-down consumer automotive loans related to consumers in Chapter 13 bankruptcy.

Other loss on investments was $50 million for the year ended December 31, 2018, compared to a gain of $102 million for the year ended December 31, 2017. The loss on investments for the year ended December 31, 2018, includes $121 million of unrealized losses due to changes in the fair value of our portfolio of equity securities. Beginning January 1, 2018, as a result of a change in accounting principles, unrealized gains and losses on equity securities are included in net income. Refer to Note 1 to the Consolidated Financial Statements for further discussion. Additionally, the decrease for the year ended December 31, 2018, was attributable to higher sales of investment securities in 2017 that did not recur in the current period.

The provision for loan losses was $918 million for the year ended December 31, 2018, compared to $1.1 billion in 2017. The decrease in provision for loan losses was primarily driven by our consumer automotive loan portfolio where we experienced strong overall credit performance driven by favorable macroeconomic trends including low unemployment, as well as continued disciplined underwriting and higher recoveries on charge-offs driven by improved used vehicle values. Additionally, our automotive and mortgage loan portfolios were impacted by $53 million of additional reserves associated with the estimated impacts of hurricanes Harvey and Irma during the third quarter of 2017. These items were partially offset by asset growth in the consumer automotive loan portfolio. Refer to the Risk Management section of this MD&A for further discussion.

Noninterest expense was $3.3 billion for the year ended December 31, 2018, compared to $3.1 billion for the year ended December 31, 2017. The increase was driven by expenses related to supporting the growth of our retail deposits and consumer loan portfolios. We also continue to make investments in product expansion initiatives in our direct-to-consumer mortgage offering, in our technology platform to enhance the customer experience and expand our digital capabilities, and in marketing activities to promote brand awareness and drive retail deposit growth. Additionally, compensation and benefits expense was impacted by a one-time tax reform-related bonus paid to eligible Ally employees during the first quarter of 2018, as well as certain employee separation expenses incurred during the second and fourth quarters of 2018. The increase for the year ended December 31, 2018, was partially offset by lower insurance losses and loss adjustment expenses, primarily driven by lower weather-related losses.

We recognized total income tax expense from continuing operations of $359 million for the year ended December 31, 2018, compared to $581 million for the year ended December 31, 2017. The decrease in income tax expense for the year ended December 31, 2018, compared to 2017, was primarily driven by the reduction in the U.S. federal corporate tax rate effective during 2018 and $119 million of income tax expense attributable to changes to our net deferred tax assets in the fourth quarter of 2017 as a result of the Tax Act. This decrease was partially offset by the tax effects of an

increase in pretax earnings, nondeductible Federal Deposit Insurance Corporation (FDIC) premiums as a result of the Tax Act, and a nonrecurring tax benefit in 2017 from the release of valuation allowance against our capital-in-nature deferred tax assets.
2017 Compared to 2016
We earned net income from continuing operations of $926 million for the year ended December 31, 2017, compared to $1.1 billion for the year ended December 31, 2016. During the year ended December 31, 2017, results were favorably impacted by higher net financing revenue across all lending operations resulting from a continued focus on optimizing portfolio growth through pricing actions and originating loans across a broader credit spectrum within our Automotive Finance operations, and growth within our Mortgage Finance and Corporate Finance operations. Higher investment securities balances and a more favorable interest rate environment also contributed to higher yields on our earnings assets. Results were also favorably impacted by higher gains on the sale of automotive loans and higher insurance premiums and service revenue earned. These items were more than offset by runoff in our legacy GM operating lease portfolio, higher provision expense related to our focus on originating across a broader credit spectrum with appropriate risk-adjusted returns, and estimated impacts from hurricane related activity during the third quarter of 2017. Results were also unfavorably impacted by higher noninterest expense to support the launch and growth of our consumer and commercial product offerings, technology and digital investments, and lower realized gains on investments. Additionally, net income was unfavorably impacted by $119 million of income tax expense driven primarily by a one-time impact of the passage of tax reform legislation during the fourth quarter of 2017, and a nonrecurring tax benefit in the second quarter of 2016

due to a U.S. tax reserve release related to a prior-year federal return that reduced our liability for unrecognized tax benefits by $175 million, both of which were partially offset by changes to our valuation allowance relating to capital-in-nature deferred tax assets and foreign tax credit carryforwards.

Net financing revenue and other interest income increased $314 million for the year ended December 31, 2017, compared to the year ended December 31, 2016. Income from our portfolio of investment securities and other earning assets, including cash and cash equivalents, increased $204 million for the year ended December 31, 2017, due primarily to growth of investment securities balances as we continue to utilize this portfolio to manage liquidity and generate a stable source of income. Net financing revenue and other interest income from our Automotive Finance operations increased, despite continued runoff of our legacy GM operating lease portfolio, which was substantially wound-down as of June 30, 2018. Consumer automotive financing revenue continued to benefit from our pricing actions and efforts to reposition our origination profile to focus on capital optimization and risk-adjusted returns, as well as higher average retail asset levels. Commercial automotive financing revenue also increased during the period due to higher benchmark interest rates and an increase in average outstanding floorplan assets. Net financing revenue and other interest income within our Mortgage Finance operations was favorably impacted in 2017 by increased portfolio loan balances as a result of bulk purchases of high-quality jumbo and LMI mortgage loans and direct-to-consumer originations. Net financing revenue and other interest income within our Corporate Finance operations increased in 2017 as a result of our strategy to responsibly grow assets and our product suite within existing verticals while selectively pursuing opportunities to broaden industry and product diversification. Total interest expense increased 9% for the year ended December 31, 2017, compared to the year ended December 31, 2016. While we continue to shift borrowings toward more cost-effective deposit funding and to reduce our dependence on market-based funding through reductions in higher-cost secured and unsecured debt, interest expense increased as a result of higher market rates across funding sources and higher deposit levels to support growth in our lending operations. Our total deposit liabilities increased to $93.3 billion as of December 31, 2017, as compared to $79.0 billion as of December 31, 2016.

Insurance premiums and service revenue earned increased to $973 million for the year ended December 31, 2017, as compared to $945 million for the year ended December 31, 2016, primarily due to higher vehicle inventory insurance rates and growth in our consumer finance protection and insurance products, partially offset by ceding of premiums under a one-year reinsurance agreement we entered into in April 2017.

Gain on mortgage and automotive loans increased to $68 million for the year ended December 31, 2017, as compared to $11 million for the year ended December 31, 2016. The increase was primarily driven by sales of certain previously written-down consumer automotive loans related to consumers in Chapter 13 bankruptcy where borrowers continue to make payments to proactively manage our overall credit exposure, asset levels, and capital utilization.

Other gain on investments was $102 million for the year ended December 31, 2017, compared to $185 million for the year ended December 31, 2016. The decrease was due primarily to higher levels of sales of investment securities in 2016 that did not recur in 2017.

Other income increased to $401 million for the year ended December 31, 2017, as compared to $389 million for the year ended December 31, 2016. The increase for the year ended December 31, 2017, was primarily due to contributions from our Corporate Finance operations, which included an $11 million equity investment gain in the first quarter of 2017 and an increase in loan syndication income, as well as contributions from operations of Ally Invest included in our results subsequent to acquisition in the second quarter of 2016. This was partially offset by a decrease in servicing fee income at our Automotive Finance operations resulting from lower levels of off-balance sheet retail serviced loans.

The provision for loan losses was $1.1 billion for the year ended December 31, 2017, compared to $917 million for the year ended December 31, 2016. The increase in provision for loan losses was primarily driven by our consumer automotive loan portfolio, where we experienced higher net charge-offs as a result of our focus on originating across a broader credit spectrum by focusing on risk-adjusted returns. Additionally, provision expense increased in 2017 due to retail asset growth and the estimated impacts of hurricane activity that occurred during the third quarter of 2017, which most notably impacted our consumer automotive loan portfolio. Refer to the Risk Management section of this MD&A for further discussion.

Noninterest expense was $3.1 billion for the year ended December 31, 2017, compared to $2.9 billion for the year ended December 31, 2016. The increase was primarily driven by expenses related to the growth of our consumer and commercial products, including the addition and integration of Ally Invest and Clearlane, as well as the expansion of our direct-to-consumer mortgage offering as we continue to enhance our digital wealth management offering, expand our product suite, and grow digital platforms for consumers and dealers. This increase was partially offset by lower insurance losses and loss adjustment expenses during the year ended December 31, 2017, compared to the year ended December 31, 2016, primarily due to the ceding of weather-related losses subject to a reinsurance agreement.

We recognized total income tax expense from continuing operations of $581 million for the year ended December 31, 2017, compared to $470 million for the year ended December 31, 2016. The increase in income tax expense for the year ended December 31, 2017, compared to the year ended December 31, 2016, was primarily driven by $119 million of tax expense attributable to tax reform enacted on December 22, 2017, and a nonrecurring tax benefit in the second quarter of 2016 due to a U.S. tax reserve release related to a prior-year federal return that reduced our liability for unrecognized tax benefits by $175 million. The increase in tax expense was partially offset by changes to our valuation allowance relating to capital-in-nature deferred tax assets and foreign tax credit carryforwards.

Dealer Financial Services

Results for Dealer Financial Services are presented by reportable segment, which includes our Automotive Finance and Insurance operations.

Automotive Finance

Results of Operations

The following table summarizes the operating results of our Automotive Finance operations. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

Year ended December 31, ($ in millions)	2018	2017	2016	Favorable/(unfavorable) 2018–2017 % change	Favorable/(unfavorable) 2017–2016 % change
Net financing revenue and other interest income					
Consumer	$4,287	$3,882	$3,587	10	8
Commercial	1,516	1,306	1,068	16	22
Loans held-for-sale	3	—	—	n/m	—
Operating leases	1,489	1,867	2,711	(20)	(31)
Other interest income	7	6	11	17	(45)
Total financing revenue and other interest income	7,302	7,061	7,377	3	(4)
Interest expense	2,508	2,104	1,943	(19)	(8)
Net depreciation expense on operating lease assets	1,025	1,244	1,769	18	30
Net financing revenue and other interest income	3,769	3,713	3,665	2	1
Other revenue					
Gain on automotive loans, net	22	76	17	(71)	n/m
Other income	247	279	289	(11)	(3)
Total other revenue	269	355	306	(24)	16
Total net revenue	4,038	4,068	3,971	(1)	2
Provision for loan losses	920	1,134	924	19	(23)
Noninterest expense					
Compensation and benefits expense	505	510	481	1	(6)
Other operating expenses	1,245	1,204	1,186	(3)	(2)
Total noninterest expense	1,750	1,714	1,667	(2)	(3)
Income from continuing operations before income tax expense	$1,368	$1,220	$1,380	12	(12)
Total assets	$117,304	$114,089	$116,347	3	(2)

n/m = not meaningful

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

($ in millions)	2018	2017	2016	Favorable/(unfavorable) 2018–2017 % change	Favorable/(unfavorable) 2017–2016 % change
Net operating lease revenue					
Operating lease revenue	$1,489	$1,867	$2,711	(20)	(31)
Depreciation expense					
	1,115	1,368	1,982	18	31

Depreciation expense on operating lease assets (excluding remarketing gains)					
Remarketing gains, net	(90)	(124)	(213)	(27)	(42)
Net depreciation expense on operating lease assets	1,025	1,244	1,769	18	30
Total net operating lease revenue	$464	$623	$942	(26)	(34)
Investment in operating leases, net	$8,417	$8,741	$11,470	(4)	(24)

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The following table presents the average balance and yield of the loan and operating lease portfolios of our Automotive Financing operations.

Year ended December 31, ($ in millions)	2018 Average balance	2018 Yield	2017 Average balance	2017 Yield	2016 Average balance	2016 Yield
Finance receivables and loans, net (a) (b)						
Consumer automotive (c)	$69,804	6.14%	$66,502	5.80%	$64,230	5.52%
Commercial						
Wholesale floorplan	29,455	4.21	31,586	3.37	29,989	2.86
Other commercial automotive (d)	6,038	4.55	5,802	4.15	5,202	4.00
Investment in operating leases, net (e)	8,590	5.40	9,791	6.36	13,791	6.83

(a) Average balances are calculated using a daily average methodology.
(b) Nonperforming finance receivables and loans are included in the average balances. For information on our accounting policies regarding nonperforming status, refer to Note 1 to the Consolidated Financial Statements.
(c) Includes the effects of derivative financial instruments designated as hedges.
(d) Consists primarily of automotive dealer term loans, including those to finance dealership land and buildings, and dealer fleet financing.
(e) Yield includes gains on the sale of off-lease vehicles of $90 million, $124 million, and $213 million for years ended December 31, 2018, 2017, and 2016, respectively. Excluding these gains on sale, the yield would be 4.35%, 5.10%, and 5.29% for the years ended December 31, 2018, 2017, and 2016, respectively.

2018 Compared to 2017

Our Automotive Finance operations earned income from continuing operations before income tax expense of $1.4 billion for the year ended December 31, 2018, compared to $1.2 billion for the year ended December 31, 2017. During the year ended December 31, 2018, we continued to focus on repositioning our origination profile to further drive capital optimization, and expanding risk-adjusted returns. As a result, we experienced higher consumer loan financing revenue primarily due to an increase in consumer loan portfolio yields and asset levels. We also experienced higher commercial financing revenue due to higher yields resulting from higher benchmark interest rates, partially offset by a decrease in wholesale floorplan balances. Results were also favorably impacted by a decrease in provision for loan losses primarily due to favorable credit performance within our consumer loan portfolio. Results were unfavorably impacted by higher interest expense due to higher benchmark rates, a decrease in net operating lease revenue from the runoff of our legacy GM operating lease portfolio, and lower gains on automotive loan sales.

Consumer loan financing revenue increased $405 million for the year ended December 31, 2018, compared to 2017. The increase was primarily due to improved portfolio yields as a result of our continued focus on expanding risk-adjusted returns, a higher interest rate environment, and higher average retail asset levels resulting from sustained asset growth. We have continued to focus on the used vehicle segment primarily through franchised dealers, which has continued to support growth in our used vehicle automotive loans. Additionally, we have continued to identify and grow relationships with automotive retailers including those with leading eCommerce platforms. Through these actions we continue to focus on risk-adjusted returns, optimizing our origination mix, and achieving greater portfolio diversification.

Commercial financing revenue increased $210 million for the year ended December 31, 2018, compared to 2017. The increase was primarily due to higher yields resulting from higher benchmark interest rates, partially offset by a decrease in average outstanding floorplan assets resulting from a reduction in the number of GM dealer floorplan lines. The decline in average outstanding floorplan units was partially offset by higher average vehicle prices.

Interest expense was $2.5 billion for the year ended December 31, 2018, compared to $2.1 billion for the year in 2017. The increase was primarily due to higher funding costs as a result of a rising interest rate environment.

We recorded gains from the sale of automotive loans of $22 million for the year ended December 31, 2018, compared to $76 million for 2017. We continue to utilize whole-loan sales to proactively manage our credit exposure, asset levels, funding, and capital utilization, including the sale of previously written-down consumer automotive loans related to consumers in Chapter 13 bankruptcy.

Other income decreased 11% for the year ended December 31, 2018, compared to the year ended December 31, 2017. The decrease was primarily due to a decrease in servicing fee income resulting from lower levels of off-balance sheet retail serviced loans, as well as a decrease in remarketing fee income primarily resulting from lower operating lease termination volume.

Total net operating lease revenue decreased $159 million for the year ended December 31, 2018, compared to 2017. The decrease was primarily due to the runoff of our legacy GM operating lease portfolio, which was substantially wound-down as of June 30, 2018. Additionally, we recognized remarketing gains of $90 million for the year ended December 31, 2018, compared to gains of $124 million for 2017 due primarily to a lower number of terminated units. Refer to the Operating Lease Residual Risk Management section of this MD&A for further discussion.

The provision for loan losses was $920 million for the year ended December 31, 2018, compared to $1.1 billion for 2017. The decrease in provision for loan losses for the year ended December 31, 2018, was primarily driven by our consumer automotive loan portfolio where we experienced strong overall credit performance driven by favorable macroeconomic trends including low unemployment, as well as continued disciplined underwriting and higher recoveries on charge-offs driven by improved used vehicle values. Additionally, results were impacted by $48 million of additional reserves associated with the estimated impacts of hurricanes Harvey and Irma during the third quarter of 2017. These items were partially offset by asset growth in the consumer automotive loan portfolio. Refer to the Risk Management section of this MD&A for further discussion.

2017 Compared to 2016

Our Automotive Finance operations earned income from continuing operations before income tax expense of $1.2 billion for the year ended December 31, 2017, compared to $1.4 billion for the year ended December 31, 2016. During the year ended December 31, 2017, we continued to focus on pricing actions and repositioning our origination profile to focus on capital optimization and expanding risk-adjusted returns. As a result, we experienced higher consumer loan financing revenue primarily due to an increase in consumer loan portfolio yields and assets. We also experienced higher commercial financing revenue primarily due to higher yields resulting from higher benchmark interest rates. Additionally, we realized an increase in gains on the sale of automotive loans of $59 million during the year ended December 31, 2017. These favorable items were more than offset by a decrease in net operating lease revenue primarily resulting from the continued runoff of our legacy GM operating lease portfolio, as well as less favorable remarketing activity for the year ended December 31, 2017, compared to 2016, due to lower used vehicle prices and a decline in operating lease termination volume. We also experienced higher provision for loan losses resulting from higher net charge-offs, driven by the changing composition of our portfolio associated with our focus on originating across a broader credit spectrum, higher retail asset levels, and the estimated impact of hurricane activities during the third quarter of 2017.

Consumer loan financing revenue increased $295 million for the year ended December 31, 2017, compared to 2016. The increase was primarily due to improved portfolio yields as a result of the execution of our pricing actions and continued focus on expanding risk-adjusted returns, as well as higher average retail loan balances.

Commercial financing revenue increased $238 million for the year ended December 31, 2017, compared to 2016. The increase was primarily due to higher yields resulting from higher benchmark interest rates and an increase in average outstanding floorplan assets resulting from higher average dealer inventory levels and vehicle prices. The increase was also due to an increase in non-floorplan dealer loan balances.

We recognized gains from the sale of automotive loans of $76 million for the year ended December 31, 2017, compared to $17 million for 2016. During the year ended December 31, 2017, we sold certain previously written-down consumer automotive loans related to consumers in Chapter 13 bankruptcy where borrowers continue to make payments to proactively manage our overall credit exposure, asset levels, and capital utilization. A portion of the total gains on sale for the year ended December 31, 2017, was offset within Corporate and Other as a result of our FTP methodology.

Total net operating lease revenue decreased 34% for the year ended December 31, 2017, compared to 2016. The decrease was primarily due to the runoff of our legacy GM operating lease portfolio, which was substantially wound-down as of June 30, 2018. The decrease was also due to less favorable remarketing activity. We recognized remarketing gains of $124 million for the year ended December 31, 2017, compared to gains of $213 million for 2016. Remarketing gains decreased in 2017 due to lower used vehicle prices and a decline in operating lease termination volume. Refer to the Operating Lease Residual Risk Management section of this MD&A for further discussion.

The provision for loan losses was $1.1 billion for the year ended December 31, 2017, compared to $924 million for 2016. The increase in provision for loan losses for the year ended December 31, 2017, was primarily due to higher net charge-offs in our consumer automotive loan portfolio as a result of our focus on originating across a broader credit spectrum, retail asset growth, and the impact of hurricane activities during the third quarter of 2017. Refer to the Risk Management section of this MD&A for further discussion.

Automotive Financing Volume

Our Automotive Finance operations provide automotive financing services to consumers and automotive dealers. For consumers, we provide retail financing and leasing for new and used vehicles, and through our commercial automotive financing operations, we fund dealer purchases of new and used vehicles through wholesale floorplan financing and provide dealer term and revolving loans and automotive fleet financing. In 2016, we expanded operations to include direct-to-consumer lending.

Acquisition and Underwriting

Our underwriting process is focused on multidimensional risk factors and data driven risk-adjusted probabilities that are continuously monitored and routinely updated. Each application is placed into an analytical category based on specific aspects of the applicant's credit profile and loan structure. We then evaluate the application by applying a proprietary credit scoring algorithm tailored to its applicable category. Inputs into this algorithm include, but are not limited to, proprietary scores and deal structure variables such as LTV, new or used vehicle collateral, and term of financing. The output of the algorithm is used to sort applications into various credit tiers (S, A, B, C, D, and E). Credit tiers help determine our primary indication of credit quality and pricing, and are also communicated to the dealer that submitted the application. This process is built on long established credit risk fundamentals to determine both the applicant's ability and willingness to repay. While advances in excess of 100% of the vehicle collateral value at loan origination—notwithstanding cash down and vehicle trade in value—are typical in the industry (primarily due to additional costs such as mechanical warranty contracts, taxes, license, and title fees), our pricing, risk, and underwriting processes are rooted in statistical analysis to manage this risk.

Our underwriting process uses a combination of automated strategies and manual evaluation by an experienced team of dedicated underwriters. We have developed an automated process to expedite the review of applications with various combinations of credit factors that we have observed over time to substantially outperform or underperform in terms of net credit losses. As a result, automated decisions are based on many clusters of credit factors rather than a small set of benchmark characteristics. Automated approvals are primarily limited to the highest-quality credit tiers and automated rejections to lower-quality credit tiers. Underwriting is also governed by our credit policies, which set forth guidelines such as acceptable transaction parameters and verification requirements. For higher-risk approved transactions, these guidelines require verification of details such as applicant income and employment through documentation provided by the applicant or other data sources.

Underwriters have a limited ability to approve exceptions to the guidelines in our credit policies. For example, an exception may be approved to allow a term or a ratio of payment-to-income, debt-to-income, or LTV greater than that in the guidelines. Exceptions must be approved by underwriters with appropriate approval authority and generally are based on compensating factors. We monitor exceptions with the goal of limiting them to a small portion of approved applications and originated loans, and rarely permit more than a single exception to avoid layered risk.

Consumer Automotive Financing

New- and used-vehicle consumer financing through dealerships takes one of two forms: retail installment sales contracts (retail contracts) and operating lease contracts. We purchase retail contracts and operating lease contracts for new and used vehicles from dealers after those contracts are executed by the dealers and the consumers. Our consumer automotive financing operations generate revenue primarily through finance charges on retail contracts and rental payments on operating lease contracts. In connection with operating lease contracts, we recognize depreciation expense on the vehicle over the operating lease contract period and we may also recognize a gain or loss on the remarketing of the vehicle at the end of the lease.

The amount we pay a dealer for a retail contract is based on the rate of finance charge agreed by the dealer and customer, the negotiated purchase price of the vehicle, any other products such as service contracts, less any vehicle trade-in value, any down payment from the consumer, and any available automotive manufacturer incentives. Under the retail contract, the consumer is obligated to make payments in an amount equal to the purchase price of the vehicle (less any trade-in or down payment) plus finance charges at a rate negotiated between the consumer and the dealer. In addition, the consumer is responsible for charges related to past-due payments. Consistent with industry practice, when we purchase the retail contract, we pay the dealer at a rate discounted below the rate agreed by the dealer and the consumer (generally described in the industry as the "buy rate"). Our agreements with dealers limit the amount of the discount that we will accept. Although we do not own the vehicles we finance through retail contracts, our agreements require that we hold a perfected security interest in those vehicles.

With respect to consumer leasing, we purchase operating lease contracts and the associated vehicles from dealerships after those contracts are executed by the dealers and the consumers. The amount we pay a dealer for an operating lease contract is based on the negotiated price for the vehicle less any vehicle trade-in, any down payment from the consumer, and any available automotive manufacturer incentives. Under the operating lease, the consumer is obligated to make payments in amounts equal to the amount by which the negotiated purchase price of the vehicle (less any trade-in value, down payment, or any available manufacturer incentives) exceeds the contract residual value (including residual support) of the vehicle at lease termination, plus operating lease rental charges. The consumer is also generally responsible for charges related to past-due payments, excess mileage, excessive wear and tear, and certain disposal fees where applicable. At contract inception, we determine pricing based on the projected residual value of the leased vehicle. This evaluation is primarily based on a proprietary model, which includes variables such as vehicle age, expected mileage, seasonality, segment factors, vehicle type, economic indicators, production cycle, automotive manufacturer incentives, and shifts in used vehicle supply. This internally-generated data is compared against third-party, independent data for reasonableness.

Periodically, we revise the projected value of the leased vehicle at termination based on then-current market conditions and adjust depreciation expense appropriately over the remaining life of the contract. At termination, our actual sales proceeds from remarketing the vehicle may be higher or lower than the estimated residual value resulting in a gain or loss on remarketing recorded through depreciation expense.

Our standard consumer operating lease contract, SmartLease, requires a monthly payment by the consumer. We also offer an alternative leasing plan, SmartLease Plus, which requires one up-front payment of all operating lease amounts at the time the consumer takes possession of the vehicle.

Our standard consumer lease contracts are operating leases; therefore, credit losses on the operating lease portfolio are not as significant as losses on retail contracts because lease credit losses are primarily limited to past-due payments and assessed fees. Since some of these fees are not assessed until the vehicle is returned, these losses on the operating lease portfolio are correlated with lease termination volume. Operating lease accounts over 30 days past due represented 1.48% and 1.41% of the portfolio at December 31, 2018, and 2017, respectively.

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

For the year ended December 31, 2018, our portfolio yield for consumer automotive loans has increased 34 basis points relative to the year ended December 31, 2017, and 62 basis points relative to the year ended December 31, 2016. We set our buy rates using a granular, risk-based methodology factoring in several variables including interest costs, projected net average annualized loss rates at the time of origination, anticipated operating costs, and targeted return on equity. The increases in rates on recent loan originations were primarily the result of a higher interest rate environment and our continued shift in origination mix toward the Growth channel. Over the past several years, we have continued to focus on portfolio diversification and the used vehicle segment, primarily through franchised dealers, which has contributed to higher yields on our consumer automotive loan portfolio. Commensurate with this shift in origination mix, we continue to maintain consistent, disciplined underwriting within our new and used consumer automotive loan originations. The carrying value of our nonprime consumer automotive loans before allowance for loan losses was $8.3 billion, or approximately 11.7% of our total consumer automotive loans at December 31, 2018, as compared to $8.8 billion, or approximately 12.9% of our total consumer automotive loans at December 31, 2017.

The following table presents retail loan originations by credit tier and product type.

	Used retail			New retail		
Credit Tier (a)	Volume ($ in billions)	% Share of volume	Average FICO®	Volume ($ in billions)	% Share of volume	Average FICO®
Year ended December 31, 2018						
S	$5.0	27	739	$6.2	47	746
A	7.8	43	675	4.8	37	676
B	4.3	24	644	1.8	14	645
C	1.1	6	611	0.3	2	613
Total retail originations	$18.2	100	682	$13.1	100	701
Year ended December 31, 2017						
S	$4.1	26	749	$6.8	46	757
A	7.0	45	666	5.4	37	670
B	3.8	24	640	2.1	14	641
C	0.8	5	606	0.4	3	610
Total retail originations	$15.7	100	679	$14.7	100	702
Year ended December 31, 2016						

S	$3.5	23	759	$7.1	41	761
A	6.8	44	667	6.8	39	671
B	4.0	26	642	2.8	16	643
C	1.0	7	607	0.7	4	609
Total retail originations	$15.3	100	677	$17.4	100	699

(a) Represents Ally's internal credit score, incorporating numerous borrower and structure attributes including: severity and aging of delinquency; number of credit inquiries; LTV ratio; and payment-to-income ratio. We periodically update our underwriting scorecard, which can have an impact on our credit tier scoring. We originated an insignificant amount of retail loans classified below Tier C during the periods presented.

The following table presents the percentage of total retail loan originations, in dollars, by the loan term in months.

Year ended December 31,	2018	2017	2016
0–71	20 %	20 %	18 %
72–75	67	66	67
76 +	13	14	15
Total retail originations (a)	100%	100%	100%

(a) Excludes RV loans.

Retail originations with a term of 76 months or more represented 13% of total retail originations for the year ended December 31, 2018, compared to 14% for the year ended December 31, 2017, and 15% for the year ended December 31, 2016. Substantially all of the loans originated with a term of 76 months or more during the year ended December 31, 2018, 2017, and 2016, were considered to be prime and in credit tiers S, A, or B. We define prime consumer automotive loans primarily as those loans with a FICO® Score (or an equivalent score) at origination of 620 or greater.

The following table presents the percentage of total outstanding retail loans by origination year.

December 31,	2018	2017	2016
Pre-2014	1 %	4 %	11 %
2014	4	7	13
2015	11	19	31
2016	18	30	45
2017	27	40	—
2018	39	—	—
Total	100%	100%	100%

The 2018, 2017, and 2016 vintages comprise 84% of the overall retail portfolio as of December 31, 2018, and have higher average buy rates than older vintages.

The following tables present the total retail loan and operating lease origination dollars and percentage mix by product type and by channel.

	Consumer automotive financing originations			% Share of Ally originations		
Year ended December 31, ($ in millions)	2018	2017	2016	2018	2017	2016
Used retail	$18,239	$15,698	$15,259	52	45	42
New retail standard	12,752	14,587	16,993	36	42	47
Lease	4,058	4,237	3,385	11	12	10
New retail subvented	330	163	367	1	1	1
Total consumer automotive financing originations (a)	$35,379	$34,685	$36,004	100	100	100

(a) Includes CSG originations of $3.7 billion, $3.8 billion, and $3.6 billion for the years ended December 31, 2018, 2017, and 2016, respectively, and RV originations of $238 million, $459 million, and $504 million for the years ended December 31, 2018, 2017, and 2016, respectively.

	Consumer automotive financing originations			% Share of Ally originations		
Year ended December 31, ($ in millions)	2018	2017	2016	2018	2017	2016
Growth channel	$16,190	$13,767	$13,082	46	40	36
GM dealers	9,678	10,965	12,960	27	32	36
Chrysler dealers	9,511	9,953	9,962	27	28	28
Total consumer automotive financing originations	$35,379	$34,685	$36,004	100	100	100

During the year ended December 31, 2018, total consumer loan and operating lease originations increased $694 million, compared to 2017. The increase was primarily due to larger volume from the Growth channel, which outpaced lower originations from the GM and Chrysler channels. Over the past several years we have continued to diversify our portfolio through the Growth channel, including increased levels of used vehicle loan volume which we view as an attractive asset class consistent with our continued focus on obtaining appropriate risk-adjusted returns.

We have included origination metrics by loan term and FICO® Score within this MD&A. However, the proprietary way we evaluate risk is based on multiple inputs as described in the section above titled Acquisition and Underwriting.

The following table presents the percentage of retail loan and operating lease originations, in dollars, by FICO® Score and product type.

	Used retail	New retail	Lease
Year ended December 31, 2018			
740 +	19 %	25 %	49 %
660–739	39	34	34
620–659	27	21	10
540–619	12	6	5
< 540	1	1	—
Unscored (a)	2	13	2
Total consumer automotive financing originations	100 %	100 %	100 %
Year ended December 31, 2017			
740 +	18 %	28 %	46 %
660–739	37	32	38
620–659	29	21	10
540–619	13	7	4
< 540	1	1	—
Unscored (a)	2	11	2
Total consumer automotive financing originations	100 %	100 %	100 %
Year ended December 31, 2016			
740 +	18 %	26 %	42 %
660–739	37	35	41
620–659	29	22	10
540–619	13	7	5
< 540	1	1	—
Unscored (a)	2	9	2
Total consumer automotive financing originations	100 %	100 %	100 %

(a) Unscored are primarily CSG contracts with business entities that have no FICO® Score.

Originations with a FICO® Score of less than 620 (considered nonprime) represented 10% of total consumer loan and operating lease originations for both the years ended December 31, 2018, and 2017. Consumer loans and operating leases with FICO® Scores of less than 540 continued to comprise only 1% of total originations for the year ended December 31, 2018. Nonprime applications that are not automatically declined by our proprietary credit-scoring models for risk reasons are manually reviewed and decisioned by an experienced underwriting team. The nonprime portfolio is subject to more stringent underwriting criteria for certain loan attributes (e.g., payment-to-income, mileage, and maximum amount financed) and generally does not include any loans with a term of 76 months or more. For discussion of our credit-risk-management practices and performance, refer to the section titled Risk Management.

Manufacturer Marketing Incentives

Automotive manufacturers may elect to sponsor incentive programs on retail contracts and operating leases by subsidizing finance rates below market rates. These marketing incentives are also referred to as rate support or subvention. When an automotive manufacturer subsidizes the finance rate, we are compensated at contract inception for the present value of the difference between the manufacturer-supported customer rate and our standard rate. For a retail contract, we defer and recognize this amount as a yield adjustment over the life of the contract. For an operating lease contract, this payment reduces our cost basis in the underlying operating lease asset.

Automotive manufacturers may also elect to sponsor incentives, referred to as residual support, on operating leases. When an automotive manufacturer provides residual support, we receive payment at contract inception that increases the contractual operating lease residual value resulting in a lower operating lease payment from the customer. The payment received from the automotive manufacturer reduces our cost basis in the underlying operating lease asset. Other operating lease incentive programs sponsored by automotive manufacturers may be made at contract inception indirectly through dealers, which also reduces our cost basis in the underlying operating lease asset.

Under what the automotive finance industry refers to as pull-ahead programs, consumers may be encouraged by the manufacturer to terminate operating leases early in conjunction with the acquisition of a new vehicle. As part of these programs, we waive all or a portion of the customer’s remaining payment obligation. Under most programs, the automotive manufacturer compensates us for a portion of the foregone revenue from the waived payments. This compensation may be partially offset to the extent that our remarketing sales proceeds are higher than otherwise would be realized if the vehicle had been remarketed upon contract maturity.

Servicing

We have historically serviced all retail contracts and operating leases we originated. However, our expansion into direct-to-consumer lending and other relationships have resulted in the employment of third-party servicers for a small portion of the portfolio. On occasion, we have sold a portion of the retail contracts we originated through whole-loan sales and securitizations, but generally retained the right to service and earn a servicing fee for our servicing functions. Servicing activities consist largely of collecting and processing customer payments, responding to customer concerns and inquiries, processing customer requests (including those for payoff quotes, total-loss handling, and payment modifications), maintaining a perfected security interest in the financed vehicle, engaging in collections activity, and disposing of off-lease and repossessed vehicles. Servicing activities are generally consistent across our Automotive Finance operations; however, certain practices may be influenced by state laws.

Our customers have the option to receive monthly billing statements and remit payment by mail or through electronic fund transfers, or to establish online web-based account administration through Ally Auto Online Services. Customer payments are processed by regional third-party processing centers that electronically transfer payment information to customers' accounts.

Collections activity includes initiating contact with customers who fail to comply with the terms of the retail contract or operating lease agreement by sending reminder notices or contacting via telephone generally when an account becomes 3 to 15 days past due. The type of collection treatment and level of intensity increases as the account becomes more delinquent. The nature and timing of these activities depend on the repayment risk of the account.

During the collections process, we may offer a payment extension to a customer experiencing temporary financial difficulty. A payment extension enables the customer to delay monthly payments for 30, 60, or 90 days. Extensions granted to a customer typically do not exceed 90 days in the aggregate during any twelve-month period or 180 days in aggregate over the life of the contract. During the extension period, finance charges continue to accrue. If the customer's financial difficulty is not temporary but we believe the customer is willing and able to repay their loan at a lower payment amount, we may offer to modify the remaining obligation, extending the term and lowering the scheduled monthly payment. In those cases, the outstanding balance generally remains unchanged. The use of extensions and modifications helps mitigate financial loss in those cases where we believe the customer will recover from short-term financial difficulty and resume regularly scheduled payments or can fulfill the obligation with lower payments over a longer period. Before offering an extension or modification, we evaluate and take into account the capacity of the customer to meet the revised payment terms. Generally, we do not consider extensions that fall within our policy guidelines to represent more than an insignificant delay in payment, and therefore, they are not considered a Troubled Debt Restructuring (TDR). Although the granting of an extension could delay the eventual charge-off of an account, typically we are able to repossess and sell the related collateral, thereby mitigating the loss. At December 31, 2018, 11.3% of the total amount outstanding in the servicing portfolio had been granted an extension or was rewritten, compared to 12.0% at December 31, 2017. The decrease was largely due to the impacts of hurricane activities experienced during the third quarter of 2017 and continued optimization of servicing activities.

Subject to legal considerations, we normally begin repossession activity once an account is at least eighty-five days past due. Repossession may occur earlier if we determine the customer is unwilling to pay, the vehicle is in danger of being damaged or hidden, or the customer voluntarily surrenders the vehicle. Approved third-party repossession vendors handle the repossession activity. Generally, after repossession, the customer is given a period of time to redeem the vehicle or reinstate the contract by paying off the account or bringing the account current, respectively. If the vehicle is not redeemed or the contract is not reinstated, the vehicle is sold at auction. If the proceeds do not cover the unpaid balance, including unpaid earned finance charges and allowable expenses, the resulting deficiency is charged-off. Asset recovery centers pursue collections on accounts that have been charged-off, including those accounts where the vehicle was repossessed, and skip accounts where the vehicle cannot be located.

At both December 31, 2018, and 2017, our total consumer automotive serviced portfolio was $79.7 billion, compared to our consumer automotive on-balance sheet serviced portfolio of $77.8 billion and $76.3 billion, respectively.

Remarketing and Sales of Leased Vehicles

When we acquire an operating lease, we assume ownership of the vehicle from the dealer. Neither the consumer nor the dealer is responsible for the value of the vehicle at the time of lease termination. When vehicles are not purchased by customers or the receiving dealer at scheduled lease termination, the vehicle is returned to us for remarketing. We generally bear the risk of loss to the extent the value of a leased vehicle upon remarketing is below the expected residual value. Our ability to efficiently process and effectively market off-lease vehicles affects the disposal costs and the proceeds realized from vehicle sales. Our methods of vehicle sales at lease termination primarily include the following:

- Sale to dealer — After the lessee declines an option to purchase the off-lease vehicle, the dealer who accepts it has the opportunity to purchase it directly from us at a price we define.
- Internet auctions — Once the lessee and the dealer decline to purchase the off-lease vehicle, we offer it to dealers and other third parties through our proprietary internet site (SmartAuction). Through SmartAuction, we seek to maximize the net sales proceeds from an off-lease vehicle by reducing the time between vehicle return and ultimate disposition, reducing holding costs, and

broadening the number of prospective buyers. We use SmartAuction for our own vehicles and make it available for third-party use. We earn a service fee for every third-party vehicle sold through SmartAuction, which includes the cost of ClearGuard coverage, our protection product designed to assist in minimizing the risk to dealers of arbitration claims for eligible vehicles. In 2018, approximately 281,000 vehicles were sold through SmartAuction.

- Physical auctions — We dispose of an off-lease vehicle not purchased at termination by the lessee or dealer or sold on SmartAuction through traditional third-party, physical auctions. We are responsible for handling decisions at the auction including arranging for inspections, authorizing repairs and reconditioning, and determining whether bids received at auction should be accepted.

We employ an internal team, including statisticians, to manage our analysis of projected used vehicle values and residual risk. This team aids in the pricing of new operating leases, managing the disposal process including vehicle concentration risk, geographic optimization of vehicles to maximize gains, disposal platform (internet vs. physical), and evaluating our residual risk on a real-time basis. This team tracks market movements of used vehicles using data down to the VIN level including trim and options, vehicle age, mileage, and seasonality factors that we feel are more relevant than other published indices (e.g., Manheim, NADA). This analysis includes vehicles sold on Ally’s SmartAuction platform, as well as vehicles sold through Manheim, ADESA, and over 200 independent physical auction sites. We believe this analysis gives us a competitive advantage over our peers.

Commercial Automotive Financing

Automotive Wholesale Dealer Financing

One of the most important aspects of our dealer relationships is providing wholesale floorplan financing for new- and used-vehicle inventories at dealerships. Wholesale floorplan financing, including syndicated loan arrangements, represents the largest portion of our commercial automotive financing business and is the primary source of funding for dealers’ purchases of new and used vehicles.

Wholesale floorplan financing is generally extended in the form of lines of credit to individual dealers. These lines of credit are secured by the vehicles financed and all other vehicle inventory, which provide strong collateral protection in the event of dealership default. Additional collateral (e.g., blanket lien over all dealership assets) or other credit enhancements (e.g., personal guarantees from dealership owners) are generally obtained to further mitigate credit risk. Furthermore, in some cases, we benefit from automotive manufacturer repurchase arrangements, which may serve as an additional layer of protection in the event of repossession of dealership new-vehicle inventory or dealership franchise termination. The amount we advance to dealers for a new vehicle is equal to 100% of the manufacturer’s wholesale invoice price. The amount we advance to dealers for a used vehicle is typically 90–100% of the dealer’s cost of acquiring it. Interest on wholesale floorplan financing is generally payable monthly. The majority of wholesale floorplan financing is structured to yield interest at a floating rate indexed to London interbank offer rate (LIBOR) or the Prime Rate. The rate for a particular dealer is based on, among other things, competitive factors, the size of the account, and the dealer’s creditworthiness. Additionally, under our Ally Dealer Rewards Program, dealers benefit in certain circumstances from wholesale-floorplan-financing incentives, which we credit and account for as a reduction to interest income in the period they are earned.

Under our wholesale-floorplan-financing agreement, the dealership is generally required to pay the principal amount financed for a vehicle within a specified number of days following the dealership’s sale or lease of the vehicle. The agreement also affords us the right to demand payment of all amounts owed under the wholesale credit line at any time. We, however, generally make this demand only if we terminate the credit line, the dealer defaults, or a risk-based reason exists to do so.

Commercial Wholesale Financing Volume

The following table presents the percentage of average balance of our commercial wholesale floorplan finance receivables, in dollars, by product type and by channel.

	Average balance					
Year ended December 31, ($ in millions)	2018		2017		2016	
GM new vehicles	42	%	50	%	47	%

Chrysler new vehicles	31	25	28
Growth new vehicles	14	13	13
Used vehicles	13	12	12
Total	100 %	100 %	100 %
Total commercial wholesale finance receivables	$29,455	$31,586	$29,989

Average commercial wholesale financing receivables outstanding decreased $2.1 billion during the year ended December 31, 2018, compared to 2017. The decrease was primarily driven by a reduction in the number of GM dealer relationships due to the competitive environment across the automotive lending market, partially offset by higher average vehicle prices. Dealer inventory levels are dependent on a number of factors including manufacturer production schedules and vehicle mix, sales incentives, and industry sales—all of which can influence future wholesale balances.

Other Commercial Automotive Financing

We also provide other forms of commercial financing for the automotive industry including automotive dealer term and revolving loans and automotive fleet financing. Automotive dealer term and revolving loans are loans that we make to dealers to finance other aspects of the dealership business, including acquisitions. These loans are usually secured by real estate or other dealership assets and are typically personally guaranteed by the individual owners of the dealership. Automotive fleet financing credit lines may be obtained by dealers, their affiliates, and other independent companies that are used to purchase vehicles, which they lease or rent to others. Other commercial automotive loans increased 4% to an average of $6.0 billion for the year ended December 31, 2018.

Servicing and Monitoring

We service all of the wholesale credit lines in our portfolio and the wholesale automotive finance receivables that we have securitized. A statement setting forth billing and account information is distributed on a monthly basis to each dealer. Interest and other nonprincipal charges are billed in arrears and are required to be paid immediately upon receipt of the monthly billing statement. Generally, dealers remit payments to us through ACH transactions initiated by the dealer through a secure web application.

We manage risk related to wholesale floorplan financing by assessing dealership borrowers using a proprietary model based on various factors, including their capital sufficiency, operating performance, and credit and payment history. This model assigns dealership borrowers a risk rating that affects the amount of the line of credit and the ongoing risk management of the account. We monitor the level of borrowing under each dealer’s credit line daily. We may adjust the dealer’s credit line if warranted, based on the dealership’s vehicle sales rate, and temporarily suspend the granting of additional credit, or take other actions following evaluation and analysis of the dealer’s financial condition.

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

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Insurance

Results of Operations

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

Year ended December 31, ($ in millions)	2018	2017	2016	Favorable/(unfavorable) 2018–2017 % change	Favorable/(unfavorable) 2017–2016 % change
Insurance premiums and other income					
Insurance premiums and service revenue earned	$1,022	$973	$945	5	3
Interest and dividends on investment securities and cash and cash equivalents, net (a)	54	59	61	(8)	(3)
Other (loss) gain on investments, net (b)	(51)	78	84	(165)	(7)
Other income	10	8	7	25	14
Total insurance premiums and other income	1,035	1,118	1,097	(7)	2
Expense					
Insurance losses and loss adjustment expenses	295	332	342	11	3
Acquisition and underwriting expense					
Compensation and benefits expense	75	73	68	(3)	(7)
Insurance commissions expense	440	415	389	(6)	(7)
Other expenses	145	130	141	(12)	8
Total acquisition and underwriting expense	660	618	598	(7)	(3)
Total expense	955	950	940	(1)	(1)
Income from continuing operations before income tax expense	$80	$168	$157	(52)	7
Total assets	$7,734	$7,464	$7,172	4	4
Insurance premiums and service revenue written	$1,174	$996	$948	18	5
Combined ratio (c)	92.6 %	96.8 %	98.7 %		

(a) Includes interest expense of $67 million, $50 million, and $47 million for the years ended December 31, 2018, 2017, and 2016, respectively. Amounts for the years ended December 31, 2017, and 2016, were adjusted to include $7 million and $9 million, respectively, of interest on cash and cash equivalents previously classified as other income to conform to the current period presentation.

(b) Includes net unrealized losses on equity investments of $112 million for the year ended December 31, 2018, which are included in net income as a result of the adoption of Accounting Standards Update (ASU) 2016-01 on January 1, 2018.

(c)

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

2018 Compared to 2017

Our Insurance operations earned income from continuing operations before income tax expense of $80 million for the year ended December 31, 2018, compared to income of $168 million for the year ended December 31, 2017. The decrease for the year ended December 31, 2018, was primarily driven by unrealized losses of $112 million related to the decrease in fair value of equity investments. As further described in Note 1 to the Consolidated Financial Statements, we adopted ASU 2016-01 on January 1, 2018, which requires that equity investments be measured at fair value with changes in fair value recognized in net income instead of through other comprehensive (loss) income, which was the practice during 2017 prior to implementing the new standard. This decline was partially offset by higher premiums and service revenue earned as well as lower weather-related losses.

Insurance premiums and service revenue earned was $1.0 billion for the year ended December 31, 2018, compared to $973 million for the year ended December 31, 2017. The increase for the year ended December 31, 2018, was primarily due to higher vehicle inventory insurance rates and growth in GAP volume. The increase was partially offset by the implementation of ASU 2014-09, Revenue from Contracts with Customers, on January 1, 2018, which changed the revenue recognition portion of revenue earned on noninsurance contracts to be recognized over the contract term, as further described in Note 3 to the Consolidated Financial Statements.

Insurance losses and loss adjustment expenses totaled $295 million for the year ended December 31, 2018, compared to $332 million in 2017. The decrease for the year ended December 31, 2018, was primarily driven by lower weather-related losses, which contributed to a decline in the combined ratio to 92.6% for the year ended December 31, 2018, compared to 96.8% for the year ended December 31, 2017. In April 2018, we renewed our annual reinsurance program and continue to utilize this coverage to manage our risk of weather-related loss.

2017 Compared to 2016

Our Insurance operations earned income from continuing operations before income tax expense of $168 million for the year ended December 31, 2017, compared to income of $157 million for the year ended December 31, 2016. The increase for the year ended December 31, 2017, was primarily due to higher vehicle inventory insurance rates, and lower weather-related losses as a result of a one-year reinsurance agreement entered into in April 2017, partially offset by lower realized investment income.

Insurance premiums and service revenue earned was $973 million for the year ended December 31, 2017, compared to $945 million for the year ended December 31, 2016. The increase for the year ended December 31, 2017, was primarily due to higher vehicle inventory insurance rates and growth in our consumer finance protection and insurance products, partially offset by ceding of premiums under a one-year reinsurance agreement we entered into in April 2017.

Insurance losses and loss adjustment expenses totaled $332 million for the year ended December 31, 2017, compared to $342 million for 2016. The decrease for the year ended December 31, 2017, was primarily due to the ceding of weather-related losses subject to a reinsurance agreement. The ceding of weather-related losses primarily drove the decrease in the combined ratio to 96.8% for the year ended December 31, 2017, compared to 98.7% for the year ended December 31, 2016.

Premium and Service Revenue Written

The following table summarizes premium and service revenue written by product.

Year ended December 31, ($ in millions)	2018	2017	2016
Vehicle service contracts			
New retail	$475	$453	$444
Used retail	551	464	427
Reinsurance (a)	(170)	(206)	(189)
Total vehicle service contracts (b)	856	711	682
Vehicle inventory insurance (c)	217	191	191
Other (d)	101	94	75
Total	$1,174	$996	$948

(a) Reinsurance represents the transfer of premiums and risk from an Ally insurance company to a third-party insurance company.

(b) VSC revenue is earned over the life of the service contract on a basis proportionate to the anticipated cost pattern. Refer to the section titled Recently Adopted Accounting Standards in Note 1 to the Consolidated Financial Statements for further information regarding our adoption of the amendments to the revenue recognition principles of Accounting Standards Codification 606, Revenue from Contracts with Customers, and Note 3 to the Consolidated Financial Statements for further discussion of this revenue stream and the related impacts of adoption.

(c) Vehicle inventory insurance includes dealer ancillary products.

(d) Other products include GAP coverage, VMCs, ClearGuard, and other ancillary products.

Insurance premiums and service revenue written was $1.2 billion for the year ended December 31, 2018, compared to $996 million in 2017. The increase for the year ended December 31, 2018, was primarily due to higher VSC volume and higher vehicle inventory insurance rates.

Insurance premiums and service revenue written was $996 million for the year ended December 31, 2017, compared to $948 million for 2016. The increase for the year ended December 31, 2017, was primarily due to higher VSC and GAP volume, and higher vehicle inventory insurance rates, partially offset by the ceding of vehicle inventory insurance premiums under a one-year reinsurance agreement we entered into in April 2017 to obtain excess of loss coverage for our vehicle inventory insurance product, which allows us to strategically manage our level of risk.

Cash and Investments

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

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

December 31, ($ in millions)	2018	2017
Cash		
Noninterest-bearing cash	$252	$298
Interest-bearing cash	644	983
Total cash	896	1,281
Equity securities	766	518
Available-for-sale securities		
Debt securities		
U.S. Treasury and federal agencies	460	380
U.S. States and political subdivisions	691	773
Foreign government	145	154
Agency mortgage-backed residential	758	613
Mortgage-backed residential	135	174
Mortgage-backed commercial	—	22
Corporate debt	1,241	1,256
Total available-for-sale securities	3,430	3,372
Total cash and securities	$5,092	$5,171

Mortgage Finance

Results of Operations

The following table summarizes the activities of our Mortgage Finance operations. The amounts presented are before the elimination of balances and transactions with our reportable segments.

Year ended December 31, ($ in millions)	2018	2017	2016	Favorable/(unfavorable) 2018–2017 % change	Favorable/(unfavorable) 2017–2016 % change
Net financing revenue and other interest income					
Total financing revenue and other interest income	$483	$308	$250	57	23
Interest expense	304	176	153	(73)	(15)
Net financing revenue and other interest income	179	132	97	36	36
Gain on mortgage loans, net	5	3	—	67	n/m
Other income, net of losses	2	1	—	100	n/m
Total other revenue	7	4	—	75	n/m
Total net revenue	186	136	97	37	40
Provision for loan losses	1	8	(4)	88	n/m
Noninterest expense					
Compensation and benefits expense	32	23	13	(39)	(77)
Other operating expenses	108	85	54	(27)	(57)
Total noninterest expense	140	108	67	(30)	(61)
Income from continuing operations before income tax expense	$45	$20	$34	125	(41)
Total assets	$15,211	$11,708	$8,307	30	41

n/m = not meaningful

2018 Compared to 2017

Our Mortgage Finance operations earned income from continuing operations before income tax expense of $45 million and $20 million for the years ended December 31, 2018, and 2017, respectively. The increase for the year ended December 31, 2018, was primarily due to an increase in net financing revenue and other interest income driven by increased portfolio loan balances as a result of bulk purchases of high-quality jumbo and LMI mortgage loans and direct-to-consumer originations, and a decrease in the provision for loan losses. The increase was partially offset by higher noninterest expense driven by continued build out of the direct-to-consumer offering and asset growth.

Net financing revenue and other interest income was $179 million and $132 million for the years ended December 31, 2018, and 2017, respectively. The increase in net financing revenue and other interest income was primarily due to increased loan balances as a result of bulk purchases of high-quality jumbo and LMI mortgage loans and direct-to-consumer originations. During the year ended December 31, 2018, we purchased $4.4 billion of mortgage loans that were originated by third parties, compared to $4.5 billion during the year ended December 31, 2017.

Gain on sale of mortgage loans, net, increased $2 million for the year ended December 31, 2018, compared to 2017, as a result of higher direct-to-consumer mortgage originations and the subsequent sale of these loans to our fulfillment provider.

The provision for loan losses decreased $7 million for the year ended December 31, 2018, compared to 2017. The decrease for the year ended December 31, 2018, was primarily due to reserve increases in the prior year associated with the hurricanes experienced in the third quarter of 2017 as well as reserve reductions in the current period due to

strong credit performance.
Total noninterest expense was $140 million for the year ended December 31, 2018, compared to $108 million for the year ended December 31, 2017. The increase was driven by continued expansion of the direct-to-consumer offering and asset growth.
2017 Compared to 2016
Our Mortgage Finance operations earned income from continuing operations before income tax expense of $20 million and $34 million for the years ended December 31, 2017, and 2016, respectively. The decrease for the year ended December 31, 2017, was primarily due to an increase in noninterest expense driven by continued build out of the direct-to-consumer offering and asset growth as well as higher provision for loan losses. This decrease was partially offset by an increase in net financing revenue and other interest income driven by increased portfolio loan balances as a result of bulk purchases of high-quality jumbo and LMI mortgage loans and direct-to-consumer originations.
Net financing revenue and other interest income was $132 million and $97 million for the years ended December 31, 2017, and 2016, respectively. The increase in net financing revenue and other interest income was primarily due to increased loan balances as a result of bulk

purchases of high-quality jumbo and LMI mortgage loans. During the year ended December 31, 2017, we purchased $4.5 billion of mortgage loans that were originated by third parties, compared to $3.7 billion during the year ended December 31, 2016.

Gain on sale of mortgage loans increased $3 million for the year ended December 31, 2017, compared to 2016, as a result of direct-to-consumer mortgage originations and the subsequent sale of these loans to our fulfillment provider.

The provision for loan losses increased $12 million for the year ended December 31, 2017, compared to 2016. The increase for the year ended December 31, 2017, was primarily due to lower loss reserve requirements in 2016, which resulted from the seasoning of the loan portfolio and the alignment of reserves to favorable loss experience. Provision expense also increased as a result of estimated impacts of hurricane activity which occurred during the third quarter of 2017 as well as growth in the loan portfolio. The portfolio continues to demonstrate strong credit performance.

Total noninterest expense was $108 million for the year ended December 31, 2017, compared to $67 million for the year ended December 31, 2016. The increase was driven by continued expansion of the direct-to-consumer offering and asset growth.

The following table presents the total unpaid principal balance (UPB) of purchases and originations of consumer mortgages held-for-investment, by FICO® Score at the time of acquisition.

FICO® Score	Volume ($ in millions)	% Share of volume
Year ended December 31, 2018		
740 +	$ 3,861	80
720–739	520	11
700–719	391	8
680–699	74	1
660–679	1	—
Total consumer mortgage financing volume	$ 4,847	100
Year ended December 31, 2017		
740 +	$ 3,831	83
720–739	478	10
700–719	288	6
680–699	22	1
660–679	10	—
Total consumer mortgage financing volume	$ 4,629	100
Year ended December 31, 2016		
740 +	$ 3,045	81
720–739	447	12
700–719	219	6
680–699	30	1
660–679	13	—
Total consumer mortgage financing volume	$ 3,754	100

The following table presents the net UPB, net UPB as a percentage of total, weighted-average coupon (WAC), premium net of discounts, LTV, and FICO® Scores for the products in our Mortgage Finance held-for-investment loan portfolio.

Product	Net UPB (a) ($ in millions)	% of total net UPB	WAC	Net premium ($ in millions)	Average refreshed LTV (b)	Average refreshed FICO® (c)
December 31, 2018						
Adjustable-rate	$ 2,828	19	3.40 %	$ 37	53.69 %	775
Fixed-rate	12,042	81	4.15	248	60.97	774
Total	$ 14,870	100	4.01	$ 285	59.58	774
December 31, 2017						
Adjustable-rate	$ 2,579	23	3.35 %	$ 42	56.82 %	774
Fixed-rate	8,824	77	4.02	212	62.02	771
Total	$ 11,403	100	3.87	$ 254	60.84	772

(a) Represents UPB net of charge-offs.
(b) Updated home values were derived using a combination of appraisals, broker price opinions, automated valuation models, and metropolitan statistical area level house price indices.
(c) Updated to reflect changes in credit score since loan origination.

Corporate Finance

Results of Operations

The following table summarizes the activities of our Corporate Finance operations. The amounts presented are before the elimination of balances and transactions with our reportable segments.

Year ended December 31, ($ in millions)	2018	2017	2016	Favorable/(unfavorable) 2018–2017 % change	Favorable/(unfavorable) 2017–2016 % change
Net financing revenue and other interest income					
Interest and fees on finance receivables and loans	$321	$256	$192	25	33
Interest on loans held-for-sale	10	—	—	n/m	—
Interest expense	127	89	71	(43)	(25)
Net financing revenue and other interest income	204	167	121	22	38
Total other revenue	38	45	26	(16)	73
Total net revenue	242	212	147	14	44
Provision for loan losses	12	22	10	45	(120)
Noninterest expense					
Compensation and benefits expense	53	47	38	(13)	(24)
Other operating expenses	33	29	28	(14)	(4)
Total noninterest expense	86	76	66	(13)	(15)
Income from continuing operations before income tax expense	$144	$114	$71	26	61
Total assets	$4,670	$3,979	$3,183	17	25

n/m = not meaningful

2018 Compared to 2017

Our Corporate Finance operations earned income from continuing operations before income tax expense of $144 million for the year ended December 31, 2018, compared to $114 million for the year ended December 31, 2017. The increase was due primarily to higher net financing revenue and other interest income resulting from higher asset levels driven by our strategy to prudently grow the loan portfolio and expand our product suite while selectively pursuing opportunities to broaden industry and product breadth. Additionally, for the year ended December 31, 2018, results were favorably impacted by lower provision expense due primarily to improved overall credit performance as well as higher syndication and other fee income. These items were partially offset by lower investment-related income primarily driven by gains on equity investments realized during 2017 as compared to net realized and unrealized losses during 2018.

Net financing revenue and other interest income was $204 million for the year ended December 31, 2018, compared to $167 million for the year ended December 31, 2017. The increase was primarily due to the growth of our lending portfolio, represented by a 19% increase in the gross carrying value of finance receivables and loans as of December 31, 2018, compared to December 31, 2017.

Other revenue was $38 million for the year ended December 31, 2018, compared to $45 million for the year ended December 31, 2017. The decrease for the year ended December 31, 2018, was primarily driven by gains of $20 million from the sale of equity investments during 2017 as compared to $6 million of net realized and unrealized losses on equity investments for the year ended December 31, 2018, following the adoption of ASU 2016-01 on January 1, 2018, which requires that equity investments be measured at fair value with changes in fair value recognized in net income. The decrease was partially offset by an increase in syndication and other fee income of $20

million due to strong new loan origination volume and overall growth in the portfolio.
The provision for loan losses decreased $10 million for the year ended December 31, 2018, compared to 2017. The decrease for the year ended December 31, 2018, was primarily due to improved overall credit performance in the portfolio as well as a $6 million recovery of a previously charged-off loan in the second quarter of 2018. This was partially offset by higher specific reserves for individually impaired loans.
Total noninterest expense was $86 million for the year ended December 31, 2018, compared to $76 million for the year ended December 31, 2017. The increase was primarily due to higher compensation and benefits expense and other noninterest costs associated with growth in the business.
2017 Compared to 2016
Our Corporate Finance operations earned income from continuing operations before income tax expense of $114 million for the year ended December 31, 2017, compared to $71 million for the year ended December 31, 2016. The increase was driven by our strategy to responsibly grow our lending portfolio and extend our product suite while selectively pursuing opportunities to broaden industry and product

diversification. Results were also favorably impacted by a gain on an equity investment in the first quarter of 2017, the full collection of funds related to a nonaccrual loan in the second quarter of 2017, and higher loan syndication income.

Net financing revenue and other interest income was $167 million for the year ended December 31, 2017, compared to $121 million for the year ended December 31, 2016. The increase was primarily due to the growth of our lending portfolio driven by higher new loan originations, which resulted in a 23% increase in the gross carrying value of finance receivables and loans as of December 31, 2017, compared to December 31, 2016. Additionally, interest and fees on finance receivables and loans for the year ended December 31, 2017, was favorably impacted by the payoff of a nonaccrual loan exposure in the second quarter of 2017, which resulted in the recognition of $9 million of interest income.

Other revenue was $45 million for the year ended December 31, 2017, compared to $26 million for the year ended December 31, 2016. The increase was primarily driven by an $11 million gain on the sale of an equity investment during the first quarter of 2017, and higher loan syndication income.

The provision for loan losses increased $12 million for the year ended December 31, 2017, compared to 2016. This increase was primarily due to higher provision expense for individually impaired loans, and increased reserves due primarily to continued asset growth. The provision also increased as a result of lower recoveries of previously charged-off loans, compared to 2016.

Total noninterest expense was $76 million for the year ended December 31, 2017, compared to $66 million for the year ended December 31, 2016. The increase was primarily due to an increase in compensation and benefits expense to support the growth of the business.

Credit Portfolio

The following table presents loans held-for-sale, the gross carrying value of finance receivables and loans outstanding, unfunded commitments to lend, and total serviced loans of our Corporate Finance operations.

December 31, ($ in millions)	2018	2017
Loans held-for-sale, net	$47	$77
Finance receivables and loans	$4,636	$3,910
Unfunded lending commitments (a)	$2,141	$1,813
Total serviced loans	$5,501	$3,893

(a) Includes unused revolving credit line commitments for loans held-for-sale and finance receivables and loans, signed commitment letters, and standby letter of credit facilities, which are issued on behalf of clients and may contingently require us to make payments to a third-party beneficiary in the event of a draw by the beneficiary thereunder. As many of these commitments are subject to borrowing base agreements and other restrictive covenants or may expire without being fully drawn, the stated amounts of these letters of credit are not necessarily indicative of future cash requirements.

The following table presents the percentage of total finance receivables and loans of our Corporate Finance operations by industry concentration. The finance receivables and loans are reported at gross carrying value.

December 31,	2018	2017
Industry		
Services	25.6 %	31.0 %
Health services	24.5	15.6
Automotive and transportation	12.3	10.3
Wholesale	7.5	8.7
Machinery, equipment, and electronics	6.0	7.9
Food and beverages	5.0	4.1
Chemicals and metals	4.9	5.0
Other manufactured products	4.7	7.1
Paper, printing, and publishing	2.8	3.0
Construction	2.2	1.9

Other	4.5	5.4
Total finance receivables and loans	100.0%	100.0%

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Corporate and Other

The following table summarizes the activities of Corporate and Other, which primarily consist of centralized corporate treasury activities such as management of the cash and corporate investment securities and loan portfolios, short- and long-term debt, retail and brokered deposit liabilities, derivative instruments, original issue discount, and the residual impacts of our corporate FTP and treasury ALM activities. Corporate and Other also includes certain equity investments, which primarily consist of FHLB and FRB stock, the management of our legacy mortgage portfolio, which primarily consists of loans originated prior to January 1, 2009, the activity related to Ally Invest, and reclassifications and eliminations between the reportable operating segments.

Year ended December 31, ($ in millions)	2018	2017	2016	Favorable/(unfavorable) 2018–2017 % change	Favorable/(unfavorable) 2017–2016 % change
Net financing revenue and other interest income					
Interest and fees on finance receivables and loans (a)	$83	$68	$66	22	3
Interest on loans held-for-sale	2	—	—	n/m	—
Interest and dividends on investment securities and other earning assets	677	497	319	36	56
Interest on cash and cash equivalents	62	30	5	107	n/m
Other, net	(9)	(7)	(12)	(29)	42
Total financing revenue and other interest income	815	588	378	39	56
Interest expense					
Original issue discount amortization (b)	101	90	78	(12)	(15)
Other interest expense (c)	530	348	337	(52)	(3)
Total interest expense	631	438	415	(44)	(6)
Net financing revenue and other interest income	184	150	(37)	23	n/m
Other revenue					
Loss on mortgage and automotive loans, net	(2)	(11)	(6)	82	(83)
Other gain on investments, net	8	24	101	(67)	(76)
Other income, net of losses	113	68	67	66	1
Total other revenue	119	81	162	47	(50)
Total net revenue	303	231	125	31	85
Provision for loan losses	(15)	(16)	(13)	(6)	23
Total noninterest expense (d)	333	262	199	(27)	(32)
Loss from continuing operations before income tax expense	$(15)	$(15)	$(61)	—	75
Total assets	$33,950	$29,908	$28,719	14	4

n/m = not meaningful

(a) Primarily related to financing revenue from our legacy mortgage portfolio and impacts related to hedging activities associated with our consumer automotive loan portfolio.
(b) Amortization is included as interest on long-term debt in the Consolidated Statement of Income.
(c) Includes the residual impacts of our FTP methodology and impacts of hedging activities of certain debt obligations.
(d) Includes reductions of $854 million, $804 million, and $770 million for the years ended December 31, 2018, 2017, and 2016, respectively, related to the allocation of corporate overhead expenses to other segments. The receiving segments record their allocation of corporate overhead expense within other operating expense.

The following table presents the scheduled remaining amortization of the original issue discount at December 31, 2018.

Year ended December 31, ($ in millions)	2019	2020	2021	2022	2023	2024 and thereafter (a)	Total
Original issue discount							
Outstanding balance at year end	$1,094	$1,053	$1,008	$959	$903	$ —	
Total amortization (b)	41	41	45	49	56	903	$1,135

(a) The maximum annual scheduled amortization for any individual year is $147 million in 2030.
(b) The amortization is included as interest on long-term debt in the Consolidated Statement of Income.

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2018 Compared to 2017

Corporate and Other incurred a loss from continuing operations before income tax expense of $15 million for the year ended December 31, 2018, compared to a loss of $15 million for the year ended December 31, 2017. Higher investment security income and interest on cash and cash equivalents were offset by funding costs and higher noninterest expenses to support business growth.

Financing revenue and other interest income was $815 million for the year ended December 31, 2018, compared to $588 million for the year ended December 31, 2017. The increase was primarily driven by higher interest and dividends from investment securities and other earning assets, primarily as a result of higher yields and growth in the size of the investment portfolio. Results for the year ended December 31, 2018, were also favorably impacted by increases in interest on cash and cash equivalents, as a result of higher yields.

Total interest expense was $631 million for the year ended December 31, 2018, compared to $438 million for the year ended December 31, 2017. The increase was primarily driven by increased interest on deposits resulting from higher market rates and deposit growth as well as increased LIBOR rates on secured borrowings. The increase was partially offset by a decrease in higher-cost unsecured borrowings as $3.6 billion in unsecured maturities during 2018 were replaced with lower cost funding.

Total other revenue was $119 million for the year ended December 31, 2018, compared to $81 million for the year ended December 31, 2017. The increase was primarily due to higher income on certain equity-method investments and lower losses on the retirement of debt. Results for the year ended December 31, 2018, were also favorably impacted by a lower loss on mortgage and automotive loans, net, driven by the sales of automotive loans in both periods and the corresponding impact to the Corporate and Other segment as a result of our FTP methodology. The increase was partially offset by lower net gains on investments, primarily as a result of higher sales of investment securities in 2017 that did not recur in the current period.

Noninterest expense was $333 million for the year ended December 31, 2018, compared to $262 million for the year ended December 31, 2017. The increase was primarily due to higher compensation and benefit costs and other operating expenses associated with the continued growth and investment in our business, including digital and technological capabilities, as well as higher marketing costs.

Total assets were $34.0 billion as of December 31, 2018, compared to $29.9 billion as of December 31, 2017. The increase was primarily the result of growth in our available-for-sale and held-to-maturity securities portfolios and higher interest-bearing cash and cash equivalents. The increase was partially offset by the continued runoff of our legacy mortgage portfolio. At December 31, 2018, the gross carrying value of the legacy mortgage portfolio was $1.5 billion, compared to $2.1 billion at December 31, 2017.

2017 Compared to 2016

Corporate and Other incurred a loss from continuing operations before income tax expense of $15 million for the year ended December 31, 2017, compared to a loss of $61 million for the year ended December 31, 2016. The decrease in loss for the year ended December 31, 2017, was primarily due to an increase in financing revenue and other interest income driven by an increase in interest and dividends on investment securities and other earning assets. The decrease in loss was partially offset by a decrease in gains on sales of investment securities, an increase in noninterest expense, including compensation and benefits, to support the growth of the business, and an increase in interest expense driven by increased interest on deposits resulting from deposit growth and increased LIBOR rates on secured borrowings.

Financing revenue and other interest income was $588 million for the year ended December 31, 2017, compared to $378 million for the year ended December 31, 2016. The increase was primarily driven by increased interest and dividends from investment securities and other earning assets compared to 2016, primarily as a result of growth in the size of the investment portfolio. Results for the year ended December 31, 2017, were also favorably impacted by increases in interest on cash and cash equivalents, as a result of higher yields.

Total interest expense was $438 million for the year ended December 31, 2017, compared to $415 million for the year ended December 31, 2016. Total interest expense increased during the year ended December 31, 2017, compared to 2016, driven primarily by increased interest on deposits resulting from deposit growth and increased LIBOR rates on

secured borrowings. The increase was partially offset by a decrease in higher-cost unsecured debt borrowings as maturities are replaced with lower cost funding.
Other gain on investments was $24 million for the year ended December 31, 2017, compared to $101 million for the year ended December 31, 2016. The decrease was due primarily to higher levels of sales of investment securities in 2016 that did not recur in 2017.
The provision for loan losses decreased $3 million for the year ended December 31, 2017, compared to the same period in 2016, as a result of lower net charge-offs as the legacy mortgage portfolio continues to run-off and loss trends remain favorable, partially offset by the impacts of hurricane activity during the year.
Noninterest expense was $262 million for the year ended December 31, 2017, compared to $199 million for the year ended December 31, 2016. The increase was primarily due to increased expenses from the Ally Invest integration and operations included in our results subsequent to acquisition in the second quarter of 2016 and increased expenses to support the growth of the business.
Total assets were $29.9 billion as of December 31, 2017, compared to $28.7 billion as of December 31, 2016. The increase was primarily the result of growth in our available-for-sale and held-to-maturity securities portfolios. The increase was partially offset by a reduction of cash and cash equivalents, other assets, and the continued runoff of our legacy mortgage portfolio. At December 31, 2017, the gross carrying value of the legacy mortgage portfolio was $2.1 billion, compared to $2.8 billion at December 31, 2016.

Cash and Securities

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

December 31, ($ in millions)	2018	2017
Cash		
Noninterest-bearing cash	$535	$523
Interest-bearing cash	3,083	2,425
Total cash	3,618	2,948
Available-for-sale securities		
Debt securities		
U.S. Treasury and federal agencies	1,391	1,397
U.S. States and political subdivisions	111	81
Agency mortgage-backed residential	16,380	13,678
Mortgage-backed residential	2,551	2,320
Mortgage-backed commercial	717	519
Asset-backed	723	936
Total available-for-sale securities	21,873	18,931
Held-to-maturity securities		
Debt securities		
Agency mortgage-backed residential	2,264	1,829
Asset-backed retained notes	43	36
Total held-to-maturity securities	2,307	1,865
Total cash and securities	$27,798	$23,744

Ally Invest

In May 2017, we launched Ally Invest, our digital brokerage and wealth management offering that combines the platform we acquired from the June 2016 acquisition of TradeKing with our award-winning online banking products in a single, convenient customer experience that provides low-cost investing with competitive deposit products. The following table presents the trading days and average customer trades per day during each respective quarter and the number of funded accounts, total net customer assets, and total customer cash balances as of the last five quarters.

	4th quarter 2018	3rd quarter 2018	2nd quarter 2018	1st quarter 2018	4th quarter 2017
Trading days (a)	62.0	62.5	64.0	61.0	62.5
Average customer trades per day (in thousands)	19.6	19.1	18.0	21.8	16.8
Funded accounts (b) (in thousands)	302	287	271	259	245
Total net customer assets ($ in millions)	$5,804	$6,608	$5,990	$5,473	$5,354
Total customer cash balances ($ in millions)	$1,159	$1,178	$1,166	$1,111	$1,144

(a) Represents the number of days the New York Stock Exchange and other U.S. stock exchange markets are open for trading. A half day represents a day when the U.S. markets close early.

(b) Represents open and funded brokerage accounts.

Total funded accounts increased 5% from the prior quarter and 23% from the prior year as a result of a continued focus on marketing campaigns. Average customer trades per day increased slightly during the fourth quarter of 2018 to approximately 19,600. Additionally, net customer assets decreased in the fourth quarter of 2018 primarily as a result of depreciation in equity markets.

Risk Management

Managing the risk/reward trade-off is a fundamental component of operating our businesses, and all employees are responsible for managing risk. We use multiple layers of defense to identify, monitor, and manage current and emerging risks.

- Business lines — Responsible for owning and managing all of the risks that emanate from their risk-taking activities, including business units and support functions.
- Independent risk management — Responsible for establishing and maintaining our risk-management framework and promulgating it enterprise-wide. Independent risk management also provides an objective, critical assessment of risks and—through oversight, effective challenge, and other means—evaluates whether Ally remains aligned with its risk appetite.
- Internal audit — Provides its own independent assessments of the effectiveness of our risk management, internal controls, and governance; and independent assessments regarding the quality of our loan portfolios. Internal audit includes Audit Services and the Loan Review Group.

Our risk-management framework is overseen by the Risk Committee (RC) of the Ally Board of Directors (the Board). The RC sets the risk appetite across our company while risk-oriented management committees, the executive leadership team, and our associates identify and monitor current and emerging risks and manage those risks within our risk appetite. Our primary types of risk include the following:

- Credit risk — The risk of loss arising from an obligor not meeting its contractual obligations to us.
- Insurance/underwriting risk — The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
- Liquidity risk — The risk that our financial condition or overall safety and soundness is adversely affected by the actual or perceived inability to liquidate assets or obtain adequate funding or to easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions. Refer to discussion in the section titled Liquidity Management, Funding, and Regulatory Capital within this MD&A.
- Market risk — The risk of loss arising from changes in the value of our assets or liabilities (including derivatives) caused by movements in market variables such as interest rates, credit spreads, foreign-exchange rates, and equity and commodity prices. Market risk includes interest rate risk, investment risk, and lease residual risk.
- Business/strategic risk — The risk resulting from the pursuit of business plans that turn out to be unsuccessful due to a variety of factors.
- Reputation risk — The risk arising from negative public opinion on our business practices, whether true or not, that will cause a decline in the customer base, litigation, or revenue reductions.
- Operational risk — The risk of loss or harm arising from inadequate or failed processes or systems, human factors, or external events.
- Information technology/security risk — The risk resulting from the failure of, or insufficiency in, information technology (e.g., system outage) or intentional or accidental unauthorized access, sharing, removal, tampering, or disposal of company and customer data or records.
- Compliance risk — The risk of legal or regulatory sanctions, financial loss, or damage to reputation resulting from failure to comply with laws, regulations, rules, other regulatory requirements, or codes of conduct and other standards of self-regulatory organizations applicable to the banking organization (applicable rules and standards).
- Conduct risk — The risk of customer harm, employee harm, reputational damage, regulatory sanction, or financial loss resulting from the behavior of our employees and contractors toward customers, counterparties, other employees and contractors, or the markets in which we operate.

Our risk-governance structure starts within each business line, including committees established to oversee risk in their respective areas. The business lines are responsible for their risk-based performance and compliance with risk-management policies and applicable law.

The independent risk-management function is accountable for independently identifying, monitoring, measuring, and reporting on our various risks and for designing an effective risk-management framework and structure. The independent risk-management function is also responsible for developing, maintaining, and implementing enterprise risk-management policies. In addition, the Enterprise Risk Management Committee (ERMC) is responsible for supporting the Chief Risk Officer's oversight of senior management's responsibility to execute on our strategy within our risk appetite set by the RC and the Chief Risk Officer's implementation of our independent risk-management program. The Chief Risk Officer reports to the RC, as well as administratively to the Chief Executive Officer.

All business lines are subject to full and unrestricted audits by Audit Services. The Chief Audit Executive reports to the Audit Committee of the Board (AC), as well as administratively to the Chief Executive Officer, and is primarily responsible for assisting the AC in fulfilling its governance and oversight responsibilities. Audit Services is granted free and unrestricted access to any and all of our records, physical properties, technologies, management, and employees.

In addition, our Loan Review Group provides an independent assessment of the quality of our extensions of credit and credit-risk-management practices, and all business lines that create or influence credit risk are subject to full and unrestricted reviews by the Loan Review Group. This group is also granted free and unrestricted access to any and all of our records, physical properties, technologies, management and employees, and reports its findings directly to the RC.

Loan and Operating Lease Exposure

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

December 31, ($ in millions)	2018	2017
Finance receivables and loans		
Automotive Finance	$108,463	$105,129
Mortgage Finance	15,155	11,657
Corporate Finance	4,636	3,910
Corporate and Other (a)	1,672	2,197
Total finance receivables and loans	129,926	122,893
Loans held-for-sale		
Automotive Finance	210	—
Mortgage Finance (b)	8	13
Corporate Finance	47	77
Corporate and Other	49	18
Total loans held-for-sale	314	108
Total on-balance sheet loans	130,240	123,001
Off-balance sheet securitized loans		
Automotive Finance (c)	1,235	1,964
Whole-loan sales		
Automotive Finance (c)	634	1,399
Total off-balance sheet loans	1,869	3,363
Operating lease assets		
Automotive Finance	8,417	8,741
Total loan and operating lease exposure	$140,526	$135,105

(a) Includes $1.5 billion and $2.1 billion of consumer mortgage loans in our legacy mortgage portfolio at December 31, 2018, and December 31, 2017, respectively.
(b) Represents the current balance of conforming mortgages originated directly to the held-for-sale portfolio.
(c) Represents the current unpaid principal balance of outstanding loans based on our customary representation and warranty provisions.

The risks inherent in our loan and operating lease exposures are largely driven by changes in the overall economy, used vehicle and housing price levels, 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, which may be more volatile than credit risk in stressed macroeconomic scenarios, has declined over the past several years as we have experienced growth in our consumer automotive loan portfolio and a significant reduction in operating lease assets since 2014. 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.

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Finance receivables and loans — Loans that we have the intent and ability to hold for the foreseeable future or until maturity, or loans associated with an on-balance sheet securitization classified as secured borrowing. Finance receivables and loans are reported at their gross carrying value, which includes the principal amount outstanding, net of unamortized deferred fees and costs on originated loans, unamortized premiums and discounts on purchased loans, unamortized basis adjustments arising from the designation of finance receivables and loans as the hedged item in qualifying fair value hedge relationships, and cumulative principal charge-offs. We refer to the gross carrying value less the allowance for loan loss as the net carrying value in finance receivables and loans. We manage the economic risks of these exposures, including credit risk, by adjusting underwriting standards and risk limits, augmenting our servicing and collection activities (including loan modifications and restructurings), and optimizing our product and geographic concentrations. Additionally, we may elect to account for certain mortgage loans at fair value. Changes in the fair value of these loans are recognized in a valuation allowance separate from the allowance for loan losses and are reflected in current period earnings. We use market-based instruments, such as derivatives, to hedge changes in the fair value of these loans.

- Loans held-for-sale — Loans that we do not have the intent and ability to hold for the foreseeable future or until maturity. These loans are recorded on our balance sheet at the lower of their net carrying value or fair market value and are evaluated by portfolio and product type. Changes in the recorded value are recognized in a valuation allowance and reflected in current period earnings. We manage the economic risks of these exposures, including market and credit risks, in various ways including the use of market-based instruments, such as derivatives.
- Off-balance sheet securitized loans — Loans that we transfer off-balance sheet to nonconsolidated variable interest entities. Our exposure is primarily limited to customary representation and warranty provisions. Similar to finance receivables and loans, we manage the economic risks of these exposures through activities including servicing and collections.
- Whole-loan sales — Loans that we transfer off-balance sheet to third-party investors. Our exposure is primarily limited to customary representation and warranty provisions. Similar to finance receivables and loans, we manage the economic risks of these exposures through activities including servicing and collections.
- Operating lease assets — The net book value of the automotive assets we lease includes the expected residual values upon remarketing the vehicles at the end of the lease and is reported net of accumulated depreciation. We are exposed to fluctuations in the expected residual value upon remarketing the vehicle at the end of the lease, and as such at contract inception, we determine pricing based on the projected residual value of the leased vehicle. This evaluation is primarily based on a proprietary model, which includes variables such as age, expected mileage, seasonality, segment factors, vehicle type, economic indicators, production cycle, automotive manufacturer incentives, and shifts in used vehicle supply. This internally-generated data is compared against third-party, independent data for reasonableness. Periodically, we revise the projected value of the leased vehicle at termination based on current market conditions and adjust depreciation expense appropriately over the remaining life of the contract. At termination, our actual sales proceeds from remarketing the vehicle may be higher or lower than the estimated residual value resulting in a gain or loss on remarketing recorded through depreciation expense. The balance sheet reflects both the operating lease asset as well as any associated rent receivables. The operating lease rent receivable is accrued when collection is reasonably assured and presented as a component of other assets. The operating lease asset is reviewed for impairment in accordance with applicable accounting standards.

Refer to the section titled Critical Accounting Estimates within this MD&A and Note 1 to the Consolidated Financial Statements for further information.

Credit Risk

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 risk committees, 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 directly 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 (e.g., 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 in conjunction with pricing at contract inception and continue to closely monitor our loan performance and profitability performance 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 and the aggregate portfolio of borrowers either within a designated geographic region or a particular product or industry segment. We perform quarterly analyses of the consumer automotive, consumer mortgage, 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 9 to the Consolidated Financial Statements for additional information.

Additionally, we utilize numerous collection strategies to mitigate loss and provide ongoing support to customers in financial distress. For 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, financial futures, cash balances (e.g., due from depository institutions, restricted accounts, and cash equivalents), and investment in debt securities. For more information on derivative counterparty credit risk, refer to Note 21 to the Consolidated Financial Statements.

We employ an internal team of economists to enhance our planning and forecasting capabilities. This team conducts industry and market research, monitors economic risks, and helps support various forms of scenario planning. This group closely monitors macroeconomic trends given the nature of our business and the potential impacts on our exposure to credit risk. During 2018, the U.S. economy continued to modestly expand, and consumer confidence remained strong. The labor market remained healthy during the year, with the unemployment rate down year over year to 3.9% as of December 31, 2018. Within the U.S. automotive market, new light vehicle sales have moderated from historic highs, and remain stable year over year at 17.2 million for the year ended December 31, 2018. We expect to experience modest downward pressure on used vehicle values during 2019.

Consumer Credit Portfolio

Our consumer loan portfolio primarily consists of automotive loans, first-lien mortgages, and home equity loans. Loan losses in our consumer loan portfolio are influenced by general business and economic conditions including unemployment rates, bankruptcy filings, and home and used vehicle prices. Additionally, our consumer credit exposure is significantly concentrated in automotive lending.

Credit risk management for the consumer loan portfolio begins with the initial underwriting and continues throughout a borrower's credit life cycle. We manage consumer credit risk through our loan origination and underwriting policies and the credit approval process. We use proprietary credit-scoring models to differentiate the expected default rates of credit applicants enabling us to better evaluate credit applications for approval and to tailor the pricing and financing structure according to this assessment of credit risk. We continuously monitor and routinely update the inputs of the credit scoring models. These and other actions mitigate but do not eliminate credit risk. Ineffective evaluations of a borrower's creditworthiness, fraud, or changes in the applicant's financial condition after approval could negatively affect the quality of our portfolio, resulting in loan losses.

Our servicing activities are another key factor in managing consumer credit risk. Servicing activities consist largely of collecting and processing customer payments, responding to customer concerns and inquiries, processing customer requests (including those for payoff quotes, total-loss handling, and payment modifications), maintaining a perfected security interest in the financed vehicle, engaging in collections activity, and disposing of off-lease and repossessed vehicles. Servicing activities are generally consistent across our Automotive Finance operations; however, certain practices may be influenced by state laws.

During the year ended December 31, 2018, the credit performance of the consumer loan portfolio reflected both our underwriting strategy to originate a diversified portfolio of consumer automotive loan assets, including used, nonsubvented new, higher LTV, extended term, Growth channel, and nonprime finance receivables and loans, as well as high-quality jumbo and LMI mortgage loans that are acquired through bulk loan purchases and direct-to-consumer mortgage originations. The carrying value of our nonprime consumer automotive loans before allowance for loan losses represented approximately 11.7% of our total consumer automotive loans at December 31, 2018, compared to approximately 12.9% at December 31, 2017. For information on our consumer credit risk practices and policies regarding delinquencies, nonperforming status, and charge-offs, refer to Note 1 to the Consolidated Financial Statements.

The following table includes consumer finance receivables and loans recorded at gross carrying value.

	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
December 31, ($ in millions)	2018	2017	2018	2017	2018	2017
Consumer automotive (c) (d)	$70,539	$68,071	$ 664	$ 603	$ —	$ —
Consumer mortgage						
Mortgage Finance	15,155	11,657	9	25	—	—
Mortgage — Legacy	1,546	2,093	70	92	—	—
Total consumer finance receivables and loans	$87,240	$81,821	$ 743	$ 720	$ —	$ —

(a) Includes nonaccrual TDR loans of $257 million and $219 million at December 31, 2018, and December 31, 2017, respectively.

(b) Loans are generally placed on nonaccrual status when principal or interest has been delinquent for 90 days or when full collection is not expected. Refer to Note 1 to the Consolidated Financial Statements for a description of our accounting policies for finance receivables and loans.

(c) Certain finance receivables and loans are included in fair value hedging relationships. Refer to Note 21 to the Consolidated Financial Statements for additional information.

(d) Includes outstanding CSG loans of $7.9 billion and $7.3 billion at December 31, 2018, and December 31, 2017, respectively, and RV loans of $1.7 billion and $1.8 billion at December 31, 2018, and December 31, 2017, respectively.

Total consumer finance receivables and loans increased $5.4 billion at December 31, 2018, compared with December 31, 2017, reflecting an increase of $3.0 billion of consumer mortgage finance receivables and loans and an increase of $2.5 billion of consumer automotive finance receivables and loans. The increase in consumer mortgage finance receivables and loans was primarily due to the execution of bulk loan purchases totaling $4.4 billion during the year ended December 31, 2018, partially offset by legacy mortgage portfolio runoff. The increase in consumer automotive finance receivables and loans was primarily related to continued momentum in our Growth channel.

Total consumer nonperforming finance receivables and loans at December 31, 2018, increased $23 million to $743 million from December 31, 2017, reflecting an increase of $61 million of consumer automotive finance receivables and loans and a decrease of $38 million of consumer mortgage nonperforming finance receivables and loans. The increase in nonperforming consumer automotive finance receivables and loans was primarily due to the continued gradual shift in the composition of the overall portfolio as a result of our diversification strategy, as well as portfolio growth. This increase was partially offset by the decrease in nonperforming consumer mortgage finance receivables and loans primarily due to favorable macroeconomic conditions. Refer to Note 9 to the Consolidated Financial Statements for additional information. Nonperforming consumer finance receivables and loans as a percentage of total outstanding consumer finance receivables and loans were 0.9% at both December 31, 2018, and December 31, 2017.

Total consumer TDRs outstanding at December 31, 2018, increased $65 million since December 31, 2017, to $726 million. The increase was primarily driven by growth in and performance of our consumer automotive loan portfolio which continues to gradually shift in composition as a result of our diversification strategy, as well as the proactive utilization of certain workout strategies to optimize servicing efforts. Refer to Note 9 to the Consolidated Financial Statements for additional information.

Consumer automotive loans accruing and past due 30 days or more increased $164 million compared to December 31, 2017, to $2.5 billion at December 31, 2018, driven by growth in the overall size of the consumer automotive loan portfolio as well as slightly higher delinquency rates associated with a measured increase in the mix of used vehicle financings as part of our continued diversification strategy. Used vehicle loans within our portfolio generally have higher delinquency rates and higher loss frequency, but lower loss severity relative to new vehicle loans due to lower

original loan balances and slower collateral depreciation.
The following table includes consumer net charge-offs from finance receivables and loans at gross carrying value and related ratios.

	Net charge-offs		Net charge-off ratios (a)	
Year ended December 31, ($ in millions)	2018	2017	2018	2017
Consumer automotive	$ 927	$ 986	1.3 %	1.5 %
Consumer mortgage				
Mortgage Finance	3	1	—	—
Mortgage — Legacy	7	5	0.4	0.2
Total consumer finance receivables and loans	$ 937	$ 992	1.1	1.3

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

Our net charge-offs from total consumer finance receivables and loans were $937 million for the year ended December 31, 2018, compared to $992 million for the year ended December 31, 2017. The decrease in net charge-offs for the year ended December 31, 2018, were primarily driven by our consumer automotive loan portfolio where we experienced strong overall credit performance driven by favorable macroeconomic trends including low unemployment, as well as continued disciplined underwriting and higher recoveries on charge-offs driven by improved used vehicle values.

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

Year ended December 31, ($ in millions)	2018	2017
Consumer automotive	$31,321	$30,448
Consumer mortgage (a)	703	284
Total consumer loan originations	$32,024	$30,732

(a) Excludes bulk loan purchases associated with our Mortgage Finance operations and includes $302 million of loans originated as held-for-sale for the year ended December 31, 2018, and $136 million for the year ended December 31, 2017.

Total consumer loan originations increased $1.3 billion for the year ended December 31, 2018, compared to the year ended December 31, 2017. The increase in consumer loan originations for the year ended December 31, 2018, was primarily due to higher consumer automotive loan volume in the Growth channel, with our continued focus on obtaining appropriate risk-adjusted returns.

The following table shows the percentage of total consumer finance receivables and loans recorded at gross carrying value by state concentration. Total consumer automotive loans were $70.5 billion and $68.1 billion at December 31, 2018, and December 31, 2017, respectively. Total mortgage and home equity loans were $16.7 billion and $13.8 billion at December 31, 2018, and December 31, 2017, respectively.

December 31,	2018 (a)		2017	
	Consumer automotive	Consumer mortgage	Consumer automotive	Consumer mortgage
California	8.4 %	36.9 %	8.2 %	34.6 %
Texas	12.8	6.2	13.2	6.5
Florida	8.8	4.7	8.5	4.8
Pennsylvania	4.5	1.4	4.6	1.5
Illinois	4.1	3.0	4.2	3.2
Georgia	4.1	2.8	4.2	2.5
North Carolina	3.9	1.7	3.7	1.8
New York	3.1	2.4	3.0	2.2
Ohio	3.5	0.4	3.4	0.5
New Jersey	2.7	2.1	2.6	2.1
Other United States	44.1	38.4	44.4	40.3
Total consumer loans	100.0%	100.0 %	100.0%	100.0 %

(a) Presentation is in descending order as a percentage of total consumer finance receivables and loans at December 31, 2018.

We monitor our consumer loan portfolio for concentration risk across the states in which we lend. The highest concentrations of consumer loans are in California and Texas, which represented an aggregate of 25.4% and 24.7% of our total outstanding consumer finance receivables and loans at December 31, 2018, and December 31, 2017, respectively. Our consumer mortgage loan portfolio concentration within California, which is primarily composed of high-quality jumbo mortgage loans, generally aligns to the California share of jumbo mortgages nationally.

Repossessed and Foreclosed Assets

We classify an asset as repossessed or foreclosed, which is included in other assets on our Consolidated Balance Sheet, when physical possession of the collateral is taken. We dispose of the acquired collateral in a timely fashion in accordance with regulatory requirements. For more information on repossessed and foreclosed assets, refer to Note 1 to the Consolidated Financial Statements.

Repossessed consumer automotive loan assets in our Automotive Finance operations decreased $4 million from December 31, 2017, to $136 million at December 31, 2018. Foreclosed mortgage assets increased $1 million from December 31, 2017, to $11 million at December 31, 2018.

Commercial Credit Portfolio

Our commercial portfolio consists primarily of automotive loans through the extension of wholesale floorplan financing, automotive dealer term real estate loans, and automotive fleet financing, as well as other commercial loans including our Corporate Finance lending portfolio. Wholesale floorplan loans are secured by the vehicles financed (and all other vehicle inventory), which provide strong collateral protection in the event of dealership default. Additional collateral (e.g., blanket lien over all dealership assets) or other credit enhancements (e.g., personal guarantees from dealership owners) are typically obtained to further mitigate credit risk. Furthermore, in most cases, we benefit from automotive manufacturer repurchase arrangements, which may serve as an additional layer of protection in the event of repossession of new-vehicle dealership inventory or dealership franchise termination.

Within our commercial portfolio, we utilize a proprietary risk rating model that is fundamental to managing credit risk exposure consistently across various types of commercial borrowers and captures critical risk factors for each borrower. The ratings are used for many areas of credit risk management, including loan origination, portfolio risk monitoring, management reporting, and loan loss reserves analyses. Therefore, the rating system is critical to an effective and consistent credit-risk-management framework.

During the year ended December 31, 2018, the credit performance of the commercial portfolio remained strong. While nonperforming finance receivables and loans increased as a result of several specific exposures, our net charge-offs remained low at $8 million and $18 million for the years ended December 31, 2018, and 2017, respectively. For information on our commercial credit risk practices and policies regarding delinquencies, nonperforming status, and charge-offs, refer to Note 1 to the Consolidated Financial Statements.

The following table includes total commercial finance receivables and loans reported at gross carrying value.

	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
December 31, ($ in millions)	2018	2017	2018	2017	2018	2017
Commercial and industrial						
Automotive	$33,672	$33,025	$ 203	$ 27	$ —	$ —
Other (c)	4,205	3,887	142	44	—	—
Commercial real estate	4,809	4,160	4	1	—	—
Total commercial finance receivables and loans	$42,686	$41,072	$ 349	$ 72	$ —	$ —

(a) Includes nonaccrual TDR loans of $86 million and $51 million at December 31, 2018, and December 31, 2017, respectively.

(b) Loans are generally placed on nonaccrual status when principal or interest has been delinquent for 90 days or when full collection is not expected. Refer to Note 1 to the Consolidated Financial Statements for a description of our accounting policies for finance receivables and loans.

(c) Other commercial primarily includes senior secured commercial lending largely associated with our Corporate Finance operations.

Total commercial finance receivables and loans outstanding increased $1.6 billion from December 31, 2017, to $42.7 billion at December 31, 2018. The increase was primarily driven by higher dealer inventory levels and growth in automotive real estate term loans, as well as in our Corporate Finance portfolio in line with our business strategy.

Total commercial nonperforming finance receivables and loans were $349 million at December 31, 2018, reflecting an increase of $277 million when compared to December 31, 2017. The increase was primarily due to the default of one larger dealer group that resulted in $153 million of additional nonperforming loans, as well as the downgrade of five accounts within our Corporate Finance portfolio. Nonperforming commercial finance receivables and loans as a percentage of outstanding commercial finance receivables and loans increased to 0.8% at December 31, 2018, compared to 0.2% at December 31, 2017. Despite the increase in nonperforming commercial loans, we expect our collateral positions to meaningfully mitigate the risk of loss on these loans. Our commercial loan portfolio includes multiple forms of loan collateral. Wholesale floorplan loans are secured by vehicles financed, and additional collateral or other credit enhancements are typically obtained to further mitigate credit risk. Automotive dealer term and revolving loans are generally secured by real estate or other dealership assets and are typically personally guaranteed by the individual owners of the dealership. Our corporate finance lending portfolio is generally composed of first-lien, first-out loans that are typically secured by all assets of the borrowers.

Total commercial TDRs outstanding at December 31, 2018, increased $35 million since December 31, 2017, to $86 million. The increase was primarily driven by the addition of two accounts in our Corporate Finance portfolio. Refer to Note 9 to the Consolidated Financial Statements for additional information.

The following table includes total commercial net charge-offs from finance receivables and loans at gross carrying value and related ratios.

	Net charge-offs		Net charge-off ratios (a)	
Year ended December 31, ($ in millions)	2018	2017	2018	2017
Commercial and industrial				
Automotive	$ 5	$ 2	— %	— %
Other	3	16	0.1	0.5
Total commercial finance receivables and loans	$ 8	$ 18	—	—

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

Our net charge-offs from total commercial finance receivables and loans were $8 million for the year ended December 31, 2018, compared to $18 million for the year ended December 31, 2017. The decrease in net charge-offs for the year ended December 31, 2018, was primarily driven by our Corporate Finance portfolio, which incurred lower partial charge-offs on restructured loans and recognized a recovery from a previously charged-off loan.

Commercial Real Estate

The commercial real estate portfolio consists of finance receivables and loans issued primarily to automotive dealers. Commercial real estate finance receivables and loans were $4.8 billion and $4.2 billion at December 31, 2018, and December 31, 2017, respectively.

The following table presents the percentage of total commercial real estate finance receivables and loans by state concentration. These finance receivables and loans are reported at gross carrying value.

December 31,	2018	2017
Texas	15.5 %	15.7 %
Florida	11.6	10.3
California	8.3	8.2
Michigan	6.8	7.7
New York	4.8	2.1
Georgia	4.0	4.6
North Carolina	3.6	3.6
South Carolina	3.4	3.5
New Jersey	3.1	3.6
Utah	2.6	1.6
Other United States	36.3	39.1
Total commercial real estate finance receivables and loans	100.0 %	100.0 %

Commercial Criticized Exposure

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

Total criticized exposures increased $895 million from December 31, 2017, to $4.0 billion at December 31, 2018. The increase was primarily due to the reclassification of certain accounts to special mention and substandard within the commercial automotive portfolio.

The following table presents the percentage of total commercial criticized finance receivables and loans by industry concentration. These finance receivables and loans within our automotive and Corporate Finance portfolios are reported at gross carrying value.

December 31,	2018	2017
Industry		
Automotive	80.6 %	76.3 %
Services	5.0	6.7
Health/Medical	3.7	4.9
Other	10.7	12.1
Total commercial criticized finance receivables and loans	100.0 %	100.0 %

Selected Loan Maturity and Sensitivity Data

The table below shows the maturity of the commercial finance receivables and loans portfolio and the distribution between fixed and floating interest rates based on the stated terms of the commercial loan agreements. This portfolio is reported at gross carrying value.

December 31, 2018 ($ in millions)	Within 1 year (a)	1–5 years	After 5 years	Total (b)
Commercial and industrial	$32,658	$3,855	$1,364	$37,877
Commercial real estate	138	2,067	2,604	4,809
Total commercial finance receivables and loans	$32,796	$5,922	$3,968	$42,686
Loans at fixed interest rates		$1,424	$2,708	
Loans at variable interest rates		4,498	1,260	
Total commercial finance receivables and loans		$5,922	$3,968	

(a) Includes loans (e.g., floorplan) with revolving terms.
(b) Loan maturities are based on the remaining maturities under contractual terms.

Allowance for Loan Losses

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

Year ended December 31, 2018 ($ in millions)	Consumer automotive	Consumer mortgage	Total consumer	Commercial	Total
Allowance at January 1, 2018	$ 1,066	$ 79	$ 1,145	$ 131	$ 1,276
Charge-offs (a)	(1,383)	(35)	(1,418)	(15)	(1,433)
Recoveries	456	25	481	7	488
Net charge-offs	(927)	(10)	(937)	(8)	(945)
Provision for loan losses	911	(15)	896	22	918
Other (b)	(2)	(1)	(3)	(4)	(7)
Allowance at December 31, 2018	$ 1,048	$ 53	$ 1,101	$ 141	$ 1,242
Allowance for loan losses to finance receivables and loans outstanding at December 31, 2018 (c)	1.5 %	0.3 %	1.3 %	0.3 %	1.0 %
Net charge-offs to average finance receivables and loans outstanding for the year ended December 31, 2018	1.3 %	0.1 %	1.1 %	— %	0.8 %
Allowance for loan losses to total nonperforming finance receivables and loans at December 31, 2018 (c)	157.8 %	67.3 %	148.2 %	40.5 %	113.8 %
Ratio of allowance for loan losses to net charge-offs at December 31, 2018	1.1	5.3	1.2	16.7	1.3

(a) Represents the amount of the gross carrying value directly written off. For consumer and commercial loans, the loss from a charge-off is measured as the difference between the gross carrying value of a loan and the fair value of the collateral, less costs to sell. Refer to Note 1 to the Consolidated Financial Statements for more information regarding our charge-off policies.
(b) Primarily related to the transfer of finance receivables and loans from held-for-investment to held-for-sale.
(c) Coverage percentages are based on the allowance for loan losses related to finance receivables and loans excluding those loans held at fair value as a percentage of the gross carrying value.

Year ended December 31, 2017 ($ in millions)	Consumer automotive	Consumer mortgage	Total consumer	Commercial	Total
Allowance at January 1, 2017	$ 932	$ 91	$ 1,023	$ 121	$ 1,144
Charge-offs (a)	(1,344)	(30)	(1,374)	(18)	(1,392)
Recoveries	358	24	382	—	382
Net charge-offs	(986)	(6)	(992)	(18)	(1,010)
Provision for loan losses	1,127	(7)	1,120	28	1,148
Other (b)	(7)	1	(6)	—	(6)
Allowance at December 31, 2017	$ 1,066	$ 79	$ 1,145	$ 131	$ 1,276
Allowance for loan losses to finance receivables and loans outstanding at December 31, 2017 (c)	1.6 %	0.6 %	1.4 %	0.3 %	1.0 %
Net charge-offs to average finance receivables and loans outstanding for the year ended December 31, 2017	1.5 %	0.1 %	1.3 %	— %	0.8 %
Allowance for loan losses to total nonperforming finance receivables and loans at December 31, 2017 (c)	176.9 %	67.3 %	159.1 %	182.2 %	161.2 %
Ratio of allowance for loan losses to net charge-offs at December 31, 2017	1.1	12.2	1.2	7.3	1.3

(a) Represents the amount of the gross carrying value directly written off. For consumer and commercial loans, the loss from a charge-off is measured as the difference between the gross carrying value of a loan and the fair value of the collateral, less costs to sell. Refer to Note 1 to the Consolidated Financial Statements for more information regarding our charge-off policies.

(b) Primarily related to the transfer of finance receivables and loans from held-for-investment to held-for-sale.

(c) Coverage percentages are based on the allowance for loan losses related to finance receivables and loans excluding those loans held at fair value as a percentage of the gross carrying value.

The allowance for consumer loan losses at December 31, 2018, declined $44 million compared to December 31, 2017, reflecting a decrease of $18 million in the consumer automotive allowance and a decrease of $26 million in the consumer mortgage allowance. The reduction in our consumer automotive allowance resulted from overall improved credit performance, as well as higher reserves we maintained in the prior year as a result of the hurricanes experienced in the third quarter of 2017, partially offset by growth in the portfolio. The decrease in the consumer mortgage allowance was primarily driven by run-off in our legacy mortgage portfolio and lower hurricane-related reserves, partially offset by growth in our Mortgage Finance portfolio.

The allowance for commercial loan losses increased $10 million at December 31, 2018, compared to December 31, 2017. The increase was primarily driven by higher reserves for individually impaired loans in our Corporate Finance portfolio.

Allowance for Loan Losses by Type

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

	2018			2017		
December 31, ($ in millions)	Allowance for loan losses	Allowance as a % of loans outstanding	Allowance as a % of total allowance for loan losses	Allowance for loan losses	Allowance as a % of loans outstanding	Allowance as a % of total allowance for loan losses
Consumer						
Consumer automotive	$ 1,048	1.5 %	84.3 %	$ 1,066	1.6 %	83.5 %
Consumer mortgage						
Mortgage Finance	16	0.1	1.3	19	0.2	1.5

Mortgage — Legacy	37	2.4	3.0		60	2.9	4.7	
Total consumer mortgage	53	0.3	4.3		79	0.6	6.2	
Total consumer loans	1,101	1.3	88.6		1,145	1.4	89.7	
Commercial								
Commercial and industrial								
Automotive	36	0.1	2.9		37	0.1	2.9	
Other	77	1.8	6.2		68	1.7	5.4	
Commercial real estate	28	0.6	2.3		26	0.6	2.0	
Total commercial loans	141	0.3	11.4		131	0.3	10.3	
Total allowance for loan losses	$1,242	1.0	100.0	%	$1,276	1.0	100.0	%

Provision for Loan Losses

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

Year ended December 31, ($ in millions)	2018	2017	2016
Consumer			
Consumer automotive	$911	$1,127	$919
Consumer mortgage			
Mortgage Finance	1	8	(4)
Mortgage — Legacy	(16)	(15)	(12)
Total consumer mortgage	(15)	(7)	(16)
Total consumer loans	896	1,120	903
Commercial			
Commercial and industrial			
Automotive	8	6	4
Other	12	21	9
Commercial real estate	2	1	1
Total commercial loans	22	28	14
Total provision for loan losses	$918	$1,148	$917

The provision for consumer loan losses decreased $224 million for the year ended December 31, 2018, compared to 2017. The decrease during the year ended December 31, 2018, was primarily driven by our consumer automotive loan portfolio where we experienced strong overall credit performance driven by favorable macroeconomic trends including low unemployment, as well as continued disciplined underwriting and higher recoveries on charge-offs driven by improved used vehicle values. Additionally, results were impacted by $53 million of additional reserves associated with the estimated impacts of the hurricanes experienced during the third quarter of 2017.

The provision for commercial loan losses decreased $6 million for the year ended December 31, 2018, compared to the year ended December 31, 2017. The decrease in provision for commercial loan losses for the year ended December 31, 2018, was primarily due to improved overall credit performance in the portfolio as well as a $6 million recovery of a previously charged-off loan in the second quarter of 2018. This decrease was partially offset by higher specific reserves for individually impaired loans.

Insurance/Underwriting Risk

The underwriting of our VSCs, VMCs, GAP, and insurance policies includes an assessment of the risk to determine acceptability and categorization for appropriate pricing. The acceptability of a particular risk is based on expected losses, expenses and other factors specific to the product in question. With respect to VSCs, considerations include the quality of the vehicles produced, the price of replacement parts, repair labor rates, and new model introductions. Insurance risk also includes event risk, which is synonymous with pure risk, hazard risk, or insurance risk, and presents no chance of gain, only of loss.

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

In some instances, reinsurance is used to reduce the risk associated with volatile business lines, such as catastrophe risk in vehicle inventory insurance. Our vehicle inventory insurance product is covered by excess of loss protection, including catastrophe coverage for weather-related events. In addition, loss control techniques such as storm path monitoring to assist dealers in preparing for severe weather help to mitigate loss potential.

In accordance with industry and accounting practices and applicable insurance laws and regulatory requirements, we maintain reserves for reported losses, losses incurred but not reported, losses expected to be incurred in the future for contracts in force and loss adjustment expenses. The estimated values of our prior reported loss reserves and changes to the estimated values are routinely monitored by credentialed actuaries. Our reserve estimates are regularly reviewed by management; however, since the reserves are based on estimates and numerous assumptions, the ultimate liability

may differ from the amount estimated.
Market Risk
Our financing, investing, and insurance activities give rise to market risk, or the potential change in the value of our assets (including securities, assets held-for-sale, and operating leases) and liabilities (including deposits and debt) due to movements in market variables such as interest rates, credit spreads, foreign-exchange rates, equity prices, and off-lease vehicle prices.
The impact of changes in benchmark interest rates on our assets and liabilities (interest rate risk) represents an exposure to market risk. We primarily use interest rate derivatives to manage our interest rate risk exposure.

The fair value of our credit-sensitive assets is also exposed to credit spread risk. Credit spread is the amount of additional return over the benchmark interest rates that an investor would demand for taking exposure to the credit risk of an instrument. Generally, an increase in credit spreads would result in a decrease in a fair value measurement.

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

We also have exposure to changes in the value of equity securities, primarily related to our Insurance operations. We use equity derivatives to manage our exposure to equity price fluctuations.

The composition of our balance sheet, including shorter-duration consumer automotive loans and variable-rate commercial loans, coupled with the continued funding shift toward retail deposits, partially mitigates market risk. Additionally, we maintain risk-management control systems to measure and monitor market risk using a variety of analytical techniques including market value, sensitivity analysis, and value at risk models. Refer to Note 21 to the Consolidated Financial Statements for further information.

Fair Value Sensitivity Analysis

The following table and subsequent discussion presents a fair value sensitivity analysis of our assets and liabilities using isolated hypothetical movements in specific market rates. The analysis assumes adverse instantaneous, parallel shifts in market-exchange rates, interest rate yield curves, and equity prices. Additionally, since only adverse fair value impacts are included, the natural offset between asset and liability rate sensitivities that arise within a diversified balance sheet, such as ours, may not be considered.

December 31, ($ in millions)	2018	2017
Financial instruments exposed to changes in:		
Interest rates		
Estimated fair value	(a)	(a)
Effect of 10% adverse change in rates	(a)	(a)
Foreign-currency exchange rates		
Estimated fair value	$392	$359
Effect of 10% adverse change in rates	(18)	(22)
Equity prices		
Estimated fair value	$810	$577
Effect of 10% decrease in prices	(81)	(58)

(a) Refer to the section below titled Net Financing Revenue Sensitivity Analysis for information on the interest rate sensitivity of our financial instruments.

Net Financing Revenue Sensitivity Analysis

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

We prepare our 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. Based on current market conditions, actual beta on our total retail deposits portfolio has been approximately 35% relative to the increase in the federal funds rate since the third quarter of 2015. We continually monitor industry and competitive repricing activity along with other market factors when contemplating deposit pricing actions.

Simulations are 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 twelve months. A number of alternative rate scenarios are tested, 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 twelve months would decrease by $10 million if interest rates remain unchanged.

The following table presents the pretax dollar impact to forecasted net financing revenue over the next twelve months assuming 100 basis point and 200 basis point instantaneous parallel and gradual parallel shock increases, and assuming 100 basis point instantaneous parallel and gradual parallel shock decreases to the implied market forward curve as of December 31, 2018, and December 31, 2017.

December 31, ($ in millions)	2018 Gradual (a)	2018 Instantaneous	2017 Gradual (a)	2017 Instantaneous
Change in interest rates				
-100 basis points	$(20)	$ (34)	$(22)	$ 15
+100 basis points	51	10	(18)	(106)
+200 basis points	81	(10)	(68)	(294)

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

The implied forward rate curve was higher and flatter compared to December 31, 2017, as short-end rates have increased more than long-end rates. The impact of this change is reflected in our baseline net financing revenue projections. We have reduced our liability-sensitive position as of December 31, 2018, in the upward interest rate shock scenarios. Exposure in the +100 and +200 instantaneous shock scenarios has decreased as of December 31, 2018, primarily due to the hedge program we initiated in the first quarter of 2018 of pay-fixed interest rate swaps on certain automotive assets that allows us to reduce our sensitivity to a rise in short-term interest rates beyond the implied forward curve. This was partially offset by the impact of higher interest rates on deposits as a result of our assumption that deposit pass-through levels increase with higher interest rates.

The exposure in the downward instantaneous interest rate shock scenario has increased as of December 31, 2018, primarily due to changes to our derivative hedging position as noted above, partially offset by the benefit of deposits in a lower rate environment.

Our risk position is influenced by the net impact of derivative hedging which includes 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. The size, maturity, and mix of our hedging activities are adjusted as our balance sheet, ALM objectives, and interest rate environment evolve over time.

Operating Lease Residual Risk Management

We are exposed to residual risk on vehicles in the consumer operating lease portfolio. This operating lease residual risk represents the possibility that the actual proceeds realized upon the sale of returned vehicles will be lower than the projection of these values used in establishing the pricing at lease inception. However, certain automotive manufacturers have provided their guarantee for portions of our residual exposure for lease programs with them. For information on our valuation of automotive operating lease residuals including periodic revisions through adjustments to depreciation expense based on current and forecasted market conditions, refer to the section titled Critical Accounting Estimates — Valuation of Automotive Operating Lease Assets and Residuals within this MD&A.

- Priced residual value projections — At contract inception, we determine pricing based on the projected residual value of the leased vehicle. This evaluation is primarily based on a proprietary model, which includes variables such as age, expected mileage, seasonality, segment factors, vehicle type, economic indicators, production cycle, automotive manufacturer incentives, and unanticipated shifts in used vehicle supply. This internally-generated data is compared against third-party, independent data for reasonableness. Periodically, we revise the projected value of the leased vehicle at termination based on current market conditions and adjust depreciation expense if necessary over the remaining life of the contract. At termination, our actual sales proceeds from remarketing the vehicle may be higher or lower than the estimated residual value resulting in a gain or loss on remarketing recorded through depreciation expense.
- Remarketing abilities — Our ability to efficiently process and effectively market off-lease vehicles affects the disposal costs and the proceeds realized from vehicle sales. Vehicles can be remarketed through auction (internet and physical), sale to dealer, sale to lessee, and other methods. The results within these channels vary, with physical

auction typically resulting in the lowest-priced outcome.

- Manufacturer vehicle and marketing programs — Automotive manufacturers influence operating lease residual results in the following ways:

The brand image of automotive manufacturers and consumer demand for their products affect residual risk.

Automotive manufacturer marketing programs may influence the used vehicle market for those vehicles through programs such as incentives on new vehicles, programs designed to encourage lessees to terminate their operating leases early in conjunction with the acquisition of a new vehicle (referred to as pull-ahead programs), and special rate used vehicle programs.

- Used vehicle market — We have exposure to changes in used vehicle prices. General economic conditions, used vehicle supply and demand, and new vehicle market prices heavily influence used vehicle prices.

Operating Lease Vehicle Terminations and Remarketing

The following table summarizes the volume of operating lease terminations and average gain per vehicle, as well as our methods of vehicle sales at lease termination, stated as a percentage of total operating lease vehicle disposals.

Year ended December 31,	2018	2017	2016
Off-lease vehicles terminated (in units)	135,365	268,054	307,557
Average gain per vehicle ($ per unit)	$ 661	$ 462	$ 691
Method of vehicle sales			
Auction			
Internet	52 %	56 %	55 %
Physical	15	13	13
Sale to dealer, lessee, and other	33	31	32

During the year ended December 31, 2018, our operating lease portfolio, net of accumulated depreciation, decreased 4% from $8.7 billion at December 31, 2017, to $8.4 billion at December 31, 2018. The number of off-lease vehicles remarketed during the year ended December 31, 2018, decreased 50% compared to 2017. The decrease in net operating lease assets and remarketing volume was primarily due to the wind down of our legacy GM operating lease portfolio. The residual risk associated with our operating lease portfolio has declined during this run-off period. We expect future termination volume to be more consistent with trends experienced during the year ended December 31, 2018.

We recognized an average gain per vehicle of $661 for the year ended December 31, 2018, compared to $462 for the year ended December 31, 2017. The increase in average gain per vehicle for the year ended December 31, 2018, compared to 2017, was primarily due to an increase in the mix of trucks and a decrease in the mix of cars, which drove more favorable remarketing results. For more information on our investment in operating leases, refer to Note 1 and Note 10 to the Consolidated Financial Statements.

Operating Lease Portfolio Mix

We monitor the concentration of our outstanding operating leases. The following table presents the mix of operating lease assets by vehicle type, based on volume of units outstanding.

December 31,	2018	2017	2016
Sport utility vehicle	57 %	55 %	52 %
Truck	31	27	17
Car	12	18	31

Our overall operating lease residual exposure has declined in recent years largely as a result of the runoff of our legacy GM operating lease portfolio, and as a result our exposure to Chrysler vehicles has grown and now represents approximately 94% of our operating lease units as of December 31, 2018. The following table presents the mix of vehicles by manufacturer, based on volume of units outstanding.

December 31,	2018	2017	2016
Chrysler vehicles	94 %	79 %	44 %
GM vehicles	1	12	51
Other	5	9	5

Business/Strategic Risk

Business/strategic risk is embedded in every facet of our organization and is one of our primary risk types. It is the risk resulting from the pursuit of business plans that turn out to be unsuccessful due to a variety of factors, including incorrect assumptions, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic or competitive environments, in the geographic locations in which we operate, competitor actions, changing customer preferences, product obsolescence, and technology developments. We aim to mitigate this risk within our business units through portfolio diversification, product innovations, and close monitoring of the execution of our strategic and capital plan, and ensuring flexibility of the cost base (e.g., through outsourcing).

The strategic plan is reviewed and approved annually by the Board, as are the capital plan and financial business plan. With oversight from the Board, executive management seeks to consistently apply core operating principles while executing our strategic plan consistent with the risk appetite approved by the RC. The executive management team continuously monitors business performance throughout the year to assess strategic risk and find early warning signals so that risks can be proactively managed. Executive management regularly reviews actual performance versus the plan, updates the Board via reporting routines and implements changes as deemed appropriate.

Significant strategic actions, such as capital actions, material acquisitions or divestitures, and recovery and resolution plans are reviewed and approved by the Board as required. At the business level, as we introduce new products, we monitor their performance relative to expectations. With oversight by the Board, executive management performs similar analyses throughout the year, and evaluates changes to the financial forecast or the risk, capital, or liquidity positions as deemed appropriate to balance and optimize achieving our targeted risk appetite, stockholder returns, and maintaining our targeted financial strength.

Reputation Risk

Reputation risk is the risk arising from negative public opinion on our business practices, whether true or not, that will cause a decline in the customer base, litigation, or revenue reductions. Reputation risk may result from many of our activities, including those related to the management of our business/strategic, operational, and credit risks. We manage reputation risk through established policies and controls in our businesses and risk-management processes to mitigate reputation risks in a timely manner and through proactive monitoring and identification of potential reputation risk events. We have established processes and procedures to respond to events that give rise to reputation risk, including educating individuals and organizations that influence public opinion, external communication strategies to mitigate the risk, and informing key stakeholders of potential reputation risks. Primary responsibility for the identification, escalation and resolution of reputation risk issues resides with our business lines. Each employee is under an obligation, within the scope of their activities, to analyze and assess any imminent or intended transaction in terms of possible risk factors in order to minimize reputation risks. Further, Ally's strong "LEAD" culture and distinct "Do it Right" philosophy also strengthen our efforts to mitigate reputational risks by promoting a transparent culture where every associate is expected to act as a risk manager. Our culture is proactive with its core principles embedded at all levels of the organization so that any associate, at any time, can and should call attention to risks that need to be addressed and taken into account. Our organization and governance structures provide oversight of reputation risks, and key risk indicators are reported regularly and directly to management and the RC, which provide primary oversight of reputation risk.

Operational Risk

Operational risk is the risk of loss or harm arising from inadequate or failed processes or systems, human factors, or external events. Operational risk is an inherent risk element in all of our activities. Such risk can manifest in various ways, including errors, business interruptions, and inappropriate behavior of employees, and can potentially result in financial losses and other damage to us. Operational risk includes business disruption risk, fraud risk, human capital risk, legal risk, model risk, process execution and management risk, and supplier (third party) risk.

- Business disruption risk — The risk of significant disruption to our operations resulting from natural disasters, external technology outages, or other external events.
- Fraud risk — The risk from deliberate misrepresentation or concealment of information material to a transaction with the intent to deceive another and that is reasonably relied on or used in decision making. Fraud can occur internally (e.g., employees) or externally (e.g., criminal activity, third-party suppliers).
- Human capital risk — The risk caused by high turnover, inadequate or improper staffing levels, departure/unavailability of key personnel, or inadequate training and includes our exposure to worker's compensation and employment litigation.
- Legal risk — The risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect our operations or condition.
- Model risk — The potential for adverse consequences from decisions based on incorrect or misused model assumptions, inputs, outputs, and reports. This risk may include fundamental errors within the model that produce inaccurate outputs or that the model is used incorrectly or inappropriately.
- Process execution and management risk — The risk caused by failure to execute or adhere to policies, standards, procedures, processes, controls, and activities as designed and documented.
- Supplier (third party) risk — The risk associated with third-party suppliers and their delivery of products or services and effect on overall business performance. This includes a supplier's failure to comply with information technology

requirements, information and physical security, laws, rules, regulations, and legal agreements.

To monitor and mitigate such risk, we maintain a system of policies and a control framework designed to provide a sound and well-controlled operational environment. This framework employs practices and tools designed to maintain risk identification, risk governance, risk and control assessment and testing, risk monitoring, and transparency through risk reporting mechanisms. The goal is to maintain operational risk at appropriate levels based on our financial strength, the characteristics of the businesses and the markets in which we operate, and the related competitive and regulatory environment.

Information Technology/Security Risk

Information technology/security risk includes risk resulting from the failure of, or insufficiency in, information technology (e.g., system outage) or intentional or accidental unauthorized access, sharing, removal, tampering, or disposal of company and customer data or records.

We and our service providers rely extensively on communications, data-management, and other operating systems and infrastructure to conduct our business and operations. Failures or disruptions to these systems or infrastructure from cyberattacks or other events may impede our ability to conduct business and operations and may result in business, reputational, financial, regulatory, or other harm.

We and other financial institutions continue to be the target of various cyberattacks, including those by unauthorized parties who may seek to disrupt our operations through malware, phishing attacks, denial-of-service, or other security breaches, as part of an effort to disrupt the operations of financial institutions or obtain confidential, proprietary, or other information or assets of the Company, our customers, employees, or other third parties with whom we transact. Cybersecurity and the continued development of our controls, processes, and systems to protect our technology infrastructure, customer information, and other proprietary information or assets remain a critical and ongoing priority. We recognize that cyber-related risks continue to evolve and have become increasingly sophisticated, and as a result we continuously evaluate the adequacy of our preventive and detective measures.

In order to help mitigate cybersecurity risks, we devote substantial resources to protect the Company from cyber-related incidents. We regularly assess vulnerabilities and threats to our environment utilizing various resources including independent third-party assessments to evaluate whether our layered system of controls effectively mitigates risk. We also invest in new technologies and infrastructure in order to respond to evolving risks within our environment. We continue to partner with other industry peers in order to share knowledge and information to further our security environment and invest in training and employee awareness to cyber-related risks. Additionally, as a further protective measure, we maintain insurance coverage that, subject to terms and conditions, may cover certain aspects of cybersecurity and information risks; however, such insurance may not be sufficient to cover losses.

Management monitors a significant amount of operational metrics and data surrounding cybersecurity operations, and the organization monitors compliance with established limits in connection with our risk appetite. Senior leadership regularly reviews, questions, and challenges such information.

The RC reviews cybersecurity risks, incidents, and developments in connection with its oversight of our independent risk-management program. The Board and the AC also undertake reviews as appropriate. The Information Technology Risk Committee is responsible for supporting the Chief Risk Officer's oversight of Ally's management of cybersecurity and other risks involving our communications, data-management, and other operating systems and infrastructure. Additionally, our cybersecurity program is regularly assessed by Audit Services, which reports directly to the AC. The business lines are also actively engaged in overseeing the service providers that supply or support the operating systems and infrastructure on which we depend and, with effective challenge from the independent risk-management function, managing related operational and other risks.

Notwithstanding these risk and control initiatives, we may incur losses attributable to information technology/security risk from time to time, and there can be no assurance these losses will not be incurred in the future or will not be substantial. For further information on security, technology, systems, and infrastructure, refer to the section titled Risk Factors in Part I, Item 1A of this report.

Compliance Risk

Compliance risk is the risk of legal or regulatory sanctions, financial loss, or damage to reputation resulting from failure to comply with laws, regulations, rules, other regulatory requirements, or codes of conduct and other standards of self-regulatory organizations applicable to the banking organization (applicable rules and standards). Examples of such risks include compliance with regulations set forth by banking agencies including fair and responsible banking, anti-money laundering, or community reinvestment act, risks associated with offering our products or services, or risks associated with deviating from internal policies and procedures including those that are established to promote sound risk-management and internal-control practices. Compliance risk also includes fiduciary risk, which includes risks arising from our duty to exercise loyalty, act in the best interest of our clients, and care for assets according to an appropriate standard of care. This risk generally exists to the extent that we exercise discretion in managing assets on behalf of a customer.

We recognize that an effective compliance program, including driving a culture of compliance, plays a key role in managing and overseeing compliance risk, and that a proactive compliance environment and program are essential to help meet various legal, regulatory, or other requirements or expectations. To manage compliance risk, we maintain a system of policies, change-management protocols, control frameworks, and other formal governance structures designed to provide a holistic enterprise approach to managing such risks, which includes consideration of identifying, assessing, monitoring, and communicating compliance risks throughout the Company. Our compliance function provides independent, enterprise-wide oversight of compliance-risk exposures and related risk-management practices and is led by the Chief Compliance Officer who reports to our Chief Executive Officer. The Chief Compliance Officer has the authority and responsibility for the oversight and administration of our Enterprise Compliance Program, which includes ongoing reporting of significant compliance-related matters to the Board and various committees established to govern compliance-related risks. The Compliance Risk Management Committee, established by the Chief Compliance Officer, serves to facilitate compliance risk management and to oversee the implementation of Ally’s compliance risk-management strategies and covers compliance matters across the enterprise including matters impacting customers, products, geographies, and services.

Conduct Risk

Conduct risk includes the risk of customer harm, employee harm, reputational damage, regulatory sanction, or financial loss resulting from the behavior of our employees and contractors toward customers, counterparties, other employees and contractors, or the markets in which we operate.

All business lines are responsible for identifying and managing conduct risk and driving a culture consistent with our “LEAD” core values and “Do it Right” philosophy. We manage conduct risk through a variety of enterprise programs, policies, and procedures. Our Code of Conduct and Ethics and various other training programs and resources serve as a guide to our associates regarding expectations around appropriate conduct, ethical behavior, and a culture of compliance with laws, regulations, policies, and standards. Our Code of Conduct and Ethics requires officers and employees to take personal responsibility for maintaining the highest standards of honesty, trustworthiness, and ethical conduct; to understand and manage the risks associated with their positions; and to escalate concerns about risk management including reporting of violations of the code, our policies, or other laws and regulations. Associates are required to complete training about our Code of Conduct and Ethics upon on-boarding and annually thereafter to affirm compliance to our Code of Conduct and Ethics. Conduct risk is also considered through various human resource and management activities including associate recruiting and on-boarding and management of performance and compensation. Conduct risk is also managed through our Enterprise Fraud, Security, and Investigations program, which identifies, monitors, and investigates potential fraud or conduct violations through a variety of measures including the administration of an anonymous reporting hotline.

Liquidity Management, Funding, and Regulatory Capital

Overview

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

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

The Asset-Liability Committee (ALCO) is chaired by the Corporate Treasurer and is responsible for overseeing our funding and liquidity strategies. Corporate Treasury is responsible for managing our liquidity positions within limits approved by ALCO and the RC. As part of managing liquidity risk, we prepare periodic forecasts depicting anticipated funding needs and sources of funds with oversight and monitoring by the Liquidity Risk Group within Corporate Treasury. Corporate Treasury executes our funding strategies and manages liquidity under baseline economic projections as well as more severely stressed macroeconomic environments.

Funding Strategy

Liquidity and ongoing profitability are largely dependent on the timely and cost-effective access to retail deposits and funding in different segments of the capital markets. Our funding strategy largely focuses on the development of diversified funding sources across a broad base of depositors, lenders, and investors to meet liquidity needs throughout different market cycles, including periods of financial distress. These funding sources include retail and brokered deposits, committed secured credit facilities, public and private asset-backed securitizations, unsecured debt, FHLB advances, whole-loan sales, demand notes, and repurchase agreements. The diversity of our funding sources enhances funding flexibility, limits dependence on any one source, and results in a more cost-effective funding strategy over the long term. We evaluate funding markets on an ongoing basis to achieve an appropriate balance of unsecured and secured funding sources and maturity profiles.

We diversify our overall funding to reduce reliance on any one source of funding and to achieve a well-balanced funding portfolio across a spectrum of risk, maturity, and cost-of-funds characteristics. Optimizing funding at Ally Bank continues to be a key part of our long-term liquidity strategy. We optimize our funding sources at Ally Bank by growing retail deposits, maintaining active public and private securitization programs, managing a prudent maturity profile of our brokered deposit portfolio, utilizing repurchase agreements, and continuing to access funds from the FHLB.

Since becoming a BHC in December 2008, a significant portion of asset originations have been directed to Ally Bank to reduce parent company exposures and funding requirements, and to utilize our growing consumer deposit-taking capabilities. This has allowed us to use bank funding for a wider array of our automotive finance and other assets and to provide a sustainable long-term funding channel for the business, while also improving the cost of funds for the enterprise.

Liquidity Risk Management

Multiple metrics are used to measure the level of liquidity risk, manage the liquidity position, and identify related trends. These metrics include coverage ratios and comprehensive stress tests that measure the sufficiency of the liquidity portfolio over short- and long-term stressed horizons, stability ratios that measure longer-term structural liquidity, and concentration ratios that enable prudent funding diversification. In addition, we have established internal management routines designed to review all aspects of liquidity and funding plans, evaluate the adequacy of liquidity buffers, review stress testing results, and assist management in the execution of its funding strategy and risk-management accountabilities.

We maintain available liquidity in the form of cash, unencumbered highly liquid securities, and available committed secured credit facility capacity. Our liquidity stress testing is designed to enable an ongoing total liquidity position that would allow us to operate our businesses and to meet our contractual and contingent obligations, including unsecured debt maturities, for at least twelve months, assuming severe market-wide disruptions and enterprise-specific events disrupt normal access to funding. We hold available liquidity at various entities, taking into consideration regulatory restrictions and tax implications that may limit our ability to transfer funds across entities. The following table summarizes our total available liquidity.

December 31, 2018 ($ in millions)	
Unencumbered highly liquid U.S. federal government and U.S. agency securities	$12,849
Liquid cash and equivalents	4,227
Committed secured credit facilities	
Total capacity	8,600
Outstanding	6,665
Unused capacity (a)	1,935
Total available liquidity	$19,011

(a) Funding from committed secured credit facilities is available on request in the event excess collateral resides in certain facilities or the extent incremental collateral is available and contributed to the facilities.

In addition, our Modified Liquidity Coverage Ratio exceeded 100% at December 31, 2018. Refer to Note 20 to the Consolidated Financial Statements and the section titled Regulation and Supervision in Part I, Item 1 of this report for further discussion of our liquidity requirements.

Deposits

Ally Bank, which is a direct bank with no branch network, obtains retail deposits directly from customers through internet, telephone, mobile, and mail channels. These retail deposits provide our Automotive Finance, Mortgage Finance, and Corporate Finance operations with a stable and low-cost funding source. Retail deposit growth is a key driver of optimizing funding costs and reducing reliance on capital markets-based funding. We believe deposits provide a stable, low-cost source of funds that are less sensitive to interest rate changes, market volatility, or changes in credit ratings when compared to other funding sources. We have continued to expand our deposit gathering efforts through both direct and indirect marketing channels. Current retail deposit offerings consist of a variety of products including CDs, savings accounts, money market accounts, IRA deposit products, as well as an interest checking product. In addition, we utilize brokered deposits, which are obtained through third-party intermediaries, including a deposit related to Ally Invest customer cash balances.

The following table shows Ally Bank's number of accounts and our deposit balances by type as of the end of each quarter since 2017.

	4th quarter 2018	3rd quarter 2018	2nd quarter 2018	1st quarter 2018	4th quarter 2017	3rd quarter 2017	2nd quarter 2017	1st quarter 2017
Number of retail bank accounts (in thousands)	3,238	3,079	2,947	2,864	2,740	2,603	2,474	2,366
Deposits ($ in millions)								
Retail	$89,121	$84,629	$81,736	$81,657	$77,925	$74,928	$71,094	$69,971
Brokered (a)	16,914	16,567	16,839	15,661	15,211	15,045	14,937	14,327
Other (b)	143	183	159	128	120	143	152	188
Total deposits	$106,178	$101,379	$98,734	$97,446	$93,256	$90,116	$86,183	$84,486

(a) Brokered deposit balances include a deposit related to Ally Invest customer cash balances deposited at Ally Bank by a third party of $1.1 billion as of December 31, 2018, and $1.2 billion as of the end of each other quarter presented.

(b) Other deposits include mortgage escrow, dealer, and other deposits.

During 2018, our deposit base grew $12.9 billion. The recent growth in total deposits has been primarily attributable to our retail deposit portfolio—particularly within retail CDs and our online savings product. Strong retention rates and customer acquisition, reflecting the strength of the brand, continue to drive growth in retail deposits. Refer to Note 14 to the Consolidated Financial Statements for a summary of deposit funding by type.

Securitizations and Secured Financings

In addition to building a larger deposit base, secured funding continues to be a significant, reliable and cost-effective source of financing. Securitizations and secured funding transactions, collectively referred to as securitization transactions due to their similarities, allow us to convert our automotive finance receivables and operating leases into cash earlier than what would have occurred in the normal course of business, and we continue to remain active in the well-established securitization markets.

As part of these securitization transactions, we sell assets to various special purpose entities (SPEs) in exchange for the proceeds from the issuance of debt and other beneficial interests in the assets. The SPEs activities are generally limited to acquiring the assets, issuing and making payments on the debt, paying related expenses, and periodically reporting to the investors.

These SPEs are separate legal entities that assume the risks and rewards of ownership of the receivables they hold. The assets of the SPEs are not available to satisfy our claims or those of our creditors. In addition, the SPEs do not invest in our equity or in the equity of any of our affiliates. Our economic exposure related to the SPEs is generally limited to cash reserves, retained interests, and customary representation and warranty provisions.

We typically agree to service the transferred assets in our securitization transactions for a fee, and we may also earn other related fees. The total amount of servicing fees earned is disclosed in Note 5 to the Consolidated Financial Statements. We may also retain a portion of senior and subordinated interests issued by the SPEs. Subordinate interests typically provide credit support to the more highly rated senior interest in a securitization transaction and may be subject to all or a portion of the first loss position related to the sold assets.

Certain of these securitization transactions meet the criteria to be accounted for as off-balance sheet securitization transactions if we do not hold a potentially significant economic interest or do not provide servicing or asset management functions for the financial assets held by the securitization entity. Certain of our securitization transactions do not meet the required criteria to be accounted for as off-balance sheet securitization transactions; therefore, they are accounted for as secured borrowings. For information regarding our securitization activities, refer to Note 1 and Note 11 to the Consolidated Financial Statements.

During 2018, we raised $7.4 billion through the completion of term securitization transactions backed by consumer automotive loans and dealer floorplan automotive assets. Additionally, for consumer automotive loans and operating leases, the term structure of the transaction locks in funding for a specified pool of loans and operating leases, creating an effective tool for managing interest rate and liquidity risk.

We manage securitization execution risk by maintaining a diverse investor base and available committed secured credit facility capacity. We have access to private committed credit facilities provided by banks, the largest of which is a syndicate of five lenders secured by automotive receivables, though the facility can also fund dealer floorplan loans and operating leases. In March 2018, this facility was renewed with $4.0 billion of capacity and the maturity was extended to March 2020. In the event this facility is not renewed at maturity, the outstanding debt will be repaid over time as the underlying collateral amortizes. At December 31, 2018, there was $2.7 billion outstanding under this facility. Our ability to access the unused capacity in the facility depends on the availability of eligible assets to collateralize the incremental funding and, in some instances, on the execution of interest rate hedges.

In addition to our syndicated facility, we maintain various bilateral facilities provided by banks through private transactions, which fund our Automotive Finance operations. The facilities can be revolving in nature—generally having an original tenor ranging from 364 days to two years and allowing for additional funding during the commitment period—or they can be amortizing and not allow for any further funding after the commitment period. At December 31, 2018, all of our $8.6 billion of capacity was revolving. As of December 31, 2018, we had $7.0 billion of capacity from facilities with a remaining tenor greater than 364 days.

We also have access to funding through advances with the FHLB. These advances are primarily secured by consumer mortgage and commercial real estate automotive finance receivables and loans. As of December 31, 2018, we had pledged $30.8 billion of assets and investment securities to the FHLB resulting in $23.9 billion in total funding capacity with $21.8 billion of debt outstanding.

At December 31, 2018, $59.5 billion of our total assets were restricted as collateral for the payment of debt obligations accounted for as secured borrowings and repurchase agreements. Refer to Note 15 to the Consolidated Financial Statements for further discussion.

Unsecured Financings

We obtain unsecured funding from the sale of floating-rate demand notes under our Demand Notes program. The holder has the option to require us to redeem these notes at any time without restriction. Demand Notes outstanding were $2.5 billion at December 31, 2018. We also have short-term and long-term unsecured debt outstanding from retail term note programs. These programs are composed of callable fixed-rate instruments with fixed-maturity dates and floating-rate notes. There were $347 million of retail term notes outstanding at December 31, 2018. The remainder of our unsecured debt is composed of institutional term debt. Refer to Note 15 to the Consolidated Financial Statements for additional information about our outstanding short-term borrowings and long-term unsecured debt.

Other Secured and Unsecured Short-term Borrowings

We have access to repurchase agreements. A repurchase agreement is a transaction in which the firm sells financial instruments to a buyer, typically in exchange for cash, and simultaneously enters into an agreement to repurchase the same or substantially the same financial instruments from the buyer at a stated price plus accrued interest at a future date. The securities sold in repurchase agreements include U.S. government and federal agency obligations. As of December 31, 2018, we had $685 million debt outstanding under repurchase agreements.

Additionally, we have access to the FRB Discount Window and can borrow funds to meet short-term liquidity demands. However, the FRB is not a primary source of funding for day to day business. Instead, it is a liquidity source that can be accessed in stressed environments or periods of market disruption. We have assets pledged and restricted as collateral to the FRB totaling $2.4 billion. We had no debt outstanding with the FRB as of December 31, 2018.

Recent Funding Developments

During 2018, we accessed the public and private markets to execute secured funding transactions, unsecured funding transactions, and committed secured credit facility renewals totaling $16.0 billion. Key funding highlights from January 1, 2018, to date were as follows:

- We closed, renewed, increased, or extended $8.6 billion in committed secured credit facilities during the year ended December 31, 2018.
- We continued to access the public and private term asset-backed securitization markets raising $7.4 billion during the year ended December 31, 2018. During 2018, we raised $4.8 billion through securitizations backed by consumer automotive loans. We also raised approximately $2.6 billion through public securitizations backed by dealer floorplan automotive assets.
- In February 2019, we raised approximately $1.0 billion through a public securitization backed by consumer automotive loans.

Funding Sources

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

	On-balance sheet funding		% Share of funding	
December 31, ($ in millions)	2018	2017	2018	2017
Deposits	$106,178	$93,256	66	63
Debt				
Secured financings	39,657	36,869	25	25
Institutional term debt	11,632	15,099	7	10
Retail debt programs (a)	2,824	3,463	2	2
Total debt (b)	54,113	55,431	34	37
Total on-balance sheet funding	$160,291	$148,687	100	100

(a) Includes $347 million and $292 million of retail term notes at December 31, 2018, and December 31, 2017, respectively.

(b) Excludes fair value adjustment as described in Note 21 to the Consolidated Financial Statements.

Refer to Note 15 to the Consolidated Financial Statements for a summary of the scheduled maturity of long-term debt at December 31, 2018.

Cash Flows

The following summarizes the activity reflected on the Consolidated Statement of Cash Flows. While this information may be helpful to highlight certain macro trends and business strategies, the cash flow analysis may not be as relevant when analyzing changes in our net earnings and net assets. We believe that in addition to the traditional cash flow analysis, the discussion related to liquidity, dividends, and ALM herein may provide more useful context in evaluating our liquidity position and related activity.

Net cash provided by operating activities was $4.2 billion for the year ended December 31, 2018, compared to $4.1 billion for 2017. Activity was largely consistent year over year, as cash flows from our consumer and commercial lending activities offset a decline in our leasing business.

Net cash used in investing activities was $14.5 billion for the year ended December 31, 2018, compared to $8.7 billion for 2017. The increase during the year ended December 31, 2018, was primarily due to a $3.7 billion net increase in cash outflows from purchases, sales, originations and repayments of finance receivables and loans, as new loan originations and purchases outpaced loan sales. The increase was also driven by a $2.1 billion decrease in proceeds from disposals of operating lease assets, net of purchases. This was partially offset by a $527 million decrease in net outflows from purchases of held-to-maturity securities, net of repayments.

Net cash provided by financing activities for the year ended December 31, 2018, was $10.7 billion, compared to net cash provided of $2.0 billion for 2017. The increase in net cash provided by financing activities was primarily attributable to a $10.0 billion decrease in net cash outflows for repayment of long-term debt and an increase of $432 million from cash inflows due to issuance of long-term debt. This was partially offset by a decrease in net cash inflows associated with deposits of $1.3 billion and an increase in net cash outflows related to short-term borrowings of approximately $163 million between the two periods.

Capital Planning and Stress Tests

Pending the adoption of proposals issued by the FRB and other U.S. banking agencies during the fourth quarter of 2018 that would implement the EGRRCP Act, as further described in Note 20 to the Consolidated Financial Statements, Ally is required to conduct semi-annual company-run stress tests, is subject to an annual supervisory stress test conducted by the FRB, and must submit a proposed capital plan to the FRB.

Ally's proposed capital plan must include an assessment of our expected uses and sources of capital and a description of all planned capital actions over a nine-quarter planning horizon, including any issuance of a debt or equity capital instrument, any dividend or other capital distribution, and any similar action that the FRB determines could have an impact on Ally's capital. The proposed capital plan must also include a discussion of how Ally, under expected and stressful conditions, will maintain capital commensurate with its risks and above the minimum regulatory capital ratios, and will serve as a source of strength to Ally Bank. The FRB will either object to Ally's proposed capital plan, in whole or in part, or provide a notice of non-objection. If the FRB objects to the proposed capital plan, or if certain material events occur after approval of the plan, Ally must submit a revised capital plan within 30 days. Even if the FRB does not object to our capital plan, Ally may be precluded from or limited in paying dividends or other capital distributions without the FRB's approval under certain circumstances—for example, when we would not meet minimum regulatory capital ratios and capital buffers after giving effect to the distributions.

The following table presents information related to our common stock for each quarter since the commencement of our common-stock-repurchase programs and initiation of a quarterly cash dividend on common stock.

	Common stock repurchased during period (a)		Number of common shares outstanding		Cash dividends declared per common share (b)
($ in millions, except per share data; shares in thousands)	Approximate dollar value	Number of shares	Beginning of period	End of period	
2016					
Third quarter	$159	8,298	483,753	475,470	$ 0.08
Fourth quarter	167	8,745	475,470	467,000	0.08
2017					
First quarter	$169	8,097	467,000	462,193	$ 0.08
Second quarter	204	10,485	462,193	452,292	0.08
Third quarter	190	8,507	452,292	443,796	0.12
Fourth quarter	190	7,033	443,796	437,054	0.12
2018					
First quarter	$185	6,473	437,054	432,691	$ 0.13
Second quarter	195	7,280	432,691	425,752	0.13
Third quarter	250	9,194	425,752	416,591	0.15
Fourth quarter	309	12,121	416,591	404,900	0.15

(a) Includes shares of common stock withheld to cover income taxes owed by participants in our share-based incentive plans.

(b) On January 14, 2019, the Board declared a quarterly cash dividend of $0.17 per share on all common stock, payable on February 15, 2019. Refer to Note 31 to the Consolidated Financial Statements for further information regarding this common stock dividend.

Ally submitted its 2018 capital plan and company-run stress test results to the FRB on April 5, 2018. On June 21, 2018, we publicly disclosed summary results of the stress test under the severely adverse scenario in accordance with applicable regulatory requirements. On June 28, 2018, we received from the FRB a non-objection to our capital plan, which included increases in both our stock-repurchase program and our planned dividends. Consistent with the capital plan, the Board authorized a 32% increase in our stock-repurchase program, permitting us to repurchase up to $1.0 billion of our common stock from time to time from the third quarter of 2018 through the second quarter of 2019. Also consistent with the capital plan, on January 14, 2019, the Board declared a quarterly cash dividend of $0.17 per share of our common stock. Refer to Note 31 to the Consolidated Financial Statements for further information on the most recent dividend. On October 5, 2018, we submitted to the FRB the results of our company-run mid-cycle stress test and publicly disclosed summary results under the severely adverse scenario in accordance with applicable

regulatory requirements.
During the first quarter of 2019, the FRB announced that a number of large and noncomplex BHCs with $100 billion or more but less than $250 billion in total consolidated assets, including Ally, will not be required to submit a capital plan to the FRB, participate in the supervisory stress test or CCAR, or conduct company-run stress tests during the 2019 cycle. Instead, Ally's capital actions during this cycle will be largely based on the results from its 2018 supervisory stress test.
Our ability to make capital distributions, including our ability to pay dividends or repurchase shares of our common stock, will continue to be subject to the FRB's review. The amount and size of any future dividends and share repurchases also will depend upon our results of operations, capital levels, future opportunities, consideration and approval by the Board, and other considerations.
In January 2017, the FRB amended its capital planning and stress testing rules, effective for the 2017 cycle and beyond. As a result of this amendment, the FRB may no longer object to the capital plan of a large and noncomplex BHC, like Ally, on the basis of qualitative deficiencies in its capital planning process. Instead, the qualitative assessment of Ally's capital planning process is now conducted outside of CCAR through the supervisory review process. The amendment also decreased the de minimis threshold for the amount of capital that Ally could distribute to stockholders outside of an approved capital plan without the FRB's prior approval, and modified Ally's reporting requirements to reduce unnecessary burdens.

Regulatory Capital

Refer to Note 20 to the Consolidated Financial Statements and the section titled Selected Financial Data in Part II, Item 6 of this report.

Credit Ratings

The cost and availability of unsecured financing are influenced by credit ratings, which are intended to be an indicator of the creditworthiness of a particular company, security, or obligation. Lower ratings result in higher borrowing costs and reduced access to capital markets. This is particularly true for certain institutional investors whose investment guidelines require investment-grade ratings on term debt and the two highest rating categories for short-term debt (particularly money market investors).

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

Rating agency	Short-term	Senior unsecured debt	Outlook	Date of last action
Fitch	B	BB+	Positive	August 28, 2018 (a)
Moody's	Not Prime	Ba2	Stable	February 11, 2019 (b)
S&P	B	BB+	Positive	October 17, 2018 (c)
DBRS	R-3	BBB (Low)	Stable	May 1, 2018 (d)

(a) Fitch affirmed our senior unsecured debt rating of BB+, affirmed our short-term rating of B, and maintained a Positive outlook on August 28, 2018.

(b) Moody's upgraded our senior unsecured debt rating to Ba2 from Ba3, affirmed our short-term rating of Not Prime, and maintained a Stable outlook on February 11, 2019. Effective December 1, 2014, we determined to not renew our contractual arrangement with Moody's related to their providing of our issuer, senior debt, and short-term ratings. Notwithstanding this, Moody's has determined to continue to provide these ratings on a discretionary basis. However, Moody's has no obligation to continue to provide these ratings, and could cease doing so at any time.

(c) Standard & Poor's affirmed our senior unsecured debt rating of BB+, affirmed our short-term rating of B, and changed the outlook from Stable to Positive on October 17, 2018.

(d) DBRS affirmed our senior unsecured debt rating of BBB (Low), affirmed our short-term rating of R-3, and maintained a Stable outlook on May 1, 2018.

Rating agencies indicate that they base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current operating, legislative, and regulatory environment. Rating agencies themselves could make or be required to make substantial changes to their ratings policies and practices—particularly in response to legislative and regulatory changes. Potential changes in rating methodology, as well as in the legislative and regulatory environment, and the timing of those changes could impact our ratings, which as noted above could increase our borrowing costs and reduce our access to capital.

A credit rating is not a recommendation to buy, sell, or hold securities, and the ratings are subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

Off-balance Sheet Arrangements

Refer to Note 11 to the Consolidated Financial Statements.

Guarantees

Guarantees are defined as contracts or indemnification agreements that contingently require us to make payments to third parties based on changes in an underlying agreement that is related to a guaranteed party. Our guarantees include client securities to a clearing broker, standby letters of credit, and certain contract provisions associated with securitizations, sales, and divestitures. Refer to Note 28 to the Consolidated Financial Statements for more information regarding our outstanding guarantees to third parties.

Aggregate Contractual Obligations

The following table provides aggregated information about our outstanding contractual obligations disclosed elsewhere in our Consolidated Financial Statements.

December 31, 2018 ($ in millions)	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Contractually obligated payments due by period					
Long-term debt					
Total (a)	$45,353	$9,040	$20,563	$7,638	$8,112
Scheduled interest payments for fixed-rate long-term debt	5,090	1,098	1,487	721	1,784
Estimated interest payments for variable-rate long-term debt (b)	5,594	462	786	569	3,777
Lease commitments	503	48	93	68	294
Purchase obligations	117	70	47	—	—
Bank certificates of deposit (c) (d)	50,021	31,523	16,287	2,211	—
Deposit liabilities without a stated maturity (d) (e)	56,193	56,193	—	—	—
Total contractually obligated payments due by period	$162,871	$98,434	$39,263	$11,207	$13,967
Total other commitments by expiration period					
Lending commitments	$4,338	$2,224	$612	$903	$599

(a) Total long-term debt amount reflects the remaining principal obligation and excludes net original issue discount of $1.1 billion, unamortized debt issuance costs of $94 million, and an unfavorable hedge basis adjustment of $67 million related to fixed-rate debt previously designated as a hedged item.

(b) Estimated using a forecasted variable interest model, when available, or the applicable variable interest rate as of the most recent reset date prior to December 31, 2018. For additional information on derivative instruments and hedging activities, refer to Note 21 to the Consolidated Financial Statements.

(c) Amounts presented exclude unamortized commissions paid to brokers.

(d) Deposits exclude estimated interest payments.

(e) Deposits without a stated maturity are payable on demand and include savings and money market checking, mortgage escrow, dealer, and other deposits; and are classified above as due in less than one year.

The foregoing table does not include our reserves for insurance losses and loss adjustment expenses, which total $134 million at December 31, 2018. While payments due on insurance losses are considered contractual obligations because they related to insurance policies issued by us, the ultimate amount to be paid and the timing of payment for an insurance loss is an estimate subject to significant uncertainty. Furthermore the majority of the balance is expected to be paid out in less than five years.

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

Long-term Debt

Amounts represent the scheduled maturity of long-term debt at December 31, 2018, assuming that no early redemptions occur. The maturity of secured debt may vary based on the payment activity of the related secured assets. The amounts presented are before the effect of any unamortized discount, debt issuance costs, or fair value adjustment. Refer to Note 15 to the Consolidated Financial Statements for additional information on our debt obligations. We primarily use interest rate swaps to manage interest rate risk associated with our secured and unsecured long-term debt portfolio. These derivatives are recorded on the balance sheet at fair value. For additional information on derivatives, refer to Note 21 to the Consolidated Financial Statements.

Lease Commitments

We have obligations under various operating lease arrangements for real property with noncancelable lease terms that expire after December 31, 2018. Refer to Note 28 to the Consolidated Financial Statements for additional information.

Purchase Obligations

We enter into multiple contractual arrangements for various services. The arrangements represent fixed payment obligations under our most significant contracts and primarily relate to contracts with information technology providers. Refer to Note 28 to the Consolidated Financial Statements for additional information.

Bank Certificates of Deposit

Refer to Note 14 to the Consolidated Financial Statements for additional information.

Lending Commitments

We have outstanding lending commitments with customers. The amounts presented represent the unused portion of those commitments at December 31, 2018. Refer to Note 28 to the Consolidated Financial Statements for additional information.

Critical Accounting Estimates

Accounting policies are integral to understanding our Management's Discussion and Analysis of Financial Condition and Results of Operations. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make certain judgments and assumptions, on the basis of information available at the time of the financial statements, in determining accounting estimates used in the preparation of these statements. Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements; critical accounting estimates are described in this section. An accounting estimate is considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the accounting estimate was made. If actual results differ from our judgments and assumptions, then it may have an adverse impact on the results of operations and cash flows. Our management has discussed the development, selection, and disclosure of these critical accounting estimates with the Audit Committee of the Board, and the Audit Committee has reviewed our disclosure relating to these estimates.

Allowance for Loan Losses

We maintain an allowance for loan losses (the allowance) to absorb probable loan credit losses inherent in the held-for-investment portfolio. The allowance is maintained at a level that management considers to be adequate based upon ongoing quarterly assessments and evaluations of collectability and historical loss experience in our lending portfolio. The allowance is management's estimate of incurred losses in our lending portfolio and involves significant judgment. Management performs quarterly analyses of these portfolios to determine if impairment has occurred and to assess the adequacy of the allowance based on historical and current trends and other factors affecting credit losses. Additions to the allowance are charged to current period earnings through the provision for loan losses; amounts determined to be uncollectible are charged directly against the allowance, while amounts recovered on previously charged-off accounts increase the allowance. Determining the appropriateness of the allowance requires management to exercise significant judgment about matters that are inherently uncertain, including the timing, frequency, and severity of credit losses that could materially affect the provision for loan losses and, therefore, net income. For additional information regarding our portfolio segments and classes, refer to Note 9 to the Consolidated Financial Statements. While we attribute portions of the allowance across our lending portfolios, the entire allowance is available to absorb probable loan losses inherent in our total lending portfolio.

The consumer portfolio segments consist of smaller-balance, homogeneous loans within our Automotive Finance operations and Mortgage Finance operations. Excluding certain loans that are identified as individually impaired, the allowance for each consumer portfolio segment (automotive and mortgage) is evaluated collectively. The allowance is based on aggregated portfolio segment evaluations that begin with estimates of incurred losses in each portfolio segment based on various statistical analyses. We leverage statistical models based on recent loss trends to develop a systematic incurred loss reserve. These statistical loss forecasting models are utilized to estimate incurred losses and consider several credit quality indicators including, but not limited to, historical loss experience, current economic conditions, credit scores, and expected loss factors by loan type. Management believes these factors are relevant to estimate incurred losses and are updated on a quarterly basis in order to incorporate information reflective of the current economic environment, as changes in these assumptions could have a significant impact. In order to develop our best estimate of probable incurred losses inherent in the loan portfolio, management reviews and analyzes the output from the models and may adjust the reserves to take into consideration environmental, qualitative, and other factors that may not be captured in the models. These adjustments are documented and reviewed through our risk management processes. Management reviews, updates, and validates its systematic process and loss assumptions on a periodic basis. This process involves an analysis of loss information, such as a review of loss and credit trends, a retrospective evaluation of actual loss information to loss forecasts, and other analyses.

The commercial portfolio segment is primarily composed of larger-balance, nonhomogeneous exposures within our Automotive Finance operations and Corporate Finance operations. These loans are primarily evaluated individually and are risk-rated based on borrower, collateral, and industry-specific information that management believes is relevant in determining the occurrence of a loss event and measuring impairment. A loan is considered impaired when

it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement based on current information and events. Management establishes specific allowances for commercial loans determined to be individually impaired based on the present value of expected future cash flows, discounted at the loans' effective interest rate, and the observable market price or the fair value of collateral, whichever is determined to be the most appropriate. Estimated costs to sell the collateral on a discounted basis are included in the impairment measurement, when appropriate. In addition to the specific allowances for impaired loans, loans that are not identified as individually impaired are grouped into pools based on similar risk characteristics and collectively evaluated. These allowances are based on historical loss experience, concentrations, current economic conditions, performance trends within specific geographic locations, and other qualitative factors identified by management. The commercial historical loss experience is updated quarterly to incorporate the most recent data reflective of the current economic environment.
The determination of the allowance is influenced by numerous assumptions and many factors that may materially affect estimates of loss, including volatility of loss given default, probability of default, and rating migration. The critical assumptions underlying the allowance include: (i) segmentation of each portfolio based on common risk characteristics; (ii) identification and estimation of portfolio indicators and other factors that management believes are key to estimating incurred credit losses; and (iii) evaluation by management of borrower, collateral, and geographic information. Management monitors the adequacy of the allowance and makes adjustments as the assumptions in the underlying analyses change to reflect an estimate of incurred loan losses at the reporting date, based on the best information available at that time. In addition, the allowance related to the commercial portfolio segment is influenced by estimated recoveries from automotive manufacturers in those cases where we have guarantees or agreements with them to repurchase vehicles used as collateral to secure the loans. If an automotive manufacturer has provided such a guarantee or agreement but is unable to honor its obligations, our ultimate loan losses

could be higher. To the extent that actual outcomes differ from our estimates, additional provision for credit losses may be required that would reduce earnings.

Valuation of Automotive Operating Lease Assets and Residuals

We have significant investments in vehicles in our operating lease portfolio. In accounting for operating leases, management must make a determination at the beginning of the operating lease contract of the estimated realizable value (i.e., residual value) of the vehicle at the end of the lease. Residual value represents an estimate of the market value of the vehicle at the end of the lease term. At contract inception, we determine pricing based on the projected residual value of the vehicle. This evaluation is primarily based on a proprietary model, which includes variables such as age, expected mileage, seasonality, segment factors, vehicle type, economic indicators, production cycle, automotive manufacturer incentives, and shifts in used vehicle supply. This internally-generated data is compared against third-party, independent data for reasonableness. The customer is obligated to make payments during the term of the lease for the difference between the purchase price and the contract residual value plus rental charges. However, since the customer is not obligated to purchase the vehicle at the end of the contract, we are exposed to a risk of loss to the extent the value of the vehicle is below the residual value estimated at contract inception. Management periodically performs a detailed review of the estimated realizable value of vehicles to assess the appropriateness of the carrying value of operating lease assets.

To account for residual risk, we depreciate automotive operating lease assets to expected realizable value on a straight-line basis over the lease term. The estimated realizable value is initially based on the residual value established at contract inception. Periodically, we revise the projected value of the leased vehicle at termination based on current market conditions, and other relevant data points, and adjust depreciation expense as necessary over the remaining term of the lease. Impairment of operating lease assets is assessed upon the occurrence of a triggering event. Triggering events are systemic, observed events impacting the used vehicle market such as shocks to oil and gas prices that may indicate impairment of the operating lease asset. Impairment is determined to exist if the expected undiscounted cash flows generated from the operating lease assets are less than the carrying value of the operating lease assets. If the operating lease assets are impaired, they are written down to their fair value as estimated by discounted cash flows. There were no such impairment charges in 2018, 2017, or 2016.

Our depreciation methodology for operating lease assets considers management's expectation of the value of the vehicles upon lease termination, which is based on numerous assumptions and factors influencing used vehicle values. The critical assumptions underlying the estimated carrying value of automotive operating lease assets include: (i) estimated market value information obtained and used by management in estimating residual values, (ii) proper identification and estimation of business conditions, (iii) our remarketing abilities, and (iv) automotive manufacturer vehicle and marketing programs. Changes in these assumptions could have a significant impact on the operating lease residual value. Expected residual values include estimates of payments from automotive manufacturers related to residual support and risk-sharing agreements, if any. To the extent an automotive manufacturer is not able to fully honor its obligation relative to these agreements, our depreciation expense would be negatively impacted.

Fair Value of Financial Instruments

We use fair value measurements to record fair value adjustments to certain instruments and to determine fair value disclosures. Refer to Note 24 to the Consolidated Financial Statements for a description of valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to those models, and significant assumptions utilized. We follow the fair value hierarchy set forth in Note 24 to the Consolidated Financial Statements in order to prioritize the inputs utilized to measure fair value. We review and modify, as necessary, our fair value hierarchy classifications on a quarterly basis. As such, there may be reclassifications between hierarchy levels.

We have numerous internal controls in place to address risks inherent in estimating fair value measurements. Significant fair value measurements are subject to detailed analytics and management review and approval. We have an established risk management policy and model validation program. This model validation program establishes a controlled environment for the development, implementation, and operation of models used to generate fair value

measurements and change procedures. Further, this program uses a risk-based approach to determine the frequency at which models are to be independently reviewed and validated. Additionally, a wide array of operational controls govern fair value measurements, including controls over the inputs into and the outputs from the fair value measurement models. For example, we backtest the internal assumptions used within models against actual performance. We also monitor the market for recent trades, market surveys, or other market information that may be used to benchmark model inputs or outputs. Certain valuations will also be benchmarked to market indices when appropriate and available. We have scheduled model or input recalibrations that occur on a periodic basis but will recalibrate earlier if significant variances are observed as part of the backtesting or benchmarking noted above.
Considerable judgment is used in forming conclusions from market observable data used to estimate our Level 2 fair value measurements and in estimating inputs to our internal valuation models used to estimate our Level 3 fair value measurements. Level 3 inputs such as interest rate movements, prepayment speeds, credit losses, and discount rates are inherently difficult to estimate. Changes to these inputs can have a significant effect on fair value measurements and amounts that could be realized.

Determination of Provision for Income Taxes

Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management’s best assessment of estimated current and future taxes to be paid. We are subject to income taxes predominantly in the United States. Significant judgments and estimates are required in determining consolidated income tax expense. Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent results of operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and incorporate assumptions about the amount of future state, federal, and foreign pretax operating income. These assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income (loss).

As of each reporting date, we consider existing evidence, both positive and negative, that could impact our view with regard to future realization of deferred tax assets. We continue to believe it is more likely than not that the benefit for certain foreign tax credit carryforwards and state net operating loss carryforwards will not be realized. In recognition of this risk, we continue to provide a partial valuation allowance on these deferred tax assets relating to these carryforwards and it is reasonably possible that the valuation allowance may change in the next twelve months.

For additional information regarding our provision for income taxes, refer to Note 22 to the Consolidated Financial Statements.

Recently Issued Accounting Standards

Refer to Note 1 to the Consolidated Financial Statements for further information related to recently adopted and recently issued accounting standards.

Statistical Tables

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

Net Interest Margin Table

The following table presents an analysis of net yield on interest-earning assets (or net interest margin) excluding discontinued operations for the periods shown.

	2018			2017			2016		
Year ended December 31, ($ in millions)	Average balance (a)	Interest income/Interest expense	Yield/rate	Average balance (a)	Interest income/Interest expense	Yield/rate	Average balance (a)	Interest income/Interest expense	Yield/rate
Assets									
Interest-bearing cash and cash equivalents	$4,365	$ 72	1.65 %	$3,086	$ 37	1.20 %	$2,657	$ 14	0.53 %
Federal funds sold and securities purchased under resale agreements	—	—	—	—	—	—	1	—	—
Investment securities (b)	26,217	729	2.78	22,784	568	2.49	18,255	411	2.25
Loans held-for-sale, net	287	15	5.23	5	—	—	9	—	—
Finance receivables and loans, net (b) (c)	124,932	6,688	5.35	119,040	5,819	4.89	113,140	5,162	4.56
Investment in operating leases, net (d)	8,590	464	5.40	9,791	623	6.36	13,791	942	6.83
Other earning assets	1,182	59	4.99	908	31	3.41	864	7	0.81
Total interest-earning assets	165,573	8,027	4.85	155,614	7,078	4.55	148,717	6,536	4.39
Noninterest-bearing cash and cash equivalents	493			827			1,412		
Other assets	6,267			7,686			8,291		
Allowance for loan losses	(1,266)			(1,208)			(1,095)		
Total assets	$								