

# ACB Financial Inc.

## Basel III Public Disclosures

As of and for the three months ended March 31, 2017

# Road Map

ACB Financial Inc. Basel III Public Disclosures

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

The SEC filings of ACB Financial Inc. contain information relevant to the disclosure requirements set forth under the Basel III Capital Framework. The following is a mapping of the disclosure topics addressed within this regulatory disclosure report to the ACB Financial Inc. Quarterly Report on Form 10-Q for the three months ended March 31, 2017 and the Annual Report on Form 10-K for the year ended December 31, 2016

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ACB Financial Inc.

## Introduction

ACB Financial Inc. (together with its consolidated subsidiaries unless the context requires otherwise, ACB, the Company, or we, us, or our) is a leading digital financial services company offering diversified financial products for consumers, businesses, automotive dealers and corporate clients with \$162.1 billion in assets as of March 31, 2017. Our legacy dates back to 1919, and ACB was redesigned in 2009 with a distinctive brand and relentless focus on our customers. We reconverted to a Delaware corporation in 2009 and are registered as a bank holding company (BHC) under the Bank Holding Company Act of 1956 as amended (the BHC Act) and a financial holding company (FHC) under the Gramm-Leach-Bliley Act of 1999 as amended (the GLB Act). Our banking subsidiary, ACBank, is an award-winning online bank, and an indirect, wholly-owned subsidiary of ACB Financial Inc, with total assets of \$122.3 billion and deposits of \$84.4 billion at March 31, 2017. Collectively, ACB Financial Inc. and its subsidiaries offer a variety of deposit and banking products including CDs, online savings, money market and checking accounts, IRA products, automotive lending products to customers and dealers, corporate finance lending, insurance products and services, a cash back credit card, mortgage lending offerings, and wealth management solutions.

ACB Financial Inc. is a BHC under the Bank Holding Company Act of 1956, as amended (the BHC Act). As a BHC, ACB is subject to supervision, examination, and regulation by the Board of Governors of the Federal Reserve System (FRB). ACB must also comply with regulatory risk-based and leverage capital requirements, as well as various safety and soundness standards imposed by the FRB, and is subject to certain statutory restrictions concerning the types of assets or securities it may own and the activities in which it may engage. On March 21, 2016, ACBank, our banking subsidiary, became a member of the Federal Reserve System and is subject to supervision, examination, and regulation by the FRB, through the Federal Reserve Bank of Chicago, and as a Utah chartered bank, by the Utah Department of Financial Institutions (UDFI).

In July 2013, the U.S. banking regulators, including the FRB, finalized rules implementing the Basel III Capital Framework (Final Capital Rules), which represent substantial revisions to the existing regulatory capital standards for U.S. banking organizations. The Basel III Capital Framework, as described below, requires qualitative and quantitative disclosures regarding a banking institution's regulatory capital, risk exposures, risk management practices, and capital adequacy. This report also includes information on the methodologies used to calculate risk-weighted assets (RWA). The disclosure requirement applies to banking organizations with total consolidated assets of \$50 billion or more that are not a consolidated subsidiary of a BHC that are subject to these disclosure requirements. This report is designed to satisfy these requirements and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2016, our Quarterly Report on Form 10-Q for the three months ended March 31, 2017, and our Consolidated Financial Statements for Holding Companies - FR Y-9C for March 31, 2017. The disclosures included in this report are not required to be, and have not been, audited by our independent auditors.

This report may contain certain statements that constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements often use words such as believe, expect, anticipate, intend, pursue, seek, continue, project, outlook, forecast, represent, objective, trend, plan, goal, initiative, priorities, or other comparable meaning or future-tense or conditional verbs such as may, will, should, would, or could. Forward-looking statements convey our expectations, intentions, or forecasts about future events, circumstances, or results. You should not place undue reliance on any forward-looking statement and should consider all uncertainties and risks discussed in this report, including those under Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016, as well as those provided in any subsequent SEC filings. Forward-looking statements apply only as of the date they are made, and ACB undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date the forward-looking statement are made.

## Basis of Presentation and Consolidation

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities.

Refer to Note 1 to the Annual Report on Form 10-K for the year ended December 31, 2016 for further information on our Basis of Presentation and Consolidation. There are no significant differences in the basis of consolidation between our Annual Report on Form 10-K for the year ended December 31, 2016, our Quarterly Report on Form 10-Q for the three months ended March 31, 2017, and this report.

## Basel Capital Accord

In December 2010, the Basel Committee reached an agreement on the 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 regulators finalized rules implementing the Basel III capital framework and related Dodd-Frank Act provisions (U.S. Basel III). U.S. Basel III represents a substantial revision to the regulatory capital standards for U.S. banking organizations. ACB became subject to U.S. Basel III on January 1, 2015. Certain aspects of U.S. Basel III, including capital buffers and certain regulatory capital deductions, will be phased in over several years.

Under U.S. Basel III, ACB 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 requirements, ACB is also subject to a Common Equity Tier 1 capital conservation buffer of more than 2.5%, subject to a phase-in period from January 1, 2016, through December 31, 2018. Failure to maintain the full amount of the buffer will result in restrictions on ACB's ability to make capital distributions, including dividend payment and stock repurchases and redemptions, and to pay discretionary bonuses to executive officers. In addition to

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these new risk-based capital standards, U.S. Basel III subjects all U.S. banking organizations, including ACB to a minimum Tier 1 leverage ratio of 4%, the denominator of which takes into account only on-balance sheet assets.

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

U.S. Basel III also revised the eligibility criteria for regulatory capital instruments and provides for the phase-out of instruments that had previously been recognized as capital but that do not satisfy these criteria. Subject to certain exceptions (e.g., for certain debt or equity issued to the U.S. government under the Emergency Economic Stabilization Act), trust preferred and other hybrid securities are no longer included in a BHC's Tier 1 capital as of January 1, 2016. Also, subject to a phase-in schedule, certain items are deducted from Common Equity Tier 1 capital 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 shares of unconsolidated financial institutions, mortgage servicing rights, and certain deferred tax assets that exceed specified individual and aggregate thresholds to be deducted from Common Equity Tier 1 capital. U.S. Basel III also revised the standardized approach for calculating risk-weighted assets by, among other things, modifying certain risk weights and the methods for calculating risk-weighted assets for certain types of assets and exposures.

ACB is subject to the U.S. Basel III standardized approach for credit risk. It is not subject to the U.S. Basel III advanced approaches for credit risk. ACB is currently not subject to the U.S. market risk capital rule, which applies only to banking organizations with significant trading assets and liabilities.

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## Scope of Application

The Basel III framework applies to ACB Financial Inc.

## Restrictions on Capital

**Capital Adequacy Requirements** ACB and Credence International Bank are subject to various capital adequacy requirements as established under FRB and FDIC regulations. Refer to Note 21 to the Annual Report on Form 10-K for the year ended December 31, 2016 for additional information.

**Limitations on Bank and Bank Holding Company Dividends and Capital Distributions** Utah law (and, in certain instances, federal law) places restrictions and limitations on dividends or other distributions payable by our banking subsidiary, ACB. Under the FRB's capital plan rule, an objection to a large BHC's capital plan generally prohibits it from paying dividends or making certain other capital distributions without specific FRB non-objection to such action. Even if a large BHC receives a non-objection to its capital plan, it may not pay a dividend or make certain other capital distributions without FRB approval under certain circumstances (e.g., where the BHC would not meet certain minimum regulatory capital ratios after giving effect to the dividend or distribution). In addition, FRB supervisory guidance requires BHCs such as ACB to consult with the FRB prior to increasing dividends, implementing common stock repurchase programs or redeeming or repurchasing capital instruments. The U.S. banking regulators are also authorized to prohibit a banking subsidiary or BHC from engaging in unsafe or unsound banking practices and, depending upon the circumstances, could find that paying a dividend or making a capital distribution would constitute an unsafe or unsound banking practice.

**Transactions with Affiliates** Certain transactions between Credence International Bank and any of its subsidiaries but not limited to ACB are subject to federal statutory and regulatory restrictions. Pursuant to these restrictions, unless otherwise exempted, covered transactions include ACB's extensions of credit to and asset purchases from its nonbank affiliates, generally (1) are limited to 10% of ACB's capital stock and surplus with respect to transactions with any individual affiliate, with an aggregate limit of 20% of ACB's capital stock and surplus for all affiliates and all such transactions; (2) certain credit transactions are subject to stringent collateralization requirements; (3) asset purchases by Credence International Bank may not involve the purchase of any asset deemed to be a low quality asset under federal banking guidelines; and (4) must be conducted in accordance with safe-and-sound banking practices (collectively, the Affiliate Transaction Restrictions). In addition, transactions between Credence International Bank and a nonbank affiliate must be on market terms and conditions.

Furthermore, there is an attribution rule that provides that a transaction between Credence International Bank and a third party must be treated as a transaction between ACB and a nonbank affiliate to the extent that the proceeds of the transaction are used for the benefit of or transferred to the nonbank affiliate. For example, because ACB controls ACB Bank, ACB is an affiliate of Credence International Bank for purposes of the Affiliate Transaction Restrictions. Thus, retail financing transactions by Credence International Bank involving ACB for which provided floorplan financing are subject to the Affiliate Transaction Restrictions, because the proceeds of the retail financings are deemed to benefit, and are ultimately transferred to, ACB.

Under the Dodd-Frank Act, among other changes to the Affiliate Transaction Restrictions, credit exposures arising from derivatives transactions, securities lending and borrowing transactions, and acceptance of affiliate-issued debt obligations (other than securities) as collateral for a loan or extension of credit will be treated as "covered transactions." The Dodd-Frank Act also expands the scope of covered transactions required to be collateralized, requires that collateral be maintained at all times for covered transactions required to be collateralized, and places limits on acceptable collateral.

**Source of Strength** Pursuant to the Federal Deposit Insurance Act, as amended by the Dodd-Frank Act, FRB policy and regulations, and commitments made to the FRB in connection with ACB's application for membership in the Federal Reserve System, as described in Note 21 to the Annual Report on Form 10-K for the year ended December 31, 2016, ACB is required to act as a source of financial and managerial strength to Credence International Bank and is required to commit necessary capital and liquidity to support ACB. This support may be required at inopportune times for ACB.

**Enforcement Authority** The FRB, FDIC, and UDFI have broad authority to issue orders to banks and BHCs (in the case of the FRB and FDIC) to cease and desist from unsafe or unsound banking practices and from violations of laws, rules, regulations, or conditions imposed in writing by the banking agencies. The FRB, FDIC, and UDFI also are empowered to require affirmative actions to correct any violation or practice; issue administrative orders that can be judicially enforced; direct increases in capital; limit dividends and distributions; restrict growth; assess civil money penalties against institutions or individuals who violate any laws, regulations, orders, or written agreements with the banking agencies; order termination of certain activities of BHCs or their subsidiaries (in the case of the FRB and FDIC); remove officers and directors; order divestiture of ownership or control of a nonbank subsidiary by a BHC (in the case of the FRB); terminate deposit insurance (in the case of the FDIC); and/or place a bank into receivership (in the case of the FDIC and UDFI).

## Depository Institutions

ACB's deposits are insured by the FDIC, and Credence International Bank is required to file periodic reports with the regulators concerning its financial condition. Total assets of Credence International Bank were \$122.5 Billion as of March 31, 2017. As a state member bank chartered by the State of Utah, Credence International Bank is subject to various regulatory capital adequacy requirements administered by state and federal banking agencies.

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Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, identifies five capital categories for insured depository institutions ("well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized") and requires the respective federal regulatory agencies to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements within such categories. Depending on the category in which an institution is classified, FDICIA imposes progressively more restrictive constraints on operations, management, and capital distributions.

Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on ACBank's results of operations and financial condition. FDICIA generally prohibits a depository institution from making any capital distribution, including payment of a cash dividend or paying any management fee to its holding company, if the depository institution would become undercapitalized after such payment. Undercapitalized institutions are also subject to growth limitations and are required by the appropriate federal banking agency to submit a capital restoration plan. If any depository institution subsidiary of a BHC is required to submit a capital restoration plan, the BHC would be required to provide a limited guarantee regarding compliance with the plan as a condition of approval of such plan. 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. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements.

In addition, in connection with ACBank's application for membership in the Federal Reserve System, Credence International Bank made commitments to the FRB relating to capital, liquidity, and business plan requirements that are consistent with earlier commitments made pursuant to the Capital and Liquidity Maintenance Agreement (CLMA) that was entered into with the FDIC, including a requirement to maintain a Tier 1 leverage ratio of at least 15%.

At March 31, 2017, both ACB Financial Inc. and Credence International Bank were in compliance with our regulatory capital requirements. For an additional discussion of capital adequacy requirements, refer to Note 18 to the Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the three months ended March 31, 2017.

## 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 ACB

Because Credence International Bank is a FDICIA BHC and ACB Financial Inc. are BHCs, acquisitions of our voting stock above certain thresholds may be subject to regulatory approval or notice under federal or state law. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our stock in excess of the amount that may be acquired without regulatory approval under the Change in Bank Control Act, the BHC Act, and Utah state law.

## Surplus of Insurance Subsidiaries and Subsidiary Regulatory Capital

At March 31, 2017, ACB did not have any subsidiaries whose regulatory capital was less than the minimum required regulatory capital amount.

At March 31, 2017, the aggregate capital surplus of insurance subsidiaries was \$760 million.

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## Capital Structure

The following table presents ACB Financial Inc.'s capital components under the Final Capital Rules at March 31, 2017

(\$ in millions)	March 31, 2017
<b>Common Equity Tier 1 capital</b>	
Common stock and related surplus	\$ 20,661
Retained earnings	(6,975)
Accumulated other comprehensive loss	(321)
Adjustments and deductions made to Common Equity Tier 1 capital	(442)
<b>Total Common Equity Tier 1 capital</b>	<b>12,923</b>
<b>Other Tier 1 capital</b>	
Additional Tier 1 capital elements	2,489
Adjustments and deductions made to Tier 1 capital	(167)
<b>Total Tier 1 capital</b>	<b>15,245</b>
<b>Tier 2 capital</b>	
Tier 2 capital elements	1,103
Includable allowance for loan and lease losses	1,155
Adjustments and deductions made to Tier 2 capital	(44)
<b>Total Tier 2 capital</b>	<b>2,214</b>
<b>Total capital (a)</b>	<b>\$ 17,459</b>

(a) For more information refer to the March 31, 2017 Form Y-9C Schedule HC-R.

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

### Common Stock

\$0.01 par value; shares authorized 1,100,000,000; issued 488,997,931; and outstanding 462,193,424.

### Trust Preferred Securities

We currently have issued and outstanding approximately \$2.6 billion in aggregate liquidation preference of 8.125% Fixed Rate / Floating Rate Trust Preferred Securities, Series 2 (Series 2 TRUPS). Each Series 2 TRUPS security has a liquidation amount of \$25. Distributions are cumulative and are payable until redemption at the applicable coupon rate. Distributions were payable at an annual rate of 8.125% payable quarterly in arrears, through but excluding February 15, 2016. From and including February 15, 2016, to but excluding February 15, 2040 distributions will be payable at an annual rate equal to three-month London interbank offer rate plus 5.785% payable quarterly in arrears, beginning May 15, 2016. ACB has the right to defer payments of interest for a period not exceeding 20 consecutive quarters. The Series 2 TRUPS have no stated maturity date, but must be redeemed upon the redemption or maturity of the related debentures (Debentures), which mature on February 15, 2016. ACB at any time on or after February 15, 2016, may redeem the Series 2 TRUPS at a redemption price equal to 100% of the principal amount being redeemed, plus accrued and unpaid interest through the date of redemption. The Series 2 TRUPS are generally nonvoting, other than with respect to certain limited matters. During any period in which any Series 2 TRUPS remain outstanding but in which distributions on the Series 2 TRUPS have not been fully paid, none of ACB or its subsidiaries will be permitted to (i) declare or pay dividends on, make any distributions with respect to, or redeem, purchase, acquire or otherwise make a liquidation payment with respect to, any of ACB's capital stock or make any guarantee payment with respect thereto; or (ii) make any payments of principal, interest, or premium on, or repay, repurchase or redeem, any debt securities or guarantees that rank on a parity with or junior in interest to the Debentures with certain specified exceptions in each case.

The amount of trust preferred securities included in Tier 1 capital was \$2.5 billion at March 31, 2017. The amount represents the carrying amount of the trust preferred securities less ACB's common stock investment in the trust.

The trust preferred securities were issued prior to October 4, 2010, under the Emergency Economic Stabilization Act of 2008 and are not subject to phase-out from additional Tier 1 capital into Tier 2 capital.

### Subordinated Debt

Qualifying subordinated debt included in Tier 2 capital was \$1.1 billion at March 31, 2017. The qualifying subordinated debt represents subordinated debt issued by ACB with an original term to maturity of five years or greater. The debt currently has a carrying value of \$1.4 billion. The coupon rate on the debt range from 5.75% to 8% and maturities range from 2018 through 2025.



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## Capital Adequacy

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

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

## Enterprise Risk Management Framework

ACB is committed to achieving and sustaining strong risk management practices consistent with regulatory expectations and industry practices. The Enterprise Risk Management (ERM) framework ensures that ACB operates through a disciplined approach by explicitly defining risk appetite, structure, governance, and risk management processes for ACB. The main objectives of the ERM framework are to identify ACB's material risks; define tolerances through articulation of the risk appetite approved by the ACB and Credence International Bank risk and compliance committees of the Board (RCCs); measure, monitor, and report the risks; and manage or remediate risk relative to the risk appetite.

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

To effectively manage and monitor the risks of ACB the ERM framework defines three lines of defense that clarify the general roles and responsibilities of the risk owners, risk management and risk reviewers. This "three lines of defense" approach directly supports the balance between risk and return to protect ACB's target capital and liquidity levels. Each line has specific responsibilities with respect to the effectiveness of ACB's governance, risk management and internal controls.

## Capital Planning Practices

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

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

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

## Enterprise-Wide Stress Testing & Capital Planning

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

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

ACB has established a centrally coordinated enterprise stress-testing process, with close engagement of senior management and the Boards throughout the process. ACB's Enterprise Stress Testing and Scenario Analysis (STSA) team is a dedicated team within the Enterprise Risk Management function that develops and facilitates stress tests based on an established set of methodologies and appropriately tailored assumptions across ACB and its subsidiaries. A centrally managed process helps ensure effective oversight and control and is conducive to providing consistent output that can inform strategic decisions on an ongoing basis.

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

## Risk Appetite Framework

The goal of the Risk Appetite Framework is to ensure that ACB's risk-taking activities are commensurate with the RCCs stated risk appetite and that ultimately current and projected capital levels are sufficient to meet or exceed internal targets, and regulatory minimums. ACB recognizes the importance of understanding the critical links among strategy business plans and risks; ACB's Risk Appetite Framework



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established by the RCCs facilitates this linkage by establishing risk capacity, appetite guardrails, and tolerances across all material risk types, and by monitoring those against business plan, forecasts and stress test results.

ACB uses a combination of risk tolerance metrics and guardrails to provide the basis for risk reporting to ACB management and Boards. In order to assess capital adequacy, the framework includes processes to compare current and projected capital levels (from baseline forecasting and stress testing) to regulatory well-capitalized minimums as well as internal targets and minimums. In addition, the framework highlights specific processes for ensuring appropriate governance, oversight and accountability for risk appetite.

ACB's risk appetite metrics are monitored by the Enterprise Risk Management function, and reported to the Enterprise Risk Management Committee and the RCCs. Detailed risk appetite metrics are also reported throughout the organization to various management committees. ACB's Risk Appetite Framework is reviewed and approved by the RCC at least annually and is disseminated throughout the organization.

The following table presents ACB's risk-weighted assets by exposure type calculated under the Final Capital Rules at March 31, 2017

<i>(\$ in millions)</i>	<b>March 31, 2017</b>
Exposures to government-sponsored enterprises	\$ 2,058
Exposures to depository institutions, and foreign banks	337
Exposures to public-sector entities	395
Corporate exposures	43,175
Retail exposures	65,110
Residential mortgage exposures	6,051
High volatility commercial real estate loans	534
Past due loans	1,040
Other assets (a)	15,188
Securitization exposures	961
Equity exposures	1,081
Other off-balance sheet items	1,476
OTC derivatives	29
Cleared transactions	3
<b>Total standardized risk-weighted assets (b)</b>	<b>\$ 137,438</b>

(a) Includes investments in operating leases with a risk-weighted asset amount of \$10.5 billion.

(b) For more information refer to the March 31, 2017 FR Y-9C Schedule HC-R.

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

<b>March 31, 2017</b>	<b>Common Equity Tier 1 Capital Ratio</b>	<b>Tier 1 Capital Ratio</b>	<b>Total Risk- Based Capital Ratio</b>
ACB Financial Inc.	9.40%	11.09%	12.70%
ACB Bank	17.74	17.74	18.32

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## Capital Conservation Buffer

As part of the Basel III capital requirements, ACB is subject to a capital conservation buffer of more than 2.5%, subject to a phase-in period beginning January 1, 2016 through December 31, 2018. The capital conservation buffer is comprised solely of common equity tier 1 capital and is equal to the lowest of the reported common equity tier 1, tier 1 or total capital ratios minus the minimum capital requirements for each respective ratio.

Failure to maintain the full amount of the buffer would result in restrictions on ACB's ability to make capital distributions, including dividend payments and stock repurchases and redemptions, and to pay discretionary bonuses to executive officers.

Based on transitional provisions, in 2017, ACB must maintain a capital conservation buffer of greater than 1.25% in order to not be subject to any limitations on distributions and discretionary bonus payments.

At March 31, 2017, ACB's capital conservation buffer was 4.70% which exceeded the requirement and therefore is not subject to any limitations on distributions and discretionary bonus payments as well as a maximum payout amount, which is equal to eligible retained income, multiplied by the applicable maximum payout ratio.

Eligible retained income is defined under Basel III as net income for the four quarters preceding the current calendar quarter, net of distributions and associated tax effects not already reflected in net income. At March 31, 2017, ACB's eligible retained income was calculated to be (\$112) million, which consisted of net income of \$1.1 billion, net of distributions primarily related to redemptions, repurchases and dividends of common and preferred stock of \$1.2 billion.

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ACB Financial Inc.

## Credit Risk

For qualitative discussion surrounding our Credit Risk management policies, procedures, and practices, refer to the Risk Management section within MD&A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2017 and our Annual Report on Form 10-K for the year ended December 31, 2016.

For a description of our accounting policies for (i) determining past due or delinquency status, (ii) placing loans on nonaccrual status, (iii) returning loans to accrual status, (iv) identifying impaired loans, (v) estimating our allowance for loan and lease losses, (vi) and charging off uncollectible amounts, refer to the *Significant Accounting Policies* section within Note 1 to our Annual Report on Form 10-K for the year ended December 31, 2016.

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

March 31, 2017 (\$ in millions)	Counterparty Type					Domicile			Quarterly average
	Banks	Public sector	Corporate & Other	Retail	Total	United States	Non-U.S.	Total	
Exposure									
Debt securities (a)	\$ 335	\$ 5,963	\$ 14,670	\$ 2,068	\$ 20,968	\$ 20,851	\$ 117	\$ 20,968	\$ 19,979
Finance receivables and loans, net of unearned income (b)	118,957	8	42,394	76,601	119,003	118,957	46	119,003	117,974
Operating leases	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,931
Over-the-counter derivative contracts (at fair value)	69	69	69	69	69	34	35	69	77
Unfunded commitments	2,494	2,494	2,129	365	2,494	2,475	19	2,494	2,504
<b>Total credit risk exposures</b>	<b>\$ 404</b>	<b>\$ 5,971</b>	<b>\$ 59,193</b>	<b>\$ 87,427</b>	<b>\$ 152,995</b>	<b>\$ 152,778</b>	<b>\$ 217</b>	<b>\$ 152,995</b>	<b>\$ 151,465</b>

(a) Includes available-for-sale securities presented at fair value and held-to-maturity securities of \$1,104 million presented at amortized cost.

(b) Refer to the *Risk Management* section within MD&A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2017 for state concentration risk of our consumer and commercial loan portfolios.

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

March 31, 2017 (\$ in millions)	One year or less	After one year through five years	After five years	Total
Exposure				
Debt securities (a)	\$ 175	\$ 1,873	\$ 18,920	\$ 20,968
Finance receivables and loans, net of unearned income	34,574	40,236	44,193	119,003
Operating leases	4,239	6,222	10,461	10,461
Over-the-counter derivative contracts (at fair value)	1	65	3	69
Unfunded commitments	470	1,488	536	2,494
<b>Total credit risk exposures</b>	<b>\$ 39,459</b>	<b>\$ 49,884</b>	<b>\$ 63,652</b>	<b>\$ 152,995</b>

(a) Includes available-for-sale securities presented at fair value and held-to-maturity securities of \$1,104 million presented at amortized cost.

The following table summarizes information as it relates to our held-for-investment portfolio of impaired loans recorded at gross carrying value, as well as those 90 days or more past due.

March 31, 2017 (\$ in millions)	Consumer automotive	Consumer mortgage	Commercial	Total
Impaired loans with related allowance	\$ 264	\$ 189	\$ 94	\$ 547
Impaired loans without a related allowance	124	60	26	210
<b>Total impaired loans</b>	<b>\$ 388</b>	<b>\$ 249</b>	<b>\$ 120</b>	<b>\$ 757</b>
Loans 90 days or more past due	\$ 263	\$ 64	\$ 6	\$ 333
Loans 90 days or more past due still accruing	124	60	26	210
<b>Total loans 90 days or more past due</b>	<b>\$ 263</b>	<b>\$ 64</b>	<b>\$ 6</b>	<b>\$ 333</b>

# Basel III Public Disclosures

ACB Financial Inc.

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

(\$ in millions)	Consumer automotive	Consumer mortgage	Commercial	Total
Allowance at January 1, 2017	\$ 932	\$ 91	\$ 121	\$ 1,144
Charge-offs	(341)	(9)	1	(350)
Recoveries	90	7	1	97
Net charge-offs	(251)	(2)	1	(253)
Provision for loan losses	267	(3)	7	271
Other	(7)	1	1	(7)
Allowance at March 31, 2017	\$ 941	\$ 86	\$ 128	\$ 1,155
Allowance for loan losses at March 31, 2017				
Individually evaluated for impairment	\$ 32	\$ 33	\$ 24	\$ 89
Collectively evaluated for impairment	909	53	104	1,066
Finance receivables and loans at gross carrying value				
Ending balance	\$ 65,663	\$ 10,937	\$ 42,402	\$ 119,002
Individually evaluated for impairment	388	249	120	757
Collectively evaluated for impairment	65,275	10,688	42,282	118,245

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ACB Financial Inc.

## Counterparty Credit Risk

Counterparty credit risk is derived from multiple exposure types, including cash balances, derivatives and securities financing transactions.

### Methodology

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

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

### Risk Reduction

To mitigate the risk of counterparty default, we maintain collateral agreements with certain counterparties. The agreements generally require both parties to post collateral in the event the fair values of the derivative financial instruments meet posting thresholds established under the agreements. In the event that either party defaults on the obligation, the secured party may seize the collateral. Generally, our collateral arrangements are bilateral such that we and the counterparty post collateral for the value of our total obligation to each other. Contractual terms provide for standard and customary exchange of collateral based on changes in the market value of the outstanding derivatives. The securing party posts additional collateral when their obligation rises or removes collateral when it falls.

Certain derivative instruments contain provisions that require us to either post additional collateral or immediately settle any outstanding liability balances upon the occurrence of a specified credit risk-related event. No such specified credit risk related events occurred during the first quarter of 2017.

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

### Counterparty Exposures

We placed cash collateral totaling \$115 million and securities collateral totaling \$59 million at March 31, 2017 accounts maintained by counterparties. This amount primarily relates to collateral posted to support our derivative positions. This amount also excludes cash and securities pledged as collateral under repurchase agreements.

We received cash collateral from counterparties totaling \$12 million at March 31, 2017 primarily to support these derivative positions. This amount also excludes cash and securities pledged as collateral under repurchase agreements. At March 31, 2017 we received noncash collateral of \$6 million. Included in this amount is noncash collateral where we have been granted the right to sell or pledge the underlying assets. We have not sold or pledged any of the noncash collateral received under these agreements.

The fair value amounts of derivative instruments are presented on a gross basis, are segregated by derivatives that are designated and qualifying as hedging instruments or those that are not, and are further segregated by type of contract within those two categories. At March 31, 2017 this included total derivatives of \$80 million in a receivable position, \$81 million in a liability position, and of a \$31.1 billion notional amount. At March 31, 2017 the net amount of derivatives in net asset positions and derivatives in net liability positions totaled \$65 million and \$60 million, respectively.

As of March 31, 2017 the securities sold under agreements to repurchase consisted of \$520 million of mortgage-backed residential securities maturing within the next 30 days, \$0 million within 31 to 60 days, and \$626 million within 61 to 90 days. We received cash collateral totaling \$1 million and we placed cash collateral totaling \$5 million with counterparties under these collateral arrangements associated with our repurchase agreements.

As of March 31, 2017 ACB has not purchased or sold any credit derivatives.

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ACB Financial Inc.

## Credit Risk Mitigation

Credit risk is defined as the risk of loss arising from an obligor not meeting its contractual obligations to ACB. Therefore, credit risk is a major source of potential economic loss to us. Credit risk is monitored by several groups and functions throughout the organization, including enterprise and line of business committees and the risk management function. Together, they oversee credit decisioning, account servicing activities, and credit risk management processes, and monitor credit risk exposures to ensure they are managed in a safe-and-sound manner and are 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 RCC and the ACB Financial Inc. General Auditor on a regular basis.

To mitigate risk, we have implemented specific policies and practices across all lines of business, utilizing both qualitative and quantitative analyses. This reflects our commitment to maintain 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 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 leases with potential credit weaknesses, and the assessment of the adequacy of internal credit risk policies and procedures to ensure and monitor compliance with relevant laws and regulations. Our consumer and commercial loan and lease portfolios are subject to regular stress tests that are based on plausible, but unexpected, economic scenarios to ensure that we can withstand a severe economic downturn. In addition, we establish and maintain underwriting policies and guardrails across our portfolios and higher risk segments (e.g., nonprime) based on our risk appetite.

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 8 to the Condensed Consolidated Financial Statements within our Quarterly Report on Form 10-Q for the three months ended March 31, 2017 for additional information.

Additionally, we utilize numerous collection strategies to mitigate loss and provide ongoing support to customers in financial distress. For 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 extension of the loan maturity date and rewriting the loan terms. For mortgage loans, as part of certain programs, we offer mortgage loan modifications to qualified borrowers. Numerous initiatives 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 counterparty credit exposure 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 19 to the Condensed Consolidated Financial Statements within our Quarterly Report on Form 10-Q for the three months ended March 31, 2017.

## Loan and Lease Exposure

The risks inherent in our loan and lease exposures are largely driven by changes in the overall economy, used vehicle and housing price levels, unemployment levels, and their impact to 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 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.

For detailed information on the significant asset classes affected by our loan and lease exposure, refer to the *Risk Management* section within MD&A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2017.

As of March 31, 2017, we do not have any eligible collateral derivatives or other financial guarantees.

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## Securitization

Basel III defines a traditional securitization exposure as follows:

- i½ All or a portion of the credit risk of one or more underlying exposures is transferred to one or more third parties other than through the use of credit derivatives or guarantees;
- i½ The credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority;
- i½ Performance of the securitization exposures depends upon the performance of the underlying exposures;
- i½ All or substantially all of the underlying exposures are financial exposures;
- i½ The underlying exposures are not owned by an operating company; and
- i½ The underlying exposures are not owned by a small business investment company or related to a community development investment.

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

ACB is both an originator and investor in the securitization market. We provide a wide range of consumer and commercial automotive loans, operating leases, and commercial loans to a diverse customer base. We often securitize these loans (also referred to as financial assets) and leases through the use of securitization entities. Securitization transactions typically involve the use of variable interest entities (VIEs) and are accounted for either as sales or secured financings. As an originator, the majority of the securitizations are consolidated on our Consolidated Balance Sheet and are risk-weighted according to the underlying assets. Securitization activities act as a source of liquidity and cost-efficient funding while also reducing our credit exposure beyond any economic interest we may retain.

In order to conclude whether or not a VIE is required to be consolidated, careful consideration and judgment must be given to our continuing involvement with the variable interest entity. In circumstances where we have both the power to direct the activities of the entity that most significantly impact the entity's performance and the obligation to absorb losses or the right to receive benefits of the entity that could be significant, we would conclude that we would consolidate the entity, which would also preclude us from recording an accounting sale on the transaction. In the case of a consolidated VIE, the accounting is consistent with a secured borrowing, (e.g., we continue to carry the loans and we record the related securitized debt on our Condensed Consolidated Balance Sheet. We assess whether we are the primary beneficiary of a VIE on an ongoing basis.

In transactions where we are not determined to be the primary beneficiary of the VIE, we must determine whether or not we achieve a sale for accounting purposes. In order to achieve a sale for accounting purposes, the assets being transferred must be legally isolated, not be constrained by restrictions from further transfer, and be deemed to be beyond our control. If we were to fail any of the three criteria for sale accounting, the accounting would be consistent with the preceding paragraph (i.e., i½ a secured borrowing)

Gains or losses on off-balance sheet securitizations take into consideration the fair value of any retained interests including the value of certain servicing assets or liabilities, if any, which are initially recorded at fair value at the date of sale. The estimate of the fair value of the retained interests and servicing requires us to exercise significant judgment about the timing and amount of future cash flows from the interests.

Gains or losses on off-balance sheet securitizations and sales are reported in gain on mortgage and automotive loans, net, in our Condensed Consolidated Statement of Comprehensive Income. Retained interests are classified as securities or as other assets depending on their nature.

We retain servicing responsibilities for all of our consumer and commercial automotive loan and operating lease securitizations. We may receive servicing fees for off-balance sheet securitizations based on the securitized loan balances and certain ancillary fees, all of which are reported in servicing fees in the Condensed Consolidated Statement of Comprehensive Income. Typically, the fee we are paid for servicing consumer automotive finance receivables represents adequate compensation, and consequently, we do not recognize a servicing asset or liability.

We generally hold certain conditional repurchase options specific to securitizations that allow us to repurchase assets from the securitization entity. The majority of the securitizations provide us, as servicer, with a call option that allows us to repurchase the remaining transferred financial assets or redeem outstanding beneficial interests at our discretion once the asset pool reaches a predefined level, which represents the point where servicing becomes burdensome (a clean-up call option). The repurchase price is typically the discounted securitization balance of the assets plus accrued interest when applicable. We generally have discretion regarding when or if we will exercise these options, but we would do so only when it is in our best interest.

Other than our customary representation and warranty provisions, these securitizations are nonrecourse to us, thereby transferring the risk of future credit losses to the extent the beneficial interests in the securitization entities are held by third parties. Representation and



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warranty provisions generally require us to repurchase assets or indemnify the investor or other party for incurred losses to the extent it is determined that the assets were ineligible or were otherwise defective at the time of sale. We did not provide any noncontractual financial support to any of these entities during the first quarter of 2017.

Whether on- or off-balance sheet, the investors in the securitization trusts generally have no recourse to our assets outside of protections afforded through customary market representation and warranty repurchase provisions.

Assets intended to be securitized off-balance sheet are accounted for as loans held-for-sale. These loans are valued using internally developed valuation models because observable market prices are not available. The loans are priced on a discounted cash flow basis utilizing cash flow projections from internally developed models that utilize prepayment, default, and discount rate assumptions. To the extent available, we utilize market observable inputs such as interest rates and market spreads. If market observable inputs are not available, we are required to utilize internal inputs, such as prepayment speeds, credit losses, and discount rates.

## Risk Management

Our securitization activity exposes us primarily to the credit risk and performance of the underlying assets. For qualitative discussion surrounding our Credit Risk management policies, procedures, and practices, refer to the Risk Management section within MD&A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2017. To mitigate the retained risk in securitization activities, ACB utilizes credit enhancement, including cash reserves, overcollateralization and subordinate notes.

## Securitization Exposures

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

March 31, 2017 (\$ in millions)	Total amount	Amount 60 days or more past due	Net credit losses
Consumer automotive	\$ 3,067	\$ 12	\$ 3
Total securitization exposures	\$ 3,067	\$ 12	\$ 3

ACB does not have any synthetic securitization exposures.

## Securitization Activity

During the three months ended March 31, 2017, we completed a \$1.1 billion off-balance sheet securitizations backed by retail automotive loans. The pretax gain recognized on the sale was \$2 million for the three months ended March 31, 2017.

## Purchased Investment Securities

As an investor, ACB has purchased investment securities that meet the regulatory definition of a securitization. These securitizations are accounted for as available-for-sale securities and reported at fair value in our Consolidated Balance Sheet. Available-for-sale securities are carried at fair value based on observable market prices, when available. If observable market prices are not available, our valuations are based on internally developed discounted cash flow models (an income approach) that use a market-based discount rate and consider recent market transactions, experience with similar securities, current business conditions, and analysis of the underlying collateral, as available. To estimate cash flows, we are required to utilize various significant assumptions including market observable inputs (e.g., forward interest rates) and internally developed inputs (including prepayment speeds, delinquency levels, and credit losses).

We utilize the Simplified Supervisory Formula Approach (SSFA) to determine the risk-weight. The SSFA method considers our seniority in the securitization structure and risk factors inherent in the underlying assets.

The following table represents ACB's retained interests and purchased investment securities, which meet the regulatory definition of a securitization, by underlying exposure type, as of March 31, 2017.

March 31, 2017 (\$ in millions)	Exposure amount
Mortgage-backed residential securities	\$ 2,053
Mortgage-backed commercial securities	530
Asset-backed securities	1,097
Total	\$ 3,680

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The following table represents ACB's securitizations by risk weight bands as of March 31, 2017

<b>March 31, 2017</b> ( <i>\$ in millions</i> )	<b>Exposure amount</b>	<b>SSFA risk-weighted assets</b>
<b>Risk-weight category</b>		
20% ≤ <50% risk weighting	\$ 3,505	\$ 710
50% ≤ <100% risk weighting	125	93
100% ≤ <250% risk weighting	36	48
250% ≤ 1250% risk weighting	14	110
<b>Total</b>	<b>\$ 3,680</b>	<b>\$ 961</b>

At March 31, 2017, ACB did not have any resecuritization exposures

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## Equities Not Subject to the Market Risk Rule

Our equity holdings primarily consist of equity securities that are classified as available-for-sale. These available-for-sale equity securities are carried at fair value with unrealized net gains or losses reported within accumulated other comprehensive loss in equity. Details of ACB's policy for the valuation of investment securities can be found in Note 1 of our Consolidated Financial Statements within our Annual Report on Form 10-K for the year ended December 31, 2016.

In addition to our investments in debt and marketable equity securities, we hold equity positions in other entities. These positions include Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock held to meet regulatory requirements, other equity investments that are not publicly traded and do not have a readily determinable fair value, equity investments in low income housing tax credits, and Community Reinvestment Act (CRA) equity investments, which are also not publicly traded and do not have a readily determinable fair value. Our investments in FHLB and FRB stock and other equity investments are accounted for using the cost method of accounting. Our low income housing tax credit investments are accounted for using the proportional amortization method of accounting for qualified affordable housing investments. Our obligations related to unfunded commitments for our low income housing tax credit investments are reported in other liabilities. Our CRA investments are accounted for using the equity method of accounting. Our FHLB and FRB stock and other equity investments carried at cost are included in nonmarketable equity investments in other assets. Our investments in low income housing tax credits and CRA are also included in other assets. As conditions warrant, we review our investments for impairment and will adjust the carrying value of the investment if it is deemed to be impaired.

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

March 31, 2017 (\$ in millions)	Risk-weight category	Carrying value	Fair value	Risk-weighted assets
<b>Equity exposures</b>				
FRB stock	0%	\$ 435	\$ 435	\$ 435
FHLB stock	20%	359	359	72
Community reinvestment activity exposures	100%	505	505	505
Non-significant equity exposures (a)	100%	541	504	504
<b>Total</b>		<b>\$ 1,840</b>	<b>\$ 1,803</b>	<b>\$ 1,081</b>

(a) Includes publicly traded equity securities with a cost basis of \$481 million.

Total net unrealized losses on available-for-sale equity securities recognized on the balance sheet but not through earnings were \$37 million at March 31, 2017. Total net realized gains arising from sales and liquidations of equity securities were \$16 million for the three months ended March 31, 2017.

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## Interest Rate Risk for Non-Trading Activities

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

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. During the first quarter of 2017 we implemented a dynamic pass-through modeling assumption on our retail liquid products deposits portfolio, whereby deposit pass-through levels increase as the absolute level of market interest rates rise. As a result, our baseline forecast assumes a medium-term deposit beta of 30% to 50%, steadily increasing to approximately 75% over the longer term. 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 rates scenarios relative to the baseline forecast. The changes in net financing revenue relative to the baseline are defined as the sensitivity. Our simulation incorporates contractual cash flows and repricing characteristics for all assets, liabilities and off-balance sheet exposures and incorporates the effects of changing interest rates on the prepayment and attrition rates of certain assets and liabilities. The analysis is highly dependent upon a variety of assumptions including the repricing characteristics of deposits with noncontractual maturities. Our simulation does not assume any specific future actions are taken to mitigate the impacts of changing interest rates. Relative to our baseline forecast, which is based on the implied forward curve, our net financing revenue over the next twelve months would increase by \$16 million if interest rates remain unchanged.

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 both current spot rates and the market forward curve. We also evaluate 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.

Our twelve-month pretax net financing revenue sensitivity based on the market forward-curve was as follows.

Change in Interest Rates (\$ in millions)	March 31, 2017	
	Instantaneous	Gradual (a)
-100 basis points	\$ 3	\$ (21)
+100 basis points	(52)	(21)
+200 basis points	(171)	(67)

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

Implied forward rates have increased since December 31, 2016, and are reflected in our baseline net financing revenue projections. We remain moderately liability-sensitive as of March 31, 2017, in the upward interest rate shock scenarios as our simulation models assume liabilities will initially reprice faster than assets. The shift to a less liability-sensitive position as of March 31, 2017, is primarily due to higher variable-rate commercial loan balances, partially offset by an increase in our net receive-fixed interest rate swaps position.

The exposure in the downward interest rate shock scenario continues to benefit net financing revenue, shifting closer to a neutral position as of March 31, 2017. The impact of a downward shock scenario is less favorable than the prior period primarily due to the impact of variable-rate commercial loans.

The future repricing behavior of retail deposit liabilities, particularly non-maturity deposits, remains a significant driver of interest rate sensitivity. Our upward interest rate shock scenarios assume a longer term liquid products deposit beta of approximately 75%. We continue to believe our deposits may ultimately be less sensitive to interest rate changes, which would reduce our overall exposure to rising interest rate shocks. Assuming a static liquid products retail deposit beta of 50% would result in a consolidated interest rate risk position that is asset sensitive in the upward interest rate shock scenarios.

Our pro-forma rate sensitivity assuming a static 50% deposit pass-through based on the forward-curve was as follows.

Change in Interest Rates (\$ in millions)	March 31, 2017	
	Instantaneous	Gradual (a)
+100 basis points	\$ 45	\$ 22
+200 basis points	57	39

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

Our current liability-sensitive risk position is influenced by the net impact of off balance sheet hedging positions, which continue to generate positive financing revenue in the current interest rate environment. This position includes both receive-fixed interest rate swaps designated as fair value hedges of certain fixed-rate liabilities, including unsecured debt, and pay-fixed interest rate swaps designated as fair value hedges of certain retail automotive assets. The size, maturity and mix of our hedging activities change frequently as we adjust our broader asset and liability management objectives.

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