FIRST CAPITAL FINANCE

FUNDING SOLUTIONS FOR INDUSTRY

# Disclosure Statement

**For the three months ended 30 January 2018**

## GENERAL INFORMATION

This Disclosure Statement has been issued by First Capital Group Limited (the company) and its subsidiaries (the group) for the three months ended 30 January 2018 in accordance with the Disclosure Statements.

Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

## GUARANTEE ARRANGEMENTS

As at the date this Disclosure Statement was signed, no material obligations of the company were guaranteed.

## DIRECTORS

There have been no changes to the Board of Directors since the signing of the 01 February 2018 Disclosure Statement.

# NBDT CONDITIONS OF REGISTRATION

These conditions apply on and after 1 February 2018.

The registration of First Capital Group Limited ("the company") is subject to the following conditions:

1.

(a) the Total capital ratio of the group is not less than 8%;

(b) the Tier 1 capital ratio of the group is not less than 6%;

(c) the Common Equity Tier 1 capital ratio of the group is not less than 4.5%;

(d) the Total capital of the group is not less than $200,000 dollars;

(e) the group must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2018 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

(f) the compnay meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration, -

the Total capital ratio, the Tier 1 capital ratio, the Common Equity Tier 1 capital ratio and Total capital must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 9(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

1A. That—

(a) the company has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a companies internal capital adequacy assessment process ('ICAAP')" (BS12) dated December 2007;

(b) under its ICAAP the group identifies and measures its "other material risks" defined as all material risks of the group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015; and

(c) the company determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the buffer ratio of the group is 2.5% or less, the group must:

(a) according to the following table, limit the aggregate distributions of the graoup’s earnings to the percentage limit to distributions that corresponds to the groups buffer ratio:

| **Group's buffer ratio** | **Percentage limit to distributions of the companies earnings** |
|---|---|
| 0% - 0.625% | 0% |
| >0.625% - 1.25% | 20% |
| >1.25% - 1.875% | 40% |
| >1.875% - 2.5% | 60% |

(b) prepare a capital plan to restore the group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration,—

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

2. That the group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

## NBDT CONDITIONS OF REGISTRATION (CONTINUED)

3. That the group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the group's insurance business is the sum of the following amounts for entities in the group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the group's insurance business—

   (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

   (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

   For the purposes of this condition of registration,—

   "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

   "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

| **Credit rating of the company** [1] | **Connected exposure limit (% of the group's Tier 1 capital)** |
|---|---|
| AA/Aa2 and above | 75 |
| AA-/Aa3 | 70 |
| A+/A1 | 60 |
| A/A2 | 40 |
| A-/A3 | 30 |
| BBB+/Baa1 and below | 15 |

   Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-group connected persons shall not exceed 15% of the group's Tier 1 capital.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposures policy" (BS8) dated November 2017.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the group complies with the following corporate governance requirements:

   (a) the board of the group must have at least three directors;

   (b) the majority of the board members must be non-executive directors;

   (c) at least half of the board members must be independent directors;

   (d) an alternate director,—

      (i) for a non-executive director must be non-executive; and

      (ii) for an independent director must be independent;

   (e) at least half of the independent directors of the group must be ordinarily resident in New Zealand;

   (f) the chairperson of the board of the group must be independent; and

   (g) the group's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company.

## NBDT CONDITIONS OF REGISTRATION (CONTINUED)

For the purposes of this condition of registration,—

"independent"—

(a) in relation to a person other than a person to whom paragraph (b) applies, has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014; and

(b) in relation to a person who is the chairperson of the board of the group, means a person who—

(i) meets the criteria for independence set out in section 10 except for those in paragraph 10(1)(a) in BS14; and

(ii) does not raise any grounds of concern in relation to the person's independence that are communicated in writing to the group by the Reserve Bank of New Zealand:

"non-executive" has the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the group unless:

(a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

8. That a person must not be appointed as chairperson of the board of the group unless:

(a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

9. That the group has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

(a) the mandate of the committee must include: ensuring the integrity of the group's financial controls, reporting systems and internal audit standards;

(b) the committee must have at least three members;

(c) every member of the committee must be a non-executive director of the group;

(d) the majority of the members of the committee must be independent; and

(e) the chairperson of the committee must be independent and must not be the chairperson of the group.

For the purposes of this condition of registration, "independent" and "non-executive" have the same meanings as in condition of registration 6.

10. That a substantial proportion of the group's business is conducted in and from New Zealand.

11. That the group complies with the following quantitative requirements for liquidity-risk management:

(a) the one-week mismatch ratio of the group is not less than zero percent at the end of each business day;

(b) the one-month mismatch ratio of the group is not less than zero percent at the end of each business day; and the

(c) one-year core funding ratio of the group is not less than 75 percent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

12. That the group has an internal framework for liquidity risk management that is adequate in the group's view for managing the group's liquidity risk at a prudent level, and that, in particular:

(a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

(b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

(c) identifies the principal methods that the group will use for measuring, monitoring and controlling liquidity risk; and

(d) considers the material sources of stress that the group might face, and prepares the group to manage stress through a contingency funding plan.

## NBDT CONDITIONS OF REGISTRATION (CONTINUED)

13. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition,—

    "total assets" means all assets of the group plus any assets held by any SPV that are not included in the group's assets: "SPV" means

    a person—

    (a) to whom any member of the group has sold, assigned, or otherwise transferred any asset;

    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the group under a covered bond:

    "covered bond" means a debt security issued by any member of the group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

14. That—

    (a) no member of the group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

        (i) the group has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the group provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

    (b) no member of the group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

        (i) the group has notified the Reserve Bank in writing of the intended acquisition or business combination;

        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the group provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

        (iii) the Reserve Bank has given the company a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

15. That, for a loan-to-valuation measurement period, the total of the group's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

16. That, for a loan-to-valuation measurement period, the total of the group's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

17. That the group must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered group's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

"group"—

means First Capital Group Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

## PENDING PROCEEDINGS OR ARBITRATION

There are no pending legal proceedings or arbitrations concerning any member of the group as at the date of this Disclosure Statement that may have a material adverse effect on the group.

## OTHER MATERIAL MATTERS

There are no material matters relating to the business or affairs of the group that are not contained elsewhere in this Disclosure Statement which would, if disclosed in this Disclosure Statement, materially affect the decision of a person to subscribe for debt securities of which the group or any member of the group is the issuer.

## DIRECTORS' STATEMENTS

Each Director of the group states that he or she believes, after due enquiry, that:

1. As at the date on which this Disclosure Statement is signed:

   (a) the Disclosure Statement contains all the information that is required by the Order; and

   (b) the Disclosure Statement is not false or misleading.

2. During the three month period ended 01 February 2018:

   (a) the group complied with all Conditions of Registration;

   (b) credit exposures to connected persons were not contrary to the interests of the group; and

   (c) the group had systems in place to monitor and control adequately material risks of the group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 26 February 2018

# NOTES TO THE INTERIM FINANCIAL STATEMENTS
For the three months ended 30 September 2017

## Basis of reporting

### Reporting entity

The interim financial statements presented are the consolidated financial statements for First Capital Group (the group) and its subsidiaries (the group).

As at 30 September 2017, First Capital Group Limited is a listed company incorporated in New Zealand under the Companies Act 1993.

### Basis of preparation

The interim financial statements presented here are for the following periods:

- 3 month period ended 30 September 2017 - Unaudited
- 3 month period ended 30 September 2016 - Unaudited
- 12 month period ended 30 June 2017 - Audited

The interim financial statements of the banking group incorporated in this Disclosure Statement have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the group's Annual Report for the year ended 30 June 2017.

These interim financial statements have been prepared on a going concern basis in accordance with historical cost unless stated otherwise. The accounting policies applied by the banking group in these consolidated interim financial statements are the same as those applied by the banking group in its consolidated financial statements as at, and for the year ended, 30 June 2017.

Certain comparative information has been restated to comply with the current period presentation.

## Performance

### 1 Segmental analysis

Segment information is presented in respect of the group's operating segments which are those used for the group's management and internal reporting structure.

All income received is from external sources. Certain selling and administration expenses, such as premises, IT and support centre costs are not allocated to operating segments and are included in Administration and Support (Admin & Support).

**Operating segments**

The group operates predominantly within New Zealand and comprises the following main operating segments:

| | |
|---|---|
| **Individuals** | Providing a range of financial services to New Zealand businesses – including term, transactional and savings based deposit accounts together with residential mortgage lending (including reverse mortgages), motor vehicle finance and consumer finance – as well as reverse mortgage lending and other financial services. |
| **Business** | Providing term debt, plant and equipment finance, commercial mortgage lending and working capital solutions for small-to-medium sized businesses. |
| **Rural** | Providing specialist financial services to the farming sector primarily offering livestock finance, rural mortgage lending, seasonal and working capital financing, as well as leasing solutions to farmers. |