2012 Annual Report and Consolidated Financial Statements

NEW ZEALAND CLEARING AND
DEPOSITORY CORPORATION LIMITED

NZClearingCorp

1 Chair Commentary

I am pleased to present the 2012 annual report for the NZCDC Group. 2012 has seen significant growth in the depository transactions and stock lending. Ongoing investment in system infrastructure has enabled NZCDC to support new and upcoming NZX product initiatives and leaves the business well placed for further growth in 2013.

2012 Year in Review

NZCDC is pleased to announce a net profit after tax of $1.8 million for the year ended 31 December 2012. Profitability was up slightly on last year, with higher clearing and settlement fees driving a small increase in overall profit. NZCDC remains in a strong overall position with $11.3m of equity, and high cash holdings held on call or in short term deposits. Dividends of $1.4 million have been distributed to NZX Limited. Dividends are set at a level which returns surplus cash to NZX Limited while ensuring the risk capital reserves of NZCDC remain at appropriate levels, and that the group has sufficient working capitlal for day to day operations. We again would like to acknowledge the support of NZX Limited in respect of the provision of technology services, infrastructure, and support services.

From a systems perspective, a key focus for 2012 was upgrading the core NZCDC system, BaNCS, to the latest version of the SWIFT messaging protocol. This upgrade ensures that BaNCS is aligned with current global SWIFT standards and formats, reducing barriers to entry for new participants. System stability continues to be a key focus for NZCDC. There were no material outages in 2012, with system availability at 99.98% for the year.

Operationally, 2012 saw the long anticipated introduction of Fonterra's "Trading Among Farmers". A key component of this is the Fonterra Shareholders' Market, a private market allowing farmer shareholders to trade shares in Fonterra among themselves. Trades on this new market are cleared and settled via the NZCDC infrastructure, with NZCDC and the Fonterra share registry ensuring that shares in the private market are only traded and settled by Farmer Shareholders. A change to the NZCDC core settlement system was made to ensure this legal constraint is adhered to.

Stock lending activity has grown both in terms of the number of transactions, and nominal value of loans. Loan duration continues to trend upwards indicating an increase in strategic borrowing. As predicted, loan value increased significantly in 2012 to over $2.1 billion of loans (in aggregate), an 82% increase on the previous year. Stock lending continues to be a valuable component of the NZCDC depository offering and we look forward to seeing ongoing growth in activity and additional depth in the lending pool in 2013 to support the growth of the exchange traded equity options market due to be launched mid 2013.

The benefits of the NZCDC infrastructure continue to be apparent with increased trading levels in 2012 (number of trades up 21.8% on 2011) having no significant impact on the quantity of settlement obligations due to the netting of trades for settlement. We are particularly pleased to see the number of failed settlement obligations remaining low at only 345 during 2012. By comparison, there were 921 failed settlement obligations in the 12 months prior to the introduction of the settlement system in 2010.

As part of the NZCDC Risk Management Framework, regular reviews and monitoring of all aspects of clearing house risk are conducted. The reviews take into consideration the impact of new instruments, the launch of new products such as the Fonterra Shareholders' Market and equity derivatives, and expected trade volumes and observed security volatility. Monitoring and stress testing of settlement risk is a key component of NZCDC's function.

Ensuring we have adequate levels of risk capital to maintain system stability is monitored regularly. Reduction in system risk remains a key benefit to New Zealand's capital markets, and the Risk Management Framework underpins our ability to deliver this.

Regulatory Oversight

In 2012 we continued to work with the NZCDC Joint Regulators, the Reserve Bank of New Zealand and the Financial Markets Authority, to ensure that their expectations were being met with respect to the conditions of designation of NZCDC as a settlement system. Representatives of the NZCDC Board and management met the Joint Regulators to review system performance, governance, resourcing, the NZX relationship, and regulatory issues. The NZCDC Board believes that maintaining a strong relationship with the Joint Regulators forms an important component of the regulatory oversight.

During the year we published:

- the second NZCDC annual report;
- an audit report on balances held in the Depository; and
- an operational audit report.

Trends in Clearing and Settlement

The key trends effecting clearing and settlement worldwide are rapidly changing regulation and increasing cross border competition.

During 2012 continued moves in Europe and the US towards mandatory clearing of certain over the counter derivatives came hand-in-hand with stricter regulations governing CCPs. While neither directly affect clearing and settlement in New Zealand, NZCDC continues to monitor regulatory change in these areas for impact on our participants and products.

In addition during 2012 the CPSS-IOSCO Principles for Market Infrastructures were released, along with an assessment methodology and disclosure framework. NZCDC will complete a self-assessment against the new principles in the first half of 2013.

Outlook

2013 is expected to see the launch of a number of equity derivative contracts. Initial plans include an index future based on the NZX20 and three equity option contracts. These contracts will be cleared through NZCDC infrastructure. Although some minor changes to BaNCS are required, the main changes are regulatory in nature, with the introduction of new participants and some minor changes to the Clearing and Settlement Procedures.

System stability will continue to be a focus with infrastructure enhancements planned for the first part of the year. Other system development planned for 2013 will be driven by changes to NZX systems and business development initiatives, including changes to make participant connection easier. This will assist with participation growth in the Depository which will also remain paramount in the coming year.

The Board are conscious that we need to ensure our compliance and monitoring processes represent best practice and we will be monitoring international developments in this area in addition to strengthening our own processes to ensure market stability.

Acknowledgements

In December 2012 Simon Smith resigned from his role as Chief Operating Officer. Simon was involved with NZCDC from its inception and I would like to thank him for the substantial part he played in ensuring the business is set up for success.

During 2012 Robyn Dey stepped down from the NZCDC Board. I would like to thank her for her contribution to the success of NZCDC since we commenced operations in 2010. I am pleased to welcome Tim Bennett and James Miller to the NZCDC Board.

I would like to thank my fellow Directors for their support in the governance of the NZCDC Group and for their commitment to its ongoing development.

Pip Dunphy | Chair

2 Company Overview

Business Overview

NZCDC through its subsidiaries operates a clearing and settlement system that has been designated under part 5C of the Reserve Bank of New Zealand Act 1989. The System consists of a central counterparty clearing house, operated by New Zealand Clearing Limited, and a linked central securities depository, operated by New Zealand Depository Limited. NZCDC is a wholly owned subsidiary of NZX Limited.

Services that the NZCDC Group provides include:

- Clearing and settlement of trades conducted on NZX Markets, including the NZX Main Board, Alternative Market, Debt Market, NZX Derivatives Market and Fonterra Shareholders' Market;
- Securities safe custody;
- Corporate action notification and processing;
- Stock lending and borrowing; and
- Settlement of transactions in products admitted to the Depository (also known as OTC Trades).

The system operated by NZCDC also enables participants to effect electronic transfer of legal title of securities on register.

The system software is provided by Tata Consultancy Services Limited (TCS), one of India's largest companies with a market capitalization of around US$50bn. Their industry-leading market infrastructure product, BaNCS, has been implemented across all NZCDC business areas. Connectivity for participants is available through SWIFT ISO15022 messaging or through a web-based user interface.

NZCDC's system utilises the SWIFT network to enable participants to seamlessly transfer securities between the NZCDC Depository and the NZClear system operated by RBNZ.

2012 Highlights

- Launch of Fonterra Shareholders' Market, cleared by NZCL
- Core settlement system upgraded to latest version of SWIFT
- System changes to enable the successful introduction of the new NZX trading platform
- System availability at 99.98%
- 82% increase in total aggregate value of securities lending

Focus for 2013

The primary focus for 2013 remains an increase in participation, specifically in the Depository. The introduction of Equity Derivatives is likely to drive an increase in the demand for securities in the lending pool.

Upgrading to the current version of the SWIFT messaging protocol enhances the ability for participants to perform seamless straight-through-processing via the SWIFT network. System enhancements will focus on maintaining core system stability.

With respect to new products approved for clearing, the key focus will be on the launch of Equity Derivatives.

During 2013 NZCDC will complete a self assessment against the CPSS-IOSCO Principles for Market Infrastructures, and ensure that it is ready for the full introduction of the Anti Money Laundering and Countering the Financing of Terrorism legislation in June 2013.

3 Operating and Financial Review

Operating Review

The core operating statistics of NZCDC for the 2012 financial year ending 31 December 2012 are shown below. Comparative figures are provided for the 2011 year.

Core Operating Statistics

Settlement of Cleared Trades		2012	2011
Number of Settlement Days		250	252
Securities	Value ($m)	9,005	7,787
	Number of Settlement Lines	156,028	156,774
Derivatives*	Notional Value ($USm)	38.8	9.0
	Number of lots	12,047	2,516

* This represents derivatives contracts that transitioned to final settlement.

Assets Under Custody (as at year end)	2012	2011
Depository Equity ($m)	179	155
Debt ($m)	-	-

Depository Transactions	2012	2011
Value ($m)	856.5	676.5
Number	19,809	12,261
Average Transaction Value ($)	43,238	55,171

3 Operating and Financial Review (CONT.)

Securities Lending	2012	2011
Number of Loans	3,782	2,275
Total Loan Value ($m)	2,177	1,195
Average Loan Value ($)	164,025	187,661
Average Duration (Days)	3.5	2.8

System Availability	2012	2011
Total System Operation (Minutes)	157,500	158,760
Outages (Minutes)	30	33
Availability (%)	99.98	99.97

System availability is based on the time the core clearing and settlement system is available for service. Availability is calculated in respect of each settlement (business) day from 7.30am to 6.00pm

Risk Management Statistics

Open/Unsettled Contracts	2012	2011
Securities—Daily Average ($m)	107.99	92.61
Derivatives —Open Interest —Daily Average ($USm)	16.6	6.0

Collateral Held (Daily Average)	2012	2011
Cash ($)	17,362,252	11,981,507
Bank Guarantee ($)	5,500,000	1,717,808

Cash collateral is held on call and in short term bank investments in line with the NZCDC Investment Policy.

Risk Management Inspections	2012	2011
Clearing participants inspected during the year	9	9

Financial Performance

The following summary income statement reflects the combined operation of the NZCDC Group for the year ended 31 December 2012.

	2012 ($000's)	2011 ($000's)
Revenue		
Clearing and Settlement Fees	3,199	2,879
Participant Fees and Other	511	515
Interest	397	427
Total Revenue	**4,107**	**3,821**
Operating Expenses	1,529	1,364
Tax	722	688
Net Profit After Tax	1,856	1,769

Financial statements are prepared for the NZCDC Group and subsidiaries. A copy of the NZCDC Group audited financial statements for the period ended 31 December 2012 is included in section 9 of this annual report. The income statement does not include expenses in respect of technology services, technology platforms and other services, which are provided by NZX for nil consideration. In addition, clearing house infrastructure assets are on the balance sheet of NZX, for which the NZCDC Group incurs no maintenance fees or depreciation.

Interest earned represents income on risk capital and working capital maintained in the NZCDC Group.

Participant fees include annual fees as well as one-off initial and application fees.

In 2012 NZCDC changed the presentation of rebates to show these on a net instead of a gross basis in order to better align with the revenue recognition guidance in International Financial Reporting Standards, with prior year comparatives restated accordingly.

4 Regulatory

Regulatory Overview

NZCDC and its subsidiaries operate a settlement system that is declared to be a settlement system under Part 5 of the Reserve Bank of New Zealand Act 1989. In addition to providing settlement certainty, the Act provides for regulatory oversight by the joint regulators, RBNZ and the Financial Markets Authority. Conditions to designation of the NZCDC settlement system are set out in the Reserve Bank of New Zealand (Designated Settlement System – NZCDCL) Order 2010.

The conditions of designation impose several obligations on NZCDC, which include:

- Notification of material non-compliance with laws or regulation, the NZCDC financial resources policies or the NZCDC risk management policies;
- Publication of an audit report on the settlement system;
- Publication of self-assessments against relevant international standards for settlement systems, central securities depositories and central counterparty clearing houses;
- Monthly reporting to the joint regulators of key operational statistics; and
- Publication of financial statements and an annual report for NZCDC.

The conditions of designation also refer to specific policies covering risk management, financial resources and specified agreements to which members of the NZCDC Group are parties. NZCDC is required to provide the joint regulators notification in advance of any amendments to these policies or agreements.

During the period, NZCDC advised the joint regulators of the following changes:

- Risk Management Framework - the Margin and Collateral Procedure document was updated to cater for the addition of stressed Value at Risk (VaR), modification of debt security liquidity groups, and a review of processes.

- Clearing and Settlement Rules – the Procedures to the Rules were updated to allow all Fonterra Shareholders Market Listed Securities to become Approved Product under the Rules.

- Changes to Board and senior management.

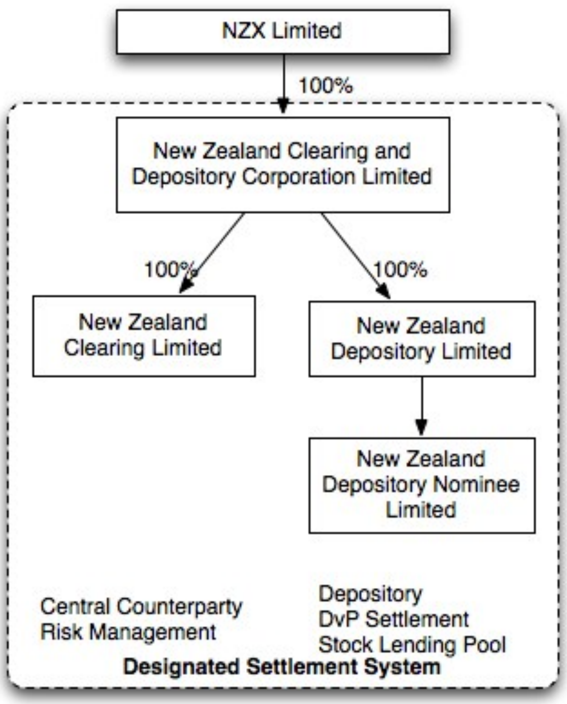
NZCDC complied with the conditions of designation throughout 2012.

5 Governance

Legal and Corporate Structure

NZCDC, a wholly owned subsidiary of NZX, operates via NZCL, a clearing house under a central counterparty model. NZCDC also operates via NZDL, a Central Securities Depository. The depository provides securities custodial services, and transactions accepted for clearing by NZCL are settled in this depository. A nominee company, New Zealand Depository Nominee Limited acts solely as a bare trustee and holds legal title to securities and cash held in the depository.

The legal structure of the NZCDC Group is shown graphically below:



There has been no change to the corporate structure of the NZCDC Group in 2012.

NZCDC Board

The NZCDC Board governs the overall operations of the clearing house and the depository. A single governing board is important to ensure that risk and operations are viewed and managed across the system as a whole, as well as within each business. The boards of the operating subsidiaries of NZCL, NZDL and Nominee operate when required to provide legal effect to action taken, or when decisions are required in respect of the operating subsidiaries.

Board Composition
The NZCDC Board currently consists of four (4) members with a constitutional limit of six (6). Pursuant to documented policies, NZCDC Board appointees must possess appropriate knowledge, specifically banking and finance, markets, legal and compliance, information technology and risk management. During the year Robyn Dey resigned as a director and James Miller and Tim Bennett joined the Board.

Board Members
Pip Dunphy (Chair / Independent) – Currently Pip is engaged as an independent director on a number of different company boards including NZ Post, Abano, NZ Super Fund and Mint Asset Management. Previous roles included Executive Director, Investment Banking and Head of Debt Capital Markets for Goldman Sachs JBWere, and Head of Capital and Risk Management, Wholesale Financial Services with the Bank of New Zealand, Pip has extensive experience in capital markets, banking, finance, risk management and investment management.

Peter Lockery (Independent) - Currently an independent business consultant, Peter was previously the Chief Information Officer of ANZ National Bank Limited. Prior to that Peter held a number of general management roles, including

5 Governance (CONT.)

Managed Funds, Human Resources and Technology. Peter was heavily involved in the integration of Rural Bank and Countrywide Bank following their acquisition by The National Bank Ltd, and was a director of a number of the Bank's subsidiary companies.

Tim Bennett - Tim is CEO of NZX Limited and joined the NZCDC Board effective 1 July 2012. Tim has almost 20 years financial services consulting experience, the majority of which has been in Asia where his most recent role was as a Partner in Oliver Wyman's Retail and Business Banking practice. He has advised a broad range of financial institutions with a particular focus on financial markets. Tim has worked with a number of different exchanges, governments and private companies in expanding domestic capital markets and developing new asset classes.

James Miller (Non-Executive) - James is Deputy Chairman of the NZX Board of Directors and joined the NZCDC Board effective 1 July 2012. James is on the boards of Auckland International Airport and Mighty River Power. He is also a Board member of the Financial Markets Authority. James was previously on the ABN AMRO Securities Board, INFINZ Board, and Financial Reporting Standards Board. He was also a Director and Head of NZ Wholesale Equities with Craigs Investment Partners and brings 15 years experience in capital markets.

2012 Board Meeting Attendance Record

Director	Board Attendance
Pip Dunphy (Chair)	6 of 6
Peter Lockery	6 of 6
Robyn Dey[1]	3 of 3
Tim Bennett[2]	3 of 3
James Miller[2]	3 of 3

[1] Resigned 30 June 2012 [2] Appointed 1 July 2012

Board Committees

Audit and Risk Committee

The NZCDC Group Audit and Risk Committee function is undertaken as part of the full Board responsibility.

The NZCDC Board meets to consider the financial statements and audit report and the independent auditor reports directly to the NZCDC Board. The Board meets with the independent auditor without NZCDC management being present.

Credit Committee

The Board has established a Credit Committee to assist the Board in managing financial risk. Amongst other things, the Credit Committee has responsibility for reviewing and approving amendments to margin rates, and reviewing and making recommendations to the Board for the amendment of credit related policies and procedures, including margin and collateral management procedures. The Credit Committee meets on a quarterly basis or as required to consider specific risk related items as they arise, and has a delegated Board appointee.

6 Financial Resources and Capital Management

Capital Management

New Zealand Clearing Limited acts as central counterparty, and will settle transactions with clearing participants notwithstanding the default of an individual participant. It is therefore crucial that NZCL rigorously controls risk by having a robust risk management framework and adequate financial resources.

Risk Capital

The waterfall of capital available to NZCDC begins with the initial and variation margin imposed by NZCL on all Clearing Participants as the main risk management measure for counterparty risk. Following this, NZCDC's own equity, plus a commitment from NZX (jointly the "risk capital") is held to cover quantified risks over and above margin requirements.

The amount of risk capital required has been estimated with reference to the ability of NZCL to withstand extreme but plausible market movements. Assessing the adequacy of capital relies on assumptions about which participant or participants might default and the market conditions at the time of a default. Statistical methods are used to calculate the risk capital required by taking into account varying risk factors and parameters. Stress testing of forecast risk capital requirements takes place on a regular basis and is reviewed by the Credit Committee, and the full Board.

Actual risk capital requirements (based on each participant's portfolio of open positions) are calculated and reviewed against estimated requirements and actual financial resources, on a daily basis and reported to the Board and regulators monthly.

Risk Capital Composition

Risk capital has been provided by way of paid up capital of $10 million. Risk capital is specifically ring fenced and can only be used to cover a shortfall in the event of participant default.

In addition, under a Deed of Commitment signed with NZX Limited, NZX shall, upon written request, provide an additional amount of $2.5 million in risk capital, which can be extended to $5 million if required.

Additional Liquidity Support

Under a Memorandum of Understanding between NZX and RBNZ, NZCDC is eligible for backup liquidity support from the RBNZ, subject to NZCDC maintaining its designation status and meeting the eligibility criteria for RBNZ counterparties. To access this liquidity NZCDC would need to hold discountable securities that can be sold via the liquidity facility if required.

Working Capital and Dividend Policy

NZCL and NZDL maintain working capital at an appropriate level given the nature of the respective businesses. Under the current framework NZCDC calculates the 12 week working capital requirements, adds an additional risk margin and uses this as the basis for determining it has adequate resources. Any additional cash held in NZCDC over and above this is paid to NZX by way of dividend, subject to the paid up capital not falling below the Boards assessment of the prudent level of capital required to ensure business continuity.

Compliance with Policies

The NZCDC Group has maintained its financial resources in accordance with documented policies, as outlined above.

7 Risk Management

Background

NZCDC and its subsidiaries are exposed to a number of risks in the normal course of business. The most significant of these risks is through NZCL acting as central counterparty to trades occurring on NZX Markets.

Specific risk categories to which NZCDC is exposed to are detailed further below:

Counterparty Credit Risk—Counterparty credit risk is the risk of loss as a result of default by a participant. This is by far the biggest risk faced by NZCDC in providing the central counterparty function. There are two dimensions to the counterparty credit risk:

Principal risk: risk of loss on delivery of contract or payments from the defaulting participants; and

Replacement cost risk: risk of loss as a result of replacing a defaulted transaction.

Liquidity Risk—In some circumstances NZCL must continue to make scheduled payment to the non-defaulting participants even if one or more of its participants defaults or faces operational difficulties. In such a situation NZCL would need to quickly access its available financial resources, including the defaulter's margin collateral and risk capital. Liquidity risk arises where NZCDC's financial resources are not available on demand.

Operational Risk—This is the risk of financial loss as a result of deficiencies in systems, controls, human error, management failure or disruption from external sources such as natural disaster.

Settlement Bank Risk—For non-New Zealand dollar settlement, the failure of a settlement bank would expose NZCDC and its participants to potential losses.

Risk Management Processes

The above risks are managed through the application of a risk management framework that covers policies and procedures, risk identification and definition, assessment and measurement, and risk reporting. Risk management processes in respect of significant risks are further detailed below.

Counterparty Risk
The risk of clearing participant default is managed through a number of measures including:

- Participation Standards—Clearing participants are required to have sufficient financial resources and robust operational capacity to meet their obligations as participants. This includes minimum risk based capital requirements;

- Participant Supervision—Supervision procedures are in place to monitor that clearing participants meet the participation standards on an ongoing basis;

- Margin Requirements—NZCL imposes margin based on each clearing participant's outstanding positions. This covers the cash and derivatives market position. Margin rates are set to cover the reasonably foreseeable one-day price movement in a normal market, with a confidence factor of at least 99%. NZCL revalues Clearing Participants' outstanding positions at end-of-day settlement prices and collateral provided at or above the margin requirement. Eligible collateral includes cash, performance bonds (issued by approved banks subject to counterparty limits) and approved securities. At least 30% of a participant's collateral requirement must be lodged in cash.

- Settlement Practices—In the design of the settlement mechanism for cash market settlement transactions, NZCDC achieves the reduction in risk through regulating the settlement cycles, utilising delivery versus payment and the netting of settlement transactions.

- Bank Exposure - To manage the concentration risk NZCDC limits its exposure to banks based on a fixed counterparty limit.

- Risk Capital—NZCL has determined a level of capital sufficiency such that if the largest clearing participant were to default in the face of the historically worst market movement, NZCL will have sufficient financial resources to fully cover the losses of the defaulting participant's position and ensure the ongoing operations. This analysis is calculated on the basis that the defaulting participant's portfolio is a diversified market portfolio.

Operational Risk
System and operational risk is managed through policies, procedures and operating practices. Specific practices include:

- Business Continuity Planning—NZCDC has a Business Continuity Plan designed to ensure that it can continue to operate in the event of a major disturbance or disaster. The plan is designed to create a state of readiness to provide an immediate response to a disaster or a continuity event.

- Disaster Recovery—NZCDC systems operated by NZX are primarily located at data centres in Auckland. A secondary site is located in Wellington operating the same hardware and software. The database upon which these systems reside is backed up on a real time basis.

- Depository Balances Audit—An annual review of Depository balances is conducted by NZCDC's external auditors.

- Operational Audit—An annual operational audit is conducted as required as a condition of designation, and published externally.

Identified risks have been managed in accordance with documented policies.

8 Other Information

Glossary

The following terms and abbreviations are used throughout this report.

Term/Abbreviation	Description
Depository	The Central Securities Depository operated by New Zealand Depository Limited
NZCDC	New Zealand Clearing and Depository Corporation Limited
NZCL	New Zealand Clearing Limited
NZDL	New Zealand Depository Limited
Nominee	New Zealand Depository Nominee Limited
RBNZ	Reserve Bank of New Zealand
NZX	NZX Limited

Directory

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9 Financial Statements
FOR THE 12 MONTHS ENDED 31 DECEMBER 2012

Directors' Responsibility Statement

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of New Zealand Clearing and Depository Corporation Limited and its subsidiaries (New Zealand Depository Limited, New Zealand Clearing Limited and New Zealand Depository Nominees Limited (together being the "NZCDC Group") as at 31 December 2012 and the results of their operations and cash flows for the year ended 31 December 2012.

The Directors consider that the financial statements of NZCDC Group have been prepared using accounting policies appropriate to NZCDC Group's circumstances, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable New Zealand Equivalents to International Financial Reporting Standards have been followed.

The Directors are pleased to present the financial statements of NZCDC Group for the year ended 31 December 2012.

The financial statements were authorised for issue for and on behalf of the Directors on 8 February 2013.

P Lockery | Director

T Bennett | Director

9 Financial Statements (CONT.)

Income Statement

For the 12 months ended 31 December 2012

		Group		Parent	
	Note	2012 $000	2011 $000	2012 $000	2011 $000
Revenue	4	3,710	3,394	1,497	3,486
Operating expenses	5	(1,529)	(1,358)	-	-
Profit before interest, income tax, depreciation, amortisation, and financial instruments		**2,181**	**2,036**	**1,497**	**3,486**
Finance income		397	427	-	-
Finance costs		-	(6)	-	-
Finance costs	6	397	421	-	-
Profit before income tax expense		**2,578**	**2,457**	**1,497**	**3,486**
Income tax expense	7	(722)	(688)	-	-
Profit for the year		**1,856**	**1,769**	**1,497**	**3,486**

Statement of Comprehensive Income

For the 12 months ended 31 December 2012

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Profit for the year	1,856	1,769	1,497	3,486
Total comprehensive income for the year	**1,856**	**1,769**	**1,497**	**3,486**

The accompanying notes form an integral part of these financial statements.

The parent is an investment holding company and does not trade.

The Income Statement does not include technology services, technology platforms and other services provided by NZX Limited to the NZCDC Group for nil consideration. The Income Statement also does not include amortization for Clearing House infrastructure assets that remain on the balance sheet of NZX Limited. Further detail is disclosed in note 18 to the financial statements.

Statement of Changes in Equity

For the 12 months ended 31 December 2012

Group

	Note	Share Capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 January 2011		**12,000**	**617**	**12,617**
Profit for the year		-	1,769	1,769
Total comprehensive income for the year		-	1,769	1,769
Dividends paid	13	-	(3,486)	(3,486)
Balance at 31 December 2011		**12,000**	**(1,100)**	**10,900**
Profit for the year		-	1,856	1,856
Total comprehensive income for the year		-	1,856	1,856
Dividends paid	13	-	(1,497)	(1,497)
Balance at 31 December 2012		**12,000**	**(741)**	**11,259**

Parent

	Note	Share Capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 January 2011		**12,000**	**-**	**12,000**
Profit for the year		-	3,486	3,486
Total comprehensive income for the year		-	3,486	3,486
Dividends paid	13	-	(3,486)	(3,486)
Balance at 31 December 2011		**12,000**	**-**	**12,000**
Profit for the year		-	1,497	1,497
Total comprehensive income for the year		-	1,497	1,497
Dividends paid	13	-	(1,497)	(1,497)
Balance at 31 December 2012		**12,000**	**-**	**12,000**

The parent is an investment holding company and does not trade.

9 Financial Statements (CONT.)

Statement of Financial Position
As at 31 December 2012

		Group		Parent	
	Note	2012 $000	2011 $000	2012 $000	2011 $000
Current assets					
Cash and cash equivalents	8	11,504	10,926	-	-
Funds held on behalf	9	21,901	18,146	-	-
Receivables and prepayments	10	553	511	-	-
Total current assets		**33,958**	**29,583**	**-**	**-**
Non-current assets					
Investments in subsidiaries	17	-	-	12,000	12,000
Total non-current assets		**-**	**-**	**12,000**	**12,000**
Total assets		**33,958**	**29,583**	**12,000**	**12,000**
Current liabilities					
Trade and other payables	11	339	284	-	-
Payable to related party	18	162	(1)	-	-
Funds held on behalf	9	21,901	18,146	-	-
Current tax payable	7	297	254	-	-
Total current liabilities		**22,699**	**18,683**	**-**	**-**
Total liabilities		**22,699**	**18,683**	**-**	**-**
Net assets		**11,259**	**10,900**	**12,000**	**12,000**
Equity					
Share capital	12	12,000	12,000	12,000	12,000
Retained earnings		(741)	(1,100)	-	-
Total equity attributable to shareholders		**11,259**	**10,900**	**12,000**	**12,000**

Statement of Cash Flows
For the year ended 31 December 2012

	Note	Group 2012 $000	Group 2011 $000	Parent 2012 $000	Parent 2011 $000
Cash flows from operating activities					
Receipts from customers		3,676	3,499	-	-
Interest received		394	429	-	-
Dividends received		-	-	1,497	3,486
Payments to suppliers and employees		(1,402)	(1,479)	-	-
Income tax paid		(679)	(664)	-	-
Net cash provided by operating activities	8(b)	**1,989**	**1,785**	**1,497**	**3,486**
Cash flows from investing activities					
Proceeds from /(to) intercompany transactions		86	(188)	-	-
Net cash provided by investing activities		**86**	**(188)**	**-**	**-**
Cash flows from financing activities					
Dividends paid	13	(1,497)	(3,486)	(1,497)	(3,486)
Net cash used in financing activities		**(1,497)**	**(3,486)**	**(1,497)**	**(3,486)**
Net increase/(decrease) in cash and cash equivalents		578	(1,889)	-	-
Cash and cash equivalents at the beginning of the year		10,926	12,815	-	-
Cash and cash equivalents at the end of the year	8(a)	**11,504**	**10,926**	**-**	**-**

10 Notes to the Financial Statements

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2012

1. Reporting entity

New Zealand Clearing and Depository Corporation Limited ("Company" or "Parent") is a company incorporated and domiciled in New Zealand. The Company is registered under the Companies Act 1993.

Financial statements for the Company (separate financial statements) and consolidated financial statements are presented. The consolidated financial statements as at and for the year ended 31 December 2012 comprises the Company and its subsidiaries (together referred to as the "NZCDC Group"). The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

The Company is the investment holding company and does not trade. NZCDC Group is responsible for the overall governance of the settlement system, which has been declared to be a designated settlement system under Part 5 of the Reserve Bank of New Zealand Act 1989. The NZCDC Group is in the business of the clearing and settlement of securities and derivatives products, the provision of custodial and depository services for securities and the operation of a securities lending facility.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Board of Directors on 8 February 2013.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in New Zealand Dollars ($), which is the Company's functional currency. All financial information presented in New Zealand Dollars has been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. Summary of Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by NZCDC Group entities.

(a) Reclassifications

Certain comparative amounts in the income statement have been reclassified to conform to the current year's presentation. In particular the following reclassifications have been made to these financial statements.

Revenue

With effect from this year, the NZCDC Group has disclosed revenue net of rebates and incentives. Rebates and incentives were previously presented as a separate item under operating expenses. This reclassification is not considered material to the financial statements and has been made to be consistent with the requirements of accounting standards and has the effect of reducing both revenue and other expenses by the following equal and corresponding amounts, NZCDC Group: Dec 2011 - $163,000. The reclassification has no impact on the profit for the year.

(b) New standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. The NZCDC Group does not plan to adopt these standards early. None of these is expected to have a significant effect on the financial statements of the NZCDC Group. The standards which are relevant to the NZCDC Group are as follows.

Amendment to NZ IAS 1 - effective for periods beginning on or after 1 July 2012

The amendment requires items of other comprehensive income (and any related tax) to be grouped into those that will and will not subsequently be reclassified to profit or loss. The measurement and recognition of items of profit or loss and other comprehensive income are not affected by the amendment.

NZ IFRS 9 Financial instruments - effective for periods beginning on or after 1 Jan 2015

The standard adds the requirements related to the classification and measurement of financial liabilities and derecognition of financial assets and liabilities.

NZ IFRS 10 Consolidated financial statements - effective for periods beginning on or after 1 Jan 2013

The standard builds on existing principles of identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2012

and provides additional guidance to assist in the determination of control where this is difficult to assess.

NZ IFRS 12 Disclosure of interest in other entities - effective for periods beginning on or after 1 Jan 2013.
The standard applies to entities that have an interest in subsidiaries, joint ventures, associates or unincorporated structured entities. It establishes disclosure objectives and specified minimum disclosures that an entity must provide to meet the objectives.

Amendments to NZ IAS 27 Separate financial statements - effective for periods beginning on or after 1 July 2013
These amendments remove the accounting and disclosure requirements for consolidated financial statements as a result of the issue of NZ IFRS 10 Consolidated financial statements and NZ IFRS 12 Disclosure of interests in other entities.

(c) Basis of consolidation

The Company is a 100% subsidiary of NZX Limited and NZX Limited prepares annual consolidated financial statements that include the NZCDC Group. The Company has prepared these financial statements to fulfill its designation requirements and is not under obligation to prepare consolidated financial statements under current law and NZ GAAP.

The NZCDC Group financial statements are prepared by consolidating the financial statements of all the entities that comprise the Company and its subsidiaries, which are listed in note 18. Subsidiaries are entities controlled by the NZCDC Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In preparing the NZCDC Group financial statements, all intercompany balances and transactions, and unrealised profits arising within the NZCDC Group are eliminated in full.

(d) Revenue recognition

Clearing and settlement fees

Fees for debt and equity clearing and settlement are recognised at settlement date. Market convention is for settlement to occur three days after initial trade date. Fees for derivatives market clearing and settlement are recognised at trade date.

Participant fees

Participant fees consist of annual fees from clearing and depository participants and initial fees. Initial participant fees are recognised when the application is completed. Annual participant fees are recognised over the period that the service is provided.

Rendering of services

Revenue from a transaction to provide services is recognised by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is determined on a time proportional basis over the commitment period.

Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(e) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currencies (NZD) using the exchange rate prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in the income statement.

(f) Income tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised as an expense or income in the Income Statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year, using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is recognised in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and associates except where the Group entity is able to control the reversal of the temporary

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2012

differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and that they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(g) Goods and services tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST.

(h) Financial instruments

Financial assets

The NZCDC Group classifies financial assets into the loans and receivables category. The NZCDC Group initially recognises loans and receivables on the date that they are originated.

The NZCDC Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

(i) Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Loans and receivables are measured at amortised cost using the effective interest method less impairment losses. Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the NZCDC Group in the management of its short-term commitments.

Financial liabilities

All financial liabilities are recognised initially on the trade date, which is the date that the NZCDC Group becomes a party to the contractual provisions of the instrument e.g. when the entity becomes obliged to make future payments resulting from the purchase of goods and services. The NZCDC Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise trade and other payables.

(i) Impairment

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial assets the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For all financial assets, the carrying amount is reduced by the impairment loss directly, with the exception of trade receivables where the carrying amount is reduced through the use of a doubtful debts provision account. When a trade receivable is uncollectible, it is written off against the doubtful debts allowance account. Changes in the carrying amount of the provision account are recognised in the Income Statement.

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(k) Novation of trades

The Company's wholly owned subsidiary, New Zealand Clearing Limited acts as a central counterparty to all trades on NZX Markets. This involves the novation of all cash market securities and derivatives contracts.

Novation

Through novation, a single trade is replaced by two settlement transactions. New Zealand Clearing Limited becomes the buyer to every sell transaction and the seller to every buy transaction. Accordingly, the clearing participant on each side of the trade will be the counterparty to New Zealand Clearing Limited.

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2012

Netting

A clearing participant's settlement obligations to New Zealand Clearing Limited are netted for each currency, security and settlement day. This means that each clearing participant will settle with New Zealand Clearing Limited one net obligation per security and one overall cash obligation per currency for each settlement time and each settlement account.

Cash market securities (comprises debt and equities)

Revenue from cash market securities is recognised on settlement date. This means that trades occurring in the last three trading days before balance date are not recognised as a financial asset or liability. As a consequence, clearing and settlement related revenue on cash market securities in the last three trading days before balance date is not recognised during the period in which the trade occurs.

Derivatives (comprises dairy futures)

Derivatives are recognised at fair value at trade date, which is zero. Participants are required to lodge an amount (initial margin to cover the risk of future price movements) which varies from contract to contract and is based on the risk parameters ascribed to that product at trade date. Movements in the fair value of futures contracts after trade date are paid or received on a daily basis via cash settlement. Margin collateral, which is held in cash by New Zealand Clearing Limited, is recognised on Statement of Financial Position at fair value and is classified as 'funds held on behalf'.

(l) Securities borrowing and lending

The Company's wholly owned subsidiary, New Zealand Depository Limited, operates a securities lending programme whereby depository participants may make securities available for borrowing by other depository participants who have been approved, and wish to do so. Depository participants may borrow securities to meet both settlement obligations and for strategic purposes.

Securities lending involves transfer of title of securities to a borrower, who will then give the lender collateral in the form of cash. The borrower pays a fee calculated daily at an effective borrowing rate for the outstanding loan and is contractually obliged to return the securities on demand. The borrower will also pass over to the lender any dividends and corporate actions that may arise during the period for which securities are lent.

In essence, the lender retains the key rights they would have had if they had not lent the securities. As a consequence, the Group does not record an offsetting asset and liability on balance sheet date arising out of securities borrowing and lending.

As a depository participant itself, New Zealand Clearing Limited may also borrow securities via the securities lending program so as to meet its settlement obligations.

4. Revenue

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Revenue:				
Clearing and settlement fees	3,199	2,879	-	-
Participant fees	438	511	-	-
Other revenue	232	167	-	-
Rebates and incentives	(159)	(163)	-	-
Dividends from subsidiaries	-	-	1,497	3,486
Total revenue	**3,710**	**3,394**	**1,497**	**3,486**

5. Operating expenses

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Operating expenses:				
Remuneration paid to Group auditors				
- audit of financial statements	(20)	(14)	-	-
- other audit related services	(71)	-	-	-
Information technology	(85)	(105)	-	-
Professional fees	(252)	(191)	-	-
Other expenses	(1,101)	(1,048)	-	-
Total operating expenses	**(1,529)**	**(1,358)**	**-**	**-**

Other audit related services consist of the Clearing House operational audits.

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2012

6. Net finance costs

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Finance income:				
Interest income	397	427	-	-
Total finance income	**397**	**427**	**-**	**-**
Finance costs:				
Net loss on foreign exchange	-	(6)	-	-
Total finance costs	**-**	**(6)**	**-**	**-**
Total operating expenses	**397**	**421**	**-**	**-**

7. Taxation

(a) Income tax expense recognised in Profit or Loss

The prima face income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statement as follows:

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Profit before income tax expense	2,578	2,457	1,497	3,486
Income tax calculated at 28%	(722)	(688)	(419)	(976)
Non-taxable intercompany dividends	-	-	419	976
Tax expense	**(722)**	**(688)**	**-**	**-**

(b) Current tax assets and liabilities

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Balance at beginning of the year - Asset / (Liability)	(254)	(230)	-	-
Current year charge	(722)	(688)	-	-
Tax paid	679	664	-	-
Balance at end of year - Asset / (Liability)	**(297)**	**(254)**	**-**	**-**

(c) Imputation credit account

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Imputation credits available for use in subsequent reporting periods	672	506	-	-

8. Cash and cash equivalents

(a) Composition of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows comprise of the items below:

		Group		Parent	
		2012 $000	2011 $000	2012 $000	2011 $000
Cash at bank	0% - 3.0%	4,004	3,426	-	-
Bank deposits	3.37% - 3.92%	7,500	7,500	-	-
Net cash and cash equivalents		**11,504**	**10,926**	**-**	**-**

(b) Reconciliation of profit for the year to net cash from operating activities

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Profit for the year	1,856	1,769	1,497	3,486
(Increase)/decrease in receivables and prepayments	(42)	(35)	-	-
Increase/(decrease)in trade and other payables	132	27	-	-
Increase/(decrease)in current tax payable	43	24	-	-
Net cash from operating activities	**1,989**	**1,785**	**1,497**	**3,486**

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2012

9. Funds held on behalf

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Collateral Deposit	21,901	18,146	-	-
	21,901	**18,146**	**-**	**-**

The funds held on behalf represent balances deposited by participants to cover margins on outstanding settlement obligations for cash market, stock lending transactions and derivative contracts. Funds lodged as margin collateral are interest bearing and are carried at the amounts deposited which represent fair value. Interest earned on collateral deposits is returned to participants and a collateral management fee is charged. There is an equal and opposite amount disclosed under current liabilities for the total amount repayable to participants.

10. Receivables and prepayments

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Trade receivables	434	338	-	-
Prepayments	109	104	-	-
Accrued income	10	69	-	-
	553	**511**	**-**	**-**

11. Trade and other payables

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Trade payables	108	91	-	-
Goods and services tax payable	42	31	-	-
Unearned income	162	162	-	-
Other payables	27	-	-	-
	339	**284**	**-**	**-**

12. Share capital

As at 31 December 2012, there were 240 shares issued and fully paid (2011: 240 shares). All shares carry one vote per share and carry the right to dividends.

13. Dividends

		Group and Parent			
		2012		2011	
	For year ended	Dollars per share	Total $000	Dollars per share	Total $000
Dividends declared and paid					
March 2011	31/12/10			9,000	2,160
June 2011	31/12/11			288	69
September 2011	31/12/11			1,999	480
December 2011	31/12/11			3,238	777
March 2012	31/12/11	733	176		
June 2012	31/12/12	1,788	429		
September 2012	31/12/12	1,179	283		
October 2012	31/12/12	2,538	609		
Total dividends paid for the year			**1,497**		**3,486**

14. Financial instruments

The NZCDC Group manages its capital to ensure that entities in the NZCDC Group will be able to continue as a going concern while maximising the return to stakeholders.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Financial risk

The NZCDC Group's activities expose it to a variety of financial risks: foreign currency risk, interest rate risk, credit risk and liquidity risk.

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2012

(a) Foreign currency risk

The NZCDC Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise. The foreign currency in which transactions are primarily denominated is United States Dollars (participant fees, derivative clearing and settlement and IT costs). Exchange rate exposures are managed within approved policy parameters.

The NZCDC Group utilises natural hedges from receipts of sales to offset purchases denominated in foreign currencies matching maturities. Management considers forward exposures and manages these in line with internal policies and procedures, and where appropriate, enters forward exchange agreements to keep any exposure to an acceptable level.

(b) Interest rate risk

The NZCDC Group is exposed to interest rate risk, in that future interest rate movements will affect cash flows and the market value of fixed interest and other investment assets. The NZCDC Group currently does not use any derivative products to manage interest rate risk.

Interest rate risk sensitivity analysis:

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Effect on net interest income:				
1% increase in interest rate	115	109	-	-
1% decrease in interest rate	(115)	(109)	-	-

(c) Credit risk

The maximum credit risk associated with the cash and cash equivalents and receivables and prepayments of the Group is considered to be the value reflected in the Statement of Financial Position. The risk of non-recovery of these amounts is considered to be minimal. The NZCDC Group does not require collateral or other security to support financial instruments with credit risk. Credit risk associated with cash and cash equivalents is managed through the spreading of cash and cash equivalents among a number of institutions.

The status of trade receivables at the reporting date was as follows.

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Not past due	373	274	-	-
Past due 0 - 30 days	20	6	-	-
Past due > 30 days	41	58	-	-
	434	**338**	**-**	**-**

At 31 December 2012 there was no impairment of trade receivables (2011: Nil)

Detail on other forms of credit risk not related to financial instruments is provided in note 15

(d) Liquidity risk

The NZCDC Group manages liquidity risk by maintaining adequate reserves, and continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financial instruments as at 31 December 2012

		Loans & receivables	Amortised cost	Total carrying amount
Financial instruments	Note	**$000**	**$000**	**$000**
Assets				
Cash and cash equivalents		11,504	-	11,504
Funds held on behalf		21,901	-	21,901
Trade receivables		434	-	434
Total		**33,839**	**-**	**33,839**
Liabilities				
Trade payables		-	108	108
Funds held on behalf		-	21,901	21,901
Payable to related party		-	162	162
Total		**-**	**22,171**	**22,171**

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2012

Financial instruments as at 31 December 2011

Financial instruments	Note	Loans & receivables $000	Amortised cost $000	Total carrying amount $000
Assets				
Cash and cash equivalents		10,926	-	10,926
Funds held on behalf		18,146	-	18,146
Trade receivables		338	-	338
Total		**29,410**	**-**	**29,410**
Liabilities				
Trade payables		-	91	91
Funds held on behalf		-	18,146	18,146
Payable to related party		-	(1)	(1)
Total		**-**	**18,236**	**18,236**

The Company has no financial assets or liabilities as at balance date.

15. Clearing House counterparty credit risk

The NZCDC Group is exposed to counterparty credit risk on unsettled trades, which may arise from the failure by a counterparty to meet its obligation or commitment to New Zealand Clearing Limited ("NZCL"), who acts as a central counterparty. All trades on NZX's markets enter the Clearing House and are immediately novated such that NZCL becomes the buyer to every sell trade and the seller to every buy trade. As buy and sell settlement transactions that are novated to NZCL offset each other, the NZCDC Group is not exposed to direct price movements in the underlying equities or derivatives.

However, equity or derivative price movements, market activity and an individual participant's own solvency may have an impact on a counterparty's ability to meet its obligations to the NZCDC Group. Failure to meet these obligations exposes NZCDC Group to potential replacement cost risk on unsettled transactions.

This counterparty credit risk is managed primarily through:
- Initial entry and ongoing obligations for clearing participants;
- Risk based capital adequacy requirements;
- Margin requirements calculated daily that must be met by the submission of eligible collateral; and
- Fixed capital resources to be used in the event of participant default.

The NZCDC Group regularly stress-test clearing participant exposures against the amount and liquidity of margin collateral and risk capital resources. The NZCDC Group's ongoing monitoring of participants' unsettled positions and exposures, coupled with daily margining and collateral management, enables it to efficiently manage its central counterparty credit risk. Margin requirements are calculated for each participant based on that participant's unsettled transaction in each security. Margin rates for each security are based on the underlying characteristics of the security and its price volatility. Margin requirements are calculated on a daily basis using current market prices. Each day, margin requirements are compared to collateral held and a margin call made where necessary. Participants are then required to post additional eligible collateral. Eligible collateral includes cash, bank performance bonds, and securities (including NZ and US government securities and NZX 50 listed securities). Securities provided as collateral are subject to a risk reduction (haircut).

The NZCDC Group is also exposed to counterparty credit risk through NZCL by acting as central counterparty for securities lending transactions. As NZCL is exposed to the full principal value of each loan, NZCL requires collateral to be posted equal to 105% of the loan. All loans are revalued on a daily basis and additional collateral required where appropriate.

As at 31 December 2012, NZCL has a right to receive $5.176 million (2011: $6.123 million) from Clearing Participants and an obligation to pay $5.176 million (2011: $6.123 million) to Clearing Participants for the settlement of cash market transactions. All of these outstanding transactions were settled subsequent to 31 December 2012. The aggregate absolute value of all net outstanding cash market settlement transactions at 31 December 2012 was $41.802 million (2011: $37.603 million). In addition, at 31 December 2012, the total value of outstanding securities loans was $2.547 million (2011: $1.123 million) and the absolute notional value of open derivative contracts was US$7.067 million (2011: US$23.682 million).

Cash collateral held to cover these outstanding settlement positions at 31 December 2012 was $20.379 million (2011: $16.795 million). In addition, at 31 December 2012 an additional $5.5 million collateral (2011: $5.5 million) was held by way of performance bonds.

In addition to fixed risk capital resources of $10 million, The Company also has access to other facilities as described below:

- Under a Deed of Commitment signed with NZX Limited, NZX shall upon written request, provide an additional amount of $2.5 million as risk capital.

16. Reserve Bank of New Zealand Liquidity Risk

Under a Memorandum of Understanding with the Reserve Bank of New Zealand ("RBNZ"), signed 6 October 2010, the Company is eligible for backup liquidity support from the RBNZ subject to the Company maintaining its designation status and the Company meeting the eligibility criteria for RBNZ counterparties.

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2012

17. Regulatory Oversight

The Company is a designated settlement system under part 5 of the Reserve Bank Act 1989 ("the Act"). The Act provides for regulatory oversight by joint regulators, RBNZ and the Financial Markets Authority. Conditions to designation of the NZCDC Group settlement system are set out in the Reserve Bank of New Zealand (Designated Settlement System – NZCDC Group) Order 2010.

18. Group entities

(a) Name of subsidiaries

	Country of Incorporation	Ownership interest and voting rights	
		2012 %	2011 %
Subsidiaries			
New Zealand Clearing Limited	New Zealand	100	100
New Zealand Depository Limited	New Zealand	100	100
New Zealand Depository Nominee Limited	New Zealand	100	100

(b) Carrying value of investment in subsidiaries

	2012 $000	2011 $000
Subsidiaries		
New Zealand Clearing Limited	11,000	11,000
New Zealand Depository Limited	1,000	1,000
New Zealand Depository Nominee Limited	-	-
	12,000	**12,000**

19. Related party transactions

(a) Key Management Personnel

The independent directors received remuneration of $75,012 (2011: $77,691). Tim Bennett is a director of the Company. As an employee of NZX Limited Tim Bennett receives no director's fees from NZCDC Group.

(b) Transactions between ultimate parent and subsidiaries

The NZCDC Group is wholly owned by its ultimate parent company NZX Limited. NZX Limited charges a monthly fee for the provision of direct staff and corporate services to the NZCDC Group. The total amount charged by NZX Limited to the NZCDC Group for the twelve months ended 31 December 2012 was $951,000 (2011: $915,000). NZX Limited provides technology services, technology platforms and other services to the NZCDC Group for nil consideration. The infrastructure assets that are used by the NZCDC Group also remain on the balance sheet of NZX Limited and the related depreciation and amortisation expenses are not recharged and are accounted for by NZX Limited. NZX Limited has amortised $1,275,000 (2011: $944,000) in relation to the infrastructure asset for the twelve months ended 31 December 2012.

The amount of recharges between the ultimate parent and the subsidiaries within the NZCDC Group for the year ended 31 December and any outstanding balances as at reporting date are listed below. The outstanding balances are unsecured, attract no interest and are repayable on demand.

	Group		Parent	
	2012 $000	2011 $000	2012 $000	2011 $000
Transactions with related Parties				
Purchase from Parent	951	915	-	-
Dividends received from Subsidiaries	-	-	1,497	3,486
Dividends paid to Parent	1,497	3,486	1,497	3,486
Balances with related parties				
Due to/(from) Parent	162	(1)	-	-

19. Contingent liabilities and commitments

There were no contingent liabilities and capital commitments as at 31 December 2012 (2011: nil).

20. Subsequent events

There were no events subsequent to balance date.

11 Auditor's Report

Independent auditor's report

To the shareholder of New Zealand Clearing and Depository Corporation Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of New Zealand Clearing and Depository Corporation Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 4 to 21. The financial statements comprise the statements of financial position as at 31 December 2012, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other audit related services to the company and group. This matter has not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

11 Auditor's Report (CONT.)

Opinion

In our opinion the financial statements on pages 4 to 21:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the company and the group as at 31 December 2012 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by New Zealand Clearing and Depository Corporation Limited as far as appears from our examination of those records.

KPMG

8 February 2013
Wellington

NZClearingCorp