2015 Annual Report and Consolidated Financial Statements

NEW ZEALAND CLEARING AND DEPOSITORY CORPORATION LIMITED

NZX Clearing

1 Chair Commentary

I am pleased to present the NZCDC annual report for the 2015 year covering the performance of the NZX Clearing business. NZX Clearing saw an increase in the value and the number of cash market trades cleared, 19% and 12% respectively. However, most notably the derivatives market clearing business continued to grow strongly, with number of lots cleared up 35% on 2014. Trading volume and value increases were supported by the entry of new Participants, with three derivatives clearing Participants accredited across the year.

The clearing system, BaNCS Market Infrastructure (BaNCS), provided by Tata Consultancy Services (TCS) showed excellent reliability across 2015 with uptime of 100%. NZX Clearing commenced a project with TCS in late 2014 to upgrade to the most recent version of BaNCS to deliver additional functionality and improved access for Participants. This project progressed well across 2015 and NZX Clearing is targeting a November 2016 delivery of the latest BaNCS platform.

2015 Year in Review

NZCDC's net profit after tax for the year ended 31 December 2015 was $3.2 million. Profitability was up 16% on last year, with increased trading volumes and values driving higher clearing fees. Increasing volumes has led NZX Clearing to implement an increase in risk capital which was done by way of an issue of $10m of redeemable preference shares to NZX. In addition to this NZCDC holds $11.8m of equity, and has high levels of cash holdings held on call or in short term deposits. Dividends of $2.7m 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 capital for day to day operations. We acknowledge the support of NZX Limited in respect of the provision of technology services, infrastructure, and support services.

Stock lending in 2015 increased by 28% on the previous year to $2.8 billion in loans (in aggregate) whilst the total number of loans increased by 13%. Stock lending continues to be a valuable component of the NZX Clearing depository offering and we look forward to seeing ongoing growth in activity and additional depth in the lending pool in 2016 to support the growth of the exchange traded equity derivatives market.

As well as being utilised for strategic purposes, stock lending assists Participants in avoiding settlement transaction failure. The New Zealand market continued to experience a low number of failed settlement transactions; with just 253 in 2015, a 5% drop in the number of settlement fails compared to the previous year. The notional value of those failed transactions was $21m, which was 21% lower than 2014.

A key purpose of the clearing house operated by NZX Clearing is to manage the risks that may arise through one or more Participants defaulting on their settlement transactions. This is achieved by having a Risk Management Framework that includes the margining of Participants outstanding positions and maintaining risk capital sufficient to cover worst case scenarios. NZX Clearing conducts back testing and stress testing at regular intervals to ensure levels are sufficient. A liquidity facility was introduced in late 2014 to enable NZX Clearing to meet short term cash requirements for market settlement in the case of a default. Further, in 2015 NZX Clearing engaged PwC Australia to undertake an external review of its Risk Capital approach. This review confirmed NZX Clearings's approach was appropriate for the business it clears.

Substantial system and process work was performed over the year leading to the introduction of Exchange Traded Options on the NZX market in April 2015. In addition, NZX Clearing continued to work with the European Security Markets Authority (ESMA) towards becoming a recognized Central Counterparty in Europe. A decision is expected in 2016. Obtaining this recognition will further strengthen the NZX Clearing derivatives clearing and settlement offering.

Outlook

For 2016 NZX Clearing has two major initiatives planned. These are the transition to T+2 settlement and the implementation of an upgraded TCS BaNCS V6 platform.

On 7 March 2016 NZX Clearing began settling cash market trades on a T+2 settlement basis. This completed a 6 month project which engaged numerous external stakeholders including Participants, independent software vendors and the ASX. Shortening of the settlement cycle on NZX's cash markets ensures NZX matches international best practice in this area. Further, it ensures that settlement cycles across New Zealand's and Australia's capital markets remain aligned, and are also in line with ongoing moves across the broader Asia Pacific region.

In 2016 NZX Clearing will enter the testing and delivery phase of its BaNCS V6 project with its technology partner TCS. NZX Clearing is targeting a November 'go-live' production release for the upgraded system and will engage with Participants and back office systems to achieve this date. Delivery of BaNCS V6 to the New Zealand capital markets brings many advantages, not least the latest in IT security and resilience.

Participant growth will continue to be a focus for the 2016 year. Building on the growth achieved in 2015, NZX Clearing looks to further increase derivatives clearing participation to drive the volume and value of cleared lots. Depository Participant growth also remains a focus as NZX Clearing seeks to increase the pool of lendable securities in order to provide further liquidity to the equity market.

Regulatory Oversight

Regular meetings were held between NZX Clearing and the Joint Regulators, the Reserve Bank of New Zealand and the Financial Markets Authority, to ensure that conditions of designation of NZCDC as a settlement system were being complied with. Items subject to review by the Joint Regulators in accordance with designation conditions included Rule and Procedure amendments related to the Financial Market Conduct Act, changes to NZCDC capital structure and the introduction of equity derivatives. NZX Clearing looks forward to furthering our relationship with the Joint Regulators in 2016.

During the year we published:

- the fifth NZCDC annual report
- an audit report on balances held in the depository and
- an operational audit report

Acknowledgements

There were no changes to the NZCDC Board during 2015. 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.

A final dividend amount of $3,317 per share was agreed on, post year end. This equates to a total dividend payment of $796,000.

Alison Gerry | 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, NXT 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 NZX Clearing 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$70bn. Their industry-leading market infrastructure product, BaNCS, has been implemented across all NZX Clearing business areas. Connectivity for Participants is available through ISO15022 messaging or through a web-based user interface.

NZX Clearing's system utilises the SWIFT network to enable Participants to seamlessly transfer securities between its Depository and the NZClear system operated by RBNZ.

2015 Highlights

- The successful launch of equity Exchange Traded Options
- Accreditation of three new derivatives clearing Participants
- System availability at 100.00%
- The successful introduction of clearing for NXT Market
- The notional value of derivatives trades accepted for clearing increased by 49%

Focus for 2016

Following the implementation of a T+2 settlement cycle from 7 March 2016, the main focus of NZX Clearing will be the implementation of an upgraded BaNCS system by November 2016.

In addition to the BaNCS V6 upgrade, NZX Clearing is also implementing an upgrade to its SWIFT messaging technology. In April 2016 NZCDC will begin SWIFT message management through its own SWIFT Bureau service, leveraging the SWIFT Alliance Lite 2 solution. This change has no external impact but greatly increases NZX Clearing's resilience in relation to messaging and provides a more flexible solution for future innovation.

NZX Clearing also continues to focus on increasing participation in the clearing house and depository, particularly in the derivatives and custody segments respectively.

3 Operating and Financial Review

Operating Review

The core operating statistics of NZCDC for the 2015 financial year ending 31 December 2015 are shown below. Comparative figures are provided for the 2014 year.

Core Operating Statistics

Settlement of Cleared Trades		2015	2014
Number of Settlement Days	251	251	251
Securities	Value ($m)	17,296	14,320
	Number of Settlement Lines	177,706	172,452
Derivatives*	Notional Value ($USm)	152.33	154.48
	Number of lots	65,486	45,158

* This represents derivatives contracts that transitioned to final settlement.

Assets Under Custody (as at year end)	2015	2014
Depository Equity ($m)	332	249
Debt ($m)	-	-

Depository Transactions	2015	2014
Value ($m)	1,465.03	1,133.85
Number	23,115	22,501
Average Transaction Value ($)	63,380	50,391

3 Operating and Financial Review (CONT.)

Securities Lending	2015	2014
Number of Loans	5,338	4,702
Total Loan Value ($m)	2,767	2,159
Average Loan Value ($)	159,041	149,080
Average Duration (Days)	3.3	3.1

System Availability	2015	2014
Total System Operation (Minutes)	158,130	158130
Outages (Minutes)	0	267
Availability (%)	100.00	99.83

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	2015	2014
Securities—Daily Average ($m)	232.4	181.3
Derivatives —Open Interest —Daily Average ($USm)	52.8	30.5

Collateral Held (Daily Average)	2015	2014
Cash ($)	56,753,916	35,579,990
Bank Guarantee ($)	5,500,000	5,500,000

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

Risk Management Inspections	2015	2014
Clearing Participants inspected during the year	12	11

Financial Performance

The following summary income statement reflects the combined operation of the NZCDC Group for the year ended 31 December 2015.

	2015 ($000's)	2014 ($000's)
Revenue		
Clearing and Settlement Fees	4,938	4,151
Participant Fees and Other	898	715
Interest	351	426
Total Revenue	**6,187**	**5,292**
Operating Expenses	1,788	1,504
Tax	1,236	1,061
Net Profit After Tax	**3,163**	**2,727**

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 2015 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.

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. NZX Clearing is required to provide the joint regulators notification in advance of any amendments to these policies or agreements.

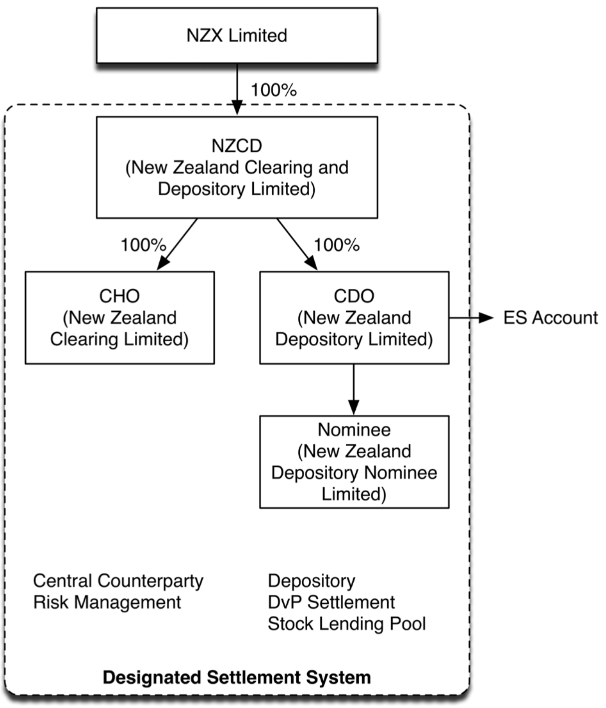
NZCDC complied with the conditions of designation throughout 2015.

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 2015.

NZCDC Board

The NZCDC Board governs the overall operations of the clearing house and the depository. 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 three (3) 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.

Board Members

Alison Gerry (Chair/Non-Executive) – Alison Gerry became an NZX Director in February 2012 and joined the NZCDC Board in 2014. She is a professional company director with more than 20 years' experience working in finance and treasury. Alison is currently Deputy Chair of Kiwibank and a director of TVNZ, Infratil and Vero. From 1999 to 2005, Alison was Group Treasurer for Lion Nathan, based in Sydney. Prior to that, she worked for various financial institutions in Sydney, Hong Kong, Tokyo and London in trading, finance and risk roles.

5 Governance (CONT.)

Tim Bennett - Tim is CEO of NZX Limited and joined the NZCDC Board in 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 Chair of the NZX Board of Directors and joined the NZCDC Board in 2012. James is on the boards of Auckland International Airport, ACC and Mighty River Power. 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

2015 Board Meeting Attendance Record

Director	Board Attendance
Alison Gerry (Interim Chair)	5 of 6
Tim Bennett	6 of 6
James Miller	6 of 6

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 has the opportunity to meet with the independent auditor without NZX Clearing 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 NZX Clearing 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, NZCL maintains its own risk capital 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
In 2015 NZCL increased its available risk capital by $10 million through a redeemable preference share issue taken up by NZX Limited. This brings total risk capital available to the clearing house to $20 million. Risk capital is specifically ring fenced and can only be used to cover a shortfall in the event of Participant default.

Additional Liquidity Support
In late 2014 NZX Clearing entered into a liquidity facility that enables it to access up to $50 million short term cash funding, if required to settle trades in the situation where a Participant has defaulted.

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 NZX Clearing 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 NZX Clearing 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 NZX Clearing'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 NZX Clearing 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 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, NZX Clearing 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 NZX Clearing limits its exposure to banks based on a fixed counterparty limit.
- Risk Capital – NZCL has determined a level a 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 – NZX Clearing 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 – NZX Clearing 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
NZX Clearing	Collective business operations of NZCDC

Directory

Registered Office
New Zealand Clearing and
Depository Corporation Limited
Level 1, NZX Centre
11 Cable Street
Wellington
New Zealand
Tel: +64 4 472 7599
Fax: +64 4 496 2893
www.nzclearingcorp.com

Board of Directors
Alison Gerry
Tim Bennett
James Miller

Auditors
KPMG
10 Customhouse Quay
Wellington
Tel: + 64 4 816 4500
Fax: + 64 816 4600

9 Financial Statements

FOR YEAR ENDED 31 DECEMBER 2015

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 2015 and the results of their operations and cash flows for the year ended 31 December 2015.

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 2015.

The financial statements were authorised for issue for and on behalf of the Directors on 23 February 2016 .

a. R Gerry

A Gerry | Director

J Miller | Director

9 Financial Statements (CONT.)

Income Statement
For the year ended 31 December 2015

	Note	2015 $000	2014 $000
Revenue			
Clearing and settlements fees		4,938	4,151
Participants fees		386	346
Other revenue		494	365
Total revenue		**5,818**	**4,862**
Operating expenses			
Information technology expense		(226)	(89)
Remuneration paid to Group auditors			
- audit of financial statements	4	(13)	(14)
- other audit related services	4	(39)	(35)
Professional fees		(471)	(412)
Other expenses		(1,039)	(954)
Total operating expenses		**(1,788)**	**(1,504)**
Earnings before finance income and income tax		**4,030**	**3,358**
Interest income		351	426
Net gain on foreign exchange		18	4
Net finance income		369	430
Profit before income tax		**4,399**	**3,788**
Income tax expense	5	(1,236)	(1,061)
Profit for the year		**3,163**	**2,727**

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

Statement of Comprehensive Income
For the year ended 31 December 2015

	2015 $000	2014 $000
Profit for the year	3,163	2,727
Total comprehensive income for the year	**3,163**	**2,727**

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

9 Financial Statements (CONT.)

Statement of Changes in Equity
For the year ended 31 December 2015

	Note	Share Capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 January 2014		**12,000**	**(653)**	**11,347**
Profit for the year		-	2,727	2,727
Total comprehensive income for the year		-	2,727	2,727
Dividends paid	12	-	(2,723)	(2,723)
Balance at 31 December 2014		**12,000**	**(649)**	**11,351**
Profit for the year		**-**	3,163	3,163
Total comprehensive income for the year		-	3,163	3,163
Dividends paid	12	-	(2,666)	(2,666)
Balance at 31 December 2015		**12,000**	**(152)**	**11,848**

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

Statement of Financial Position
As at 31 December 2015

	Note	2015 $000	2014 $000
Current assets			
Cash and cash equivalents	6	22,288	11,614
Funds held on behalf of third parties	7	60,440	33,065
Receivables and prepayments	8	578	437
Total current assets		**83,306**	**45,116**
Total assets		**83,306**	**45,116**
Current liabilities			
Trade and other payables	9	409	349
Payable to related party	17	118	51
Funds held on behalf of third parties	7	60,440	33,065
Redeemable Preference Shares	10	10,000	-
Current tax payable	5	491	300
Total current liabilities		**71,458**	**33,765**
Total liabilities		**71,458**	**33,765**
Net assets		**11,848**	**11,351**
Equity			
Share capital	11	12,000	12,000
Retained earnings		(152)	(649)
Total equity attributable to shareholders		**11,848**	**11,351**

Included within the cash and cash equivalent balance is $20.0 million (31 December 2014: $10.0 million) that is held for risk capital requirements and is not available for general cash management use by the NZCDC Group.

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

9 Financial Statements (CONT.)

Statement of Cash Flows

As at 31 December 2015

	Note	2015 $000	2014 $000
Cash flows from operating activities			
Receipts from customers		5,841	4,707
Net interest received		344	421
Payments to suppliers and employees		(1,874)	(1,588)
Income tax paid		(1,038)	(1,171)
Net cash provided by operating activities	6 (b)	3,273	2,369
Cash flows from investing activities			
Proceeds from intercompany transactions		67	22
Net cash provided by investing activities		**67**	**22**
Cash flows from financing activities			
Proceeds from issues of Redeemable Preference Shares		10,000	-
Dividends paid	12	(2,666)	(2,723)
Net cash provided from/(used in) financing activities		**7,334**	**(2,723)**
Net increase/(decrease) in cash and cash equivalents		10,674	(332)
Cash and cash equivalents at the beginning of the year		11,614	11,946
Cash and cash equivalents at the end of the year	6 (a)	**22,288**	**11,614**

Included within the cash and cash equivalent balance is $20.0 million (31 December 2014: $10.0 million) that is held for risk capital requirements and is not available for general cash management use by the NZCDC Group.

The $10.0 million increase in risk capital held by the NZCDC Group was funded by the issue of $10.0 million of redeemable preference shares to NZX Limited.

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

10 Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2015

1. Reporting entity

These financial statements are for the New Zealand Clearing and Depository Corporation Limited ("Company") and its subsidiaries (together referred to as the " NZCDC Group") as at and for the year ended 31 December 2015.

The Company is domiciled in New Zealand and registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of that Act and the Financial Reporting Act 2013.

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 23 February 2016.

(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.

10 Notes to the Financial Statements (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

(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) 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 2016, and have not been applied in preparing these financial statements. The NZCDC Group does not plan to adopt these standards early. None of these standards are 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.

i) NZ IFRS 9 Financial instruments - effective for periods beginning on or after 1 Jan 2018

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

(b) 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 fulfil 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 16. 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.

(c) Revenue recognition

i) 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.

ii) Participant fees

Participant fees consist of annual fees from clearing and depository Participants. Annual Participant fees are recognised over the period that the service is provided.

iii) 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.

iv) Interest revenue

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

(d) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency (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.

(e) 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.

i) 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).

(f) 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.

10 Notes to the Financial Statements (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

g) Financial instruments

i) Financial assets

The NZCDC Group classifies financial assets into the loans and receivables category. 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.

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, funds held on behalf, and trade and other receivables.

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.

ii) 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, funds held on behalf and payable to related party.

(h) 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.

(i) 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.

(j) 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.

i) 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.

ii) 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.

iii) 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.

iv) 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 the Statement of Financial Position at fair value and is classified as 'funds held on behalf'.

(k) 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.

10 Notes to the Financial Statements (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

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 programme so as to meet its settlement obligations.

4. Auditor remuneration

	2015 $000	2014 $000
Audit and review of statutory financial statements	**13**	**14**
Annual operational audit of the NZCDC Group	34	30
Annual depository assurance engagement	5	5
Total other audit related services	39	35
Total fees paid to the auditor	52	49

5. Taxation

(a) Income tax recognised in Profit or Loss

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

	2015 $000	2014 $000
Profit before income tax expense	4,399	3,788
Income tax calculated at 28%	(1,232)	(1,061)
Other	(4)	-
Tax expense	**(1,236)**	**(1,061)**

(b) Current tax liabilities

	2015 $000	2014 $000
Balance at beginning of the year	**(300)**	**(410)**
Current year charge	(1,236)	(1,061)
Prior period adjustment	7	-
Tax paid	1,038	1,171
Balance at end of year	**(491)**	**(300)**

(c) Imputation credit account

	2015 $000	2014 $000
Imputation credits available for use in subsequent reporting periods	1,212	1,005

10 Notes to the Financial Statements (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

6. 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:

		2015 $000	2014 $000
Cash at bank	0% - 3.25%	14,788	4,114
Bank deposits	4.29 - 4.33%	7,500	7,500
Net cash and cash equivalents		**22,288**	**11,614**

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

	2015 $000	2014 $000
Profit for the year	3,163	2,727
Increase in receivables and prepayments	(141)	(133)
Increase/(decrease) in trade and other payables	60	(115)
Increase/(decrease) in current tax payable	191	(110)
Net cash from operating activities	**3,273**	**2,369**

7. Funds held on behalf of third parties

	2015 $000	2014 $000
Collateral Deposit	55,287	25,462
Funds held on behalf of clients	5,153	7,603
	60,440	**33,065**

The collateral deposits 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.

The funds held on behalf of clients represent balances deposited by Participants in addition to their cash collateral requirements. The funds are lodged in a non interest bearing account and are carried at the amount deposited which represent fair value. There is an equal and opposite amount disclosed under current liabilities for the total amount repayable to Participants.

8. Receivables and prepayments

	2015 $000	2014 $000
Trade receivables	337	357
Prepayments	181	34
Accrued income	60	46
	578	**437**

10 Notes to the Financial Statements (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

9. Trade and other payables

	2015 $000	2014 $000
Trade payables	127	117
Goods and services tax payable	87	47
Unearned income	195	185
	409	**349**

10. Redeemable Preference Shares

	2015 $000	2014 $000
Current	10,000	-
Non-current	-	-
Total Redeemable Preference Shares	**10,000**	**-**

The Company issued 10.0 million non-participating Redeemable Preference Shares ("RPSs") to its parent company, NZX Limited, on 25 August 2015 to fund the $10.0 million increase in risk capital to be held by the NZCDC Group.

The key terms of the RPSs are:

- The RPSs can be redeemed in cash at any time at the option of the holder. The redemption is subject to the approval of the Joint Regulators (being the Financial Markets Authority and the Reserve Bank of New Zealand).
- The RPSs holder is required to deliver in writing notice to redeem, and the Company must redeem the RPSs within 14 days of receipt of this notice, subject to the approval noted previously;
- The RPSs are entitled to receive non-cumulative dividends as determined by the Directors; and
- The RPSs have priority ranking over the ordinary shares currently on issue.

11. Share capital

As at 31 December 2015, there were 240 shares issued and fully paid (2014: 240 shares).

12. Dividends

		Group and Parent			
		2015		2014	
	For year ended	Dollars per share	Total $000	Dollars per share	Total $000
Dividends declared and paid					
February 2014	31/12/13			3,200	768
May 2014	31/12/14			2,363	567
September 2014	31/12/14			2,533	608
November 2014	31/12/14			3,250	780
February 2015	31/12/14	3,219	773		
June 2015	31/12/15	2,008	482		
September 2015	31/12/15	1,233	296		
December 2015	31/12/15	4,646	1,115		
Total dividends paid for the year			**2,666**		**2,723**

13. 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 3 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 YEAR ENDED 31 DECEMBER 2015

(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:

	2015 $000	2014 $000
Effect on net interest income:		
1% increase in interest rate	223	116
1% decrease in interest rate	(223)	(116)

(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 NZCDC Group's investment policy requires cash and cash equivalents to be placed with an institution with a credit rating of A or higher.

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

	2015 $000	2014 $000
Not past due	264	210
Past due 0 - 30 days	16	38
Past due > 30 days	58	109
	338	**357**

At 31 December 2015 there was no impairment of trade receivables (2014: Nil).

Detail on other forms of credit risk not related to financial instruments is provided in note 14.

(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. Liquidity risk arises from mismatches in the timing of amounts payable and receivable in the normal course of the operations of the NZCDC Group. Liquidity risk would also manifest in the event of default by a counterparty to a trade for which New Zealand Clearing Limited acts as a central counterparty. The NZCDC Group's approach to managing this risk is outlined in note 14.

10 Notes to the Financial Statements (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

(e) Accounting classification and fair values

The table below shows the carrying amounts of all financial instruments classified into their categories. The fair value of the financial instruments approximates their carrying amounts.

Financial instruments as at 31 December 2015

	Loans & receivables	Amortised cost	Total carrying amount
Financial instruments	**$000**	**$000**	**$000**
Assets			
Cash and cash equivalents	22,288	-	22,288
Funds held on behalf	60,440	-	60,440
Trade receivables	337	-	337
Total	**83,065**	**-**	**83,065**
Liabilities			
Trade payables	-	(127)	(127)
Funds held on behalf of third parties	-	(60,440)	(60,440)
Redeemable Preference Shares	-	(10,000)	(10,000)
Payable to related party	-	(118)	(118)
Total	**-**	**(70,685)**	**(70,685)**

Financial instruments as at 31 December 2014

	Loans & receivables	Amortised cost	Total carrying amount
Financial instruments	**$000**	**$000**	**$000**
Assets			
Cash and cash equivalents	11,614	-	11,614
Funds held on behalf of third parties	33,065	-	33,065
Trade receivables	357	-	357
Total	**45,036**	**-**	**45,036**
Liabilities			
Trade payables	-	(117)	(117)
Funds held on behalf of third parties	-	(33,065)	(33,065)
Payable to related party	-	(51)	(51)
Total	**-**	**(33,233)**	**(33,233)**

14. 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"), which 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 market 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
- Capital resources to be used in the event of Participant default where margin collateral is insufficient to cover the 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 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 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.

10 Notes to the Financial Statements (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

As at 31 December 2015, NZCL has a right to receive $13.872 million (2014: $15.129 million) from Clearing Participants and an obligation to pay $13.872 million (2014: $15.129 million) to Clearing Participants for the settlement of cash market transactions. All of these outstanding transactions were settled subsequent to 31 December 2015. The aggregate absolute value of all net outstanding cash market settlement transactions at 31 December 2015 was $111.193 million (2014: $75.511 million). In addition, at 31 December 2015, the total value of outstanding securities loans was $5.205 million (2014: $2.176 million) and the absolute notional value of open derivative contracts was US$57.560 million (2014: US$23.070 million).

Cash collateral held to cover these outstanding settlement positions at 31 December 2015 was $35.542 million (2014: $25.462 million). In addition, at 31 December 2015 an additional $5.5 million collateral (2014: $5.5 million) was held by way of performance bonds.

In addition to fixed risk capital resources of $20 million, the Company also has access to other facilities as described below:

Liquidity Facility
On 30 December 2014 NZCL entered into an agreement with a major New Zealand fund manager to provide liquidity support in the form of $50m of securities or cash. Use of the facility is limited to situations where a Participant default has occurred. NZCL may access the facility to obtain liquidity in the form of securities or cash, collateralised against cash or eligible securities provided by NZCL to the Fund Manager. The facility is for an initial term of two years ending December 2016.

15. 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 of designation of the NZCDC Group settlement system are set out in the Reserve Bank of New Zealand (Designated Settlement System – NZCDC Group) Order 2010.

16. Group entities

Name of subsidiaries

	Country of Incorporation	Ownership interest and voting rights	
		2015 %	2014 %
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

17. Related party transactions

(a) Key Management Personnel

The independent directors received remuneration of $nil (2014: $58,512). They resigned in September 2014 and were replaced by NZX Limited directors. Tim Bennett is also 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 2015 was $961,000 (2014: $802,000). NZX Limited provides technology services, technology platforms and other services to the NZCDC Group for nil consideration. The cost of these services to NZX Limited was $1,188,294 in 2015. Additionally, 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 $1,378,435 (2014: $1,411,433) in relation to the infrastructure asset for the twelve months ended 31 December 2015.

10 Notes to the Financial Statements (CONT.)

FOR THE YEAR ENDED 31 DECEMBER 2015

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, attracts no interest and are repayable on demand.

	2015 $000	2014 $000
Transactions with related parties		
Purchase from Parent	961	802
Dividends paid to Parent	(2,666)	(2,723)
Balances with related parties		
Due to Parent company	(118)	(51)

18. Contingent liabilities and commitments

There were no contingent liabilities and capital commitments as at 31 December 2015 (2014: nil).

19. Subsequent events

Dividend

Subsequent to balance date the Board declared a fourth quarter final dividend of $3,317 per share, fully imputed, to be paid on 22 February 2016 (with a record date of 12 February 2016) for a total dividend payment of $796,000. This is consistent with the NZCDC Group Dividend Policy.

11 Auditor's Report

To the shareholder of New Zealand Clearing and Depository Corporation Limited

We have audited the accompanying consolidated financial statements of New Zealand Clearing and Depository Corporation Limited and its subsidiaries ("the Group") on pages 16 to 38. The financial statements comprise the consolidated statement of financial position as at 31 December 2015, the consolidated income statement and consolidated 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.

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholder as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the consolidated financial statements

The directors are responsible on behalf of the company for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial

11 Auditor's Report (CONT.)

statements 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 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 consolidated 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 assurance services to the Group. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Opinion

In our opinion, the consolidated financial statements on pages 16 to 38 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of New Zealand Clearing and Depository Corporation Limited as at 31 December 2015 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

23 February 2016

Wellington

NZX Clearing