2013 Annual Report and Consolidated Financial Statements

NEW ZEALAND CLEARING AND
DEPOSITORY CORPORATION LIMITED

NZClearingCorp

1 Chair Commentary

I am pleased to present the NZCDC annual report for the 2013 year. 2013 saw significant growth in the value of cash market (up from $9b in 2012 to $14.6b in 2013) and derivatives (up from $38.8b in 2012 to $70.1b in 2013) obligations cleared and settled through NZCDC. Preparation for the launch of Equity Derivatives, and further investment in system functionality and stability were key focus points in 2013. System reliability for 2013 was 99.81%. This places the business in a strong position for new ventures over the coming year.

2013 Year in Review

NZCDC's net profit after tax for the year ended 31 December 2013 was $2.6m. Profitability was up 38% on last year, with increased trading driving higher clearing fees. 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 $2.5m have been distributed to NZX Limited. Dividends are set at a level which ensure the risk capital reserves of NZCDC remain at appropriate levels, and that the group has sufficient working capital for day to day operations with any surplus cash being returned to NZX Limited. We again would like to acknowledge the support of NZX Limited in respect of the provision of technology services, infrastructure, and support services.

From an operational perspective 2013 marked the launch of the Government's share offer programme with Mighty River Power and Meridian Energy being the first of the SOEs to list on NZX. Trades in these listed companies are now successfully being cleared and settled through the NZCDC infrastructure.

Steady growth in quantity and value of stock lending continued over 2013 with loan values in 2013 increasing by 27% on the previous year to $2.8 billion of loans (in aggregate), and the total quantity of loans up by 24%. 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 2014 to support the growth of the exchange traded equity options market.

As well as being utilized for strategic purposes, stock lending assists participants in avoiding settlement transaction failure. This is evidenced by a pleasingly low number of fails in 2013; just 287 fails for the year, a 17% drop in the number of settlement fails compared to the previous year, despite a 62% increase in the value of transactions settled during the 2013 period.

A key purpose of the clearing house operated by NZCDC 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. NZCDC conducts back testing and stress testing at regular intervals to ensure levels are sufficient. Sufficiency of stress testing is also reviewed on a regular basis, and in 2013 additional stress case scenarios were introduced to further increase the range of scenarios being tested. Changes were also made that allow NZCDC to call on an additional $5m of risk capital from NZX Limited, increasing the total available capital under the Deed of Commitment between NZCDC and NZX to $10m.

The NZCDC Business Continuity Plan was activated when Wellington experienced a sizeable earthquake in August 2013 which caused the NZX building to be evacuated. Settlement was able to continue as normal and there was no adverse impact from the event.

Substantial work was performed over the year in preparation for the introduction of Equity Derivatives on the NZX market. These new products will be cleared and settled on the NZCDC infrastructure. Work included changes to the system and the on-boarding of a participant that has been accredited to clear and settle these new products. In addition NZCDC has applied to the European Security Markets Authority (ESMA) to become a recognised Central Counterparty under European legislation following moves in Europe and the US towards mandatory clearing of certain over-the-counter derivatives. Obtaining this recognition will further strengthen the NZCDC derivatives clearing and settlement offering. We look forward to the trading and settlement of these new products getting underway in early 2014.

From a systems perspective, multiple changes were made in relation to the settlement of equity derivatives in 2013. In addition upgrades were made to the infrastructure that the NZCDC system, BaNCS, operates on. Among other things, the upgrades have greatly improved the processing time of trades flowing from the trading system into BaNCS, and will ensure that system security and stability is enhanced. In anticipation of the SOE listings, NZCDC in conjunction with the share registries made changes to BaNCS and to business processes to automate the creation of large volumes of new shareholders in a smooth and timely manner.

There were no material BaNCS outages in 2013, with system availability at 99.81% for the year.

Outlook

The planned launch of a number of equity derivative contracts will go ahead in 2014. New products include an index future based on the NZX20 and three equity option contracts which will all be cleared through the NZCDC infrastructure.

Participant growth will also be a focus for the 2014 year. Increasing depository participation is of particular importance and changes to the NZCDC fee structure in 2013 were tailored to make our offering more attractive to those potential new customers.

Further enhancements to system security and reliability are planned for 2014. Other system developments planned for 2014 will be driven by changes to NZX markets and new products or other business development initiatives.

Regulatory Oversight

Quarterly meetings were held between NZCDC 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 changes to the Board, the introduction of Equity Derivatives and the application to ESMA to become a recognised Central Counterparty under European legislation. NZCDC looks forward to furthering our relationship with the joint regulators in 2014.

During the year we published:

- the third 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 2013. 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 $3,200 per share was agreed on, post year end. This equates to a total dividend payment of $768,000.

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. It 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 capitalisation of around US$50b. 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.

2013 Highlights

- Launch of Government's share offer programme
- System infrastructure upgrades, including Weblogic and Java
- System changes to enable the successful introduction of Equity Derivatives
- System availability at 99.81%
- 62% increase in value of cash market transactions settled
- 81% increase in value of derivatives market transactions settled.

Focus for 2014

The two main focus points for 2014 will be the introduction of Equity Derivatives and the 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. In relation to the system, further enhancements will be made to reliability, with a second instance of weblogic being introduced, ensuring seamless continuity in the unlikely event of an outage. System enhancements will also focus on security and increased auditability.

During 2014 NZCDC will complete a self assessment against the CPSS-IOSCO Principles for Market Infrastructure.

3 Operating and Financial Review

Operating Review

The core operating statistics of NZCDC for the 2013 financial year ending 31 December 2013 are shown below. Comparative figures are provided for the 2012 year.

Core Operating Statistics

Settlement of Cleared Trades		2013	2012
Number of Settlement Days		251	250
Securities	Value ($m)	14,582	9,005
	Number of Settlement Lines	164,680	156,028
Derivatives*	Notional Value ($USm)	70.1	38.8
	Number of lots	14,388	12,047

* This represents derivatives contracts that transitioned to final settlement.

Assets Under Custody (as at year end)	2013	2012
Depository Equity ($m)	213	179
Debt ($m)	-	-

Depository Transactions	2013	2012
Value ($m)	1,262.7	856.5
Number	23,914	19,809
Average Transaction Value ($)	52,804	43,238

3 Operating and Financial Review (CONT.)

Securities Lending	2013	2012
Number of Loans	4,681	3,782
Total Loan Value ($m)	2,793	2,177
Average Loan Value ($)	190,042	164,025
Average Duration (Days)	3.1	3.5

System Availability	2013	2012
Total System Operation (Minutes)	158,130	157,500
Outages (Minutes)	240	30
Availability (%)	99.81	99.98

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	2013	2012
Securities—Daily Average ($m)	172.95	107.99
Derivatives —Open Interest —Daily Average ($USm)	35.0	16.6

Collateral Held (Daily Average)	2013	2012
Cash ($)	28,153,617	17,362,252
Bank Guarantee ($)	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	2013	2012
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 2013.

	2013 ($000's)	2012 ($000's)
Revenue		
Clearing and Settlement Fees	4,044	3,199
Participant Fees and Other	630	511
Interest	396	397
Total Revenue	**5,070**	**4,107**
Operating Expenses	1520	1,529
Tax	994	722
Net Profit After Tax	**2,556**	**1,856**

Financial statements are prepared for the NZCDC Group and subsidaries. A copy of the NZCDC Group audited financial statements for the period ended 31 December 2013 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.

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

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

- Investment Policy - the Investment Policy was updated to simplify exposure limits and to modify instruments that risk capital is able to be invested in
- Business Continuity Plan – the Business Continuity Plan was updated to reflect the change of the trading system and changes to contact details
- Deed of Commitment – the Deed of Commitment between NZCDC and NZX was varied to allow NZCDC to call on additional risk capital from NZX
- Secondment Agreement – the Secondment Agreement between NZCDC and NZX was varied to extend the period of the secondment and to update the agreement as a result of staff changes
- Risk Capital Paper – the Risk Capital Paper was changed to include updates to historical information, additional stress test scenarios and trading in equity derivatives
- Clearing and Settlement Procedures – the Clearing and Settlement Procedures were changed to allow for the clearing of equity derivatives
- Delegated Authority Policy – the Delegated Authority Policy was updated

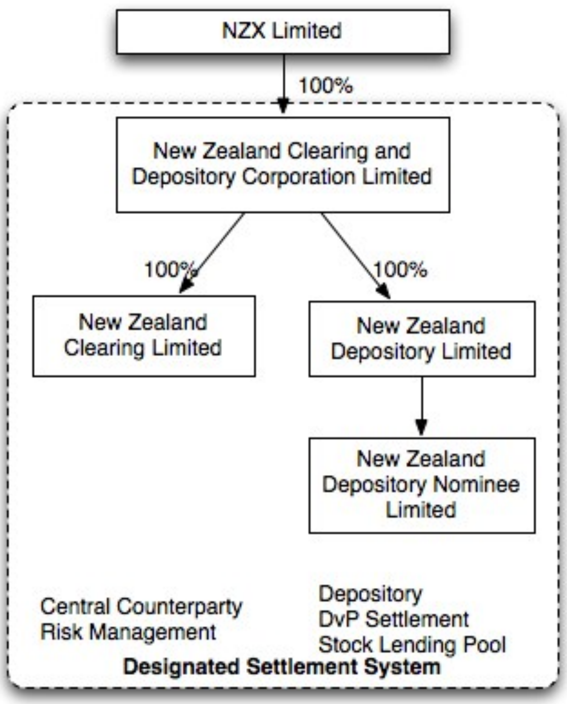
NZCDC complied with the conditions of designation throughout 2013.

5 Governance

Legal and Corporate Structure

NZCDC, a wholly owned subsidiary of NZX, operates via New Zealand Clearing Limited (NZCL), a clearing house under a central counterparty model. NZCDC also operates via New Zealand Depository Limited (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 2013.

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 members with a constitutional limit of six. Pursuant to documented policies, NZCDC Board appointees must possess appropriate knowledge, specifically banking and finance, markets, legal and compliance, information technology and risk management. There were no changes to the board during the period.

Board Members

Pip Dunphy (Chair/Independent) –Currently Pip is engaged as an independent director on a number of company boards including Abano Healthcare, Fonterra Shareholders Fund, Solid Energy and NZ Super Fund. Pip is also chair of Mint Asset Management. Previous roles have 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 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 Deputy Chairman of the NZX Board of Directors and joined the NZCDC Board in 2012. 'James is on the boards of ACC, 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.

2013 Board Meeting Attendance Record

Director	Board Attendance
Pip Dunphy (Chair)	6 of 7
Peter Lockery	7 of 7
Tim Bennett	7 of 7
James Miller	6 of 7

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. Among 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 $7.5 million in risk capital, which can be extended to $10 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 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 Twelve Months Ended 31 December 2013

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 2013 and the results of their operations and cash flows for the year ended 31 December 2013.

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 2013.

The financial statements were authorised for issue for and on behalf of the Directors on 18 February 2014.

P Lockery | Director

T Bennett | Director

9 Financial Statements (CONT.)

Income Statement
For the year ended 31 December 2013

		Group		Parent	
	Note	2013 $000	2012 $000	2013 $000	2012 $000
Revenue	4	4,676	3,710	2,468	1,497
Operating expenses	5	(1,520)	(1,529)	-	-
Earnings before interest, income tax, depreciation and amortisation, and financial instruments		**3,156**	**2,181**	**2,468**	**1,497**
Interest income		396	397	-	-
Net loss on foreign exchange		(2)	-	-	-
Net finance costs		394	397	-	-
Profit before income tax		**3,550**	**2,578**	**2,468**	**1,497**
Income tax expense	6	(994)	(722)	-	-
Profit for the year		**2,556**	**1,856**	**2,468**	**1,497**

Statement of Comprehensive Income
For the year ended 31 December 2013

	Group		Parent	
	2013 $000	2012 $000	2013 $000	2012 $000
Profit for the year	2,556	1,856	2,468	1,497
Total comprehensive income for the year	**2,556**	**1,856**	**2,468**	**1,497**

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 year ended 31 December 2013

Group

	Note	Share Capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 January 2012		**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	12	-	(1,497)	(1,497)
Balance at 31 December 2012		**12,000**	**(741)**	**11,259**
Profit for the year		-	2,556	2,556
Total comprehensive income for the year		-	2,556	2,556
Dividends paid	12	-	(2,468)	(2,468)
Balance at 31 December 2013		**12,000**	**(653)**	**11,347**

Parent

	Note	Share Capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 January 2012		**12,000**	**-**	**12,000**
Profit for the year		-	1,497	1,497
Total comprehensive income for the year		-	1,497	1,497
Dividends paid	12	-	(1,497)	(1,497)
Balance at 31 December 2012		**12,000**	**-**	**12,000**
Profit for the year		-	2,468	2,468
Total comprehensive income for the year		-	2,468	2,468
Dividends paid	12	-	(2,468)	(2,468)
Balance at 31 December 2013		**12,000**	**-**	**12,000**

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

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

9 Financial Statements (CONT.)

Statement of Financial Position
As at 31 December 2013

	Note	Group		Parent	
		2013 $000	2012 $000	2013 $000	2012 $000
Current assets					
Cash and cash equivalents	7	11,946	11,504	-	-
Funds held on behalf	8	32,301	21,901	-	-
Receivables and prepayments	9	304	553	-	-
Total current assets		**44,551**	**33,958**	**-**	**-**
Non-current assets					
Investments in subsidiaries	16	-	-	12,000	12,000
Total non-current assets		**-**	**-**	**12,000**	**12,000**
Total assets		**44,551**	**33,958**	**12,000**	**12,000**
Current liabilities					
Trade and other payables	10	464	339	-	-
Payable to related party	17	29	162	-	-
Funds held on behalf	8	32,301	21,901	-	-
Current tax payable	6	410	297	-	-
Total current liabilities		**33,204**	**22,699**	**-**	**-**
Total liabilities		**33,204**	**22,699**	**-**	**-**
Net assets		**11,347**	**11,259**	**12,000**	**12,000**
Equity					
Share capital	11	12,000	12,000	12,000	12,000
Retained earnings		(653)	(741)	-	-
Total equity attributable to shareholders		**11,347**	**11,259**	**12,000**	**12,000**

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

Statement of Cash Flows
For the year ended 31 December 2013

	Note	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Cash flows from operating activities					
Receipts from customers		4,902	3,676	-	-
Interest received		385	394	-	-
Dividends received		-	-	2,468	1,497
Payments to suppliers and employees		(1,363)	(1,402)	-	-
Income tax paid		(881)	(679)	-	-
Net cash provided by operating activities	**7 (b)**	**3,043**	**1,989**	**2,468**	**1,497**
Cash flows from investing activities					
Proceeds from /(to) intercompany transactions		(133)	86	-	-
Net cash (used in)/provided by investing activities		**(133)**	**86**	**-**	**-**
Cash flows from financing activities					
Dividends paid	12	(2,468)	(1,497)	(2,468)	(1,497)
Net cash used in financing activities		**(2,468)**	**(1,497)**	**(2,468)**	**(1,497)**
Net increase in cash and cash equivalents		442	578	-	-
Cash and cash equivalents at the beginning of the year		11,504	10,926	-	-
Cash and cash equivalents at the end of the year	**7(a)**	**11,946**	**11,504**	**-**	**-**

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

10 Notes to the Financial Statements

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2013

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 2013 comprise of 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 18 February 2014.

(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) 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 2013, 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.

i) 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.

ii) 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.

(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 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 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.

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2013

(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).

ii) 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 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.

(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.

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.

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2013

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.

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.

(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.

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.

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2013

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. Revenue

	Group		Parent	
	2013 $000	2012 $000	2013 $000	2012 $000
Revenue:				
Clearing and settlement fees	4,045	3,199	-	-
Participant fees	322	438	-	-
Other revenue	309	232	-	-
Rebates and incentives	-	(159)	-	-
Dividends from subsidiaries	-	-	2,468	1,497
Total revenue	**4,676**	**3,710**	**2,468**	**1,497**

5. Operating expenses

	Group		Parent	
	2013 $000	2012 $000	2013 $000	2012 $000
Operating expenses:				
Remuneration paid to Group auditors				
- audit of financial statements	(23)	(20)	-	-
- other audit related services	(30)	(71)	-	-
Information technology	(94)	(85)	-	-
Professional fees	(331)	(252)	-	-
Other expenses	(1,042)	(1,101)	-	-
Total operating expenses	**(1,520)**	**(1,529)**	**-**	**-**

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

6. 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:

	Group		Parent	
	2013 $000	2012 $000	2013 $000	2012 $000
Profit before income tax expense	3,550	2,578	2,468	1,497
Income tax calculated at 28%	(994)	(722)	(691)	(419)
Non-taxable intercompany dividends	-	-	691	419
Tax expense	**(994)**	**(722)**	**-**	**-**

(b) Current tax assets and liabilities

	Group		Parent	
	2013 $000	2012 $000	2013 $000	2012 $000
Balance at beginning of the year - Asset / (Liability)	(297)	(254)	-	-
Current year charge	(994)	(722)	-	-
Tax paid	881	679	-	-
Balance at end of year - Asset / (Liability)	**(410)**	**(297)**	**-**	**-**

(c) Imputation credit account

	Group		Parent	
	2013 $000	2012 $000	2013 $000	2012 $000
Imputation credits available for use in subsequent reporting periods	1,012	969	-	-

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2013

7. 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	
		2013 $000	2012 $000	2013 $000	2012 $000
Cash at bank	0% - 3.0%	4,446	4,004	-	-
Bank deposits	3.37% - 3.92%	7,500	7,500	-	-
Net cash and cash equivalents		**11,946**	**11,504**	**-**	**-**

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

	Group		Parent	
	2013 $000	2012 $000	2013 $000	2012 $000
Profit for the year	2,556	1,856	2,468	1,497
(Increase)/decrease in receivables and prepayments	249	(42)	-	-
Increase in trade and other payables	125	132	-	-
Increase in current tax payable	113	43	-	-
Net cash from operating activities	**3,043**	**1,989**	**2,468**	**1,497**

8. Funds held on behalf

	Group		Parent	
	2013 $000	2012 $000	2013 $000	2012 $000
Collateral Deposit	32,301	21,901	-	-
	32,301	**21,901**	**-**	**-**

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.

9. Receivables and prepayments

	Group		Parent	
	2013 $000	2012 $000	2013 $000	2012 $000
Trade receivables	196	434	-	-
Prepayments	87	109	-	-
Accrued income	21	10	-	-
	304	**553**	**-**	**-**

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2013

10. Trade and other payables

	Group		Parent	
	2013 $000	2012 $000	2013 $000	2012 $000
Trade payables	185	108	-	-
Goods and services tax payable	52	42	-	-
Unearned income	159	162	-	-
Other payables	68	27	-	-
	464	**339**	**-**	**-**

11. Share capital

As at 31 December 2013, there were 240 shares issued and fully paid (2012: 240 shares). All shares carry one vote per share and carry the right to dividends.

12. Dividends

		Group and Parent			
		2013		2012	
	For year ended	Dollars per share	Total $000	Dollars per share	Total $000
Dividends declared and paid					
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
March 2013	31/12/12	2,833	680		
May 2013	31/12/13	1,375	330		
July 2013	31/12/13	3,429	823		
November 2013	31/12/13	2,646	635		
Total dividends paid for the year			**2,468**		**1,497**

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.

(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	
	2013 $000	2012 $000	2013 $000	2012 $000
Effect on net interest income:				
1% increase in interest rate	119	115	-	-
1% decrease in interest rate	(119)	(115)	-	-

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2013

(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	
	2013 $000	2012 $000	2013 $000	2012 $000
Not past due	175	373	-	-
Past due 0 - 30 days	21	20	-	-
Past due > 30 days	-	41	-	-
	96	**434**	**-**	**-**

At 31 December 2013 there was no impairment of trade receivables (2012: 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.

(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 2013

Financial instruments	Note	Loans & receivables $000	Amortised cost $000	Total carrying amount $000
Assets				
Cash and cash equivalents		11,946	-	11,946
Funds held on behalf		32,301	-	32,301
Trade receivables		196	-	196
Total		**44,443**	**-**	**44,443**
Liabilities				
Trade payables		-	185	185
Funds held on behalf		-	32,301	32,301
Payable to related party		-	29	29
Total		**-**	**32,515**	**32,515**

Financial instruments as at 31 December 2012

Financial instruments	Note	Loans & receivables $000	Amortised cost $000	Total carrying amount $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**

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

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2013

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.

As at 31 December 2013, NZCL has a right to receive $5.056 million (2012: $5.176 million) from Clearing Participants and an obligation to pay $5.056 million (2012: $5.176 million) to Clearing Participants for the settlement of cash market transactions. All of these outstanding transactions were settled subsequent to 31 December 2013. The aggregate absolute value of all net outstanding cash market settlement transactions at 31 December 2013 was $54.351 million (2012: $41.802 million). In addition, at 31 December 2013, the total value of outstanding securities loans was $3.587 million (2012: $2.547 million) and the absolute notional value of open derivative contracts was US$44.727 million (2012: US$7.067 million).

Cash collateral held to cover these outstanding settlement positions at 31 December 2013 was $28.573 million (2012: $20.379 million). In addition, at 31 December 2013 an additional $5.5 million collateral (2012: $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 up to $10 million as risk capital.

Reserve Bank of New Zealand Liquidity Facility

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. This liquidity support is only available via the discounting of Eligible Securities (as defined by RBNZ). At 31 December 2013 the Company did not hold any Eligible Securities.

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 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.

10 Notes to the Financial Statements (CONT.)

FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2013

16. Group entities

(a) Name of subsidiaries

	Country of Incorporation	Ownership interest and voting rights	
		2013 %	2012 %
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

	2013 $000	2012 $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**

17. Related party transactions

(a) Key Management Personnel

The independent directors received remuneration of $77,349 (2012: $75,012). 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 2013 was $867,000 (2012: $951,000). 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 $1,343,892 (2012: $1,275,000) in relation to the infrastructure asset for the twelve months ended 31 December 2013.

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.

	Group		Parent	
	2013 $000	2012 $000	2013 $000	2012 $000
Transactions with related Parties				
Purchase from Parent	867	951	-	-
Dividends received from Subsidiaries	-	-	2,468	1,497
Dividends paid to Parent	2,468	1,497	2,468	1,497
Balances with related parties				
Due to Parent	(29)	(162)	-	-

18. Contingent liabilities and commitments

There were no contingent liabilities and capital commitments as at 31 December 2013 (2012: nil).

19. Subsequent events

Dividend

Subsequent to balance date the Board declared a fourth quarter final dividend of $3,200 per share, fully imputed, which was paid on 17 February 2014 (with a record date of 5 February 2014) for a total dividend payment of $768,000. This is consistent with the NZCDC Group Dividend Policy.

11 Auditor's Report

KPMG

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 20. The financial statements comprise the statements of financial position as at 31 December 2013, 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 20:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 31 December 2013 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

18 February 2014
Wellington

NZClearingCorp