2010 Annual Report and Consolidated Financial Statements

NEW ZEALAND CLEARING AND
DEPOSITORY CORPORATION LIMITED

NZClearingCorp

1 Chair Commentary

I am pleased to present the first annual report for the NZCDC Group, for what has been a significant year for the NZX Group and NZX's markets in general.

In 2007 NZX commenced a project to redefine New Zealand's clearing and settlement infrastructure to ensure that the New Zealand market was served by a clearing and settlement model that reflected international best practice, reduced systemic risk and enabled a broader set of products to be offered in New Zealand.

This project culminated in the creation of the NZCDC Group in mid 2010 and the subsequent declaration of the NZCDCL settlement system as a designated settlement system followed by the operational launch of the NZCDCL central counter party-clearing house and depository in the third quarter of 2010.

2010 Milestones

A major milestone in the development of the NZCDC Group was designation under the Reserve Bank of New Zealand Act 1989, the first system to be designated under this legislation. This designation provided a regulatory framework and important protections to participants in the New Zealand market, including finality of settlement of transactions, recognition of netting and priority over collateral held by the clearing house.

Soon after receiving designation, the clearing house and depository went live with the clearing and settlement of cash equity and debt products traded on NZX's markets. This was closely followed by the launch of the NZX derivatives market, being cleared and settled by the NZCDC Group, with the first product being the Whole Milk Powder Futures contract. Without the infrastructure provided by the NZCDC Group this important global market could not have been developed in New Zealand.

Additionally, with the introduction of the NZCDC Group's central securities depository, the NZCDC Group was able to provide an alternative for depository services in New Zealand.

In October 2010, NZX signed a Memorandum of Understanding with the Reserve Bank of New Zealand that cemented the co-operative relationship between the two entities with regards to clearing and settlement in New Zealand. The key terms of the memorandum are:

- The RBNZ will treat the settlement system as systemically important infrastructure and provide back-up liquidity support to NZCDC in the unlikely event it be required;
- The parties will provide technologically connected systems with seamless and efficient interoperability; and
- A joint industry council is to be established to create a unified approach for dealing with industry issues.

NZCDCL and the RBNZ will continue to work together to enhance interoperability between the two depository systems so as to ensure participants' needs are best met.

Market Benefit

The introduction of the NZCDC system has brought multiple benefits to the New Zealand market. Primarily, the NZCDCL system has reduced systemic risk through the move to a central counterparty model and net settlement of market trades. Anecdotal evidence supports a reduction in cash requirements of up to 90% because of netting.

Other benefits for the market include:

- Finality of settlement—transactions conducted under the Rules of the system are final and cannot be reversed or avoided;
- Single system—market and client settlement can be managed in a single system;
- Securities lending and borrowing—a stock lending pool is available in the depository for both settlement and strategic purposes. This reduces the number of settlement failures and improves the liquidity of traded products;
- SWIFT messaging interface—provides standardisation of messaging and opportunity for straight through processing; and
- Registry connectivity—approved participants can transfer legal title electronically for managing retail client holdings.

Outlook

With the core infrastructure now in place, the NZCDC Group is well positioned for, and committed to, growth.

Increases in the activity in NZX's markets has a direct effect on the NZCDC Group and it is important that the NZCDC Group continues to support NZX's product development pipeline, particularly derivatives products.

Organic growth will come from the acquisition of Depository clients, which we will do through operational excellence and a superior product offering. Key to this is ensuring that the system is meeting the needs of customers and being responsive to product development and improvement opportunities.

From an operational persective the NZCDC Group will continue to work with system providers to ensure that we continue to meet customer expectations for system performance. As the system matures we will continue to refine reporting metrics.

Acknowledgements

I would like to take this opportunity to acknowledge the contribution of Market Participants towards the successful development and launch of the system. Without their ongoing commitment the project would not have been possible.

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

Pip Dunphy | Chair

2 Company Overview

Business Overview

Through its subsidiaries, NZCDCL 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. NZCDCL 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 and Debt Market and the NZX Derivatives 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 the NZCDC Group also enables participants to transfer legal title to securities on register electronically.

The system software is provided by Tata Consultancy Services Limited (TCS). Their market infrastructure product, BaNCS, has been implemented across all NZCDC Group business areas. Connectivity for participants is available through SWIFT ISO15022 messaging or through a web-based user interface.

The NZCDC Group's system utilises the SWIFT network to enable seamless transfer between the Depository and the NZClear system operated by RBNZ.

2010 Highlights

- 3 September 2010—Designation of settlement system
- 6 September 2010—System launch
- 6 October 2010—Memorandum of Understanding signed with RBNZ
- 8 October 2010—Launch of NZX Derivatives Market

Focus for 2011

The primary focus for 2011 is to grow participation in the system, by increasing the number of depository participants, increasing the pool of securities available for stock lending and increasing the range of products admitted or approved for clearing and settlement. NZCDCL will also continue to work with our system providers to ensure that the system meets expectations for availability.

NZCDCL is also working with the RBNZ under the Memorandum of Understanding to establish a joint advisory council. The purpose of this council is to create a unified approach for dealing with industry issues.

3 Operating and Financial Review

Operating Review

The core operating statistics of the NZCDC Group for the 2010 financial year ending 31 December 2010 are shown below. This covers the period from 6 September 2010 to 31 December 2010. As the system commenced operation on 6 September 2010, there are no comparative figures.

Core Operating Statistics

Settlement of Cleared Trades		
Number of Settlement Days		82
Securities	Value (Millions)	$2,440
	Settlement Lines	51,470
Derivatives*	Notional Value (US)	$227,025
	Number of lots	65

* This represents derivatives contracts that transitioned to final settlement.

Assets Under Custody (as at 31 Dec 2010)	
Equity (Millions)	$175
Debt (Millions)	-

Depository Transactions	
Value (Millions)	$32.1
Number	576
Average Transaction Value	$55,729

3 Operating and Financial Review (CONT.)

Securities Lending	
Number of Loans	307
Total Loan Value (Millions)	$51.4
Average Loan Value	$169,055
Average Duration (Days)	2.76

The extent of securities lending has exceeded expectations. Initially it was expected that most borrowing would be for managing the transition from a gross to a net settlement model. However, we have also found a growing number of loans are being conducted for strategic purposes, which is extremely positive for the efficiency of the market in general.

System Availability	
Total System Operation (Minutes)	51,660
Outages (Minutes)	1,108
Availability (%)	97.9

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 6.30pm.

Risk Management Statistics

Open/Unsettled Contracts	
Securities—Daily Average (Millions)	$90.03
Derivatives —Open Interest (Average)	US$230,890

Collateral Held (Daily Average)	
Cash	$9,738,282

Although it is permissible for Clearing Participants to submit performance bonds and eligible securities as collateral, to date all collateral has been provided in cash. Cash collateral is held on call and in short term bank investments in line with the NZCDCL Investment Policy.

Financial Performance

The following summary income statement reflects the combined operation of the NZCDC Group for the seven months* ended 31 December 2010.

	2010 ($000's)
Revenue	
Clearing and Settlement Fees	808
Participant Fees and Other	259
Interest	234
Total Revenue	**1,301**
Operating Expenses	420
Tax	264
Net Profit After Tax	617

* Although the system commenced operation in September, the Group was capitalised in June 2010.

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 2010 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 NZX's balance sheet, for which the NZCDC Group incurs no maintenance fees or depreciation.

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

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

4 Regulatory

Regulatory Overview

NZCDCL and its subsidiaries operate a settlement system that is declared to be a settlement system under Part 5C of the Reserve Bank of New Zealand Act 1989. In addition to providing settlement certainty, this provided for regulatory oversight of the NZCDC Group by the joint regulators, RBNZ and the New Zealand Securities Commission. The conditions of designation for the NZCDCL settlement system are set out in the Reserve Bank of New Zealand (Designated Settlement System – NZCDC) Order 2010.

The conditions of designation impose several obligations on NZCDCL, including notification to the joint regulators of specific events, publication of specific information, periodic reporting to the joint regulators and audit requirements.

The conditions of designation also refer to specific policies covering risk management, financial resources and specified agreements that members of the NZCDC Group are a party to. NZCDCL is required to provide the joint regulators with advanced notification of any amendments to these policies or agreements.

Since designation, NZCDCL has advised the joint regulators of the following changes to these policies:

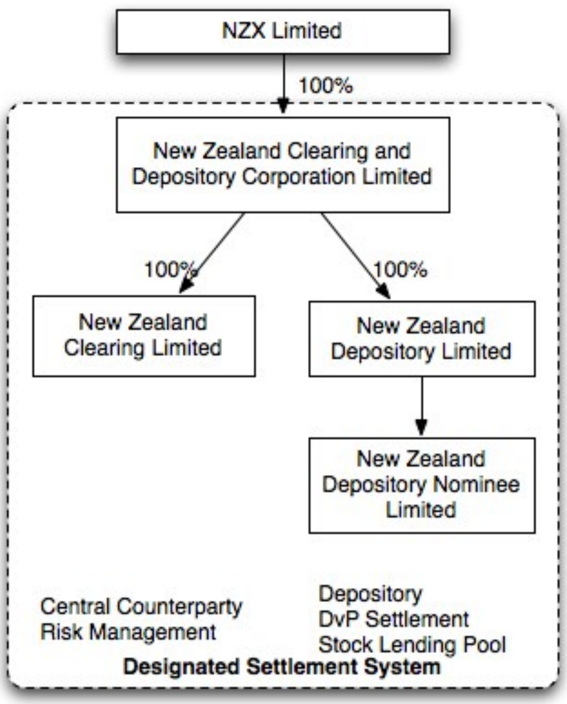
- Treasury Policy—this policy sets out the standards for investing capital resources and participant collateral. Amendments were made to extend the maximum duration of the term of investment of risk capital; and
- Margin and Collateral Policy—this policy describes the process for calculating margin rates. Amendments made to this policy include the addition of liquidity groupings for leveraged and distressed instruments, a clarification of liquidity groupings for debt products and the addition of cap and floor rates for all security groupings.

5 Governance

Legal and Corporate Structure

NZCDCL, a wholly owned subsidiary of NZX, operates via NZCL, a clearing house under a central counterparty model. NZCDCL 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:



NZCDCL Board

The NZCDCL 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 decisions are required in respect of the operating subsidiaries.

Board Composition
The NZCDCL Board currently consists of three members with a constitutional limit of six. Pursuant to documented policies, NZCDCL Board members must possess appropriate knowledge, specifically banking and finance, markets, legal, compliance and regulatory and risk management.

Board Members
Pip Dunphy (Chair/Independent)—Currently a professional director, Pip was previously the 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 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.

5 Governance (CONT.)

Robyn Dey—Robyn is NZX's Corporate Counsel. Robyn has extensive experience as a commercial lawyer, primarily in the areas of capital raising, company and securities law.

2010 Board Meeting Attendance Record

Director	Board Attendance
Pip Dunphy (Chair)	7 of 7
Peter Lockery	7 of 7
Robyn Dey	7 of 7

Board Committees

Finance and Risk Committee

The NZCDC Group does not have a separate Audit and Risk Committee, as this role is undertaken by the NZX Audit and Risk Committee which assists the NZCDCL Board with financial reporting and corporate financial matters.

The NZX Audit and Risk Committee has a clear line of communication with the independent external auditor and the internal finance and audit team, and it may, at its discretion, meet with the independent auditor without company management being present. The NZCDCL Board is invited to, and the NZCDCL Chair as the designated representative attends all NZX Audit and Risk Committee meetings where NZCDCL financial reporting and corporate financial matters are discussed.

Credit Committee

The NZCDCL 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 an ad hoc basis to consider specific risk related items as they arise. The NZCDCL Chair is the designated representative on this committee. All NZCDCL Board members can attend the Credit Committee meetings.

Ad hoc Committees

The NZCDCL Board will also form other ad hoc committees to address specific issues as and when required.

6 Financial Resources and Capital Management

Capital Management

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

Risk Capital

NZCL imposes margin on all Clearing Participants as the main risk management measure for counterparty risk. However, additional capital is held by NZCL to cover quantified risks over and above margin requirements.

The amount of capital 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,

Actual risk capital requirements (based on actual positions) are calculated and reviewed against estimated requirements on a daily basis.

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 in the event of participant default.

In addition, NZCDCL has access to other facilities, including:

- Under a Deed of Commitment signed with NZX Limited, NZX shall, upon written request, provide an additional amount of $2.5 million in risk capital, which can be extended to $5 million if required;
- Under a Memorandum of Understanding between NZX and RBNZ, NZCDCL is eligible for backup liquidity support from the RBNZ, subject to NZCDCL maintaining its designation status and meeting the eligibility criteria for RBNZ counterparties.

Working Capital

NZCL and NZDL maintain working capital at an appropriate level given the nature of the respective businesses.

Compliance with Policies

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

7 Risk Management

Background

NZCDCL 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 NZCDCL is exposed to are elaborated 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 NZCL 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 it is difficult to convert these resources quickly into cash.

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

Settlement Bank Risk—Where private settlement banks are used, the failure of a settlement bank would create credit and liquidity difficulties for the NZCDCL and its participants.

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 Clearing 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 Clearing Participant's collateral requirement must be lodged in cash.

- Settlement Practices—In the design of the settlement mechanism for cash market settlement transactions, NZCL 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, NZCDCL limits its exposure to banks based on a fixed counterparty limit taking into account each bank's shareholders' funds and their credit rating.

- Risk Capital—NZCL has set aside specific capital resources to be used in the event default of a Clearing Participant or the default of a borrower. NZC also has access to additional funding from NZX. These risk capital resources would be utilised once collateral of the defaulter had been extinguished.

Operational Risk

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

- Business Continuity Planning—NZCDCL 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—NZCDCL 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 the NZCDC Group's external auditors.

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 Group	New Zealand Clearing and Depository Corporation Limited and its subsidiaries
NZCDCL	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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Depository Corporation Limited
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Board of Directors
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Robyn Dey
Peter Lockery

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9 Financial Statements

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 (comprising New Zealand Depository Limited, New Zealand Clearing Limited and New Zealand Depository Nominee Limited (together being the "NZCDC Group") as at 31 December 2010 and the results of their operations and cash flows for the 7 months ended 31 December 2010.

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 seven months ended 31 December 2010.

The financial statements were authorised for issue for and on behalf of the Directors on 29 March 2011.

P J Dunphy | Director

P K Lockery | Director

R L Dey | Director

9 Financial Statements (CONT.)

Income Statement
For the seven months ended 31 December 2010

	Note	Group 2010 $000	Parent 2010 $000
Revenue	2	1,067	-
Operating expenses	3	(418)	-
Profit before interest, income tax, depreciation, amortisation, and financial instruments		**649**	**-**
Foreign currency loss		(2)	-
Interest income		234	-
Profit before income tax expense		**881**	**-**
Income tax expense	4	(264)	-
Profit for the period attributable to shareholders		**617**	**-**

Statement of Comprehensive Income
For the seven months ended 31 December 2010

	Group 2010 $000	Parent 2010 $000
Profit for the period	617	-
Total comprehensive income and expense for the period	**617**	**-**

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 amortisation for Clearing House infrastructure assets that remain on the balance sheet of NZX Limited. Further detail is disclosed in note 9 to the financial statements.

Notes to the financial statements are included on page 20 to 38.

Statement of Changes in Equity
For the seven months ended 31 December 2010

Group

	Share Capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 January 2010	-	-	-
Profit for the period	-	617	617
Issue of shares	12,000	-	12,000
Balance at 31 December 2010	**12,000**	**617**	**12,617**

Parent

	Share Capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 January 2010	-	-	-
Profit for the period	-	-	-
Issue of shares	12,000	-	12,000
Balance at 31 December 2010	**12,000**	**-**	**12,000**

Notes to the financial statements are included on page 20 to 38.

9 Financial Statements (CONT.)

Statement of Financial Position
As at 31 December 2010

		Group	Parent
	Note	2010 $000	2010 $000
Current assets			
Cash and cash equivalents	14(a)	20,896	-
Receivables and prepayments	6	476	-
Total current assets		**21,372**	**-**
Non-current assets			
Investments in subsidiaries		-	12,000
Total non-current assets		**-**	**12,000**
Total assets		**21,372**	**12,000**
Current liabilities			
Trade payables	7	257	-
Funds held on behalf	8	8,081	-
Current tax payable	4	230	-
Payable to NZX Limited	9	187	-
Total current liabilities		**8,755**	**-**
Total liabilities		**8,755**	**-**
Net assets		**12,617**	**12,000**
Equity			
Share capital	10	12,000	12,000
Retained earnings	11	617	-
Total equity attributable to shareholders		**12,617**	**12,000**

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

Notes to the financial statements are included on page 20 to 38.

Statement of Cash Flows
For the seven months 31 December 2010

	Note	Group 2010 $000	Parent 2010 $000
Cash flows from operating activities			
Receipts from customers		886	-
Interest received		226	-
Payments to suppliers and employees		(263)	-
Income tax paid	4	(34)	
Net cash provided by operating activities	14(b)	815	-
Cash flows from investing activities			
Net receipt of funds held on behalf		8,081	-
Payments for investments		-	(12,000)
Net cash provided by/(used in)investing activities		8,081	(12,000)
Cash flows from financing activities			
Proceeds from issues of shares		12,000	12,000
Net cash used in financing activities		12,000	12,000
Net increase in cash and cash equivalents		**20,896**	**-**
Cash and cash equivalents at the beginning of the financial year		**-**	**-**
Cash and cash equivalents at the end of the financial year	**14(a)**	**20,896**	**-**
Comprising:			
NZCDC funds		12,815	-
Funds held on behalf		8,081	-
Total cash and cash equivalents at the end of the financial year		**20,896**	**-**

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

Notes to the financial statements are included on page 20 to 38.

10 Notes to the Financial Statements

FOR THE SEVEN MONTHS ENDED 31 DECEMBER 2010

1. Summary of Accounting Policies

Statement of compliance

New Zealand Clearing and Depository Corporation Limited ("NZCDCL" or "Parent") is the holding company and entity 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. NZCDCL is an investment holding company and does not trade. NZCDCL and its subsidiaries (the "NZCDC Group") are 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.

NZCDCL is a for-profit company incorporated in New Zealand, and registered under the Companies Act 1993. The consolidated financial statements of NZCDCL as at, and for the 7 months, ended 31 December 2010 comprise the NZCDC Group and the Group's interest in associates.

NZCDCL is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

Basis of preparation

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

All monetary values are in thousands of New Zealand Dollars (NZD), which is the NZCDC Group's functional currency, unless otherwise noted. The financial statements have been prepared on the basis of historical cost, except for available-for-sale financial assets and financial assets designated at fair value through profit or loss, which are stated at fair value. The method used to measure fair value is specified in note 1(f).

Cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Comparatives

NZCDCL commenced operations on 6 September 2010, but held risk capital from 20 June 2010. These financial statements are prepared for the seven months to 31 December 2010 and therefore no comparatives are presented.

Principles of consolidation

NZCDCL is a 100% subsidiary of NZX Limited and NZX Limited prepares annual consolidated accounts that include the NZCDC Group. NZCDCL has prepared these financial statements to fulfil its designation requirements and is not under obligation to prepare consolidated financials under current law and Generally Accepted Accounting Practice in New Zealand ("NZ GAAP").

The NZCDC Group financial statements are prepared by consolidating the financial statements of all the entities that comprise the NZCDC Group, being NZCDCL and its subsidiaries as defined in NZ International Accounting Standard ("IAS")-27: Consolidated and Separate Financial Statements. A list of subsidiaries appears in note 13 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the NZCDC Group financial statements.

Subsidiaries are all entities over which the NZCDC Group has control, generally accompanying a shareholding of more than 50% of the voting rights. The NZCDC Group financial statements include the information and results of each subsidiary from the date on which NZCDCL obtains control and until such time as NZCDCL ceases to control such subsidiary.

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

The accounting policies set out below have been applied in preparing the financial statements for the 7 months ended 31 December 2010. The accounting policies have been applied consistently by NZCDC Group entities.

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

(a) Revenue recognition

Clearing and settlement fees

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

Participant fees

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

10 Notes to the Financial Statements (CONT.)

FOR THE SEVEN MONTHS ENDED 31 DECEMBER 2010

1. Summary of Accounting Policies (cont.)

Rendering of services

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

Interest revenue

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

(b) Significant estimates

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed, where applicable, in the relevant notes to the financial statements. The notes include details of the nature and carrying amount of the affected assets and liabilities at the balance sheet date.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at balance date exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Income Statement.

(d) Income tax

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 period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet method 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 NZCDC 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 NZCDC 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 when they relate to income taxes levied by the same taxation authority and the NZCDC Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

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, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(e) Goods and services tax

Revenues, expenses and assets 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 SEVEN MONTHS ENDED 31 DECEMBER 2010

1. Summary of Accounting Policies (cont.)

(f) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Investments are initially measured at fair value, net of transaction costs, except for those designated at fair value through the profit or loss, which are measured at fair value.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

(g) Payables

Trade payables and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services, and are measured at amortised cost.

(h) Novation of trades and netting

The NZCDC Group's wholly owned subsidiary, NZCL, acts as a central counterparty to all trades on NZX Markets. This involves the novation of all cash market securities and derivatives contracts.

Novation

Through novation, a single trade is replaced by two settlement transactions. NZCL 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 NZCL.

Netting

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

Cash market securities (comprises equities and debt)

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

Derivatives (comprises dairy futures)

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

(i) Securities borrowing and lending

The NZCDC Group's wholly owned subsidiary, NZDL, 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 NZCDC 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, NZCL may also borrow securities via the securities lending programme so as to meet its settlement obligations.

(j) Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 December 2010, and have not been applied in preparing the consolidated financial statements:

a. NZ IFRS 7 Financial Instrument: Disclosure has the following amendments:

   i. Amended and removed existing disclosure requirements and requires that qualitative disclosure should be made in relation to the quantitative disclosure to better enable users to evaluate an entity's exposure to risks arising from financial instruments. The impact of this change has not yet been determined.

10 Notes to the Financial Statements (CONT.)

FOR THE SEVEN MONTHS ENDED 31 DECEMBER 2010

1. Summary of Accounting Policies (cont.)

ii. Additional disclosures required about the transfer of financial assets to enable users of financial statements to understand the relationship between transferred financial assets that are not derecognised and the associated liabilities; and to evaluate the nature of, and risk associated with, the entity's continuing involvement in derecognising financial assets. This change is not expected to have any impact on the consolidated financial statements.

b. NZ IFRS 9 Financial Instruments has the following amendments:

i. Simplifies the mixed measurement model and establishes amortised cost and fair value categories for financial assets. The basis of classification depends on the business model of the entity and the contractual cash flow characteristics of the financial asset.

ii. Measurements and classification requirements of financial liabilities remain unchanged, except fair value option and certain derivatives linked to unquoted equity instruments.

The impact of any changes has not yet been determined.

2. Revenue

	Group	Parent
	2010 $000	2010 $000
Revenue:		
Clearing and settlement fees	808	-
Participant fees	213	-
Other	46	-
Total revenue	**1,067**	**-**

3. Operating expenses

	Group	Parent
	2010 $000	2010 $000
Information technology	19	-
Professional fees	98	-
General administration	278	-
Rebates and incentives	23	-
Total operating expenses	**418**	**-**

NZX Limited provides on-call support technology services to the NZCDC Group. All technology maintenance, upgrades, testing and DR are conducted by NZX Limited. All information technology costs related to the TCS BaNCS system and related staff costs are borne by NZX Limited, and have been provided for nil consideration to the NZCDC Group. The operating expenses of the NZCDC Group do not include these costs.

4. Taxation

(a) Income tax expense recognised in profit or loss

	Group	Parent
	2010 $000	2010 $000
Profit before income tax expense	881	-
Income tax calculated at 30%	(264)	-
Total tax expense	**(264)**	**-**

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by New Zealand corporate entities on taxable profits under New Zealand tax law. There has been a change in the corporate tax rate from 30% to 28% from 1 January 2011.

10 Notes to the Financial Statements (CONT.)

FOR THE SEVEN MONTHS ENDED 31 DECEMBER 2010

4. Taxation (cont.)

(b) Current tax assets and liabilities

	Group	Parent
	2010 $000	2010 $000
Balance at beginning of the year—Asset/(Liability)	-	-
Current year charge	(264)	-
Income tax paid	34	-
Balance at end of the year—Asset/(Liability)	**(230)**	**-**

5. Remuneration of auditors

	Group	Parent
	2010 $000	2010 $000
Audit of the financial statements	30	-
Other audit related fees	-	-
	30	**-**

6. Receivables and prepayments

	Group	Parent
	2010 $000	2010 $000
Trade receivables	356	-
Prepayments	112	-
Accrued interest	8	-
Receivables and prepayments	**476**	**-**

The average credit period on sales of services for the Group is 52 days.

7. Current trade payables

	Group	Parent
	2010 $000	2010 $000
Trade payables	61	-
Goods and services tax payable	21	-
Unearned income	175	-
	257	**-**

8. Funds held on behalf

	Group	Parent
	2010 $000	2010 $000
Funds held on behalf	8,081	-
	8,081	**-**

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.

10 Notes to the Financial Statements (CONT.)

FOR THE SEVEN MONTHS ENDED 31 DECEMBER 2010

9. Payable to NZX Limited

	Group	Parent
	2010 $000	2010 $000
Payable to NZX Limited	187	-
	187	**-**

This amount is unsecured, attracts no interest and is repayable on demand by NZX Limited.

NZX Limited charges the NZCDC Group a monthly fee for the provision of direct staff and corporate services to the Group. The total amount charged by NZX Limited to the NZCDC Group for the seven months ended 31 December 2010 was $270,000. This charge does not cover the costs of information technology, related staff costs and amortisation of Clearing House infrastructure that is borne by NZX Limited and provided for nil consideration to the NZCDC Group. NZX Limited has amortised $314,000 in relation to Clearing House infrastructure for the seven months ended 31 December 2010.

10. Share capital and reserves

As at 31 December 2010, there were 240 shares issued and fully paid. All shares carry one vote per share and carry the right to dividends.

	Group	Parent
	2010 Number of shares	2010 Number of shares
Balance at beginning of the year	-	-
Shares issued	240	240
Balance at end of the year	**240**	**240**

11. Retained earnings

	Group	Parent
	2010 $000	2010 $000
Balance at beginning of the year	-	-
Net profit attributable to shareholders	617	
Balance at end of the year	**617**	**-**

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

12. Subsidiaries

	Carrying values
	2010 $000
100% owned subsidiaries of parent	
New Zealand Clearing Limited	11,000
New Zealand Depository Limited	1,000
Total	**12,000**

10 Notes to the Financial Statements (CONT.)

FOR THE SEVEN MONTHS ENDED 31 DECEMBER 2010

13. Related party disclosures

Amounts receivable from, and payable to, related parties at balance date and sales and purchases between related parties are disclosed below.

	Sales to related parties 2010 $000	Purchases from related parties 2010 $000	Amounts owed by related parties 2010 $000	Amounts payable to related parties 2010 $000
Related parties				
NZX Limited	270	-	187	-
Parent				
NZCDC Limited	-	-	-	-
Subsidiaries				
NZ Clearing Limited	-	270	-	1,463
NZ Depository Limited	-	-	1,303	27

14. Notes to the cash flow statement

(a) Reconciliation 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 overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement are reconciled to the related items in the Statement of Financial Position as follows:

			Group	Parent
	Interest rates	Maturities	2010 $000	2010 $000
Cash at bank	0% –3%	Call	12,396	-
Bank deposits	4.15% –5.10%	30 to 180 days	8,500	-
			20,896	**-**

14. Notes to the cash flow statement (cont.)

A total of $10 million, comprising $5.5 million of the NZCDC Group bank deposits balance and $4.5 million cash at bank is ring-fenced as risk capital for NZCL.

The cash and cash equivalents held at 31 December 2010 include foreign currency of AUD$23,000 and USD$150,000.

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

	Group	Parent
	2010 $000	**2010 $000**
Profit after tax for the period	617	-
Increase/(decrease) in current payables	257	-
(Increase)/decrease in current receivables	(476)	-
(Increase)/decrease in current tax payable	230	-
(Increase)/decrease amount owing to NZX	187	-
Net cash from operating activities	**815**	**-**

15. 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 through the optimisation of the debt and equity balance.

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 1(c) to the financial statements.

Financial risk management objectives
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 SEVEN MONTHS ENDED 31 DECEMBER 2010

15. Financial instruments (cont.)

Foreign currency risk management
The NZCDC Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise. The foreign currencies in which transactions are primarily denominated are 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.

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
	2010 $000	2010 $000
Effect on net interest income:		
1% increase in interest rate	128	-
1% decrease in interest rate	(128)	-

Credit risk
The maximum credit risk associated with the cash and cash equivalents and receivables and prepayments of the NZCDC Group is considered to be the value of these financial instruments 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.

15. Financial instruments (cont.)

The status of trade receivables at the reporting date is as follows:

	Group	Parent
	2010 $000	2010 $000
Not past due	143	-
Past due 0–30 days	1	-
Past due > 31 days	212	-
Total	**356**	**-**

	Group	Parent
	2010 $000	2010 $000
Gross trade receivables	356	-
Impairment	-	-
Trade receivables net	**356**	**-**

Detail on other forms of credit risk not related to financial instruments is provided in note 16.

Liquidity risk management
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.

10 Notes to the Financial Statements (CONT.)

FOR THE SEVEN MONTHS ENDED 31 DECEMBER 2010

15. Financial instruments (cont.)

Financial instruments as at 31 December 2010

Financial Instruments	Loans and receivables $000	Amortised cost $000	Designated at fair value $000	Total carrying value $000	Fair value $000
Assets					
Cash and cash equivalents	20,896	-	-	20,896	20,896
Receivables and prepayments	476	-	-	476	476
Total	21,372	-	-	21,372	21,372
Liabilities					
Funds held on behalf	-	8,081	,	8,081	8,081
Current tax payable	-	230	-	230	230
Trade payables	-	257	-	257	257
Payable to NZX Limited	-	187	-	187	187
Total	**-**	**8,755**	**-**	**8,755**	**8,755**

16. 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 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 the NZCDC Group to potential replacement cost risk on unsettled transactions.

16. Clearing House counterparty credit risk (cont.)

This counterparty credit risk is managed primarily through:

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

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

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

As at 31 December 2010, NZCL has a right to receive $5.534 million from Clearing Participants and an obligation to pay $5.534 million to Clearing Participants for the settlement of cash market transactions. All of these outstanding transactions were settled subsequent to 31 December 2010. The aggregate absolute value of all net outstanding cash market settlement transactions at 31 December 2010 was $34.562 million. In addition, at 31 December 2010, the total value of outstanding securities loans was $20,337 and the absolute notional value of open derivative contracts was US$513,850.

Collateral held to cover these outstanding settlement positions at 31 December 2010 was $7.968 million. All collateral was held in cash.

10 Notes to the Financial Statements (CONT.)

FOR THE SEVEN MONTHS ENDED 31 DECEMBER 2010

16. Clearing House counterparty credit risk (cont.)

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

- Under a Deed of Commitment signed with NZX Limited, NZX shall upon written request, provide an additional amount of $2.5 million as risk capital.
- Under a Memorandum of Understanding with the RBNZ, signed 6 October 2010, NZCDCL is eligible for backup liquidity support from the RBNZ subject to NZCDCL maintaining its designation status and NZCDCL meeting the eligibility criteria for RBNZ counterparties.

17. Regulatory oversight

NZCDCL 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 New Zealand Securities Commission. Conditions to designation of the NZCDCL settlement system are set out in the Reserve Bank of New Zealand (Designated Settlement System – NZCDC) Order 2010.

18. Subsequent events

There were no events subsequent to balance date.

11 Auditor's Report

Independent Auditor's Report
To the shareholders 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 16 to 38. The financial statements comprise the statement of financial position of the company and the consolidated statement of financial position of the group as at 31 December 2010, the income statement and statements of comprehensive income, changes in equity and cash flows of the company and the consolidated income statement and consolidated statements of comprehensive income, changes in equity and cash flows of the group for the seven month period then ended, and a summary of significant accounting policies and other explanatory information.

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.

Other than in our capacity as auditors we have no relationship with, or interest in, the company and group.

Opinion
In our opinion the financial statements of New Zealand Clearing and Depository Corporation Limited and its subsidiaries ("the company and group") on pages 16 to 38:

- 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 consolidated financial position of the group as at 31 December 2010 and of the financial performance and cash flows of the company and the consolidated financial performance and consolidated cash flows of the group for the year ended on that date.

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 and its subsidiaries as far as appears from our examination of those records.

KPMG

29 March 2011 | Wellington

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NZClearingCorp