



Financial Statements 2018

SIX SIS Ltd



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Balance Sheet

CHF 1,000	Notes	31/12/2018	31/12/2017
Assets			
Liquid assets		4,189,950	3,268,244
Amounts due from banks		1,286,301	1,052,192
<i>thereof custodians</i>		744,782	535,012
Amounts due from securities financing transactions	1	959,979	1,042,165
Amounts due from customers	2	1,202	2,479
Positive replacement values of derivative financial instruments	3	11,342	1,674
Accrued income and prepaid expenses		6,068	538
Participations		1,420	1,517
Tangible fixed assets		25,810	26,634
Other assets	4	8,980	2,342
Total assets		6,491,052	5,397,783
Liabilities and equity			
Amounts due to banks		4,357,783	4,234,875
<i>thereof collaterals</i>		2,000,755	2,073,052
Liabilities from securities financing transactions	1	863,889	418,869
Amounts due to customers		972,579	409,062
Negative replacement values of derivative financial instruments	3	3,928	1,825
Accrued expenses and deferred income		15,679	22,185
Other liabilities	4	13,374	30,392
Provisions	7	11,771	23,743
Share capital	8	26,000	26,000
Statutory reserves			
Tax-exempt capital contribution reserve		5,000	5,000
Statutory retained earnings		18,300	18,300
Voluntary reserves			
Other voluntary reserves		63,100	63,100
Retained earnings		99,432	94,468
Profit for the year		40,216	49,964
Total liabilities and equity		6,491,052	5,397,783
Off-balance-sheet transactions			
Irrevocable commitments	2	–	26

Income Statement

CHF 1,000	Notes	2018	2017
Interest and discount income		6,453	-4,182
Interest expenses		23,550	24,833
Gross result from interest operations		30,003	20,651
Changes in value adjustments for default risks		-	-
Result from interest operations	20	30,003	20,651
Commission income from clearing & settlement ¹		226,076	242,754
Commission income from other services ¹		12,685	12,497
Commission expenses		-61,282	-63,410
Result from commission business and services		177,479	191,841
Result from trading activities	15	-220	116
Other ordinary income		7,498	14,639
Other ordinary expenses		-11	-
Result from other ordinary activities		7,487	14,639
Personnel expenses	16	-51,558	-49,961
General and administrative expenses	17	-123,015	-121,224
Operating expenses		-174,573	-171,185
Changes in value adjustments on participations and depreciation of tangible fixed assets		-2,470	-890
Changes to provisions and other value adjustments, and losses	7	1,636	-201
Operating result		39,342	54,971
Extraordinary income	18	10,091	10,014
Taxes	19	-9,217	-15,021
Profit for the year		40,216	49,964
Appropriation of profit			
Profit carried forward from the previous year		99,432	94,468
Distributable profit		139,648	144,432
Dividend		-40,000	-45,000
Profit carried forward		99,648	99,432

¹ Prior-year items have been regrouped for comparison reasons as the presentation was adjusted in 2018.

Statement of Changes in Equity

CHF 1,000	Share capital	Statutory reserves		Voluntary reserves		Profit for the year	Total
		From capital contributions	From retained earnings	Other voluntary reserves	Retained earnings		
1 January 2018	26,000	5,000	18,300	63,100	94,468	49,964	256,832
Appropriation of profit					49,964	-49,964	-
Dividends					-45,000		-45,000
Profit for the year						40,216	40,216
31 December 2018	26,000	5,000	18,300	63,100	99,432	40,216	252,048
1 January 2017	26,000	5,000	18,300	63,100	54,925	69,543	236,868
Appropriation of profit					69,543	-69,543	-
Dividends					-30,000		-30,000
Profit for the year						49,964	49,964
31 December 2017	26,000	5,000	18,300	63,100	94,468	49,964	256,832

Notes to the Financial Statements

General Information

SIX SIS Ltd's core business is the settlement of securities transactions and the safe custody and administration of securities both in Switzerland and abroad. As the national central securities depository (CSD) for Switzerland, the company is a key element of the Swiss Value Chain. It provides securities settlement on a simultaneous, final and irrevocable delivery versus payment basis. By playing the role of an international central securities depository (ICSD), SIX SIS Ltd also offers a wide range of customized global custody services for financial institutions around the world.

To facilitate the settlement of securities transactions, particularly cross-border, national and international market participants and foreign custodians hold accounts in various currencies with SIX SIS Ltd. Interim financing as a means of guaranteeing the smooth settlement of securities transactions is exclusively short-term in nature and provided on a collateralized basis; commercial financing is not provided.

At year-end 2018, SIX SIS Ltd had 313.3 employees on a full-time equivalent basis (year-end 2017: 324).

Since the end of September 2017 SIX SIS Ltd has been licensed as a CSD under the Swiss Financial Market Infrastructure Act (FMIA) and is subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA). Pursuant to the National Bank Act, it is also supervised by the Swiss National Bank (SNB) with respect to systemic risks.

Risk management for SIX SIS Ltd is performed by dedicated risk management teams in the centralized Chief Risk Officer (CRO)-unit of SIX Management Ltd. However, the operational settlement of credit limits in SECOM is carried out by SIX SIS Ltd. SIX SIS Ltd has outsourced the operation and maintenance of its data center to SIX Group Services Ltd. The outsourcing arrangements with SIX Management Ltd and SIX Group Services Ltd are governed by service level agreements in compliance with FINMA regulations and their staff members are required to maintain banking secrecy.

Key figures

	2018	2017
Number of settlement transactions (in 1,000)	37,895	38,077
Deposit volume (in CHF million)	3,243,242	3,315,113

Board of Directors

Thomas Zeeb	Chairman
Christoph Landis	Member
Josef Landolt	Member
Daniel Schmucki	Member
Andreas Wolf	Member

Addresses

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Risk Management

Risk Governance

As a part of SIX, SIX SIS Ltd is an important pillar of the Swiss financial center, laying great emphasis on reliability and security, and creating the trust that is essential for the financial center's smooth functioning.

The Board of Directors (BoD) of SIX bears the ultimate responsibility for the supervision of the overall risk situation, approves the overall risk policy and decides on risk appetite limits. The Risk Committee of the BoD of SIX acts as a representative of the BoD; it approves the risk governance, organization and methodologies, and reviews their implementation, adequacy and effectiveness. The Board of Directors of SIX SIS Ltd acknowledges and supervises the risk governance, organization and management of SIX SIS Ltd and approves the adequacy and effectiveness of the internal control system.

The Executive Board (ExB) has the ultimate operational decision-making authority concerning risk matters. As a member of the ExB, the Chief Risk Officer bears the ultimate responsibility for the independent oversight of the overall risk situation. He is in charge of the "second line of defense" functions for Risk Management, Security and Compliance.

A "three lines of defense" governance model forms the basis of the risk governance framework. Each line has its specific role and responsibilities. Close collaboration between all lines ensures the identification, assessment and mitigation of risks. Senior executives of SIX SIS Ltd, as the "first line of defense", are accountable for managing the specific risks faced by business management. They maintain effective processes and manage their risks properly, including comprehensive controls and documented procedures.

Within the second line of defense, risk control measures are executed by the Head Risk Management and dedicated risk management teams. The Head Risk Management reports to the Chief Risk Officer and is not part of the line management structure of SIX SIS Ltd.

Independent assurance providers such as Internal Audit form the "third line of defense", supervising the overall risk situation, internal controls and risk management. They monitor risk management and controlling to evaluate their effectiveness, including an assessment of how the first and second lines of defense meet their risk objectives.

Pursuant to the National Bank Act and the Swiss Financial Market Infrastructure Act, SIX SIS Ltd is supervised by the Swiss Financial Market Supervisory Authority and the Swiss National Bank. The legal and compliance functions within SIX are responsible for implementing the instructions and requirements issued by the legislator, the supervisor and other relevant institutions. They ensure that the business management of SIX SIS Ltd complies with due diligence and meets the current rules, regulations and obligations of a financial intermediary.

Risk Groups

Strategic Risk and Business Risk

Strategic risk and business risk arise both from the implementation of SIX SIS Ltd's strategy and from the implementation of the strategies of the individual subsidiaries. They comprise the danger of external and internal events or decisions resulting in strategic and business objectives not being attained. Strategic risk and business risk are the responsibility of the ExB of SIX and of the Management Committees of the subsidiaries. They are reviewed semi-annually based on their risk profiles.

Reputational Risk

Reputational risk involves the risk of the reputation of SIX SIS Ltd being tarnished and of negative perception impacting business relations. As reputational risk is largely inherent in business activities, reputational risk management mainly consists of ensuring competency, integrity, responsibility and compliance in business activities at a group and subsidiary level. Reputational risk management includes all operational and strategic management instruments of SIX SIS Ltd, in particular financial reporting, monitoring of key performance figures and surveys of client and staff satisfaction. Besides a number of measures to mitigate potential reputational risk, a well-established emergency organization system ensures that in the event of a crisis, potential reputational risks are identified and handled with due care.

Credit Risk (Counterparty Risk, Default Risk)

Credit risk, counterparty risk or default risk is defined as the danger of a loss caused by a counterparty not fulfilling its contractual obligations. This notably includes settlement risk, i.e. the risk that a counterparty does not deliver a security or its value in cash as per the trade agreement. Within SIX SIS Ltd, credit exposures mainly relate to short-term interim financing undertaken for the purpose of settling securities transactions. With the exception of a few counterparties, such as the Swiss National Bank or SIX affiliates, all short-term financing for settlement purposes is fully covered by collateral in the form of cash and securities eligible for SNB repos.

SIX SIS Ltd applies a conservative risk and credit policy. New clients of SIX SIS Ltd are required to meet strict regulatory standards. Clients that are not subject to adequate financial institution and money laundering regulation and supervision are not accepted.

Credit risk management is effected via limits granted to clients by the relevant bodies within SIX pursuant to the competency rules. Every participant with a credit limit is subject to an initial credit risk assessment and rating assignment and a periodic review. No credit limits are granted without a prior risk assessment and rating assignment. Any credit limit is assessed and approved by an independent authority that is independent from the risk manager preparing the credit application. The credit limits are monitored constantly to ensure that the risk profile is always in line with the SIX SIS Ltd risk appetite and policy.

SIX SIS Ltd applies a risk-based approach for defining the frequency of counterparty reviews. Every counterparty has been assigned to a risk group. The depth and frequency of the review depends on the affiliation of the counterparty to the specific risk group. Counterparties in a higher risk group (high risk equivalent, poor credit rating) are reviewed more often and monitored more closely than those in a lower risk group.

The credit risk exposures of SIX SIS Ltd (and hence the allocation of counterparties to risk groups) are determined by the following two dimensions:

- Creditworthiness: The credit exposure borne by SIX SIS Ltd is influenced in part by the credit standing of the counterparty that gives an indication of its probability of default. The counterparty's credit standing is measured by its credit rating.
- Risk equivalent: The credit exposure borne by SIX SIS Ltd is also driven by the amount that is at risk in a

default scenario. The amount at risk is expressed by the "risk equivalent", which is a conservative estimate of the amount of credit loss that might occur in a default scenario after considering collateral and other factors that would mitigate the amount of losses incurred.

SIX SIS Ltd is linked online and in real time with SIX Swiss Exchange and with the SIC/euroSIC systems. The system of real-time settlement of irreversible transactions on the basis of simultaneous delivery versus payment (DVP) offers the best guarantee of eliminating settlement risk. This system does not function for cross-border securities transactions, however. The resulting receivables from and liabilities towards banks are subject to counterparty risk and market risk. These risks, which are of extremely short duration, are fully collateralized and strictly monitored through detailed procedures for managing limits.

In addition to pre-financing for settlement purposes, counterparty risk can be a result of treasury activities, whereas credit exposures are managed on an uncollateralized basis because no or insufficient collateralized alternatives, such as reverse repo investments, are available. Uncollateralized treasury placements or FX transactions are in any case managed through counterparty ratings and limits.

Since mid-2017, SIX SIS Ltd has been applying the international standard approach (SA-BIS) rather than the Swiss standard approach during the transitional period in line with Basel III to calculate capital adequacy requirements for credit risks.

Market Risk

According to Basel III, market risk is defined as "the risk of loss arising from movements in market prices" and comprises the risk of a loss due to value fluctuations of a position triggered by a change in the underlying factors (e.g. equity or commodity prices, exchange rates and interest rates and their respective volatilities). Market risk exposure of SIX SIS Ltd primarily relates to the pre-financing of cross-border settlements.

Market risk exposure may arise from cross-border settlements if a participant of SIX SIS Ltd were to default. This type of risk is managed by a settlement line. The settlement line controls the volume of cross-border settlement instructions transmitted for an individual client. With every cross-border instruction forwarded, a settlement margin of the overall transaction volume is charged against the settlement line.

Liquidity Risk

Liquidity risk basically relates to the inability to meet payment obligations when they are due. Under normal market circumstances SIX SIS Ltd is not exposed to any significant liquidity risk. In stressed market conditions, however – e.g. in the event of a participant default – SIX SIS Ltd may be subject to substantial liquidity requirements. In particular, a scenario in which clearing members default and fail to meet their payment obligations may create a large liquidity demand for SIX SIS Ltd as liquidity provider for SIX x-clear Ltd and therefore give rise to liquidity risk.

Another source of liquidity risk for SIX SIS Ltd results from cross-border settlements of its own participants. In the event of the default of an SIX SIS Ltd participant, SIX SIS Ltd has an obligation to fulfill matched receipt versus payment (RVP) instructions in cross-border markets from T+1 until the value date (usually until T+2) if no agreement can be reached with the counterparty regarding bilateral cancellation.

Under normal conditions, the liquidity of SIX SIS Ltd is managed by Cash Management and Treasury as part of their daily operation.

Due to the interconnectedness of SIX x-clear Ltd and SIX SIS Ltd, in a stress scenario the contingent liquidity risk is basically managed at the aggregated level of SIX Securities Services by:

- Monitoring the aggregated projected liquidity balances of SIX x-clear Ltd and SIX SIS Ltd, assuming (as a stress assumption) the default of the two participant groups causing the largest payment obligation.
- Providing a waterfall of available liquidity resources that could be drawn in the event of a liquidity shortage. The available liquidity resources mainly consist of cash and securities collateral provided by the participants. Securities may be turned into cash through use of the interbank repo market or at the central bank.

Interest Rate Risk

SIX SIS Ltd does not engage in conventional credit business and does not enter into material medium-term or long-term fixed interest transactions. However, interest rate fluctuations resulting from short-term investments may influence the treasury result.

Foreign Exchange Risk

In principle, SIX SIS Ltd does not hold any relevant foreign currency positions for its own account. In addition, all receivables from and liabilities towards clients and custodians are matched by currency. Therefore, foreign exchange risks are generally limited to the net amounts from interest received and paid, commissions and fees.

Non-Counterparty-Related Risk

Non-counterparty-related risk is defined as the danger of a loss due to value changes or liquidation of assets that are not related to a specific counterparty. This category includes positions that concern the actual infrastructure for business activities. In particular, it includes office buildings, sundry tangible fixed assets, software and other assets subject to depreciation.

Non-counterparty-related risks are accounted for through adequate depreciation and insurance.

Operational Risk

According to Basel III, operational risk is defined as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. The definition also covers all legal risks, including fines from supervisory bodies and settlements. However, strategic risks and reputational risks are excluded.

To ensure reliability as a key pillar of the Swiss financial center, SIX SIS Ltd has implemented the systematic management of operational risks. Operational risk management is regulated in a framework that defines all responsibilities and processes as well as the risk appetite and risk tolerance. The framework is based on the “Principles for the Sound Management of Operational Risk” issued by the Basel Committee on Banking Supervision and the “Principles for Financial Market Infrastructure” issued by CPMI-IOSCO. The Board of Directors of SIX SIS Ltd conducts an annual review of the framework which, in conjunction with the supporting directives, forms the basis for the management of operational risks.

Operational risks are assessed by determining the potential damage. The direct financial loss is calculated, then the potential future financial impact in terms of a loss of client trust and reputational risks is also taken into account. Any risks identified and cases of damage, along with the losses incurred, are tracked in a database and linked to the internal control system in order to systematically identify risks and support ongoing risk assessment.

Operational risk management is a task assumed at all management levels. Operational risks are limited by means of internal regulations and directives on organization and control. These allow operational risks to be tracked and reduced through systematic risk controls. These risk controls include a mechanism that enables the risk management team to identify and eliminate risks before they actually occur. As a second line of defense, the risk management team also considers instruments to reduce the effective risks. In an annual assessment, all departments evaluate the appropriateness and operational effectiveness of the internal control system and adapt it where necessary.

Business processes are reviewed continuously by the risk management team to identify and assess potential risks. The team also defines measures to further decrease operational risks. The risks identified and measures defined to minimize the risks are regularly reported to the Board of Directors and the management of SIX SIS Ltd. Business process risks are also systematically assessed by Internal Audit and adequate measures are implemented.

The risk inherent in relying on information technology is addressed by SIX SIS Ltd's business continuity planning, which is in line with customary industry practice and

includes measures aimed at reducing the probability of such failures occurring, such as by maintaining an IT back-up center. Corresponding measures on the part of our outsourcing partners are subject to contractual agreements. Business contingency management is tested annually to ensure its effectiveness. The results of this testing are reported to the Board of Directors and the management of SIX SIS Ltd. Improvement measures are also summarily approved by the Board of Directors and the management.

Operational risks are backed with capital according to the basic indicator approach under Basel III.

Financial Crime Risk

The securities industry is exposed to financial crime risk. SIX SIS Ltd proactively identifies, monitors, manages, mitigates and reports potential legal and compliance risks, which includes but is not limited to detecting and preventing money laundering, enforcing terrorist financing regulation and implementing controls in respect of international sanctions regimes. A risk-based program including optimized controls, detection and monitoring systems and procedures designed to reduce vulnerabilities associated with financial crime risk has been implemented.

Accounting and Valuation Policies

Amounts shown in the financial statements have been rounded. The totals may therefore deviate from the sum of the individual values.

General Principles

The accounting, reporting and valuation principles for SIX SIS Ltd comply with the provisions of the Swiss Code of Obligations (CO), the accounting rules of the Swiss banking ordinance and the accounting rules for banks of the Swiss Financial Market Supervisory Authority (ARB FINMA) for statutory single-entity financial statements with reliable assessment. ARB FINMA is applied pursuant to an individual FINMA ruling. The financial statement reporting date is 31 December. In general, business transactions are recorded using the trade date accounting

principle. Detail positions reported under a specific balance sheet item are valued item-by-item.

In line with margin notes 327-340 of ARB FINMA, certain information is disclosed in the consolidated financial statements of SIX Group only.

Foreign Currency Translation

Transactions in foreign currencies are posted at the current exchange rates. Balance sheet items in foreign currencies are translated into Swiss francs at the exchange rates applicable on the balance sheet date if no historical valuation is applicable (i.e. participations). Income statement items are translated on the basis of daily rates. Exchange rate gains or losses are credited or debited to the income statement.

	EUR	USD	GBP	JPY	NOK	CAD
Unit	1	1	1	100	100	1
Exchange rate as at current year-end	1.13	0.99	1.25	0.89	11.33	0.72
Exchange rate as at previous year-end	1.17	0.98	1.32	0.87	11.87	0.78

Liquid Assets

Liquid assets are measured at their nominal value.

Amounts Due to and from Banks and Customers

Receivables and liabilities in Swiss francs are recorded at their nominal values. Risks arising in respect of customer claims are taken into account by offsetting a value adjustment against the respective asset. Predictable risks of loss are accounted for through individual value adjustments and latent risks through collective value adjustments calculated on the basis of clearly defined rates.

Receivables from and liabilities towards banks arise mainly from settlement activities with banks and financial organizations in Switzerland and abroad. SIX SIS Ltd holds accounts with custodians for settlement purposes. The total amount due from custodians is disclosed in the balance sheet as "thereof custodians" in the line item "Amounts due from banks". The remaining accounts mainly consist of regular bank accounts and vostro money accounts of central counterparties (CCP) and participants. Those accounts are primarily used for settlement activities.

In order to reduce risks in connection with open or late settlement, SLB or repo transactions, parts of the liabilities towards banks are pledged in favor of SIX SIS Ltd. The cash collateral delivered by participants is disclosed in the balance sheet as "thereof collaterals" in the line item "Amounts due to banks".

Amounts Due from and Liabilities from Securities Financing Transactions

In accordance with the accounting guidelines, the substance over form principle applies for securities lending and repurchase transactions.

Securities Lending and Borrowing

SIX SIS Ltd lends and borrows securities for its own account and risk (principal status). The receivables and liabilities arising from the lending or borrowing of non-monetary instruments are valued at market value. Lending transactions in securities or money market papers are treated like repurchase agreements, provided they are covered by cash collateral and subject to daily margining. Lending transactions in securities or money market papers that are not covered by cash collateral are not included in the balance sheet, but disclosed in the notes. If the borrowed securities are resold, a non-monetary liability is recognized. Fees paid and received are shown under commission income.

Repurchase and Reverse Repurchase Agreements

Repurchase agreements are shown in the balance sheet as cash deposits against pledge of own securities. Reverse repurchase agreements are treated as loans covered by securities collateral. This emphasizes the nature of such transactions as financing instruments. The transfer of securities is treated as if the securities had been pledged as collateral to cover the loan. Interest paid and received is shown in the result from interest operations.

Positive and Negative Replacement Values of Derivative Financial Instruments

SIX SIS Ltd does not engage in trading activities for its own account. Replacement values arise from the market valuation of liabilities from borrowed securities and from foreign currency forwards to mitigate SIX SIS Ltd's exposure to foreign exchange risk arising from operational activities.

Participations

Participations are valued according to their acquisition cost. All participations are regularly assessed with respect to a possible impairment of their value.

Tangible Fixed Assets

Tangible fixed assets are shown in the balance sheet at cost less necessary depreciation. Depreciation is calculated using the straight-line method. All tangible fixed assets are regularly assessed with respect to a possible impairment of their value.

The following depreciation rates are applied:

Asset class	Estimated lifetime	Depreciation rate
Installations	7	14%
Furnishings and equipment	5	20%
Vehicles	5	20%
Hardware	5	20%
Buildings and building installations	35	3%
Real estate	not depreciated	0%

Real estate is not depreciated. Tangible fixed assets are reported on a net basis, i.e. after deduction of accumulated depreciation.

Provisions

Flat-rate provisions are created to cover latent defaults on amounts due from banks, operational risks and custody risks. Further provisions are created on the basis of the expected resource outflow.

Pension Benefit Obligations

Pension benefit obligations are treated according to Swiss GAAP FER 16. SIX SIS Ltd offers defined contribution plans.

Other Assets and Liabilities

Other assets and other liabilities are shown at their nominal value.

Off-Balance-Sheet Transactions

Off-balance-sheet transactions requiring disclosure concern irrevocable commitments.

Taxes

Current taxes for the year under review are reported on an accrual basis.

Changes in Accounting and Valuation Policies

There have been no changes in accounting and valuation policies.

Subsequent Events

No subsequent events requiring disclosure occurred.

Information on the Balance Sheet

1. Securities Financing Transactions

CHF 1,000	31/12/2018	31/12/2017
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions ¹	959,979	1,042,165
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions ¹	–	65,277
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	93,447	110,445
<i>with unrestricted right to resell or pledge</i>	93,447	110,445
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	1,947,739	1,477,754
<i>of which repledged securities</i>	–	7,160
<i>of which resold securities</i>	863,889	353,592

¹ Before netting agreements

Breakdown of Book Value by Transaction Type

CHF 1,000	31/12/2018	31/12/2017
Reverse repurchase agreements	959,979	1,042,165
Total amounts due from securities financing transactions	959,979	1,042,165
Repurchase agreements	–	65,277
Obligation to return resold securities received in connection with securities borrowing transactions	863,889	353,592
Total liabilities from securities financing transactions	863,889	418,869

2. Collateral for Loans, Receivables and Off-Balance-Sheet Transactions, as well as Impaired Loans and Receivables

CHF 1,000	31/12/2018	31/12/2017
Amounts due from customers		
Amounts due from customers (unsecured, before netting with value adjustments)	1,202	2,479
<i>of which impaired</i>	–	–
Total before offsetting with value adjustments	1,202	2,479
Total after offsetting with value adjustments	1,202	2,479
Off-balance-sheet transactions		
Irrevocable commitments (unsecured)	–	26

SIX SIS Ltd does not offer common credit services. Therefore, all amounts due from customers are uncovered.

The irrevocable commitments are towards the depositor protection scheme under the Swiss Banking Act. Since SIX SIS Ltd has given up its banking license, it left the esisuisse association (depositor protection scheme for Swiss banks and securities dealers) as of 31 December 2017.

3. Derivative Financial Instruments

CHF 1,000	31/12/2018 Trading instruments		
	Positive replacement values	Negative replacement values	Contract volumes
Interest rate instruments			
Forward contracts	579	743	31,223
Foreign exchange products			
Forward contracts	47	47	67,019
Equity securities and indices			
Forward contracts	10,716	3,138	832,669
Total before netting agreements	11,342	3,928	930,910
<i>Previous year</i>	<i>1,674</i>	<i>1,825</i>	<i>356,100</i>
Recognized netting agreements	–	–	–
Total after recognized netting agreements	11,342	3,928	930,910
<i>Previous year</i>	<i>1,674</i>	<i>1,825</i>	<i>356,100</i>
Unrecognized netting agreements	–	–	–
Total after netting agreements	11,342	3,928	930,910
<i>Previous year</i>	<i>1,674</i>	<i>1,825</i>	<i>356,100</i>

SIX SIS Ltd does not engage in trading activities for its own account. The derivative instruments arise from liabilities from borrowed securities and from foreign currency forwards to mitigate SIX SIS Ltd,s exposure to foreign exchange risk arising from operational activities.

No internal model was used to calculate the fair values of the derivative financial instruments.

Breakdown by Counterparty

CHF 1,000	Central clearing houses	Banks	Total
Positive replacement values (after netting agreements)	10,180	1,162	11,342

4. Other Assets and Liabilities

CHF 1,000	Other assets		Other liabilities	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
SECOM settlement accounts	8,530	2,241	1,228	6,104
Indirect taxes	217	64	11,097	23,144
Compensation account	-	-	-	-
Sundry assets and liabilities	232	38	1,049	1,143
Total	8,980	2,342	13,374	30,392

5. Assets Pledged or Assigned to Secure Own Commitments

As at the balance sheet date, no assets were pledged or assigned to secure own commitments.

6. Pension Funds

Employer Contribution Reserves

CHF 1,000	Notes	31/12/2018	31/12/2017
Nominal value as at previous year-end		5,312	5,312
- creation		322	-
- transfer to/from other group entities		-	-
- withdrawal		-	-
- utilization		-	-
Nominal value as at current year-end		5,634	5,312
<i>of which with waiver of use</i>		<i>5,634</i>	<i>5,312</i>
Value adjustments offset	7	-5,634	-5,312
Net value as at current year-end		-	-

The influence of employer contribution reserves on personnel expenses was CHF 0 (previous year: CHF 0).

Economic Benefit from Surplus Cover and Pension Fund Expenses

SIX SIS Ltd is connected to the pension fund of SIX Group. The coverage ratio of the Occupational Benefits Foundation of SIX was 118.7% as at the last audited financial statements (2017). SIX SIS Ltd does not gain any economic benefits in the event of surplus cover. SIX SIS Ltd offers

defined contribution plans. As at the balance sheet date, SIX SIS Ltd had no liabilities in excess of the regulatory contributions. The Occupational Benefits Foundation of SIX does not hold any equity instruments of SIX SIS Ltd.

Pension fund expenses amounted to CHF 4,005 thousand in the current year (previous year: CHF 4,015 thousand).

7. Value Adjustments and Provisions

CHF 1,000	Balance at previous year-end	Use in conf. with designated purpose	Recoveries	Foreign exchange translation differences	New creations charged to income	Releases to income	Balance at current year-end
Provisions for default risks	2,616	–	–	–	–	–2,616	–
Provisions for operational risks	133	–331	–	–	1,125	–	927
Provisions for custody ¹	20,000	–	–	–	–	–10,000	10,000
Provisions for legal risks	–	–	–	–	–	–	–
Other provisions	994	–	–	–	–	–150	844
Total provisions	23,743	–331	–	–	1,125	–12,766	11,771
Value adjustments offset	5,312	–	322	–	5	–	5,639

¹ See note 18 “Losses and extraordinary items”

Provisions for default risks were built in previous years and fully released to the income statement in 2018. Provisions for operational risks are calculated on the basis of actual operational risks. Provisions for custody were partly released to the income statement in 2018.

Value adjustments are created for defaulting debtors (see note 2), for expected credit losses on bank accounts, and for employer contribution reserves with waiver of use (see note 6).

8. Share Capital and Significant Shareholders

1,000 units/CHF 1,000	Number of shares	Total nominal value	Capital eligible for dividend
Share capital at previous year-end	260	26,000	26,000
Share capital at current year-end	260	26,000	26,000

All registered shares and therefore all voting rights (1 share = 1 vote) of SIX SIS Ltd are held by its parent company, SIX Securities Services Ltd. The share capital is fully paid in. As there is no capital increase planned, no authorized or conditional capital exists.

SIX Securities Services Ltd is wholly owned by SIX Group Ltd. 125 national and international financial institutions hold shares in SIX Group Ltd, but no owner holds more than 20% of SIX Group Ltd's total equity. The shares are distributed such that no owner or type of bank has an

absolute majority. All shareholders are bound by a shareholders' agreement.

Therefore, no securities are held by executives, directors or employees. Furthermore, no employee participation scheme is in place.

The statutory reserves below 50% of the nominal share capital are not freely distributable and may only be used to cover losses.

Shareholders with more than 5% of all voting rights in SIX Group Ltd

CHF 1,000/in %	31/12/2018		31/12/2017	
	Nominal value	% of equity	Nominal value	% of equity
UBS AG consolidated	3,380	17.3	3,380	17.3
Credit Suisse Group consolidated	2,697	13.8	2,500	12.8
Raiffeisen Group consolidated	1,074	5.5	1,344	6.9

9. Amounts Due From/To Related Parties

All transactions with related parties and other entities of SIX Group Ltd are conducted at prices in line with the market (“at arm’s length”).

CHF 1,000	Assets		Liabilities	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
SIX Securities Services Ltd	103	7	58,581	36,688
SIX x-clear Ltd	208,424	211,615	163,993	765,787
Other entities of SIX Group	1,447	1,978	23,013	23,410
Indirect shareholder SIX Group Ltd	-	-	881,656	345,051
Other qualified indirect shareholders (>10% of equity)	44,625	16,185	1,346,799	1,186,754

Intragroup Income and Expenses

The following figures show income from and expenses paid to other entities of SIX Securities Services.

CHF 1,000/in %	2018		2017	
	CHF	% of item	CHF	% of item
Result from interest operations	3,117	10.4	4,124	20.0
Result from commission business and services	582	0.3	420	0.2
Result from other ordinary activities	3,304	44.1	2,876	19.6
Operating expenses	-13,072	7.5	-16,072	9.4
Net intragroup income and expenses	-6,069		-8,652	

10. Maturity Structure of Financial Instruments

CHF 1,000	At sight	Cancelable	Due < 3 months	Due 3–12 months	Due 12–60 months	Total
Financial assets						
Liquid assets	4,189,950	–	–	–	–	4,189,950
Amounts due from banks	1,286,301	–	–	–	–	1,286,301
<i>thereof custodians</i>	744,782	–	–	–	–	744,782
Amounts due from securities financing transactions	–	–	954,067	5,912	–	959,979
Amounts due from customers	1,202	–	–	–	–	1,202
Positive replacement values of derivative financial instruments	11,342	–	–	–	–	11,342
Participations	1,420	–	–	–	–	1,420
Total financial assets	5,490,215	–	954,067	5,912	–	6,450,194
<i>Previous year</i>	<i>4,326,105</i>	<i>–</i>	<i>1,042,165</i>	<i>–</i>	<i>–</i>	<i>5,368,269</i>
Financial liabilities						
Amounts due to banks	4,357,783	–	–	–	–	4,357,783
<i>thereof collaterals</i>	2,000,755	–	–	–	–	2,000,755
Liabilities from securities financing transactions	–	–	863,889	–	–	863,889
Amounts due to customers	972,579	–	–	–	–	972,579
Negative replacement values of derivative financial instruments	3,928	–	–	–	–	3,928
Total financial liabilities	7,335,046	–	863,889	–	–	6,198,180
<i>Previous year</i>	<i>4,645,762</i>	<i>–</i>	<i>418,869</i>	<i>–</i>	<i>–</i>	<i>5,064,631</i>

11. Assets by Country/Group of Countries

	Rating	31/12/2018		31/12/2017	
		CHF 1,000	Share in %	CHF 1,000	Share in %
Europe		6,224,564	95.9	4,924,352	91.2
Switzerland	AAA	4,441,571	68.4	3,667,225	67.9
Germany	AAA	853,056	13.1	580,417	10.8
France	AAA	221,762	3.4	11,992	0.2
Luxembourg	AAA	168,985	2.6	82,985	1.5
United Kingdom	AAA	165,602	2.6	153,115	2.8
Finland	AAA	129,897	2.0	284,515	5.3
Denmark	AAA	103,951	1.6	79,915	1.5
Italy	AAA	38,551	0.6	1,750	0.0
Sweden	AAA	53,545	0.8	384	0.0
Austria	AAA	47,644	0.7	62,055	1.1
Australia	AAA	32,148	0.5	22,803	0.4
North America		35,852	0.6	208,244	3.9
United States	AAA	13,020	0.2	168,604	3.1
Canada	AAA	22,832	0.4	39,639	0.7
Asia		29,289	0.5	98,817	1.8
Japan	AAA	29,289	0.5	98,817	1.8
Other countries ¹	n/a	169,199	2.6	143,566	2.7
Total assets		6,491,052	100.0	5,397,783	100.0

¹ None of the countries included in this category has a share of more than 1%.

As SIX SIS Ltd does not offer common credit services, but needs to reliably satisfy settlement counterparties, the distribution of the assets by country originates from a liquidity point of view. The risk domicile does not deviate from the assets' domicile shown above.

12. Breakdown of Assets by Country Rating

Country rating	31/12/2018		31/12/2017	
	in CHF 1,000	in %	in CHF 1,000	in %
AAA-AA	6,470,008	99.7	5,387,041	99.8
A	5,805	0.1	7,444	0.1
BBB	14,803	0.2	3,075	0.1
BB	414	0.0	221	0.0
B and lower	23	0.0	0	0.0
Total assets	6,491,052	100.0	5,397,783	100.0

The rating categories presented above are based on the rating scale of Swiss Export Risk Insurance (SERV).

13. Assets and Liabilities by Domestic and Foreign Origin

CHF 1,000	31/12/2018			31/12/2017		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Assets						
Liquid assets	3,339,965	849,985	4,189,950	2,698,305	569,938	3,268,243
Amounts due from banks	316,707	969,594	1,286,301	382,791	669,401	1,052,192
<i>thereof custodians</i>	–	744,782	744,782	13	534,999	535,012
Amounts due from securities financing transactions	731,670	228,309	959,979	552,683	489,482	1,042,165
Amounts due from customers	928	274	1,202	2,158	321	2,479
Positive replacement values of derivative financial instruments	11,342	–	11,342	1,674	–	1,674
Accrued income and prepaid expenses	6,068	–	6,068	538	–	538
Participations	100	1,320	1,420	100	1,417	1,517
Tangible fixed assets	25,810	–	25,810	26,634	–	26,634
Other assets	8,980	–	8,980	2,342	–	2,342
Total assets	4,441,571	2,049,481	6,491,052	3,667,224	1,730,558	5,397,783
Liabilities and equity						
Amounts due to banks	3,172,640	1,185,144	4,357,784	3,290,298	944,577	4,234,875
<i>thereof collaterals</i>	1,661,547	339,207	2,000,755	1,788,585	284,467	2,073,052
Liabilities from securities financing transactions	863,889	–	863,889	418,869	–	418,869
Amounts due to customers	972,547	32	972,579	409,013	50	409,062
Negative replacement values of derivative financial instruments	3,928	–	3,928	1,825	–	1,825
Accrued expenses and deferred income	15,679	–	15,679	22,185	–	22,185
Other liabilities	13,374	–	13,374	30,392	–	30,392
Provisions	11,771	–	11,771	23,743	–	23,743
Share capital	26,000	–	26,000	26,000	–	26,000
Statutory reserves						
Tax-exempt capital contribution reserve	5,000	–	5,000	5,000	–	5,000
Statutory retained earnings	18,300	–	18,300	18,300	–	18,300
Voluntary reserves						
Other voluntary reserves	63,100	–	63,100	63,100	–	63,100
Retained earnings	99,432	–	99,432	94,468	–	94,468
Profit for the year	40,216	–	40,216	49,964	–	49,964
Total liabilities and equity	5,305,876	1,185,176	6,491,052	4,453,156	944,627	5,397,783

14. Assets and Liabilities by Most Significant Currencies

CHF 1,000	CHF	EUR	USD	GBP	SEK	JPY	Other ¹	Total
Assets								
Liquid assets	3,339,965	849,985	–					4,189,950
Amounts due from banks	81,927	489,924	160,921	158,378	93,397	46,904	254,850	1,286,301
<i>thereof custodians</i>	6,241	399,367	79,580	78,201	52	34,411	146,929	744,782
Amounts due from securities financing transactions	–	36,027	892,709	31,243	–	–	–	959,979
Amounts due from customers	1,201	–	–	–	–	–	1	1,202
Positive replacement values of derivative financial instruments	11,342	–	–	–	–	–	–	11,342
Accrued income and prepaid expenses	5,665	14	389	–	–	–	–	6,068
Participations	100	1,320	–	–	–	–	–	1,420
Tangible fixed assets	25,810	–	–	–	–	–	–	25,810
Other assets	1,193	5,897	1,855	7	–	–	27	8,980
Total assets	3,467,204	1,383,167	1,055,874	189,628	93,397	46,904	254,878	6,491,052
Delivery entitlements from spot exchange, forward forex and forex options transactions	33,130	360	40	–	32,925	–	563	67,019
Total assets	3,500,335	1,383,527	1,055,915	189,628	126,322	46,904	255,440	6,558,071
Liabilities and equity								
Amounts due to banks	2,209,029	624,399	955,171	185,740	82,929	46,934	253,581	4,357,783
<i>thereof collaterals</i>	1,520,841	135,162	304,919	39,713	–	–	120	2,000,755
Liabilities from securities financing transactions	7,414	752,165	90,734	1,737	10,615	–	1,224	863,889
Amounts due to customers	964,314	4,975	1,117	2,086	70	–	17	972,579
Negative replacement values of derivative financial instruments	3,928	–	–	–	–	–	–	3,928
Accrued expenses and deferred income	15,332	347	–	–	–	–	–	15,679
Other liabilities	3,460	473	9,108	12	–	–	321	13,374
Provisions	10,844	–	927	–	–	–	–	11,771
Share capital	26,000	–	–	–	–	–	–	26,000
Statutory reserves								
Tax-exempt capital contribution reserve	5,000	–	–	–	–	–	–	5,000
Statutory retained earnings	18,300	–	–	–	–	–	–	18,300
Voluntary reserves								
Other voluntary reserves	63,100	–	–	–	–	–	–	63,100
Retained earnings	99,432	–	–	–	–	–	–	99,432
Profit for the year	40,216	–	–	–	–	–	–	40,216
Total liabilities and equity	3,466,369	1,382,360	1,057,057	189,575	93,614	46,934	255,142	6,491,052
Delivery obligations from spot exchange, forward forex and forex options transactions	33,622	37	272	–	32,925	–	163	67,019
Total liabilities and equity	3,499,991	1,382,397	1,057,328	189,575	126,539	46,934	255,305	6,558,071
Net position per currency	835	807	-1,182	53	-218	-30	-265	–
Previous year	-2,612	1,717	47	175	220	36	416	-1

¹ None of the currencies included in the category "Other" has a share of more than 1% of the assets.

Information on the Income Statement

15. Result from Trading Activities

CHF 1,000	2018	2017
Net valuation result from the translation of foreign exchange positions	-220	116
Total result from trading activities	-220	116

16. Personnel Expenses

CHF 1,000	2018	2017
Salaries (incl. bonuses)	-41,858	-39,474
Social insurance benefits	-7,068	-7,930
Other personnel expenses	-2,633	-2,557
Total personnel expenses	-51,558	-49,961

17. General and Administrative Expenses

CHF 1,000	2018	2017
SECOM expenses, cost of equipment	-51,606	-62,439
Consultancy and other services	-55,656	-41,055
Fees of audit firm	-314	-416
<i>of which for financial and regulatory audits</i>	-264	-371
<i>of which for other services</i>	-50	-45
Cost of premises	-4,604	-4,832
Advertising and marketing expenses	-5,156	-4,657
Indirect taxes and other fees	-2,609	-2,436
Other operating expenses	-3,069	-5,390
Total general and administrative expenses	-123,015	-121,224

18. Losses and Extraordinary Items

Hidden reserves (provisions) of CHF 10 million (previous year: CHF 10 million) were released in the reporting year. The reduction of holdings in participations also resulted in extraordinary income of CHF 0.1 million.

In the previous year, the sale of assets resulted in extraordinary income of CHF 0.01 million.

19. Taxes

CHF 1,000	2018	2017
Expenses (income) from taxes in previous years	1,776	-1,200
Expenses for current taxes	-10,993	-13,821
Decrease (increase) of provisions for deferred taxes	-	-
Total taxes	-9,217	-15,021
Weighted average tax rate on operating result before tax (including extraordinary items)	21.5%	21.3%

20. Result from Interest Operations

According to the accounting rules for banks (ARB FINMA), negative interest paid is to be offset against interest income, while negative interest received is to be offset against interest expenses. In the reporting year, negative interest paid amounted to CHF 23.1 million (previous year: CHF 25.9 million), while negative interest received

amounted to CHF 28.4 million (previous year: CHF 28.6 million). The following table shows the result from interest operations as if negative interest paid was included in the position "Interest expenses" and interest received was included in the position "Interest and discount income".

CHF 1,000	2018		
	Income statement	Adjustment neg. interest	Adj. income statement
Interest and discount income	6,453	51,585	58,038
Interest expenses	23,550	-51,585	-28,035
Gross result from interest operations	30,003	-	30,003
Changes in value adjustments for default risks	-	-	-
Result from interest operations	30,003	-	30,003

CHF 1,000	2017		
	Income statement	Adjustment neg. interest	Adj. income statement
Interest and discount income	-4,182	54,560	50,378
Interest expenses	24,833	-54,560	-29,727
Gross result from interest operations	20,651	-	20,651
Changes in value adjustments for default risks	-	-	-
Result from interest operations	20,651	-	20,651

Information on Off-Balance-Sheet Transactions

21. Contingent Liabilities and Subordinated Assets and Liabilities

	2018	2017
Joint liability from consolidated value-added tax filing status	p.m.	p.m.
Subordinated assets and liabilities	–	–

In the course of its business activities, different legal interpretations may arise between SIX SIS Ltd and third parties (contracting parties, authorities, etc.) which may give rise to legal disputes. SIX SIS Ltd assesses the corresponding risks and recognizes provisions if it considers the likelihood of occurrence to be probable. No provisions are recognized for risks whose probability of occurrence SIX SIS Ltd currently considers to be less than probable or highly unlikely. However, it cannot be ruled out that risks will be assessed differently in the future due to new findings and that cash outflows will occur. This is in particular because the assessment of legal uncertainties contains a latitude of judgment, and also because legal developments can lead to different assessments in the future.



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To the General Meeting of
SIX SIS Ltd, Olten

Zurich, 26 April 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of SIX SIS Ltd, which comprise the balance sheet, income statement, statement of changes in equity and notes (page 3 to 25), for the year ended 31 December 2018.



Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.



Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall 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.



Opinion

In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

**Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd



Jan Marxfeld
(Qualified
Signature)

Licensed audit expert
(Auditor in charge)



Samuel Rast
(Qualified
Signature)

Licensed audit expert

Regulatory Disclosure

Capital Adequacy

SIX SIS Ltd is obliged to comply with the capital adequacy regulations set out in the Swiss Financial Market Infrastructure Act. The Basel III capital adequacy framework is integrated into the FMI-specific regulations and additional FMI-specific requirements must also be fulfilled. SIX SIS Ltd must have a minimum of 110% of the required capital at all times.

CHF 1,000	31/12/2018	31/12/2017
Tier 1 capital	211,832	206,868
Tier 2 capital	7,850	15,700
Eligible capital	219,682	222,568
Required capital	97,481	136,259
of which for credit risk	18,979	14,683
of which for non-counterparty-related risks	2,065	2,131
of which for market risks	212	171
of which for operational risks	30,636	29,813
of which for wind-down risks ¹	45,500	89,462
of which for intraday credit risk ²	88	–
Capital fulfilment ratio	225.4%	163.3%
p.m. CET1 ratio	32.7%	35.4%
p.m. Basel III capital ratio	33.9%	38.0%

¹ This requirement is FMI-specific (non-Basel III) and therefore regulated in the Swiss Financial Market Infrastructure Ordinance (Art. 48 FMIO).

² Based on Capital Adequacy Ordinance (Art. 45 CAO) FINMA requires additional capital for intraday credit risks.

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