



Securities Services

Annual Report 2012

SIX x-clear Ltd
Brandschenkestrasse 47
CH-8002 Zurich



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Annual Report of SIX x-clear Ltd

Strong growth in foreign business

SIX x-clear Ltd continued to expand its position: In clearing, the integration of more European trading platforms generated significantly higher transaction volumes. Operating income fell by 23% to CHF 9.7 million.

Although the number of transactions increased by 80.3%, the operating income is considerably lower than that of the previous year. This is firstly due to increased competition in the European clearing business and the ongoing price pressure associated with this and secondly as a result of additional cross-border settlement costs incurred in the area of interoperability between the CCPs. Own interest expenses in the collateralization of the inter CCP business were another negative effect.

Only around half of the additional costs amounting to a total of approx. CHF 4.97 million were passed onto clients in 2012.

Expansion of clearing in Europe

In clearing, SIX x-clear Ltd took advantage of its strong starting position and the opportunities offered by the expanded agreement on interoperability for central counterparties. In addition to the trading platforms for which SIX x-clear Ltd had previously offered its services, BATS Chi-X and Turquoise were fully connected for the first time at the beginning of the year. This led to a massive rise in the number of transactions to 91.6 million (2011: 50.8 million); approx. 80% of the total volume came from abroad with 74.3 million transactions (26.0 million).

At the end of the year, the Board of Directors of SIX approved the acquisition of Oslo Clearing from the Oslo Stock Exchange. This acquisition will make SIX x-clear Ltd one of the leading counterparties in clearing for primary exchanges in Europe.

Balance sheet of SIX x-clear Ltd

(CHF 1,000)	Annex	31.12.2012	31.12.2011
Assets			
Due from banks		523,525	230,779
Due from clients		–	32
Financial investments	3.1	38,463	4,488
Participations		4	4
Accrued income and prepaid expenses		120	1,445
Other assets	3.2	6,268	6,325
Total assets		568,380	243,073
Due from qualified participants (direct)		–	–
Due from qualified participants (indirect)		380	221
Due from affiliated companies (banks)		500,736	156,452
Due from affiliated companies (clients)		43	16
Liabilities			
Due to banks		504,944	179,550
Due to clients		1,129	879
Accrued expenses and deferred income		1,223	1,081
Other liabilities	3.2	7,857	6,781
Valuation adjustments and provisions		–	–
Share capital	3.6	30,000	30,000
General legal reserves	3.6	6,360	6,360
Free reserves	3.6	18,500	18,500
Retained earnings	3.6	– 78	– 628
Annual profit/loss	3.6	– 1,556	550
Total liabilities and equity		568,380	243,073
Due to qualified participants (direct)		–	–
Due to qualified participants (indirect)		83,710	49,353
Due to affiliated companies (banks)		224,815	4,968
Due to affiliated companies (clients)		1,032	845
Off-balance sheet transactions			
Irrevocable commitments		2	12
Equity derivatives			
Contract volumes		7,378,878	6,612,355
Positive replacement values		34,077	43,166
Negative replacement values		35,751	43,227

Income statement of SIX x-clear Ltd

(CHF 1,000)	Annex	2012	2011
Operating income			
Interest income			
Interest and discount income		–	89
Interest expenses		– 1,301	– 117
Net interest income		– 1,301	– 28
Commission and other services business income			
Commission income		12,536	11,959
Commission expenses		– 4,533	– 745
Commission income from other services business		231	217
Commission expenses from other services business		– 39	– 154
Net commission and other services business income		8,195	11,277
Net trading income	4.1	– 8	16
Other income			
Other ordinary income ¹		2,782	1,307
Other ordinary expenses		–	– 15
Net other income		2,782	1,292
Total operating income		9,668	12,556
Total operating expenses			
Personnel expenses		– 2,869	– 3,816
Other operating expenses ²		– 8,252	– 8,560
Total operating expenses		– 11,121	– 12,376
Gross profit		– 1,454	180
Depreciation on fixed assets		–	–
Valuation adjustments, provisions and losses		–	–
Operating result (sub-total)		– 1,454	180
Extraordinary income		–	4
Extraordinary expenses		–	–
Taxes		– 102	366
Annual loss/profit		– 1,556	550
Appropriation of disposable profit			
Loss carried forward from the previous year		– 78	– 628
Loss at the General Meeting's disposal		– 1,633	– 78
Allocation to general legal reserves		–	–
Allocation to/withdrawal from other reserves		–	–
Dividend		–	–
Profit carried forward		– 1,633	– 78
¹ Thereof Group-internal services		2,685	1,307
² Thereof Group-internal services		– 4,382	– 4,111

Annex to the financial statements 2012

1 Notes on business activities and workforce

1.1 General

SIX x-clear Ltd operates as an international central counterparty (CCP) in securities trading. As CCP, SIX x-clear Ltd provides clearing services for SIX Swiss Exchange Ltd, the London Stock Exchange, and a number of multilateral trading facilities (MTFs).

Furthermore, it assumes the role of a center of competence in the field of risk management for SIX Securities Services. SIX x-clear Ltd is licensed as a bank under Swiss law and supervised by the Swiss Financial Market Supervisory Authority (FINMA). Based on the National Bank Law, it is also supervised by the Swiss National Bank with respect to systemic risks. The Financial Services Authority (UK) granted SIX x-clear Ltd the status of a Recognised Overseas Clearing House (ROCH).

At the end of 2012, SIX x-clear Ltd had a full-time equivalent workforce of 14 people (2011: 17). Since the financial year 2010, temporary staff have been counted in this headcount figure if the duration of their contract is greater than six months.

1.2 Outsourcing

Wherever possible, SIX x-clear Ltd uses the services of other affiliated companies of SIX.

SIX x-clear Ltd has outsourced securities settlement within the Group, i.e. the settlement of CCP transactions has been assigned to its affiliate SIX SIS Ltd. The outsourced tasks include the settlement and monitoring of trades and the respective repositioning of securities. The service provider SIX SIS Ltd is also a regulated bank supervised by FINMA. The risk management for SIX x-clear Ltd is carried out by SIX Securities Services.

SIX x-clear Ltd outsourced the operation and maintenance of the computer center to SIX Group Services Ltd. This outsourcing arrangement is governed by Service Level Agreements in compliance with FINMA regulations. Staff members of SIX Group Services Ltd are obligated to maintain banking secrecy.

1.3 Risk management

1.3.1 General

As a part of SIX, SIX x-clear Ltd is an important pillar of the Swiss financial center, laying great emphasis on reliability and security, and thus creating the trust that is essential for the financial center's smooth functioning. The Board of Directors of SIX is responsible for risk. The Risk Committee of the Board of Directors of SIX is responsible for internal controls with respect to risk. The Board of Directors of SIX approves the risk policy and delegates risk management tasks.

Overall responsibility for risk management lies with the members of the Group Executive Board of SIX which is supported at Group level by the specialized units Corporate Development (for strategic risks), Corporate Security Officer (for security risks) and Compliance Officer as well as the Finance & Services division. SIX's risk control measures are executed by the Chief Risk Officer of SIX, who is independent of the line management structure. Risk management and controlling are monitored by the internal auditors. The management of specific risks faced by SIX x-clear Ltd is assumed by senior executives of SIX Securities Services Ltd.

1.3.2 Risk policy

The scope of SIX x-clear Ltd's risk policy is determined by the risk policy of SIX, in which the principles and philosophy applied to various risks are set out. The risk policy precisely defines the organization, structures, competencies, and responsibilities and provides the basis for dealing with different kinds of risk as well as outlining the readiness to assume risk. Thus, the risk policy constitutes the central framework for regulations and directives of the individual companies and for the risk categories.

1.3.3 Risk groups

1.3.3.1 Strategic risk and project risk

Strategic risks and project risks arise both from the implementation of SIX Securities Services Ltd's strategy and from the implementation of the strategies of the individual subsidiaries. They are the responsibility of the Group Executive Board as well as of the Executive Boards of the subsidiaries. Strategic risks and project risks are checked semi-annually based on their risk profiles.

1.3.3.2 Reputational risk

Reputational risk involves the risk of SIX's or one of its subsidiaries' reputation being tarnished. As reputational risk is mainly inherent in business activities, reputational risk management mainly consists of ensuring competency, integrity, responsibility as well as compliance in business activities at a Group level. Reputational risk management includes all operational and strategic management instruments of SIX and SIX Securities Services Ltd, in particular financial reporting, monitoring of performance key figures as well as studies on customer and staff satisfaction. An integrated emergency structure ensures that in the event of a crisis, reputational risks are kept to a minimum.

1.3.3.3 Counterparty risk (default risk, credit 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, i.e. a counterparty or a country becoming insolvent. This includes settlement risk or the risk of the counterparty becoming insolvent at the time when the transaction is settled.

SIX x-clear Ltd pursues a conservative risk and credit policy. New participants of SIX x-clear Ltd are required to meet strict regulatory standards. Inadequately regulated and supervised market participants, or institutions not subject to money laundering monitoring, are not admitted.

SIX x-clear Ltd is linked online and in real time with SIX Swiss Exchange, the London Stock Exchange and a number of multilateral trading facilities (MTFs) as well as with the SIC/euroSIC systems. The system of real-time settlement of irreversible transactions on the basis of simultaneous delivery versus payment, which has been in operation for several years, offers the best guarantee of eliminating settlement risk.

SIX x-clear Ltd applies the Swiss standard approach in line with Basel II to calculate capital adequacy requirements for credit risks.

1.3.3.4 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 assets, software as well as other assets subject to depreciation.

Non-counterparty-related risks are accounted for through adequate depreciation as well as insurance. In particular, software is written off in full in the year of production/purchase.

1.3.3.5 Market risk

Market risk is the risk of a loss due to value fluctuations of a position triggered by a change of underlying factors (e.g. equity or commodity prices, exchange rates and interest rates as well as their respective volatilities).

As central counterparty, SIX x-clear Ltd applies the following multi-level risk management techniques in order to minimize market risk due to unsettled transactions: Regular evaluations of positions at the latest quotation, rules for the prevention and coverage of possible losses, application of margin requirements for actual changes in value (variation margin) and possible future price fluctuations (initial margin) as well as various default fund contributed by the participants. Furthermore, the Default Funds are mutualized and participants are under the duty to make additional contributions (margin calls) for interest rate fluctuations. SIX x-clear Ltd does not engage in credit transactions or in major mid-term or long-term fixed interest transactions.

Consequently, SIX x-clear Ltd is not exposed to any significant risk of interest rate fluctuations.

In principle, SIX x-clear Ltd does not hold any foreign currency for its own account outside of OECD member states. Moreover, all receivables from and liabilities towards participants and custodians are matched by currency. Currency risks are generally limited to the net amounts from interest received and paid, commissions and fees.

1.3.3.6 Operational risk

According to Basel II, 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. Strategic risks and reputational risks, however, are excluded.

Operational risk management is a task assumed at all management levels. Operational risks are mainly limited by means of internal regulations and directives on organization and control. Additionally, it is man-

datory to identify, assess and manage them continually. For this purpose, business process risks are systematically assessed by the internal Group audit department and adequate measures are implemented. Furthermore, SIX Securities Services maintains a loss and risk database reflecting the risk categories defined by Basel II to systematically identify any risks in processes and to collect data to minimize losses in all business areas.

Together with the legal department, SIX's compliance function ensures that the business activities of SIX x-clear Ltd comply with the current rules and regulations as well as the financial intermediaries' general obligation to exercise due diligence. These entities are responsible for implementing the requirements and developments defined by supervisory bodies, the legislator, the jurisdiction and other relevant institutions. Furthermore, they ensure that internal rules and directives are observed and amended in line with changing legal provisions.

The risk inherent in relying on information technology is addressed by SIX x-clear Ltd's business continuity planning, which is in line with customary industry practice and measures aimed at reducing the probability of such failures occurring, such as by maintaining an IT back-up center. Appropriate steps on the part of SIX x-clear Ltd's outsourcing partners are subject to contractual agreements. Furthermore, SIX x-clear Ltd is also supervised by the Swiss National Bank in this respect pursuant to the National Bank Act.

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

1.3.4 Disclosure in accordance with FINMA circular no. 08/22 on capital adequacy disclosure

In accordance with margin notes 7 – 11 of FINMA circular 08/22, SIX x-clear Ltd meets the requirements for partial disclosure.

Capital as at 31 December 2012 and 31 December 2011, respectively:

(CHF 1,000)	31.12.2012	31.12.2011
Eligible capital (after appropriation of disposable profit):	53,227	54,782
Total required capital:	15,948	7,769
thereof for credit risks:	14,403	6,025
thereof for non-counterparty-related risks:	–	–
thereof for market risks:	84	74
thereof for operational risks:	1,461	1,669

2 Principles of accounting and valuation

2.1 General principles

The accounting, reporting and valuation for the individual companies comply with the provisions of the Swiss Code of Obligations (CO), the accounting guidelines of the Swiss banking legislation (BAG SFBC) and the accounting guidelines of the Swiss Financial Market Supervisory Authority (FINMA). The financial statement reporting date is 31 December. In general, business transactions are recorded using the trade date accounting principle. An exception to this are the non-fulfilled transactions from the clearing business, which were accounted for using the settlement date accounting principle. Detail positions reported under a specific balance sheet item are valued individually.

2.2 Conversion of foreign currencies

Transactions in foreign currency 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. Exchange rate gains or losses are credited or debited to the income statement.

Exchange rates

Currency	USD	EUR	GBP	JPY	HKD	CAD
Unit	1	1	1	100	100	1
Exchange rates as at 31.12.2012	0.92	1.21	1.48	1.06	11.81	0.92
as at year-end 2011	0.94	1.22	1.45	1.21	12.11	0.92

2.3 Liquid funds, borrowed funds

These items are shown in the balance sheet at their nominal value.

2.4 Receivables from and liabilities towards banks and clients

Receivables and liabilities in CHF are shown at their nominal values. Risks arising in respect of customer claims are taken into account in the balance sheet item "Valuation adjustments and provisions." Predictable risks of loss are accounted for through individual valuation adjustments and latent risks through flat-rate valuation adjustments calculated on the basis of clearly defined rates.

Claims from and liabilities towards banks arise mainly from clearing activities as CCP.

2.5 Financial investments in securities

Financial investments are stated at the lower of cost or market value.

2.6 Lending and repurchase transactions in securities

In accordance with the accounting guidelines, the substance over form principle applies for lending and repurchase activities with securities. Thus, non-monetary values are shown in the balance sheet of the party delivering these values.

2.7 Securities lending and borrowing transactions

Basically, SIX x-clear Ltd only engages in trading book transactions, exclusively assuming the role of borrower at SIX SIS Ltd. Liabilities arising from the borrowing of non-monetary instruments are valued at market price. Lending transactions in securities or money market papers are treated like repo transactions, provided they are covered by cash collateral and are subject to daily margining. Lending transactions in securities that are not covered by cash collateral are not included in the balance sheet, but shown in the Annex. Fees paid and received are shown under commission income rather than interest income.

2.8 Repurchase and reverse repurchase transactions (repo)

SIX x-clear Ltd does not engage in any repo or reverse repo transactions.

2.9 Pension fund liabilities

Liabilities towards SIX SIS Ltd's own pension fund as at 31 December 2012 amount to TCHF 0 (in 2011: TCHF 0). SIX x-clear Ltd offers defined contribution plans.

2.10 Information on off-balance sheet transactions

Off-balance sheet transactions requiring disclosure concern derivative financial instruments. There are no contingent liabilities.

SIX x-clear Ltd engages in transactions involving derivative financial instruments for its own account only to a very limited extent and for the sole purpose of hedging.

The positive and negative replacement values as well as the respective contract volumes are spot transactions which were outstanding at year-end.

2.11 Valuation adjustments and provisions for default risks (counterparty, customer and country risk)

Allowance is made for individual risks predictable on the balance sheet date by means of individual valuation adjustments and provisions based on the accounting principle of prudence. Individual valuation adjustments are deducted directly from the corresponding asset item.

2.12 Amended principles of accounting and valuation

None

3 Balance sheet information

3.1 Segregation of financial investments

(CHF 1,000)	Book value		Market value	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Financial investments in securities				
Equities	38,463	4,488	38,463	4,488
Total financial investments in securities	38,463	4,488	38,463	4,488
thereof securities eligible for repo transactions according to liquidity regulations	–	–	–	–

3.2 Other assets and other liabilities

(CHF 1,000)	Other assets		Other liabilities	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Replacement values	6,123	5,677	7,797	5,738
Compensation account	–	61	–	–
SECOM settlement accounts	141	568	–	993
Indirect taxes	1	2	53	45
Sundry assets and sundry liabilities	2	16	6	5
Total other assets and other liabilities	6,268	6,325	7,857	6,781

3.3 Assets pledged or assigned as cover for liabilities

(CHF 1,000)	31.12.2012		31.12.2011	
	Amount due or book value	Liabilities/ claimed liabilities	Amount due or book value	Liabilities/ claimed liabilities
Due from banks ¹	5,304	–	23,217	–
Due from banks (affiliated companies)	500,736	224,815	156,453	4,968
Total pledged assets	506,039	224,815	179,670	4,968

¹ The assets are pledged to cover inter-CCP risks.

3.4 Lending and repurchase transactions in securities

(CHF 1,000)	31.12.2012	31.12.2011
Market value of securities received due to securities borrowing for which the right to sell or pledge was granted without restriction	401,007	563
thereof: resold or repledged securities	401,007	563

All credit balances at SIX SIS Ltd (custody and money accounts), which mostly comprise cash balances, are pledged according to the Pledge Agreement and the supplementary contract for the broker line facility.

3.5 Company capital and shareholders holding more than 5% of all voting rights

	31.12.2012			31.12.2011		
	Total nominal value (CHF m)	Quantity	Capital entitled to dividends (CHF m)	Total nominal value (CHF m)	Quantity	Capital entitled to dividends (CHF m)
Share capital	30	30,000	30	30	30,000	30
Company capital	30	30,000	30	30	30,000	30
Authorized capital	–	–	–	–	–	–
Conditional capital	–	–	–	–	–	–

All registered shares, and thus all voting rights (1 share = 1 vote), are held by the parent company, SIX Securities Services Ltd.

3.6 Statement of equity

	Share capital	General statutory reserves	Free reserves	Retained earnings	Total
(CHF 1,000)					
1 January 2012	30,000	6,360	18,500	– 78	54,782
Dividend payment	–	–	–	–	–
Allocation to reserves	–	–	–	–	–
Annual profit 2012	–	–	–	– 1,556	– 1,556
31 December 2012	30,000	6,360	18,500	– 1,633	53,227
1 January 2011	30,000	6,360	18,500	– 628	54,232
Dividend payment	–	–	–	–	–
Allocation to reserves	–	–	–	–	–
Annual loss 2011	–	–	–	550	550
31 December 2011	30,000	6,360	18,500	– 78	54,782

3.7 Transactions with associated persons

These transactions were executed on the same terms as those applicable to third parties.

4 Information on the income statement

4.1 Net trading income

(CHF 1,000)	2012	2011
Income from forex transactions	- 8	16
Total	- 8	16

4.2 Extraordinary expenses and income

(CHF 1,000)	2012	2011
Extraordinary income		
Release of redundant provisions	-	4
Profit on sale of tangible assets	-	-
Total extraordinary income	-	4
Extraordinary expenses		
Retroactive adjustments of assets	-	-
Total extraordinary expenditure	-	-

5 Additional information

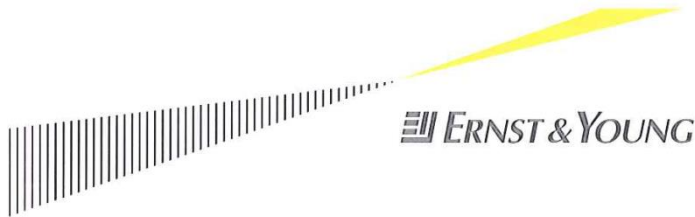
5.1 Contingent liabilities

(CHF 1,000)	31.12.2012	31.12.2011
Joint liability from consolidated value-added tax filing status	p.m.	p.m.

The annex to the consolidated financial statements of SIX Securities Services Ltd, which are based on the true and fair view principle, contains additional information.

6 Margin requirements

As at 31 December 2012, the margin requirements of SIX x-clear Ltd's members amounted to TCHF 125,954 (previous year: TCHF 124,146). To meet this requirement, collateral with a market value of TCHF 1,225,981 (previous year: TCHF: 1,168,196) was deposited.



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To the General Meeting of
SIX x-clear Ltd, Zurich

Zurich, 14 March 2013

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of SIX x-clear Ltd, which comprise the balance sheet, income statement and notes (pages 4 until 14), for the year ended 31 December 2012.

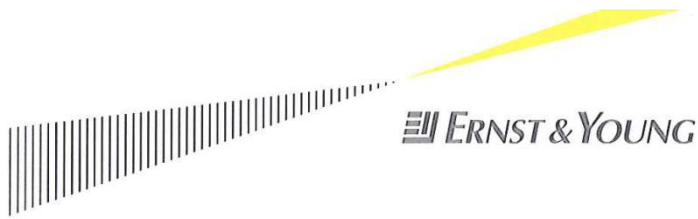
Board of Directors' responsibility

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 2012 comply with Swiss law and the company's articles of incorporation.

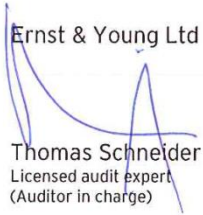
Report on Other Legal Requirements

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 recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd


Thomas Schneider
Licensed audit expert
(Auditor in charge)


Pascal Berli
Licensed audit expert



Corporate bodies

SIX x-clear Ltd

Board of Directors

Prof. Dr. Peter Gomez

Dr. Stefan Mäder

Dr. Urs Rügsegger

Thomas Zeeb

Chairman of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

Member of the Board of Directors

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This report also appears in German.

The German version is prevailing.